

REPORT OF THE AUDITOR-GENERAL ON THE COOPERATIVE UNIVERSITY OF KENYA FOR THE YEAR ENDED 30 JUNE 2017

REPORT ON THE FINANCIAL STATEMENTS

Qualified Opinion

I have audited the accompanying financial statements of The Cooperative University of Kenya set out on pages 42 to 66, which comprise the statement of financial position as at 30 June 2017, and the statement of financial performance, statement of changes in net assets, statement of cash flows and statement of comparison of budget and actual amounts for the year then ended, and a summary of significant accounting policies and other explanatory information in accordance with the provisions of Article 229 of the Constitution of Kenya and Section 35 of the Public Audit Act, 2015. I have obtained all the information and explanations which, to the best of my knowledge and belief, were necessary for the purpose of the audit.

In my opinion, except for the effect of the matters described in the Basis for Qualified Opinion section of my report, the financial statements present fairly, in all material respects, the financial position of The Cooperative University of Kenya as at 30 June 2017, and of its financial performance and its cash flows for the year then ended, in accordance with International Public Sector Accounting Standards (Accrual Basis) and comply with University Act, 2012.

In addition, as required by Article 229(6) of the Constitution, based on the procedures performed, except for the matters described in the Basis for Qualified Opinion section of my report, I confirm that, nothing else has come to my attention to cause me to believe that public money has not been applied lawfully and in an effective way.

Basis for Qualified Opinion

1. Going Concern

During the year under review, the University recorded a deficit of Kshs.49,842,455 (2016 deficit: Kshs.48,431,813) thereby increasing accumulated deficit to Kshs.181,008,351 as at 30 June 2017. Further, the current liabilities of Kshs.231,157,032 exceeded the current assets of Kshs.163,387,717 resulting into a negative working capital of Kshs.67,769,315 as at the same time. The University was therefore unable to meet its financial obligations as and when they fell due. In particular, the University was unable to pay trade payables and payroll liabilities of Kshs.65,724,699 and Kshs.55,348,680 respectively to the beneficiaries thereby risking fines and penalties.

The University is therefore technically insolvent and the financial statements have been prepared on a going concern basis on the assumption of continued financial support from the Government, creditors and bankers.

2. Work in Progress

Management Information System

As disclosed at note 19 to the financial statements, work in progress opening balance of Kshs.396,789,702 as at 30 June 2017 was arrived at after netting off Kshs.10,149,798 in respect of Management Information System project which has been outstanding since 2009. Available information indicates that the contractor abandoned the project in 2009 having invoiced the University College a total of Kshs.10,149,798. Although the matter was taken to Court and ruled in favour of the University, it is not clear and management has not explained under what circumstances the amount of Kshs.10,149,798 and Kshs.4,827,752 totalling Kshs.14,977,550 incurred on the project was expensed in these financial statements.

In the circumstances, it has not been possible to confirm the accuracy and completeness of the financial statements for the year ended 30 June 2017.

3. Cash and Cash Equivalents

The cash and cash equivalents' balance of Kshs.96,259,587 as at 30 June 2017 could not be confirmed as it includes Co-operative Bank collateral account amount of Kshs.4,507,360 whose bank confirmation certificate was not availed for audit review. Further, the cash and cash equivalents' balance of Kshs.96,259,587 includes Co-operative Bank fees deposit account and Co-operative Bank LFC project account balances of Kshs.58,242,057 and Kshs.4,524,671 which differed with the respective bank confirmation certificates of balance of Kshs.58,172,057 and Kshs.4,507,359 by unexplained/unreconciled variances of Kshs.70,000 and Kshs.17,311 respectively.

In addition, the bank reconciliation statement for Standard Chartered Bank Account reflects payment in the cash book not in the bank statement totalling Kshs.512,126 which have since gone stale and receipts in cash book not in bank statement amounting to Kshs.67,000.

Although the management is aware of the above anomaly, no efforts to reconcile the two (2) sets of records was availed for audit review.

In the circumstances, it has not been possible to confirm the accuracy, validity, and completeness of the cash and cash equivalents' balance of Kshs.96,259,589.

The audit was conducted in accordance with International Standards of Supreme Audit Institutions (ISSAIs). I am independent of The Cooperative University of Kenya in accordance with ISSAI 30 on Code of Ethics. I have fulfilled other ethical responsibilities in accordance with the ISSAI and in accordance with other ethical requirements applicable to performing audits of financial statements in Kenya. I believe that the audit evidence I have obtained is sufficient and appropriate to provide a basis for my opinion.

Key Audit Matters

Key audit matters are those matters that, in my professional judgment, are of most significance in the audit of the financial statements for the year under review. Except for the matters described in the Basis for Qualified Opinion section, I have determined that there are no other Key Audit Matters to communicate in my report.

Responsibilities of Management and Those Charged with Governance for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with International Public Sector Accounting Standards (Accrual Basis) and for such internal control as management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, management is responsible for assessing the University's ability to continue as a going concern/sustain services, disclosing, as applicable, matters related to going concern/sustainability of services and using the applicable basis of accounting unless the management either intends to liquidate the University or to cease operations, or have no realistic alternative but to do so.

Management is also responsible for the submission of the financial statements to the Auditor-General in accordance with the provisions of Section 47 of the Public Audit Act, 2015.

Those charged with governance are responsible for overseeing the University's financial reporting process.

Auditor-General's Responsibilities for the Audit of the Financial Statements

The audit objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes my opinion in accordance with the provisions of Section 48 of the Public Audit Act, 2015 and submit the audit report in compliance with Article 229(7) of the Constitution. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISSAIs will always detect a material misstatement and weakness when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

As part of an audit conducted in accordance with ISSAIs, I exercise professional judgement and maintain professional skepticism throughout the audit. I also:

- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for my opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances and for the purpose of giving an assurance on the effectiveness of the University's internal control.

- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the management.
- Conclude on the appropriateness of the management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the University's ability to continue as a going concern or to sustain its services. If I conclude that a material uncertainty exists, I am required to draw attention in the auditor's report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify my opinion. My conclusions are based on the audit evidence obtained up to the date of my audit report. However, future events or conditions may cause the University to cease as a going concern or to continue to sustain its services.
- Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.
- Obtain sufficient appropriate audit evidence regarding the financial information and business activities of the University to express an opinion on the financial statements.
- Perform such other procedures as I consider necessary in the circumstances.

I communicate with the management regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that are identified during the audit.

I also provide management with a statement that I have complied with relevant ethical requirements regarding independence, and to communicate with them all relationships and other matters that may reasonably be thought to bear on my independence, and where applicable, related safeguards.



FCPA Edward R. O. Ouko, CBS
AUDITOR-GENERAL

Nairobi

11 July 2018