

REPORT OF THE AUDITOR-GENERAL ON THE CO-OPERATIVE UNIVERSITY OF KENYA FOR THE YEAR ENDED 30 JUNE, 2023

PREAMBLE

I draw your attention to the contents of my report which is in three parts:

- A. Report on the Financial Statements that considers whether the financial statements are fairly presented in accordance with the applicable financial reporting framework, accounting standards and the relevant laws and regulations that have a direct effect on the financial statements.
- B. Report on Lawfulness and Effectiveness in Use of Public Resources which considers compliance with applicable laws, regulations, policies, gazette notices, circulars, guidelines and manuals and whether public resources are applied in a prudent, efficient, economic, transparent and accountable manner to ensure the Government achieves value for money and that such funds are applied for the intended purpose.
- C. Report on the Effectiveness of Internal Controls, Risk Management and Governance which considers how the entity has instituted checks and balances to guide internal operations. This responds to the effectiveness of the governance structure, risk management environment and internal controls, developed and implemented by those charged with governance for orderly, efficient and effective operations of the entity.

An unmodified opinion does not necessarily mean that an entity has complied with all relevant laws and regulations and that its internal controls, risk management and governance systems are properly designed and were working effectively in the financial year under review.

The three parts of the report are aimed at addressing the statutory roles and responsibilities of the Auditor-General as provided by Article 229 of the Constitution, the Public Finance Management Act, 2012 and the Public Audit Act, 2015. The three parts of the report when read together constitute the report of the Auditor-General.

REPORT ON THE FINANCIAL STATEMENTS

Qualified Opinion

I have audited the accompanying financial statements of the Co-operative University of Kenya set out on pages 1 to 31, which comprise of the statement of financial position as at 30 June, 2023 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 Co-operative University of Kenya as at 30 June, 2023 and of its financial performance and its cash flows for the year then ended, in accordance with the International Public Sector Accounting Standards (Accrual Basis) and comply with the Universities Act, 2012 and Public Finance Management Act, 2012.

Basis for Qualified Opinion

1. Inaccuracies in the Statement of Changes in Net Assets

The statement of changes in net assets reflects excess depreciation on revaluation amount of Kshs.29,405,240 and Kshs.31,616,290 in respect of 2022/2023 and 2021/2022 respectively. However, Note 26 to the financial statements does not reflect the excess depreciation and the classes of assets affected, contrary to IPSAS 17(57), which states that, the amount of the surplus transferred would be the difference between depreciation based on the revalued carrying amount of the assets and depreciation, based on the assets' original cost.

In the circumstances, the accuracy and completeness of the statement of changes in net assets could not be confirmed.

2. Unconfirmed Receivable Balance

The statement of financial position and Note 22 to the financial statements reflect receivables from exchange transaction balance of Kshs.56,032,501. Included in the balance is an amount of Kshs.2,026,320 due from the Nairobi City County dating back to the year 2015. The dues were long outstanding and are not reflected in the Nairobi City County records as payables to the University.

In the circumstances, the accuracy of the receivables from exchange transaction balance of Kshs.56,032,501 could not be confirmed.

The audit was conducted in accordance with the International Standards for Supreme Audit Institutions (ISSAIs). I am independent of the Co-operative University of Kenya Management in accordance with ISSAI 130 on the Code of Ethics. I have fulfilled other ethical responsibilities in accordance with the ISSAI and in accordance with other ethical requirements applicable to performing audit of financial statements in Kenya. I believe that the audit evidence I have obtained is sufficient and appropriate to provide a basis for my qualified opinion.

Emphasis of Matter

1. Material Uncertainty in Relation to Going Concern

The statement of financial performance reflects a deficit of Kshs.142,027,738 which accumulated deficit from a negative balance of Kshs.108,199,445 as at 30 June, 2022 to a negative balance of Kshs.221,972,606 as at 30 June, 2023. Further, the University's

current liabilities balance of Kshs.308,892,880 exceeded its current assets balance of Kshs.148,181,995 resulting in a negative working capital of Kshs.160,710,885. The University is technically insolvent and may not be able to meet its current obligations as and when they fall due.

2. Long Outstanding Trade and Other Payables from Exchange Transactions

The statement of financial position and Note 29 to the financial statements reflect a balance of Kshs.253,371,538 in respect of trade and other payables from exchange transactions. Analysis of accounts payable revealed unpaid invoices amounting to Kshs.205,325,393 which includes a balance of Kshs.150,970,111 or 75% of the total unpaid invoices which were over 120 days. Management did not explain why these amounts were not paid.

Failure to settle bills during the year to which they relate adversely affects the budget for the subsequent year to which they have to be charged.

My opinion is not modified in respect of these matters.

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. There were no key audit matters to report in the year under review.

Other Matter

Unresolved Prior Year Matters

In the audit report of the previous year, several issues were raised under the Report on Financial Statements, Report on Lawfulness and Effectiveness in Use of Public Resources and Report on Effectiveness of Internal Controls, Risk Management and Governance. However, the Management had not resolved the issues or given any explanation for failure to resolved the issues.

REPORT ON LAWFULNESS AND EFFECTIVENESS IN USE OF PUBLIC RESOURCES

Conclusion

As required by Article 229(6) of the Constitution, based on the audit procedures performed, except for the matters described in the Basis for Conclusion on Lawfulness and Effectiveness in Use of Public Resources section of my report, I confirm that, nothing else has come to my attention to cause me to believe that public resources have not been applied lawfully and in an effective way.

Basis for Conclusion

1. Non-Compliance with Fiscal Responsibility Policy

The statements of receipts and payments reflects an expenditure on employees' costs of Kshs.650,974,111 which is 71% of the total revenue of Kshs.918,554,144. This is contrary to the provisions of Regulation 26 of the Public Financial Management (National Government) Regulations, 2015. The Regulation requires that expenditure on the compensation of employees including benefits and allowances should not exceed 35% of the revenue realized.

In the circumstances, Management was in breach of the law.

2. Delay in the Completion of Learning Resource Centre

Review of records on construction of an Ultra-Modern Learning Resource Centre revealed that the project contract sum was revised from Kshs.373,091,295 to Kshs.448,187,369, being a variation of Kshs.75,096,074 or 21% of the initial contract sum. The contract period was 65 weeks commencing on 21 March, 2019, but the period was revised later to end on 30 December, 2022. Physical verification of the project conducted in the month of October, 2023 however, revealed that the project was 95% complete and partially handed over to the University. A sum of Kshs.339,867,205 or 76% of the revised contract price had been paid. The Management did not provide explanation for delayed completion and a variation of 21% which is above the allowable variation threshold of 15%. Further, no evidence of extension of the contract period was provided.

In the circumstances, value for money on the expenditure of Kshs.339,867,205 could not be confirmed and the Management was in breach of the law.

3. Irregular Payment of Acting Allowance

The statement of financial performance reflects an amount of Kshs.650,974,111 in respect of employee costs as disclosed in Note 14 to the financial statements. The amount includes Kshs.901,840, being acting allowance paid to eight (8) staff members for a period of twelve (12) months. This is contrary to Section 2.4.4 of the University's Human Resource Policy Manual, 2017 which states that, an acting appointment maybe made where a vacancy arises which is not substantively filled or where the incumbent is incapacitated or unavailable for an official reason. The acting appointment period shall not exceed three (3) consecutive months.

In the circumstances, Management was in breach of the law.

4. Unauthorized Over-Expenditure

The statement of comparison of budget and actual amounts reflects expenditure of Kshs.1,060,581,882 against the budget of Kshs.851,260,756, resulting to an over-expenditure of Kshs.209,321,126 or 25% of the budget. The Management did not explain the reason for the excess expenditure and there is no evidence that authority for the same was sought and received.

In the circumstances, the amount of Kshs.209,321,126 was incurred irregularly.

The audit was conducted in accordance with the International Standards for Supreme Audit Institutions (ISSAI) 4000. The Standard requires that I comply with ethical requirements and plan and perform the audit to obtain assurance about whether the activities, financial transactions and information reflected in the financial statements comply, in all material respects, with the authorities that govern them. I believe that the audit evidence I have obtained is sufficient and appropriate to provide a basis for my conclusion.

REPORT ON EFFECTIVENESS OF INTERNAL CONTROLS, RISK MANAGEMENT AND GOVERNANCE

Conclusion

As required by Section 7(1)(a) of the Public Audit Act, 2015, based on the procedures performed, except for the matters described in the Basis for Conclusion on Effectiveness of Internal Controls, Risk Management and Governance section of my report, I confirm that, nothing else has come to my attention to cause me to believe that internal controls, risk management and governance were not effective.

Basis for Conclusion

1. Failure to Tag Fixed Assets

Review of the fixed asset register and physical verification of assets revealed that assets valued at Kshs.43,701,167 were not tagged for ease of identification and control of movement. This is contrary to Regulation 139(1)(b) of the Public Finance Management (National Government) Regulations, 2015, which require tagging of assets to enhance controls and security.

In the circumstances, the effectiveness of internal controls on fixed assets could not be confirmed.

2. Poor Management of Stores

Physical inspection of the University's main store conducted on 3 August, 2023, revealed that the store was not properly ventilated and windows had to remain open for ventilation. The arrangement exposed the supplies to dust and water during the dry and rainy season respectively.

In the circumstances, there was poor control of stores.

The audit was conducted in accordance with ISSAI 2315 and ISSAI 2330. The standards require that I plan and perform the audit to obtain assurance about whether effective processes and systems of internal control, risk management and overall governance, were operating effectively, in all material respects. I believe that the audit evidence I have obtained is sufficient and appropriate to provide a basis for my conclusion.

Responsibilities of Management and those Charged with Governance

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 maintaining effective internal controls as Management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error and for its assessment of the effectiveness of internal controls, risk management and governance.

In preparing the financial statements, Management is responsible for assessing the University's ability to continue to sustain its services, disclosing as applicable, matters related to sustainability of services and using the applicable basis of accounting unless Management is aware of the intention to terminate the University or to cease operations.

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.

In addition to the responsibility for the preparation and presentation of the financial statements described above, Management is also responsible for ensuring that the activities, financial transactions and information reflected in the financial statements are in compliance with the authorities which govern them, and that public resources are applied in an effective way.

Those charged with governance are responsible for overseeing the University's financial reporting process, reviewing the effectiveness of how Management monitors compliance with relevant legislative and regulatory requirements, ensuring that effective processes and systems are in place to address key roles and responsibilities in relation to overall governance and risk management, and ensuring the adequacy and effectiveness of the control environment.

Auditor-General's Responsibilities for the Audit

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.

In addition to the audit of the financial statements, a compliance audit is planned and performed to express a conclusion about whether, in all material respects, the activities, financial transactions and information reflected in the financial statements are in compliance with the authorities that govern them and that public resources are applied

in an effective way, in accordance with the provisions of Article 229(6) of the Constitution, and submit the audit report in compliance with Article 229(7) of the Constitution.

Further, in planning and performing the audit of the financial statements and audit of compliance, I consider internal controls in order to give an assurance on the effectiveness of internal controls, risk management and overall governance processes and systems in accordance with the provisions of Section 7(1)(a) of the Public Audit Act, 2015 and submit the audit report in compliance with Article 229(7) of the Constitution. My consideration of the internal controls would not necessarily disclose all matters in the internal controls that might be material weaknesses under the ISSAIs. A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level, the risk that misstatements caused by error or fraud in amounts that would be material in relation to the financial statements being audited, may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions.

Because of its inherent limitations, internal controls may not prevent or detect misstatements and instances of non-compliance. Also, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies and procedures may deteriorate.

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 controls.
- 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 applicable 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 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 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 Management regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal controls that are identified during the audit.

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



FCPA Nancy Gathungu, CBS
AUDITOR-GENERAL

Nairobi

25 April, 2024