

REPORT OF THE AUDITOR-GENERAL ON LAIKIPIA UNIVERSITY FOR THE YEAR ENDED 30 JUNE 2018

REPORT ON THE FINANCIAL STATEMENTS

Qualified Opinion

I have audited the accompanying financial statements of Laikipia University set out on pages 25 to 55, which comprise the statement of financial position as at 30 June 2018, and the statement of financial performance, statement of changes in reserves, 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 effects 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 Laikipia University as at 30 June 2018, 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 the Universities Act, 2012 and Public Finance Management Act, 2012.

Basis for Qualified Opinion

1. Property, Plant and Equipment

As previously reported, property, plant and equipment balance of Kshs.1,420,175,978 as at 30 June 2018 similarly includes an amount of Kshs.194,835,000 representing the value of eighteen parcels of land measuring a total of 947.519 acres. According to the ownership documents presented for audit verification, sixteen of these parcels of land are still registered in the name of Egerton University, while ownership documents for the two other parcels namely, land reference numbers 8808/01 and 2912/12 are under process by the authorities. Further, the University was allocated 5 acres of land by the defunct Municipal Council of Nyahururu, 100 acres by the defunct Town Council of Rumuruti and 600 acres by the defunct County Council of Samburu. However, ownership documents have not been obtained. This information, and the values have not been determined or included in the financial statements.

In the circumstances, it has not been possible to confirm the ownership, accuracy and completeness of the plant, property and equipment balance of Kshs.1,420,175,978 as at 30 June 2018.

2. Trade and Other Receivables

The statement of financial position as at 30 June 2018 reflects receivables from exchange transactions balance of Kshs.224,576,709 net of provision for bad and doubtful debts of Kshs.24,952,968, as detailed in Note 19(i) to the financial statements. As reported also previously, the provision appears inadequate since debts amounting to Kshs.71,013,134 relating to uncollected revenue from collaborating colleges have remained outstanding for a

considerably long period of time. No evidence has been provided to show any commitment to pay by the defaulting colleges.

Further, included in the receivables balance is an amount of Kshs.2,251,012 relating to overpaid Pay As You Earn (PAYE) tax owing from Kenya Revenue Authority (KRA) in respect of self-sponsored programme lecturers' deductions. No documentary evidence has been provided to show any efforts being made by the University to claim and recover the amount from the Authority.

In the circumstances, the recoverability of the receivables from exchange transactions of Kshs.224,576,709 as at 30 June 2018 cannot be ascertained.

3. Failure to Disclose Material Uncertainty in Relation to Sustainability of Services

The University's current liabilities balance of Kshs.457,259,243 exceeded current assets balance of Kshs. 323,379,932 resulting in a negative working capital of Kshs.133,879,311 as at 30 June 2018. Accumulated deficit was Kshs. 224,027,563 as at 30 June 2018 (2017: accumulated deficit - Kshs.251,952,804). This precarious financial position is an indication of the existence of a material uncertainty which may cast a significant doubt on the University's ability to sustain its services and to meet its obligations as and when they fall due. The financial statements have been prepared on a going concern basis on the assumption that the University will continue to receive financial support from the Government and creditors. However, this material uncertainty in relation to sustainability of services and any mitigating measures put in place by the University management to reverse the undesirable precarious financial position have not been disclosed in the notes to the financial statements.

The audit was conducted in accordance with International Standards of Supreme Audit Institutions (ISSAIs). I am independent of Laikipia University 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 qualified 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. Except for the matters described in the Basis for Qualified Opinion and Basis for Conclusion on Lawfulness and Effectiveness in Use of Public Resources section, I have determined that there are no key audit matters to communicate in my report.

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 Qualified Opinion and Basis for Conclusion on Lawfulness and Effectiveness in Use of Public Resources sections 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. Delay in Implementation of Projects

Included in the property, plant and equipment balance of Kshs.1,420,175,978 as at 30 June 2018 is work-in-progress amounting to Kshs.1,046,763,705 relating to construction of University's gate, lecture theatre, library and administration block and science laboratory. A physical verification and review of relevant records revealed that projects worth Kshs.304,462,138 were complete and in use but not yet capitalized due to lack of completion certificates. Further, other projects worth Kshs.741,460,567.15 had taken too long to complete with some spanning over seven years, and the contract period had lapsed. The University attributes the delay to non-performance on the part of the contractors despite substantial payments having been made to them.

In addition, excess payments to contractors amounting to Kshs.121,509,056 over and above contract sums relating to consultancy and variations were not supported by relevant documentations. The management explained that the excess payments were in respect of cost variations, consultancy costs on architecture, mechanical, electrical and other similar technical works which were contained in separate contracts. No explanation has, however, been provided on why these services could not be obtained from the State Department of Public Works, at lower cost compared to the high charges paid to private practitioners, as shown below:

Project	Contractor	Contract Date/ Period	Contract Amount Kshs	Amount Paid to Date Kshs.	Amount Relating to Consultancy or Cost Variations Kshs.
Roads, pavement & ancillary	Sonic Contractors	2013/2014	17,791,200	19,978,901.70	2,187,701.70
Lecture theatre	Landmark Holdings Limited	2011/2012	117,625,076	133,472,658.62	15,847,582.62
Library & administration Block	Buildmore construction & others	10/11/2011 78 weeks	254,713,266	348,042,185.64	93,328,919.64
Gate	Glanack Investments	21/4/2015 120 days	23,631,575	27,962,263.65	4,330,688.65
C2 Science lab	Kenmark investments	1/11/2016 150 days	15,140,059	29,615,600.40	14,475,540.76
Grand total			428,901,177	559,071,610	121,509,056

Further, the management has not given evidence of steps taken to complete the projects given that the contracts period had lapsed.

In the circumstances, the propriety and value for money on the expenditure of Kshs.121,509,056 cannot be ascertained.

2. Intangible Assets – Enterprise Resource Planning (ERP) Software

As previously reported, the University entered into a contract with a consulting firm, World System limited, to develop an Enterprise Resource Planning (ERP) software at a cost of Kshs.14,949,200. The University paid Kshs.9,329,200 in 2013/2014 financial year which was 62% of the contract sum and additional amount of Kshs.84,000 in 2016/2017. The implementation period was to run from 22 May 2012 to 22 May 2013. As at 30 June 2018, five years after the contract period lapsed, the project remained incomplete. According to the contract documents signed, the project was to have five developers working on the system but only two were appointed by the consultant.

Further, information available indicate that the University is in the process of terminating the contract and a procurement process for a new ERP software has started, implying that the old software will not be useful upon commissioning of the new one.

In the circumstances, implementation of the ERP software is uncertain and it is doubtful whether the University will obtain value-for-money on the expenditure of Kshs. 9,413,200 so far incurred in respect of the old ERP software.

The audit was conducted in accordance with 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 are in compliance, 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

As required by Section 7 (1) (a) of the Public Audit Act, 2015, based on the audit procedures performed, except for the matters described in the Basis for Qualified Opinion and Basis for Conclusion on Lawfulness and Effectiveness in Use of Public Resources sections 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

The audit was conducted in accordance with ISSAI 1315 and ISSAI 1330. 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 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 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 and for its assessment of the effectiveness of internal control. In preparing the financial statements, management is responsible for assessing the ability of Laikipia University to sustain services, disclosing, as applicable, matters related to sustainability of services and using the applicable basis of accounting unless the management either intends 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.

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 financial reporting process, reviewing the effectiveness of how the entity 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 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 control in order to give an assurance on the effectiveness of internal controls, risk management and 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 control would not necessarily disclose all matters in the internal control 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 control 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 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 ability of Laikipia University 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 or to sustaining 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

04 March 2019