

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

REPORT ON THE FINANCIAL STATEMENTS

Qualified Opinion

I have audited the accompanying financial statements of University of Nairobi set out on pages 1 to 59, the statement of financial position as at 30 June 2018, and 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 University of Nairobi 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 Universities Act, 2012.

Basis for Qualified Opinion

1. Property Plant and Equipment

As previously reported, the property, plant and equipment balance of Kshs.210,775,200,000 as at 30 June 2018 includes two parcels of land, LR. No. 11645 at Kenya Science Campus and LR. No. 22378 in Upper Kabete, all valued at Kshs.1,412,500,000 whose ownership documents have not been availed for audit verification. Although management has indicated that the title documents for the two parcels of land are being pursued with the relevant Ministry, it is not clear if and when the documents will be obtained.

In the circumstances, the accuracy, validity and ownership status of the property, plant and equipment balance of Kshs.210,775,200,000 as at 30 June 2018 could not be confirmed.

2. Going Concern

The University's financial performance continued to deteriorate during the year under review as it incurred a deficit of Kshs.1,405,315,000 (2016/2017 a surplus of Kshs.582,669,000) thereby reducing revenue reserves from Kshs.908,521,000 to negative Kshs.496,794,000 as at 30 June 2018. The statement of financial position as at 30 June 2018 reflects current liabilities amounting to Kshs.5,724,377,000 while current assets amounting to Kshs.4,288,628,000 resulting to a negative working capital of Kshs.1,435,749,000 compared to a negative of Kshs.3,146,000 in the previous year.

The University was therefore unable to meet its financial obligations as and when they fall due. In particular, the University was unable to remit Pay As You Earn of Kshs.282,690,526, National Social Security Fund of Kshs.3,371,550, National Hospital Insurance Fund of Kshs.10,764,600, Chuna Sacco of Kshs.204,127,907, Higher Education Loans Board of Kshs.828,387 and pension contribution of Kshs.1,521,766,507 totaling to Kshs.2,023,549,477.

Management attributed these results to a decline in capitation from the parent ministry, decline in student enrollment of Module II program, industrial strikes by the academic staff and the prolonged presidential elections which led to closure of the university. This impaired the University's capacity to generate internal revenue. The management has however indicated that the university has put strategies in place to improve its financial performance in order to achieve its mandate. The university therefore, is apparently facing financial problems and its continued operations as a going concern will continue to depend on the support of the Government and lenders.

3. Students Debtors Module II

Included in the balance of trade and other receivables of Kshs.3,492,573,000 is a figure of Kshs.998,744,000 representing Students Debtors. Supporting debt aging schedule availed for audit review revealed that Kshs.871,067,585 of the student debtors were outstanding for more than one year.

Section 8.1 (d) of the University's Financial Regulations states that the University shall withhold any and all services, examination results, conferment of any degree, certificate or award until all outstanding fees are settled and further reserve the right to institute other legal recovery proceedings against students with outstanding fees and also surcharge an interest at a rate to be determined by the Council. However, there was no adequate specific provision for long outstanding student debtors.

In the circumstances, the validity and recoverability of the student debtors' balance of Kshs.871,067,585 as at 30 June 2018 could not be confirmed.

4. Investment in CMC Holdings

Included in the Investments amount of Kshs.117,153,000 is a figure of Kshs.1,700,000 representing investments in CMC Holdings Limited of 125,920 Ordinary shares at Kshs.0.5 each. CMC was delisted from the Nairobi Securities Exchange with effect from 11 February 2015, and hence ceased trading thereof. The management explained that the investment valued at Kshs.1,700,000 was in respect for ordinary shares of Kshs.0.5 face value done in 1988/1989. Management indicated that their efforts to liquidate the shares and re-invest have not been successful as the Nominated Custody and Registrars Services Limited of the shares requires proof of ownership by production of the share certificates as a pre-condition to transact. Further, management has obtained a police abstract to facilitate the process of obtaining ownership documents through the registrar of companies. As a result, the University

has not sold off or disposed their rights considering that CMC's management had been taken over by a private entity.

In the circumstances, the accuracy, ownership rights and validity of the investment in CMC Holding of Kshs.1,700,000 could not be confirmed.

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 matter described in the Basis for Qualified Opinion section, I have determined that there are no other Key Audit Matters to communicate in my report.

Other Matter

1.0 Budgetary Control and Performance

1.1 Revenue Budget Analysis

The University had an approved total revenue budget of Kshs.17,879,821,000 for the financial year 2017/2018 against an actual of Kshs.16,301,559,000 resulting to a shortfall of Kshs.1,578,263,000 as detailed in the table below:

Item	Budget Allocation 2017/2018 ('000Kshs)	Actual 2017/2018 ('000 Kshs)	Variance ('000 Kshs)	Absorption Rate in %
Internally Generated Revenue	7,859,571	4,835,397	(3,024,174)	-39%
Government Grants - Recurrent	4,514,536	4,514,536	0	0%
CBA 2013-2017 Recurrent Capitation	0	1,460,264	1,460,264	100%
CBA 2013-2017 Salary Arrears	0	1,960,053	1,960,053	100%
Capitation	54,000		(54,000)	-100%
Government Grants - Development	1,000,000		(1,000,000)	-100%
Grants - Recurrent	2,669,163	2,128,881	(540,282)	-20%
Koitalel Samoei University College - Capitation	271,700	121,700	(150,000)	-55%
Other Incomes Recurrent	1,10,852	1,280,728	(230,124)	-15%
Total Revenue	17,879,821	16,301,559	(1,578,263)	-9%

It is evident that the University fell short of the revenue budget by Kshs.1,587,263,000 or 9% due to shortfall of actual revenue received from internally generated revenue, research grants and capitation and other income. Internally generated revenue and other income were below target due to the industrial strikes by academic staff and the prolonged disputed presidential elections led to closure of the University. There is need therefore for the University to diversify in its revenue generation sources to boost revenue growth.

1.2 Expenditure Budget

Similarly, the University had a total expenditure budget of Kshs.17,879,821,000 against an actual of Kshs.18,313,979,000 resulting to over absorption of Kshs.434,158,000 or 2% as detailed in the table below:

Item	Budget Allocation 2017/2018 ('000 Kshs)	Actual 2017/2018 ('000 Kshs)	Under Absorption ('000 Kshs)	Absorption Rate in %
Personnel Emoluments	10,157,930	9,872,326	285,604	3%
CBA 2013-2017 Salary arrears paid		1,960,053	(1,960,053)	100%
Direct Service Providers-Module II	1,211,523	822,506	389,017	32%
Other Recurrent Expenses -IGUs	147,923	669,668	(521,745)	-353%
Council Expenses	13,857	18	13,839	100%
Operating/ Administrative Expenses	2,323,983	2,021,069	302,914	13%
External Research Grants	1,831,662	2,176,319	(344,657)	-19%
Repairs and Maintenance	60,000	51,276	8,724	15%
Finance charges	100,000	168,047	(68,047)	-68%
Depreciation	250,000	243,996	6,004	2%
Purchase of Motor Vehicles	25,806	49,661	(23,855)	-92%
Purchase of Plant and Equipment	33,527	83,181	(49,654)	-148%
Capital Development-WIP	908,000	66,077	841,923	93%
Purchase of Computers	160,939	65,180	95,759	60%
STIP Flagship Projects	382,970	18,852	364,118	95%
Koitalel Samoei University College	271,700	45,750	225,950	83%
Total	17,879,821	18,313,979	(434,158)	-2%

From the above analysis, the over absorption was as a result of the University management overspending on income generating units. This was as a result of expenditure incurred by university colleges awaiting reimbursement from Center of Self Sponsored Programs for the payment of rent for teaching space, teaching, office

expenses and maintenance costs. Additionally, the University management overspent on the external research expenses on establishment costs for new projects. This may also imply that the University management may also have under budgeted on the recurrent expenditure and therefore there is need for a more realistic budget in future.

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 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

Stalled Student Accommodation Hostel, Lower Kabete Campus

A stalled project on student accommodation hostel located at Lower Kabete Campus was undertaken by M/s N. K. Brothers in 1990 and the project stalled in 1992 after the GoK budgetary allocation ceased. The initial contract was mutually terminated in 2000. At that point in time, the University owed the contractor Kshs.50,000,000 which has remained unpaid to date. The contractor has since gone to court and claimed for Kshs.50,000,000 plus interest and costs. Management had indicated that the entire project comprised of 500 bed hostels, kitchen and dining and a common room to be constructed on a plot of land measuring 126 acres (L.R. No. 23616). Further, the University management indicated that they had requested for funding amounting to Kshs.450,000,000 to support the completion of stalled Lower Kabete Campus Hostels. During our site visit to the project, we noted that there were visible cracks in the columns and beams, chemical and physical damage on the stalled building. Completion of this stalled project would provide secure accommodation for university student who are currently seeking accommodation in surrounding areas.

In the circumstances, the project's stakeholders may not obtain value for money if the project is not complete and put to intended use.

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 INTERNAL CONTROLS EFFECTIVENESS, GOVERNANCE AND RISK MANAGEMENT SYSTEMS

Conclusion

Report of the Auditor-General on the Financial Statements of University of Nairobi for the Year Ended 30 June 2018

As required by Section 7(1) (a) of the Public Audit Act, 2015, based on audit procedures performed except for the matter described in the Basis for Qualified Opinion section of my report, I confirm that, nothing has come to my attention to cause me to believe that internal controls, risk management and overall governance were not effective.

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, risk management and governance.

In preparing the financial statements, management is responsible for assessing the University's ability to continue as a going concern, disclosing, as applicable, matters related to going concern 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.

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 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 noncompliance. 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 University's ability to continue as a going concern. 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 as a going concern.
- 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

10 April 2019