

REPORT OF THE AUDITOR-GENERAL ON UNIVERSITY OF NAIROBI FOR THE YEAR ENDED 30 JUNE, 2019

REPORT ON THE FINANCIAL STATEMENTS

Qualified Opinion

I have audited the accompanying financial statements of University of Nairobi set out on pages 1 to 49, which comprise the statement of the financial position as at 30 June, 2019, 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 University of Nairobi as at 30 June, 2019, 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 Public Finance Management Act, 2012 and the Universities Act, 2012.

Basis for Qualified Opinion

1. Going Concern Uncertainty

The University reported a deficit of Kshs.1,299,488,000 (2018: Kshs.1,405,315,000) increasing the accumulated deficit from Kshs.496,794,000 as at 30 June, 2018 to Kshs.1,796,281,000 as at 30 June, 2019. Further, the statement of financial position reflects current liabilities amounting to Kshs.7,368,350,000 while the current assets amounted to Kshs.5,457,850,000 resulting to a negative working capital of Kshs.1,910,500,000 (2018: Kshs.1,435,749,000). The University was therefore, unable to meet its financial obligations when due.

In addition, as reflected in Note 52 to the financial statements, the University was unable to remit statutory deductions amounting to Kshs.4,692,423,000 which included Pay As You Earn (PAYE) and Value Added Tax (VAT) of Kshs.2,283,357,000; National Hospital Insurance Fund Kshs.7,020,000; National Social Security Fund Kshs.2,287,000; University of Nairobi pensions contributions Kshs.2,399,027,000 and Higher Education Loans Board Kshs.732,000. Tax offences and non-remittance of statutory deductions attract punitive penalties and interest.

In the circumstances, the University is technically insolvent and its continued operations as a going concern will depend on the support from the Government, donors and creditors. The material uncertainty relating to going concern has not been disclosed in the financial statements.

2. Property, Plant and Equipment

As previously reported, the property, plant and equipment balance of Kshs.210,385,292,000 reflected in the statement of financial position 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 and whose ownership documents were not availed for audit verification. Although Management indicated that the title documents for the two parcels of land were being pursued with the relevant Ministry, the documents had not been obtained as at 30 June, 2019.

In the circumstances, the accuracy, and ownership status of the reported property, plant and equipment balance of Kshs.210,385,292,000 could not be confirmed.

3. Trade and Other Receivables

The statement of financial position reflects a balance of Kshs.4,383,186,000 under trade and other receivables. As disclosed in Note 30 to the financial statements, the balance includes an amount of Kshs.951,718,000 in respect of student's debtors. However, as previously reported, the ageing schedule of debtors availed for audit revealed that a balance of Kshs.746,499,602 of the student debtors were outstanding for more than one year. This, is contrary to Section 8.1 (d) of the University's Financial Regulations which 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 evidence of the measures taken to recover the debts.

In the circumstances, the accuracy and recoverability of the student debtors balance of Kshs.746,499,602 could not be confirmed.

4. Investment in CMC Holdings

As previously reported and as disclosed in Note 33 to the financial statements, the statement of financial position reflects a balance of Kshs.22,182,000 under investments which includes an amount of Kshs.1,700,000 representing investments in CMC Holdings Limited of 125,920 Ordinary shares valued at Kshs.0.5 each in 1988/1989. However, CMC was delisted from the Nairobi Securities Exchange with effect from 11 February, 2015, after takeover by Alfar Motors and hence ceased trading thereof. Although Management had obtained a police abstract to facilitate the process of obtaining ownership documents for the shares through the Registrar of Companies, their efforts to liquidate the shares and re-invest have not been successful as Custody and Registrars Services Limited require proof of ownership by production of the share certificates as a pre-condition to transact. As a result, the University has not sold off or disposed their rights considering that CMC Holdings Limited Management had been taken over by a private entity.

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

The audit was conducted in accordance with International Standards of Supreme Audit Institutions (ISSAIs). I am independent of the University of Nairobi Management in accordance with ISSAI 130 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. I have determined that there are no key audit matters to communicate in my report.

Other Matter

Budgetary Control and Performance

The statement of comparison of budget and actual amounts reflects final revenue budget and actual revenue on comparable basis of Kshs.17,988,437,000 and Kshs.14,639,249,000 respectively resulting to an under-funding of Kshs.3,349,188,000 or 19% of the budget. Similarly, the University had an expenditure budget of Kshs.17,988,437,000 against actual expenditure of Kshs.16,287,406,000 resulting in net under-expenditure of Kshs.1,701,031,000 or 10%. The under-performance affected the planned activities and may have impacted negatively on service delivery to the public.

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 sections, 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. Stalled Students Accommodation Hostels at Lower Kabete Campus

As previously reported, the Project for construction of a students' accommodation hostel at Lower Kabete Campus undertaken by a contractor in 1990 stalled in 1992 after the Government budgetary allocation ceased. The initial contract was mutually terminated in

2000. At the time, the University owed the contractor a balance of Kshs.50,000,000 which has remained unpaid to date. The contractor sued the University claiming the outstanding payment of Kshs.50,000,000 plus interest and costs. Although the University Management indicated that they had requested for funding amounting to Kshs.450,000,000 to finance completion of the stalled Project, audit inspection of the Project in the previous financial year had revealed visible cracks in the columns and beams, chemical and physical damage on the stalled building. Further, Management has not made any provision for the contingent liability which may result in additional costs on the unpaid amount. Completion of the hostels would provide secure accommodation for university students who are currently seeking accommodation in the surrounding areas.

In the circumstances, value for money may not be obtained if the project is not completed and put to the intended use.

2. Stalled Construction of School of Pharmacy

The University engaged a construction company under tender No. UON/51/2010-2011 on 1 October, 2010 for the construction of the proposed School of Pharmacy Building at the College of Health Services at a cost of Kshs.152,903,393. As per the Internal Audit report of 12 April, 2018, the Project period was set for ninety-seven (97) weeks with the expected completion date being in August, 2012. The report further revealed that the construction had been carried out on the basement, ground and first floors and that the building was 90% complete. However, the building could not be occupied as the sewerage system had not been connected due to lack of an appropriate way leave.

Further, with the completion of the construction works having been delayed by eight (8) years, the handing over report and the practical completion certificate for the works done was not provided. Further, evidence of the extension of contract period and renewal of the performance bonds which have since expired was not provided.

In the circumstances, value for money may not be obtained if the Project is not completed and put to the 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 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 audit procedures performed, I confirm that, nothing 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 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 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

The Management is responsible for the preparation and fair presentation of these financial statements in accordance with International Public Sector Accounting Standards 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 in continuing to as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless Management is aware of 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 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 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 to continue as a going concern or 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.



Nancy Gathungu
AUDITOR-GENERAL

Nairobi

22 February, 2021