

REPORT OF THE AUDITOR-GENERAL ON UNIVERSITY OF NAIROBI ENTERPRISES AND SERVICES LIMITED 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 Enterprises and Services Limited set out on pages 1 to 36, the statement of financial position as at 30 June 2018, and statement of comprehensive income, statement of changes in equity, 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 University of Nairobi Enterprises and Services Limited as at 30 June 2018, and of its financial performance and its cash flows for the year then ended, in accordance with International Financial Reporting Standards and comply with the Companies Act, 2015 of the Laws of Kenya.

Basis for Qualified Opinion

1. Trade and Other Receivables

1.1 Long Outstanding Trade Receivables

As disclosed in note 17 of the financial statements, trade and other receivables balance of Kshs.355,928,842 include trade receivables totaling to Kshs.353,836,806 out of which Kshs.191,722,628 relating to consultancy had been outstanding for over one year. During the year under review, consultancy income went down by 36% from Kshs.482,259,083 (2016-2017) to Kshs.308,034,859 for the year ended 30 June 2018. This was attributed by long electioneering period in August to October 2017, lectures' and students' strikes which led to the closure of the Company for a long period of time.

Further, included in trade receivables are debtors under Dental Hospital of Kshs.24,560,750. This amount includes Kshs.21,324,650 due from National Hospital Insurance Fund (NHIF) and Kshs.2,826,700 due from East Africa Portland Cement representing 98% of the trade receivables from the Dental Hospital. Further analysis revealed that Kshs.17,980,650 and Kshs.21,324,650 from NHIF and East Africa Portland Cement respectively had been outstanding for over two (2) years.

As at the time of our audit in November 2018, trade receivable amounting to Kshs.82,172,052 had been recovered from debtors resulting to an outstanding balance of Kshs.271,664,754. No provision for bad and doubtful debts has been made in the financial statements in respect of these long overdue balances.

In the circumstances, the accuracy and full recoverability of trade receivables balance of Kshs.271,664,754 as at 30 June 2018 could not be confirmed.

1.2 Other Receivables

As disclosed in note 17 to the financial statements, trade and other receivables balance of Kshs.348,800,554 include other receivables balance of Kshs.2,802,173. However, scrutiny of records availed for audit revealed that the receivables were not properly reconciled during the year as they included entries dating back to May 2007. In the circumstances, it is not possible to confirm that the fair values and recoverability of other receivables balance of Kshs.2,802,173 as at 30 June 2018.

1.3 Suppliers' Deposits and Advances

As disclosed in note 17 to the financial statements, trade and other receivables balance of Kshs.348,800,554 include suppliers' deposits and cash advances totaling to Kshs.3,022,646. The supplier deposits relates to deposits made to suppliers against contracts entered into for medium to long term supplies to UNES business units for various goods. The advances on the other hand relate to amounts issued to consultants under the consultancy unit to carry out field work activities for the various consultancy projects. Scrutiny of the documents availed for audit, revealed that Kshs.1,354,865 of the cash advances had been outstanding for over one year.

Further, these cash advances had not been surrendered as at the time of the audit in November 2018 and the same were yet to be accounted fully or recovered from the payroll.

2. Overdrawn Cashbook Balance

Included in note 28 to the financial statement is an amount of Kshs.4,386,824 as bank accounts with overdrawn balance compared to prior year (2016-2017) of Kshs.4,420,530. Examination of the cash books for the four bank accounts revealed that this was an overdrawn cash book balance. This was as a result of capturing expenses in the cash book as if they were already paid yet the cheques had been held by UNES and not yet released to the suppliers since there was no available cash in the bank account. Consequently the bank balance in the cash book was overdrawn by Kshs.4,386,824 while trade payables were understated by the same amount. If all the unrepresented cheques would have been cleared for payment, the bank balances could have been overdrawn significantly.

In the circumstances, the overdrawn cashbook position did not reflect the true position of the balance of Kshs.4,386,824 as the payments had not actually been made as the same was being held by the Company.

3. Financial Performance

The Company's financial performance has deteriorated in the year under review and it incurred a loss of Kshs.63,068,142 compared to a profit of Kshs.20,277,246 in the previous year. The management has attributed the loss on the decrease in revenue during the year which was caused by challenging business environment. However, the management has indicated that the Company has put strategies in place for the year 2018/2019 to improve the financial position.

In the circumstances, should the strategies fail to reverse the trend, the Company may experience financial difficulties.

The audit was conducted in accordance with International Standards of Supreme Audit Institutions (ISSAIs). I am independent of University of Nairobi Enterprises and Services Limited 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 section, I have determined that there are no other 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, except for matters described in the Basis for Qualified Opinion section, 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.

REPORT ON INTERNAL CONTROLS EFFECTIVENESS, GOVERNANCE AND RISK MANAGEMENT SYSTEMS

Conclusion

As required by Section 7 (1) (a) of the Public Audit Act, 2015, 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.

REPORT ON OTHER LEGAL AND REGULATORY REQUIREMENTS

As required by the Companies Act, 2015 I report based on the audit, that:

- i. 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;
- ii. in my opinion, adequate accounting records have been kept by the Company, so far as appears from the examination of those records; and,
- iii. The Company's financial statements are in agreement with the accounting records and returns.

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 Financial Reporting 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 Company'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 Company's 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 Company'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 Company'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 Company 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 Company 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

27 December 2018