

REPORT OF THE AUDITOR-GENERAL ON UNIVERSITY OF NAIROBI PRESS 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 Press set out on pages 16 to 30, which comprise the statement of financial position as at 30 June 2018 and the statement of comprehensive income, statement of changes in equity and statement of cash flows 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 matter 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 Press 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

As disclosed in note 12 to the financial statements the trade and other receivables balance of Kshs.768,695 includes net trade receivables totaling to Kshs.768,695 arrived at after management made a provision of Kshs.595,234 being 50% of outstanding debts over six (6) years and 10% for debts below six (6) years amounting to Kshs.580,131 and Kshs.15,103 respectively. Previous year (2016-2017), management had provided for debts of six years and above at 100% and those below six years at 10%. However, this provision appears to be inadequate considering the slow pace in recovery of the outstanding debts. Further, supporting individual debtors' ledger balances for debts above 6 years were not availed for audit review.

Consequently, it has not been possible to confirm the accuracy and full recoverability of the trade receivables balance of Kshs.768,695 as at 30 June 2018.

2. Unsupported Grants from University of Nairobi

As disclosed in note 2 to the financial statements, grants from University of Nairobi balance of Kshs.20,042,162 includes rent and utilities from University of Nairobi amounting to Kshs.3,470,400 relating to office space occupied by the Press. Although the Press management has indicated that the occupied space was valued by University

of Nairobi Estate department, no evidence was availed for audit review that the valuation report has been approved and adopted by the University Council.

In the circumstances, it has not been possible to confirm the validity and completeness on rent and utilities amounting Kshs.3,470,400 for the year ended 30 June 2018.

3. Obsolete Inventories

As disclosed in note 11 to the financial statements, inventory balance of Kshs.19,257,244 includes secondary school text books amounting to Kshs.3,520,169 which are obsolete due to change in curriculum. Further, the books were held at cost whereas its probable that the realizable value could be lower hence not complying with provisions of IAS 2 which requires inventories to be measured at the lower of cost and net realizable value.

In the circumstances, it has not been possible to ascertain that the inventories balance of Kshs.19,257,244 is fairly stated as at 30 June 2018.

4. Financial Performance

The Company's financial performance continued to deteriorate during the year under review and it incurred a loss of Kshs.401,727 compared to a profit of Kshs.149,081 in the previous year. The management has attributed the loss to the increase in cost of sales from Kshs.811,943 to Kshs.1,365,103. However 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 challenges.

The audit was conducted in accordance with International Standards of Supreme Audit Institutions (ISSAIs). I am independent of University of Nairobi Press 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, based on the audit procedures performed, except for the matter described in the Basis for Qualified Opinion and Basis for Conclusion on Lawfulness and Effectiveness in Use of Public Resources sections. I confirm that, nothing has come to my attention to cause me to believe that public money has not been applied lawfully and in an effective way.

Basis for Conclusion

Annual General Meeting and Annual Returns

As previously reported, the University of Nairobi Press is incorporated under the Companies Act which requires Annual General Meetings to be conducted every year. However, the Board of Directors did not hold any meeting during the year under review. Further, the company did not file annual returns with the Register of Companies and therefore contravened Section 705 (1) of the Companies Act, 2015 which requires every Company to submit to the Registrar successive annual returns each of which is made up to a date not later than the date that is from time to time the Company's return date. Although the management has indicated that the University management has established a committee to look at the activities of the company and recommend the way forward, it is not clear when the committee will avail its recommendations. The Company therefore is in breached of the Law.

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 SYSTEMS

Conclusion

As required by Section 7 (1) (a) of the Public Audit Act, 2015, based on the procedures performed, except for the matter described in the Basis for Qualified Opinion and Basis for Conclusion on Effectiveness of Internal Controls, Risk Management and Governance sections 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.

Basis for Conclusion

Budget and Budget Control Process

During the year under review, it was noted that the Press did not have control over the budget process since the budget was prepared by the University of Nairobi and the Press was allocated as a line item. In the circumstances, it was not possible to do a budgetary analysis as the budget availed was one line budget without a detailed breakdown. No detailed approved budget was provided for verification and analytical reviews. In the circumstances, it was not possible to evaluate how the budget was executed on each component in these financial statements.

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

24 December 2018