

REPORT OF THE AUDITOR-GENERAL ON UNIVERSITY OF NAIROBI PRESS 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 Press set out on pages 1 to 16, which comprise the statement of the financial position as at 30 June, 2019, the statement of profit and loss and other 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 the University of Nairobi Press as at 30 June, 2019, 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 Public Finance Management Act, 2012 and the Companies Act, 2015 of the Laws of Kenya.

Basis for Qualified Opinion

1. Financial Performance

As reported previously, the company's financial performance deteriorated further with a reported net loss of Kshs.5,572,330 compared to a net loss of Kshs.401,727 in 2017/2018. In addition, the company's working capital reduced by Kshs.5,448,320 from the previous financial year balance of Kshs.26,473,504 to Kshs.21,025,184. Unless measures are put in place to reverse the trend of making losses, the company is likely to face financial challenges in the future.

2. Trade and Other Receivables

As disclosed in Note 14 to the financial statements, the statement of financial position reflects a balance of Kshs.558,475 under trade and other receivables which was arrived at after a provision for bad and doubtful debts of Kshs.1,012,761. The provision comprised of Kshs.956,457 being 100% of the debts outstanding for over six (6) years and Kshs.56,304 being 10% of the debts outstanding for a period of less than six (6) years. During the previous year, Management had provided for debts of six (6) years and above at 50% and those below six (6) years at 10%. It is therefore, not clear how the provision for bad and doubtful debts was determined and applied as policy documents on debt management were not availed for audit review.

In the circumstances, it has not been possible to confirm the accuracy and full recoverability of trade and other receivables balance of Kshs.558,475 as at 30 June, 2019.

3. Unsupported Grants from the University of Nairobi

The statement of profit or loss and other comprehensive income and Note 2 to the financial statements, reflects an amount of Kshs.13,045,325 being grants from the University of Nairobi. This includes rent and utilities grant from the University amounting to Kshs.3,470,400 relating to Office space occupied by the Press. Although the Press Management has explained that the space occupied was valued by the University of Nairobi Estate Department, no evidence was provided for audit review to support that the valuation report was approved by the Press Board of Directors and the University Council.

In the circumstances, it has not been possible to confirm the validity and accuracy of the grants from the University of Nairobi totalling Kshs.3,470,400.

4. Obsolete Inventories

The statement of financial position reflects inventories of Kshs.19,422,685. As previously reported and as disclosed in Note 13 to the financial statements, the balance includes an amount of Kshs.3,519,659 in respect of secondary school text books. Although, the books are obsolete due to change in curriculum, they were valued at cost in spite of the fact that the realizable value could be lower, contrary to the provisions of Paragraph 9 of IAS 2 which requires inventories to be stated at the lower of cost or net realizable value.

In the circumstances, the inventories balance of Kshs.19,278,685 is not fairly stated.

5. Property, Plant and Equipment

As disclosed in Note 12 to the financial statements, the property, plant and equipment balance of Kshs.760,101 refers to the net book value of assets with an estimated cost of Kshs.6,468,297. However, the assets register with the supporting individual balances for the assets were not availed for audit review.

In the circumstances, it has not been possible to confirm the accuracy and completeness of the reported property, plant and equipment balance of Kshs.760,101 as at 30 June, 2019.

6. Unauthorized Expenditure

The statement of comparison of budget and actual amounts reflects an actual expenditure of Kshs.20,449,476 against an approved total budget of Kshs.2,000,000 resulting in an over-expenditure of Kshs.18,449,476. The over-expenditure mainly occurred under salaries and wages where an amount of Kshs.15,574,925 was spent against a nil budget. The over-expenditure constitutes an unauthorized expenditure as defined under Section 2 of the Public Finance Management (National Government) Regulations, 2015.

The audit was conducted in accordance with International Standards of Supreme Audit Institutions (ISSAIs). I am independent of the University of Nairobi Press 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 were 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 matter described in the Basis for Conclusion on Lawfulness and Effectiveness in Use of Public Resources 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.

Basis for Conclusion

Annual General Meeting and Annual Returns

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 meetings during the year under review. Further, and as previously reported, the Company did not file annual returns with the Registrar of Companies as required under Section 705(1) of the Companies Act, 2015. Although the Management explained that the University Management had established a Committee to look into the activities of the Company and recommend the way forward, no evidence was provided that the returns were filed as at 30 June, 2019.

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.

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

The 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 overall governance.

In preparing the financial statements, Management is responsible for assessing the Company's ability to continue 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 the intention to liquidate the Company 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 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 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 Company 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 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.



Nancy Gathungu
AUDITOR-GENERAL

Nairobi

08 March, 2021