

REPORT OF THE AUDITOR-GENERAL ON UNIVERSITY OF NAIROBI ENTERPRISES AND SERVICES LIMITED FOR THE YEAR ENDED 30 JUNE, 2022

PREAMBLE

I draw your attention to the contents of my report which is in three parts:

- A. Report on the Financial Statements that considers whether the financial statements are fairly presented in accordance with the applicable financial reporting framework, accounting standards and the relevant laws and regulations that have a direct effect on the financial statements.
- B. Report on Lawfulness and Effectiveness in Use of Public Resources which considers compliance with applicable laws, regulations, policies, gazette notices, circulars, guidelines and manuals and whether public resources are applied in a prudent, efficient, economic, transparent and accountable manner to ensure Government achieves value for money and that such funds are applied for the intended purpose.
- C. Report on Effectiveness of Internal Controls, Risk Management and Governance which considers how the entity has instituted checks and balances to guide internal operations. This responds to the effectiveness of the governance structure, the risk management environment and the internal controls, developed and implemented by those charged with governance for orderly, efficient and effective operations of the entity.

An unmodified opinion does not necessarily mean that an entity has complied with all relevant laws and regulations and that its internal controls, risk management and governance systems are properly designed and were working effectively in the financial year under review.

The three parts of the report are aimed at addressing the statutory roles and responsibilities of the Auditor-General as provided by Article 229 of the Constitution, the Public Finance Management Act, 2012 and the Public Audit Act, 2015. The three parts of the report, when read together constitute the report of the Auditor-General.

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 29, which comprise of the statement of financial position as at 30 June, 2022, the statement of profit or 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 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 Enterprises and Services Limited

as at 30 June, 2022, 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 and the Public Finance Management Act, 2012.

Basis for Qualified Opinion

1. Inaccuracies in the Financial Statements

The statement of financial position and Note 21 to the financial statements reflects long term liabilities balance of Kshs.246,608,147 which relates to amounts held for the University of Nairobi. However, the University of Nairobi financial statements as at 30 June, 2022 reflects a balance of Kshs.247,630,000 resulting to unexplained negative variance of Kshs.1,0121,853.

In addition, review of financial statements for the University of Nairobi revealed trade and other payables balance of Kshs.336,805,000 to UNES which has not been reconciled to the amount of trade and other receivables balance of Kshs.409,592,536 reflected in the statement of financial position resulting to unexplained variance of Kshs.72,787,536.

Further, University of Nairobi financial statements reflects receivables from exchange transactions – UNES receivables amount of Kshs.409,593,000 which do not have a corresponding entry in the UNES financial statements.

In the circumstances, the accuracy and completeness of the long-term liability balance of Kshs.246,608,147 could not be confirmed.

2. Trade and Other Receivables

The statement of financial position and as disclosed in Note 16 to the financial statements reflects trade and other receivables balance of Kshs.409,592,536 as at 30 June, 2022. Examination of records provided revealed that the balance of Kshs.409,592,536 includes amounts of Kshs.168,912,135, Kshs.27,964,131, Kshs.2,207,900, Kshs.1,396,707 and Kshs.55,037,365 due from external customers (Consultancy), National Hospital Insurance Fund (NHIF), East African Portland Cement, other receivables and UNES bookstores respectively all totalling Kshs.255,518,238, which have been outstanding for over two (2) years. No provision for bad debt has been included in the financial statements in respect of these old debts.

Further, receivables balance of Kshs.409,592,536 as at 30 June, 2022 increased by Kshs.118,564,876 from Kshs.291,027,660 in 2020/2021 which is equivalent to an increase of 41%. Management has not put in place adequate measures to enhance collection of the receivables.

In the circumstances, the accuracy and recoverability of the trade and other receivables balance of Kshs.409,592,536 could not be ascertained.

3. Trade and Other Payables

The statement of financial position and Note 22 to the financial statements reflects trade and other payables balance of Kshs.312,568,006. However, examination of supporting records provided revealed that the trade and other payables increased by Kshs.102,111,688, from Kshs.210,456,318 in the year ended 30 June, 2021 to

Kshs.312,568,006 in the year ended 30 June, 2022 an increase equivalent to 49%. The above increase differs with the amount of Kshs.104,798,920 reflected at Note 26(a) resulting to unexplained variance of Kshs.2,687,232. Therefore, the continued increase of trade and other payables may cast doubt on the ability of the Company to meet its short-term obligations.

In addition, it was noted that provision for directors' emoluments of Kshs.4,933,333 includes an amount of Kshs.1,200,000 dating back to 2015/2016, Kshs.866,666 in 2018/2019 and Kshs.900,000 in 2019/2020. Similarly, provision for expenses of Kshs.3,967,210 includes insurance amounting to Kshs.2,886,830 dating back to the year 2012 and staff payments for staff who were seconded from University of Nairobi in 2019/2020, while provisions for direct service providers amounting to Kshs.8,031,689 which includes an unsupported balance brought forward amount of Kshs.993,880 which was not analyzed.

Further, Management did not provide the creditors ledger and creditors invoices in support of the trade and other payables balance of Kshs.312,568,006.

In the circumstances, the existence and accuracy of payables balance of Kshs.312,568,006 could not be ascertained.

4. Fully Depreciated Property, Plant and Equipment

Review of the records provided for audit indicated that the Company did not review the residual values and useful lives of property, plant and equipment amounting to Kshs.107,186,144 as at reporting date in accordance with paragraph 51 of IAS 16. As a result, property, plant and equipment with a gross carrying amount of Kshs.80,579,508 had a zero-net carrying amount while still in use. Although the Management has indicated that it carried out a revaluation in the current year based on the evidence provided dated 19 August, 2022. No explanation was provided for failure to approve the draft valuation report for inclusion in the financial statements for the year ended 30 June, 2022.

In the circumstances, the accuracy and completeness of property, plant and equipment balance of Kshs.12,964,604 as at 30 June, 2022 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 Enterprises and Services Limited 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. There were no key audit matters to report in the year under review.

Other Matter

1. Budgetary Control and Performance

Report of the Auditor-General on University of Nairobi Enterprises and Services Limited for the year ended 30 June, 2022

The statement of comparison of budget and actual amounts reflects final revenue budget and actual on comparable basis totalling to Kshs.955,923,933 and Kshs.878,717,036 respectively, resulting to an underfunding of Kshs.77,206,897 or 8% of the budget. Similarly, the Company spent Kshs.894,996,769 against an approved budget of Kshs.1,003,912,690 resulting to an under expenditure of Kshs.108,915,921 or 11% of the budget. The underfunding and under performance affected the planned activities and may have impacted negatively on service delivery.

Further, the statement reflects computers/laptops expenditure budget of Kshs.1,225,000 against actual amount of Kshs.3,285,078 resulting to over-expenditure of Kshs.2,060,078 or 168% of the budgeted amount. However, budget re-allocation approvals in support of the expenditure were not provided for review. The original and final budgets amount of Kshs.1,225,000 were also at variance with the approved budget amount of Kshs.505,000 reflected in the 2021/2022 Company budget.

2. Prior Year Unresolved Issues

In the audit report of the previous year, several issues were raised under the Report on Financial Statements and Report on Effectiveness of Internal Controls, Risk Management and Governance. However, the Management has not resolved the issues or given any explanation for failure to adhere to the provisions of the Public Sector Accounting Standards Board template.

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 section 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

1. Irregular Procurement of Staff Medical Cover

The Company advertised tender No. UNES/HQ/018/2020-2021 for provision of staff medical insurance cover on 4 May, 2021. The tenders were opened on 18 May, 2021 and the Accounting Officer appointed seven (7) Tender Evaluation Committee Members instead of a maximum of five (5) as provided for by the Public Procurement and Asset Disposal Act, 2015. The financial evaluation was carried out under several criteria which included provision of audited financial statements for three (3) years, from 2018 to 2020. The winning bidder was non-responsive based on non-submission of the financial statements.

The Committee recommended that the tender be awarded to the highest scoring evaluated bidder with a score of 95% at a bid of Kshs.9,102,448. However, the bidder had not submitted the financial statements for year 2020 and the audit report on the 2019 financial statements reflected a material uncertainty of going concern. The company was

placed under statutory management on 5 April, 2022 as reflected in the Policy Holder's Compensation Fund (PCF) circular of 13 June, 2022. Based on material uncertainty of the going concern on the audit report, the Evaluation Committee should have considered the second highest evaluated bidder with a score of 84% and a bid price of Kshs.10,126,906, who had provided audited financial statements for three years as required.

Further, the insurance company had a performance guarantee No. MD2116700016 for Kshs.910,244 with a local bank which was valid until 15 June, 2022. The bank through a letter to UNES of 23 June, 2022 reminded UNES of the bank's undertaking to pay upon a written demand declaring the insurance company to be under default under the contract. However, Management of UNES did not make the written demand for compensation, resulting in loss of Kshs.910,244.

In the circumstances, Management was in breach of the law.

2. Appointment of Board Members and Committees of the Board

Meeting minutes of the full Board Meetings and those of its committees revealed that the Board had 10 Members including the Managing Director who is an ex-officio member and included two (2) ladies and eight (8) men members against seven males. This is contrary to the requirements of the one-third gender rule. Further, some Board Members had served for over six years contrary to the ceiling of six years provided for under paragraph 1.5 of Mwongozo Code.

Further, the Governance, Risk and Audit Committee had four (4) members, Strategy and Business Development Committee had five (5) members while the Finance and General Purposes Committee had six (6) members contrary to the limit of one-third of the maximum of nine (9 No) Board members.

UNES Board and its Committees were not properly constituted as provided for under Mwongozo code and resolutions passed by such a Board may be legally challenged.

In the circumstances, Management was in breach of the law.

3. Irregular Salary Advance

Human resource records revealed that some employees were issued with advance salaries which were higher than their basic pay. Further, advance salary was approved and issued to an employee who had been in employment for less than one year as outlined below:

Name	Basic Pay (Kshs.)	Advance Amount (Kshs.)	Balance 30 June, 2022 (Kshs.)	Date Given	Date Employed	Reason
Sylvia Nyangena	16,547	60,000	15,000	Sept 2021	8 April, 2016	School Fees
Edwin Wambongo	21,054	30,000	10,000	Oct 2021	March, 2019	Urgent Matter
Rose Munoka	21,054	20,000	8,331	Nov 2021	August, 2021	School Fees

Nicholas Muriithi	36,503	60,000	35,000	Jan 2022	May, 2011	Spouse Fees
James Wachira	38,705	60,000	35,000	Jan 2022	February, 2015	Parent Emergency
Loice Kerubo Onyari	20,265	60,000	5,000	Jul 2021	March, 2013	School Fees
Eugene N. Lusasi	18,595	30,000	2,500	Jul 2021	March, 2009	Emergency

In the circumstances, the regularity of the payments could not be confirmed.

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 overall 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 overall 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, except for matters reported in the Basis for Qualified Opinion, I report based on my 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 Board of Directors

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 controls 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 controls, risk management and overall 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 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.

The Board of Directors is responsible for overseeing the Company's financial reporting process, reviewing the effectiveness of how Management 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 controls in order to give an assurance on the effectiveness of internal controls, risk management and overall 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 controls would not necessarily disclose all matters in the internal controls 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 controls 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 Company's 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.



CPA Nancy Gathungu, CBS
AUDITOR-GENERAL

Nairobi

27 June, 2023