

REPORT OF THE AUDITOR-GENERAL ON TECHNICAL UNIVERSITY OF MOMBASA FOR THE YEAR ENDED 30 JUNE 2017

REPORT ON THE FINANCIAL STATEMENTS

Qualified Opinion

I have audited the accompanying financial statements of Technical University of Mombasa set out on pages 1 to 30, which comprise the statement of financial position as at 30 June 2017, and the statement of financial performance, statement of change 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 Technical University of Mombasa as at 30 June 2017, and of its financial performance and its cash flows for the year then ended, in accordance with International Public Sector Accounting Standards (Accrual Basis) comply with the Public Universities Act, 2012.

In addition, as required by Article 229(6) of the Constitution, except for the matters described in the Basis for Qualified Opinion and Other Matter section of my report based on the procedures performed, 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 Qualified Opinion

1.0 Presentation of Financial Statements

- 1.1** As previously reported and repeated in these financial statements, significant accounting policies No. 3(p) to the financial statements on related parties does not disclose the value of transactions between the University and TUM Enterprises Limited in conformity with International Public Sector Accounting Standards No.20 which requires a disclosure of information about transactions between the entity and its related parties.
- 1.2** The statement of Director's responsibilities on page xviii is not signed. Consequently, the financial statements presented for the year ended 30 June 2017 do not comply with the requirements of Kenya International Public Sector Accounting Standards Board.

2.0 Property, Plant and Equipment

2.1 Land in Dispute

As previously reported, the property, plant and equipment balance of Kshs.2,675,649,284 as at 30 June 2017 (2015/2016 Kshs.2,718,357,233) includes a parcel of land LR No. Mombasa/Block/X1/386 valued at Kshs.200 million of which ownership is in dispute and the matter is on-going before a Court of Law. A review of the matter in the current year indicates that the status has not changed since the matter is in court. Although the University management is confident that the University has a proper title to the property, it has not been possible to confirm ownership on the property due to the dispute.

2.2 Freehold Land

Further and as reported in the year 2015/2016, included in property, plant and equipment balance of kshs.2,675,649,284 as at 30 June 2017 is freehold land balance of Kshs.1,047,422,550. The balance of freehold land of Kshs.1,047,422,550 include addition of Kshs.102,422,550 (2015/2016-Kshs 92,922,550 and 2014/2015-Kshs 9,500,000) respectively. However, there was no evidence of the land having been competitively sourced as required by the Public Procurement and Disposal Act, 2005 as tender opening minutes, tender evaluation and acceptance and inspection reports were not availed for audit review. It was also not clear how the land was identified.

It is also not clear how the need and the suppliers were identified in the absence of a pre-qualified list of suppliers and procurement plan.

2.3 Plant and Equipment- High Voltage Lab Equipment

An amount of kshs.175,767,710 being supply of High Voltage lab equipment has been excluded from plant and equipment balance of Kshs143,558,274 as at 30 June 2017 and hence not captured in the financial statements. Further, the respective creditor of the Kshs.175,767,710 has also been excluded from these financial statements under note 22. The management has failed to disclose the equipment in the financial statements.

Consequently, the propriety and completeness of Kshs.143, 558,274 on plant and equipment as at 30 June 2017 could not be confirmed.

2.4 Legal Fees

As previously reported, included in the additions of freehold land of Kshs.102,422,550 as indicated in note 12 to the financial statement for the year 2015/2016 is legal fees amounting toKshs.10,136,950 paid to a law firm. However,

there was no evidence of competitive selection of the law firm as required by the Public Procurement and Disposal Act, 2005 and neither was approval by the Attorney General for the use of a private law firm availed for audit. It was observed that the law firm was added to the list of pre-qualified service providers in October, 2015 although the sale agreement was signed in January, 2015 nine (9) months after the sale agreement had been signed. It was not clear the role of the law firm in the land transaction that had already been concluded.

2.5 Buildings

Included in the freehold land balance of Kshs.1,047,422,550 is a parcel of land valued at Kshs.102,422,550 on which a telecommunication mast has been constructed.

However, details of the lease rentals for the telecommunication mast have not be availed for audit review.

2.6 Furniture

As previously reported, included in property, plant and equipment balance of Kshs.2,675,649,284 as at 30 June 2017 (2015/2016 Kshs.2,718,357,233) are additions totaling Kshs.107,850,973 made in the financial year 2013/2014. However, the purchase of furniture and equipment at the cost of Kshs.20, 905,377 and Kshs.10, 729,921 respectively did not have any evidence of having been competitively sourced as required by the Public Procurement and Disposal Act, 2005 as no tender opening minutes, tender evaluation, and acceptance and inspection reports were availed for audit review.

2.7 Television Sets

As previously reported, included in property, plant and equipment balance of Kshs.2,675,649,284 as at 30 June 2017 (2015/2016- Kshs.2,718,357,233) were additions during year 2014/2015 amounting to Kshs.346,826,307 net of work-in-progress. The additions included procurement of five smart television sets at a total cost of Kshs.4, 553,448. The audit revealed procurement was done through requests for quotation contrary to Public Procurement and Disposal Act, 2005. In addition, the supplier delivered 65 inch-size instead of the 70 inch – size TV sets as per the supply order

2.8 Prior Year Work in Progress

Also as previously reported, included in property, plant and equipment balance of Kshs.2,675,649,284(2015/2016- Kshs.2,718,357,233) were additions amounting to Kshs.346,826,307 net of work-in-progress which comprise of various procurements

made during the financial year 2014/205. However, there was no approved procurement plan and evidence of supplier prequalification for the financial year as required by the Public Procurement and Disposal Act, 2005 and regulations thereof. It is not clear how the need and the suppliers were identified in the absence of a pre-qualified list of suppliers and procurement plan.

Further, included in property, plant and equipment balance of Kshs.2,675,649,284 as at 30 June 2017 is additions of Kshs.123,142,111 net of work in progress acquired in 2015/2016. The additions' balance of Kshs.123,142,111 included furniture and fittings of Kshs.3,183,618. Audit examination of the list of furniture and fittings revealed that the balance included among others items like curtains, napkins, mattresses totaling Kshs.2, 564,718 which do not qualify to be classified as property, plant and equipment as per International Public Sector Accounting Standards 17.

2.9 Project Management Fees

As previously reported, property, plant and equipment balance amounting to Kshs.2,675,649,284 (2015/2016- Kshs.2,718,357,233) include work in progress balance of Kshs.42,717,651 (2015/2016 – Kshs.21,845,298) which included payments to various university staff amounting to Kshs.17,425,066 referred to as the project management fees. However, it is not clear and the management has not explained the basis for the payments and the supporting payment documents were not availed for audit verification during the current audit.

In addition, as previously reported, included in property, plant and equipment balance of Kshs.2,675,649,284 (2015/2016- Kshs.2,718,357,233) is work in progress balance of Kshs.42,717,651 (2015/2016 – Kshs.21,845,298). Work in Progress includes an advance payment of Kshs.1, 802,697 for library detective system. However, the audit revealed that the work had not been completed, although according to the agreement dated 12 February 2014, the work was supposed to have been completed within 1 ½ months from the date of signing the agreement.

2.10 Perimeter Fence

As previously reported, included in property, plant and equipment balance of Kshs.2,675,649,284 as at 30 June 2017 is a balance of Kshs.42,717,651 in respect of Work in progress. The work in progress balance of Kshs.42,717,651 include expenditure amounting to Kshs.6,930,750 as at 30 June 2017 for the construction of a perimeter fence on Gotani land in Kaloleni. However, records available indicate that the project was abandoned due to inability of the university to process ownership document for the land donated by Kaloleni CDF. It was not clear why the university commenced fencing of land to which it had no title. In addition, the probable costs resulting from legal suits for termination of the contract have not been quantified and determined in these financial statements. The public did not realize value for money from the abandoned project.

In the circumstances, the ownership, accuracy, propriety and completeness of property, plant and equipment figure of Kshs.2,675,649,284 as at 30 June 2017 could not be confirmed.

2.11. Fully Depreciated Assets

As reported in the year 2015/2016 audit report, property, plant and equipment with total cost of Kshs.117,102,254 were fully depreciated and there was no evidence that they had been revalued as at 30 June 2017. Therefore, the economic value of these assets has not been accounted for in these financial statements as they are carried at nil value contrary to International Public Sector Accounting Standards No. 17.

Consequently, the accuracy, propriety and completeness of property, plant and equipment figure of Kshs.2,676,649,284 as at 30 June 2017 could not be ascertained.

3.0 Long-term Investments

3.1 TUM Enterprises Limited

The statement of financial position reflects long term investments balance of Kshs12,324,338 as at 30 June 2017 which includes an amount of Kshs.5,571,938 in respect of investment in TUM Enterprises Limited. The Memorandum and Articles of Association for the Company incorporated on 7 August 2013 indicates that the Company has an issued share capital of Kshs.510, 200 comprising of 5,102 shares, 5,100 directly owned by Technical University of Mombasa and two (2) are owned by the University through the Vice-Chancellor and a council member. The management presented financial statements for the year ended 30 June 2016 that had been audited by a private auditor who was not appointed by the Auditor General contrary to Section 47 of Public Audit Act 2015.

Under the circumstance, the accuracy and validity of the investment balance of Kshs.5,571,938 as at 30 June 2017 could not be ascertained.

3.2 Fixed Deposit National Bank of Kenya

Note 20 to the financial statements for the year ended 30 June 2017 reflects fixed deposit at National Bank of Kenya amounting to Kshs.1,752,400. However, the supporting documents availed for audit review supported an amount of Kshs.1,275,000 resulting to unexplained variance of Kshs.477,400.

Consequently, the accuracy and completeness of fixed deposit at National bank of Kenya balance of Kshs.1,752,400 for the year ended 30 June 2017 could not be confirmed.

4.0 Receivables from Exchange Transactions

4.1 Student Debtors

The receivables from exchange transactions balance of Kshs.72,762,827 as at 30 June 2017 are student debtors balances of Kshs.57,423,118 which increased from Kshs.33,218,139 of previous year.

It was not clear why the student debtors increased tremendously and how the management intends to recover these debts.

4.2 Guest Accommodation Debtors

Note 16 to the financial statements for the year ended 30 June 2017 reflects Guest Accommodation debtors balance of Kshs.11,378,163 as compared to the previous year balance of Kshs.7,192,748.

The management has not explained how it intends to recover these debts.

4.3 Provision for Doubtful Debts

The balance of receivables from exchange transactions of Kshs.72,762,827 as at 30 June 2017 is net of general provision for bad and doubtful debt amounting to Kshs.35,410,246 which is 49% of the outstanding accounts receivable including staff advances totaling to Kshs.345,914. However, there is no specific provision for the impairment of debts that have been outstanding for very long period which may never be recovered.

Consequently, the adequacy of the provision of Kshs.35,410,246 as at 30 June is doubtful.

5.0. Receivables from Non-Exchange Transactions

Receivables from non-exchange transactions balance of Kshs.4,545,344 includes other debtors amounting to Kshs.1,400,470 out of which Kshs.1,331,000 is a receivable from staff as a surcharge in respect of payroll fraud perpetrated by the concerned staff. However, the total amount that could have been lost out of the fraud and hence recoverable from the concerned staff has not been quantified as forensic audit has not been carried out.

Consequently, the accuracy and completeness of other debtor's figure of Kshs.1,400,470 as at 30 June 2017 could not be ascertained.

6.0 Other Creditors

6.1 Unpaid Pension

The other creditors balance of Kshs.134,214,905 as at 30 June 2017 excludes an amount of Kshs.39,195,284 in respect of unpaid employer pension contribution arising from the collective Bargaining Agreement signed between the management of public universities and the trade union in April, 2014. The management, however, deducted and remitted the employee contribution which effectively created an obligation on the University to remit the employer's contribution in line with the rules of the pension scheme.

6.2. Long Outstanding Payables

The balance of other creditors of Kshs.134,214,905 as at 30 June 2017 includes long outstanding payables amounting to Kshs.1,815,270 in respect of VAT retained, unclaimed wages, CDF, other depositors, foreign examinations CILT and salary advance refund. There was no satisfactory explanation as to why the debts had not been settled.

6.3 Statutory Deductions

The other creditors balance of Kshs.134,214,905 as at 30 June 2017 includes unremitted taxes amounting to Kshs.43,338,715 comprising of PAYE of Kshs.39,385,391, VAT of Kshs.2,917,852, and withholding tax amounting to Kshs.1,035,472 that were due and payable. The University runs a restaurant and is registered for Value Added Tax and Tourism Development Fund. The management has paid the Tourism Development Levy and amounts due to Kenya Revenue Authority for the current year 2016/ 2017 though the arrears for the year 2015/2016 is still outstanding. It is not clear and the management has not explained how the amount of levy or tax payable including the penalties have been accounted for in these financial statements.

Under the circumstance, the accuracy and completeness of other creditors' balance of Kshs.134,214,905 could not be ascertained.

7.0 Sports Activities Dean of Students

Note 10 to the financial statements for the year ended 30 June 2017 reflects sports activities dean of students expenses amounting to Kshs.3,809,670. However, this balance includes an amount of Kshs.1,091,120 in respect to subsistence allowance whose supporting documents were not availed for audit review.

Consequently, the propriety of sports activities dean of students expenditure of Kshs.1,091,120 could not be ascertained.

8.0 Long Term Liabilities

Note 23 to the financial statements for the year ended 30 June 2017 reflects students caution money amounting to Kshs.12,976,178. However, no supporting schedules were availed for audit review.

In the circumstance, the accuracy and completeness of students caution money balance of Kshs.12,976,178 could not be confirmed.

9.0 Professional Services Central Vote – Legal Fees

Note 8 to the financial statements for the year ended 30 June 2017 reflects professional services central vote balance of Kshs.9,574,686 which was used in payment of legal services provided to the University. However, no approval from the Attorney General as required by the Circular No. AG/CONF/6/E/247 VOLII which requires that State Corporations should get approval and authority from Attorney General before incurring expenditure on legal fees.

Consequently, the propriety and completeness of professional services balance of Kshs.9,574,686 could not be confirmed.

10.0 Financial Performance

The statement of financial performance reflects a deficit of Kshs.60,474,983 for the year ended 30 June 2017, (2015/2016: deficit – Kshs.104,093,172). This results to accumulated losses of Kshs.181,544,405 in the statement of financial position as at 30 June 2017. The continued operations of the University as a going concern is dependent on financial support from the government and creditors.

The audit was conducted in accordance with International Standards of Supreme Audit Institutions (ISSAIs). I am independent of Technical University of Mombasa 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 and Other Matter section of my report, I have determined that there are no Key Audit Matters to communicate in my report.

Other Matter

1. Budgetary Control and Performance

1.1 Internally Generated Income

The management had budgeted to collect internally generated income of Kshs.982,367,444. However, the actual collection during the financial year was Kshs.796,360,420 resulting to an under-collection of Kshs.213,007,035 or 1.3%.

The management has not explained why it could not meet its revenue collection target and how it intends to recover the shortfall.

1.2 Unauthorized expenditure

The management budgeted to spend Kshs.113,825,380. However the actual expenditure was Kshs.123,599,800 thus resulting to unauthorized over expenditure of Kshs.9,774,420 as listed below.

	Approved Budget Kshs	Actual Expenditure KShs	Over Expenditure Kshs
Medical Insurance	85,000,000	87,098,916	2,098,916
Responsibility Allowance	14,000,000	14,971,000	971,000
Non Practising Allowance	2,500,000	2,652,000	152,000
Telephone Allowance	7,500,000	7,939,960	439,960
Acting Allowance	825,380	1,079,058	253,678
Hardship Allowance	-	941,140	941,140
General insurance	4,000,000	8,917,726	4,917,726
TOTAL	113,825,380	123,599,800	9,774,420

The over expenditure of Kshs.9,774,420 required approval by the council but no evidence was availed for audit verification..

The management has not explained why it overspent on the budget in the above items most of which are allowances.

1.3 Budget Absorption

The University had a total recurrent budget of Kshs.1,663,512,857 voted for the financial year 2016/2017 while actual expenditure amounted to Kshs.1,476,237,372,

resulting to under-absorption of Kshs.187,275,485 or 11% of the budget as summarized below:

Item	Approved Budget (Kshs.)	Actual Expenditure (Kshs.)	Under Absorption in (Kshs.)	Under Absorption (%)
Personal Emoluments	1,062,665,392	1,004,356,739	58,308,653	5%
Council Expenses	20,000,004	13,541,977	6,458,027	32%
Operating/ Administration expenses	268,912,796	186,646,559	82,266,237	31%
Teaching expenses	275,834,657	239,800,000	36,034,657	13%
Students welfare	14,100,000	13,690,778	409,222	3%
Repairs and Maintenance	22,000,008	18,201,319	3,798,689	17%
Total	1,663,512,857	1,476,237,372	187,275,485	11%

The University had an overall under-utilization of the budget amounting to Kshs.187,275,485 or 11% thus negatively affecting the delivery of goods and services to the student and staff of the University.

Responsibilities of Management and Those Charged with Governance for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with International Public Sector Accounting Standards (Accrual Basis) and for such 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.

In preparing the financial statements, management is responsible for assessing the University's ability to continue as a going concern/ sustain services, disclosing, as applicable, matters related to going concern/ sustainability of services and using the applicable basis of accounting unless the management either intends to liquidate the University 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.

Those charged with governance are responsible for overseeing the University's financial reporting process.

Auditor-General's Responsibilities for the Audit of the Financial Statements

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.

As part of an audit conducted in accordance with ISSAIs, I exercise professional judgment 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.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances and for the purpose of giving an assurance on the effectiveness of the Technical University of Mombasa's 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 Technical University of Mombasa'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 Technical

University of Mombasa's to cease as a going concern or to continue 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 Technical University of Mombasa 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.

REPORT ON OTHER LEGAL AND REGULATORY REQUIREMENTS

As required by Public Universities Act, 2012, 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 Technical University of Mombasa, so far as appears from the examination of those records; and,

- iii. The Technical University of Mombasa's financial statements are in agreement with the accounting records and returns.



FCPA Edward R. O. Ouko, CBS
AUDITOR-GENERAL

Nairobi

18 May 2018