

REPORT OF THE AUDITOR-GENERAL ON TECHNICAL UNIVERSITY OF MOMBASA FOR THE YEAR ENDED 30 JUNE, 2019

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 54, which comprise the statement of financial position as at 30 June, 2019, and the statement of financial performance, statement of changes 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, 2019, and of its financial performance and its cash flows for the year then ended, in accordance with International Public Sector Accounting Standards (Accrual Basis) and comply with the Public Finance Management Act, 2012 and the Public Universities Act, 2012.

Basis for Qualified Opinion

1.0. Presentation

The statement of financial performance for the year ended 30 June, 2019 has restated amounts. However, no Notes were provided to explain the restated amounts. This is contrary to International Public Sector Accounting Standards No.3 which provides that correction is made by restating the comparative amounts for the prior period(s) in which the error occurred. Further, the statement of changes in net assets for the year reflect a prior year adjustment amortization of Kshs.604,108 which does not have a Note to the financial statements to explain what it represents.

Consequently, the accuracy of the financial statements cannot be ascertained as they do not comply with the International Public Sector Accounting Standards.

2.0. Property, Plant and Equipment

2.1. Land in Dispute

As previously reported, the property, plant and equipment balance of Kshs.3,093,832,849 as at 30 June, 2019 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 had not

changed. Although the University has a title to the property, it has not been possible to confirm the value on the property due to the dispute.

2.2. Library Detective System

As previously reported, included in property, plant and equipment balance of Kshs.3,093,832,849 is work-in-progress balance of Kshs.354,986,585. The work-in-progress includes an advance payment of Kshs.1,802,697 for library detective system. According to the agreement dated 12 February, 2014, the work was supposed to be completed in one and a half (1½) months from the date of signing the agreement. An audit review carried out on 20 August, 2019 confirmed that the system had been returned to the supplier due to defects. However, the supplier failed to replace it and could not be traced. In addition, available records indicated that the University tried to engage a private investigator to trace the supplier but the cost implication was deemed beyond the amount already advanced to the supplier, hence the plan was shelved.

2.3. Perimeter Fence

The work-in-progress balance of Kshs.354,986,585 includes an expenditure of Kshs.6,930,750 for the construction of a perimeter fence on Gotani land in Kaloleni. However, and as previously reported, records available indicate that the project was abandoned due to the inability by the University to process ownership documents for the land donated by Kaloleni NG-CDF. It was not clear why the University commenced fencing the parcel 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 the financial statements.

2.4. Project Management Fees

Further, the work-in-progress balance of Kshs.354,986,585 includes 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 supporting documents were not availed for audit verification.

In the circumstances, the ownership, accuracy, propriety and completeness of property, plant and equipment amount of Kshs.3,093,832,849 as at 30 June, 2019 could not be confirmed.

3.0. Receivables from Exchange Transactions

3.1. Student Debtors

As reported in the previous year, included in the receivables from exchange transactions balance of Kshs.46,569,410 as at 30 June, 2019 are student debtors balances of Kshs.72,278,543 compared to Kshs.131,794,350 reported in the previous year. However, analysis of these debts revealed that an amount of Kshs.66,450,126 or 92%

had been outstanding for over four hundred and eighty (480) days. The Management has not satisfactorily explained why the student debtors have remained uncollected for over a year and what measures have been put in place to recover these debts.

3.2. Guest Accommodation Debtors

The receivables from exchange transactions balance of Kshs.46,569,410, as disclosed in Note 19 to the financial statements, includes an amount of Kshs.7,282,107 under guest accommodation debtors. However, analysis of these debts revealed that an amount of Kshs.7,209,286 or 99% had been outstanding for over four hundred and seventy-seven (477) days. Management has not explained why the guest debtors have remained uncollected for over a year and what measures it has put in place to recover these debts.

3.3. TUMEL Debtors

Included in the receivables from exchange transactions balance of Kshs.46,569,410 as at 30 June, 2019 are Technical University of Mombasa Enterprises Limited (TUMEL) debtors of Kshs.6,000,000. However, debt contract agreement, request and authority to enter in borrowing arrangements were not provided for audit review.

Consequently, the validity and propriety of the TUMEL debtors balance of Kshs.6,000,000 as at 30 June, 2019 could not be ascertained.

3.4. Provision for Doubtful Debts

As reported in the previous year, the balance of receivables from exchange transactions of Kshs.46,569,410 as at 30 June, 2019 is net of general provision for bad and doubtful debts amounting to Kshs.69,089,721 which is 60% of the outstanding accounts receivables including staff advances totaling to Kshs.142,454. However, there is no specific provision for the impairment of debts that have been outstanding for a very long period which may never be recovered. A review of the matter in the current year indicates that the Management has not set a specific provision for the long outstanding debts. Consequently, the adequacy of the provision of Kshs.69,089,721 as at 30 June, 2019 is doubtful.

4.0. Receivables from Non-Exchange Transactions

As previously reported, receivables from non-exchange transactions balance of Kshs.114,899,735 as at 30 June, 2019 includes other debtors amounting to Kshs.1,398,625, 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 due to the fraud and hence recoverable from the concerned staff had not been quantified as investigations had not been carried out and a report availed for audit review.

Consequently, the accuracy and completeness of other debtors amount of Kshs.1,398,625 as at 30 June, 2019 could not be ascertained.

5.0. Cash and Cash Equivalents

5.1. Debit Bank Balances

As disclosed in Note 24 to the financial statements, the statement of financial position reflects an amount of Kshs.177,077,783 under bank balances. However, the bank balances are net of overdrawn balances of Kshs.1,598,328 in two (2) bank accounts. This is contrary to the International Public Sector Accounting Standard No.1 on presentation, which prohibits the netting of liabilities against assets.

Consequently, the accuracy and completeness of cash and cash equivalents balance of Kshs.177,077,783 as at 30 June, 2019 could not be confirmed.

5.2. National Bank – Current Account No. 1

Included in the bank balance of Kshs.177,077,783 is an amount of Kshs.1,106,746 in the National Bank Current Account No.1. However, the supporting bank reconciliation statement as at 30 June, 2019 reflects receipts in bank not yet recorded in cash book of Kshs.359,110, all of which are dated from 16 September, 2016 to 10 June, 2019. No explanation has been provided on why the receipts have not been recorded in the cash book.

In addition, the reconciliation statement reflects payments in bank not yet recorded in the cash book of Kshs.120,204, receipts in cash book not yet recorded in bank statements of Kshs.5,280, and unpresented cheques of Kshs.466,096. These payments are dated from 7 September, 2017 to 10 June, 2019. No explanation has been provided on why the receipts had not been banked and the payments recorded in the cash book. Further, bank statements to confirm that the unpresented cheques were subsequently cleared were not availed for audit review.

5.3. Co-operative Bank – Fees Collection Account

Included in the bank balance of Kshs.177,077,783 is a negative bank balance of Kshs.929,621 in the Co-operative Bank Fees collection account. However, the supporting bank reconciliation as at 30 June, 2019 reflects amounts in cash book but not in bank statement of Kshs.1,668,430, some dating as far back as 29 November, 2016. No explanation was provided on why these amounts had not been banked to date.

5.4. Standard Chartered Bank - Fees Collection Account

Also included in the bank balance of Kshs.177,077,783 is a fees collection account balance of Kshs.3,843,615. The supporting bank reconciliation as at 30 June, 2019 reflects receipts in bank statements but not yet recorded in the cash book of Kshs.453,630. The receipts are dated from 28 November, 2018 to 16 June, 2019. No explanation was provided on why the receipts had not been recorded in cash book.

5.5. Kenya Commercial Bank Lamu Satellite Branch – Account

Further, included in the bank balance of Kshs.177,077,783, is a bank balance of Kshs.6,799 in the Co-operative Bank Fees collection account. The bank reconciliation as at 30 June, 2019 reflects receipts in bank statement but not yet recorded in the cash book of Kshs.645,407. The receipts are dated from 30 September, 2016 to 30 June, 2019. Some amounts have been outstanding for between one year and two years. No explanation was provided on why the receipts were not recorded in the cash book.

5.6. Equity Fees Collection Account

The bank balance of Kshs.177,077,783 also includes a negative bank balance of Kshs.668,707 in the Equity Bank Fees collection account. The supporting bank reconciliation as at 30 June, 2019 reflects amounts in cash book but not in bank statement of Kshs.1,695,620, some dating as far back as 17 March, 2017. Out of this balance, an amount of Kshs.755,780 has been outstanding for between six months to two years. No explanation was provided on why these amounts had not been banked to date.

5.7. National Bank - Economic Stimulus Programme Account

The bank balance of Kshs.177,077,783 also includes a bank balance of Kshs.17,192,527 in the National Bank Economic Stimulus Programme account. The supporting bank reconciliation as at 30 June, 2019 reflects receipts in bank statement but not yet recorded in the cash book of Kshs.5,000. This receipt is dated 19 April, 2017. It has been outstanding for more than two years and no explanation was provided on why the amount had not been recorded in the cash book.

5.8 National Bank Fees Collection Account

Included in the bank balance of Kshs.177,077,783 is bank balance of Kshs.20,129,554 in the National Bank Fees collection account. The supporting bank reconciliation as at 30 June, 2019 reflects receipts in bank but not yet recorded in the cash book of Kshs.5,590,405. The receipts are dated from 16 August, 2016 to 28 June, 2019. Out of this balance, an amount of Kshs.2,297,620 has been outstanding for between six months to three years. No explanation was provided on why the amount had not been recorded in the cash book.

The reconciliation also reflects payments in bank not yet recorded in the cash book of Kshs.298,518. These payments are dated from 29 February, 2016 to 4 July, 2017. No explanation was provided on why these payments had not been recorded in the cash book. Further, whereas the reconciliation reflects a balance as per bank statement of Kshs.25,421,363, the supporting certificate of bank balance reflects a balance of Kshs.25,420,363 resulting to a variance of Kshs.20,000 and which was not explained or reconciled.

5.9 Kenya Commercial Bank Fees Collection Account

Also included in the bank balance of Kshs.177,077,783 is a bank balance of Kshs.5,169,255 in the Kenya Commercial Bank Fees collection account. The bank reconciliation as at 30 June, 2019 for fees collection account reflects receipts in bank statement but not yet recorded in the cash book of Kshs.1,875,938. The receipts are dated from 31 May, 2018 to 30 June, 2019. Out of this balance, an amount of Kshs.944,748 has been outstanding for between six months and one year. No explanation was provided on why the amount had not been recorded in the cash book.

In the circumstances, the accuracy and completeness of the bank balances of Kshs.177,077,783 as at 30 June, 2019 could not be ascertained.

The audit was conducted in accordance with International Standards of Supreme Audit Institutions (ISSAIs). I am independent of the Technical University of Mombasa Management in accordance with ISSAI 130 on Code of Ethics. I have fulfilled other ethical responsibilities in accordance with the ISSAIs 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 other key audit matters to report in the year under review.

Other Matter

1. Financial Performance

As previously reported, the statement of financial performance reflects a deficit of Kshs.72,097,564 for the year ended 30 June, 2019, (2017/2018: deficit – Kshs.130,192,201). This resulted to accumulated losses of Kshs.393,459,323 (2017/2018 – accumulated loss of Kshs.294,222,416). If strategies are not put in place to reverse the trend, the University is likely to face financial challenges in settling its financial obligations as and when they fall due.

2. Budgetary Control and Performance

During the year under review, the University had a final budget of Kshs.1,699,149,025 while the total expenditure amounted to Kshs.1,649,115,352 or 97%, resulting to overall under expenditure of Kshs.50,033,673 or 3% of the budget. However, the University had an over expenditure of Kshs.796,224 on repairs and maintenance and no evidence of authority to overspend or reallocate funds in line with Regulation 48(5) of the Public Finance Management (National Government) Regulations, 2015 was provided.

3. Unresolved Prior Year Matters

Various prior year audit issues remained unresolved as at 30 June, 2019. Management did not provide reasons for the delay in resolving the prior year audit issues.

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, I confirm that, nothing has come to my attention to cause me to believe that public resources have not been applied lawfully and in an effective way.

Basis of Conclusion

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, except for the matters described in the Basis for Conclusion on Effectiveness of Internal Controls, Risk Management and Governance 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.

Basis for Conclusion

1.0. IT Governance and Control Environment

1.1. Inadequate Information Communication Technology Services (ICTS) Governance Control

Although the University established and approved an ICT policy within the year, it was observed that the ICT function did not have a specific committee of the Council directly responsible for its governance and strategic direction. Further, the University did not have an ICT Strategic Plan. The University may therefore lack coordinated approach in ICT management and control in order to realize maximum benefits from the use of ICT.

1.2. ICT Systems Administration and Management

The University operates two (2) ICT systems that include Student Management System (E-register) and Sage ACCPAC Systems). Available records indicated that a company was contracted to provide maintenance services to Sage ACCPAC System at a contract price of Kshs.1,440,000 per year while another firm was contracted to provide maintenance services to the E-register academic system at a contract price of Kshs.2,552,000 per year. The following audit issues were however noted:

1.2.1. The system maintenance contract for Sage ACCPAC had run for a period of eight (8) years while that for the E-register had run for seven (7) years, contrary to the University ICT policy that limits the contract period to a maximum of two (2) years. The University is in breach of its own ICT policy.

1.2.2. Service Level Agreement (SLA) for maintenance of E-register system was as per contract Ref: TUM/LO/SLA/014/2018/2019 dated 18 February, 2019. However, the signed contract did not indicate the ownership arrangement for E-register system, while the firm providing E-register maintenance services which enabled the assignee to create users and assign roles within the system, system data and other confidential systems information was not specified. Thus, there is unauthorized access to E-register through the University Website portal.

In addition, contrary to Clause 3.1 of the signed SLA, the University did not designate in writing, up to three appropriate knowledgeable persons to serve as University liaison officers with the Service Provider. Furthermore, records availed for audit review indicated that the contractor failed to respond promptly to some system error requests made through email. Also, the contractor did not provide any technical manual specifying corrections made on the system and instructions for proper use of the system. Thus, the University is in breach of the terms of the contract, and system errors may not be detected and promptly corrected.

1.2.3. The contractor did not provide the University with information about the version, release or upgrade of the E-Register system as required, or provide Management with full copies of the software required. The University may not have full knowledge and information on the system and its benefits.

1.2.4. The University does not have a formal policy or procedures in place for the logging and monitoring of key activities in the E-register and Sage ACCPAC Systems. Further, it was noted that the functionality for review of activity logs by the section heads was not enabled hence the systems could not produce event logs.

1.2.5. There were no documented procedures on database backups. Further, no person with relevant competency was assigned the role of obtaining all data backup. In case of unforeseen disaster, critical data may be lost.

Consequently, there was breach of contract and the integrity and confidentiality of information, on-time management of information, value for money and the efficiency and

effectiveness of internal control mechanism for the ICT data and information could not be confirmed.

2.0 Under- Establishment

The University establishment was at six hundred and sixty-one (661) staff against an approved establishment of one thousand one hundred and ninety-four (1,194.) staff, indicating an under-establishment of five hundred and thirty-three (533) staff. The academic function was under-staffed by two hundred and thirty-six (236) staff being 48% of the approved establishment while the administrative function was under-staffed by two hundred and ninety-seven (297) staff, being 42% of the approved establishment.

It was also notable that key departmental functions were lacking substantive office holders, contrary to the University's Scheme of Service as detailed below:

- Corporate Services position should be held by a substantive Corporation Secretary Grade 15N but was being held by Deputy Chief Legal Officer Grade 13N.
- Internal Audit position which ought to be held by a substantive Chief Internal Auditor Grade 15N was being held by Deputy Chief Internal Auditor Grade 14N.
- Procurement Officer position which should be held by a substantive Procurement Manager Grade 14N was being held by Senior Procurement Officer Grade 12N.
- Human Resource Manager position which should have been held by a substantive Human Resource Manager Grade 14N was being held by a Human Resource Manager Grade 13N.
- Corporation Communication Officer position which should have been held by a substantive Senior Corporate Communication Officer Grade 12N was being held by Corporate Communication Officer III Grade 8N.

Further, it was observed that the Terms of Reference for Council Committees do not include governance control responsibility. The University statutes do not expressly assign the responsibility for ICT and University Security Function to the Council Committees.

Consequently, the Council and the University may be exposed to risk of cyber-crime due to lack of effective control.

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.

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 Public Sector Accounting Standards (Accrual Basis) 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 financial statements, Management is responsible for assessing the University'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 terminate the University or to cease operations.

Management is also responsible for the submission of 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 University's 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 University'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 Technical University of Mombasa control environment.

Auditor-General's Responsibilities for the Audit

The audit objectives are to obtain reasonable assurance about whether 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 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 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 University'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 University to cease to continue as a going concern.

- Evaluate the overall presentation, structure and content of 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 University 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

06 July, 2021