

REPORT OF THE AUDITOR-GENERAL ON TECHNICAL UNIVERSITY OF MOMBASA FOR THE YEAR ENDED 30 JUNE, 2020

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 58 which comprise of the statement of financial position as at 30 June, 2020, 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 the Technical University of Mombasa as at 30 June, 2020, and of its financial performance and its cash flows for the year then ended, and comply with International Public Sector Accounting Standards (Accrual Basis) and Public Universities Act, 2012 and the Public Finance Management Act, 2012.

Basis for Qualified Opinion

1. Property, Plant and Equipment

1.1. Unsupported Adjustments

The statement of financial position as at 30 June, 2020 reflects property, plant and equipment and as disclosed in Note 16 to the financial statements, a balance of Kshs.3,201,843,600 after adjustment by Kshs.86,271,921 from the original balance of Kshs.3,115,571,679. The adjustment was made on the following items:

Item	Revised Net Book Value (Kshs.)	Original Net Book Value (Kshs.)	Unsupported Adjustment (Kshs.)
Freehold Land	1,047,422,550	1,047,422,550	-
Buildings	1,283,056,876	1,283,056,876	-
Furniture & Fittings	16,989,415	17,088,415	(99,000)
Computer other Electronics	36,558,630	(12,231,712)	48,790,342
Plant & Equipment	277,592,559	248,794,422	28,798,137
Motor Vehicles	7,254,598	(1,528,444)	8,783,042
Capital Work in- Progress	532,968,972	532,969,572	(600)
Total	3,201,843,600	3,115,571,679	86,271,921

Consequently, the accuracy and completeness of property, plant and equipment balance of Kshs.3,201,843,600 as at 30 June, 2020 could not be ascertained.

1.2. Land in Dispute

The property, plant and equipment reflects a balance of Kshs.3,201,843,600 as at 30 June, 2020 (2018/2019 - Kshs.3,093,832,849). As previously reported, the balance includes a parcel of land valued at Kshs.200 million with ownership dispute and the matter is in court pending determination.

A review of the matter in the current year indicates that the status has not changed. Although the University Management is confident that the University has a proper title to the property, it has not been possible to confirm the ownership on the property.

1.3. Work in Progress

1.3.1. Library Detective System

The statement of financial position reflects property, plant and equipment balance of Kshs.3,201,843,600 as at 30 June, 2020 (2018/2019- Kshs.3,093,832,849) and as disclosed in Note 16 to the financial statements. As previously reported, the balance includes work in progress of Kshs.532,968,972 (2018/2019 – Kshs.354,986,585) which further includes an advance payment of Kshs.1,802,697 for library detective system. According to the agreement dated 12 February, 2014, the work for library detective system was supposed to be completed in one and a half months from the date of signing the agreement.

However, audit review of the status on 20 August, 2019 revealed that the system had been returned to the supplier for being defective and the supplier has since disappeared. 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.

In the circumstances, the work in progress balance of Kshs.532,968,972 as at 30 June, 2020 could not be confirmed.

1.3.2. Perimeter Fence

The work-in-progress balance of Kshs.532,968,972 as at 30 June, 2020 also includes expenditure amounting to Kshs.6,930,750 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 documents for the land donated by Kaloleni NG-CDF.

Management confirmed that the status of the project remained the same at the time of audit in the month of August, 2020. It is not clear why the University commenced fencing the land 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.

In the circumstances, the work in progress balance of Kshs.532,968,972 as at 30 June, 2020 is not fairly stated.

1.3.3. Project Management Fees

As previously reported, work in progress balance of Kshs.532,968,972 as at 30 June, 2020 includes payments to various university staff amounting to Kshs.17,425,066, referred to as project management fees. However, it was not clear and the Management has not explained the basis for the payments. Further, the supporting payment documents for the amount were not provided for audit verification.

In the circumstances, the accuracy and propriety of project management fees of Kshs.17,425,066 could not be confirmed and the work in progress balance of Kshs.532,968,972 as at 30 June, 2020 is similarly not fairly stated.

2. Receivables from Exchange Transactions

2.1 Adequacy of Provision for Bad and Doubtful Debts

The statement of financial position reflects receivables from exchange transactions balance of Kshs.136,763,725 (2018/19 – Kshs.46,569,410) as disclosed in Note 19 to the financial statements. The balance is net of general provision for bad and doubtful debts amounting to Kshs.76,475,696 (2018/19 – Kshs.64,089,721). The provision for the current year is 36% of the gross outstanding accounts receivables balance of Kshs.213,239,421 which have remained unchanged from the previous year's balance.

However, there is no specific provision for the impairment of debts that have been outstanding for a long period and which may not 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.

In the circumstances, the adequacy of the provision for bad and doubtful debts is doubtful.

2.2 Understated Student Debtors Balance

Receivables from exchange transactions balance includes students 'debtors' totalling Kshs.197,698,444. An analysis of these debtors revealed that an amount of Kshs.133,338,825 or 67% had been outstanding for over four hundred and eighty days. In addition, the balance of Kshs.197,698,444 is net of credit balances of Kshs.60,103,400, thus understating the student debtors balance by the same amount.

Further, review of the University Student Fees Management System, E-Register (Academic) System revealed that students are not invoiced/billed at the beginning of the semester through E-Register System and that some students studying under self-sponsorship programme were invoiced under Kenya Universities and Colleges Central Placement Service (KUCCPS) resulting to under billing and loss to the University of Kshs.2,932,479. The Management has not explained why the student debtors have remained uncollected for over a year and what measures have been put in place to address inadequacies/weaknesses in the two systems.

In the circumstances, the accuracy and completeness of the gross students' debtors' balance of Kshs.197,698,444 as at 30 June, 2020 could not be confirmed.

2.3. Outstanding Guest Accommodation Debtors

Receivables from exchange transactions balance also includes guest accommodation debtors balance of Kshs.7,179,107 as at 30 June, 2020 (2019 - Kshs.7,282,107) which had been outstanding for over two years. It is not clear and the Management has not explained why the guest debtors have remained uncollected for two years and what measures it has put in place to recover the same.

Consequently, the recoverability of guest accommodation debtors of Kshs.7,179,107 could not be ascertained.

2.3. Unsupported Debtors from Technical University of Mombasa Enterprise Limited TUMEL Debtors

Note 19 to the financial statements reflects Technical University of Mombasa Enterprises Limited (TUMEL) debtors of Kshs.4,000,000. However, debt contract agreement, request and authority to enter into borrowing arrangements were not provided for audit review. In addition, no documentary evidence was provided to indicate how the debt reduced from Kshs.6,000,000 in the previous year to the current figure of Kshs.4,000,000.

Consequently, the accuracy of the TUMEL debtors balance of Kshs.4,000,000 as at 30 June, 2020 could not be ascertained.

3. Receivables from Non-Exchange Transactions

The statement of financial position reflects receivables from non-exchange transactions balance of Kshs.124,858,720 as at 30 June, 2020 (2019 – Kshs.114,899,735) as disclosed in Note 22 to the financial statements. The balance includes other debtors amounting to Kshs.119,447,924 which as previously reported, further includes an amount of Kshs.1,331,000 receivable from staff as a surcharge in respect of payroll fraud perpetrated by the concerned staff. However, the actual total amount lost out of the fraud and hence recoverable from the concerned staff has not been quantified through a forensic audit.

Consequently, the accuracy and completeness of other debtors' balance of Kshs.119,447,924 as at 30 June, 2020 could not be ascertained.

4. Cash and Bank Balances

4.1. Unreconciled Petty Cash Balance

The statement of financial position reflects cash and bank balances of Kshs.103,498,161 and as disclosed in Note 23 to the financial statements. The balance includes petty cash totalling Kshs.452,900. However, cash survey forms provided for audit review revealed a petty cash balance of Kshs.432,560, resulting in unreconciled and unexplained variance of Kshs.19,440.

4.2. Irregular netting of Bank Overdrafts

The cash and bank balance of Kshs.103,498.161 as at 30 June, 2020 disclosed under Note 23 to the financial statements includes bank balances totaling Kshs.103,045,261. However, the bank balances are net of overdrawn balances of Kshs.8,776,076 in two bank accounts.

This is contrary to the requirements of International Public Sector Accounting Standard No.1 on presentation which prohibits the netting of liabilities against assets.

4.3. Misstated Balance – Current Account I

The cash and bank balance includes a bank balance of Kshs.2,530,732 in National Bank Current Account I. However, the supporting bank reconciliation statement as at 30 June, 2020 reflects receipts in bank not yet recorded in cash book of Kshs.217,475, all of which were dated from 19 September, 2017 to 19 February, 2020. It was not explained why the receipts have not been recorded in cash book.

Further, the reconciliation reflects payments in bank not yet recorded in cash book of Kshs.120,204, receipts in cash book not yet recorded in bank statements of Kshs.32,666. No explanation was provided for failure to bank receipts and record all payments in the cash book.

In addition, the supporting bank reconciliation statement as at 30 June, 2020 reflects un-presented cheques amounting to Kshs.444,124, out of which cheques totalling Kshs.209,082 had become stale as at 30 June, 2020. The stale cheques were not reversed in the cash book and the subsequent dates of clearance of the cheques were not provided for audit verification.

4.4. Misstated Balance – Current Account II

The cash and bank balance includes a negative bank balance of Kshs.8,364,717 in respect of National Bank Current Account II. However, the supporting bank reconciliation statement as at 30 June, 2020 reflects receipts in bank not yet recorded in cash book of Kshs.1,817,338. It was not explained why the receipts were not recorded in cash book.

Further, the reconciliation reflects payments in bank not yet recorded in cash book of Kshs.4,000, receipts in cash book not yet recorded in bank statements of Kshs.384,330, and payments in cash book not recorded in bank of Kshs.68,884,744. No explanation was provided as to why the receipts have not been banked and the payments recorded in the cash book.

4.5. National Bank – Fees Collection Account

The cash and bank balance includes a bank balance of Kshs.4,877,712 in National Bank Fees Collection Account. However, the supporting bank reconciliation statement as at 30 June, 2020 reflects receipts in bank not yet recorded in cash book of Kshs.2,171,916. It was not explained why the receipts have not been recorded in cash book.

Further, the reconciliation reflects payments in bank not yet recorded in cash book of Kshs.298,518. These payments date as far back as 29 February, 2016. No explanation was provided as to why these payments have not been receipted for more than four years.

4.6. Kenya Commercial Bank – Fees Collection Account

The cash and bank balance includes a negative bank balance of Kshs.411,359 in respect of Kenya Commercial Bank Fees Collection Account. However, recasting of the supporting schedule revealed a negative balance of Kshs.411,583, resulting to unexplained nor reconciled variance of Kshs.44. Further, the supporting bank reconciliation as at 30 June, 2020 reflects amounts in bank not in cash book of Kshs.2,593,267, some dating as far back as 31 May, 2018. No explanation was provided as to why these amounts have not been recorded in cash book.

In addition, the reconciliation reflects payments in bank not yet recorded in cash book of Kshs.96,800, receipts in cash book not yet recorded in bank statements of Kshs.1,296,965 and payments in cash book not recorded in bank of Kshs.340,615, the details and schedules supporting the reconciliation of all which have not been provided for audit verification. Further, no explanation was provided as to why the receipts have not been banked and the payments recorded in cash book.

4.7. Standard Chartered Bank - Fees Collection Account

The cash and bank balance includes a bank balance of Kshs.44,859,700 in Standard Chartered Fees Collection Account. However, the supporting bank reconciliation as at 30 June, 2020 reflects receipts in bank not yet recorded in the cash book of Kshs.10,017,505. The receipts are dated from 18 July, 2019 to 16 June, 2020. It was not explained why the receipts have not been recorded in cash book.

Further, the reconciliation reflects receipts in cash book not recorded in the bank of Kshs.7,250. No explanation was provided for failure to record receipts in the bank.

4.8. Kenya Commercial Bank Lamu Satellite Branch Account

The cash and bank balance includes bank balance of Kshs.2,785,118 in Kenya Commercial Bank Lamu Satellite Branch Account. The bank reconciliation as at 30 June, 2020 reflects receipts in bank not yet recorded in the cash book of Kshs.160,090. The receipts are dated from 31 December, 2016 to 30 June, 2020. An amount of Kshs.41,540 has been outstanding for between two years and 4 years. It was not explained why the receipts have not been recorded in the cash book. In addition, the reconciliation reflects payments in bank not yet recorded in cash book of Kshs.177,960.

4.9. Equity Fees Collection Account

The cash and bank balance includes bank balance of Kshs.4,793,732 in respect of Equity Bank Fees Collection Account. However, the supporting bank reconciliation as at 30 June, 2020 reflects amounts in bank not in cash book of Kshs.888,330, some dating as far back as September, 2017. No explanation was provided as to why these amounts have not been recorded in cash book.

In addition, the reconciliation reflects receipts in cash book not yet recorded in bank statements of Kshs.1,967,569, but whose supporting schedule were not provided. No explanation was given as to why these receipts have not been banked.

4.10. Family Bank Research Account

The cash and bank balance includes a bank balance of Kshs.17,710,851 in Family Bank Research Account. However, the supporting bank reconciliation as at 30 June, 2020 reflects amounts in bank not in cash book of Kshs.1,108,670. No explanation was given as to why these amounts have not been recorded in cash book.

In addition, the reconciliation reflects unpresented cheques amounting to Kshs.5,600, all of which had become stale by 30 June, 2020. The stale cheques were not reversed as required. Further, the bank statements to confirm subsequent dates of clearance of the cheques were not provided.

4.11. National Bank - Economic Stimulus Programme Account

The cash and bank balance include bank balance of Kshs.661,638 in National Bank Economic Stimulus Programme Account (part-time payments). The payment supporting bank reconciliation as at 30 June, 2020 reflects receipts in bank not yet recorded in the cash book of Kshs.5,000. This receipt was dated 19 April, 2017. It has been outstanding for more than three years and no explanation was provided as to why the amount has not been recorded in the cash book.

4.12. Amalgamated Bank of South Africa (ABSA) – Collection Account

The cash and bank balance include bank balance of Kshs.13,542,531 in Absa Fees Collection Account. However, the supporting bank reconciliation as at 30 June, 2020 reflects amounts in bank not in cash book of Kshs.218,686, some dating back to September, 2019. No explanation was given as to why these amounts have not been recorded in cash book.

Further, the reconciliation reflects receipts in cash book not yet recorded in bank statements of Kshs.436,405, and payments in cash book not in bank of Kshs.120,025. No explanation was given as to why the receipts have not been banked and the payments not yet recorded in the cash books.

Consequently, the accuracy and completeness of cash and cash equivalents balance of Kshs.103,498,161 as at 30 June, 2020 could not be ascertained.

5. Trade and Other Payables

5.1. Long Overdue Trade and Other Payables

The statement of financial position as at 30 June, 2020 reflects trade and other payables balance of Kshs.54,129,520 as disclosed in Note 25 to the financial statements. This balance includes long overdue balances (over 360 days) totalling to Kshs.8,577,732. These overdue accounts may attract litigation.

5.2. Unreconciled TUM Enterprises Balance

Further, the trade and other payables balance includes a balance of Kshs.5,525,080 in respect of Technical University of Mombasa Enterprises Limited. However, the Enterprises' financial statements reflect an amount of Kshs.17,766,235, thus resulting in an unexplained and unreconciled variance of Kshs.12,241,155.

In the circumstances, the accuracy and completeness of trade and other payables balance of Kshs.54,129,520 as at 30 June, 2020 could not be ascertained.

6. Long Outstanding Other Creditors Balance

The statement of financial position reflects other creditors balance of Kshs.401,477,075 as disclosed in Note 26 to the financial statements. The balance includes Kshs.5,321,976 (2019 – Kshs.4,742,602) in respect of unclaimed funds suspense accounts in various banks.

These balances are as a result of accumulation of un-receipted bank credits in fees collection accounts that could not be traced to the relevant students but were long outstanding. The suspense accounts were yet to be cleared as at 30 June, 2020. The University may lose these funds to the Unclaimed Assets Authority.

In the circumstances, the completeness of other creditors balance of Kshs.401,477,075 as at 30 June, 2020 could not be confirmed.

7. Revaluation of Assets - Software

The statement of financial position reflects intangible assets balance of Kshs.149,284 as disclosed in Note 17 to the financial statements. The balance represents the carrying book value of the entire University ICT systems (The Student Management System e-register and Sage ACCPACC Systems). The economic substance and the recorded value of the existing ICT infrastructure do not match.

Consequently, the valuation of the assets could not be ascertained.

8. Failure to Disclose Material Uncertainty in Relation to Sustainability of Services

The statement of financial performance for reflects a deficit of Kshs.21,758,442 for the year ended 30 June, 2020 (2019 - deficit of Kshs.72,097,564). This resulted in accumulated losses of Kshs.560,708,782 in the revenue reserves as reflected in the statement of financial position as at 30 June, 2020 (2019 – accumulated loss of Kshs.393,459,323). The current liabilities balance of Kshs. 455,606,595 exceeded current assets balance of Kshs.408,740,667, resulting in a negative working capital of Kshs.46,865,928 as at 30 June, 2020.

The above precarious financial performance and position is an indication of the existence of a material uncertainty which may cast a significant doubt on the University's ability to sustain its services and to meet its obligations as and when they fall due. The financial statements have been prepared on a going concern basis on the assumption that the University will continue to receive financial support from the

Government and creditors. However, this material uncertainty in relation to sustainability of services and any mitigating measures put in place by the University Management to reverse the undesirable precarious situation have not been disclosed in the notes to the financial statements.

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 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

The statement of comparison of budget and actual amounts reflects final receipts budget and actual on comparable basis of Kshs.1,994,309,515 and Kshs.1,755,906,117 respectively resulting to an under-funding of Kshs.238,403,397 or 12% of the budget. Similarly, the statement reflects final expenditure budget and actual on comparable basis of Kshs.1,938,909,514 and Kshs.1,668,278,791 respectively resulting to an under expenditure of Kshs.270,130,723 or 14% of the budget

The underfunding and under expenditure affected the planned activities and may have impacted negatively on service delivery to the public.

2. Unresolved Prior Year Matters

2.1 Procurement of Freehold Land

As reported in the previous years, included in property, plant and equipment balance of Kshs.3,201,843,600 as at 30 June, 2020 is freehold land balance of Kshs.1,047,422,550, out of which Kshs.92,922,550 relates to addition in the year 2015/2016 (2014/15 – Kshs.9,500,000).

However, no documentary evidence has been provided so far to confirm that the additions were competitively sourced as required under the Public Procurement and Asset Disposal Act, 2015 including advertisements, tender opening minutes, tender evaluation and acceptance and inspection reports.

2.2. Procurement of Furniture

As previously reported, included in property, plant and equipment balance of Kshs.3,201,843,600 as at 30 June, 2020 (2018/2019 - Kshs.3,093,832,845) 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 has to date not been supported by any documentary evidence to confirm that the items were competitively sourced as required by the Public Procurement and Asset Disposal Act.

2.3 Irregular Procurement of Television Sets

As previously reported, included in property, plant and equipment balance of Kshs.3,201,843,600 as at 30 June, 2020 (2018/2019- Kshs3,093,832,845) 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 that the procurement method used was requests for quotations contrary to the Public Procurement and Asset Disposal Act, 2015. In addition, the supplier delivered sixty-five inch-size instead of the seventy inch – size TV sets as per the supply order. A review of the matter in the current year indicates that the matter is pending in court.

2.4 Prior Year Work in Progress

As previously reported, included in property, plant and equipment balance of Kshs.3,201,843,600 as at 30 June, 2020 (2018/2019- Kshs.3,093,832,845) were additions amounting to Kshs.346,826,307 in the year ended 30 June, 2017 net of work-in-progress which comprised of various procurements made during the financial year 2014/2015.

However, there was no approved procurement plan and evidence of supplier prequalification for the financial year as required by the Public Procurement and Asset Disposal Act, 2015 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.

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 Effective 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 of Conclusion

1. Capital Project Management

1.1. Construction of Mabokoni Hostel

The University engaged a contractor for the proposed construction of Mabokoni Hostels for Technical University of Mombasa (Kwale Campus) at a contract sum of Kshs.197,537,907 and for a contract period of 88 weeks with effect from 24 April, 2017 when the project site was handed over to the University.

A perusal of records provided for audit revealed that geotechnical survey activities were not scheduled in the planning stages but instead done during implementation of the project, leading to contract variations of Kshs.4,745,415 or 2.4% at the substructure level. Further, it was noted that project completion period as provided in the contract was eighty-eight weeks which had lapsed by thirty-two weeks as of 14 October, 2020.

In addition, the audit review revealed that water reticulation activities amounting to Kshs.3,112,506 and electricity installation at Kshs.12,799,797 had not been completed as of 4 October, 2020.

Consequently, value for money and regularity of the expenditure of Kshs.197,537,907 incurred on construction of the hostel could not be ascertained.

1.2 Construction of School of Medicine

The University vide contract engaged a contractor for the proposed construction of school of medicine for Technical University of Mombasa at a contract sum of Kshs.213,714,490 and for a contract period of ninety-six weeks with effect from 7 April, 2017 when the project site was handed over.

A perusal of records provided for audit revealed that geotechnical survey activities were not scheduled in the planning stages of the project but instead carried out during implementation, leading to contract variations of Kshs.10,990,394 or 5% at the substructure level. Further, it was noted that the project completion period as provided in the contract was one hundred and thirty-four weeks which had lapsed by forty-four weeks as of 14 October, 2020.

In addition, the audit review revealed that solar lighting works costing Kshs.3,518,000, PABX's installation work costing Kshs.1,610,000 and structured cabling installation work costing Kshs.2,974,000, all totaling Kshs.8,102,000 had not been completed as of 14 October, 2020.

In the circumstances, value for money and regularity of the construction of the school of medicine at a contract price of Kshs.213,714,490 for the year ended 30 June, 2020 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, except for the matters described in the Basis for Conclusion on Effectiveness of Internal Controls, Risk Management and Governance sections of my report, I confirm that, nothing else has come to my attention to cause me to believe that internal controls, risk management and governance were not effective.

Basis for Conclusion

1. Under- Establishment

The University establishment stood at six hundred and sixty-one employees as at 30 June, 2020 against an approved establishment of one thousand one hundred and ninety-four, indicating an under-establishment of five hundred and thirty-three. The academic function was under-staffed by two hundred and thirty-six being 48% of the approved establishment while the administrative function was under-staffed by two hundred and ninety-seven, being 42% of the approved establishment.

It was also noted that key departmental functions of Corporate Service, Internal Audit, Procurement, Human Resource and Corporate Communications were lacking substantive office holders, contrary to the University's Scheme of Service.

2. IT Governance and Control Environment

2.1. Role of the Council in IT Governance

It was observed that the terms of reference for Council Committees do not include governance control responsibility and the University Statute do not also 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 cybercrime due to lack of effective control.

2.2. Deficiencies in ICT Systems Administration and Management

The University operates two 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 for 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. It was however noted that the system maintenance contract for Sage ACCPAC had run for a period of nine years while that for the e-register had run for eight (8) years, contrary to the University ICT policy that limits the contract period to a maximum of two (2) years.

Further, the Service Level Agreement (SLA) for maintenance of e-register system did not indicate the ownership arrangement for e-register system, while the firm providing e-registrar 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.

In addition, the following deficiencies were noted; the University did not designate in writing up to three appropriate knowledgeable persons to serve as University liaison officers with the Service Provider; that the contractor failed to respond promptly to some system error requests made through email and did not provide any technical manual specifying corrections made on the system and instructions for proper use of the system; contractor did not provide the University with information about the version, release or upgrade of the E-Register system as required nor provide Management with full copies of the software required;

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 ACCPACC Systems and the functionality for review of activity logs by the section heads was not enabled hence the systems could not produce event logs. There were no documented procedures on database backups or a person with relevant competency assigned the role of obtaining all data backup.

The audit was conducted in accordance with ISSAI 2315 and ISSAI 2330. The standard requires that I plan and perform the audit to obtain assurance about whether 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.

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 the financial statements, management is responsible for assessing the University's ability to sustain services, disclosing, as applicable, matters related to sustainability of services and using the applicable 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 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 University'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 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 applicable 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 ability the University to sustain 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 University to cease 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 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.



CPA Nancy Gathungu, CBS
AUDITOR-GENERAL

Nairobi

14 February, 2022