

REPORT OF THE AUDITOR-GENERAL ON TECHNICAL UNIVERSITY OF MOMBASA ENTERPRISES LIMITED FOR THE YEAR ENDED 30 JUNE, 2022

PREAMBLE

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

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

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

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

REPORT ON THE FINANCIAL STATEMENTS

Qualified Opinion

I have audited the accompanying financial statements of Technical University of Mombasa Enterprises Limited set out on pages 1 to 27, which comprise of the statement of financial position as at 30 June, 2022, and the statement of profit or loss and other comprehensive income, statement of changes in equity, statement of cash flows and the 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 Enterprises Limited as at 30 June, 2022, and of its financial performance and its cash flows for the year then ended, in accordance with the International Financial Reporting Standards (IFRS) and comply with the Companies Act, 2015 and the Public Finance Management Act, 2012.

Basis for Qualified Opinion

1. Unconfirmed Banking and Duplicated Receipts

The statement of profit and loss and other comprehensive income and Note 3 to the financial statements reflect revenue amount of Kshs.68,054,295 which includes Technical University of Mombasa (TUM) hotel and conferencing revenue of Kshs.29,981,319, out of which Kshs.6,338,450 were cash receipts. Although, the ledger balance in support of the cash balance for the period between 1 to 31 October, 2021 reflected a total of Kshs.266,127, audit analysis of the cash collections for the same period reflected total cash collections of Kshs.99,129. No explanation was provided for the variance of Kshs.166,998 between the collections and amount recorded in the ledger.

Review of the ledger in support of the hotel and conferencing revenue revealed that receipts totalling Kshs.77,380 were duplicated. No explanation was provided for this anomaly.

In addition, bank deposit slips provided for audit review were not matched with the approved daily cash and cheque receipt register and Management had not maintained a counter receipt book register for issuance and receipt of receipt books thus making it impossible to confirm their accountability.

In the circumstances, the accuracy and completeness of the hotel and conferencing revenue of Kshs.29,981,319 for the year ended 30 June, 2022 could not be confirmed.

2. Undisclosed Consultancy Facilitation Expense

The statement of profit and loss and other comprehensive income and Note 4 to the financial statements for the year ended 30 June, 2022 reflect cost of sales amounting to Kshs.33,874,952 which include consultancy facilitation expense of Kshs.15,151,691. However, payments totalling Kshs.6,785,126 were not included in the ledger in support of the expenses.

In the circumstances, the accuracy and completeness of the consultancy facilitation expense of Kshs.15,151,691 for the year ended 30 June, 2022 could not be confirmed.

3. Trade and Other Receivable Balances

3.1 Unexplained Variances in Related Party Transactions

The statement of financial position as at 30 June, 2022 and Note 13 to the financial statements reflect a balance of Kshs.34,726,670 in relation to trade and other receivables which includes an amount of Kshs.17,694,999 as receivables from Technical University of Mombasa (TUM) comprising of school based students, hotel services, cleaning services and water sales (TUM-AQUA) of Kshs.470,250, Kshs.8,397,999, Kshs.8,484,000 and Kshs.342,750 respectively. However, the audited financial statements for TUM as at 30 June, 2022 indicate a balance payable to the Company of Kshs.4,662,457 resulting to an unexplained variance of Kshs.13,032,542.

3.2 Unsupported Trade and Other Receivables

The statement of financial position as at 30 June, 2022 and Note 13 to the financial statements reflect trade and other receivables net balance of Kshs.34,726,670 after provision for bad and doubtful receivables of Kshs.6,004,780. However, the supporting schedules for receivables amounting to Kshs.19,810,759 and details or breakdown of how the provision for bad and doubtful receivables of Kshs.6,004,780 was determined were not provided for audit review.

In the circumstances, the accuracy and completeness of the trade and other receivables balance of Kshs.34,726,669 could not be confirmed.

4. Unexplained Variances and Unsupported Bank and Cash Balances

The statement of financial position and Note 11 to the financial statements reflect bank and cash balances of Kshs.1,024,456 which include an amount of Kshs.834,919 held in a local bank. However, the cashbook provided for audit review indicated a balance of Kshs.854,739 thereby resulting to a variance of Kshs.19,820. Further, the bank reconciliation statement as at 30 June, 2022 reflected a cashbook balance of Kshs.873,625 resulting to a variance of Kshs.38,706 as compared to the financial statements balance. No explanation or reconciliation was provided for the variances between the three sets of records that should normally be the same.

Further, the bank confirmation certificate in support of the bank balance of Kshs.834,919, the Board of Survey certificate in support of the cash balance of Kshs.21,850 and, bank reconciliation statements, cashbook and bank confirmation certificate for the bank balance of Kshs.167,687 were not provided for audit review.

In the circumstances, the accuracy and completeness of the bank and cash balances of Kshs.1,024,456 could not be confirmed.

5. Unsupported Inventory Balance

The statement of financial position and Note 12 to the financial statements indicates an inventory balance of Kshs.3,287,441. However, the stock count sheets as at 30 June, 2022 in support of the balance were not provided for audit review.

In the circumstances, the accuracy and completeness of the inventory balance of Kshs.3,287,441 as at 30 June, 2022 could not be confirmed.

The audit was conducted in accordance with International Standards of Supreme Audit Institutions (ISSAIs). I am independent of the Technical University of Mombasa Enterprises Limited Management in accordance with ISSAI 130 on Code of Ethics. I have fulfilled other ethical responsibilities in accordance with the ISSAI and in accordance with other ethical requirements applicable to performing audits of financial statements in Kenya. I believe that the audit evidence I have obtained is sufficient and appropriate to provide a basis for my qualified opinion.

Emphasis of Matter

Budgetary Control and Performance

The statement of comparison of budget and actual amounts reflects final revenue budget and actual receipts on comparable basis of Kshs.99,000,000 and Kshs.70,134,725 respectively resulting to an under realization of Kshs.28,865,276 (or 29%) of the budget. Similarly, the Company expended Kshs.66,757,050 against an approved budget of Kshs.95,700,000 resulting to an under-expenditure of Kshs.28,942,950 (or 30%) of the budget.

In the circumstances, under realization of receipts and under expenditure may have affected negatively the planned activities of the Company.

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

Unresolved Prior Year Matters

Various prior year audit issues remained unresolved as at 30 June, 2022. Management has not provided reasons for the delay in resolving the prior year audit issues. Further, the unresolved prior year issues are not disclosed under the progress on follow up of auditor's recommendations section of the financial statements as required by the Public Sector Accounting Standards Board.

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 else 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. Incomplete Asset Register

The statement of financial position as at 30 June, 2022 reflect total non-current assets balance of Kshs.4,539,840 and as disclosed in Notes 9 and 10 to the financial statements. However, the asset register provided had no assets information on; type and description of each asset, acquisition cost of the asset, supplier details, date of purchase, estimated useful life, physical location of the asset and the person allocated, asset condition, and asset tag number identification.

In the circumstances, the Company's assets are at risk of loss.

2. Inconsistencies of Articles of Association and Board Charter on Composition of Board

Review of the Articles of Association revealed that the Company was incorporated on 07 August, 2013. However, the Articles of Association and the Board Charter are inconsistent on Board composition, as indicated below;

Issue	Articles of Association	Board Charter
Chairman of the Board	Clause 19 (a): The Board shall comprise of the Chairman of the University Council who shall also be the Chairman of the Company	Paragraph 2.2 (i): A Chairperson of the Board appointed by the TUM University Council (known as the "Council") Chairperson from one of its independent members appointed under section 36(1)(d) of the Universities Act, 2012

Issue	Articles of Association	Board Charter
The Principal Secretary, State Department for Industrialization, Ministry of Industrialization, Trade and Enterprise Development Representative	Not provided for	Paragraph 2.2 (ii): The Principal Secretary, State Department for Industrialization, Ministry of Industrialization, Trade and Enterprise Development
Directors	Clause 19(b): The Board shall comprise of two members of the University Council appointed under Section 36(1) of the University Act, 2012	Paragraph 2.2(iv): Four (4) Directors not being employees of State Corporations who shall be appointed by the Council

In the circumstances, conflict between the Article of Association and the Board Charter may adversely affect the governance of the Company.

3. Long Outstanding Trade and Other Payables

The statement of financial position as at 30 June, 2022 and Note 18 to the financial statements reflect trade and other payables of Kshs.18,349,262. The trend analysis for the last three financial years however raises doubt as to the Company's ability to settle its obligations as illustrated in the table below;

Year	Amount (Kshs.)
2019	8,064,118
2020	13,009,988
2021	10,083,680
2022	18,349,262

Non-settlement of liabilities as and when they fall due may lead to interest and penalties and the Company's liquidity risk management could not be confirmed for the year ended 30 June, 2022.

The audit was conducted in accordance with ISSAI 2315 and ISSAI 2330. The standards require that I plan and perform the audit to obtain assurance about whether effective processes and systems of internal control, risk management and overall governance were operating effectively, in all material respects. I believe that the audit evidence I have obtained is sufficient and appropriate to provide a basis for my conclusion.

REPORT ON OTHER LEGAL AND REGULATORY REQUIREMENTS

As required by the Kenyan Companies Act, 2015 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 my audit;

- (ii) In my opinion, proper books of account have been kept by the Company, so far as appears from the examination of those books;
- (iii) The Company's financial statements are in agreement with the accounting records and returns.

Responsibilities of Management and Board of Directors

Management is responsible for the preparation and fair presentation of these financial statements in accordance with International Financial Reporting Standards and for maintaining effective internal controls as Management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error and for its assessment of the effectiveness of internal controls, risk management and overall governance.

In preparing the financial statements, Management is responsible for assessing the Company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless Management is aware of the intention to liquidate the Company or to cease operations.

Management is also responsible for the submission of the financial statements to the Auditor-General in accordance with the provisions of Section 47 of the Public Audit Act, 2015.

In addition to the responsibility for the preparation and presentation of the financial statements described above, Management is also responsible for ensuring that the activities, financial transactions and information reflected in the financial statements are in compliance with the authorities which govern them, and that public resources are applied in an effective way.

The Board of Directors is responsible for overseeing the Company's financial reporting process, reviewing the effectiveness of how Management monitors compliance with relevant legislative and regulatory requirements, ensuring that effective processes and systems are in place to address key roles and responsibilities in relation to governance and risk management, and ensuring the adequacy and effectiveness of the control environment.

Auditor-General's Responsibilities for the Audit

The audit objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes my opinion in accordance with the provisions of Section 48 of the Public Audit Act, 2015 and submit the audit report in compliance with Article 229(7) of the Constitution. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISSAIs will always detect a material misstatement and weakness when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

In addition to the audit of the financial statements, a compliance audit is planned and performed to express a conclusion about whether, in all material respects, the activities, financial transactions and information reflected in the financial statements are in compliance with the authorities that govern them and that public resources are applied in an effective way, in accordance with the provisions of Article 229(6) of the Constitution and submit the audit report in compliance with Article 229(7) of the Constitution.

Further, in planning and performing the audit of the financial statements and audit of compliance, I consider internal controls in order to give an assurance on the effectiveness of internal controls, risk management and overall governance processes and systems in accordance with the provisions of Section 7(1)(a) of the Public Audit Act, 2015 and submit the audit report in compliance with Article 229(7) of the Constitution. My consideration of the internal controls would not necessarily disclose all matters in the internal controls that might be material weaknesses under the ISSAIs. A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements caused by error or fraud in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions.

Because of its inherent limitations, internal controls may not prevent or detect misstatements and instances of 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 controls.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by Management.
- Conclude on the appropriateness of Management's use of the going concern basis of accounting method and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Company's ability to continue as a going concern. If I conclude that a material uncertainty exists, I am required to draw attention in the auditor's report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify my opinion. My conclusions are based on the audit evidence obtained up to the date of my audit report. However, future events or conditions may cause the Company to cease to continue as a going concern.

- Evaluate the overall presentation, structure and content of the financial statements, including the disclosures and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.
- Obtain sufficient appropriate audit evidence regarding the financial information and business activities of the Company to express an opinion on the financial statements.
- Perform such other procedures as I consider necessary in the circumstances.

I communicate with 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 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

28 April, 2023