

REPORT OF THE AUDITOR-GENERAL ON CHUKA TECHNICAL AND VOCATIONAL COLLEGE FOR THE SEVENTEEN MONTHS PERIOD ENDED 30 JUNE, 2019

REPORT ON THE FINANCIAL STATEMENTS

Adverse Opinion

I have audited the accompanying financial statements of Chuka Technical and Vocational College set out on pages 1 to 38, which comprise the statement of financial position as at 30 June, 2019, statement of financial performance, statement of cash flows, statement of changes in net assets and statement of comparison of budget and actual amounts for the period 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, because of the significance of the matters discussed in the Basis for Adverse Opinion section of my report, the financial statements do not present fairly, the financial position of Chuka Technical and Vocational College as at 30 June, 2019, and of its financial performance and its cash flows for the period then ended, in accordance with International Public Sector Accounting Standards (Accrual Basis) and do not comply with the Technical and Vocational Education and Training Act, 2013.

Basis for Adverse Opinion

1. Inaccuracies in the Statement of Cash Flows

The statement of cash flows reflects Kshs.460,147 in respect of cash and cash equivalents as at 30 June, 2019. However, a recast of the balances gave a negative balance of Kshs.480,769 for the same item resulting to unreconciled variance of Kshs.940,916.

Further, the same statement reflects Kshs.18,204,288 in respect to three items. However, the respective notes to the financial statements reflects Kshs.24,217,516 on the same items resulting to unreconciled variances of Kshs.6,013,228 as detailed below;

Item	Notes	Amount in the Statement of Cash Flows (Kshs)	Amount in the Notes to Financial Statements (Kshs)	Variance (Kshs)
Rendering of Services - Fees from Students	10	9,402,335	13,817,224	(4,414,889)
Use of Goods and Services	15	9,272,411	10,400,292	(1,127,881)
Purchase of Property, Plant and Equipment Intangible Assets	30	(470,458)	0	(470,458)
Total		18,204,288	24,217,516	(6,013,228)

In the circumstances, the accuracy of the statement of cash flows for the period ended 30 June, 2019 could not be ascertained.

2. Transfers from National Government Ministries

Note 6 to the financial statements reflects a total of Kshs.4,520,000 in respect to transfers from National Government ministries for the period under review which relates to operational grants. However, confirmation from the Ministry of Education revealed that Kshs.9,040,948 was transferred to the College in respect to the same item and period resulting to unexplained variance of Kshs.4,520,948.

In the circumstances, the accuracy and propriety of the Kshs.4,520,000 in respect to transfers from national government ministries for the period ended 30 June, 2019 could not be ascertained.

3. Cash and Cash Equivalents

Note 25 to the financial statements reflects Kshs.460,147 in respect to cash and cash equivalents which includes Kshs.427,406 in respect to cash held in two bank accounts whose monthly bank reconciliation statements were not provided for audit review contrary to Section 90(1) of the Public Finance Management (National Government) Regulations, 2015 which stipulates that all Accounting Officers shall ensure bank accounts reconciliations are completed for each bank account every month and submit a bank reconciliation statement not later than the 10th of the subsequent month to the National Treasury with a copy to the Auditor-General.

Further, Note 25 to the financial statements reflects Kshs.32,741 in respect to cash in hand. However, the board of survey report availed for audit review reflects Kshs.42,741 resulting to unexplained variance of Kshs.10,000.

In the circumstances, the accuracy of the Kshs.460,147 in respect to cash and cash equivalents balance as at 30 June, 2019 could not be ascertained.

4. Unsupported Inventories Balance

Note 28 to the financial statements reflects Kshs.1,402,492 in respect to inventories. However, supporting documents including stores records, stock count report and inventory valuation method were not provided for audit review contrary to Section 14(1) of the Technical and Vocational Education and Training Act, 2013 which stipulates that the Board shall cause to be kept all proper books and records of income, expenditure, assets and liabilities of the Board.

In the circumstances, the accuracy, propriety and validity of the inventories balance of Kshs.1,402,492 as at 30 June, 2019 could not be ascertained. In addition, the College is in breach of the law.

5. Unsupported Procurement of Advertising Services

Note 15 to the financial statements reflects Kshs.10,400,292 in respect to use of goods and services which includes Kshs.2,289,085 in respect to admin expenses which further includes Kshs.116,200 paid an advertising firm. However, the advertisement, opening and evaluation committee minutes and notification of award were not provided for audit.

In the circumstances, the propriety and value for money for the Kshs.116,200 in respect to admin expenses for the period ended 30 June, 2019 could not be confirmed.

6. Irregular Procurement – Lecture Chairs

Note 15 to the financial statements reflects Kshs.10,400,292 in respect to use of goods and services which includes Kshs.2,289,085 in respect to admin expenses. The figure further includes Kshs.840,000 paid to a supplier for the supply of lecture chairs. However, procurement documents including, tender opening and evaluation minutes, professional opinion, notification of the award and acceptance by the supplier were not provided for audit review.

Further, although the lecture chairs are assets in nature, it was not explained why the same were expensed instead of being capitalized as assets. This is contrary to Paragraph 45 of the International Public Sector Accounting Standards (IPSAS) 1 which stipulates that each material class of similar items shall be presented separately in the financial statements. Items of a dissimilar nature or function shall be presented separately unless they are immaterial.

In the circumstances, the accuracy, propriety and value for money for the Kshs.840,000 in respect to admin fees for the period ended 30 June, 2019 could not be ascertained.

7. Trade and Other Payables from Exchange Transactions

Note 33 to the financial statements reflects Kshs.2,855,556 in respect to trade and other payables from exchange transactions. However, the respective supporting

documents including ledgers, invoices, names of suppliers/students and ageing analysis showing how long the trade payables have been outstanding were not provided for audit review.

In the circumstances, the propriety and accuracy of the Kshs.2,855,556 in respect to trade and other payables from exchange transactions as at 30 June, 2019 could not be ascertained.

8. Unsupported Refundable Deposits from Customers/Students

Note 34 to the financial statements reflects Kshs.145,275 in respect to refundable deposits from customers/students which includes Kshs.5,275 in respect to customer deposits which relates to caution money from students. However, the respective supporting documents including ledger, invoices, names of students and ageing analysis showing how long the caution money have been outstanding were not provided for audit review.

In the circumstances, the accuracy and propriety of the Kshs.5,275 in respect to caution money as at 30 June, 2019 could not be ascertained.

9. Failure to Disclose Assets in the Financial Statements

Physical verification of assets carried out in December, 2020 revealed that the College had buildings, land, furniture, equipment, machines, tools, books and computers of unknown values that were being used in day to day operations of the College. However, the assets were not included in the financial statements. Further, ownership documents were not availed for audit review.

In the circumstances, the ownership of the assets and the completeness of the financial statements 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 Chuka Technical and Vocational College 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 Adverse 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 communicate in my report.

Other Matter

Budgetary Control and Performance

The statement of comparison of budget and actual amounts for the year ended 30 June, 2019 reflects a budgeted revenue of Kshs.28,436,020 and actual revenue of Kshs.19,337,224 resulting to a revenue shortfall of Kshs.9,098,796 or 32% of the budget. Similarly, the statement reflects an expenditure budget of Kshs.28,436,020 and actual expenditure of Kshs.16,060,527 resulting to under expenditure of Kshs.12,375,493 or 44% of the budget.

Further, the College overspend on employee cost by Kshs.1,453,211 contrary to Regulation 43 of the Public Finance Management (National Government) Regulations, 2015 which requires accounting officers to ensure public funds are applied for purposes for only which they were intended and appropriated by National Assembly.

The underfunding and under expenditure imply that most programs and activities that had been planned were not implemented. The College is also in breach of law.

REPORT ON LAWFULNESS AND EFFECTIVENESS IN USE OF PUBLIC RESOURCES

Conclusion

As required by Article 229(6) of the Constitution because of the significance of the matters discussed in the Basis for Adverse Opinion, Basis for Conclusion on Lawfulness and Effectiveness in Use of Public Resources and Basis for Conclusion on Effectiveness of Internal Controls, Risk Management and Governance sections of my report, based on the audit procedures performed, I confirm that public resources have not been applied lawfully and in an effective way.

Basis for Conclusion

1. Fixed Assets Register

Review of the fixed assets register provided for audit revealed that critical information such as location of the assets, description, respective costs and serial numbers were not indicated in the register. Further, physical verification of the assets revealed that the assets were not tagged for ease of identification and movement contrary to Regulation 139(1)(2) of the Public Finance Management (National Government) Regulations, 2015 which stipulates that accounting officer of a national government entity shall take full responsibility and ensure that proper control systems exist for assets and that preventative mechanisms are in place to eliminate theft, security threats, losses, wastage and misuse by ensuring that movement and conditions of assets can be tracked by putting in place processes and procedures both electronic and manual for the effective, efficient, economical and transparent use of the government entity's asset.

2. Late Submission of the Financial Statements

The financial statements for the seventeen months' period under review were submitted to the Auditor-General on 18 October, 2019, approximately eighteen days (18) days after the legal deadline of three (3) months from the end of the seventeen months' period contrary to Section 47(1) of the Public Audit Act, 2015 which stipulates that the financial statements required under the Constitution, the Public Finance Management Act, 2012 and any other legislation, shall be submitted to the Auditor-General within three months after the end of the fiscal year to which the accounts relate.

In the circumstances, the College is in breach of the law.

3. Failure to Approve Budget

During the period under review, the Board approved a revenue and expenditure budget of Kshs.28,436,020 each. However, there was no evidence to indicate that the budget was approved by the Cabinet Secretary at the Ministry of Education as required by Section 22(1) and (2) of the Technical and Vocational Education and Training Act, 2013.

In the circumstance, the College is in breach of the law.

4. Goods Received Beyond Local Purchase Order (LPO) Validity Period

Note 15 to the financial statements reflects Kshs.10,400,292 in respect of use of goods and services which includes Kshs.2,289,085 in respect of admin expenses which further includes Kshs.122,132 paid to a supplier for supply of teaching materials. However, the delivery note provided for audit indicated that the goods were delivered on 28 September, 2019 against a LPO issued on 15 May, 2019, which is approximately one hundred and thirty-five (135) days after the said LPO was issued contrary to the provisions of Regulation 53(1) of the Public Finance Management (National Government) Regulations, 2015 which stipulates that a local purchase order or local service order shall be valid for a period of thirty days from the date of issue.

In the circumstances, the College is in breach of the law.

5. Ethnicity

Records made available for audit review revealed that during the period under review, the College had thirty-five (35) employees out of which seventeen (17) or 49% were from the same ethnic community contrary to Section 7(2) of the National Cohesion and Integration Act, 2008 which states that no public establishment shall have more than one third of its staff from the same ethnic community.

In the circumstances, the College is in breach of the law.

6. Unapproved Remuneration to Board of Directors

Note 17 to the financial statement reflects Kshs.529,000 in respect to remuneration of the Board of Directors. Documents provided for audit review revealed that the College had eight Board Members. However, evidence indicating that the allowances paid to the said Board Members was approved by the Cabinet Secretary was not provided for audit review contrary to the Section 17 of Second Schedule to the Technical and Vocational Education and Training Act, 2013 which stipulates that members of a board of governors shall be paid in respect to their services such remuneration or allowances as the board of governors shall, with the approval of the cabinet secretary determine.

In the circumstances, the College is in breach of the law.

7. Receivables from Exchange Transactions

Note 26 to the financial statements reflects Kshs.4,414,889 in respect to receivables from exchange transactions which relates to student debtors. However, ageing analysis indicating how long the debts have been outstanding, including debts management policy were not provided for audit review.

In addition, measures taken by the Management to ensure collection of the Kshs.4,414,889 was not availed for audit review contrary to Regulation 64(1) (a) and (b) of the Public Finance Management (National Governments) Regulations, 2015.

In the circumstances, the College is in breach of the law and the collectability of the Kshs.4,414,889 outstanding student debtors is doubtful.

8. Presentation of Financial Statements

Review of the financial statements provided for audit revealed the following anomalies which are contrary to requirement of Public Sector Accounting Standards Board (PSASB) reporting template issued in June, 2020;

- i. Corporate governance statement at page xv to the financial statements does not include succession plan, existence of a board charter, roles and functions of the Board, induction and training, board member performance, conflict of interest, board remuneration, ethics and conduct and governance audit contrary to PSASB.
- ii. The Institute of Certified Public Accountants of Kenya (ICPAK) membership number of the Finance Officer is not indicated in the statement of financial position.
- iii. Inter-entity transfers at page 37 to the financial statements is not signed by the Head of Accounting Unit of the Ministry of Education contrary to the Public Sector Accounting Standards Board (PSASB).

In the circumstances, the College's financial statements are not prepared in accordance with the PSASB prescribed format.

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, because of the significance of the matters discussed in the Basis for Adverse Opinion, Basis for Conclusion on Lawfulness and Effectiveness in Use of Public Resources and Basis for Conclusion on Effectiveness of Internal Controls, Risk Management and Governance sections of my report, based on the audit procedures performed, I confirm that internal controls, risk management and governance were not effective.

Basis for Conclusion

1.0 Lack of Internal Audit

During the period under review, the College did not have an internal audit in place contrary to Section 73(1)(a) of the Public Finance Management (PFM) Act, 2012 which states that every national government entity shall ensure that it has appropriate arrangements for conducting internal audit according to the guidelines issued by the Accounting Standards Board.

In the circumstances, the College is in breach of the law.

2.0 Lack of Internal Audit Committee

During the period under review, the College did not have an audit committee contrary to Section 73(5) of the Public Finance Management Act, 2012 which states that every national government entity shall establish an internal auditing committee whose composition and functions are to be prescribed by the regulations.

In the circumstances, the College is in breach of the law

3.0 Lack of Risk Management Policy

Review of the College's internal controls revealed that the College did not have approved risk management policy. Further, the Management did not provide for audit review evidence whether the College has documented, identified and assessed risks

and developed controls to respond to the risk identified contrary to Regulation 165 of the Public Finance Management (National Government) Regulations 2015, which stipulates that Accounting Officers shall ensure that national government entities develops risk management strategies, which include fraud prevention mechanism and system of risk management and internal control that builds robust business operations.

In the absence of risk management policy, it is not possible to determine the effectiveness of controls implemented to control risks. In addition, the College is in breach of the law.

4.0 Lack of Approved Salary Structure

Note 16 to the financial statements reflects Kshs.4,693,211 in respect to employee costs. However, approved salary structure and staff establishment were not provided for audit review contrary to Section C 2(1) of the Human Resource Policies and Procedures Manual for the Public Service, 2016 which stipulates that public service salary structure will be based on the grading levels spelt out in the various career progression guidelines.

In the circumstances, the College is in breach of the law.

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 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, and for its assessment of the effectiveness of internal control, risk management and governance.

In preparing the financial statements, Management is responsible for Chuka Technical and Vocational College'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 College 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 Chuka Technical and Vocational College'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 Chuka Technical and Vocational College'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 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 with limited assurance as to 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 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 noncompliance. Also, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with Chuka Technical and Vocational College's policies and procedures may deteriorate.

As part of an audit conducted in accordance with ISSAIs, I exercise professional judgement and maintain professional skepticism throughout the audit. I also:

- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for my opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the Management.
- Conclude on the appropriateness of the Management's use of the 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 College's ability to continue to sustain its services. If I conclude that a material uncertainty exists, I am required to draw attention in the auditor's report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify my opinion. My conclusions are based on the audit evidence obtained up to the date of my audit report. However, future events or conditions may cause Chuka Technical and Vocational College 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 Chuka Technical and Vocational College 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

09 February, 2022