

REPORT OF THE AUDITOR-GENERAL ON CHUKA TECHNICAL AND VOCATIONAL COLLEGE FOR THE YEAR ENDED 30 JUNE, 2020

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 41, which comprise the statement of financial position as at 30 June, 2020, 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, 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 the Chuka Technical and Vocational College as at 30 June, 2020, 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 do not comply with the Technical and Vocational Education and Training Act, 2013.

Basis for Adverse Opinion

1.0 Inaccuracies in the Statement of Cash Flows

The statement of cash flows reflects Kshs.5,846,377 in respect of net increase in cash and cash equivalents. However, a recast of the balances indicated a total of Kshs.1,598,029 on the same item resulting to unreconciled variance of Kshs.4,248,348.

In addition, the statement reflects Kshs.2,124,174 in respect to purchase of property, plants and equipment and intangible assets. However, note 30 to the financial statements reflects Kshs.1,273,349 in respect to same item resulting to unreconciled variance of Kshs.850,825.

Further, the statement reflects Kshs.3,722,203 in respect to net cash flows from operating activities. However, a review of the statement of financial position revealed a total of Kshs.2,431,188 in respect to working capital changes which is not included in the net cash flows from operating activities resulting to unreconciled variance amounting to Kshs.3,743,542 as detailed below;

Items	Amount in the Statement of Financial position for 2019-2020 (Kshs)	Amount in the Statement of Financial position for 2018-2019 (Kshs)	Increase/Decrease (Kshs)
Cash Inflows from Working Capital			
Current Portion of Receivables from Exchange Transactions	1,486,831	4,414,889	(2,928,058)
Trade and Other Payables from Exchange Transactions	2,696,249	2,855,556	(159,307)
Sub total	4,183,080	7,270,445	(3,087,365)
Cash Outflows from Working Capital			
Refundable Deposit from Customers	151,075	145,275	5,800
Inventories	2,052,869	1,402,492	650,377
Sub total	2,203,944	1,547,767	656,177
Grand Total	1,979,136	5,722,678	(3,743,522)

In the circumstances, the accuracy of the statement of cash flows for the year ended 30 June, 2020 could not be ascertained.

2.0 Cash and Cash Equivalents

Note 25 to the financial statements reflects Kshs.6,306,524 in respect of cash and cash equivalents which includes Kshs.6,121,291 in respect to bank balances which were held in two (2) current bank accounts. However, the respective bank reconciliation statements were not availed for audit review contrary to Regulations 90(1) of the Public Finance Management (National Government) Regulations, 2015 which stipulates that all Accounting Officers shall ensure that bank reconciliations are completed for each bank account held by that accounting officer, every month and submit a bank reconciliation statement not later than the 10 of the subsequent month to the National Treasury with a copy to the Auditor-General.

In the circumstances, the accuracy of the Kshs.6,306,524 in respect to cash and cash equivalents as at 30 June, 2020 could not be ascertained.

3.0 Transfer from National Government Ministries

Note 6 to the financial statements reflects Kshs.10,520,948 in respect of transfers from national government ministries for the year under review which relates to operational grants. However, confirmation from the Ministry of Education revealed that Kshs.9,000,000 was transferred to the College in respect to the same item and period resulting to unexplained variance of Kshs.1,520,948.

In the circumstance, the accuracy and propriety of the Kshs.10,520,948 in respect to transfers from national government ministries for the year ended 30 June, 2020 could not be ascertained.

4.0 Irregular Procurement- Repair and Maintenance

Note 19 to the financial statements reflects Kshs.3,270,830 in respect of repair and maintenance which includes Kshs.1,740,525 spent on procurement of building materials from a supplier. However, supporting documents including tender opening and evaluation minutes, professional opinion, notification of the award and acceptance by the supplier were not provided for audit review. Therefore, it was not possible to ascertain whether the supplier was competitively sourced.

In the circumstances, the propriety and value for money for the Kshs.1,740,525 expenditure could not be ascertained

5.0 Unsupported Inventories Balance

Note 28 to the financial statements reflects Kshs.2,052,869 in respect of 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 Kshs.2,052,869 in respect to inventories as at 30 June, 2020 could not be ascertained.

6.0 Unsupported Refundable Deposits from Customers

Note 34 to the financial statements reflects Kshs.151,075 in respect of refundable deposits from customers/students which relates to consumer deposits and caution money. However, supporting documents including ledgers, customers'/students' names, amount and date paid, course taken and ageing analysis showing how long the balance has been held was not provided for audit review contrary to Sections 99(3) and 104(1) of the Public Finance Management (National Governments) Regulations, 2015 which stipulates that every entry in the accounts shall be supported by a voucher containing the full details, clear narrations and particulars of the item or items to which it relates and shall be supported by appropriate authority and documentation.

In the circumstances, the accuracy and propriety of Kshs.151,075 in respect to refundable deposits from customers/students for the year ended 30 June, 2020 could not be ascertained.

7.0 Unsupported Revenue from Rendering of Services

Note 10 to the financial statements reflects Kshs.9,538,203 in respect of revenue from rendering of services which relates to fees from students. However, supporting documents including ledgers, students' name, dates and amounts paid, admission number, course taken and summary of each type of revenue received was not provided for audit review contrary to Section 100 of the Public Finance Management (National Government) Regulations, 2015 which states that, an accounting officer shall keep in all offices concerned with receiving cash or making payments a cash book showing the receipts and payments and shall maintain such other books and registers as may be necessary for the proper maintenance and production of the accounts of the vote for which he or she is responsible.

In the circumstances, the accuracy and propriety of the Kshs.9,538,203 revenue from rendering of services for the year ended 30 June, 2020 could not be ascertained

8.0 Unsupported Capital Fund

The statement of financial position reflects Kshs.1,273,349 in respect of capital fund. However, the respective supporting documents including source of fund, date received and purpose of the fund were not provided for audit review contrary to Section 99(3), 104(1) and 118(3) of the Public Finance Management (National Governments) Regulations, 2015 which stipulates that every entry in the accounts shall be supported by a voucher containing the full details, clear narrations and particulars of the item or items to which it relates and shall be supported by appropriate authority and documentation and the accounting officer shall ensure appropriate mechanism are put in place for safeguarding and tracking them.

In the circumstance, the accuracy and propriety of the Kshs.1,279,349 capital fund as at 30 June, 2020 could not be ascertained.

9.0 Property, Plant and Equipment

9.1 Incomplete Fixed Assets Register

Note 30 to the financial statements reflects Kshs.938,532 in respect to property, plant and equipment. However, review of the fixed assets registers 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 carried out in December, 2020 revealed that the assets were not tagged for ease of identification and movement. In addition the inspection noted that the College has buildings, land, furniture, equipment, machines, tools, books and computers of unknown value that were being used in day to day operations of the College. However, it was not possible to ascertain whether all the assets were included in the assets register and the financial statements

9.2 Land with No Ownership Documents

The College occupies land whose details including ownership documents, size, land reference number and other relevant information were not provided for audit review. In addition, the financial statements reflect a nil balance as disclosed in Note 30 to the financial statements.

In the circumstances, the ownership of land and the completeness of the financial statements assets as at 30 June, 2020 could not be ascertained. Further, the College is in breach of the law.

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

1.0 Budgetary Control and Performance

The statement of comparison of budget and actual amounts for the year ended 30 June, 2020 reflects a budgeted revenue of Kshs.95,973,920 and actual revenue of Kshs.20,059,151 resulting to a revenue shortfall of Kshs.75,914,769 or 79% of the budget. Similarly, the statement reflects an expenditure budget of Kshs.95,973,920 and actual expenditure of Kshs.16,336,948 resulting to under expenditure of Kshs.79,636,972 or 83% of the budget.

The underfunding and under expenditure is an indication that most programs and activities that had been planned were not implemented.

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

1.0 Failure to Approve Budget

During the year under review the board approved a budget of Kshs.95,973,920 in respect to revenue and expenditure respectively. However, there was no evidence to indicated that the budget was submitted and approved by the Cabinet Secretary Ministry of education and contrary to Section 22(1) and (2) of the second schedule to the Technical and Vocational Education and Training Act, 2013 which stipulates Board of Governors of a public institution shall prepare annual estimates of revenue and expenditure for the institution under its charge, in such form and at such times as the Cabinet Secretary may prescribe and the Board of Governors may incur expenditure for the purpose of the institution in accordance with estimates approved by the Cabinet Secretary, and any approved expenditure under any head of the estimates may not be exceeded without the prior written approval of the Cabinet Secretary.

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

2.0 Unapproved Allowances to the Board of Governors

Note 17 to the financial statements reflects Kshs.286,000 in respect of remuneration of Directors. Documents provided for audit review revealed that the College had eight Board members. However, evidence showing that the allowances paid to the said Board members were approved by the cabinet secretary was not provided for audit review contrary to the Section 17 of the 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.

Further, included in the Kshs.286,000 was Kshs.12,000 paid to the principal as sitting allowance during a full board meeting held at the College's boardroom on 19 July, 2019 and Kshs.24,000 paid as allowance to the outgoing and incoming principals at Kshs.12,000 each during the handover and take over meeting held in the College's boardroom on 3 July, 2019 contrary to Section 10(1) of the State Corporations, Act CAP, 446 which stipulates that the chairman and members of a Board, other than the chief

executive (principal), shall be paid out of the funds of the state corporation such sitting allowances or other remuneration as the Board may, within the scales of remuneration specified from time to time by the committee.

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

3.0 Ethnicity

Records made available for audit review revealed that during the financial year, 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.

4.0 Presentation of the 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). The Institute of Certified Public Accountants of Kenya (ICPAK) membership number of the finance officer is not indicated in the statement of financial position.
- ii). Inter-entity transfers at page 40 to the financial statements is not signed by the head of accounting unit of the Ministry of Education contrary to PSASB.
- iii). Corporate governance statement at page “xv” to the financial statements did not include the 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.
- iv). Pages “xxi” to “xxv” are missing in the financial statements. Further the page “xx” is not paginated.

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 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

As reported in the previous year, during the year 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

As reported in the previous year, during the year under review, the College did not have an audit committee in place 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

As reported in the previous year, a 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 of whether the College has documented, identified and assessed risks and developed controls to respond to the risk identified contrary to Section 165 of the Public Finance Management (National Government) Regulations 2015, which stipulates that the accounting officer shall ensure that the national government entity 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.4,796,925 in respect to employee costs. However, as reported in the previous year, 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 assessing the Chuka Technical and Vocational College's ability to sustain its 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 the 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 the 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 the 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 going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Chuka Technical and Vocational College's ability to sustain its services. If I conclude that a material uncertainty exists, I am required to draw attention in the auditor's report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify my opinion. My conclusions are based on the audit evidence obtained up to the date of my audit report. However, future events or conditions may cause the 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 the 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

11 February, 2022