

REPORT OF THE AUDITOR-GENERAL ON DAVID MBITI WAMBULI TECHNICAL AND VOCATIONAL COLLEGE FOR THE YEAR ENDED 30 JUNE, 2019

REPORT ON THE FINANCIAL STATEMENTS

Adverse Opinion

I have audited the accompanying financial statements of David Mbiti Wambuli Technical and Vocational College set out on Pages 1 to 45, which comprise the statement of financial position as at 30 June, 2019, and the statement of financial performance, statement of changes in net assets, statement of cash flows and 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, 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 David Mbiti Wambuli Technical and Vocational College as at 30 June, 2019, and of its financial performance and its cash flows for the year then ended, in accordance with International Public Sector Accounting Standards (Accrual Basis) and do not comply with the Technical and Vocational Education Training Act, 2013 and the Public Finance Management Act, 2012.

Basis for Adverse Opinion

1. Presentation of the Financial Statements

The annual reports and the financial statements presented for audit had the following errors:

- i. Page numbering ii and iv have been repeated while page x is missing.
- ii. Date of approval of the financial statements has not been indicated and the report of Board of Governors on page xi is not signed.
- iii. Several notes to the financial statements are blank.

The footnote under the statement of financial performance indicated that the notes are set out on pages x to page xx instead of pages 7 to 42.

- iv. Note 6 to the financial statements reflects receipts from the National Government balance of Kshs.995,000. However, the amount has not been analyzed under Note 6(b) and details of the reconciliations of the amount received has not been provided in appendix to the financial statements.
- v. The financial statements presented for audit do not have comparative figures for 2017/2018 financial year and disclosure on opening balances. This is contrary to paragraph 53 of International Public Sector Accounting Standards (IPSAS 1) on financial statements presentation that requires an entity to present comparative information disclosure in respect of the previous period for all amounts reported in the financial statements.

In view of the foregoing, the financial statements presented do not fully comply with the reporting format prescribed by the Public Sector Accounting Standards Board.

2. Discrepancy on Revenue from Exchange Transactions

The statement of financial performance reflects total revenue figure of Kshs.1,390,390. However, an amount of Kshs.395,390 is erroneously shown as the sub-total for revenue from exchange transactions instead of an amount of Kshs.582,500 reflected as revenue from rendering of services in the statement and as disclosed in Note 10 to the financial statements. Further, recasting of the revenue balances revealed revenue totalling to Kshs.1,577,500 instead of Kshs.1,390,390 now shown resulting in an unreconciled variance of Kshs.184,110.

In the circumstance, the accuracy and completeness of the revenue from exchange transactions of Kshs.1,390,390 could not be confirmed.

3. General Expenses

The statement of financial performance reflects general expenses of Kshs.806,410 which as further disclosed in Note 22 to the financial statements includes an amount of Kshs.435,680 in respect of local transport and travelling. However, the ledger provided in support of the local transport and travelling expenditure had a balance of Kshs.697,000 resulting into an unexplained variance of Kshs.261,320. Further, the expenditure was not supported with relevant documents.

Consequently, the accuracy and completeness of the general expenses of Kshs.806,410 could not be confirmed.

4. Unbalanced Statement of Financial Position

The statement of financial position does not show total assets and total liabilities. Further, the statement reflects assets balances under cash and cash equivalents, receivables from exchange transactions balances of Kshs.129,904 and Kshs.491,310 respectively compared with liabilities balances of trade and other payables from exchange transaction and accumulated surplus of Kshs.381,357 and Kshs.129,904 respectively, indicating that the statement of financial position did not balance by Kshs.109,583.

Due to the foregoing, the total net assets and liabilities is inaccurate.

5. Inaccuracies in Cash and Cash Equivalents

The statement of financial position reflects cash and equivalents balance of Kshs.129,534. However, disclosure Note 27 to the financial statements includes unusual and erroneous cash at hand negative balance of Kshs.49,891. Further, the statement of financial position reflects opening cash and cash equivalents balance of Kshs.992,950 and a similar net increase in cash and cash equivalents during the year. However, no documents were provided to support the balance.

In the circumstances, the accuracy and fair presentation of cash and cash equivalents balance of Kshs.129,534 as at 30 June, 2019 could not be confirmed.

6. Statement of Changes in Net Assets

The College presented statement of changes in net assets for the year ended 30 June, 2019 without balances. However, the statement of financial performance and statement of financial position reflect similar net surplus and accumulated surplus balances of Kshs.129,904 which has not been disclosed or analyzed in the statement of changes in net assets. Further, receipts in respect of capital funds from the parent Ministry and other government agencies have not been recognized and disclosed in the statement.

Consequently, the validity, completeness and accuracy the statement of changes in net for the year ended 30 June, 2019 could not be ascertained.

7. Failure to Prepare a Trial Balance

Management did not prepare and present for audit a trial balance in support of the account balances for the year ended 30 June, 2019.

Consequently, the accuracy and completeness of the financial statements could not be confirmed.

8. Undisclosed Property, Plant and Equipment

The statement of financial position reflects nil balance in respect of total assets property, plant and equipment as at 30 June, 2019. However, as disclosed in Annex II of the financial statements, the College has land, office furniture, computers and accessories, training machines and equipment and library books that were not valued and included in these financial statements. Further, Annex II to the financial statements on projects implemented by the College reflects an amount of Kshs.56,048,091 in respect of buildings, septic and external drainage and firefighting equipment which have not been included in these financial statements.

Under the circumstances, the accuracy and completeness of the assets as at 30 June, 2019 could not be confirmed.

9. Land Without Title Deeds

As disclosed under Background Information on Page ii of the financial statements, the College premises is situated on a 5 hectares piece of land donated by an individual after whom the College is named. However, the College does not have title deed for the parcel of land has not been valued for inclusion in the financial statements.

Consequently, the ownership, valuation and security of the land could not be ascertained.

The audit was conducted in accordance with International Standards of Supreme Audit Institutions (ISSAIs). I am independent of David Mbiti Wambuli 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 report in the year under review.

Other Matter

Budgetary Control and Performance

The statement of comparison of budget and actual amounts for the year ended 30 June, 2019 reflects budgeted revenue and actual amount on comparable basis of Kshs.4,812,000 and Kshs.1,390,390 respectively resulting in revenue shortfall of Kshs.3,421,610 or 71% of the approved budget. Further, Management has not provided explanations on differences between the budget and actual amounts exceeding 10% as required.

The shortfall in the budgeted revenue implies that the College did not implement some of the budgeted programmes and activities for the year and is indicative of inability by the Management to put in place required systems and mechanisms to ensure realization of the all revenue due to the College.

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 Conclusion on Lawfulness and Effectiveness in Use of Public Resources section 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

Failure to Remit Statutory Deductions

Review of records on remittance of statutory deductions for the year revealed that Management did not remit statutory deductions in time totalling to Kshs.21,357 comprising of unremitted dues to National Hospital Insurance Fund (NHIF), National Social Security Fund (NSSF) and Pay As You Earn (PAYE) of Kshs.7,800, Kshs.5,351 and Kshs.8,206 respectively.

Failure to deduct and remit statutory deductions in time may lead to wastage of public funds on unnecessary penalties and interest.

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 Conclusion on Effectiveness of Internal Controls, Risk Management and Governance section of my report, based on the audit procedures performed, I confirm that, internal controls, risk management and overall governance were not effective.

Basis for Conclusion

1.0 Lack of Procurement Function

During the year under review, the College operated without a procurement division staffed with procurement professionals concerned with managing the procurement and asset disposal process. As a result, the Principal and Secretary undertook all procurements during the year. Further, the College did not have an approved procurement plan contrary to Section 45(1) of the Public Procurement and Asset Disposal Act, 2015, which requires all procurements to be within an approved budget of an entity and planned through an annual procurement plan.

Consequently, the College was in breach of the law.

2.0 Lack of Human Resources Department

A review of human resource records revealed that the College does not have a Human Resource Department or an officer trained and experienced in human resource management. Further, no human resource policy documents had been developed to guide in the determination of staffing requirement, job descriptions, key competences, qualifications required, terms of service, career progression, training and development.

In the absence of this key function, the College may face challenges in determination of staffing needs, recruitment and remuneration of staff.

3.0 Lack of Risk Management Policy

During the period under review, the College did not have a risk management strategy contrary to Section 165. (1) of the Public Finance Management (National Governments) Regulations, 2015 and Treasury Circular No. 3/2009 of 23 February, 2009 which requires Accounting Officers to develop risk management strategies, including fraud prevention mechanism and internal control that builds robust business operations.

Under the circumstances, the adequacy and effectiveness of the risk management strategies and controls put in place could not be established.

4.0 Lack of Automation of Key Processes

The College had not implemented any Electronic Resource Planning (ERP) system to manage its operations. The College was using manual records which are prone to errors and lack data integrity and confidentiality. Further, manual processing is cumbersome and denies the College the benefits of speedy processing and retrieval of information and inefficient operations.

5.0 Lack of Internal Audit Function

The College operated without an internal audit function contrary to Section 73(1) and 73(5) of the Public Finance Management Act, 2012 which requires every public entity to have arrangement in place for internal audit function for the purpose of carrying out in depth reviews of management operations and internal controls and audit committee in place during the year under review.

In the absence of internal audit function, review of the effectiveness of internal control, risk management systems, and overall governance processes were not executed which may have hindered the efficient and effective execution of the College activities.

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 processes and systems of internal control, risk management and overall governance were operating effectively, in all material respects. I believe that the audit evidence I have obtained is sufficient and appropriate to provide a basis for my conclusion.

Responsibilities of Management and those Charged with Governance

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

In preparing the financial statements, Management is responsible for assessing the College's ability to continue 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 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 College's financial reporting process, reviewing the effectiveness of how the 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 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 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 the 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 the College to cease to continue 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 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

14 January, 2022