REPORT OF THE AUDITOR-GENERAL ON DAVID MBITI WAMBULI 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 David Mbiti Wambuli Technical and Vocational College set out on pages 1 to 44, 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 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 the David Mbiti Wambuli 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 Public Finance Management Act, 2012 and the Technical and Vocational Education Training Act, 2013.

Basis for Adverse Opinion

1. Errors in Presentation and Disclosures in the Financial Statements

Review of the financial statements presented for audit revealed errors and omission as outlined below:

i. Date of the reports is not indicated against the signatures on pages xvii, xviii, 2 and 46.

ii. Statement of cash flows on page 4 of the financial statements does not indicate the relevant disclosure notes.

iii. Review of performance of the College for the year as outlined in page xi does not include information on objectives, key performance indicators, activities and achievements.

iv. Notes 26, 27 and 28 do not flow sequentially and Note 26(b) is shown as 28(a).

v. Report on review of entity performance for the year as presented in page xi does not indicate the numbering of the title which should be ‘6’.

vi. Information on Management team in page viii indicates that the Accountant is a CPA(K) holder. However, the ICPAK Number is not indicated under the statement of financial position.

vii. Management discussion and analysis as presented in page xiii is too summarized and lacks specific details on the College and its performance for the year.

viii. Under the statement of financial performance, it is reflected that the Notes are set out on pages x to page xx instead of specific pages of 7 to 42.

ix. Statement of financial position as presented in page 2 does not specify the page numbers for financial statements but refers to pages xx.

x. Note 6 reflects Kshs.2,795,000 in respect to receipts from the National Government. However, Note 6(b) is blank and does not include an analysis of the same. Further, names of the entities that sent the grants are indicated as 'xxx'.

xi. Note 8 on transfers from other levels of government has retained identity of entities as 'xxx' as given in the Public Sector Accounting Standards Board template.

xii. The financial statements have blanks in all places where Nil balances are supposed to be indicated.

xiii. The Notes reference reflected in the statement of financial position for all components with Nil balances does not correspond with actual disclosure notes.

In view of the foregoing, there is lack of clarity and consistency in disclosures in the financial statements.

Consequently, the presentation does not fully comply with the International Public Sector Accounting Standards (IPSAS) No.1 and the prescribed reporting template issued by the Public Sector Accounting Standards Board.

2. Errors in Comparative Figures

Review of the comparative figures revealed the following errors:

i. The statement of financial performance reflects Kshs.582,500 as comparative balance for revenue from students' fees which is correct as per the audited financial statements for 2018/2019. However, this amount differs from the Kshs.395,390 reflected in Note 10 as the comparative figure.

ii. The statement of financial performance reflects a comparative balance of Kshs.828,137 in respect to general expenses which differs from the Kshs.806,410 reported in the financial statements for 2018/2019 financial year.

iii. The net surplus of Kshs.295,287 as reflected under 2018/2019 comparatives in the statement of financial performance differs with the amount of Kshs.129,904 reflected in the audited financial statements for 2018/2019 financial year.

iv. The statement of financial position reflects Kshs.187,110 as the comparative balance for current portion of receivables from exchange transactions which differs with the Kshs.491,310 reported in the audited financial statements for 2018/2019 financial year.

v. The statement of financial position further reflects Kshs.316,644 as comparative balance for total assets instead of the Kshs.620,844 reported in the audited financial statements for 2018/2019 financial year.

vi. The statement of financial position reflects a comparative balance of Kshs.21,357 in respect to trade and other payables from exchange transactions which differs with the balance of Kshs.381,357 as per the audited financial statements for 2018/2019 financial year.

vii. The statement of cash flows reflects a comparative balance of Kshs.828,137 in respect of other payments while the audited financial statements for 2018/2019 financial year had a figure of Kshs.806,410 for general expenses.

viii. The statement of cash flows show Kshs.295,287 as a comparative balance for net cash flows from operating activities which agrees with the audited financial statements for the prior year. However, Note 43 on cash generated from operations has a comparative amount of Kshs.129,904.

In view of the foregoing, the accuracy and completeness of the comparative balances for 2018/2019 financial year could not be confirmed.

3. Misstatement of Changes in Net Assets

The statement of changes in net assets reflects Kshs.1,323,193 in respect of retained earnings as at 30 June, 2020. Further, the statement reflects Nil balance for capital, development grants and funds. However, the background information in page ii states that the College was started with a donation of land from a member of the local community and funding from both the local Constituency Fund - National Government Constituencies Development Fund and the National Government through the parent Ministry. These contributions represent capital fund which should have been included as capital fund. In addition, errors were noted whereby the closing balance is reflected as at 30 June, 2019 instead of 2020.

In the circumstances, the accuracy and completeness of statement of changes in net assets as presented could not be confirmed.

4. Undisclosed Property, Plant and Equipment

The statement of financial position and as disclosed under Note 31 to the financial statements reflects Nil balances on property, plant and equipment. However, handover report between the College and Wote Technical Training Institute reflects that the College took over assets totalling Kshs.56,048,091 in respect of buildings, septic and external drainage and firefighting equipment, each valued at Kshs.50,876,935, Kshs.4,319,056 and Kshs.852,100, respectively. In addition, physical verification revealed that there were several other assets of undetermined value which included; land, office furniture, office equipment, computers and accessories, training machines and equipment and library books which had not been disclosed as part of plant, property and equipment.

In the circumstances, the accuracy, completeness and disclosure of property, plant and equipment could not be confirmed.

5. Land without Ownership Documents

Background information in page ii of the financial statements reflects that the College is constructed on a 5 hectares piece of land donated by a person after whom the College is named. However, Management did not provide the title deed of the parcel of the land for audit to confirm ownership. Further, the land has not been valued for inclusion in the financial statements.

In the circumstances, the ownership and security of the land on which the College stands could not be confirmed.

6. Unsupported Balances

Review of the financial statements revealed the following:

i. The statement of financial position and as disclosed in Note 26 to the financial statements reflects Kshs.1,508,034 in respect of cash and cash equivalents balance. However, the bank balance was not supported by bank reconciliation statements and cash book.

ii. The statement of financial performance reflects an expenditure of Kshs.1,801,882 in respect of general expenses which was not analyzed and lacks a disclosure Note to the financial statements. Further, no supporting documents were provided.

Consequently, the accuracy, completeness and validity of the reported cash and cash equivalents balance of Kshs.1,508,034 as at 30 June, 2020 and general expenses balance of Kshs.1,801,882 for the year ended 30 June, 2020, could not be confirmed.

The audit was conducted in accordance with International Standards of Supreme Audit Institutions (ISSAIs). I am independent of the 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

Budget Control and Performance

The statement of comparison of budget and actual amounts reflects final receipts budget and actual on comparable basis of Kshs.19,758,944 and Kshs.4,443,861 respectively, resulting to an under-funding of Kshs.15,315,083 or 78% of the budget. Similarly, the College expended Kshs.3,415,955 against an approved budget of Kshs.19,758,944 resulting to an under-expenditure of Kshs.16,342,989 or 83% of the budget.
The underfunding and underperformance affected the planned activities and may have impacted negatively on service delivery to the public.

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 matter 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

Non-Remittance of Statutory Deductions

During the year under review, the College did not remit Kshs.9,600, Kshs.6,537 and Kshs.10,444 for National Hospital Insurance Fund (N.H.I.F.), National Social Security Fund (N.S.S.F) and Pay As You Earn (P.A.Y.E) respectively, all totalling Kshs.26,581 as required.

Further, it was noted that from July, 2019 to December, 2019, the College Management refunded back to employees amounts withheld as statutory deductions through the payroll instead of remitting the same to the relevant authorities. In addition, it was noted that the College did not contribute the employer's portion of NSSF as required by law but instead deducted the whole amount from the employees' salaries which is contrary to the provisions of Section 22 National Social Security Fund Act, 2013 which states that an employer is entitled to recover from his employee's earnings, the employee's contribution by way of a deduction there from for purposes of paying the employee's contribution, but is not permitted to deduct the employer's contribution from the employee's earnings, but shall instead pay from his own resources, and remit to the employee's account under this Act.

In the circumstances, the Management is in breach of the law and risks accruing and paying penalties and interests due to late or non-remittance of statutory deductions.

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. Weaknesses in Cash and Bank Management

Review of the system in place with regards to cash and bank management revealed the following weaknesses:

i. Cash book is not checked and approved by an Officer different from the one who updates it and thus there is lack of segregation of duties.

ii. The Board of Survey was not conducted after the close of the year as required and the cash book remained open as at the time of the audit which was done in March, 2021. This is indicative of lack of year-end cut-off procedures.

iii. During the year under audit, it was noted that the payments amounting to Kshs.1,231,502 were made in respect to per diem and lunches to staff for various trainings and seminars but no imprest register was in place to manage imprest issues and surrenders.

To this extent, the College is in breach of the law.

2. Weak Finance Department

Review of the operations of Finance Department revealed that the College did not have an Accounts and Finance Policy Manual to outline out various accounting policies and procedures as well as the required checks and balances in operations. In addition, the department is understaffed with only one Finance Officer who is assisted by a Clerk. Further, there was lack of segregation of duties in receipts and payments processes, updating of the accounts records and preparation of financial reports.

In the circumstances, errors in the accounting records may go undetected for purposes of correction in good time.

3. Lack of Procurement Function

The audit noted that the College did not have a procurement department and all procurements during the year were undertaken by the Principal and Secretary. In addition, there was no approved procurement plan and prequalification of suppliers was not done. Further, no supporting documents was provided for audit to confirm that procurements were undertaken by different people at different stages in accordance with the provisions of the Public Procurement and Assets Disposal Act, 2015.

To this extent, the College is in breach of the law.

4. Lack of Internal Audit Function

The audit also revealed that the College does not have in place an Internal Audit function and the Audit Committee. This a contravention of the requirements of 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 to have an Audit Committee.

To this extent, the College is in breach of the law since it lacks the required arrangements to provide oversight over management activities.

5. Lack of Human Resources Department

The audit noted that the College does not have a human resource department or an Officer trained and experienced in human resource management. Further, there are no human resources policy documents to guide in the determination of staffing requirement, job descriptions, key competences, qualifications required, terms of service, career progression, training and development.

In the circumstances, the College may face challenges in determination of staffing needs, recruitment criteria and remuneration of staff.

6. Lack of a Risk Management Policy

The audit further noted that the College does not have a Risk Management Policy which is required to guide in identification, assessment and mitigation of risks. This is in contravention to Section 165(1) 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 a system of risk management and internal control that builds robust business operations.

In the circumstances, the College is exposed to risks that may affect its operations without the required responses and mitigation.

7. Lack of Automation of Key Processes

The audit noted that the College majorly relies on a manual system for processing and records keeping and is thus exposed to risks associated with manual records keeping such as; errors in processing, manipulation of records and lack of data integrity and confidentiality. Further, manual processing is cumbersome and denies the College the benefits of speedy processing and retrieval of information.

In the circumstances, errors in the manual records may go undetected for purposes of correction in good time.

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 the Board of Governors

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 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 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 Governors is 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 overall 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 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 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

11 February, 2022