

# **REPORT OF THE AUDITOR-GENERAL ON MASINGA TECHNICAL AND VOCATIONAL TRAINING COLLEGE FOR THE YEAR ENDED 30 JUNE, 2019**

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## **REPORT ON THE FINANCIAL STATEMENTS**

### **Adverse Opinion**

I have audited the accompanying financial statements of Masinga Technical and Vocational Training College set out on Pages 1 to 20, which comprise of the statement of financial position as at 30 June, 2019, and 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 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 Masinga Technical and Vocational Training College as at 30 June, 2019 and 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 Technical and Vocational Education and Training Act, 2013 and the Public Finance Management Act, 2012.

### **Basis for Adverse Opinion**

#### **1. Errors and Non-Compliance in Presentation of the Financial Statements**

Review of the financial statements presented for audit revealed the following errors and missing information:

- i. The annual report and financial statements did not include review of the college's performance for the year, Corporate Governance statement, detailed functions of the Board of Governors, progress on follow-up of auditor's recommendations, details of projects implemented during the year, and inter-entity transfers from other government entities.
- ii. The financial statements were not signed by finance officer while the chairman's statement at pages x to xi do not have the chairperson's signature.
- iii. Pages ii, xv and 1 of the financial statements do not have the title or header.
- iv. All notes indicated in the statements from 4 to 15, do not correspond to the actual numbering of explanatory notes of the financial statements.

The financial statements, therefore, do not comply with the International Public Sector Accounting Standard (IPSAS) No.1 on presentation and disclosure requirements, contrary to the reporting guidelines prescribed by the Public Sector Accounting Standards Board (PSASB).

## **2. Unconfirmed Opening Balances**

The statement of financial position reflects comparative year total assets and total liabilities balance of Kshs.3,717,796 and Kshs.3,704,796 as at 30 June, 2018. However, the financial statements for the year ended 30 June, 2018 have not been submitted for audit contrary to the requirements of Section 68(2)(k) of the Public Finance Management Act, 2012 which requires an Accounting Officer to prepare annual financial statements for each financial year within three months after the end of the financial year.

In the circumstances, the accuracy and completeness of the opening balances could not be confirmed.

## **3. Inaccurate General Expenses**

The statement of financial performance reflects a balance of Kshs.829,688 in respect of general expenses. However, recasting of figures under Note 10 to the financial statements resulted in an understatement of Kshs.30, while the comparative balance of Kshs.1,413,168 was understated by Kshs.2,000.

Management has not provided explanations or reconciled the variances.

Consequently, the accuracy and completeness of general expenses of Kshs.829,688 reflected in financial statements could not be confirmed.

## **4. Cash and Cash Equivalents**

The statement of financial position reflects a comparative 2017/2018 balance of Kshs.335,244 under cash and cash equivalents while Note 11 to the financial statements reflects a corresponding figure of Kshs.340,244 resulting to an unexplained and unreconciled variance of Kshs.5,000.

Consequently, the accuracy and completeness of cash and cash equivalents as at 30 June, 2019 could not be confirmed

## **5. Inaccuracies in Statement of Cash Flows**

The statement of cash flows for 2018/2019 financial year reflects a negative balance of Kshs.195,030 in respect of brought forward cash and cash equivalents at the beginning of the year which however differs with an amount of Kshs.140,362 shown under comparative 2017/2018 financial year resulting to an un-reconciled variance of Kshs.335,392. Further, the statement reflects a figure of Kshs.1,110,744 described as increase in receivables which was not supported by explanatory note.

Consequently, the accuracy and completeness of the statement of cash flows for the year ended 30 June, 2019 could not be confirmed.

## 6. Variances Between the Statement of Financial Performance and Statement of Comparison of Budget and Actual Amounts

Several variances were noted between the expenditure figures for various account items reflected in the statement of financial performance and the corresponding figures in the statement of comparison of budget and actual amounts as shown in the table below:

| Account Item                             | Figure in the Statement of Financial Performance Kshs. | Figure in the Statement of Comparison of Budget and Actual Amounts Kshs. | Variance Kshs. |
|--|--|--|----------------|
| Rendering of Services-Fees from Students | 4,801,860  | 3,238,220  | 1,563,640      |
| Employees Costs                          | 3,061,677  | 2,850,041  | 211,636        |
| Repairs and Maintenance                  | 96,500   | 0  | 96,500         |
| General Expenses                         | 829,688  | 1,110,678  | (280,990)      |
| Net Surplus for the year                 | 1,306,075  | 31,501   | 1,274,574      |

Management has not provided explanations or reconciled the variances.

Consequently, the accuracy of the balances reflected in statement of financial performance and statement of comparison of budget and actual amounts could not be confirmed.

## 7. Revenue from Exchange Transactions

The statement of financial performance reflects revenue from rendering of services-fees from students balance of Kshs.4,801,860 which differs with ledger balance of Kshs.4,238,220. The resultant variance of Kshs.563,640 has not been explained or reconciled. Further, detailed analysis of the revenue per student was not provided for audit review.

In the circumstance, the accuracy and completeness of revenue from rendering of services of Kshs.4,801,860 for the year ended 30 June, 2019 could not be confirmed.

## 8. Unsupported Expenditure

The statement of financial performance reflects expenditure of Kshs.96,500, Kshs.829,688 and Kshs.246,000 in respect of repairs and maintenance, general expenses and allowances to the members of the Board of Governors respectively totaling to Kshs.1,172,188. However, no relevant supporting documentations including payment vouchers and expenditure schedules were provided for audit review.

Consequently, the accuracy and completeness of expenditure totaling Kshs.1,172,188 could not be confirmed.

## **9. Undisclosed Property, Plant and Equipment**

The statement of financial position reflects nil balance in respect of non-current assets as at 30 June, 2019. However, a review of the College's list of assets revealed parcels of land, buildings, laboratory equipment, machinery, furniture and fittings that were not valued and included in these financial statements.

Consequently, the financial statements do not reflect true and correct assets balance of the College as at 30 June, 2019.

The audit was conducted in accordance with International Standards of Supreme Audit Institutions (ISSAIs). I am independent of Masinga Technical and Vocational Training 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.

## **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, I confirm that, public resources have not been applied lawfully and in an effective way.

### **Basis for Conclusion**

#### **1. Lack of Ethnic Diversity in Employment**

Review of the payroll and the human resources bio data revealed that out of the workforce of twenty-six (26) employees, eighteen (18) or 69% were from one dominant ethnic community. This is contrary to Section 7(2) of the National Cohesion and Integration Act, 2008 that provides that no public establishment shall have more than one third of its staff from the same ethnic community.

Consequently, the College Management was in breach of the law.

#### **2. Irregular Remuneration of Board of Governors**

The statement of financial performance reflects allowances to members of Board of Governors totalling to Kshs.246,000. However, the expenditure was not supported by

approved rates and schedules for payments to the Board members' contrary to the provisions of Section 17 of the second schedule of the Technical and Vocational Education and Training Act, 2013. Further, Board meeting minutes were not signed and attendance register as evidence of meetings held was not maintained.

In the circumstance, the validity and regularity of the expenditure of Kshs.246,000 in respect of payment to Board of Governors during the year under review could not be confirmed.

### **3. Irregular Engagement of Employees**

The Institute had twenty-four (24) employees as at 30 June, 2019 engaged on contract terms of service by the Board of Governors. However, there were no written contracts and letters of appointment stipulating the terms of engagement, contrary to the provisions of Section 9(1) and 1(1)(2) of the Employment Act, 2007 which requires a written contract of service which state particulars of employment which may be given in installments and shall be given not later than two months after the beginning of the employment.

Further, the College recruited thirteen (13) officers during the year under review. However notice of vacancies or advertisements, list of applicants, interview score sheets and other reports were not provided for audit review. As a result, it has not been possible to confirm whether the recruitment was open and transparent as required by the law.

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. Lack of Approved Staff Establishment**

During the year under review, the College did not have in place an approved staff establishment and scheme of service. The College may therefore face challenges in

undertaking human resource functions including recruitment, training, promotions and remuneration of its staff.

## **2. Lack of Procurement Unit**

During the year under review, the College operated without an independent procurement unit to assist in preparation of procurement documents, giving professional opinion on procurement process and provide guidance on general adherence to procurement laws. Procurement of goods and services was done without use of tender documents including quotations, tender registers, tender opening/ evaluation reports and notification of award.

As a result, the College lacked structured and systematic way to facilitate procurement and disposal of assets.

## **3. Lack of Risk Management Policy and Disaster Recovery and Business Continuity Plan**

Contrary to Regulation 165(5) of the Public Finance Management (National Government) Regulations, 2015, the College did not have a risk management policy, Disaster Recovery and Business Continuity Plan and Risk and Fraud Management Policy in place order to improve on effective and efficient management of public resources. Further, the law requires an Accounting Officer to develop risk management strategies, which include fraud prevention mechanism and internal control that builds robust business operations.

In the absence of a Disaster Recovery and Business Continuity Plan, the College lacks a blue print for identifying, preventing and mitigating against disasters and ensuring that its operations are not interrupted.

## **4. Lack of an Internal Audit Function**

During the year under review, the College operated without Internal audit function. This is contrary to Section 73(1)(a) of the Public Finance Management Act, 2012 which provides that every National Government entity shall have appropriate arrangements in place for conducting internal audit according to the guidelines of the Public Sector Accounting Standards Board.

As a result, the Institute lacks internal structures, which could provide advice and assurance to the Management regarding effectiveness of the Institute's internal controls governance and risk management.

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 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**

**13 January, 2022**