

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

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 27, which comprise the statement of financial position as at 30 June, 2020, 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 the Masinga Technical and Vocational Training College as at 30 June, 2020 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 (TVET) Act, 2013 and the Public Finance Management Act, 2012.

Basis for Adverse opinion

1. Inaccuracies in the Financial Statements

1.1 Inaccurate Statement of Cash Flows

Review of the statement of cash flows showed the following errors:

- i. Statement of cash flows reflects balances of Kshs.1,403,015 and Kshs.226,431 as increase in receivables and accrued expenses reconciliations respectively. However, the balances were not supported by disclosure notes to the financial statements.
- ii. Statement of cash flows also reflects an amount of Kshs.116,400 as the increase in deposits for the year which differs with the amount of Kshs.32,400 confirmed on re-computation from the statement of financial position.
- iii. Statement of financial position reflects balances of Kshs.1,431,437 and Kshs.1,880,963 as the increase in inventories and trade and other payables respectively. However, the working capital changes in respect of inventories and trade and other payables were not included in the statement of cash flows.
- iv. The statement of cash flows reflects comparative amounts of Kshs. nil, Kshs.848,758 and Kshs.968,590 in respect of repairs and maintenance, general

expenses and increase in receivables instead of amounts of Kshs.96,500, 829,688 and Kshs.1,110,744 on the three accounts respectively as confirmed from the financial statements for 2018/19 financial year.

Consequently, the accuracy and completeness of the statement of cash flows could not be confirmed.

1.2 Inaccurate Statement of Comparison Budget and Actual Amounts

Review of the statement of budgets and actual amounts showed the following anomalies:

- i. Statement of comparison budget and actual amounts reflects the receipts of Kshs.4,664,635 in respect of revenue from rendering of services which differs with the amount of Kshs.5,357,870 shown in the statement of financial performance resulting to a variance of Kshs.693,235 which was not reconciled or explained.
- ii. Statement of comparison of budget and actual amounts shows total expenditure for the year amounting to Kshs.6,383,524 while the statement of financial performance has expenditure totaling Kshs.5,590,215 resulting to a variance of Kshs.793,309 for which no explanation was provided.
- iii. Statement of comparison of budget and actual amounts reflects a balance of Kshs.281,111 as the net surplus for the year which differs from the amount of Kshs.1,767,655 disclosed in the statement of financial performance resulting to unexplained variance of Kshs.1,486,544.

Consequently, the accuracy and completeness of the statement of comparison of budget and actual amounts could not be confirmed .

1.3 Inaccurate General Expenses

The statement of financial performance reflects an amount of Kshs.2,938,145 in respect of general expenses as disclosed in Note 9 to the financial statements. However, a casting error of Kshs.30,450 was noted under note 9 resulting to correct general expenses totaling Kshs.2,907,695.

Consequently, the accuracy and completeness of the general expenses amounting to Kshs 2,938,145 could not be confirmed.

2. Unexplained Variance for Revenue from Exchange Transactions

The statement of financial performance reflects an amount of Kshs.5,357,870 in respect of revenue from rendering of services- fees from students as disclosed in Note 7 to the financial statements . However, the amount differs with the supporting ledger balance of Kshs.6,664,635 resulting to unexplained variance of Kshs.1,306,765.

In the circumstances, the completeness and accuracy of the revenue from exchange transactions amounting to Kshs.5,357,870 could not be confirmed.

3. Non-Inclusion of Property Plant and Equipment Items in the Financial Statements

Review of documents provided showed that the College had items of plant, property and equipment that were not valued for inclusion in the statement of financial position. Further, the land on which the College is built and the developments therein were also not included in the statement of financial position.

Consequently, the financial statements do not reflect the correct financial position of the College as at 30 June, 2020.

4. Unsupported Receivables from Exchange Transactions

The statement of financial position reflects a balance of Kshs.6,766,710 in respect of receivables from non-exchange transactions as disclosed in Note 14 to the financial statements. However, the balance relates to students' debtors and therefore, should have been disclosed under receivables from exchange transactions and not from non-exchange transactions as described. Further, ageing analysis for the debtor's balance of Kshs.6,766,710 was not provided for audit and Management did not demonstrate efforts towards recovery of the outstanding amounts.

In the circumstances, the accuracy, completeness, fair statement and recoverability of the receivables from exchange transaction amounting to Kshs.6,766,710 as reported in the financial statements could not be confirmed.

5. Unsupported Cash and Cash Equivalents

The statement of financial position reflects cash and cash equivalents balance of Kshs.286,111 as disclosed in Note 13 to the financial statements . However, the bank balance was not supported with adequate relevant documents such as bank reconciliation statements, board of survey report, cash books and bank statements.

In the absence of adequate relevant supporting documents, it has not been possible to ascertain the accuracy, completeness and fair statement of the reported cash and cash equivalents balance of Kshs.286,111.

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

Other Matters

Budgetary Control and Performance

The statement of comparison of budget and actual amounts reflects final receipts budget and actual on comparable basis totalling to Kshs. 12,930,285 and Kshs. 6,664,635 respectively, resulting to an underfunding amounting to Kshs. 6,265,650 or 48% of the budget. Similarly, the statement reflects final expenditure budget and actual on comparable basis totalling to Kshs. 12,930,285 and Kshs. 6,383,524 respectively, resulting to an underperformance amounting to Kshs. 6,546,761 or 51% of the budget.

The underfunding and under expenditure affected the planned activities and may have impacted negatively on the College's performance.

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

1. Non-Compliance with Prescribed Format

Review of the financial statements presented for audit showed errors as detailed below:

- i. Table of Contents does not include, the Board of Governors in page vi and Chairman's report in page x. Further, the page numbers indicated does not correspond to the actual pages for some items.
- ii. Board of Governors information in page vi does not include passport size photographs of one of the members.
- iii. Chairman's Statement on page xi is not signed.
- iv. Report of the Principal at page xi and xii is not signed.
- v. Financial statements do not indicate page numbers between xv and xviii.

- vi. Report of the Board of Governors shown between pages xv and xviii is not signed by the Chairman.
- vii. Statement of Board of Governors Members' Responsibilities has referred to the Board of Governors as Council Members.
- viii. Statement of compliance and basis of preparation of the financial statements at page 6 is a replica of the reporting template. The same case applies to the statement of general information and adoption of new and revised standards. The statement does not indicate the impact of the standards to the entity if relevant as indicated in the template.
- ix. Management Analysis and Discussion report on page xiii indicates revenue for the year and for the previous year as Kshs.6,664,635 and Kshs.4,238,220 which differs from the amounts of Kshs.7,357,870 and Kshs.5,801,860 respectively reflected in the statement of financial performance.
- x. Statement of financial performance includes a disclosure on receipts which should be included under the disclosure note but not on the statement.
- xi. Statement of financial position is not signed by the Finance Officer and details of ICPAK membership have not been indicated.
- xii. Statement of financial position refers to financial statements set out on pages 1 to 48 instead of pages 1 to 27 as is the case.
- xiii. Statement of financial position refers to misstatement relating to 2018-19 financial year. However, this should have been corrected under the financial statements for 2019-20 financial year and comparative figures restated in accordance with the requirements of IPSAS 3.

In the circumstances, the financial statements for the year ended 30 June, 2020 as presented do not fully comply with the reporting template and the disclosures prescribed by Public Sector Accounting Standards Board for Technical Vocational Education Training (TVET) Institutions and the International Public Sector Accounting Standards.

2. Lack of Ethnic Diversity

Review of the payroll and the human resources bio-data showed that out of the workforce of thirty-four (34) employees as at 30 June, 2020, eighteen (18) or 53% were from the dominant local ethnic community. This is contrary to the provisions of Section 7(1) and (2) of the National Cohesion and Integration Act, 2008 which stipulates that no public establishment shall have more than one third of its staff from the same ethnic community.

Consequently, the College is in breach of the law.

3. Irregular Remuneration of Board of Governors

As disclosed in Note 11 to the financial statements, the statement of financial performance reflects remuneration of directors of Kshs.205,000. However, it was noted that there were no approved rates for payments to the Board of Governors contrary to the provisions of Section 17 of the second schedule of the Technical and Vocational Education and Training Act, 2013. It was also noted that the minutes of the board meetings were not signed and there were no attendance registers to support the board meetings.

In the circumstances, the validity and regularity of Kshs.205,000 paid to board of governors could not be confirmed.

4. Irregular Employment of Staff

Audit showed that the College had engaged twenty-four (24) employees on contractual basis as at 30 June, 2020. However, there were no written contracts and letters of appointment to stipulate the terms of engagement, contrary to the provisions of Section 9 (1) and 10(1)(2) of the Employment Act 2007 and Section B.10(1) and (2) of the Human Resource Policies and Procedures Manual for the Public Service, 2016. In addition, there was no documents to support the recruitment process that includes advertisements, applications, interviews and appointments.

In the circumstances, the regularity and value for money of the recruitment could not be confirmed.

5. Unsupported Procurement of Examination Materials

Review of documents provided in support of expenditure for the year showed that an amount of Kshs.318,429 was paid to a company in respect of procurement of examination materials. However, management did not provide documents to show how the company was identified or whether an open and competitive process was used as required by the Public Procurement and Assets Disposal Act, 2015.

In the absence of a competitive process, it has not been possible to confirm the regularity and value for money of the expenditure of Kshs.318,429.

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, 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 audit showed that 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 such as recruitment, training, promotions and remuneration of its staff.

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

2. Lack of a Procurement Function

During the year under review, the Management had not put in place a procurement function including recruitment of a Procurement Officer, to assist in preparation of procurement documents, giving professional opinion on procurement process and provide guidance on general adherence to procurement laws. For this reason, procurement of goods and services was done without use of tender documents including quotations, tender registers, tender opening/ evaluation reports and notification of award.

Failure to establish a procurement function is a contravention of Section 45(1) of the Public Procurement and Assets Disposal Act, 2015.

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

The College did not have an approved Risk and Fraud Management Policy. This is contrary to section 165(1)(a) and (b) of the Public Finance Management (National Government) Regulations, 2015 which requires the 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

Audit showed that the College does not have in place an Internal Audit Function and an Audit Committee contrary to the provisions of Section 73(1) and (5) of the Public Finance

Management Act, 2012 which requires every National Government 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.

Consequently, 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 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 intention to abolish 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 College 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

09 February, 2022