

REPORT OF THE AUDITOR-GENERAL ON OKAME 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 Okame Technical and Vocational College set out on pages 1 to 25, 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 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 Okame 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 and Training (TVET) Act, 2013.

Basis for Adverse Opinion

1. Unsupported Rendering of Services - Fees from Students

As disclosed in Note 7 to the financial statements, the statement of financial performance reflects rendering of services- fees from students figure of Kshs.3,971,520 for the year under review. However, individual students' ledger accounts and copies of official receipts issued to students were not provided for audit. In addition, the schedule provided for audit supported a figure of Kshs.2,131,060, resulting to unsupported balance of Kshs.1,840,460.

Consequently, the accuracy of the rendering of services – fees from students figure of Kshs.3,971,520 for the year ended 30 June, 2019 could not be confirmed.

2. Misclassification of Remuneration of Directors Expenses

The statement of financial performance reflects remuneration of the directors balance of Kshs.1,158,392 for the year under review as disclosed under Note 9 to the financial statements. However, documents provided for audit revealed a balance of Kshs.1,457,392 on remuneration of the directors resulting to an understatement by Kshs.299,000. A further review of documents revealed that the Kshs.299,000 was included and misclassified as administration costs balance of Kshs.1,128,890 as disclosed in Note 12 to the financial statements resulting to an overstatement of the administration costs by Kshs.299,000.

Consequently, the accuracy of the Kshs.1,158,392 and Kshs.1,128,890 in respect to remuneration of the directors and administration costs respectively for the year ended 30 June, 2019 could not be confirmed.

3. Unsupported Cash and Cash Equivalents

The statement of financial position reflects cash and cash equivalents balance of Kshs.1,677,396 as at 30 June, 2019 comprising the bank balance of Kshs.1,656,098 maintained on three bank accounts at a Busia Branch and cash at hand of Kshs.21,298 as disclosed in Note 13 to the financial statements. However, only one cashbook was maintained for all the three bank accounts thus it was not possible to prepare bank reconciliations for each of the bank accounts. In addition, the Kshs.1,656,098 as reflected in the financial statements was the closing balance as per certificates of bank balance as at 30 June, 2019 and not as per the reconciled cashbook balances. Further, the cash and cash equivalents balance included cash on hand balance of Kshs.21,298 as at 30 June, 2019 which was however not supported by board of survey report.

Consequently, the cash and cash equivalents balance of Kshs.1,677,396 as at 30 June, 2019 could not be confirmed.

4. Unsupported Receivables from Exchange Transactions

The statement of financial position reflects receivables from exchange transactions balance of Kshs.1,753,315 being student debtors as disclosed in Note 14 to the financial statements. However, debtors ledger, debtors' register and aging analysis were not provided for audit. In addition, credit policy in respect of student fees repayment /recovery was not provided for audit contrary to Section 14(1) of the state corporations Act Cap 446 which states that every state corporation shall keep or cause to be kept proper books to record among others, undertakings of the state corporation.

Consequently, the accuracy and validity of the receivables from exchange transactions balance of Kshs.1,753,315 as at 30 June, 2019 could not be confirmed. In addition, the Institute's Management breached the law.

5. Non-Disclosure of Non-Current Assets

The statement of financial position reflects property, plant and equipment balance of Kshs.380,625 as at 30 June, 2019 in respect of furniture as disclosed in Note 15 to the financial assets. However, the Kshs.380,625 excludes the value of land, buildings, motor vehicle, furniture, computers, fence and a borehole that were in possession of the college as at the time of audit in February 2021, contrary to Regulation 139(1)(b) of the Public Finance Management (National Government) Regulations, 2015 which states that the Accounting Officer of a National Government entity shall take full responsibility and ensure that proper control systems exist for assets and that movement and conditions of assets can be tracked.

Further, documents provided for audit revealed that the College received various high value workshop tools through its mentor Institution (Bumbe Technical Training Institute) from the Ministry of Education whose values are not disclosed in the financial statements contrary to Regulation 71(1) and (5) of Public Finance Management (National Government), Regulations, 2015 which states that upon approval by the cabinet

secretary an Accounting Officer may, receive any grants donations, sponsorship made in favour of the government entity irrespective whether such sponsorship or grants or donations is in kind or in cash provided that the accounting officer confirms with the relevant national government entity that the donations are in good and serviceable condition and the grants, donations or sponsorships received during the year shall be disclosed in the annual and quarterly financial statements.

Consequently, the accuracy and completeness of the property, plant and equipment balance of Kshs.380,625 as at 30 June, 2019 could not be confirmed.

6. Unsupported Trade and Other Payables

The statement of financial position reflects trade and other payables from exchange transactions balance of Kshs.334,326 as at 30 June, 2019 which relates to trade payables as disclosed in Note 16 to the financial statements. However, detailed records for transactions relating to movement of the payables including the ledger accounts to record invoices, suppliers demand notes, in respect of services rendered and/or work done were not provided for audit.

Consequently, the accuracy of the trade and other payables balance of Kshs.334,326 as at 30 June, 2019 could not be confirmed.

7. Statement of the Cash Flows

As disclosed in Note 15 to the financial statements, the statement of cash flows for the year under review reflects purchase of property, plant and equipment figure of Kshs.380,625 which is net of depreciation instead of Kshs.420,000 which is the cost of the assets resulting to an unexplained variance of Kshs.39,375.

Consequently, the accuracy of the Kshs.380,625 in the statement of cash flows for the year ended 30 June, 2019 could not be confirmed.

8. Trial Balance

According to Appendix 1(1)(i) of the Treasury Circular No.6/2019 of 15 May, 2019, the financial statements should be prepared using the trial balance figures. However, it was noted that though the statement of financial position was balancing, the trial balance provided for audit had a variance of Kshs.3,319,635 which was not explained.

Consequently, the accuracy of the balances reported in the financial statements for the year under review could not be confirmed.

The audit was conducted in accordance with International Standards of Supreme Audit Institutions (ISSAIs). I am independent of the Okame Technical and Vocational College 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 judgement, 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 Performance Analysis

According to the statement of comparison of budget and actual amounts for the year ended 30 June, 2019, the college had an approved revenue budget of Kshs.36,597,998 out of which only Kshs.8,078,315 or 22% was received resulting in a shortfall of Kshs.28,519,683 or 78% of the budgeted receipts. During the same period, the College recorded actual expenses amounting to Kshs.4,719,305 against the budgeted expenditure of Kshs.36,597,998 resulting to budget under-absorption of Kshs.31,878,693 or 87% of the budgeted expenditure.

Non-implementation of the budget as planned may lead to poor delivery of services to students and other stakeholders.

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

Confirmation of Assets and Liabilities Between Bumbe Technical Training Institute and Okame Technical and Vocational College

Bumbe Technical Training Institute acted as a mentor institution for Okame Technical and Vocational College. The government through the Ministry of Education channelled funds to Bumbe Technical Training Institute for putting up of the administration office and classrooms block at Okame Technical and Vocational College in addition to providing equipment and furniture. However, as at the time of audit in April, 2021, there was no documentary evidence of handing over and taking over between the two institutions contrary to Regulation 141(1) and (2) of the Public Finance Management (National Government) Regulations, 2015 which states that when assets or liabilities of a government entity are transferred to another government entity or other institution in terms of reorganization of government functions the accounting officer for the transferring government entity shall be required to identify an inventory of such assets and liabilities and both the Accounting officer for the transferring National Government

entity and the Accounting Officer for the receiving national government entity or other institution shall sign the inventory when the transfer takes place.

Consequently, the Management of the two institutions breached 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 governance were not effective.

Basis for Conclusion

1. Internal Controls

During the year under review, the College operated without a Code of Conduct for employees, a human resource manual, risk management policy, disaster recovery plan or business continuity plan, a debt management policy, internal audit department and audit committee.

Consequently, the effectiveness of the College's internal controls, risk management and governance for the year under review could not be ascertained.

2. Lack of Board Charter

During the year under review, the Board operated without a charter contrary to Mwongozo regulations on code of governance for state corporations which requires that the Board of Directors should develop and adopt a Board Charter that defines the roles, responsibilities and functions of the Board.

Consequently, the effectiveness of the College's management and governance for the year under review could not be ascertained.

3. Information Technology (IT)Control Environment

Documents provided for audit revealed that the College lacked a structured IT Governance including, an Information Technology strategic, steering committee, IT strategic plan, IT training program, a formal documented and approved process to manage upgrades and system changes, IT department and a documented schedule for routine maintenance for IT infrastructure. In addition, the backups were not stored in a secure offsite storage facility and no evidence of either Management or the Board having performed a formal risk assessment.

Consequently, the effectiveness of the College's IT controls and governance for the year under review could not be ascertained.

The audit was conducted in accordance with ISSAI 2315 and ISSAI 2330. The standard requires that I plan and perform the audit to obtain assurance about whether effective processes and systems of internal control, risk management and governance were operating effectively, in all material respects. I believe that the audit evidence I have obtained is sufficient and appropriate to provide a basis for my conclusion.

Responsibilities of Management and those Charged with Governance

Management is responsible for the preparation and fair presentation of these financial statements in accordance with International Public Sector Accounting Standards (Accrual Basis) and for maintaining effective internal control as Management determines is necessary to enable the preparation of financial statements that are free from material misstatement, 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 as a going concern, disclosing, as applicable, matters related to sustainability of services and using the going concern 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 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 scepticism throughout the audit. I also:

- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for my opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.

- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the Management.
- Conclude on the appropriateness of the Management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the College's ability to continue as a going concern or 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 as a going concern or 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

06 December, 2021