

REPORT OF THE AUDITOR-GENERAL ON OKAME 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 Okame Technical and Vocational College set out on pages 1 to 27, which comprise of 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 Okame 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 Technical and Vocational Education and Training (TVET) Act, 2013 and the Public Finance Management Act, 2012.

Basis for Adverse Opinion

1. Unsupported Rendering of Services- Fees from Students

The statement of financial performance and as disclosed in Note 7 to the financial statements, reflects revenue from exchange transactions balance of Kshs.3,647,390 in respect to rendering of services - fees from students. However, individual student ledger accounts were not maintained to monitor movement in individual student balances. There was also no evidence that official receipts were issued in respect of fees received from students.

In the circumstances, the accuracy of fees from students amounting to Kshs.3,647,390 could not be confirmed.

2. Unsupported Transfers from National Government-Grants/Gifts in Kind

The statement of financial performance reflects transfers from National Government-grants/gifts in kind balance of Kshs.4,075,000 comprising of operational grant of Kshs.1,000,000 and capitation grants of Kshs.3,075,000 as disclosed in Note 6(a) to the financial statements. However, no record was provided to show how the capitation grant was apportioned to individual students.

In the circumstances, the accuracy and completeness of the transfers from National Government-grants/gifts in kind amount of Kshs.4,075,000 could not be confirmed.

3. Inaccuracy in Cash and Cash Equivalents

The statement of financial position and as disclosed at Note 13 to the financial statements, reflects cash and cash equivalents balance of Kshs.2,955,884 comprising of bank balance of Kshs.2,896,191 held in three bank accounts and cash at hand of Kshs.59,693. However, only one cash book was maintained for all the three bank accounts and it was therefore not possible to prepare bank reconciliations for each of the bank accounts. Further, the cash and cash equivalents balance reflected in the financial statements were balances as per certificates of bank balance as at 30 June, 2020 and not as per the reconciled cash book balances.

In addition, the cash and cash equivalents balance includes cash on hand balance of Kshs.59,693 which was not supported by a board of survey report.

Consequently, the accuracy of the cash and cash equivalents balance of Kshs.2,955,884 as at 30 June, 2020 could not be confirmed.

4. Unsupported Receivables from Exchange Transactions

The statement of financial position reflects receivables from exchange transactions balance of Kshs.3,462,620 being student debtors and as disclosed in Note 14 to the financial statements. However, supporting debtors' ledger, register and aging analysis were not provided. In addition, a credit policy in respect of student fees repayment /recovery was not provided.

Consequently, the accuracy and validity of the receivables from exchange transactions balance of Kshs.3,462,620 could not be confirmed.

5. Unsupported Trade and Other Payables

The statement of financial position and as disclosed in Note 16 to the financial statements reflects trade and other payables from exchange transactions balance of Kshs.545,225. However, records of transactions including the ledger, supplier demand notes, were not provided for audit review.

Consequently, the accuracy of the trade and other payables balance of Kshs.545,225 could not be confirmed.

6. Inaccuracy in Property, Plant and Equipment

The statement of financial position and as disclosed in Note 15 to the financial statements reflects property, plant and equipment balance of Kshs.689,377 which included asset additions amounting to Kshs.375,000. However, the assets additions supporting documentation were not provided.

Further, the balance excludes various equipment of undetermined value received by the college from the Ministry of Education through its mentor institution (Bumbe TTI).

In addition, the assets movement schedule at Note 15 reflects depreciation for the year amount of Kshs.66,248 while the statement of financial performance reflects

Kshs.105,623 resulting in an unexplained variance of Kshs.39,375. The financial statements do not also disclose the depreciation policy and depreciation rates for each of the asset category to support how the depreciation figure of Kshs.66,248 was arrived at.

In the circumstances, the accuracy and completeness of the property, plant and equipment balance of Kshs.689,377 could not be confirmed.

7. Unbalanced Trial Balance

The trial balance presented for audit reflects total debit balances of Kshs.11,846,795 against total credit balances of Kshs.14,830,721 hence not balanced resulting in unreconciled variance of Kshs.2,983,926.

Consequently, the accuracy of the account balances reported in the financial statements 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 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 are no key audit matters to report in the year under review.

Other Matter

Budgetary Control and Performance

The statement of comparison of budget and actual amounts for the year ended 30 June, 2020, reflects an approved revenue budget of Kshs.25,944,850 and actual receipts of Kshs.7,722,390 resulting in a shortfall of Kshs.18,222,460 or 70% of the budgeted receipts. Similarly, the College recorded actual expenses amounting to Kshs.5,008,291 against the budgeted expenditure of Kshs.25,944,850 resulting to budget under-absorption of Kshs.20,936,559 or 81% 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 matters discussed in the Basis for Adverse Opinion and Basis for Conclusion on Lawfulness and Effectiveness in Use of Public Resources sections of my report, I confirm that, public resources have not been applied lawfully and in an effective way.

Basis for Conclusion

1. Late Submission of Financial Statements

The financial statements for the year ended 30 June, 2020 were submitted on 16 April, 2021 seven months after the statutory deadline of 30 September, 2020. This is contrary to Section 47(1) of the Public Audit Act, 2015 which states that the financial statements required under the Constitution, the Public Finance Management Act, 2012 and any other legislation, shall be submitted to the Auditor-General within three months after the end of the fiscal year to which the accounts relate.

In the circumstances, the Management breached the law.

2. Confirmation of Assets and Liabilities between Bumbe Technical Training Institute and Okame Technical and Vocational College

As previously reported, the 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 prepared by the two institutions to confirm the assets and any liabilities that were handed over by Bumbe TTI and taken over by Okame Technical and Vocational College contrary to Regulation 141(1) 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 Adverse Opinion and 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 Policy Documents

During the year under review, the College operated without the code of conduct for employees, the human resource manual document, risk management policy, disaster recovery plan or business continuity plan, a debt management policy and there was no audit committee to oversee operational risks and design mitigation measures in the college.

Further, the college did not have an internal audit department to review and evaluate budgetary performance, financial management, transparency and accountability mechanisms and processes in the College and give reasonable assurance through the audit committee on the state of risk management, control and governance within the organization and review the effectiveness of the financial and non-financial performance management systems of the entities.

Consequently, the college lacked the prerequisite systems of internal control to protect the assets of the college.

2. Lack of Board Charter

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

Consequently, the Board may not be able to execute its mandate as required.

3. Information Technology (IT) Control Environment

During the audit, it was noted that the College lacked structured IT Governance including an Information Technology strategic and steering committee, IT strategic plan that supports business requirements and ensures that IT spending remains within the approved IT strategic plan. There were also no training program to build IT capacity and

the college also lacked a formally documented and approved process to manage upgrades and system changes made to all financial/performance information systems.

In addition, the backups were not stored in a secure offsite storage facility and the college also lacked a formally documented and approved user management standards and procedures in the organization. There was also no documented schedule for routine maintenance for IT infrastructure and there was no IT Department with a responsible officer capable of overseeing the operations of the IT Department. Consequently, the college may be unable to recover from a disaster.

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 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 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.

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.

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 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 review is planned and performed to express a conclusion with limited assurance as to 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 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. The nature, timing and extent of the compliance work is limited compared to that designed to express an opinion with reasonable assurance on the financial statements.

Further, in planning and performing the audit of the financial statements and review 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 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 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 as 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

15 February, 2022