

# REPORT OF THE AUDITOR-GENERAL ON THARAKA TECHNICAL AND VOCATIONAL COLLEGE FOR THE FIFTEEN MONTHS PERIOD ENDED 30 JUNE, 2019

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## REPORT ON THE FINANCIAL STATEMENTS

### Adverse Opinion

I have audited the accompanying financial statements of Tharaka Technical and Vocational College set out on Pages 1 to 39, 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 fifteen months period 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 Tharaka Technical and Vocational College as at 30 June 2019, and of its financial performance and its cash flows for the fifteen months period then ended, in accordance with International Public Sector Accounting Standards (Accrual Basis) and do not comply with the Technical and Vocational Education and Training Act, 2013.

### Basis for Adverse Opinion

#### 1.0 Inaccuracies in the Financial Statements

A review of the financial statements for the fifteen months period under review reflects amount of Kshs.21,726,526 in respect to seven (7) items. However, the respective ledgers and supporting schedules reflects an amount of Kshs.25,340,209 on the same items resulting to unexplained and unreconciled variances as shown below;

<b>Components</b>	<b>Note</b>	<b>Financial Statement (Kshs)</b>	<b>Ledgers and Supporting Schedules (Kshs)</b>	<b>Variance (Kshs)</b>
Rendering of Services- Fees from Students	Note 10	18,007,785	16,596,750	1,411,035
Remuneration of Directors	Note 17	155,000	531,000	(376,000)
Employee Costs	Note 16	3,384,674	3,385,470	(796)
Internet Fees	Note 15	179,067	0	179,067
Student Welfare		0	46,960	(46,960)
Examination Expenses		0	450,190	(450,190)
Administrative Expenses		0	4,329,839	(4,329,839)

In the circumstances, the accuracy of the financial statements for the fifteen months period ended 30 June, 2019 could not be ascertained.

## **2.0 Unaccounted for Expenditure**

Notes 15 and 19 to the financial statements reflects Kshs.1,216,700 and Kshs.4,934,222 in respect to use of goods and services and general expenses respectively both totalling to Kshs.6,150,922. Included in the Kshs.6,150,922 is Kshs.871,088 and Kshs.2,436,696 in respect to use of goods and services and general expenses respectively both totalling to Kshs.3,307,784 spent during the fifteen months period under review. However, supporting documents including payment vouchers, invoices, procurement documents, imprest warrants local purchase orders and other relevant documents were not provided contrary to Regulations 99(3), 104(1) and 118(3) of the Public Finance Management (National Governments) Regulations, 2015 which stipulates that every entry in the accounts shall be supported by a voucher containing the full details, clear narrations and particulars of the item or items to which it relates and shall be supported by appropriate authority and documentation and the accounting officer shall ensure appropriate mechanism are put in place for safeguarding and tracking them.

In the circumstances, the propriety and value for money for the Kshs.3,307,784 expenditure for the fifteen months period ended 30 June, 2019 could not be ascertained.

## **3.0 Irregularities in Remuneration of Directors**

Note 17 to the financial statements reflects Kshs.155,000 in respect to remuneration of directors. However, the respective supporting schedules reflects Kshs.531,000 resulting to unexplained variance of Kshs.376,000. Further, included in the Kshs.531,000 is Kshs.308,000 paid as sitting allowance to Board members for attending capacity building workshop at Mountain Breeze Hotel in Embu from 3 to 5 May, 2019. However, attendance register, work tickets/bus ticket, program of activities and back to office report were not provided for audit review. Therefore, it was not possible to ascertain whether the members attended the workshop.

In addition, included in the Kshs.308,000 is Kshs.30,000 paid to the principal as sitting allowance during the said capacity building workshop contrary to Section 10(1) of the State Corporations Act, 2012 (Revised).

Further, the Board members were paid Kshs.531,000 in respect to allowances during the fifteen months period under review. However, no evidence was provided that the allowances were approved by the cabinet secretary contrary to Section 17 of the Second schedule of the Technical and Vocational Education and Training Act, 2013.

In the circumstances, the propriety and value for money of the Kshs.308,000 expenditure for the fifteen months period ended 30 June, 2019 could be ascertained.

#### **4.0 Unconfirmed Cash and Cash Equivalents**

Note 24 to the financial statements reflects Kshs.3,136,553 in respect to cash and cash equivalents which includes Kshs.2,668,497 and Kshs.459,446 in respect to balance held in two banks both totalling to Kshs.3,127,943. However, cash books, bank statements and bank reconciliation statements were not provided for audit review.

In addition, Note 24 (a) to the financial statements reflects Kshs.8,610 in respect to cash in hand as at 30 June, 2019 whose cash book and Board of survey report were not provided for audit review.

In the circumstances, the accuracy of the Kshs.3,136,553 in respect to cash and cash equivalents balance as at 30 June, 2019 could not be ascertained.

#### **5.0 Unsupported Receivables from Exchange Transactions**

Note 25 to the financial statements reflects Kshs.6,780,937 in respect to receivables from exchange transactions which relates to student debtors. However, students' details including ledger, name of student, course taken, admission numbers, date paid, amount billed and paid was not provided. Further, ageing analysis showing how long the balances have been outstanding has not been provided for audit review.

In the circumstances, the accuracy, propriety and completeness of the Kshs.6,780,937 as at 30 June, 2019 could not be ascertained.

#### **6.0 Unsupported Trade and Other Payables**

Note 32 to the financial statements reflects Kshs.865,496 in respect to trade and other payables from exchange transactions which relates to fees paid in advance. However, supporting details including ledger, name of student, amount and date paid have not been provided for audit review. Further, ageing analysis showing how long the balances have been outstanding has not been provided for audit review.

In the circumstances, the accuracy, propriety and completeness of the Kshs.865,496 as at 30 June, 2019 could not be ascertained.

#### **7.0 Unsupported Refundable Deposits from Students**

Note 33 to the financial statements reflects Kshs.169,000 in respect to refundable deposits from students which relates to caution money. However, details including ledger, name of student, amount, date paid, course taken and ageing analysis showing how long the balances have been outstanding were not provided. Further, the College has not opened a separate bank accounts where caution money paid are deposited instead, the funds are deposited in the College's two main bank accounts.

In the circumstances, the accuracy of the Kshs.169,000 for the fifteen months period under review could not be ascertained.

## **8.0 Property, Plant and Equipment**

### **8.1 Incomplete Assets Register**

Note 29 to the financial statements reflects Kshs.74,624,125 in respect to property, plant and equipment. However, review of the fixed assets register provided for audit review revealed that critical information such as location of the assets, description and serial numbers were not indicated in the register. Further, physical verification of the assets revealed that the assets were not tagged for ease of identification and movement contrary Section 139(1)(2) of the Public Finance Management (National Government) Regulations, 2015.

Further, documents availed for audit review revealed that the College owns a motor vehicle said to have been donated by the Ministry of Education which is not included in the asset register and the financial statements and whose details including cost were not provided.

In addition, Note 29 to the financial statements reflects assets with historical cost of Kshs.76,160,000 that were donated to the College by the national government through Meru National Polytechnics. However, valuation report showing the name and qualifications of valuer, date of valuation, valuation method and how the value was arrived at were not provided for audit review.

In the circumstances, the accuracy and validity of the property, plant and equipment balance of Kshs.74,624,125 as at 30 June, 2019 could not be ascertained.

### **8.2 Land Without Ownership Documents**

Note 29 to the financial statements reflects Kshs.74,624,125 in respect to property, plant and equipment which includes Kshs.25,000,000 in respect to land whose details including ownership documents were not provided for audit review.

In the circumstances, the accuracy, value and ownership of Kshs.74,624,125 in respect to land and motor vehicles as at 30 June, 2019 could not be ascertained.

## **9.0 Unsupported Capital Fund**

Note 40 to the financial statements reflects Kshs.76,160,000 in respect to capital fund balance as at 30 June, 2019. However, documents showing the sources and amount of cash and non-cash capital funds given to the College were not provided for audit review.

In the circumstances, the accuracy and propriety of the Kshs.76,160,000 in respect to capital fund as at 30 June, 2019 could not be ascertained.

## **10.0 Unconfirmed Operational Grants**

Note 6 to the financial statements reflects Kshs.500,000 in respect to transfers from national government ministries which relates to operational grants. However, confirmation from the Ministry of Education revealed that Kshs.10,640,000 was

transferred to the College in respect to the same item resulting to unexplained variance of Kshs.10,140,000.

In the circumstance, the accuracy and propriety of the Kshs.500,000 transfers from national government ministries for the fifteen months period ended 30 June could not be ascertained.

## **11.0 Presentation of the Financial Statements**

The College's financial statements for the fifteen months' period ended 30 June 2019 provided reflects the following inconsistencies:

- i). Corporate governance statement at page xiv did not contain information on succession plan of the Board members, existence of a Board charter, Board member's appraisal and remuneration of Board members contrary to the Public Sector Accounting Standards Board (PSASB) template issued in June, 2020.
- ii). Inter-entity transfers at page 38 to the financial statements is not signed by the head of accounting unit of the Ministry of Education contrary to Public Sector Accounting Standards Board (PSASB) template issued in June, 2020.

In the circumstances, the College's financial statements are not in conformity with PSASB prescribed format.

The audit was conducted in accordance with International Standards of Supreme Audit Institutions (ISSAIs). I am independent of the Tharaka 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 other 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 fifteen months period ended 30 June, 2019 reflects a budgeted revenue of Kshs.33,339,520 and actual revenue of Kshs.18,590,965 resulting to a net revenue shortfall of Kshs.14,748,555 or 44% of the budget.

Similarly, the statement of comparison of budget and actual amounts reflects an expenditure budget of Kshs.41,072,786 and actual expenditure of Kshs.9,707,971 resulting to an under expenditure of Kshs.31,364,815 or 76%.

The underspent funds could have been allocated to other deserving areas that would have improved delivery of goods and services to 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 Adverse Opinion and Basis for Conclusion on Lawfulness and Effectiveness in Use of Public Resources sections 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**

#### **1.0 Late Submission of the Financial Statements**

The financial statements for the fifteen months period under review were submitted to the Auditor – General on 11 November, 2019, approximately thirty four (34) days after the legal deadline of three (3) months from the end of the fifteen months period contrary to Section 47(1) of the Public Audit Act, 2015 which stipulates 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 is in breach of the Law.

#### **2.0 Irregular Appointment of the Board of Directors**

Note 17 to the financial statements reflects Kshs.155,000 in respect to remuneration of directors. Documents provided for audit review revealed that the College had eight Board members. However, appointment letters of five (5) out of the eight (8) Board members were not provided for audit verification. Further, the county governor's representative was not included in the Board of governors contrary to Section 2 (c) of the second schedule to the Technical and Vocational Education Act, 2013 which states that the membership of the Board of Governors shall comprise a representative of the County Governor of the County within which the institution is located.

In the circumstances, the Management is in breach of the Law.

#### **3.0 Unapproved Budget**

Documents availed for audit review for the fifteen months period under review revealed that the Board of Governors approved a Kshs.33,339,520 and Kshs.41,072,786 in respect to revenue and expenditure budget respectively for the fifteen months period on 3 August, 2018. However, documents showing that the budget was submitted to and approved by the Cabinet Secretary in the Ministry of Education was not provided for audit review contrary to Section 22(1) and (2) of the second schedule to the

Technical and Vocational Education and Training Act, 2013 which stipulates that a Board of governors of a public institution shall prepare annual estimates of revenue and expenditure for the institution under its charge, in such form and at such times as the Cabinet Secretary may prescribe and the Board of governors may incur expenditure for the purpose of the institution in accordance with estimates approved by the Cabinet Secretary, and any approved expenditure under any head of the estimates may not be exceeded without the prior written approval of the Cabinet Secretary.

In the circumstance, the Management is in breach of 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 sections of my report, based on the audit procedures performed, I confirm that internal controls, risk management and governance were not effective.

### **Basis for Conclusion**

#### **1.0 Lack of Internal Audit**

Documents availed for audit review revealed that the College did not have an internal audit unit to carry out internal audit functions contrary to Section 73(1) (a) of the Public Finance Management (PFM) Act, 2012 which stipulates that every National Government entity shall ensure that it has appropriate arrangements for conducting internal audit according to the guidelines issued by the Accounting Standards Board.

In the circumstances, the Management is in breach of the Law.

#### **2.0 Lack of Internal Audit Committee**

During the fifteen months' period under review, the College did not have an Audit Committee contrary to Section 73(5) of the Public Finance Management Act, 2012 which states that every national government entity shall establish an internal auditing committee whose composition and functions are to be prescribed by the regulations.

In the circumstances, the Management is in breach of the law.

### **3.0 Lack of Salary Structure**

Note 16 of the financial statements reflects Kshs.3,384,674 in respect to employee costs. However, approved salary structure and staff establishment were not availed for audit review contrary to Section C.2(1) of the Human Resource Policies and Procedures Manual for the Public Service, 2016 which stipulates that public service salary structure will be based on the grading levels spelt out in the various career progression guidelines.

In the circumstances, the propriety of the Kshs.3,384,674 for the period under review could not be ascertained. In addition, the College is in breach of the manual.

### **4.0 Lack of Risk Management Policy**

Review of the College's Internal controls system revealed that the College did not have approved risk management policy. Further, the Management did not provide for audit review evidence of whether the College has identified, documented, assessed risks and developed controls to respond to the risk identified contrary to Section 165 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 system of risk management and internal control that builds robust business operations.

In the absence of risk management policy, it was not possible to determine the effectiveness of any controls implemented to control risks.

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 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, 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 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 liquidate the College or 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 Tharaka Technical and Vocational College's 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 entity 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 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.

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 noncompliance. 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 Tharaka Technical and Vocational 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 Tharaka Technical and Vocational 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**

**14 February, 2022**