

REPORT OF THE AUDITOR-GENERAL ON THARAKA 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 Tharaka Technical and Vocational College set out on pages 1 to 38, which comprise 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 Tharaka 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 the International Public Sector Accounting Standards (Accrual Basis) and do not comply with the Technical and Vocational Education and Training Act, 2013 and the Public Finance Management Act, 2012.

Basis for Adverse Opinion

1.0 Inaccuracies in the Financial Statements

1.1 Variances Between Financial Statements and Ledgers

A review of the financial statements balances for the year under review reflects a nil balance in respect to advertising, subscription and activities expenses. However, the respective ledgers and supporting schedules reflects Kshs.642,055 on the same items resulting to an unreconciled variance of the same amount.

In the circumstances, the accuracy of the expenditure of Kshs.642,055 could not be ascertained.

2.0 Unsupported Revenue

Note 6 and 10, to the financial statements reflects Kshs.10,065,000 and Kshs.12,085,419 in respect to transfer from National Government Ministries and rendering of services respectively both totalling to Kshs.22,150,419. However, supporting documents including ledgers, receipt books, invoices, schedules, bank statements and names of students were not provided. This is contrary to Regulation 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 accuracy and validity of the Kshs.22,150,419 in respect to revenue could not be ascertained.

3.0 Unsupported Activity Expense

The statement of financial performance and as disclosed in Note 19 to the financial statements, reflects Kshs.6,426,480, in respect to general expenses which does not include any expenditure in respect to activity expenses. However, a review records provided for audit review including ledgers and payment vouchers revealed that an amount of Kshs.300,695 was spent in respect to activities.

Further, included in the amount of Kshs.300,695 was Kshs.182,800 in respect to imprest issued to various officers for College activities. However, imprest register, respective imprest warrants, work tickets and documents showing how the imprest was surrendered were not provided.

In the circumstances, the accuracy, validity and value for money for the amount of Kshs.300,695 spent could not be ascertained.

4.0 Unaccounted for Expenditure

The statement of financial performance and as disclosed in Note 15 to the financial statements reflects an amount Kshs.1,547,905 in respect to use of goods and services. The amount includes Kshs.1,182,344 in respect to security, insurance/medical, fuel and oil (transport cost), water and internet fees.

However, supporting documents including payment vouchers, invoices, procurement documents, imprest warrants and local purchase orders were not provided.

In the circumstances, the propriety and value for money for the Kshs.1,182,344 expenditure could not be confirmed.

5.0 Irregularities in Board of Directors' Allowances

The statement of financial performance and as disclosed in Note 17 to the financial statements reflects Kshs.841,880 in respect to remuneration of directors which includes an amount of Kshs.400,000 in respect to sitting allowances which further includes an amount of Kshs.35,000 paid as sitting allowance to three Board members who were reported to be absent as per the minutes dated 13 December, 2019.

In addition, the Management did provide meeting attendance registers and there was no evidence that the allowances were approved by the Cabinet Secretary in the Ministry of Education contrary to Section 17 of the Second Schedule to the Technical and Vocational Education and Training Act, 2013 which stipulates that members of a Board of Governors shall be paid in respect of their services such remuneration or allowances as the Board of Governors shall, with the approval of the Cabinet Secretary determine.

In the circumstance, the accuracy and value for money for the Kshs.841,880 expenditure could not be confirmed.

6.0 Unreconciled Cash and Cash Equivalents

The statement of financial position and as disclosed in Note 27 to the financial statements reflects Kshs.13,629,577 in respect to cash and cash equivalents held in two bank accounts. The balance includes Kshs.12,910,361 held in a bank account whose cash book reflects Kshs.12,733,711 resulting to unreconciled variance of Kshs.176,650. Further, review of the same cash book revealed a negative cash at hand balance of Kshs.76,655 as at 30 June, 2020. However, there is no corresponding payables of the same amount included in the financial statements for the year under review.

In the circumstances, the accuracy of cash and cash equivalents balance of Kshs.13,629,577 could not be ascertained.

7.0 Unsupported Trade and Other Payables

The statement of financial position and as disclosed in Note 35 to the financial statements reflects Kshs.4,655,595 in respect to trade and other payables from exchange transactions which relates to fees paid in advance. However, supporting documents including ledgers, student names, amount payable, amount and date paid and course registered for were not provided. Further, ageing analysis showing how long the debt has been outstanding were not provided for audit review.

In the circumstances, the accuracy and completeness of the trade and other payables from exchange transactions balance of Kshs.4,655,595 could not be ascertained.

8.0 Property, Plant and Equipment

The statement of financial position and as disclosed in Note 32 to the financial statements reflects property, plant and equipment net book value totalling to Kshs.81,009,294. However, the following matters were noted.

8.1 Incomplete Fixed Assets Register

Review of the fixed assets register provided revealed that critical information such as location of the assets, description and serial numbers were missing. Further, the assets were not tagged for ease of identification and movement.

Further, review of records revealed that the College owns a motor vehicle donated by Ministry of Education which was not included in the asset register and in the financial statements and whose details including cost and ownership documents were not provided.

In addition, Note 32 to the financial statements discloses assets with historical cost of Kshs.76,160,000 as at 30 June, 2019 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 was not provided.

8.2 Land Without Ownership Documents

The balance includes an amount of Kshs.25,000,000 in respect to land. However, details of the land including ownership documents were not provided.

8.3 Additions of Buildings During the Year

8.3.1 Unsupported Expenditure

The balance includes an amount of Kshs.7,414,635 in respect to additions to buildings which further includes an amount of Kshs.2,094,565 in respect to expenditures incurred on the construction of a workshop whose supporting documents including payment vouchers were not provided.

8.3.2 Irregular Procurement of Building Materials

The amount of Kshs.7,414,635 for buildings includes an amount of Kshs.440,200 paid for supply of stones and ballast for construction of a workshop. However, review of documents provided for audit revealed that, two suppliers were issued with quotation even though they were not in the list of pre-qualified.

In addition, the Management did not deduct 6% Value Added Tax (VAT) amounting to Kshs.202,977 and remit the same to Kenya Revenue Authority (KRA).

Further, the balance includes a total of Kshs.243,760 in respect to payments to casuals involved in construction of a workshop. However, documents showing how the casuals were identified, muster roll, Identification Document (ID) numbers, terms of engagement, nature of work to be done and daily reports on progress of work done were not provided for audit review.

8.3.3 Unsupported Laying of Cabro Expenditure

The amount in respect to additions to buildings further includes an amount Kshs.3,543,581 in respect to supply and laying of Cabro. However, tender advertisement, opening committee minutes, tender documents, evaluation committee minutes and professional opinion were not provided. In addition, measurements showing amount of work done duly signed by the contractor and the College's representative were not provided. Further, tender document for the winning bidder was not signed by the tender opening committee contrary to Section 78 (9) of the Public Procurement and Asset Disposal Act, 2015 which stipulates that each member of the tender opening committee shall sign each tender on one or more pages as determined by the tender opening committee.

In the circumstance, the validity and value for money of property, plant & equipment expenditure of Kshs.81,009,294 could not be ascertained.

9.0 Unsupported Capital Fund

The statement of financial position reflects Kshs.76,160,000 in respect to capital fund balance. However, documents showing 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 capital fund balance of Kshs.76,160,000 could not be ascertained.

10.0 Unsupported Exchequer Recurrent Grants

Note 6 to the financial statements reflects Kshs.10,065,000 in respect to transfers from National Government Ministries which relates to other grants (capitation). However, the ledgers and supporting schedules were not provided. Further, confirmation from the Ministry of Education revealed that an amount of Kshs.7,492,500 was transferred to the College in respect to the same item resulting to unexplained variance of Kshs.2,572,500.

In the circumstance, the accuracy and validity of the Kshs.10,065,000 in respect to transfers from National Government Ministries could not be ascertained.

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 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 a budgeted revenue of Kshs.58,711,827 and actual revenue of Kshs.22,168,419 resulting to a revenue shortfall of Kshs.36,543,408 or 62% of the budget.

Similarly, the statements of comparison of budget and actual amounts reflects an expenditure budget of Kshs.58,485,486 and actual expenditure of Kshs.20,713,268 resulting to net under expenditure of Kshs.37,772,218 or 65%.

The underfunding and under expenditure indicates that the college did not achieve its planned activities.

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 Unapproved Budget

Documents availed for audit review revealed that the Board of Governors approved a Kshs.58,711,827 and Kshs.58,485,486 revenue and expenditure budget respectively for the year 2019/2020 on 23 August, 2019. 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.

2.0 Irregular Appointment of Board of Directors

Note 17 of the financial statements reflects Kshs.841,880 in respect to remuneration of Directors. Documents provided for audit review revealed that the College had eight Board Members. However, appointment letters for five (5) out of the eight (8) Board members were not provided. Further, the County Governor's representative was not included in the Board of Governors. This is 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 Non-Compliance with the Reporting Template

The annual reports and financial statements provided for audit review reflects the following anomalies:

- i). Corporate governance statement did not contain information on succession plan of the Board Members, existence of a Board Charter, Board Member's appraisals and remuneration of Board Members.

- ii). Inter-entity transfers were not signed by the Head of Accounting Unit of the Ministry of Education.

This is contrary to Public Sector Accounting Standards Board (PSASB) reporting 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 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 and the Audit Committee

As reported in the previous year, documents availed for audit review revealed that the College did not have an internal audit unit to carry out internal audit functions and an internal audit committee contrary to Section 73(1)(a) and (5) of the Public Finance Management Act, 2012 which stipulates that every national government entity shall ensure that it has appropriate arrangements for conducting internal audit and audit committee according to the guidelines issued by the Accounting Standards Board.

2.0 Lack of Approved Salary Structure

As reported in the previous year, the Management did not provide the approved salary structure and staff establishment. This is contrary to Section C2(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 absence of a salary structure, the basis for determining the salaries of staff members who were employed on four months' renewable contract could not be ascertained.

3.0 Lack of Risk Management Policy

As reported in the previous year, a 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 is 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 the 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, risk management and overall governance.

In preparing the financial statements, Management is responsible for assessing the College's ability to continue to sustain its services, disclosing, as applicable, matters related to sustainability of services and using the applicable basis of accounting unless the 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 Vocational College's financial reporting process, reviewing the effectiveness of how the Management monitors compliance with relevant legislative and regulatory requirements, ensuring that effective processes and systems are in place to address key roles and responsibilities in relation to governance and risk management, and ensuring the adequacy and effectiveness of the control environment.

Auditor-General's Responsibilities for the Audit

The audit objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes my opinion in accordance with the provisions of Section 48 of the Public Audit Act, 2015 and submit the audit report in compliance with Article 229(7) of the Constitution. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISSAIs will always detect a material misstatement and weakness when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

In addition to the audit of the financial statements, a compliance audit is planned and performed to express a conclusion 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 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 overall 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

17 February, 2022