

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

REPORT ON THE FINANCIAL STATEMENTS

Qualified Opinion

I have audited the accompanying financial statements of Ugenya Technical and Vocational College set out on pages 1 to 17, which comprise the statement of financial position as at 30 June, 2020, 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, except for the effect of the matters described in the Basis for Qualified Opinion section of my report, the financial statements present fairly, in all material respects, the financial position of the Ugenya 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 comply with Public Finance Management Act, 2012 and the Technical and Vocational Education and Training Act, 2013.

Basis for Qualified Opinion

1. Inaccurate Property, Plant and Equipment

The statement of financial position reflects property, plant and equipment balance of Kshs.53,442,738. The college received five (5) tractors from the Ministry of Education (Parent Ministry). However, the cost of the tractors is excluded in the financial statements and the ownership documents were not provided for audit. Physical verification of the tractors indicates that the same had no blue number plates and the tractors are not included in the fixed assets register.

Further, depreciation charge for the year was totalling Kshs.1,409,413 for various classes of assets. However, the rates used were not supported and it was not clear how the amounts have been arrived at as the financial statements have not reflected the various rates of depreciation for each category or class of assets.

Consequently, the accuracy, completeness and validity of property, plant and equipment balance of Kshs.53,442,738 could not be confirmed.

2. Inaccurate Statement of Changes in Net Assets

The statement of changes in net assets did not reflect the comparative amounts for the year ended 30 June, 2019. Further, the statement reflects total net assets of

Kshs.62,992,313 instead of correctly casted balance of Kshs.62,988,313 resulting to unexplained difference of Kshs.4,000.

In addition, the statement of changes in net assets reflects total net assets amounting to Kshs.62,992,313. However, the statement of financial position reflects total net assets amounting to Kshs.64,205,159 resulting to unreconciled variance of Kshs.1,212,846.

Consequently, the accuracy and completeness of statement of change in net assets balance of Kshs.62,992,313 could not be confirmed.

3. Inaccurate Statement of Cash Flows

The statement of cash flows reflects changes in inventory, receivables, payables and payables prepaid amounting to negative Kshs.475,672, negative Kshs.8,416,130, Kshs.540,296 and Kshs.958,670, respectively resulting to net changes in working capital amounting to negative Kshs.7,396,836. However, the statement of financial position reflects changes in inventory, receivables, payables and payables prepaid amounting to negative Kshs.277,642, negative Kshs.7,848,750, negative Kshs.566,503 and Kshs.224,722, respectively resulting to net changes in working capital of negative Kshs.8,468,173. The resultant variance of Kshs.1,071,337 has not been explained.

Further, the statement of cash flows is indicated as at 30 June, 2020 instead of, for the year ended 30 June, 2020 and it has not been prepared in accordance with prescribed format by public sector accounting standards board.

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

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

Other Matter

Budgetary Control and Performance

The statement of comparison of budget and actual amounts reflects final receipts budget and actual on comparable basis totalling to Kshs.48,385,650 and Kshs.24,182,600 respectively, resulting to an underfunding amounting to Kshs.24,203,050 or 50% of the budget. Similarly, the statement reflects final expenditure budget and actual on comparable basis totalling to Kshs.48,385,650 and Kshs.15,245,380 respectively, resulting to an underperformance amounting to Kshs.33,140,270 or 68% of the budget.

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

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.

REPORT ON LAWFULNESS AND EFFECTIVENESS IN USE OF PUBLIC RESOURCES

Conclusion

As required by Article 229(6) of the Constitution, based on the audit procedures performed, I confirm that, nothing has come to my attention to cause me to believe that public resources have not been applied lawfully and in an effective way.

Basis for Conclusion

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, based on the audit procedures performed, except for the matters described in the Basis for Conclusion on Effectiveness of Internal Controls, Risk Management and Governance section of my report, I confirm that, nothing else has come to my attention to cause me to believe that internal controls, risk management and governance were not effective.

Basis for Conclusion

1. Lack of Internal Audit Function and Functional Audit Committee

The Board constituted Finance and Audit Committee on 23 August, 2019 although there is no internal audit department unit and an internal auditor. However, during the year under review, the audit committee was dormant contrary to chapter 1(1.7) of Mwongozo Act, 2015 on Committees of the Board which states that, the board shall establish an audit committee and a maximum of three other committees to discharge governance, technical matters, risk, strategy, compliance, finance and human resources functions.

Consequently, the College is in breach of the Law.

2. Failure to Develop Staff Establishment

The College recruited six (6) staff during the financial year under review. However, the Institute does not have an approved staff establishment therefore it is not clear how the vacancies were identified. This is contrary to section 57 of Public Service Commission Act, 2017 which states that the commission shall discharge its duty under this section by monitoring and evaluating on a public body staffing needs including establishment and terms and condition of service.

Consequently, the College is in breach of the Law.

3. Lack of Approved Policy Documents

During the year under review, it was observed that the College did not have an approved Human Resource Manual, Financial Management Procedures Manual, Risk Management Policy, Disaster Recovery Plan and ICT Policy. This is contrary to Section 7(1)(a) of Public Audit Act 2015 which states that the Auditor-General shall give assurance on the effectiveness of internal controls, risk management and overall governance at national government.

Consequently, lack of formally documented policies could lead to unclear direction on the management and operation in place and their related controls.

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, 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 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 money is applied in an effective manner.

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 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 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 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 ability of the College 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 Ugenya Technical and Vocational 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