

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

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## **REPORT ON THE FINANCIAL STATEMENTS**

### **Qualified Opinion**

I have audited the accompanying financial statements of Nuu Technical and Vocational College set out on pages 1 to 45, 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 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 Nuu 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 the Technical Vocational Education and Training Act, 2013 and the Public Finance Management Act, 2012.

### **Basis for Qualified Opinion**

#### **1. Statement of Cash Flows**

Review of the comparative figures on the statement of cash flows as at 30 June, 2020 revealed the following anomalies:

- i. The statement of cash flows reflects a balance of Kshs.2,084,784 and Kshs.1,268,505 in respect to comparative figures for employee costs and use of goods and services respectively. However, these amounts are at variance with the Kshs.2,217,357 and Kshs.107,665 reflected in the statement of financial performance.
- ii. The statement shows total payments under the 2018/19 comparatives as Kshs.4,030,263 but a casting error of Kshs.1,028,267 was noted and the correct amount for total payments should be Kshs.5,058,530.

- iii. The statement reflects nil amount for net increase/decrease in cash and cash equivalents under 2018/19 comparatives figures column instead of Kshs.1,835,599 as confirmed from the previous year audited financial statements.

The statement also reflects a negative balance of Kshs.776,550 as the net cash flows from financing activities under 2018/19 comparatives figures instead of the amount of Kshs.233,376(negative).

In the circumstances, the statement of cash flows does not reflect the correct comparative figures for the financial year 2018/2019.

## 2. Statement of Financial Position

Review of the statement of financial position as at 30 June,2020 revealed the following anomalies:

The statement of financial position reflects nil balance for long term receivables from exchange transactions for both 2019/20 and 2018/19 financial years. However, the disclosure Note 30 to the financial statements reflects Kshs.3,780,000 and Kshs.1,000,000 for the two years respectively.

Similarly, the statement of financial position reflects an amount of Kshs.500 for refundable deposits from customers for 2019/2020 and nil balance for 2018/2019 financial years. However, Note 37 to the financial statements reflects nil amount for refundable deposits for 2019/2020 and an amount of Kshs.500 for 2018/2019 financial years.

In view of the foregoing, the accuracy and completeness of the statement of financial position for the year ended 30 June, 2020 could not be confirmed.

## 3. Differences Between the Financial Statements balances and the Trial Balance Figures

Comparison of the balances disclosed in the financial statements with the trial balance figures revealed unexplained or unreconciled variances as detailed below:

Item	Financial Statements (Kshs)	Trial Balance (Kshs)	Variance (Kshs)
Tuition expenses	1,306,533	1,079,317	227,216
Personal emoluments	3,029,812	1,978,634	5,008,446
Local Travel and Transport	651,010	650,160	1,301,170
Examination fees	371,220	371,280	-60
Contingencies	11,270	110,460	(99,190)
PAYE	62,574	72,504	(9,930)
Remuneration of directors	190,670	314,390	(123,720)
N.H.I. F	73,100	48,700	24,400

<b>Item</b>	<b>Financial Statements (Kshs)</b>	<b>Trial Balance (Kshs)</b>	<b>Variance (Kshs)</b>
Performance and other Bonuses	0	127,700	(127,700)
Administration fees	143,000	235,408	(92,408)

The variances have not been explained or reconciled.

Consequently, the accuracy and completeness of the balances reflected in the financial statements could not be confirmed.

#### **4. Unsupported Cash and Cash Equivalents**

As disclosed in Note 28 to the financial statements, the Statement of financial position reflects a balance of Kshs.2,090,678 in respect of cash and cash equivalents. However, the balance was not supported with relevant documents.

In the absence of supporting documents, the accuracy and completeness of cash and cash equivalents balance of Kshs.2,090,678 as at 30 June, 2020 could not be confirmed.

#### **5. Rendering of Services-Fees from Students**

As disclosed under Note 10 to the financial statements, the statement of financial performance reflects an amount of Kshs.2,189,042 in respect of rendering of services-fees from students. However, the ledger accounts provided in support of the revenue reflected an amount of Kshs.2,529,792 resulting to unreconciled variance of Kshs.340,750.

Consequently, the accuracy and completeness of the revenue balance of Kshs.2,189,042 reported as fees from students could not be confirmed.

#### **6. Unsupported Remuneration of Directors**

As disclosed in Note 17, the statement of financial performance reflects a balance of Kshs.190,670 in respect of remuneration of Directors. However, the expenditure was not supported.

In the absence of supporting documents, the accuracy and validity of Director's remuneration of Kshs.190,670 as at 30 June, 2020 could not be ascertained.

#### **7. Unsupported expenditure - Use of Goods and Services**

The statement of financial performance and Note 15 to the financial statements reflects a balance of Kshs.2,514,694 in respect of use of goods and services. The balance includes an amount of Kshs.288,290 incurred on electricity, water, fuel and conservancy expenses. However, the expenditure of Kshs.288,290 was not supported.

Similarly, the balance includes an amount of Kshs.371,220 on account of examination expenses out of which only Kshs.14,700 was supported leaving Kshs.356,520 unaccounted. Further, included in this balance is an amount of Kshs.261,950 incurred on purchase of learning and examination materials. However, procurement records to support the process and the cost were not provided

In the circumstances, the accuracy and validity of the use of goods and services balance of Kshs.2,514,694 as at 30 June, 2020 could not be confirmed.

## **8. Trade and Other Payables from Exchange Transactions**

The statement of financial position reflects Kshs.646,121 in respect of trade and other payables from exchange transactions while Note 36 to the financial statements reflects Kshs.646,621 resulting to unexplained variance of Kshs.500. Further, relevant documents to confirm the balance were not provided.

In the circumstances, it has not been possible to confirm the accuracy and validity of trade and other payables balance of Kshs.646,121 as at 30 June, 2020.

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

### **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 comparative budget and actual amounts reflects final receipts budget and actual on comparable basis of Kshs.13,304,000 and Kshs.5,969,042 respectively resulting to an under-funding of Kshs.7,334,958 or 55% of the budget. Similarly, the College expended Kshs.6,593,960 against an approved budget of Kshs.5,969,042 resulting to an over-expenditure of Kshs.624,918 or 10.4% of the budget.

However, a casting error of Kshs.400 was noted on the total budgeted income. Further, the statement does not include explanations for the differences between actual and budgeted amounts which are over or under 10% as required by International Public Sector Accounting Standards 24.14.

The shortfall in revenue implies that some of the budgeted programmes and activities were not fully implemented. Further, failure to collect the budgeted revenue impacts negatively on the financial performance of the College and its ability to sustain its operations.

## 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, except for the matters described in the Basis for Conclusion on Lawfulness and Effectiveness in Use of Public Resources section of my report, I confirm that, nothing else has come to my attention to cause me to believe that public resources have not been applied lawfully and in an effective way.

### **Basis of Conclusion**

#### **1. Presentation and Disclosures in the Financial Statements**

Review of the financial statements revealed the following errors and omissions:

- i. Work experience of the Board of Governors and whether individual directors are independent or executive directors was not included under the Council /Board of Governors report.
- ii. Under entity bankers, on the Key Entity Information and Management report only one KCB account was shown but the College operates two bank accounts at KCB account.
- iii. Under the Corporate Governance Statement, succession plan, existence of a board charter, induction and training, board and member performance, conflict of interest, board remuneration, ethics and conduct as well as governance audit was not included in the financial statements as stipulated in the Kenya Gazette Supplement, the Technical and Vocational Education Training Act, 2013.
- iv. Management Discussion and Analysis report on page xviii is too summarized and does not give a detailed report on the operational and financial performance of the College and has not made use of tables, graphs, pie charts and other descriptive tools to make the information as understandable as possible.
- v. Report of the Board of Governors on page xx has not been signed and the pages under which the results for the year are reported have not been indicated.
- vi. Under the statement of Board of Governors/Council Members' Responsibilities, the applicable legislation under which the College is regulated is not indicated.

- vii. Under related party balances on Note 47, key management compensation is indicated as nil despite expenses in relation to directors' emoluments, compensation to the principal and compensation to key management having been incurred.
- viii. The statement of financial performance reflects net surplus for the prior year of Kshs.2,612,149 instead of the Kshs.2,068,975 reported in the audited financial statements for 2018/19 financial year.
- ix. The statement reflects amounts of Kshs.292,881 and Kshs.2,068,975 for 2019/2020 and 2018/2019 respectively. However, the balances have no description since the row they are printed in is blank.

In view of the above, the financial statements do not fully comply with the financial reporting template as prescribed by the Public Sector Accounting Board (PSASB).

## **2. Irregular Procurement of Tuition Materials**

As disclosed in Note 15 to the financial statements, the statement of financial performance reflects an amount of Kshs.2,514,694 in respect of use of goods and services. . Included in the amount is Kshs.1,306,533 incurred on tuition materials out of which Kshs.226,950 was procured through cash payments. However, the expenditure was above the thresholds as specified in the threshold matrix in the Public Procurement and Assets Disposal Act, 2015. Further, the expenditure lacked supporting documents.

Consequently, the College was in breach of the law and value for money may not have been realized from the Kshs.226,950 spent on tuition materials.

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 Overall 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 overall governance were not effective.

## **Basis of Conclusion**

### **1. Lack of Approved Human Resource Policy Documents**

Audit revealed that the College did not have in place policy documents for management of human resource functions such as; Human Resource Policies and Procedures Manual, Career Guidelines, Scheme of Service and approved Staff Establishment to guide on staff recruitment, remuneration, development and discipline. This is contrary to the provisions of Human Resource Policy and Procedures Manual for Public Service, May, 2016.

Consequently, the College is in breach of the law.

### **2. Lack of Internal Audit Function**

During the year under review, the College did not have in place an internal audit function to perform risk assessment processes and evaluate operational effectiveness through reviews of the internal controls. This is contrary to the provisions of Section 73(1) and (5) of the Public Finance Management Act, 2012 which requires every National Government entity to have arrangement in place for internal audit function for the purpose of carrying out in depth reviews of management operations and internal controls.

In the absence of an internal audit function, the Management is in breach of the law and has not been able to implement stringent internal controls.

### **3. Lack of Risk Management Policy and Disaster Recovery and Business Continuity Plan**

The College did not have an approved Risk Management Policy and a Disaster Recovery and Business Continuity Plan in place. This is contrary to the provisions of Section 165(a) and (b) of the Public Finance Management (National Government) Regulations, 2015, which requires the Accounting Officer to ensure that the National Government entity develops risk management strategies which include fraud prevention mechanisms and develop a system of risk management and internal control that builds robust business operations.

Consequently, the College lacks a blue print for identifying and mitigating against risks and is exposed to loss and interruption of operations in case of a disaster.

### **4. Lack of Information Communication Technology Policy**

Review of Information Communication Technology (ICT) environment revealed that the College does not have an approved ICT Policy in place. Further, the College has not automated key operational areas such as finance, human resource management and procurement.

Lack of ICT Policy and failure to automate key processes implies that the College has not leveraged on ICT to ensure accuracy, speed and efficiency in processing as well data confidentiality, reliability, integrity and availability.

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 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, 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 going concern basis of accounting unless Management is aware of intention to terminate the College or to cease operations.

Management is also responsible for the submission of the financial statements to the Auditor-General in accordance with the provisions of Section 47 of the Public Audit Act, 2015.

In addition to the responsibility for the preparation and presentation of the financial statements described above, Management is also responsible for ensuring that the activities, financial transactions and information reflected in the financial statements are in compliance with the authorities which govern them, and that public resources are applied in an effective way.

Those charged with governance are responsible for overseeing the College's financial reporting process, reviewing the effectiveness of how the 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 about whether, in all material respects, the activities, financial transactions and information reflected in the financial statements are in compliance with the authorities that govern them and that public resources are applied in an effective way, in accordance with the provisions of Article 229(6) of the Constitution and submit the audit report in compliance with Article 229(7) of the Constitution.

Further, in planning and performing the audit of the financial statements and audit of compliance, I consider internal control in order to give an assurance on the effectiveness of internal controls, risk management and 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 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 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 going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the College's ability to continue 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 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**

**09 February, 2022**