

REPORT OF THE AUDITOR-GENERAL ON SABATIA TECHNICAL AND VOCATIONAL COLLEGE FOR THE EIGHTEEN (18) MONTHS PERIOD ENDED 30 JUNE, 2020

REPORT ON THE FINANCIAL STATEMENTS

Qualified Opinion

I have audited the accompanying financial statements of Sabatia Technical and Vocational College set out on pages 1 to 27, which comprise the statement of financial position as at 30 June, 2020, 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 eighteen (18) 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, 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 Sabatia Technical and Vocational College as at 30 June, 2020 and of its financial performance and its cash flows for the eighteen (18) months period then ended, in accordance with International Public Sector Accounting Standards (Accrual Basis) and comply with the Technical and Vocational Education and Training Act, 2013 and the Public Finance Management Act, 2012.

Basis for Qualified Opinion

1.0 Statement of Cash Flows

The statement of cash flows indicates cash and cash equivalents balance of Kshs.30,729 as at 1 January, 2019 as. However, this figure has not been supported with documentary evidence to confirm its accuracy. In addition, the statement shows use of goods and services of Kshs.3,200,333 which does not agree with the Kshs.7,165,220 in the statement of financial performance resulting to unreconciled variance of Kshs.3,964,887.

Consequently, the accuracy of the cash flow statement for the period ended 30 June, 2020 could not be confirmed.

2.0 Capital Fund

The statement of financial position as at 30 June, 2020 reflects capital fund as Kshs.59,208,321. However, the composition or supporting documentation of this amount has not been explained or supported.

Consequently, the accuracy and completeness of the capital fund of Kshs.59,208,321 could not be confirmed.

3.0 Property, Plant and Equipment

The following anomalies were observed:

- i. The statement of financial position as at 30 June, 2020 reflects property, plant and equipment as Kshs.58,364,451. As indicated in Note 16 to the financial statements the cost as at 1 January, 2019 of land and buildings, furniture and fittings and computers was Kshs.57,669,270, Kshs.1,182,495 and Kshs.779,100 respectively. However, the source and composition of these figures has not been provided or disclosed.
- ii. Further, the College is situated on 5 acres of land while the title to the land has not been provided for audit review to confirm the size and ownership status. Its value could also not be ascertained.
- iii. The College also received various assets from the parent Ministry for use in electrical training courses. However, these assets were not included in the fixed assets register and therefore, their value could not be ascertained.

Consequently, the accuracy and completeness of the property, plant and equipment balance of Kshs.58,364,451 could not be confirmed.

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

1.0 Budgetary Control and Performance

1.1 Revenue Analysis

The statement of comparison of budget and actual amounts reflects total budgeted revenues of Kshs.31,072,000 and actual revenues of Kshs.19,369,124 (62%) resulting to a budget shortfall of Kshs.11,702,876 as analyzed below;

Revenue Component	Budget Kshs.	Actual Kshs.	Under Kshs.	Over Kshs.	Utilization %
Transfers from other Government Entities	8,000,000	3,632,500	4,367,500		55%
Rendering of Services-Fees from Students	23,048,000	15,676,624	7,371,376		32%
Sale of Goods	24,000	0	24,000		100%
Other Income	0	60,000		60,000	
Total	31,072,000	19,369,124	11,762,876	60,000	

The National Government did not transfer Kshs.4,367,500 it appropriated for the institution. There was also a shortfall in fee collections by Kshs.7,371,376 mainly due to the closure of learning institutions in March, 2020.

Due to the reduced revenue realized, the College was not able to fund critical activities such as expansion of lecture theatres, hiring of trainers and building of workshops.

1.2 Expenditure Analysis

The statement of comparison of budget and actual amounts reflects total budgeted expenditure of Kshs.26,230,202 and actual expenditure of Kshs.14,547,351. This resulted to under-performance of Kshs.11,782,851 or about 42% as a result of the closure of the College due to Covid pandemic and also due to the lower revenues.

Repairs and maintenance expenses amounting to Kshs.102,710 were not budgeted for as indicated above which contravenes regulation 52(2) of the Public Finance Management National Government regulations 2015 that requires expenditure commitment be based only on allocations and allotments from approved budgets.

REPORT ON LAWFULNESS AND EFFECTIVENESS IN USE OF PUBLIC RESOURCES

Conclusion

As required by Article 229(6) of the Constitution, based on the procedures performed, except for the matter 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 believe that public resources have been not been applied lawfully and in an effective way.

Basis for Conclusion

Late Submission of Financial Statements

The financial statements for the period ended 30 June, 2020 were initially submitted and received by the office of the Auditor-General on 21 October, 2020. This was contrary to section 164(4) of the Public Finance Management Act 2012 which requires that within three months after the end of each financial year the accounting officer shall submit the entity's financial statements to the Auditor-General.

Consequently, the Management was therefore 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, based on the procedures performed, except for the matters described in the Conclusion on Effectiveness of Internal Controls 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 for Conclusion

1.0 Risk Management Framework

The College did not insure its assets during the period contrary to Public Finance Management National Government Regulation 139 of 2015 that requires an accounting officer of a national government entity to take full responsibility and ensure proper control for assets in their control. It did not also have the mandatory work injury benefit cover for its employees as required by Section 7 of the Work Injury Benefits Act 2007.

Consequently, the College was at risk of loss in case of any insurable events occurring.

2.0 Human Resource Policies and Procedures

The Human Resource Policies and Procedures Manual for Public Service of May, 2016 Part II requires that each public entity to prepare human resource plans to support its achievement of strategic goals and objectives. However, the College has not established appropriate Human Resource Policies and Procedures to govern the recruitment process of the employees of the institution, guide in the management of the employees through remuneration, training and skill retention as well as in the administration of leave and salary advance to employees. In addition, the Institution has not yet established a code of ethics within which the employees are to operate.

The audit was conducted in accordance with ISSAI 2315 and ISSAI 2330. The standards require that I plan and perform the audit to obtain assurance about whether effective processes and systems of internal control, risk management and governance were operating effectively, in all material respects. I believe that the audit evidence I have obtained is sufficient and appropriate to provide a basis for my conclusion.

Responsibilities of Management and those Charged with Governance

Management is responsible for the preparation and fair presentation of these financial statements in accordance with 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 governance.

In preparing the financial statements, Management is responsible for assessing the College's ability to continue to sustain services, disclosing, as applicable, matters related to sustainability of services and using the applicable basis of accounting unless Management is aware of the intention to terminate the College or 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 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 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 governance processes and systems in accordance with the provisions of Section 7(1)(a) of the Public Audit Act, 2015 and submit the audit report in compliance with Article 229(7) of the Constitution. My consideration of the internal control would not necessarily disclose all matters in the internal control that might be material weaknesses under the ISSAIs. A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements caused by error or fraud in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions.

Because of its inherent limitations, internal control may not prevent or detect misstatements and instances of non-compliance. Also, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies and procedures may deteriorate.

As part of an audit conducted in accordance with ISSAIs, I exercise professional judgement and maintain professional 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 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 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

04 February, 2022