

REPORT OF THE AUDITOR-GENERAL ON THARAKA TECHNICAL AND VOCATIONAL COLLEGE FOR THE YEAR ENDED 30 JUNE, 2021

PREAMBLE

I draw your attention to the contents of my report which is in three parts:

- A. Report on the Financial Statements that considers whether the financial statements are fairly presented in accordance with the applicable financial reporting framework, accounting standards and the relevant laws and regulations that have a direct effect on the financial statements.
- B. Report on Lawfulness and Effectiveness in Use of Public Resources which considers compliance with applicable laws, regulations, policies, gazette notices, circulars, guidelines and manuals and whether public resources are applied in a prudent, efficient, economic, transparent and accountable manner to ensure Government achieves value for money and that such funds are applied for intended purpose.
- C. Report on Effectiveness of Internal Controls, Risk Management and Governance which considers how the entity has instituted checks and balances to guide internal operations. This responds to the effectiveness of the governance structure, the risk management environment, and the internal controls developed and implemented by those charged with governance for orderly, efficient, and effective operations of the entity.

An unmodified opinion does not necessarily mean that an entity has complied with all relevant laws and regulations, and that its internal controls, risk management and governance systems are properly designed and were working effectively in the financial year under review.

The three parts of the report are aimed at addressing the statutory roles and responsibilities of the Auditor-General as provided by Article 229 of the Constitution, the Public Finance Management Act, 2012 and the Public Audit Act, 2015. The three parts of the report, when read together constitute the report of the Auditor-General.

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 45, which comprise of the statement of financial position as at 30 June, 2021, 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 Tharaka Technical and Vocational College as at 30 June, 2021, 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 do not comply with the Public Finance Management Act, 2012 and the Technical and Vocational Education and Training Act, 2013.

Basis for Adverse Opinion

1. Inaccuracies in the Financial Statements

1.1 Variances in Comparative Balances

The financial statements for the year under review reflects comparative balances which differ with balances reflected in the audited financial statements for the year 2019/2020 as analysed below:

Item	2020/2021 Financial Statements Comparative Balance Kshs.	2019/2020 Audited Financial Statements Kshs.	Variance Kshs.
Increase in Payables	30,500	3,790,099	3,759,599
Net Cashflow from Investing Activities	9,037,873	(8,314,135)	17,352,008
Net increase in Cash and Cash Equivalent	-	10,493,024	10,493,024
Cash and Cash Equivalents at 1 July, 2019	-	3,136,553	3,136,553
Cash and Cash Equivalents at 30 June, 2020	-	13,629,577	13,629,577
Social Contributions	-	170,436	170,436
Salaries and Wages	3,445,448	3,275,012	170,436
Directors Emoluments	-	841,880	841,880
Other Allowances	841,880	-	841,880

1.2 Statement of Financial Position

1.2.1 Refundable Deposits from Customers

The statement of financial position reflects a balance of Kshs.250,000 in respect to refundable deposits from customers. However, Note 35 to the financial statements reflects a nil balance resulting to an unexplained and unreconciled variance of Kshs.250,000. Further, supporting schedules were not provided for audit verification.

1.2.2 Property, Plant and Equipment

The statement of financial position reflects property, plant and equipment balance of Kshs.94,611,805 while Note 31 to the financial statements reflect a balance of Kshs.82,570,439 resulting into an unreconciled variance of Kshs.12,041,366. The Note also reflects depreciation totalling to Kshs.3,039,086 while the statement of financial performance reflects an amount of Kshs.2,754,048 resulting to an

unexplained and unreconciled variance of Kshs.285,038. In addition, the balance includes Kshs.25,000,000 in respect to land. However, the valuation report indicating how the value was determined and ownership documents were not provided for audit.

Documents provided revealed that the College is in possession of two (2) motor vehicles. However, logbooks, evidence of official delivery and the cost were not provided for audit review. Further, examination of the fixed asset register provided revealed that it lacked crucial information including serial numbers of items, depreciated values and net book values.

Physical verification carried out revealed that the assets were not tagged for ease of identification and movement contrary to Regulation 139(1)(b) of the Public Finance Management (National Government) Regulations, 2015 which require that the Accounting Officer of a National Government entity shall take full responsibility and ensure that proper control systems exist for assets and that movement and conditions of assets can be tracked.

1.3 Statement of Cash Flows

The statement of cash flows reflects balances of Kshs.2,121,245 and Kshs.30,500 in respect to decrease in receivables and increase in payables respectively. However, re-computation of the same results to balances of Kshs.1,866,617 and Kshs.2,121,245 respectively. In addition, the statement reflects nil balances in respect to cash and cash equivalents as at 1 July, 2020 and 30 June, 2021. However, the statement of financial position reflects Kshs.13,629,577 and Kshs.3,872,475 relating to cash and cash equivalents as at 30 June, 2020 and 30 June, 2021 respectively.

1.4 Statement of Changes in Net Assets

The statement of changes in net assets reflects a surplus of Kshs.15,149,890 in the year under review, while the statement of financial performance reflects a surplus amount of Kshs.4,988,088, resulting to an unreconciled and unexplained variance of Kshs.10,161,802. In addition, the statement reflects retained earnings totalling to Kshs.30,337,329. However, the statement of financial position reflects a corresponding balance Kshs.25,774,560 resulting to an unreconciled variance of Kshs.4,562,769. Further, the statement does not reflect comparative balances as required by the Public Sector Accounting Standards Board reporting template.

1.5 Statement of Comparison of Budget and Actual Amounts

The statement of comparison of budget and actual amounts reflects an amount of Kshs.70,694,137 relating to final budgeted revenue. However, the recomputed revenue totals to Kshs.71,039,137 resulting to an unreconciled variance of Kshs.345,000. Similarly, the statement reflects actual revenue of Kshs.17,053,196 while the recomputed amount totals to Kshs.17,398,196 resulting into an unexplained and unreconciled variance of Kshs.345,000. In addition, the statement reflects Kshs.26,969,864 relating to actual total expenditure. However, the recomputed total expenditure totals to Kshs.Kshs.26,955,444 resulting to an unreconciled and unexplained variance of Kshs.14,420.

Further, three (3) items of revenue and the corresponding Notes to the financial statements have unexplained and unreconciled variances as detailed below:

Note	Description	Statements of Comparison of Budget and Actual Amounts Kshs.	Note to the Financial Statements Kshs.	Variance Kshs.
6	Transfers from other Government Entities	10,837,500	11,220,000	382,500
10	Rendering of Services – Fees from students	4,954,596	23,132,580	18,177,984
12	Rental income and production	1,606,100	15,000	1,591,100

In the circumstances, the accuracy of the financial statements could not be confirmed.

2. Unsupported Balances

2.1 Reserves

The statement of financial position reflects Kshs.25,774,560 and Kshs.76,160,000 relating to accumulated surplus and capital fund respectively. However, the balances were not supported with the respective workings and schedules.

2.2 Current Portion of Receivables from Exchange Transactions

The statement of financial position and Note 27(a) to the financial statements reflects a balance of Kshs.3,450,280 in respect to current portion of receivables from exchange transactions which relate to student debtors. However, Management did not provide an ageing analysis on how long the student debtors have been outstanding. Further, no information was provided in support of the movement of the debtors from Kshs.1,583,663 opening balance to Kshs.3,450,280 in the year under review.

2.3 Cash and Cash Equivalents

The statement of financial position reflects Kshs.3,872,475 in respect to cash and cash equivalents and as disclosed in Note 26 of the financial statements. This balance includes Kshs.43,508 in respect of cash in hand which was not supported with the board of survey report. In addition, certificates of bank balances in respect to two local bank accounts with balances of Kshs.3,546,939 and Kshs.282,028 respectively were not provided for audit review.

2.4 Security Services

The statement of financial performance and as disclosed in Note 15 to the financial statements reflects Kshs.12,569,204 in respect to use of goods and services which includes an amount of Kshs.391,653 in respect to provision of security services which was not supported with the requisition from the user department, contract agreements, tender opening and evaluation minutes, professional opinion and award letters.

2.5 Catering, Delegation and Conference Facilities

The statement of financial performance and as disclosed in Note 15 to the financial statements reflects Kshs.12,569,204 in respect to use of goods and services which includes Kshs.1,580,166 in relation to National Youth Service (NYS) students costs which further includes Kshs.1,570,326 for catering, delegation and conference facilities for the NYS students. However, no evidence was provided for audit review to confirm that the suppliers were competitively sourced. Further, the market survey reports to justify the prices quoted by the service providers were not provided for audit review. In addition, the transportation of NYS students from Athi River to the College could not be confirmed since the work tickets, purpose of transportation and signed student list were not provided for audit review.

In the circumstances, the accuracy and regularity of the balances reflected in the financial statements could not be confirmed.

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

1. Budgetary Control and Performance

The statement of comparison of budget and actual amounts reflects final revenue budget and actual on comparable basis of Kshs.70,694,137 and Kshs.17,053,196 respectively, resulting to an under-funding of Kshs.53,640,941 or 76% of the budget. Similarly, the statement reflects final expenditure budget and actual on comparable basis of Kshs.70,693,826 and Kshs.26,969,864 respectively, resulting to an under-absorption of Kshs.43,723,962 representing 62% of the budget.

The underfunding and under absorption may have negatively impacted on service delivery to the public.

2. Unresolved Prior Year Matters

Various prior year audit issues remained unresolved as at 30 June, 2021. Management has not provided reasons for the delay in resolving the prior year audit issues. Further, the unresolved prior year issues are not disclosed under the progress on follow up of auditor's recommendations section of the financial statements as required by the Public Sector Accounting Standards Board reporting template.

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 of Conclusion

1. Board of Governors

1.1 Irregular Appointment of Board of Governors

Note 17 to the financial statements reflects an amount of Kshs.449,730 in respect to remuneration of Directors. However, it was noted that all the seven (7) members of the Board of Governors were appointed by the Cabinet Secretary for Education on the same date of 30 December, 2020 contrary to Section 7(2) of the Second Schedule of the Technical and Vocational Education and Training Act, 2013 which states that in appointing and reappointing members of the Boards of Governors, the Cabinet Secretary shall stagger the commencement dates of some members to maintain a proportion of new membership that ensures continuity in the affairs of the Boards of Governors.

1.2 Irregular Payment of Allowances to Board Governors

The statement of financial performance and as disclosed in Note 17 to the financial statements reflects Kshs.449,730 in respect to remuneration of Directors. However, as previously reported, Management did not provide an approval by the Cabinet Secretary for the allowances paid contrary to Section 17 of the Second Schedule of Technical and Vocational Education and Training Act, 2013 which states that Members of the 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 circumstances, Management was in breach of the law.

2. Non-Compliance with Law on Ethnic Composition

Examination of records provided revealed that, out of the forty-two (42) employees of the College, eighteen (18) representing 43% of the total employees were from one ethnic community contrary to Section 7(2) of the National Cohesion and Integration Commission Act, 2008 which provides that no public establishment shall have more than one third of its staff from the same ethnic community.

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

3. Lack of Approved Salary Structure

As reported in the previous year, the Management did not provide the approved salary structure and staff establishment contrary to Section C2(1) of the Human Resource Policies and Procedures Manual for the Public Service.

In the circumstances, Management was 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. Lack of Internal Audit

As reported in the previous year, documents provided for audit review indicated that the College did not have an Internal Audit Department to carry out internal audit functions. This was contrary to Section 73(1)(a) of the Public Finance Management Act, 2012 which stipulates that every National Government entity shall ensure that it has appropriate arrangements in place for conducting internal audit according to the guidelines of the Accounting Standards Board.

In the circumstances, the existence of effective internal controls could not be confirmed.

2. Lack of Internal Audit Committee

As reported in the previous year, 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 audit committee whose composition and functions are to be prescribed by regulation.

In the circumstances, it was not possible to confirm existence of an effective governance system.

3. 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 circumstances, it is not possible to determine the effectiveness of risk management implemented by Management.

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 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 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 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 are responsible for overseeing the College's financial reporting process, reviewing the effectiveness of how 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 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 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

02 August, 2022