

REPORT OF THE AUDITOR-GENERAL ON BONDO TECHNICAL TRAINING INSTITUTE FOR THE YEAR ENDED 30 JUNE, 2020

REPORT ON THE FINANCIAL STATEMENTS

Adverse Opinion

I have audited the accompanying financial statements of Bondo Technical Training Institute as set out on pages 1 to 30, which comprise the statement of financial position as at 30 June, 2020, and the statement of financial performance, statement of cash flows and summary 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 Adverse Opinion section of my report, the financial statements do not present fairly, in all material respects, the financial position of the Bondo Technical Training Institute 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 do not comply with the Technical and Vocational Educational and Training Act, 2013 and the Public Finance Management Act, 2012.

Basis for Adverse Opinion

1.0 Accuracy of Cash and Cash Equivalents Balance

The statement of financial position as at 30 June, 2020 reflect cash and cash equivalents balance of Kshs.83,905,463 as disclosed in Note 17 to the financial statements. However, the cash book reflects a balance of Kshs.102,332,836 resulting to unexplained variance of Kshs.18,427,373. Further, it was noted that the reported cash and cash equivalents balance is based on end of year balances as per bank confirmation certificates, and the Management did prepare monthly bank reconciliations contrary to Regulation 90 of the Public Finance Management (National Government) Regulations, 2015 which states that Accounting Officers shall ensure bank accounts reconciliations are completed for each bank account held by that Accounting Officer, every month and submit a bank reconciliation statement not later than the tenth day of the subsequent month to The National Treasury with a copy to the Auditor-General.

In addition, it was also noted that the cash books generated from the Enterprise Resource Plan (ERP) did not include cash withdrawals made from the Institute's account at Equity bank totalling to Kshs.30,218,520, out of which Kshs.7,484,039 was supported by payment vouchers and the balance of Kshs.22,734,481 was not supported.

In the circumstance, the validity, accuracy and completeness of cash and cash equivalents balance of Kshs.83,905,463 as at 30 June, 2020 could not be confirmed.

2.0 Unsupported Inventory Balance

The statement of financial position also reflects inventory balance of Kshs.2,476,634 as disclosed in Note 20 to the financial statements. The balance remained constant compared to the prior year. However, it was noted that no stock taking was carried out by the Institute at the close of the year in support of the inventory balance of Kshs.2,476,634.

Consequently, the accuracy and valuation of the inventory balance of Kshs.2,476,634 as at 30 June, 2020 could not be confirmed.

3.0 Ownership, Presentation and Variance of Property, Plant and Equipment

The statement of financial position reflects property, plant and equipment balance of Kshs.476,356,511 as disclosed in Note 21 to the financial statements. Included in the amount is land and buildings balance of Kshs.330,000,000. It was noted that the Institute occupies a piece of land comprising of six (6) parcels measuring over 30 acres but has not processed title deeds for all the parcels of land and the ownership of one of the parcels of the land is in dispute and the matter is in Court.

Further, the value of land has not been disclosed separately from buildings in the financial statements contrary to IPSAS 17 paragraph 52 which require land and buildings to be disclosed separately for accounting purposes and the asset register did not include the values of land, buildings and plant and equipment.

In addition, the financial statements reflects property, plant and equipment net book value of Kshs. 476,356,511 while Note 21 to the financial statements reflects a balance of Kshs.473,465,436 resulting in unexplained difference of Kshs.2,891,075.

In the circumstances, the accuracy, presentation and ownership of the property, plant and equipment balance of Kshs.476,356,511 as at 30 June, 2020 could not be confirmed.

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

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 Conclusion on Lawfulness and Effectiveness in Use of Public Resources sections of my report based on the procedures performed, I confirm that, public resources have not been applied lawfully and in an effective way.

Basis for Conclusion

1.0 Appointment of the Principal to the Institute

A review of records maintained by the Institute revealed that the Principal of the Institute was appointed through a letter Ref No. TSC/231270/130 dated 19 January, 2015 by the Secretary/ Chief Executive of Teachers Service Commission. However, this was contrary to competitive recruitment guidelines as set out under Section 30(1) of the TVET Act No.29 of 2013 which provides that there shall be a Principal of a public training institution established under section 26(1)(a) or (b) who shall be appointed by the Cabinet Secretary on the recommendation of the Board of Governors following a competitive recruitment process and who shall serve for a period of five years, whose term may be renewed once. The appointment of the Principal was therefore in contravention of the Law.

2.0 Procurement of Student Accommodation for Students

The statement of financial performance reflects expenditure on use of goods and services of Kshs.25,764,866. Included in the balance is administration fees of Kshs.21,061,711 which further includes Kshs.8,274,000 paid to various suppliers as accommodation expenses for students during the year under review as per the signed tenancy agreements between the landlord and the Institution. However, user requisition was not provided to support the payment of accommodation expenses. Further, records were not provided to indicate how the suppliers were identified and contracted to offer accommodation services to students contrary to section 106(2) of the Public Procurement and Asset Disposal Act, 2015 which states that the Accounting Officer of a procuring entity shall give the request to such persons as are registered by the procuring entity; and that at least three persons shall submit their quotations prior to evaluation.

In the circumstance, the institution contravened the law and may not have received value for money on accommodation services for the year ended 30 June, 2020.

3.0 Irregular Payment of Sitting Allowance

The statement of financial performance reflects expenditure on remuneration of directors of Kshs.1,233,096 as disclosed in Note 12 to the financial statements. Included in the balance is an amount of Kshs.407,132 paid to the principal and deputy principal of the Institution in form of sitting allowances for attending Board of Governors meetings

contrary to section 10 of the State Corporations Act and Circular OP/CAB.9/21/2A/LII dated 24 March, 2005 which states that, the chief executive officers and the employees of a state corporation are not entitled to sitting or other allowances.

Further, expenditure on remuneration of directors include an amount of Kshs.123,563 being sitting allowances paid to the County Director of TVETs. However, it was noted that the officer had not been appointed to the Council of the Institution in writing as per the directive contained in circular OP/CAB.9/1A dated 18 October, 2019 and Circular OP/SCAC.9/73A (48) dated 4 May, 2015 which requires that, board members be issued with appointment letters by the respective Cabinet Secretaries and that every board member should signify their acceptance of the appointment in writing.

The Management was therefore in breach of the Law and the propriety of expenditure on remuneration of directors of Kshs.1,233,096 could not be confirmed.

4.0 Construction of Applied Science Complex

The statement of financial position as at 30 June, 2020 reflects property, plant and equipment balance of Kshs.476,356,511. Included in the balance is work in progress balance of Kshs.22,703,520 which comprises costs incurred on construction of the Applied Science Complex. The contractor was paid Kshs.5,535,895 in the year under review being payment of interim certificate number 3 and 4. However, it was noted that the contractor was not on site and the project appeared to have stalled.

In the circumstance, the value for money of work in progress and propriety of Kshs.22,703,520 incurred on the project as at 30 June, 2020 could not be confirmed.

The Audit was conducted in accordance with ISSAI 4000. The standard require that I comply with ethical requirements and plan and perform the audit so as to obtain limited assurance as to 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 SYSTEMS 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 section of my report based on the procedures performed, I confirm that, internal controls, risk management and overall governance were not effective.

Basis for Conclusion

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 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 ability of the Institute 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 Institute 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 Bondo Technical Training Institute 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 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 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 Bondo Technical Training Institute 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 Bondo Technical Training Institute ability to continue as a going concern or 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 Bondo Technical Training Institute to cease to continue as a going concern or 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 Bondo Technical Training Institute 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

11 February, 2022