

# **REPORT OF THE AUDITOR-GENERAL ON JEREMIAH NYAGAH TECHNICAL INSTITUTE 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 Jeremiah Nyagah Technical Institute set out on pages 21 to 63, which comprise the statement of financial position as at 30 June, 2020, and the statement of financial performance, statement of cash flows, statement of changes in net assets 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 Jeremiah Nyagah Technical 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 comply with the Technical and Vocational Education and Training Act, 2013.

### **Basis for Qualified Opinion**

#### **1.0 Accuracy of the Financial Statements**

The statement of comparison of budget and actual amounts for the year ended 30 June, 2020 reflects Kshs.136,305,605 in respect to total actual receipts. However, the statement of financial performance reflects Kshs.136,568,705 on the same item resulting to unexplained variance of Kshs.263,100.

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

#### **2.0 Cash and Cash Equivalents**

As disclosed in Note 26 to the financial statements, the statement of financial position reflects Kshs.30,235,107 in respect to cash and cash equivalents which includes a balance of Kshs.29,167,419 in a local bank account. However, the bank reconciliation statement for the said bank account reflects Kshs.29,553,900 in respect to receipts in the bank not in cashbook and therefore the cash and cash equivalents is under casted by the same amount.

In the circumstances, the accuracy and completeness of the cash and cash equivalents balance of Kshs.30,235,107 could not be confirmed.

### **3.0 Incorrect Comparative Balances**

Note 15d to the financial statements reflects Kshs.3,909,694 in respect to student welfare comparative balance for 2018/2019. However, the 2018/2019 audited financial statements reflects Kshs.4,947,084 on the same item resulting to unexplained variance of Kshs.1,037,390.

In the circumstances, the accuracy of the student welfare comparative balance of Kshs.3,909,694 could not be confirmed.

### **4.0 Unsupported Honoraria Payments**

As disclosed in Note 15 to the financial statements, the statement of financial performance reflects Kshs.61,941,352 in respect to use of goods and services which includes Kshs.2,944,810 in respect to administration cost which further includes Kshs.149,000 paid as honoraria to eleven (11) officers on duty during Covid 19 pandemic. However, supporting documents including duration on duty, duties carried out, signed attendance registers and policy guide or criteria used for the payments were not provided for audit review. It was therefore not possible to establish if the officers paid were on duty and whether the amount paid was properly authorized.

In the circumstances, the accuracy and propriety of the Kshs.149,000 payments of honoraria could not be confirmed.

### **5.0 Unsupported Property, Plant and Equipment**

As reported in the previous year and as disclosed in Note 33 to the financial statements, the statement of financial position reflects Kshs.208,996,227 in respect to property, plant and equipment which includes Kshs.107,462,450 in respect to land and buildings which further includes Kshs.7,260,000 in respect to land.

However, a parcel of land number Mbeti/Gachoka 922 which is currently occupied by the Institute and whose value was not provided was not included in the property, plant and equipment. Further, ownership documents for the same parcel of land was not provided for audit review.

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

The statement of comparison of budget and actual amounts for the year ended 30 June, 2020 reflects Kshs.154,834,140 in respect to final budgeted revenue and Kshs.136,305,605 in respect to actual revenue resulting to a net revenue shortfall of Kshs.18,528,535 or 12% .

The statement also reflects approved final budgeted expenditure of Kshs.154,834,140 and actual expenditure of Kshs.96,093,052 resulting to a net under expenditure of Kshs.58,741,088 or 38%

Non-utilization of the budgeted funds is an indication that services and approved projects/programmes were not delivered and therefore the budget did not meet the intended objectives of improving the service delivery to the residents Institute.

### **2.0 Unapproved Budget**

The approved budget for the year ended 30 June, 2020 reflects an income and expenditure final budget of Kshs.154,834,140. However, there was no evidence to confirm that the budget was approved by the Ministry of Education (Parent Ministry) and the National Treasury contrary to paragraph 2 of the National Treasury circular number 14/2018 dated 27 November, 2018 which states that state corporations are required to prepare and submit their respective annual estimates of revenue and expenditure (budget proposals) to their line ministries and the National Treasury and Planning for approval.

## **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 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 for Conclusion**

### **1.0 Presentation of the Financial Statements**

The Institute's financial statements for the year ended 30 June, 2020 reflects the following anomalies;

- 1.1 The financial statements are not well paginated as numeric page numbers start from page 21 instead of 1. Further, the statement of financial position is not paginated.
- 1.2 The finance officer's Institute of Certified Public Accountants of Kenya (ICPAK) membership number is not included in the statement of financial position.
- 1.3 Note 27 has not been included in the notes to the financial statements. Further note 29(a) of the financial statements has been indicated as Note 27 (a).

In the circumstances, the presentation of the Institute's financial statements for the year under review is not in compliance with the PSASB's prescribed reporting format.

### **2.0 Repairs and Maintenance - Irregular Procurement**

Note 19 to the financial statements reflects Kshs.9,164,268 in respect to repairs and maintenance which includes Kshs.3,971,790 and Kshs.318,240 in respect to improvement of infrastructures and repair maintenance and improvement respectively all totaling to Kshs.4,290,030 which were procured through direct procurement method without justification contrary to Section 103(1) of the Public Procurement and Assets Disposal Act, 2015 which stipulates that a procuring entity may use direct procurement as allowed under sub-section (2) as long as the purpose is not to avoid competition.

In addition, supporting documents for the Kshs.4,290,030 including approved requisitions, Local Purchase Orders (LPO), contract documents, expenditure receipts, inspection and acceptance reports, pre and post motor vehicle inspection reports and store ledgers were not provided for audit review.

In the circumstances, value for money on Kshs.4,290,030 incurred on repairs and maintenance could not be confirmed.

### **3.0 Failure to Publicize and Publish Contracts**

During the financial year under review, the Institute did not prepare, publish and publicize all contract awards and submit them to Public Procurement Regulatory Authority as required by Section 138(1) of the Public Procurement and Assets Disposal Act, 2015 which stipulates that the accounting officer of a procuring entity shall publish and publicize all contract awards on their notice boards at conspicuous places, and website if available within a period as prescribed.

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

## **4.0 Human Resource Management**

### **4.1 Lack of Approved Staff Establishment**

Review of staff establishment provided for audit revealed the establishment had not been submitted to the Public Service Commission (PSC) for consideration and approval contrary to Ministry of Education circular number MST/DTE/1/1 dated 12 July, 2019 which requires all technical and vocational training institutions to submit justified staff establishments to the Public Service Commission for consideration and approval.

Further, the Institute has not developed terms and conditions of service and a human resource manual to guide the institution on determining the minimum qualifications for each position and the remuneration for the same.

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

### **4.2 Retirement at Age 60 Years**

A review of documents including biodata from the payroll for the year under review revealed that as at 30 June, 2020 the Institute had one (1) employee who was above the age of sixty (60) without justification contrary to Section D.21 of the Human Resource Policies and Procedures Manual for the Public Service, 2016 which require officers to retire from the service on attaining the mandatory retirement age of 60 years, 65 years for persons with disabilities and/or as may be prescribed by government from time to time.

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

### **4.3 Staff Ethnic Composition**

Records provided for audit review showed that during the year under review, the Institute had thirty-seven (37) employees out of which twenty-five (25) or 68% were from the same ethnic community contrary to Section 7(2) of the National Cohesion and Integration Act, 2008 which states that no public establishment shall have more than one third of its staff from the same ethnic community.

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

## **5.0 Non-Submission of Financial Statements**

As reported in the previous year, the Institute's Board of Governors has not submitted its financial statements for audit by the Auditor General for five (5) financial years (2013-2014 to 2017-2018) contrary to Section 68 (2) (k) of the Public Finance Management Act, 2012 which requires an accounting officer to prepare annual financial statements for each financial year within three months after the end of the financial year, and submit them to the Auditor General for audit. In addition, Section 47(1) of the Public Audit Act, 2015 stipulates that the financial statements required under the Constitution, the Public Finance Management Act, 2012 and any other legislation, shall be submitted to the Auditor-General within three months after the end of the fiscal year to which the accounts relate.

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

## **6.0 Untagged Fixed Assets**

As disclosed in Note 33 to the financial statements, the statement of financial position reflects Kshs.208,996,227 in respect to property, plant and equipment. However, a review of the fixed asset register and physical verification revealed that the assets were not tagged for ease of identification and movement contrary to Regulations 139(1)(b) of the Public Finance Management (National Government) Regulations, 2015 which stipulates that 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.

In the circumstances, the accuracy and completeness of the property, plant and equipment balance of Kshs.208,996,227 as at 30 June, 2020 could not be confirmed.

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 overall governance were not effective.

### **1.0 Lack of Internal Audit**

As reported in the previous year, the Institute did not have an internal audit section to carry out internal audit functions contrary to Section 73 (1)(a) of the Public Finance Management Act, 2012 which stipulates that every national government entity shall ensure that appropriate arrangements are in place for conducting internal audit according to the guidelines of the Public Sector Accounting Standards Board.

### **2.0 Non-Establishment of Audit Committee**

As reported in the previous year, during the year under review, the Institute did not have an audit committee contrary to Section 73 (5) of the Public Finance Management Act, 2012 which states that every national government public entity shall establish an

audit committee whose composition and functions shall be as prescribed by the regulations.

### **3.0 Information Technology Systems**

As reported in the previous year, review of the Institute's information communication technology (ICT) environment revealed that there was no formal approved ICT policy in place during the year ended 30 June, 2020. The policy would have included data security and disaster recovery plans. Further, the ICT organization structure was not provided for audit review.

In the circumstances, the security and reliability of the Institute's data including the management information system could not be confirmed.

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, 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 Institute's ability to sustain services, disclosing, as applicable, matters related to sustainability of services and using the applicable basis of accounting unless the Management is aware of the intention to dissolve 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 Institute's 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 Institute'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 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.

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 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 Institute'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 Institute'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 Institute 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 Institute 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**

**07 February, 2022**