

REPORT OF THE AUDITOR-GENERAL ON MACHAKOS TECHNICAL INSTITUTE FOR THE BLIND FOR THE YEAR ENDED 30 JUNE, 2019

Disclaimer of Opinion

I have audited the accompanying financial statements of Machakos Technical Institute for the Blind set out on Pages 1 to 42, which comprise the statement of financial position as at 30 June, 2019, 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 do not express an opinion on the accompanying financial statements. Because of the significance of the matters described in the Basis for Disclaimer of Opinion section of my report, I have not been able to obtain sufficient appropriate audit evidence to provide a basis for an audit opinion on these financial statements.

Basis for Disclaimer of Opinion

1.0 Failure to Maintain Proper Books of Accounts

Statement of financial performance reflects Kshs.52,133,175 and Kshs.66,703,894 in respect to total revenue and expenses for the year respectively with a resultant net deficit of Kshs.14,570,719. In addition, the statement of financial position reflects Kshs.362,280,612 in respect to both total assets and total liabilities and total liabilities and capital and reserves. However, Management did not provide for audit cash books, ledgers, trial balance and schedules in support of these amounts and balances.

In the circumstances, it was not possible to confirm the accuracy, completeness and regularity of the financial statements for the year ended 30 June, 2019.

2.0 Unaudited Opening Balances

The statement of financial position reflects the opening balances of Kshs.371,455,970 in respect of both total assets and liabilities as at 30 June, 2018. However, management did not submit the financial statements for the year ended 30 June, 2018 to the Auditor General for audit. This is a contravention of the provisions of Section 68(2) (k) of the Public Finance Management Act, 2012 which stipulates that in the performance of a function under subsection (1), an accounting officer shall - prepare annual financial statements for each financial year within three months after the end of the financial year, and submit them to the Controller of Budget and the Auditor-General for audit, and in the case of a national government entity, forward a copy to the National Treasury. In the circumstances, the accuracy, completeness and regularity of the opening balances of assets and liabilities of Kshs.371,455,970 could not be confirmed.

3.0 Presentation and Disclosures in the Financial Statements

Review of the financial statements presented for audit revealed areas of non-compliance with prescribed reporting format as follows:

- The table of Contents does not specify the name of the auditor under report of the independent auditors.
- The Statement of Board of Governors' Responsibilities at folio xx is not signed by one Board Member.
- The report on Management Discussion and Analysis on page xix does not make use of descriptive tools such as; graphs and pie charts to give a detailed review of the Institute's performance for the year as required.
- The ICPAK membership number of the Finance Officer has not been indicated on the statement of financial position.
- The financial statements from page 6 onwards includes reference to 'xxx' in several sections instead of providing the relevant specific information.
- Guidance notes appearing under Note 28 on cash and cash equivalents have not been removed.
- Financial risk management details on liquidity, market & capital risk have not been completed and tabulated on Page 35 to the financial statements.

In the circumstances, the financial statements as presented do not fully comply with the reporting templates prescribed by the Public Sector Accounting Standards Board.

4.0 Cash and Cash Equivalents

The statement of financial position reflects cash and cash equivalents balance of Kshs.11,079,068 . However, the bank balance was not supported by way of monthly bank reconciliation statements. This is contrary to the provisions of Section 90(1) of the Public Finance Management (National Government) Regulations, 2015 which stipulates 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 10th of the subsequent month to the National Treasury with a copy to the Auditor-General.

Further, the comparative balance of Kshs.20,514,657 for the financial year 2017/2018 differs with the figure of Kshs.25,649,787 shown in Note 28 to the financial statements by an unexplained amount of Kshs.5,135,130. In addition, the detailed analysis of cash and cash equivalents is given under Note 27(a) instead of 28(a) which is the relevant disclosure note.

In the circumstances, it has not been possible to ascertain the accuracy, completeness and disclosure of cash and cash equivalents balance as at 30 June, 2019.

5.0 Transfers from the National Government-Grants

The statement of financial performance reflects Kshs.36,900,818 in respect of transfers from National Government-grants and gifts in kind. However, the bank statements presented for audit showed receipts during the year totaling Kshs.19,014,126 resulting in an unexplained overstatement of Kshs.17,886,692.

Consequently, it has not been possible to verify the accuracy and completeness of transfers from the National Government for the year ended 30 June, 2019.

6.0 Revenue from Exchange Transactions

The statement of financial performance reflects Kshs.14,484,333 in respect of revenue from exchange transactions. The analysis of duplicate copies of the receipts revealed a total amount of Kshs.8,094,443 as revenue from exchange transactions resulting to an unexplained variance of Kshs.6,389,890.

In the circumstances, the accuracy, completeness and validity of revenue from exchange transactions of Kshs,14,484,333 could not be ascertained.

7.0 Statement of Changes in Net Assets

The statement of changes in net assets does not indicate balances carried forward as at 30 June, 2019 which is the reporting period. Further, the statement does not show the movement of reserves, accumulated surplus and capital fund during the year.

Consequently, the completeness and accuracy of the statement of changes in net assets as at 30 June, 2019 could not be confirmed.

8.0 Statement of Comparison of Budgets and Actual Amounts

Review of the final budget figures reflected in the statement of comparison of budget and actual amounts revealed differences with the approved budget for the year resulting in variances totalling Kshs.13,615,561 as detailed out below:

Component	Approved Budget (Kshs.)	Statement of Comparison of Budget and Actual Amounts (Kshs.)	Variance (Kshs.)
Transfers from Other Government Entities and Grants	47,612,753	54,036,727	(6,423,974)
Compensation of Employees	5,623,416	5,106,496	516,920
Development Expenses	8,000,000	14,424,007	(6,424,007)
Repairs & Maintenance	1,280,500	1,415,000	(134,500)
Board of Governors Expenses	0	1,150,000	(1,150,000)
Total	62,516,669	76,132,230	(13,615,561)

In the circumstances, the accuracy and completeness of the statement of comparison of budget and actual amounts for the year ended 30 June, 2019 could not be confirmed.

9.0 General Expenses

The statement of financial performance reflects the an expenditure of Kshs.52,944,165 in respect of general expenses for the year ended 30 June, 2019. Note 23 to the financial statements indicates that this expenditure includes the amount of Kshs.13,483,292 in respect of development expenses of Kshs.12,269,092, TVET fair and robotics contests expenses of 1,280,400 and CAPA expenses of Kshs.1,214,200. However, only Kshs.2,351,262 of the development expenses was supported by way of payment vouchers leaving the balance of Kshs.9,917,830 unsupported. In addition, no relevant supporting documents were provided for audit in support of CAPA expenses. Additionally, the expenditure of Kshs.1,280,400 incurred on TVET fair and robotic contests was not supported by way of payment vouchers and relevant approvals by the Principal and imprest warrants and documents confirming that the concerned Officers attended the training forums were also not presented for audit.

In absence of adequate supporting documents, the accuracy, completeness and validity of the expenditure of Kshs.13,483,292 could not be confirmed.

10.0 Property, Plant and Equipment

The statement of financial position reflects Kshs.350,228,860 in respect to plant, property and equipment (PPE). This balance is the same for the financial years ending 30 June, 2018 and 30 June, 2019 which may not be accurate given the movements in the assets during the year under review. However, a review of the PPE schedule under Note 33 to the financial shows that the balance brought forward as at 1 July, 2018 of Kshs.356,515,585 is erroneously indicated as additions during the year. Further, the PPE schedule does not show the depreciation charge and accumulated depreciation as at 30 June, 2019 although a depreciated and amortization amount of Kshs.6,286,725 has been reflected in the statement of financial performance.

In the circumstances, the completeness and accuracy of the property, plant and equipment balance of Kshs.350,228,860 could not be confirmed.

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. I have determined that there were no key audit matters to communicate in my report.

Other Matter

Budgetary Control and Performance

The statement of comparison of budget and actual amounts reflects revenue budget and actual on comparable basis of Kshs.66,879,527 and Kshs.52,133,175 respectively, resulting in a Kshs.14,746,352 shortfall in revenue which is equivalent to 22% of the approved budget. In addition, expenditure for the year of Kshs.66,703,894 exceeded the revenue realized of Kshs.52,133,175 resulting in a deficit of Kshs.14,570,719.

Failure to realize the budgeted revenue and spending more than the revenue generated during the year may negatively impact on the sustainability of the Institute's operations which may lead to a financial crisis.

REPORT ON LAWFULNESS AND EFFECTIVENESS IN USE OF PUBLIC RESOURCES

Conclusion

I do not express a conclusion on the lawfulness and effectiveness in the use of public resources as required by Article 229(6) of the Constitution. Because of the significance of the matters described in the Basis for Conclusion on Lawfulness and Effectiveness in Use of Public Resources section of my report, I have not been able to obtain sufficient appropriate audit evidence to provide a basis for my audit conclusion.

Basis of Conclusion

1. Construction of 8 No. Door Toilet for Students

The Institute's Management awarded a contract for the construction of 8 No. door toilet to a local Contractor on 07 September, 2018 at a contract sum of Kshs.1,989,922 through the request for quotation method of procurement. However, it was noted that the awarded tenderer was not in the prequalified list of suppliers. In addition, the appointment letters of the inspection and acceptance committee members and inspection minutes were not provided for audit. This is contrary to Section 48(1) of the Public Procurement and Asset Disposal Act, 2015 which states that an accounting officer of a procuring entity may establish an ad hoc committee known as the inspection and acceptance committee. Further, Section 95(3) of the Act provides that a procuring entity shall invite tenders from only the approved persons who have been pre-qualified.

In view of the above, it has not been possible to ascertain the regularity of award and whether value for money was realized from the expenditure of Kshs.1,989,922 which was incurred on the Project.

2. Irregular award of Tender for Security Services

During the year under review, the amount of Kshs.867,845 was incurred on security services as disclosed in Note 23 to the financial statements on general expenses. However, a review of the related procurement documents, related to the security expenses, revealed that, the awarded security company was single sourced. No explanation was provided as to why there was no competitive bidding process contrary to Section 124(12) of the Public Procurement and Asset Disposal Act, 2015 which specifies circumstances when single source selection may be appropriate.

Consequently, the regularity and value for money of the expenditure of Kshs.867,845 could not be confirmed.

REPORT ON EFFECTIVENESS OF INTERNAL CONTROLS, RISK MANAGEMENT AND GOVERNANCE

Conclusion

I do not express a conclusion on the effectiveness of internal controls, risk management and overall governance as required by Section 7(1)(a) of the Public Audit Act, 2015. Because of the significance of the matters described in the Basis for Conclusion of Internal Controls, Risk Management and Overall Governance section of my report, I have not been able to obtain sufficient appropriate audit evidence to provide a basis for my audit conclusion.

Basis for Conclusion

1.0 Lack of Approved Scheme of Service, Staff Establishment and Code of Conduct

Audit revealed that the Institute had a total of twenty-two (22) employees as at 30 June, 2019. However, it was noted that there was no approved Staff Establishment and Scheme of Service which are required for effective performance of personnel functions including recruitment, job descriptions, placements, remuneration and promotions. It was also noted that the staff members had stagnated in the same job position for long with no career progressions. In addition, the Institute has not developed a Code of Conduct for its employees to outline and guide the norms, responsibilities and practices required of its employees.

2.0 Lack of an Internal Audit Function

The audit revealed that the Institute does not have an internal audit function and an audit committee. This is contrary to the provisions of Section 73 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.

To this extent, the Institute is in breach of the Law.

3.0 Lack of Risk Management Policy and Disaster Recovery and Business Continuity Plan

The audit revealed that the Institute does not have an approved Risk Management Policy and Disaster Recovery and Business Continuity Plan. 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 to develop a system of risk management and internal control that builds robust business operations.

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

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 Institute'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 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 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

My responsibility is to conduct an audit of the financial statements in accordance with International Standards of Supreme Audit Institutions (ISSAIs) 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. However, because of the matters described in the Basis for Disclaimer of Opinion section of my report, I was not able to obtain sufficient appropriate audit evidence to provide a basis for an audit opinion on these financial statements.

In addition, my responsibility is 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. I also consider internal control, risk management and governance processes and systems in order to give an assurance on the effectiveness of internal controls, risk management and governance 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. However, because of the matters described in the Basis for Conclusion on Lawfulness and Effectiveness in Use of Public Resources, and Internal Controls, Risk Management and Governance sections of my report, I was not able to obtain sufficient appropriate audit evidence to provide a basis for an audit conclusion.

I am independent of Machakos Technical Institute for the Blind 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.



CPA Nancy Gathungu, CBS
AUDITOR-GENERAL

Nairobi

14 January, 2022