

REPORT OF THE AUDITOR-GENERAL ON MATILI 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 Matili Technical Training Institute set out on pages 1 to 43, which comprise the statement of financial position as at 30 June, 2020, 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 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 the Matili 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 Education and Training (TVET) Act, 2013.

Basis for Adverse Opinion

1. Accuracy of Financial Statements

1.1 Inaccurate Presentation and Disclosure of the Financial Statements

Examination of the financial statements reflects the following casting errors and inaccuracies in the presentation of financial statements: -

- i. The statement of financial performance reflects Nil expenditure under Depreciation charge,
- ii. Presentation and disclosure of the Property, Plant and Equipment is not as per the prescribed format, accumulated depreciation and depreciation charge for the year have not been disclosed,
- iii. Statement of changes in net assets includes Revaluation gain/(Loss) balance of Kshs.62,195,940 which cannot be confirmed since it is not reflected under the statement of financial performance and Note 20 Property, Plant and Equipment. Further, Capital/Development grants received during the year amounting to

Kshs.2,547,250 differed with Kshs.313,837,347 reflected understatement of cashflows- financing activities,

- iv. Statement of comparison of budget and actual amounts reflects total receipts amounting to Kshs.198,345,099 which differs with the statement of the financial performance expenditure of Kshs.198,977,665 resulting to a difference of Kshs.632,566 being omitted rental revenue from facilities and equipment and other income. Further repairs and maintenance, property, plant and equipment additions and Grants and subsidies received during the year amounting to Kshs.9,009,044, Kshs.51,011,979 and Kshs.2,547,250, respectively have been omitted.
- v. The statement of cash flows for the year ended 30 June, 2020 reflects Net increase/(decrease) in cash and cash equivalents balance of Kshs.8,021,617 and Nil balance as at 30 June, 2020 and 30 June, 2019 respectively resulting to unexplained and unreconciled variance amounting to Kshs.81,711,163.30 and Kshs.399,708, respectively. Further, the statement of cash flows includes financing activities amounting to Kshs.14,837,854 and Kshs.296,452,243 in respect of Capital/Development Grants/Funds and Mentor Institutions balances brought down from prior years respectively. Inclusion of the cash inflows recorded outside the period under review contravenes best practice of restricting the report within the twelve months ended 30 June, 2020.

Consequently, the completeness, accuracy, presentation and disclosure of the financial statements could not be confirmed.

2. Unsupported Receipts and Expenditure

2.1 Unsupported Rendering of Services/Fees from Students

As disclosed in Note 8 to the financial statements, the statement of financial performance reflects an amount of Kshs.126,401,789 under rendering of services. However, the system generated ledger presented for audit supports a figure amounting to Kshs.74,270,738 leaving unsupported amount of Kshs.52,131,051.

2.2 Unsupported Balance on Student Debtors

As disclosed in Note 18 to the financial statements, the statement of financial position reflects receivables from exchange transactions balance of Kshs.11,792,200 which includes an amount of Kshs.10,691,357 in respect of students debtors. However, it was noted that the students debtors balance of Kshs.10,691,357 differ with the system generated ledger records balance of Kshs.18,405,037 resulting to unreconciled variance amounting to Kshs.69,713,680.

In the circumstances, the accuracy and completeness of 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 Matili Technical Training 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 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. Except for the matters described in the Basis for Adverse Opinion section, There were no other key audit matters to report in the year under review.

Other Matter

Unresolved Prior Year Matters

In the audit report of the previous year, several issues were raised under the Report on Financial Statements, Report on Lawfulness and Effectiveness in Use of Public Resources, and Report on Effectiveness of Internal Controls, Risk Management and Governance. However, the Management has not resolved the issues or given any explanation for failure to adhere to the provisions of the Public Sector Accounting Standards Board templates and The National Treasury's Circular Ref: No. AG.4/16/3 Vol.1(9) dated 24 June, 2020.

REPORT ON LAWFULNESS AND EFFECTIVENESS IN USE OF PUBLIC RESOURCES

Conclusion

As required by Article 229(6) of the Constitution, based on the audit procedures performed, except for the matter described in the Conclusion on Lawfulness and Effectiveness in Use of Public Resources section of my report, I confirm that public resources have not been applied lawfully and in an effective way.

Basis for conclusion

1. Over Expenditure

During the year under Review, Matili Technical Training Institute budgeted to spend an amount of Kshs.96,309,469.00 under various vote heads, but had actual expenditure amounting to Kshs.115,252,047 leading to an over expenditure amounting to Kshs.19,904,884 or 21%. Huge budget variances are a sign of weak budgetary processes.

Over expenditure beyond budgetary ceiling contradicts section 51(2) of the Public Finance.

2. Unbudgeted Expenditure

The Institution made payments towards pay as you eat or catering, caution money, examinations, NITA, production unit and tender in the year 2019-2020 amounting to Kshs.18,645,837. However, the expenditure items were not provided for in the approved budget for the year.

Consequently, budget and budgetary controls were not adhered to.

3. Non-Compliance with Legal Provisions on Ethnic Diversity

As disclosed under Note 12 to the financial statements, the statement of financial performance reflects an amount of Kshs.12,616,563 on employee costs. However, it was noted that the Institute is not in compliance with the provisions of Section 7 (1&2) of the National Cohesion and Integration Act No.12, which requires that no public establishment shall have more than one third of its staff from the same ethnic community.

The institutions staff establishment revealed that, under the teaching staff category, one ethnic community accounted for 74% of the total staff establishment. While for non-teaching staff category, the same one community had an ethnic representation of 92%.

Consequently, the institution is in breach of the law on ethnic representation in public institutions.

4. Un Approved Salary Structure and Incomplete Payroll

As disclosed in Note 12 to the financial statements, the statement of financial performance reflects an amount of Kshs.12,616,563 on employee costs. Review of the payroll revealed that the institute operated without an approved salary structure during the year under review. It was also noted that the institute does not have a remuneration policy, therefore the basis the institution uses to pay its staff salaries could not be established. The payroll also did not capture staff Personal data that includes Identification number; Personal employment number; Date of Birth, Dates of Employment, Job group or grade, salary increment date; KRA PIN number, expected retirement date; employee bank account numbers; NSSF and NHIF Numbers.

In the absence of correct KRA PIN numbers, NSSF and NHIF numbers it remains unclear whether the management remits the deduction to the relevant statutory authorities as required.

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, because of the significance of the matter discussed in the Basis for Adverse Opinion section of my report, I confirm that internal controls, risk management and governance were not effective.

Basis for conclusion

Lack of Institutional Policies and Guidelines

The following policies and guidelines have not been developed and approved for implementation;

- i. Strategic Plan
- ii. Finance Manual
- iii. Human Resource manual.
- iv. Risk Management Policy
- v. Internship Policy and Guidelines
- vi. Service Charter
- vii. ICT Policy
- viii. Asset Management Policy
- ix. Internal Audit Charter
- x. Departmental Operational Manuals
- xi. Training Policies and Guidelines

Lack of approved policy guidelines may compromise effective and efficient management of the institutions resources.

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 Institute 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 abolish the Institution 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 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 the Institutes' 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 Institute 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 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

08 February, 2022