

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

REPORT ON THE FINANCIAL STATEMENTS

Adverse Opinion

I have audited the accompanying financial statements of Mawego Technical Training Institute set out on pages 1 to 48, 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 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 Mawego Technical Training Institute as at 30 June, 2019, and of its financial performance and its cash flows for the year then ended, in accordance with the International Public Sector Accounting Standards (Accrual Basis) and do not comply with the Technical and Vocational Education and Training Act, 2013 and Public Finance Management Act, 2012.

Basis for Adverse Opinion

1. Opening Balances and Comparatives Figures

Management did not submit financial statements for the 2017/2018 financial year to the Auditor General for audit contrary to the provision of Section 47 of the Public Audit Act, 2015.

Consequently, the validity, completeness and accuracy of all the opening balances in the financial statements for the year ended 30 June, 2019 could not be confirmed.

2. Revenue from Non-Exchange Transactions

As disclosed in Note 6 to the financial statements, the statement of financial performance reflects Kshs.36,316,550 in respect to transfers from the National Government-grant/gifts in kind for the year ended 30 June, 2019 whose income ledger was not provided for audit.

In the circumstances, the accuracy and completeness of the Kshs.36,316,550 could not be confirmed.

3. Revenue from Exchange Transactions

As disclosed in Note 10 to the financial statements, the statement of financial performance reflects Kshs.154,115,042 in respect to rendering of services-fees from students for the year ended 30 June, 2019. However, the income ledger for the Kshs.154,115,042 was not provided for audit.

Further, the following additional anomalies were noted:

- i. The Institute issued receipts to students against among other documents, bank deposit slips whose bank transaction reference numbers was entered in the cash book. However, a comparison of the cash book and bank statements revealed one hundred and two (102) transaction reference numbers amounting to Kshs.1,035,290 which were entered in the cash book but could not be traced in the bank statements thereby casting doubt on the genuineness of the deposit slips.
- ii. Twenty-one (21) receipts serial numbers 13756, 14210, 14211, 14212, 14213, 15117, 16148, 16224, 16308, 17432, 18268, 18470, 18863, 18977, 19037, 19038, 19039, 19232, 20496, 20698 and 22130. of unknown value were not entered in the cash book and could also not be tracked back to the receipt books as voided with approval.

In the circumstances, the accuracy and completeness of revenue from exchange transactions of Kshs.154,115,042 could not be confirmed.

4. Receivables from Exchange Transactions

As disclosed in Note 29 to the financial statements, the statement of financial position reflects Kshs.32,023,578 on receivables from exchange transactions which relates to student and rent debtors as at 30 June, 2019. However, supporting documents including debtors listing, rental fees structure and ageing analysis were provided for audit.

In the circumstances, the accuracy, validity, and completeness of the Kshs.32,023,578 could not be confirmed.

5. Cash and Cash Equivalents

As disclosed in Note 28 to the financial statements, the statement of financial position reflects cash and cash equivalents balance of Kshs.108,551,056 as at 30 June, 2019. However, the following anomalies were noted during the audit:

- i. Included in the Kshs.108,551,056 is Kshs.67,745,716 which was not supported with bank balance confirmation certificates and bank statements.
- ii. The cash book reflects a balance of Kshs.221,989,622 while the financial statements reflects Kshs.108,551,056, resulting to an unreconciled variance of Kshs.113,438,566.
- iii. A comparison of bank statements and cash book revealed payments in the bank statements but not in the cash books totaling Kshs.32,160,675 and thus understating the cash and cash bank balance by the same amount.
- iv. Cash books and bank reconciliation statements for nine (9) bank accounts with balances amounting to Kshs.37,260,882 were not provided for audit:

Consequently, the accuracy and completeness of cash and cash equivalents balance of Kshs.108,551,056 as at 30 June, 2019 could not be confirmed.

6. Non-Current Assets

6.1. Property, Plant and Equipment

As disclosed in Note 33 to the financial statements, the statement of financial position reflects Kshs.438,285,293 in respect to property, plant and equipment as at 30 June, 2019. However, the following anomalies were noted during the audit:

- i. Assets Register in support of the balances was not provided for audit.
- ii. The Institute did not have an approved depreciation policy for property, plant and equipment.
- iii. Tractors of unknown value which were donated to the Institute by the Parent Ministry were not included in the Kshs.438,285,293.

In the circumstances, the accuracy and completeness of the property, plant and equipment balance of Kshs.438,285,293 as at 30 June, 2019 could not be confirmed.

6.2. Intangible Assets-Software

As disclosed in Note 34 to the financial statements, the statement of financial position reflects Kshs.889,719 in respect to intangible assets as at 30 June, 2019. However, the asset register and an approved amortization policy were not provided for audit.

Consequently, the completeness and accuracy of the intangible assets balance of Kshs.889,719 could not be confirmed.

6.3. Biological Assets

Documents provided for audit including the farm ledgers and physical verification revealed that the Institute had in its possession ten (10) cows. However, the cows had not been valued and disclosed under total non-current assets balance of Kshs.439,175,012 in the financial statements as at 30 June, 2019.

Consequently, the accuracy and completeness of the total non-current assets balance of Kshs.439,175,012 as at 30 June, 2019 could not be ascertained.

7. Current Liabilities

7.1. Trade and Other Payables from Exchange Transactions

As disclosed in Note 36 to the financial statements, the statement of financial position as at 30 June, 2019 reflects Kshs.19,319,148 in respect to trade and other payables from exchange transactions. However, supporting invoices for the Kshs.19,319,148 were not provided for audit.

Further, as disclosed in Note 42 to the financial statements, the statement of financial position reflects Kshs.9,262,466 in respect to payments received in advance relating to fees paid in advance. However, supporting students listing was not provided for audit.

In the circumstances, the completeness and accuracy of the Kshs.19,319,148 and Kshs.9,262,466 could not be confirmed.

7.2. Deferred Income

As disclosed in Note 40 to the financial statements, the statement of financial position reflects Kshs.30,360,000 on deferred income which Management explained as relating to capitation funds receivable from the Government for the year under review. However, the Kshs.30,360,000 did not therefore qualify to be a deferred income since it was not funds received in advance for future utilization.

No explanation was given for the anomalous treatment of capitation funds receivable in the financial statements.

The audit was conducted in accordance with International Standards of Supreme Audit Institutions (ISSAIs). I am independent of the Mawego 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 adverse opinion.

Key Audit Matters

Key audit matters are those matters that, in my professional judgement, 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 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

Loan Repayments

Documents provided for audit revealed the Institute had paid Kshs.863,838 on two equal instalments of Kshs.431,919 which Management explained to be a loan repayment to a bank in respect of an asset financing loan for the purchase of Institute's thirty-three-seater bus. However, the details of the financing agreement were not provided for audit.

Consequently, the validity and regularity of the Kshs.431,919 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, because of the significance of the matters discussed in the 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. Risk Management Policy Framework

Documents provided for audit revealed that the Institute did not have a Risk Management Policy contrary to Regulation 165(1) of the Public Finance Management (National Government) Regulations, 2015.

In the circumstances, the Institute's risk management strategies including risk identification, prioritization and mitigation mechanisms for the year under review could not be confirmed.

2. Failure to Establish an Internal Audit Function

Documents provided for audit revealed that the Institute did not have an internal audit function in place contrary to Section 73(1)(a) of Public Finance Management Act, 2012.

In the circumstances, the Institute internal control for the year under review could not be ascertained.

The audit was conducted in accordance with ISSAI 2315 and ISSAI 2330. The standard requires that I plan and perform the audit to obtain assurance about whether 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, risk management and governance.

In preparing the financial statements, Management is responsible for assessing the ability of Mawego Technical Training Institute to sustain services, disclosing, as applicable, matters related to sustainability of services and using the International Public Sector Accounting Standards (Accrual Basis) 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

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 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 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 the ability of Mawego Technical Training Institute 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 Institute to cease sustaining 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 Mawego 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

18 November, 2021