

REPORT OF THE AUDITOR-GENERAL ON MICHUKI 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 Michuki Technical Training Institute set out on pages 13 to 29, 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 the 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 Michuki 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 International Public Sector Accounting Standards (Accrual Basis) and do not comply with the Public Finance Management Act, 2012 and the Technical Training Education and Training Act, 2013.

Basis for Adverse Opinion

1. Unaudited Opening Balances and Comparatives Figures

Section 47 of the Public Audit Act, 2015 provides 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. However, Management did not submit financial statements for the year ended 30 June, 2018 and earlier years to the Auditor General for audit. Consequently, the validity, completeness and accuracy of the opening balances of retained earnings and revaluation reserves of Kshs.33,189,205 and Kshs.524,614,000 respectively reflected in the statement of changes in net assets and of the opening cash and cash equivalents balance of Kshs.26,649,419 reflected in the statement of cash flows could not be confirmed. In addition, the accuracy of the financial statements for the year ended 30 June, 2019 could not be confirmed.

2. Accuracy of Property, Plant and Equipment Balance

The statement of financial position reflects a property, plant and equipment balance of Kshs.497,456,451. However, information available, indicated that the Institute occupied various parcels of land which were not valued or disclosed under property, plant and equipment. Further, no ownership documents were presented for the land occupied by the Institute.

Under the circumstances, the accuracy and completeness of the reported property, plant and equipment balance of Kshs.497,456,451 could not be confirmed.

Further, Note 15 to the financial statements gives a schedule of the property, plant and equipment (PPE) giving details of the various assets under the ownership of the Institute. Included in the PPE schedule are furniture and fittings with a net book value indicated as Kshs.13,065,000. However, the re-computed net book value is Kshs.13,993,000 thereby resulting in an unexplained variance of Kshs.928,000. It should however be noted that the total net book value of all the assets of Kshs.497,456,451 is correctly stated and agrees with the statement of financial position balance.

3. Erroneous Classification, Presentation and Disclosure of Account Balances

The statement of financial performance reflects a total expenditure of Kshs.84,985,622 on use of goods and services. Further, disclosure on the expenditure was provided under Note 6 to the financial statements. However, the following anomalies were noted:

- (i) The expenditure balance included an amount of Kshs.709,055 which has been described as trade payables. It was not clear why the item was classified as an expenditure instead of a liability.
- (ii) The expenditure included an amount of Kshs.1,920,627 described as savings account expenses. However, the amount was in respect of government grants transferred from the main account to a savings account of the Institute and did not constitute an expenditure.
- (iii) The expenditure included an amount of Kshs.1,100,000 received on behalf of Ndia Technical Training Institute and described as government grant transfer.
- (iv) The expenditure included an amount of Kshs.5,003,134 described as development which was incurred in respect of construction of buildings for the Institute. However, the amount was expensed in the statement of financial performance instead of being recognized as an addition to non-current assets.

Consequently, the accuracy and validity of the Kshs.84,985,622 expenditure in respect of use of goods and services could not be confirmed.

4. Unreconciled Cash and Cash Equivalents

The statement of financial position reflects cash and cash equivalents balance of Kshs.28,670,788 which as disclosed at Note 10 to the financial statements comprised of Kshs.28,327,299 and Kshs.343,489 for current bank account balance and cash in hand respectively. However, the current account balance of Kshs.28,327,200 was not analyzed and reconciled to the bank statement balances totaling Kshs.47,765,628.51 as at 30 June, 2019 as analyzed below:

Account Number	Bank	Amount (Kshs.)
1106617541	KCB Muranga	14,661,107
1107220416	KCB Muranga	2,188,172
30298366348	Equity Bank-Muranga	24,175,169
5109000000030	AMICA	6,741,181
Total		47,765,629

The bank reconciliation statements in support of the balance of Kshs.28,670,788 were also not provided for audit review.

Further, an amount of Kshs.5,099,847 received on behalf of the Institute during the year under review in the KCB Bank Account No.1175635790 was credited to the account without a corresponding entry in the revenue ledgers and the corresponding cashbook.

As a result, the completeness and accuracy of cash and bank balances of Kshs.28,670,788 as at 30 June, 2019 could not be confirmed.

5. Accuracy of Statement of Cashflows

The statement of cashflows reflects a cash and cash equivalents balance of Kshs.28,670,788 as at 30 June, 2019. However, the re-calculated amount of cash and cash equivalents is Kshs.36,583,334 resulting into a difference of Kshs,7,912,546 which has not been explained.

The accuracy of the statement of cash flows could therefore, not be ascertained.

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

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 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, public resources have not been applied lawfully and in an effective way.

Basis for Conclusion

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 Adverse Opinion and 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 overall governance were not effective.

Basis for Conclusion

Lack of an Internal Audit Function and Audit Committee

The Institute had not established an internal audit function and an audit committee as required Section 73(1) and (5) of the Public Finance Management Act, 2012. As a result, the Institute did not have internal structures to provide advice and assurance to the Management regarding systems of internal control and risk management.

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 processes and systems of internal control, risk management and overall 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 Michuki Technical Training 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 resources are applied in an effective way.

Those charged with governance are responsible for overseeing the 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 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's ability 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 the Michuki 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

14 January, 2022