

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

REPORT ON THE FINANCIAL STATEMENTS

Qualified Opinion

I have audited the accompanying financial statements of Musakasa Technical and Training Institute set out on pages 1 to 31 which comprise of the statement of financial position as at 30 June, 2019, 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, except for the effects 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 Musakasa Technical and 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 comply with the Technical and Vocational Education and Training (TVET) Act, 2013 and the Public Finance Management Act, 2012.

Basis for Qualified Opinion

1. Cash and Cash Equivalents

The statement of financial position reflects cash and cash equivalents balance of Kshs.10,655,723. The Institution has three (3) bank accounts in Kenya Commercial Bank, one (1) account in Cooperative Bank, one Mpesa account and cash in hand whose balances totalled to Kshs.10,655,723. However, although the certificates of bank balances and bank reconciliations were provided, it was noted that the board of survey report confirming both the bank and cash balances was not provided. This contravened the National Treasury guidelines on year end closing procedures, which require an Accounting Officer to appoint a Board of Survey within the institution to examine and verify the cash in hand and the bank balances as at the close of business on the last working day of the year. This examination must be carried out before the opening of business on the first day of the new financial year.

In the circumstances, the accuracy of cash and cash equivalents balance of Kshs.10,655,723 could not be confirmed.

2. Property, Plant and Equipment

The statement of financial position reflects property, plant and equipment net book balance of Kshs.133,575,452 as detailed at Note 21 to the financial statement. However, the balance of Kshs.138,497,899 reported at the beginning of the financial

year 1 July, 2018 in the property, plant and equipment movement schedule was supported by minutes dated 3 July, 2018 which were written by the asset valuation committee appointed by the Principal. No explanation or documentation was provided on how the reported values were determined. Further, included in the additions of assets balance of Kshs.7,856,156 during the year was an amount of Kshs.1,950,000 relating to capital work in progress which was not supported by any documentation.

In the circumstances, the accuracy of the property, plant and equipment balance of Kshs.133,575,452, could not be confirmed.

3. Trade and Other Payables from Exchange Transactions

Included in the statement of financial position and at Note 22 to the financial statements is the balance of Kshs.2,708,362 for trade and other payables from exchange transactions. However, there were no individual creditors ledger maintained to record invoices from the suppliers, demand payments for goods supplied, services rendered and/or work done. In addition, the ledger accounts with records of payments, to the suppliers and end of year balances were not provided. Further, creditors aging analysis was not maintained hence it was not possible to ascertain for how long the creditors have been outstanding.

In the circumstances, it was not possible to ascertain the accuracy and completeness of the trade and other payables from exchange transactions balance of Kshs.2,708,362 as at 30 June, 2019.

4. Statement of Changes in Net Assets

Included in the statement of changes in net assets is Kshs.146,354,055 being revaluation reserve as at 1 July, 2018. However, no explanation or supporting documents were provided for review on how the initial and revalued amounts of the property, plant and equipment which resulted to a revaluation reserve of Kshs.146,354,055 were derived. Further, according to the bank statement provided for audit review, the Ministry of Education wired amounts totaling to Kshs.25,905,108 between 13 August, 2016 to 9 April, 2018 into the Institute's development bank account, however, these funds were not included in the statement of changes in net assets. In addition, Kshs.3,566,000 credited in the development bank account on 31 May, 2019 was not disclosed in the statement of changes in net assets as summarized in the table below;

Date	Ref No.	Amount Kshs.
13-Aug-2016	ACCBALMVM FTI6226JI6N	7,620,167
20-Sep-2016	DPC Musakasa Techni 1249 5020	7,408,973
30-Dec-2016	DPC Musakasa Techni	1,120,968
23-Oct-2017	DPC Musakasa Techni	5,140,000
10-Jan-2018	DPC Musakasa Techni	3,500,000
09-Apr-2018	DPC Musakasa Techni	1,115,000
	Subtotal- 2016-2018	25,905,108
31-May-2019	DPC Musakasa Techni (2018/2019)	3,566,000
	Grand Total	29,471,108

In the circumstances, it was not possible to ascertain the accuracy and completeness of the statement of changes in net assets balance of Kshs.156,564,333 for the year ended 30 June, 2019.

5. Statement of Comparison of Budget and Actual Amounts

The statement of comparison of budget and actual amounts reflects actual income and actual expenses balance of Kshs.25,171,365 and Kshs.19,768,985 respectively while the statement of financial performance reflects total revenue and total expenses balance of Kshs.31,531,365 and Kshs.18,054,646 respectively, resulting to variances of Kshs.6,360,000 and Kshs.1,714,339 which have not been explained or supported.

Consequently, the accuracy of the statement of comparison of budget and actual amounts for the year under review could not be confirmed.

6. Inaccuracies in the Statement of Cash Flows

The statement of cash flows reflects cash and cash equivalents balance of Kshs.10,655,723 as at 30 June, 2019. However, the development funds of Kshs.3,566,000 received by the Institution on 31 May, 2019 were not included in the statements of cash flows as part of the cash inflows from other sources in the year under review. Further, the transfers from other Government entities/Govt. grants balance of Kshs.9,360,000 and rendering of services – fees from students balance of Kshs.9,091,848 which were reflected in the statement of cash flows were not detailed by way of notes to the financial statements.

In the circumstances, it was not possible to ascertain accuracy of the cash and cash equivalents balance of Kshs.10,655,723 reflected in the statement of cash flows.

7. Irregular Payments of Remuneration of Directors

The statement of financial performance and Note 13 to the financial statement reflects remuneration of directors' balance of Kshs.1,755,300. However, examination of records provided for audit review revealed that there were no documents in support of the appointment of the board members, contrary to Chapter one of the Mwongozo 2015, which provides that each board member shall be formally appointed to the board by name and by notice in the Kenya Gazette and thereafter issued with an appointment letter. Further, the Management did not deduct pay as you earn tax on the members sitting allowance contrary to Regulation 23(2)(a) of the Public Finance Management Regulations 2015 (National Government), which provides that an Accounting Officer is required to comply with any tax, levy, duty as provided for by legislation

In the circumstances, it was not possible to ascertain propriety of the expenditure of Kshs.1,755,300 incurred on remuneration of directors for the year under review.

8. Unsupported Expenditure on Repair and Maintenance

Included in the repair and maintenance balance of Kshs.1,442,545 in the statement of financial performance and Note 15 to the financial statements is an amount of

Kshs.265,593 being payment to a contractor for the construction of a gate. However, the Management did not avail tender documents, contract agreement, bill of quantities, tender advertisement, tender evaluation minutes, certificate of works done, invoice and local service order in support of the expenditure, contrary to Section 9 (1)(e)(i) of the Public Audit Act, 2015, which states that the Auditor General shall have access to all books, records, returns, reports, electronic or otherwise and other documents of entities listed under Article 229 (4) of the Constitution with respect to audit.

In the circumstances, it was not possible to ascertain how the contractor was identified, the contract sum and the detail of works against which the payments were made.

9. Irregular Award of Contract on Proposed Renovations of Five (5) Classrooms.

Included in the property, plant and equipment balance of Kshs.133,575,452 reflected in the statement of financial position and Note 21 to the financial statements are additions in the year totalling to Kshs.7,856,156. Included in this balance are payments totalling to Kshs.4,492,481 that were made to a local contractor who was contracted to renovate five (5) classrooms at a contract sum of Kshs.4,976,260. It was further noted that another local tenderer, had been disqualified on the basis of quoting Kshs.4,608,390 which was said to be 16.3% below engineer's estimate of Kshs.5,500,000, as per tender evaluation committee minutes signed on 24 April, 2018. As a result, a regret letter was sent to them on 2 May, 2018 indicating that their tender was unsuccessful. This was contrary to Section 70(6)(b) of the Public Procurement and Asset Disposal Act, 2015 which states that a person shall not be disqualified on the basis that a bidder quoted above or below a certain percentage of the engineer's estimate. In addition, had the first tenderer been awarded the tender, the Institute could have saved Kshs.367,870.

In the circumstances, it was not possible to ascertain whether the Institute got value for money on the project.

10. Unsupported Expenditure on Employee Costs

The statement of financial performance and Note 12 to the financial statement reflects employee costs of Kshs.3,715,132 as salaries and wages. It was however noted that the Institution did not have an approved pay structure for the basic salaries and allowances. It was therefore not clear the basis the Institution used to pay its staff during the year under review, contrary to Article 230(4)(b) of the Constitution of Kenya, 2010 which states that the powers of the Salaries and Remuneration Commission include advising both the national and county governments on the remuneration and benefits of other public officers who are not state officers.

Consequently, the Management of the Institution breached the law.

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

Other Matter

Budgetary Control and Performance

The statement of comparison of budget and actual amounts reflects final revenue budget and actual on comparison basis of Kshs.31,169,774 and Kshs.25,171,365 respectively resulting to an under-funding of Kshs.5,998,409 or 19% of the budget. Similarly, the Institution expended Kshs.19,768,985 against an approved budget of Kshs.31,169,774 resulting to an under-expenditure of Kshs.11,400,789 or 37% of the budget. The underfunding and underperformance affected the planned activities and may have impacted negatively on service delivery to the students.

In addition, although the budget provided was approved by the board, no evidence was provided to confirm that the College submitted the budget for the year under review to the line Ministry for approval as per the guidelines on preparation of annual budget for a State Corporation.

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 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. Late Submission of Financial Statements

According to Section 47(1) of the Public Audit Act, 2015 the Constitution of Kenya and the Public Finance Management Act, 2012, the financial statements are required to be submitted to the Auditor-General within three months after the end of the fiscal year to which the accounts relate. However, during the year under review, the financial statements for Musakasa Technical Training Institute were submitted for audit on 17 October, 2019, seventeen days after the statutory deadline of 30 September, 2019. No explanation was given for the late submission of the financial statements outside the statutory timeline.

In the circumstances, the Technical Training Institute Management acted in breach of the law.

2. Lack of a Board Charter

Examination of the Institution records revealed that the board operated without a charter contrary to the Mwongozo Regulations on code of governance for state corporations which requires that the Board of Directors should develop and adopt a Board Charter which defines the roles, responsibilities and functions of the board and that the board should periodically review its Board Charter.

In the absence of the Board Charter, the board may not be able to execute their mandate 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 procedures performed, I confirm that, nothing has come to my attention to cause me to believe that internal controls, risk management and overall governance were not effective.

Basis for Conclusion

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 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 the Board of Governors

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 going concern 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.

The Board of Governors are responsible for overseeing the Institute's financial reporting process, reviewing the effectiveness of how the Institute 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 overall 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 overall 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 scepticism 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 Institute's ability to continue as a going concern. 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 to continue as a going concern.
- 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 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

17 December, 2021