

REPORT OF THE AUDITOR-GENERAL ON BONDO 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 Bondo Technical Training Institute set out on pages 1 to 17, which comprise the statement of financial position as at 30 June, 2019, and the statements 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, except for the effect 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 Bondo 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 comply with the Public Finance Management Act, 2012.

Basis for Qualified Opinion

1. Inaccuracies in the Financial Statements

1.1 Property, Plant and Equipment

As disclosed in Note 16 to the financial statements, the statement of financial position reflects a balance of Kshs.586,166,589 under property, plant and equipment as at 30 June, 2019. Information available indicates that the Institute received a generator of undetermined value from the Ministry of Vocational Training but ownership documents were provided for audit review. Further, the assets were not tagged and the Institute does not maintain a comprehensive fixed assets register.

Under the circumstances, the accuracy and completeness of property, plant and equipment balance of Kshs.586,166,589 as at 30 June, 2019 could not be confirmed

1.2 Unsupported Trade and Other Payables from Exchange Transactions

As disclosed in Note 18 to the financial statements, the statement of financial position reflects a balance of Kshs.9,687,310 under trade and other payables. However, customer account statements (invoices) detailing the invoiced amounts, payments received and the account balances as at 30 June, 2019 were not provided for audit review.

Consequently, the accuracy and validity of the trade and other payables balance of Kshs.9,687,310 as at 30 June, 2019 could not be confirmed.

1.3 Unsupported Receipts

1.3.1 Rendering of Services-Fees from Students

As disclosed in Note 3 to the financial statements, the statement of financial performance reflects revenue receipts of Kshs.88,329,962 in respect of rendering of services. However, the bank statements provided for audit reflected receipts of Kshs.71,379,979 resulting in an unexplained variance of Kshs.16,949,983.

1.3.2 Other Income

As disclosed in Note 4 to the financial statements, the statement of financial performance reflects revenue receipts of Kshs.1,263,740 in respect of other income. However, the receipts were not supported by relevant analysis and ledgers casting doubt on the accuracy of the other income receipts.

Under the circumstances, the accuracy of the financial statements for the year ended 30 June, 2019 could not be confirmed.

2. Going Concern Uncertainty

The Institute current liabilities balance of Kshs.117,831,342 exceeded the current assets balance of Kshs.82,929,186 resulting in a negative working capital of Kshs.34,902,156 as at 30 June, 2019. The Institute is therefore technically insolvent. The financial statements have been prepared on a going concern basis on the assumption that it will continue to receive financial support from both the National and County Governments, creditors and bankers. The going concern uncertainty has not been disclosed in the financial statements.

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

Other Matter

Budgetary Control and Performance

The statement of comparison of budget and actual amounts reflects budgeted revenue and actual on comparable basis of Kshs.149,614,000 and Kshs.134,985,996 respectively resulting to an under-funding of Kshs.14,628,004. Similarly, the Institute spent a total of Kshs.110,695,364 against an approved budget of Kshs.142,551,887 resulting to an under-expenditure of Kshs.31,856,523 or 22% of the budget. However, explanations for the variations in the budget performance were not provided for audit review. Further, the underfunding affected the planned activities and may have negatively impacted on service delivery to the public.

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. Lack of an Approved Staff Establishment

The Institute recruited five (5) staff of different cadres during the financial year under review. However, the Institute did not have an approved staff establishment and it is not clear how the vacancies were identified. This is also contrary to Section 57 of Public Service Commission Act, 2017 which states that the Commission should discharge its duty by monitoring, evaluating a public body staffing needs including establishment and terms and condition of service.

Consequently, the Management was in breach of the law.

2. Acquisition of Integrated Management Information System

The Institute acquired an Integrated Information System at a cost of Kshs.1,490,000 in respect for two modules namely, student management module and finance management module. The finance management module was supposed to generate financial reports including trial balance, general ledger, cash book, income statement and statement of financial position. However, the following were noted:

- i. The finance management module cannot generate the above reports as stated.

- ii. There was no maintenance contract provided for audit review hence the system may be prone to breakdown or manipulation by the vendor.
- iii. No warranty period was stated and areas covered once the system goes live.

Consequently, the Institute did not get value for money from the expenditure of Kshs.1,490,000 incurred on acquiring the Integrated Information System.

3. Construction of Bondo Technical Training Institute Applied Science Complex Phase 1

The statement of financial performance reflects an expenditure of Kshs.20,923,060 under contracted services which, as disclosed in Note 10 to the financial statement, includes an amount of Kshs.12,707,768 in respect of Applied Science Complex Phase I. The construction of the Institute's Applied Science Complex Phase 1 was awarded at a contract sum of Kshs.27,423,618 out of which a total of Kshs.19,503,351 had been paid since the start of the project on 21 March, 2018 up to 30 June, 2019. However, physical verification revealed that construction was 71% complete in September, 2020 as per the certificates provided. However, the contractor was not on site and the building was being damaged by rain making the structure weak.

Consequently, the Institute did not get value for money from the expenditure of Kshs.12,707,768 incurred during the year.

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 on whether the activities, financial transactions and information reflected in the financial statements are in compliance, in all material respects, with the authorities which govern them. I believe that the 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, except for the matters described in the Basis for Conclusion on Effectiveness of Internal Controls, Risk Management and Governance section of my report, I confirm that, nothing else has come to my attention to cause me to believe that internal controls, risk management and overall governance were not effective.

Basis for Conclusion

1. Lack of an Internal Audit Unit

The Institute did not have an Internal Audit Unit while the Audit Committee did not hold any meeting to enhance oversight, governance, accountability and transparency within the Institute. Further, the following documents were not provided for audit review:

- Approved risk policy frame work and approved risk profile for the Institute
- Approved internal audit budget and approved risk based annual work plan
- Approved Audit Charter

Consequently, the Institute's resources may be misused.

2. Failure to Approve the ICT Policy Documents

The ICT Department has a draft ICT Policy that is yet to be approved affecting the realization of the ICT objective in addressing ICT concerns. Further, the ICT Department did not have an ICT Strategic Committee that check issues dealing with IT governance. This is contrary to Section 110(1) of the Public Finance Management (National Government) Regulations, 2015 which states that the Accounting Officer for a national government entity should institute appropriate access controls needed to minimize breaches of information confidentiality, data integrity and loss of business continuity.

Consequently, the Institute internal control is weak putting the resources of the Institute at risk.

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 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.

In preparing the financial statements, Management is responsible for assessing the projects 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 money is applied in an effective manner.

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 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 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 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 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 the 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 Bondo 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 January, 2022