REPORT OF THE AUDITOR-GENERAL ON MAWEGO 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 Mawego Technical Training Institute set out on pages 1 to 45, 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 Mawego 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 the International Public Sector Accounting Standards (Accrual Basis) and do not comply with the Technical and Vocational Education and Training Act, 2013 and the Public Finance Management Act, 2012.

Basis for Adverse Opinion

1. Inaccuracies of the Financial Statements

The statement of financial performance reflects a total expenses comparative amount of Kshs.121,709,737. However, the recomputed amount is Kshs.127,832,016 thereby resulting in an unexplained variance of Kshs.5,672,279. The statement further shows a comparative amount of net surplus of Kshs.68,763,855 while the recomputed amount is Kshs.63,091,576 resulting in an unexplained variance of Kshs.5,672,279. In addition, the statement of changes in net assets reflects total changes in net assets balance of Kshs.616,223,816 while the recomputed balance is 676,620,936. The resultant difference of Kshs.60,397,120 has not been explained.

Consequently, the accuracy of the financial statements could not be confirmed.

2. Inaccuracies in Revenue from Non-Exchange Transactions

As disclosed in Note 6 to the financial statement, the statement of financial performance reflects transfers from the National Government – grants/gifts in kind balances of Kshs.116,184,291 which comprises amount of Kshs.71,955,000 in respect of capitation grants for the Institute and conditional grants totalling to Kshs.44,229,291 for six (6) technical training institutes and vocational centers and institutional management.

The conditional grants were transferred to the various institutions and centers through the Institute on behalf of the institutions under a mentorship programme. However, the Institute has recognized the conditional grants as part of its revenue. This is contrary to the accounting policy that revenues from non-exchange transactions with other

Government Entities are measured at fair value and recognized on obtaining control of the asset (cash, goods, services and property) if the transfer is free from conditions and it is probable that the economic benefits or service potential related to the asset will flow to the entity and can be measured reliably.

Consequently, the accuracy, validity and completeness balance of Kshs.116,184,291 could not be confirmed.

3. Inaccuracies in Cash and Cash Equivalents

As disclosed in Note 29 to the financial statements, the statement of financial position reflects cash and cash equivalents balance of Kshs.212,805,421. The balance includes an amount of Kshs.166,301,214 in a commercial bank account which differs with the respective cashbook balance of Kshs.225,799,802 resulting to an unreconciled difference of Kshs.59,498,588.

Further, the bank reconciliation statement showed the cashbook and bank statement balances of Kshs.166,301,214 and Kshs.169,275,634 respectively. The difference between the two records reconciled with unreceipted transfers balance of Kshs.698,000 and cash at hand balance of Kshs.2,276,420. Management did not make the necessary adjustments to the cashbook even after identifying the reconciling items.

Consequently, the accuracy, completeness and validity of the cash and cash equivalents of Kshs.212,805,421 could not be ascertained.

4. Unsupported Property, Plant and Equipment

As disclosed in Note 34 to the financial statements, the statement of financial position reflects property, plant and equipment balance of Kshs.482,335,680. However, comparative balances differed with the balances reflected in the audited financial statements for the financial year 2018/2019 as detailed below:

Component	Comparative Balances Reflected in the Financial Statement (Kshs)	Balance as per Audited Financial Statements (Kshs)	Variance (Kshs)
Buildings	308,657,560	314,456,680	5,799,120
Motor Vehicles	7,264,000	9,080,000	1,816,000
Furniture and Fittings	1,606,312	1,735,701	129,389
Computers	1,116,509	1,202,256	85,747
Other Assets	0	1,074,071	1,074,071
Plant and Equipment	3,318,273	2,612,889	705,384
Capital Work-In-Progress	77,453,163	66,322,639	11,130,524

The variances were not reconciled.

Further, the Management did not provide invoices and certificates of completion in support of cost of additions and transfers/adjustments amounting to Kshs.101,646,364 and Kshs.59,016,837 respectively, made during the year and the fixed assets register was not provided.

Consequently, the accuracy, completeness, valuation and existence of property, plant and equipment of Kshs.482,335,680 could not be ascertained.

5. Unsupported Trade and Other Payables from Exchange Transactions

As disclosed in Note 37 to the financial statements, the statement of financial position reflects trade and other payables from exchange transactions balance of Kshs.8,520,645. However, the Management did not provide supporting documents such as invoices from the suppliers or the relevant ledgers.

In the circumstance, the validity, accuracy and completeness of the trade and other payables from exchange transactions balance of Kshs.8,520,645 could not be confirmed.

6. Inaccuracies in Borrowings

The statement of financial position reflects current portion of borrowings balance of Kshs.2,159,595 and long-term borrowings balance of Kshs.1,555,741 both totalling to Kshs.3,715,336. However, the loan payment schedule provided reflected a balance of Kshs.1,555,741 resulting in an unexplained difference of Kshs.2,159,595.

Further, Note 43(b) to the financial statements reflects short term borrowings and long-term borrowings of Kshs.1,295,757 and Kshs.1,555,741 respectively, both totalling to Kshs.2,851,498. The balance differs with the balance reflected in the statement of financial position balance of Kshs.3,715,336 resulting in an unexplained variance of Kshs.863,838.

In the circumstances, the accuracy, validity and completeness of the current portion of borrowings balance of Kshs.2,159,595 and long-term borrowings balance of Kshs.1,555,741 could not be confirmed.

7. Inaccuracies in Reserves Balance

The statement of financial position reflects a reserve balance of Kshs.408,017,023. The balance differed with the balance reflected in the statement of changes in net assets of Kshs.384,334,430 by an unreconciled variance of Kshs.23,682,593.

In the circumstances, the accuracy and completeness of the reserves balance of Kshs.408,017,023 could not be confirmed.

8. Wrong Classification of Development Expenses

As disclosed in Note 22 to the financial statements, the statement of financial performance reflects development expenses balance of Kshs.18,559,530 in respect of construction of the mentor institution. The balance includes various expenditure items that were capital in nature and were also recognized under non-current assets in the statement of financial position resulting to double accounting.

In the circumstances, the accuracy and completeness of development expenses totalling to Kshs.18,559,530 could not be confirmed.

9. Inaccuracies in Revaluation Gain on Biological Assets

As disclosed in Note 23 to the financial statements, the statement of financial performance reflects unrealized gain on fair value of investments balance of Kshs.466,500. The balance was in respect of biological assets, which were wrongly described as an investment.

Further, an undated valuation report showed that the balance was the gross value of the biological assets and not the unrealized gain or loss arising on initial recognition of a biological asset at fair value less costs to sell as required by International Public Sector Accounting Standard No.27 Paragraph 30. In addition, the identified gross value of the biological assets was not recognized in the statement of financial position.

In the circumstances, the accuracy, completeness and validity of the unrealized gain on fair value of investments of Kshs.466,500 could not be confirmed.

10. Unsupported Capital/Development Grants

The statement of changes in net assets reflects capital/development grants received during the year totalling to Kshs.20,171,229. However, the schedule in support of this grants was not provided for audit review.

Consequently, the accuracy, completeness and validity of capital/development grants received during the year totalling to Kshs.20,171,229 could not be ascertained.

11. Unsupported Conditional Grants

The statement of financial position reflects a conditional grants balance of Kshs.12,112,985 being the amount held by the Institute on behalf of other institutes under the mentorship programme. However, a supporting ledger was not provided for audit review.

Consequently, the accuracy, validity and completeness of conditional grants balance of Kshs.12,112,985 could not be ascertained.

12. Inaccuracies in the Statement of Cash Flows

12.1 Net Cash Flows Used in Investing Activities

The statement of cash flows reflects net cash flows used in investing activities balance of Kshs.38,357,063. The following matters were noted:

(i) The balance includes purchase of property, plant, equipment and intangible assets balance of Kshs.31,331,326 which was not supported.

(ii) The decrease in trade payables balance of Kshs.10,798,503 was included but should otherwise have been included in net cash flows from operating activities. In addition, the increase in the conditional grant balance of Kshs.7,698,954 was also included but should otherwise have been included in net cash flows from financing activities.

(iii) The decrease in non-current receivables balance of Kshs.6,573,346 differs with the nil changes reflected in the statement of financial position.

(iv) The decrease in inventories balance of Kshs.624,118 is wrongly recognized as a cash outflow instead of a cash inflow. This item should have been classified under cash flows from operating activities.

(v) The decrease in the receivables from non-exchange transactions balance of Kshs.9,562,500 was also wrongly recognized as cash outflow instead of cash inflow. This item should have been classified under cash flows from operating activities.

12.2 Net Cash Flows used in Financing Activities

The statement reflects net cash flows used in financing activities balance of Kshs.10,677,406. However, the following matters were noted:

(i) The balance includes proceeds from borrowings balance of Kshs.863,838 which was not supported/ explained.

(ii) There was a repayment of borrowings balance of Kshs.2,159,595 which differed with the balance of Kshs.973,662 shown in the statement of financial position.

(iii) The deferred income balance of Kshs.1,064,400 was also included but it should have otherwise been included in the net cash flows from operating activities.

(iv) The balance includes payments received in advance balance of Kshs.9,262,466 which should have otherwise been included in the net cash flows from operating activities.

(v) The increase in current portion borrowings from balance of Kshs.1,295,757 to Kshs.2,159,595 was not recognized in the statement of cash flows.

Consequently, the accuracy, validity and completeness of balances reflected in the statement of cash flows could not be ascertained.
The audit was conducted in accordance with International Standards of Supreme Audit Institutions (ISSAIs). I am independent of the Mawego 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. There were no key audit matters to report in the year under review.

Other Matter

1. Budgetary Control and Performance

The statement of comparison budget and actual amounts reflects final expenditure budget and actual on comparable basis of Kshs.310,714,200 and Kshs.180,632,273 respectively resulting to an under-expenditure of Kshs.130,081,927 or 28% of the budget. Further, the statement reflects development expenditure budget of Kshs.117,000,000 which includes Kshs.75,000,000 for various projects which were not implemented.

Based on the approved estimates, the under-expenditure affected the planned activities and may have impacted negatively on service delivery to the public.

2. Unresolved Prior Year Matters

In the audit report of the previous year, a number of paragraphs 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, Management has not resolved the issues nor disclosed all the prior year matter as provided by the Public Sector Accounting Standards Board templates and by The National Treasury's and Planning Circular reference 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, because of the significance of the matters discussed in the Basis for Adverse Opinion and Basis for Conclusion on Lawfulness and Effectiveness in Use of Public Resources sections of my report. I confirm that that public resources have not been applied lawfully and in an effective way.

Basis of Conclusion

1. Non-compliance with the Public Sector Accounting Standards Board Requirements

A review of the financial statements revealed that there were wrong references of the notes to the statement of financial performance and statement of financial position. This is contrary to Public Sector Accounting Standards Board (PSASB) reporting template issued for the year ended 30 June, 2020.

In the circumstances, the presentation of the financial statements for the year under review is not in accordance with the prescribed PSASB format.

2. Unapproved Budget

The statement of comparison of budget and actual amounts indicates that there was a total over-expenditure of Kshs.30,000,927 under three items of finance costs, grants and subsidies and general expenses. However, there was no evidence provided for audit review to confirm that the over expenditure was approved contrary to Section 52(1)(a) of Public Finance Management (National Government) Regulations, 2015 which states that no public officer can spend or commit funds until he or she has been properly authorized by means of an Authority to Incur Expenditure (AIE) to do so.

Consequently, the Management was in breach of the law.

3. Non-Compliance with Law on Ethnic Composition

During the year under review, the total number of employees at the Institute was one hundred and six (106) out of whom eighty (80) or 75% were members of the same ethnic community. This is contrary to Section 7(2) of the National Cohesion and Integration Act, 2008 which states that "no public establishment shall have more than one third of its staff from the same ethnic community".

Consequently, the Management was in breach of the law.

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 governance were not effective.

Basis for Conclusion

1. Risk Management Policy Framework

A review of the internal control environment revealed that the Institute lacks a risk management strategy to ensure that all operations are performed within the approved risk tolerance levels. Further, there was no documented disaster recovery plan to deal with loss of data or information in case of systems failures.

In the circumstance, the Institute may not be able to respond effectively in an event of a disaster.

2. Lack of an Internal Audit Function

The Institute did not have an internal audit function in place during the year under review contrary to the requirement under Section 73(1)(a) of Public Finance Management Act, 2012 which states that every National Government entity shall ensure that it has appropriate arrangements in place for conducting internal audit according to the guidelines of the Accounting Standards Board.

Consequently, effectiveness of internal controls could not be confirmed.

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 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 governance.

In preparing the financial statements, Management is responsible for assessing the Institute's ability to continue to sustain its 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.

The Board of Governors is responsible for overseeing the Institute's financial reporting process, reviewing the effectiveness of how the Management 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 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 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
<u>AUDITOR-GENERAL</u>

Nairobi

16 February, 2022