

# **REPORT OF THE AUDITOR-GENERAL ON AHMED SHAHAME MWIDANI TECHNICAL TRAINING INSTITUTE FOR THE YEAR ENDED 30 JUNE, 2020**

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## **REPORT ON THE FINANCIAL STATEMENTS**

### **Adverse Opinion**

I have audited the accompanying financial statements of Ahmed Shahame Mwidani Technical Training Institute set out on pages 1 to 30 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 Ahmed Shahame Mwidani 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 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**

#### **1.0 Unsupported Capital Fund**

The statement of financial position reflects a capital fund balance of Kshs.67,761,269. However, supporting documents for the balance were, as previously reported, not provided for audit.

Consequently, the accuracy of the capital fund balance could not be confirmed.

#### **2.0 Unapproved Board of Governors Allowances**

As previously reported, the statement of financial performance reflects Board of Governors allowances of Kshs.2,239,236. Records provided for audit review indicated that the Institution's Board of Governors was appointed on July, 2017 in line with Section 28(1) of the Technical and Vocational Education and Training Act, 2013 and held its first sitting on 19 July, 2017 when the Board's allowances were set. However, records to indicate that the payment rates were approved by the Cabinet Secretary as provided for in Paragraph 17 of the Second Schedule of the Technical and Vocational Education and Training Act, 2013 were not provided for audit.

Further, whereas the Institute had a budget of Kshs.2,000,000 for Board of Governors allowances, actual expenditure amounted to Kshs.2,239,236 resulting to an over-expenditure of Kshs.239,236 or 10% for which approval was not provided for audit.

Consequently, the propriety of the Board of Governors allowances of Kshs.2,239,236 for the year ended 30 June, 2020 could not be confirmed.

### **3.0 Cash and Cash Equivalents**

The statement of financial position reflects Kshs.1,189,313 being the cash and cash equivalents balance as at 30 June, 2020. However, the following anomalies were observed regarding the balance:

#### **3.1 Unconfirmed Cash in Hand**

Note 15 to the financial statements reflects cash in hand of Kshs.62,884. However, the balance was not supported with a petty cash book and a cash count report as required by Regulation 93(17) of the Public Finance Management (National Government) Regulations, 2015.

#### **3.2 Offsetting of Credit Cashbook Bank Balance**

Note 15 to the financial statements reflects Kshs.1,189,313 in respect to cash and cash equivalents which is net of credit/negative cashbook balance of Kshs.343,060. This is contrary to Paragraph 48 of the International Public Sector Accounting Standard No.1 on presentation of financial statements which provides that assets and liabilities, and revenue and expenses, shall not be offset unless required or permitted by an IPSAS.

Further, audit review of the Current Account bank reconciliation statement for June, 2020 revealed that the cash book had a negative cash book balance of Kshs.343,950. The statement reflected direct deposits of Kshs.304,950 and cash withdrawals of Kshs.274,000. However, the date of the deposit, the cash book posting date and reasons for the unposted cash withdrawals were not provided for audit.

In addition, the bank reconciliations and cashbooks were prepared by the Institute Accountant but were not reviewed by an independent or senior officer. As a result, the ability of the Institute to prevent, detect or correct misstatements arising due to error or fraud, on a timely basis, could not be confirmed .

Consequently, the accuracy, completeness and existence of the cash and cash equivalents balance of Kshs.1,189,313 as at 30 June, 2020 could not be confirmed.

### **4.0 Receivables from Exchange Transactions**

The statement of financial position reflects Kshs.11,170,526 in respect of receivables from exchange transactions which, as disclosed at Note 16 to the financial statements, includes Kshs.10,869,750 relating to student debtors. Included in the

balance was Kshs.6,616,305 in respect to outstanding students' fees for two hundred and forty-four (244) students who had already sat for their examination making the recovery of the amount uncertain. The Management explained that the receivables related majorly to students sponsored by the County Government of Mombasa who had been invoiced on 25 April, 2019.

Further, the Institute did not have a policy on debtors' management and provision for bad and doubtful debts. In addition, Management did not provide the debtors' aging analysis and evidence of efforts made to collect long outstanding receivables.

Under the circumstances, the recoverability of the student debtors balance of Kshs.10,869,750 could not be confirmed.

## **5.0 Property, Plant and Equipment**

The statement of financial position reflects property, plant and equipment balance of Kshs.64,249,900. However, the following observations were made regarding the balance:

### **5.1 Unconfirmed Value of Assets**

Note 18 to the financial statements reflects historical cost of Kshs.68,989,768 for land and buildings out of which Kshs.67,761,269 related to land and buildings handed over by Kenya Coast National Polytechnic which is the mentor Institution. However, according to the interim payment certificates provided for audit, the total cost of the land and buildings was Kshs.53,262,416 resulting into an unsupported balance of Kshs.14,498,853.

Further, the Management depreciated the total cost of Kshs.68,989,768 at 2.5% as per the Institute's policy on depreciation of buildings, an indication that the value of land has also been depreciated. This is contrary to Paragraph 74 of IPSAS 17-Property, Plant and Equipment which provides that land has an unlimited useful life and therefore is not depreciated.

### **5.2 Undisclosed Assets**

As disclosed in the lists attached under Note 18 to the financial statements, the Institute received assorted assets from the Ministry of Education and other donors. However, the fair value of the assets as at the date of their acquisition has not been provided as required under Paragraphs 27 and 28 of IPSAS 17 – Property, Plant and Equipment. The assets have therefore not been included in the reported balance for property, plant and equipment.

### **5.3 Lack of Land Ownership Documents and Encroachment on Institute's Land**

Information provided for audit review indicated that the land on which the Institute is located was donated by the National Government. However, handing over report and the respective land ownership documents were not provided for audit review. In addition, audit inspection of the land in November, 2020, revealed a three-classroom school labelled as Mwingo Primary School, one third party undertaking business in a portion of the land and unidentified number of third parties farming on another portion of the same land. Approval for the activities on the Institutes land was not provided for audit.

Under the circumstances, the existence, accuracy, completeness, valuation and ownership of the property, plant and equipment balance of Kshs.64,249,900 and the rights and obligations of the Institute to these assets as at 30 June, 2020, could not be confirmed.

### **7.0 Unsupported Refundable Deposits from Customers**

The statement of financial position reflects Kshs.2,802,910 (2019-Kshs.2,509,060) with respect to refundable deposits from customers. However, as previously reported, details of the deposits including the identities of the students and the respective amounts owed to individual students were not provided for audit.

Further, the deposits were held in the Institute's main bank account and not in a separate bank account for deposits. Failure, by Management to operate a separate bank account for customers' deposits may result in misappropriation of the funds through their use in operational activities. Further, as disclosed in Note 15 to the financial statements, the bank account had a credit balance of Kshs.343,060 as at 30 June, 2020, an indication that Management had irregularly expended all the refundable deposits of Kshs.2,802,910 as at the same date.

Consequently, the accuracy and validity of refundable deposits from customers totaling to Kshs.2,802,910 could not be confirmed.

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

### **Budgetary Controls and Performance**

The statement of comparison of budget and actual amounts reflects final receipts budget and actual receipts on comparable basis of Kshs.29,599,500 and Kshs.7,930,067 respectively, resulting to an under-funding of Kshs.21,669,433 or 73% of the budget. Similarly, the Institute expended Kshs.14,615,958 against an approved recurrent budget of Kshs.25,299,500 resulting to an under-expenditure of Kshs.10,683,542 or 42% of the budget.

Further, the Institute had a development budget of Kshs.4,300,000 for the year under review. However, no development expenditure was incurred, indicating that various facilities and assets required for delivery of quality training to students as provided in the Institute's registration certificate were not procured as planned.

The under-funding and under-performance affected the planned activities and may have impacted negatively on service delivery.

## **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, based on the audit procedures performed, I confirm that, public resources have not been applied lawfully and in an effective way.

### **Basis for Conclusion**

#### **1.0 Uncompetitive Recruitment of the Principal**

As previously reported, records provided for audit review indicated that the Institute's Principal was appointed in February, 2017. However, documents to show how the Principal was recruited, recommendation of the Board of Governors to the Cabinet Secretary for appointment and that the Principal had signed a five (5) year contract were not provided for audit review. This is contrary to Section 30 (1) of the Technical and Vocational Education and Training Act, 2013 which provides that a Principal of a public training institution shall be recruited competitively.

Consequently, the Board of Governors was in breach of the law.

## **2.0 Non-Compliance with the Public Procurement and Asset Disposal Act, 2015**

### **2.1 Procurement of Teaching Material**

Note 14 to the financial statements reflects Kshs.1,775,166 in respect to teaching materials which includes Kshs.720,256 spent on purchase of teaching materials procured through requests for quotations. However, the Management did not provide details of the procurement process including quotations opening, evaluation and award minutes for audit review. In addition, use of requests for quotations is contrary to the First Schedule of the Public Procurement and Disposal (Amendment) Regulations, 2013 that sets Kshs.500,000 as the maximum amount for procurement through requests for quotations for Class C entities.

Consequently, the Management was in breach of the law.

### **2.2 Procurement of Security Services**

Note 9 to the financial statements reflects security costs of Kshs.600,000. Records provided for audit indicated that the Institute engaged the services of a security firm for provision of two (2) night guards at a cost of Kshs.15,000 per month per guard. However, during the year under review, the Management requested the security firm for two (2) additional security guards leading to a hundred percent (100%) variation of contract. This is contrary to Section 139(1) (6) of the Public Procurement and Asset Disposal Act, 2015 which provides that where variations result in an increment of the contract price by more than twenty-five percent, such variations shall be tendered for separately.

Further, audit review of the contract document revealed that the contract was open ended as it did not indicate the contract period (duration) or contract end date.

Consequently, the Management was in breach of the law.

### **3.0 Unapproved Budget**

The statement of comparison of budget and actual amounts reflects a revenue budget of Kshs.29,599,500, a recurrent expenditure budget of Kshs.25,299,500 and a development expenditure budget of Kshs.4,300,000. However, approval of the budget by the Cabinet Secretary as required by Section 13 (3) of the Technical and Vocational Education and Training Act, 2013 was not provided for audit.

Consequently, the legality of the expenditure incurred and the revenue collected by the Institute could not be confirmed.

# 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**

### **1.0 Lack of Segregation of Duties**

As previously reported, the Institute had four (4) employees at management level during the year under review. However, accounting functions were performed by one officer who also prepared bank reconciliation statements that were not reviewed by a senior officer.

Further, the procurement functions were also being undertaken by one officer.

In the absence of reviews and segregation of duty, the effectiveness of the internal control system could not be confirmed.

### **2.0 Lack of Internal Audit Function, Audit Committee and Risk Management Policy**

As previously reported, the Institute had not established an internal audit function as required by Section 73 (1)(a) of the Public Finance Management Act, 2012.

Further, the Board of Governors had not established an audit committee as required by Section 73(5) of the Public Finance Management Act, 2012. In addition, Management did not provide evidence that a risk management policy had been developed as required under Regulation 165(1) of the Public Finance Management (National Government) Regulations, 2015.

In the circumstances, the adequacy of the Institute's internal control, risk management and governance systems could not be confirmed.

### **3.0 Lack of Finance/Accounting, Procurement and Human Resource Manuals**

As previously reported, the Institute did not have finance, accounting, human resources and procurement policies and manuals.

In the absence of the policies and manuals, Management did not have sufficient and objective references on administration of critical functions.

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 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 Board of Governors**

Management is responsible for the preparation and fair presentation of these financial statements in accordance with International Public Sector Accounting Standards (IPSAS) 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 Institute's 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 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 follow the authorities which govern them, and that public money is applied in an effective way.

The Board of Governors are responsible for overseeing 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 Institute's 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 Institute's financial statements and review of compliance, I consider internal controls 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 skepticism throughout the audit. I also:

- Identify and assess the risks of material misstatement of the Institute's 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 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**  
**AUDITOR-GENERAL**

**Nairobi**

**16 February, 2022**

