

REPORT OF THE AUDITOR-GENERAL ON BURETI 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 Bureti Technical Training Institute set out on pages 1 to 21, which comprise of the statement of financial position as at 30 June, 2020, 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, 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, in all material respects, the financial position of the Bureti 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 Public Finance Management Act, 2012 and Technical and Vocational Education and Training Act, 2013.

Basis for Adverse Opinion

1. Inaccuracies in the Financial Statements

The statement of financial performance for the comparative year 2018/2019 reflects employees cost and other payments of Kshs.15,643,091 and Kshs.2,431,895 respectively which are not in agreement with the balances as per the cash flows statement as shown below:

Item	Note	Statement of Financial Performance Comparative Figure for 30 June, 2019 (Kshs.)	Cash flow Statement Comparative Figure for 30 June, 2019 (Kshs.)	Variance (Kshs.)
Employees cost	10	15,643,091	11,832,076	3,811,015
Other payments	11	2,431,895	1,519,492	912,403

Consequently, it was not possible to confirm the accuracy and completeness of the reported comparative figures on employees cost and other payments amounting to Kshs.18,074,986 in the statement of financial performance for the year ended 30 June, 2020.

2.0 Cash and Cash Equivalent

The statement of financial position reflects cash and cash equivalent of Kshs.77,514,061. However, the respective necessary bank reconciliation statements were not provided for audit review.

In the circumstances, the accuracy and completeness of the cash and cash equivalent balance of Kshs.77,514,061 could not be confirmed.

3.0 Property Plant and Equipment

3.1 Un-supported Additions to Work- in- Progress

Included in Note 18 property Plant and Equipment is additions to fixed assets figure of Kshs.9,456,061 out of which Kshs.1,966,431 includes Kshs.974,960 being work in progress for the year ended 30 June, 2020. However, out of this amount only Kshs.304,960 was supported with documentary evidence resulting to unsupported balance of Kshs.670,000.

3.2 Fixed Assets Register

Included in the statement of financial position is an amount of Kshs.301,241,307 being the total value of property, plant and equipment. However, the respective assets (land, buildings, furniture and fittings, plant and machinery and capital work in progress) were not captured in an asset register since the management did not maintain any asset register. This is contrary to Regulation 143(1) Public Finance Management Act Regulations, 2015 which states that an Accounting Officer shall be responsible for maintaining a register of assets under his or her control.

3.3 Valuation of Land and Buildings

Included in the property, plant and equipment balance of Kshs.301,241,307 as at 30 June, 2020 is an amount of Kshs.225,000,000 and Kshs.46,857,958 being the value of land and buildings respectively. However, it was noted that the land was allocated to the Institute by the government and the building (administration block and lecture halls) was constructed by the African Development Bank (ADB) and as such it was not clear how the Institute arrived at the two values since it was not supported by any valuation report.

Further, it was noted that the Institute acquired some assets from the parent Ministry far back in July, 2018 and whose costs or values have not been disclosed in these financial statements.

Consequently, the accuracy and completeness of the balance of Kshs.301,241,307 of property, plant and equipment could not be confirmed.

4.0 Transfer of Depreciation to Accumulated Surplus

Included in the statement of changes in net assets is Kshs.956,285 being depreciation charge for the year on buildings and structures. There has been no justification as to why this amount has been transferred to the statement of changes in net assets from capital grants

Consequently, the accuracy of the accumulated surplus of Kshs.150,324,217 could not be confirmed.

5.0 Unsupported Receivables from Exchange Transactions

The statement of financial position reflects a receivable from exchange transactions balance of Kshs.52,062,486. However, the balance was not supported by necessary receivables from exchange transactions ledger entries.

Consequently, the accuracy and completeness of the balance of Kshs.52,062,486 could not be confirmed.

6.0 Unsupported Trade and Other Payables from Exchange Transactions

The statement of financial position reflects trade and other payables from exchange transactions balance of Kshs.6,232,910. However, the balance was not supported by necessary trade payables and other payables transactions ledger entries.

Consequently, the accuracy and completeness of the balance of Kshs.6,232,910 could not be confirmed.

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

The Institute statement of comparison of budget and actual amounts reflects Kshs.102,725,000 in respect to approved revenue budget and actual revenue of Kshs.106,287,455 resulting to net budget over-realization of Kshs.3,562,455.

The statement also reflects approved expenditure budget Kshs.99,055,537 and actual expenditure of Kshs.47,137,521 resulting to a budget under-expenditure of Kshs.57,136,879.

The under expenditure represents equivalent goods and services budgeted for but not thus affecting service delivery to the residents of Bureti.

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 Conclusion on Lawfulness and Effectiveness in Use of Public Resources and the Basis for Adverse Opinion 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. Staff Ethnic Composition

Review of the staff establishment records of the Institute revealed that it had a total number of staff of eight nine (89), all of whom 100% are from the dominant ethnic community which is against Section 7(1) and (2) of the National Cohesion and Integration Commission Act, 2008 which states that all public establishments shall seek to represent the diversity of the people of Kenya in the employment of staff, no public establishment shall have more than one third of its staff from the same ethnic community.

The Management is therefore in breach of the law.

2. Failure to Carry Out Board of Survey

The Management did not carry out board of survey as required by Regulation 37(1) and 37(2) of the Public Financial Management (PFM) Regulations, 2015 which states that a board of survey shall conduct a survey of the assets as the case may be, by undertaking a physical inspection of the assets, stores, bank balances and books of account of vote.

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 the 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. Lack of an Internal Audit Department and an Audit Committee

The Institute has not established an audit department and audit committee. No explanation has been given for failure to establish the audit committee and internal audit department.

2. Lack of a Human Resource Department and Staff Establishment

The Institute did not have a Human Resource Department and it was noticed that payrolls were being processed through Microsoft Excel and were not processed through Integrated Payroll and Payroll Database (IPPD).

Further, it was noted that Institute did not have approved staff establishment to indicate authorized staffing levels in position for each category and variance. No evidence was provided to prove that the Institute had carried out job evaluation to determine the staff requirement for each category as such

It was therefore, not possible to confirm whether the Institute had engaged the optimal number of employees for all its categories.

Under the circumstances, the existence of effective controls in the management of human resources in the Institute could not be confirmed.

3. Failure to have an Approved ICT Policy

It was noted that the Institution did not have an ICT Policy and Business Continuity Plan that stipulates how ICT related risk are identified, managed and how to utilize ICT in monitoring the performance of the Institute.

Consequently, the Institute's IT assets may not be efficiently utilized and the Institute may be exposed to ICT security threats.

4. Lack of a Debtors and Creditors Policies

The Institution did not have a policy on debtors or creditors that stipulates how to deal with the debtors and creditors. Further ageing analysis for both creditors and debtors was not done as required.

Consequently, the Institute's ability to manage its resources and operations without clear guidelines may be weak.

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 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 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.

Those charged with governance are responsible for overseeing 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 Institute's policies and procedures may deteriorate.

As part of an audit conducted in accordance with ISSAIs, I exercise professional judgment 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 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 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 February, 2022