

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

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## **REPORT ON THE FINANCIAL STATEMENTS**

### **Qualified Opinion**

I have audited the accompanying financial statements of Bushiangala Technical Training Institute set out on pages 1 to 34, 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, 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 the Bushiangala 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 comply with the Technical and Vocational Education and Training Act, 2013 and the Public Finance Management Act, 2012.

### **Basis for Qualified Opinion**

#### **1. Inaccuracies in the Financial Statements**

The annual report and financial statements prepared and presented for audit had the following anomalies;

- i. The statement of financial performance reflects revenue from exchange transactions amounting to Kshs.15,384,373 for the comparative year. However, the prior year financial statements for 2018/2019 reflects a balance of Kshs.15,446,396 resulting to an unreconciled variance of Kshs.62,023.
- ii. The statement of cash flows reflects a payment to creditors and payments received in advance amounting to Kshs.7,120,748 and Kshs.304,440, respectively as disclosed in Note 28 to the financial statements. However, the statement of financial position reflects change in trade and other payables and change in payments received in advance totaling Kshs.3,997,069 and Kshs.98,905, respectively. The variance of Kshs.3,123,679 and Kshs.205,535 for change in trade and other payables and change in payments received in advance was not reconciled.

- iii. The statement of cash flows did not include adjustment for working capital changes for inventory and receivables from exchange and non-exchange transactions amounting to Kshs.420,950 and Kshs.7,854,749, respectively.
- iv. The statement of financial position reflects total assets amounting to Kshs.257,728,509 and total liabilities and reserves amounting to Kshs.257,778,509 resulting to a variance of Kshs.50,000 hence the statement is unbalanced.

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

## **2. Lack of Land Ownership Documents**

The statement of financial position reflects property, plant and equipment balance of Kshs.216,595,411 as disclosed in Note 22 to the financial statements which includes land valued at Kshs.3,225,000. However, 1 parcel of land owned by the institute did not have a title deed.

Consequently, the accuracy, completeness and ownership of land worth Kshs.3,225,000 could not be confirmed.

## **3. Unconfirmed Inventory Balances**

The statement of financial position reflects inventory balance of Kshs.471,477 as disclosed in Note 21 to the financial statements. However, quarterly and annual stock taking procedures were not performed during the year and review of the store records showed that the bin cards did not indicate the amounts and quantities purchased.

Consequently, the accuracy, completeness and valuation of the inventory balance of Kshs.471,477 could not be confirmed.

## **4. Unsupported Trade and Other Payables from Exchange Transactions**

The statement of financial position reflects trade and other payables from exchange transactions balance of Kshs.7,516,132 as disclosed in Note 24 to the financial statements. However, creditors ledgers in respect of suppliers' records and invoices were not provided for review.

In the circumstances, the accuracy and completeness of the trade and other payables from exchange transactions balance of Kshs.7,516,132 could not be confirmed.

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

### **1. Budgetary Control and Performance**

The statement of comparative budget and actual amounts reflects final receipts budget and actual on comparable basis of Kshs.106,641,364 and Kshs.94,222,162 respectively resulting to an underfunding of Kshs.12,419,202 or 11% of the budget. Similarly, the Institute expended Kshs.95,822,108 against an approved budget of Kshs.106,641,364 resulting to an under-expenditure of Kshs.10,819,256 or 10% of the budget.

The underfunding and underperformance 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, several issues were raised. However, the Management has not resolved the issues or given any explanation for failure to adhere to the provisions of the Public Sector Accounting Standards Board templates and The National Treasury 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, based on the audit procedures performed, I confirm that, nothing 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**

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 audit 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 governance were not effective.

## **Basis for Conclusion**

### **1. Unconfirmed Statutory Deductions**

The statement of financial performance reflects employee costs amounting to Kshs.12,124,630 as disclosed in Note 10 to the financial statements. Review of the payroll records showed that the payroll did not capture Kenya Revenue Authority Staff Personal Identification Numbers (PIN) to support the statutory deductions payments made.

Further, there was no documentary evidence that all statutory deductions including PAYE, NSSF, NHIF were remitted since there were no acknowledgement receipts from relevant authorities.

In the circumstances, the accuracy and completeness of the employee costs amounting to Kshs.12,124,630 could not be confirmed.

### **2. Lack of Ethnic Diversity**

Review of the staff data as at 30 June, 2020 showed that 98% of the workforce were from one dominant ethnic community. This is contrary to the provisions of Section 7(1) and (2) of the National Cohesion and Integration Act, 2008 which stipulates that no public establishment shall have more than one third of its staff from the same ethnic community.

Consequently, the Institute was in breach of the law.

### **3. Lack of Risk Management Policy and Disaster Recovery Plan**

The Institute did not have an approved Risk and Fraud Management Policy. This is contrary to section 165(1)(a) and (b) of the Public Finance Management (National Government) Regulations, 2015 which requires the Accounting Officer to develop risk management strategies, which include fraud prevention mechanism and internal control that builds robust business operations.

In the absence of a Disaster Recovery Plan and Risk Management policy, the Institute lacks a blue print for identifying, preventing and mitigating against risks and disasters and ensuring that its operations are not interrupted.

#### **4. Lack of Information Communication Technology Policy**

Review of the ICT environment showed that there was no Approved ICT Policy, Approved IT Strategic Committee and Information Technology Continuity Plan in place to enable the Institute to manage business processes for the delivery of services to the public in an effective and efficient manner.

Failure to have in place ICT Policy may expose the Institute to loss of data and other key ICT assets.

#### **5. Lack of Approved Staff Establishment and Human Resource Policy Manual**

During the year under review, the audit showed that the Institute did not have in place an Approved Staff Establishment, Scheme of Service and Human Resource Policy Manual. The Institute may therefore face challenges in undertaking human resource functions such as recruitment, training, promotions and remuneration of its staff.

To this extent, the Institute was in breach of the law.

#### **6. Lack of an Assets Register**

The statement of financial position reflects property, plant and equipment balance of Kshs.216,595,411. However, the values were not supported by an up to date assets register, indicating the nature, dates of acquisition, cost, unique identification number, current value, current location/user, accumulated depreciation and net book value.

Consequently, the Management did not comply with Section 143(1 & 3) of the Public Finance Management (National Government) Regulations 2015 requiring the Accounting Officers to ensure register of assets is maintained.

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 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, 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 intention to abolish 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 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 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 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 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**

**11 February, 2022**