

# REPORT OF THE AUDITOR-GENERAL ON MICHUKI 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 Michuki 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 Michuki 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 Technical and Vocational Education and Training Act, 2013.

### Basis for Qualified Opinion

#### 1. Revenue from Exchange Transaction-Rendering of Services

Note 2 to the financial statements on revenue from exchange transaction- rendering of services of Kshs.49,416,041 includes tuition fees, administration and receivable from student fees of Kshs.8,199,048, Kshs.5,895,326 and nil balances respectively which did not agree with supporting schedules figure resulting variance of Kshs.77,518,043 as indicated below:

	<b>Amount as per Financial Statements Kshs.</b>	<b>Supporting Schedules Amounts Kshs.</b>	<b>Variance Kshs.</b>
Tuition Fees	8,199,048	85,728,315	(77,529,267)
Administration	5,895,326	5,810,326	85,000
Receivable from Student Fees	0	73,776	(73,776)
<b>Total</b>	<b>14,094,374</b>	<b>91,612,417</b>	<b>(77,518,043)</b>

Management has not reconciled or explained the variances and adjustments in the respective ledger accounts.

As a result, the accuracy of revenue from rendering of services of Kshs.49,416,041 reflected in the financial statements could not be confirmed.

## **2. Property, Plant and Equipment-Lack of Ownership Documents for Land**

Note 16 to the financial statement reflects property, plant and equipment balance of Kshs.584,016,974 which includes Kshs.42,100,000 representing the value of two parcels of land number LOC12/4/611 and LOC/12/4/138 measuring approximately 1.05 hectares and 2.02 hectares respectively. However, the Institute had not obtained the ownership document for parcel of land number LOC/12/4/138.

Under the circumstances, the accuracy and ownership of property, plant and equipment balance of Kshs.584,016,974 as at 30 June, 2020 could not be ascertained.

## **3. Cash and Cash Equivalents**

The statement of financial position reflects cash and cash equivalents balance of Kshs.82,232,794 as at 30 June, 2020 consisting of cash at hand of Kshs.870 and balances in four (4) bank accounts totalling Kshs.82,322,92. However, the Institute did not provide updated cashbook for audit verification. Further, the bank reconciliation statements availed for audit included unrepresented cheques whose dates of issue and cheque numbers were not indicated and could not be verified.

As a result, the accuracy and completeness of bank balances of Kshs.82,323,794 as at 30 June, 2020 could not be confirmed.

## **4. Unsupported Figures in the Statement of Cash Flows**

The statement of cash flows for the year ended 30 June, 2020 includes debts recovered during the year of Kshs.71,951,173, cash inflows and outflows from KASNEB of Kshs.749,000 and prior year liabilities paid during the year of Kshs.2,228,561 all totalling to Kshs.74,928,734 for which supporting documents, explanatory notes and reconciliations were not provided for audit.

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

## **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 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.

#### **1. Non-Compliance with Ethnic Diversity**

During the year under review, the Institute had a total of one hundred and forty one (141) employees out of which one hundred and three or 73% were from one dominant ethnic community contrary to the requirements of Section 7(2) of the National Cohesion and Integration Act, 2008 which requires all public establishments to represent the diversity of the people of Kenya.

#### **2. Non-Compliance with Recommended Financial Reporting Template**

In the report of the previous year, several issues were raised under Report on the Financial Statements and Effectiveness of Internal Controls, Governance and Risk Management. However, the Management has not resolved or explained the failure to report on the progress made in resolving the issues as prescribed in the reporting template.

Further, a confirmation schedule attached to the financial statements for inter-entity transfers / grants from the State Department of Vocational and technical Training amounting to Kshs.98,736,253 had not been signed by Head of Accounting Unit of the state department as required by the financial reporting template recommended by the Public Sector Accounting Standards Board (PSASB).

## **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 matter 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**

### **Lack of Internal Audit Function**

In the year under audit, the Institute had not established an internal audit function contrary to Section 73(1) of the Public Finance Management Act, 2012. As a result, the Institute lacks internal structures which could provide advice and assurance to the management regarding systems of internal control and governance and risk management.

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 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 dissolve the Institute or 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 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 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 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 ability of the Institute 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 sustaining 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**

**08 February, 2022**