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

REPORT ON THE FINANCIAL STATEMENTS

Qualified Opinion

I have audited the accompanying financial statements of Mitunguu Technical Training Institute set out on pages 1 to 41, which comprise the statement of financial position as at 30 June, 2020, the statement of financial performance, statement of cash flows, statement of changes in net assets 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 2010 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 Mitunguu 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.

Basis for Qualified Opinion

1.0 Ownership and Valuation of Property, Plant and Equipment

The statement of financial position as at 30 June, 2020 reflects property plant and equipment balance of Kshs.24,176,153 as disclosed in Note 30 to the financial statements. As reported in the previous year, records provided for audit review showed that Mitunguu Technical Training Institute was allocated a parcel of land measuring 20.20 hectares in 2011 by the defunct Meru County Council. However, the ownership documents for the parcel of land were not provided for audit review and no explanation was provided as to why the Institute had not applied for the registration of the 20.20-hectare piece of land. Further, the value of the said land is neither disclosed nor included in the Kshs.24,176,153.

In addition, as reported in the prior year, the values of electrical and electronics block, Information Communication and Technology (ICT) block and Amphitheatre buildings having been constructed in the financial year 2015-2016 are not included in the financial statements.

In the circumstances, it has not been possible to ascertain the ownership, existence, completeness and security of the property, plant and equipment balance of Kshs.24,176,153 as at 30 June, 2020.

2.0 Valuation of Goods Sold

The statement of financial performance reflects sale of goods of Kshs.360,000 as disclosed in Note 10 to the financial statements. The sale relates to farm produce including pigs. However, valuation reports of the pigs sold was not provided for audit review contrary to Section 164(3) of the Public Procurement and Assets Disposal Act, 2015 which states that there shall be a technical report where appropriate by a relevant expert of the subject items for disposal that takes into account the real market price and in so doing, the technical expert shall set up a reserve price which shall be the minimum acceptable price below real market value of the boarded items.

In the circumstances, the accuracy and validity of the Kshs.360,000 revenue for the year ended 30 June, 2020 could not be confirmed.

3.0 Unsupported Expenditure on Use of Goods and Services

The statement of financial performance for the year ended 30 June, 2020 reflects use of goods and service of Kshs. 19,839,655 as disclosed in Note 14(a) to the financial statements. The balance includes Kshs.1,398,739 expenditures in respect to local travel and transport which further includes Kshs.271,600 paid as night out and allowances to Institute's staff. However, the supporting documents including invitation letters, work/bus tickets, attendance schedules and back to office reports were not provided for audit review.

Further, the balance includes Kshs.1,431,057 in respect of kitchen expenses which further includes Kshs.1,118,117 paid to various suppliers for supply and delivery of kitchen items. However, supporting documents including minutes of tender opening and evaluation were not provided for audit review contrary to Section 78(10) (a) and (b) of the Public Procurement and Assets Disposal Act, 2015 which states that the tender opening committee shall prepare tender opening minutes which shall set out a record of the procedure followed in opening the tenders; and the particulars of those persons submitting tenders, or their representatives who attended the opening of the tenders.

In addition, the balance includes Kshs.1,431,057 in respect to kitchen expenses which further includes Kshs.1,118,117 paid to various suppliers for supply and delivery of kitchen items. However, supporting documents including minutes of tender opening and evaluation were not provided for audit review contrary to Section 78(10)(a) and (b) of the Public Procurement and Assets Disposal Act, 2015 which states that the tender opening committee shall prepare tender opening minutes which shall set out a record of the procedure followed in opening the tenders; and the particulars of those persons submitting tenders, or their representatives who attended the opening of the tenders.

The balance also includes Kshs.2,817,412 and Kshs.162,000 in respect to learning materials and robotics automation expenditure respectively for which requisition forms and delivery notes were not provided for expenditure on robotics automation while minutes of inspection and acceptance committee were not provided for audit review for both expenditures contrary to Section 48 (3)(b) of the Public Procurement and Asset Disposal Act, 2015 which states that the inspection and acceptance committee shall immediately after the delivery of the goods, works or services inspect and review the goods, works or services in order to ensure compliance with the terms and specifications of the contract.

In the circumstances, the validity and value for money for the Kshs. 19,839,655 expenditure on use of goods and service for the year ended 30 June, 2020 could not be ascertained and is in breach of law.

4.0 Unsupported Expenditure on Repairs, Maintenance and Improvement Expenses

The statement of financial performance for the year ended 30 June, 2020 reflects use of goods and service of Kshs.19,839,655 as disclosed in Note 14(a) to the financial statements. Included in the balance is Kshs.797,776 in respect to repairs and maintenance for the year ended 30 June, 2020 which further includes Kshs.92,720 paid to a hardware for the supply of paints for property maintenance. However, supporting documents including invoice were not provided for audit review. Further, low value procurement method was irregularly used in procuring the items worth the Kshs.92,720 contrary to legal notice 106 of 18 June, 2013, first schedule of threshold matrix for Class C procuring entities which stipulates that low value procurement maximum level of expenditure under this method is Kshs.5,000 per procurement per item.

In the circumstances, it has not been possible to ascertain the validity and value for money for the Kshs.92,720 expenditure incurred during the year ended 30 June, 2020. Further, the Institute is in breach of law.

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

1.0 Budgetary Control and Performance

The statement of comparison of budget and actual amounts for the year ended 30 June, 2020 reflects budgeted expenditure of Kshs.77,524,487 and actual expenditure of Kshs.35,879,177 resulting to budget under expenditure of Kshs.41,645,310 or 54% of the budget.

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

2.0 Non Inclusion of ICPAK Registration Number by the Head of Finance

The Institute's head of finance did not include his Institute of Certified Public Accountant of Kenya (ICPAK) membership number in the financial statements for the year under review, contrary to the Public Sector Accounting Standards Board (PSASB) template issued in June, 2020 which requires the head of finance to include his/her ICPAK membership number in the financial statements.

In the circumstances, the presentation of the Institute's financial statements is not in accordance with the PSASB prescribed format.

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 Conclusion on 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.

Basis for Conclusion

1.0 Irregular Expenditure on Use of Goods and Services

The statement of financial performance reflects use of goods and services of Kshs.19,839,655 as disclosed in Note 14 to the financial statements. Included in the balance is Kshs.548,007 paid to a firm for security services which was not registered by the Institute contrary to Section 106(2)(a) of the Public Procurement and Assets Disposal

Act, 2015 which states that the accounting officer of the procurement entity shall give requests for quotations to such persons as are registered by the procuring entity.

The balance also includes Kshs.2,229,124 in respect to administration fees which further includes Kshs.459,489 for supply of stationeries, kitchen supplies and sanitizers in which low value procurement method was irregularly used in procuring the items worth the Kshs.459,489 contrary to legal notice 106 of 18 June, 2013, first schedule of threshold matrix for Class C procuring entities which stipulates that low value procurement maximum level of expenditure under this method is Kshs.5,000 per procurement per item.

Further, the balance includes Kshs.526,041 in respect to activity expenses that includes Kshs.78,870 paid to a supplier for supply of branded sports costumes. However, the firm is not registered by the Institute contrary to Section 106(2)(a) of the Public Procurement and Assets Disposal Act, 2015 which states that the accounting officer of the procurement entity shall give requests for quotations to such persons as are registered by the procuring entity.

In addition, the balance includes Kshs.1,197,790 in respect to farm expenses which further includes Kshs.398,170 paid to various suppliers for the supply and delivery of farm items. However, the institute procured the farm supplies directly without justification contrary to Section 103(2) (a) of the Public Procurement and Asset Disposal Act, 2015 which states that a procuring entity may use direct procurement if is satisfied that the goods, works or services are available only from a particular supplier or contractor, or a particular supplier or contractor has exclusive rights in respect of the goods, works or services and that no reasonable alternative or substitute exists.

In the circumstance, the Management is in breach of the law.

2.0 Purchase of Institute Bus

The statement of financial position also reflects property, plant and equipment balance of Kshs.24,176,153 as disclosed in Note 30 to the financial statements. The balance includes Kshs.5,356,000 in respect to net book value of motor vehicle which relate to a branded 51-seater Institutes' bus purchased during the year under review at a cost of Kshs.6,695,000. However, a statement of professional opinion was not provided for audit review contrary to Section 84(1) of Public Procurement and Asset Disposal Act, 2015 which states that the head of procurement function of a procuring entity shall, alongside the report to the evaluation committee as secretariat comments, review the tender evaluation report and provide a signed professional opinion to the accounting officer on the procurement or asset disposal proceedings.

Further, the bus logbook availed for audit review indicated that the bus is a 45-seater contrary to the tender notice number MTTI/BUS/001/2019 which indicated supply and delivery of a branded 51-seater FRR33LR 8226CC bus. The inspection and acceptance committees report provided for audit review did not disclose the capacity of the bus contrary to Section 48 (3) of same Act which states that the inspection and acceptance committee shall immediately after the delivery of the goods, works or services inspect and where necessary, test the goods received, inspect and review the goods, works or services in order to ensure compliance with the terms and specifications of the contract and accept or reject, on behalf of the procuring entity, the delivered goods, works or services.

In addition, a police abstract number OB.36/28/11/2020 dated 30 November, 2020 showed that there was an attempted theft of the bus where the rear left axle, wind screen and the right-side mirror were damaged. However, though the bus was insured with an insurance company, the insurance damage assessment report was not provided for audit review. It is also not clear when the damaged parts will be replaced.

In the circumstances, propriety and value for money for the Kshs.6,695,000 incurred to procure the Institute's bus as at 30 June, 2020 cannot be ascertained. Further, the Institute is in breach of the law.

3.0 Non-Compliance with Law on Ethnic Composition

Review of the personnel records availed for audit review indicates that the Institute's Board of Governors had employed twenty-four (24) staff members from different ethnic communities.

However, 14 staff or 58% were from the dominant community 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.

In the circumstance, the Management is 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, except for the matters described in the 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 overall governance were not effective.

Basis for Conclusion

1.0 Lack of Internal Audit Department

The Institute did not have an Internal Audit Unit during the period under review contrary to Section 73(1)(a) of the Public Finance Management Act, 2012 which stipulates that the entity should ensure that it has appropriate arrangements in place for conducting internal audit according to the guidelines of the Accounting Standards Board. The internal audit unit would have performed various roles stipulated by Section 73(3) of the Public Finance Management Act, 2012 including risk assessment, putting in place a risk register and assessing the internal controls mechanism.
In the circumstances, the internal control system of the Institute is inadequate.

2.0 Non-Establishment of Audit Committee

The Institute did not establish an audit committee during the period under review contrary to Section 73(5) of Public Finance Management Act, 2012 which stipulates that every national government public entity shall establish an audit committee whose composition and functions shall be as prescribed by the regulations. The audit committee would have performed various functions stipulated by Section 175 of Public Finance Management (National Government) Regulations, 2015 including supporting the Accounting Officer with regard to their responsibilities for issues of risk control and governance and associated assurance but the responsibility over the management of risk control and governance processes remains with the management of the concerned entity and follow up on the implementation of the recommendations of internal and external auditors.

In the circumstance, the Institute contravened the law and its governance system is inadequate.

3.0 Information, Communication and Technology (ICT) Environment

The Technical Institute did not institute an approved ICT policy during the year ended 30 June, 2020 to ensure data security, information confidentiality, data integrity, loss of business continuity and data recovery plans contrary to Section 110(1) of the Public Finance Management (National Government) Regulations, 2015 which states that an accounting officer of a National Government entity shall institute appropriate access controls needed to minimize breaches of information confidentiality, data integrity and loss of business continuity.

In the circumstance, the security and reliability of the Institute's data could not be ascertained.

4.0 Appointment to the Institute Board of Governors

Review of records availed for audit revealed that the Cabinet Secretary for the Ministry of Education appointed three (3) persons to the Board of Governors of the Institute for a period of three (3) years with effect from 05 October, 2018. However, the appointment of three (3) persons as Board of Governors is contrary to Section (1)(1) of Second Schedule of the Technical and Vocational Education and Training Act, 2013 which states that the Board of Governors of a public institution shall consist of not less than seven and not more than nine members appointed by the Cabinet Secretary.

In the circumstances, the effectiveness of the governance structure is doubtful.

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, 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.

Those charged with governance are responsible for overseeing the 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 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 noncompliance. 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 Management.

- Conclude on the appropriateness of the Management's use of the going concern 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 as a going concern or 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 as a going concern or 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

11 February, 2022