

REPORT OF THE AUDITOR-GENERAL ON MURAGA 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 Muraga Technical Training Institute set out on pages 1 to 23, 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 Muraga 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.

Basis for Adverse Opinion

1.0 Unsupported Revenue from Rendering of Service

As disclosed in Note 8 to the financial statements, the statement of financial performance reflects Kshs.7,752,357 in respect to rendering of services. However, the supporting ledger provided reflects a balance of Kshs.8,349,254 resulting to an unexplained variance of Kshs.596,897. Further, supporting documents including revenue summary provided for audit review did not include the names of students, date and amount payable, admission numbers and course taken contrary to Regulation 100 of the Public Finance Management (National Government) Regulations, 2015 which stipulates that accounting officers shall keep in all offices concerned with receiving cash or making payments a cash book showing the receipts and payments and shall maintain such other books and registers as may be necessary.

In the circumstances, the accuracy and validity of Kshs.7,752,357 in respect to rendering of services reflected in the statement of financial position for the year ended 30 June, 2020 could not be ascertained.

2.0 Unsupported Cash and Cash Equivalent

As disclosed in Note 16 to the financial statements, the statement of financial position reflects Cash and Cash Equivalent totaling to Kshs.870,796. Included in this balance is an amount of Kshs.854,084 relating to cash held in a bank. However, a review of cashbook provided revealed a balance of Kshs.817,275 in respect to the same account resulting to an unexplained variance amounting to Kshs.36,809.

In addition, Note 16 (a) to the financial statements reflects a balance of Kshs.9,552 in respect to cash held in another bank. However, the cash book, the certificate of bank balance and bank reconciliation statements were not provided.

The balance also includes cash in hand of Kshs.7,160. However, board of survey report was not provided for audit review. Further, petty cash book reflected a balance of Kshs.31,229 as at 30 June, 2020. However, the same was not included in the cash and cash equivalents balance.

A review of the cashbook revealed cash withdrawals totaling to Kshs.3,888,750 on various dates. Management explained that the balance was temporary imprest for office use. However, imprest warrants, imprest register and related supporting documents were not provided.

In the circumstances, the accuracy and completeness of the Kshs.870,796 in respect to cash and cash equivalents reflected in the statement of financial position as at 30 June, 2020 could not be ascertained.

3.0 Unsupported Receivables from Exchange Transactions

As disclosed in Note 17 to the financial statements, the statement of financial position reflects Kshs.2,836,281 in respect to receivable from exchange transactions relating to student debtors. However, supporting documents including ledgers, names of student, amount and date paid, course taken and ageing analysis were not provided.

In the circumstances, the accuracy of the receivables from exchange transactions totaling to Kshs.2,836,281 reflected in the statement of financial position as at 30 June, 2020 could not be confirmed.

4.0 Misstated Property, Plant and Equipment

As disclosed in Note 18 to the financial statements, the statement of financial position reflects Property, Plant and Equipment's of Kshs.148,874,236. However, the following unsatisfactory matters were observed.

- (i) Review of Assets Register provided revealed that critical information such as location of the assets, description, respective cost and serial numbers were missing. Physical verification of the assets revealed that the assets were not tagged for ease of identification and movement contrary Regulation 139(1)(2) of the Public Finance Management (National Government) Regulations, 2015 which stipulates that accounting officer of a national government entity shall take full responsibility and ensure that proper control systems exist for assets.
- (ii) Further, review of documents provided revealed that the Institute occupies 9.81 hectares' of land donated by Muraga Secondary School. However, the Institute did not provide ownership documents.
- (iii) Further, the balance includes an amount of Kshs.19,400,000 and Kshs.49,905,672 in respect to land and buildings respectively. However, supporting documents including contract agreements, certificates of work done, assets valuation report and documents showing how the value of land and buildings were arrived at were not provided.

In the circumstances, the ownership, existence and accuracy of Property, Plant and Equipment's balance of Kshs.148,874,236 reflected in the statement of financial position as at 30 June, 2019 could not be ascertained.

5.0 Capital Fund

As disclosed in Note 21 to the financial statements, the statement of financial position reflects Capital Fund balance of Kshs.176,179,263. However, as reported in the previous year, documents showing sources and amount of cash and non-cash capital funds given to the Institute were not provided.

In the circumstances, the accuracy and validity of Capital Fund balance of Kshs.176,179,263 reflected in the statement of financial position as at 30 June, 2020 could not be ascertained.

6.0 Inaccuracy in Trade and Other Payables from Exchange Transactions

As disclosed in Note 19 to the financial statements, the statement of financial position reflects a balance of Kshs.2,483,051. However, the balance excludes audit fees estimated at Kshs.709,361 which is payable to the Auditor General in accordance with Section 41(1)(c) of the Public Audit Act, 2015 which stipulates that the funds of the Office of the Auditor-General shall consist of audit fees charged at the rates prescribed by the Auditor-General. Further, the same has not been included as a payable in the financial statements.

In the circumstances, the accuracy and validity of trade and other payables from exchange transactions of Kshs.2,483,051 reflected in the statement of financial position as at 30 June, 2020 could not be confirmed.

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

1.0 Budgetary Control and Performance

The statement of comparison of budget and actual amounts for the year ended 30 June, 2020 reflects final receipts budget and actual on comparable basis of Kshs.17,559,400 and Kshs.9,482,550 respectively resulting to an underfunding of Kshs.8,076,850 or 48.9% of the budget.

Similarly, the statement reflects an expenditure budget of Kshs.14,687,440 and actual expenditure of Kshs.8,798,675 resulting to a net under expenditure of Kshs.5,888,765.

Further, expenditure totaling to Kshs.1,043,954 was incurred without evidence of respective budgetary provisions contrary to Section 43 (b) of the Public Finance Management (National Government) Regulations, 2015 which requires accounting officers to ensure public funds are applied for purposes for only which they were intended and appropriated by National Assembly.

Based on the analysis, the underfunding and underexpenditure may have negatively affected the planned activities.

The statement also reflects budgeted income of Kshs.17,559,400 and an expenditure budget of Kshs.14,687,440 resulting to unbalanced budget by Kshs.2,871,960. This is contrary to Section 33 (c) of the Public Finance Management (National Government) Regulations, 2015 which stipulates that budgeted revenue and expenditure appropriations shall be balanced. Further, documents to confirm that the budget was submitted to and approved by the Cabinet Secretary in the Ministry of Education were not provided for audit review contrary to Section 22(1) and (2) of the second schedule to the Technical and Vocational Education and Training Act, 2013 which stipulates that a Board of Governors of a public institution shall prepare annual estimates of revenue and expenditure for the institution under its charge, in such form and at such

times as the Cabinet Secretary may prescribe and the board of governors may incur expenditure for the purpose of the institution in accordance with estimates approved by the Cabinet Secretary, and any approved expenditure under any head of the estimates may not be exceeded without the prior written approval of the Cabinet Secretary.

In the circumstances, the budget was prepared and implemented contrary to the law.

2.0 Accumulated Deficit

The statement of financial performance for the year ended 30 June, 2020 reflects a deficit of Kshs.12,030,863. As a result, the accumulated deficit increased from Kshs.14,050,138 disclosed in 2018/2019 to an accumulated deficit of Kshs.26,081,001.

Unless the loss-making trend is addressed, the Institute is likely to face financial challenges in the near future.

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 discussed in the Basis for Conclusion on Lawfulness and Effectiveness in Use of Public Resources section of my report, I confirm 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 Noncompliance with Public Sector Accounting Standards Board Requirements

Review of the financial statements provided for audit revealed the following anomalies which are contrary to Public Sector Accounting Standards Board (PSASB) reporting template issued in June, 2020;

- i). Corporate governance statement at page xii does not contain information on the number of Board meetings held and the attendance to those meetings by members, succession plan, existence of a board charter, process of appointment and removal of council members, induction and training, board and member performance, conflict of interest, board remuneration, ethics and conduct as well as governance audit.

- ii). Appendix III at page 22 in respect to transfers from the National Government is not signed by the Head of Accounting unit at the Ministry of Education.
- iii). The Institute of Certified Public Accountants of Kenya membership number of the finance officer was not indicated in the statement of financial position.

In the circumstances, the Institute's financial statements are not in conformity with PSASB prescribed format issued in June, 2020.

2.0 Lack of an Approved Salary Structure and Staff Establishment

As disclosed in Note 12 to the financial statements, the statement of financial performance reflects a balance of Kshs.2,752,754 in respect to employee costs. However, as reported in the previous year, approved salary structure and staff establishment were not provided. This is contrary to Section C 2(1) of the Human Resource Policies and Procedures Manual for the Public Service, 2016 which stipulates that public service salary structure will be based on the grading levels spelt out in the various career progression guidelines.

In the circumstances, the validity of the Kshs.2,752,754 expenditure for the year under review could not be ascertained.

The Management is in breach of the law.

3.0 Unremitted Statutory Deductions

As disclosed in Note 12 to the financial statements, the statement of financial performance reflects an amount of Kshs.2,752,754 in respect to employee costs which includes Kshs.145,860 or 6% of employees basic salary in respect to National Social Security Fund (NSSF) being employer's contribution to NSSF for the Employees. However, review of records revealed that the employer only remitted an amount of Kshs.101,940 out of the Kshs.145,860 resulting to an amount of Kshs.43,920 in respect to unremitted NSSF deductions contrary to Section 20(1)(a) of the National Social Security Fund Act, 2013, which stipulates that an employer shall pay to the pension fund in respect of each employee in his or her employment the employer's contribution at six per centum of the employee's monthly pensionable earnings.

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

4.0 Remuneration and Appointment of Directors

As disclosed in Note 13 to the financial statements, the statement of financial performance reflects Remuneration of Directors amounting to Kshs.441,200. Included in this balance is an amount of Kshs.120,000 incurred without sufficient supporting documents. Further, evidence of approval to spend by the relevant Cabinet Secretary was not provided contrary to Section 17 of the second schedule to the Technical and Vocational Education and Training Act, 2013 which stipulates that members of a board

of governors shall be paid in respect to their services such remuneration or allowances as the board of governors shall, with the approval of the Cabinet Secretary determine.

Further, review of the appointment letters revealed that seven (7) Directors were appointed on 29 May, 2017 for a three-year term ending 29 May, 2020. However, as at 30 June, 2020, the Board was still in office and no evidence of reappointments was provided. In addition, the said Board did not include a representative of the County Government. This is contrary to Section 2(c) of second schedule to the Technical and Vocational Education and Training Act, 2013 which stipulates that membership of the board of governors shall comprise a representative of the county government of the county within which the institution is located.

In the circumstances, the validity of the Board expenses totaling to Kshs.441,200 for the year ended 30 June, 2020 could not be confirmed.

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 Conclusion on Effectiveness of Internal Controls, Risk Management and Governance section of my report, based on the audit procedures performed, I confirm that internal controls, risk management and governance were not effective.

Basis for Conclusion

1.0 Lack of Internal Audit

As reported in the previous year, the Institute did not have an internal audit section to carry out internal audit functions contrary to Section 73(1) (a) of the Public Finance Management Act, 2012 which stipulates that every national government entity shall ensure that it has appropriate arrangements for conducting internal audit according to the guidelines issued by the Accounting Standards Board.

In the circumstances, the Institute is in breach of the law.

2.0 Lack of Audit Committee

As reported in the previous year, during the year under review, the Institute did not have an audit committee contrary to Section 73 (5) of the Public Finance Management Act, 2012 which states that every national government entity shall establish an internal auditing committee whose composition and functions are to be prescribed by the regulations.

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

3.0 Lack of Risk Management Policy

As reported in the previous year, a review of the Institute`s Internal controls system revealed that the Institute did not have approved risk management policy. Further, the management did not provide for audit review evidence on whether the Institute has identified, documented, assessed risks and developed controls to respond to the risk identified contrary to Section 165 of the Public Finance Management (National Government) Regulations, 2015, which stipulates that the accounting officer shall ensure that the national government entity develops risk management strategies, which include fraud prevention mechanism and system of risk management and internal control that builds robust business operations.

In the circumstances, it was not possible to confirm the effectiveness of controls.

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 the Board of Governors

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, 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 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 are in compliance with the authorities which govern them, and that public resources are applied in an effective way.

The Board of Governors is responsible for overseeing the 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 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.

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 Muraga Technical Training 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 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 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

04 February, 2022