REPORT OF THE AUDITOR-GENERAL ON MUSAKASA 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 Musakasa Technical Training Institute set out on pages 1 to 39, 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 Musakasa 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 (TVET) Act, 2013 and the Public Finance Audit Act, 2012.

Basis for Qualified Opinion

1. Capital Fund and Reserves

The statement of financial position reflects a balance of Kshs.152,550,694 and Kshs.8,395,976 in respect Reserves and Capital Fund respectively. The balances have not been supported by way of notes to the financial statements as required by International Public Sector Accounting Standards (IPSAS) 1 which provides that all the components in the financial statements should be supported by way of notes.

Consequently, the financial statements are not presented in accordance with International Public Sector Accounting Standards' reporting framework.

2. Property, Plant and Equipment - Additions in Assets

The statement of financial position reflects property, plant and equipment balance of Kshs.126,910,639 which as disclosed in Note 21 to the financial statements includes an amount of Kshs.6,196,639 being additions during the year. However, the amount has not been supported with purchase documents such as local purchase orders, invoices and cash sales.

Further, the certificate of work reflects an amount of Kshs.4,866,849 for work in progress while Note 21 to the financial statements reflects an amount of Kshs.4,380,165, resulting to an unreconciled difference of Kshs.486,684.

Management has not disclosed in the financial statements the depreciation policy used by the Institute.

In addition, the assets register maintained by the Institute does not contain the required details such as suppliers or contractors, date of acquisition, estimated useful life, physical location, condition of the asset and serial numbers of the respective assets.

Consequently, the accuracy and completeness of the property, plant and equipment balance of Kshs.126,910,639 reflected in the statement of financial position as at 30 June, 2020 could not be confirmed.

3. Unsupported Trade and Other Payables

The statement of financial position reflects a balance of Kshs.772,160 in respect of trade and other payables from exchange transactions. The balance has not been supported with a creditors' ledger showing details of invoices from the suppliers, demand notes, and description of services rendered or work done. The creditors aging analysis was also not maintained hence it was not possible to determine how long the creditors have been outstanding.

In the circumstances, the accuracy and completeness of the trade and other payables balance of Kshs.772,160 could not be confirmed**.**

4. Lack of Trial Balance

Management did not provide for audit review the trial balance as at 30 June, 2020 to support the figures and balances reflected in the financial statements in line with Regulation 57(2 and 3) of the Public Finance Management (National Government) Regulations, 2015.

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

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

Budgetary Control and Performance

The statement of comparative budget and actual amounts reflects final receipts budget and actual on comparable basis of Kshs.36,078,800 and Kshs.25,299,017 respectively resulting to an under-funding of Kshs.10,779,784 or 30% of the budget. Similarly, the Institute expended Kshs.22,321,272 against an approved budget of Kshs.22,321,272 resulting to an under-expenditure of Kshs.13,756,828 or 38% of the budget.

The underfunding and underperformance affected the planned activities and may have impacted negatively on service delivery to the public.

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 matter 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. Late Submission of Financial Statements

The financial statements of the Institute for the year under review were submitted for audit on 18 November, 2020, and not within the statutory deadline of 30 September, 2020, as required by Section 47(1) of the Public Audit Act, 2015 and the Public Finance Management Act, 2012, which provide that financial statements should be submitted for audit within three months after the end of the financial year to which the accounts relate.

In the circumstances, Management in breach of the law.

2. Remuneration of Directors

2.1. Irregular Payment of Sitting Allowance

Included in the remuneration of Directors balance of Kshs.1,271,040 is an amount of Kshs.141,000 which was paid as sitting allowance to two persons who did not qualify for a sitting allowance as they were public officers in receipt of a salary contrary to the provisions of Section 10(1) of the State Corporations Act, Cap 446 which states that the chairman and members of a Board, other than the Chief Executive Officer and public officers in receipt of salary, should be paid out of the Funds of the state corporation such sitting allowances or other remuneration as the Board may, within the scales of remuneration specified from time to time as the Committee approve.

2.2. Non-Deduction of Pay as You Earn (PAYE)

The statement of financial performance reflects an expenditure of Kshs.1,271,040 incurred by the Institute as remuneration of Directors. However, no evidence was provided to show whether the Institute deducted and remitted Pay As You Earn thereon to Kenya Revenue Authority as required by Regulation 23(2)(a) of the Public Finance Management (National Government) Regulations, 2015.

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

3. Management of Temporary Imprest

The statement of financial performance reflects an expenditure balance of Kshs.5,127,126 in respect of use of goods and services which includes an amount of Kshs.611,100 being temporary imprest paid to four officers. However, the imprest amount was not supported with an imprest warrants contrary to the provisions of Regulation 93(8) of the Public Finance Management (National Government) Regulations, 2015, which requires that there should be an effective and efficient way of managing and controlling temporary imprests.

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

4. Construction of Computer Laboratory

The Institute awarded a contract for the construction of a computer laboratory block at a contract sum of Kshs.19,918,916. During the year under review, the contractor was paid an amount of Kshs.4,866,849. The contract document provided for audit indicates that the project was to be executed within fifty-two (52) weeks from the date of site possession and the completion date was to be 4 April, 2021. The Bills of Quantity for the project was not provided for audit review. As a result, it was not possible to ascertain whether the contractor was paid for work done as per specifications. However, as at 3 May 2021, the project was not complete and the contractor was not on site.

In the circumstance, it has not been possible to establish whether value for money was obtained on the expenditure Kshs.4,866,849 spent on the project.

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, I confirm that, nothing has come to my attention to cause me to believe that internal controls, risk management and overall governance were not effective.

Basis for Conclusion

The audit was conducted in accordance with ISSAI 2315 and ISSAI 2330. The standard requires 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, 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.

The Board of Governors is responsible for overseeing the Institute's financial reporting process, reviewing the effectiveness of how Management 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 the policies and procedures may deteriorate.

As part of an audit conducted in accordance with ISSAIs, I exercise professional judgement and maintain professional scepticism 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
<u>AUDITOR-GENERAL</u>

Nairobi

17 February, 2022