

REPORT OF THE AUDITOR-GENERAL ON KENYA EDUCATION MANAGEMENT INSTITUTE FOR THE YEAR ENDED 30TH JUNE 2017

REPORT ON THE FINANCIAL STATEMENTS

Qualified Opinion

I have audited the accompanying financial statements of Kenya Education Management Institute set out on pages 1 to 13, which comprise the statement of financial position as at 30 June 2017, and the statement of financial performance, statement of changes in net assets, statement of cash flows and statement of comparative 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 Kenya Education Management Institute as at 30 June 2017, and of its financial performance and its cash flows for the year then ended, in accordance with International Public Sector Standards (Accrual Basis), and comply with the Education Act, Cap 211 of the Laws of Kenya.

In addition, as required by Article 229(6) of the Constitution, except for the matters described in the Basis for Qualified Opinion and Other Matter sections of my report, based on the procedures performed, I confirm that, nothing has come to my attention to cause me to believe that public money has not been applied lawfully and in an effective way.

Basis for Qualified Opinion

1. Property, Plant and Equipment

1.1 Land

As reported in the previous years, the property, plant and equipment balance of Kshs.2,362,858,154 as at 30 June 2017 includes the Institute's parcel of land L.R No.16124 measuring 15.45 hectares at Kayole in Nairobi valued at kshs.2,050,000,000 which according to information availed has been partially encroached by squatters. Although the management had contracted a law firm on 18 October 2010 to seek court orders for the eviction of the squatters, the matter had not been resolved as at the date of this report.

Consequently, the value of property, plant and equipment of Kshs.2,362,858,154 is impaired to the extent of the land encroached on by squatters and as result, it has not

been possible to ascertain that the property, plant and equipment balance of Kshs.2,362,858,154 is fairly stated as at 30 June 2017.

1.2 Electronics Data Processing (EDP) Equipment

Further and as previously reported, the property, plant and equipment balance of Kshs.2,362,858,154 as at 30 June 2017 includes EDP equipment valued at Kshs.1,384,237 which could not be physically verified. The management has explained that the equipment's were issued to employees of the Ministry of Education who had been seconded to the Institute and the Institute has since written to the Ministry to surcharge the said employees. Re-examination of the matter during the year under review indicated that, although an amount of Kshs.2,419,237 was recovered from the employees, the Ministry had only remitted Kshs.1,399,800 to the Institute as at the date of this report.

In the circumstances, it is not clear when if at all the outstanding balance of Kshs.1,019,437 will be recovered by the Ministry and remitted to the Institute.

2. Ineligible Administrative Expenses

As similarly reported in 2012/2013, the administrative expenses figure of Kshs.154,318.03 included an amount of Kshs.5,273,360 paid to a consultant in respect of services for mid-term review of Kenya Education Sector Support Programme (KESSP). However, supporting documents attached to the payment indicated that the services were tendered and procured by the Ministry of Education. Further, an audit on Kenya Education Sector Support Programme as at 30 June 2013, revealed that it had no operations during that year. It was therefore not clear how a mid-term review was done on a project that was dormant during that year or why the expenditure of Kshs.5,273,360 was not charged to the Ministry of Education. A review of the matter during the current year indicated that the matter had not yet been resolved as at 30 June, 2017.

In the circumstances the propriety of expenditure totalling Kshs.5,273,360 incurred in year 2012/2013 could not be ascertained to date.

3. Receivables from Exchange Transactions

As disclose in note 10 (i) to the financial statements, the receivables from exchange transactions balance of Kshs.47,606,974 as at 30 June 2017, includes debts totalling Kshs.12,160,788 which have been outstanding for over three (3) years and whose recoverability is doubtful. The provision for bad and doubtful debts of Kshs.1,472,350 made in these financial statements appears to be inadequate.

In the circumstances, it has not been possible to confirm the full recoverability of receivables from exchange transactions balance of Kshs.47,606,974 as at 30 June, 2017.

The audit was conducted in accordance with International Standards of Supreme Audit Institutions (ISSAIs). I am independent of Kenya Education Management Institute in accordance with ISSAI 30 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. Except for the matters described in the Basis for Qualified Opinion and Other Matter section of my report, there were no Key Audit Matters to report in the year under review.

Other Matter

Council of the Institute

Part III of Paragraph 7(1) of the Legal notice No.19 of 1 February 2010 states that there shall be a Council to be known as the Council of the Institute of Kenya Education Management Institute which shall have the responsibility of managing the Institute. Further, Paragraph 12(1) states that the Council shall meet not less than four times each financial year at any time. It was however, noted that the term for the Council expired on 31st July 2016 and only one meeting was held during the year under review. Thereafter, the Institute operated without a Council, to deliberate on the affairs of the Institute contrary to legal notice No.19 of 2010.

Although, the management has explained that a new Council of the Institute was appointed in December 2017, the Institute may not have achieved its mandate during the year under review in the absence of the Council. These matters were addressed in the context of the audit of the financial statements as a whole, and in forming my opinion thereon, and I do not provide a separate opinion on these matters.

Responsibilities of Management and Those Charged with Governance for the Financial Statements

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 such 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.

In preparing the financial statements, management is responsible for assessing the Institute's ability in continuing to sustain services, disclosing, as applicable, matters related to sustainability of services and using the going concern basis of accounting unless the management either intends to liquidate the Institute or to cease operations, or have no realistic alternative but to do so.

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. Those charged with governance are responsible for overseeing the institute's financial reporting process.

Auditor-General's Responsibilities for the Audit of the Financial Statements

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 of Kenya. 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 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.

As part of an audit 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.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances and for the purpose of giving an assurance on the effectiveness of the Institute's 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 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 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 continue to sustain 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 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.



FCPA Edward R. O. Ouko, CBS
AUDITOR-GENERAL

Nairobi

16 April 2018