

REPORT OF THE AUDITOR-GENERAL ON KENYA SCHOOL OF GOVERNMENT FOR THE YEAR ENDED 30 JUNE, 2019

REPORT ON THE FINANCIAL STATEMENTS

Qualified Opinion

I have audited the accompanying financial statements of Kenya School of Government (KSG) set out on pages 21 to 60, which comprise the statement of financial position as at 30 June, 2019, and the statement of financial performance, statement of changes in net assets, statement of cash flows, and the 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 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 Kenya School of Government as at 30 June, 2019, and of its financial performance and its cash flows for the year then ended, in accordance with the International Public Sector Accounting Standards (Accrual Basis) and comply with the Public Finance Management Act, 2012 and the Kenya School of Government Act No. 9, 2012.

Basis for Qualified Opinion

1. Unsupported General Expenses

The statement of financial performance reflects general expenses totalling Kshs.850,997,605, as further disclosed in Note 16 to the financial statements. However, payment vouchers for expenses totalling Kshs.8,842,682 included in the balance were not submitted for audit and as a result, the occurrence and validity of the payments could not be confirmed.

2. Receivables from Exchange and Non-Exchange Transactions

The statement of financial position reflects receivables from exchange and non-exchange transactions totalling Kshs.1,369,047,064 as at 30 June, 2019, as further disclosed in Note 22 to the financial statements. However, examination of records on the balance indicated the following anomalies:

2.1 Long Outstanding Receivables

Receivables totalling Kshs.959,978,522 or 71% of the aggregate balance amounting to Kshs.1,369,047,064 had been outstanding for at least four months as at 30 June, 2019. However, Management had not made a specific provision for impairment of any of the long outstanding debts and as a result, the aggregate receivables balance totalling Kshs.1,369,047,064 may not be fairly stated.

2.2 Unsupported Receivables

Included in the exchange and non-exchange transactions balance totalling Kshs.1,369,047,064 are unexplained balances totalling Kshs.104,326,866, as indicated below:

Receivables	Particulars	Amount (Kshs)
Trade Receivables	Debtors with Credit Balances	43,778,531
	Unsupported Debtors with Debit Balances	27,127,645
Other Receivables	Unsupported Opening Balance - Embu	20,077,085
	Suppliers with Debit Balances	13,132,282
	KSG Council Members	211,323
Total		104,326,866

In the absence of supporting records for these balances , the accuracy and validity of the balances could not be confirmed.

2.3 Long Outstanding Receivables

As similarly reported in the previous year, the trade debtors totalling Kshs.1,198,090,894 reflected in Note 22 to the financial statements include receivables totalling 61,911,342 owed by non-existent or defunct institutions(Kshs.20,401,731); and private persons local (Kshs.8,746,493) and foreign(Kshs.32,763,118) as at 30 June, 2019. In spite of their recovery being doubtful, no impairment provision has been made in the financial statements for the said debts totalling Kshs.61,911,342.

Further, reasons for occurrence of the debts were not clear as the fees policy set by the School requires trainees to pay in advance and organizations that may not do so to obtain the Director's approval before their staff are enrolled for training.

3.0 Unsupported Trade and Other Payables from Exchange

The statement of financial position as at 30 June, 2019 reflects trade and other payables from exchange transactions totalling Kshs.1001,901,551, as further disclosed in Note 24 to the financial statements. However, examination of records on the balance revealed the following anomalies:

3.1 Trade Payables

Trade payables totalling Kshs.306,365,573 include suppliers accounts with debit balances totalling Kshs.7,336,287 which have, as a result, distorted the actual balance of debts owed by the School. However, records to explain the debit balances were not provided for audit.

The trade payables balance further includes amounts related to wages, allowances and other payments totalling Kshs.33,181,077 for which no supporting documents or explanations were provided for audit verification.

As a result, the validity and accuracy of the trade payables balance totalling Kshs.306,365,573 reflected in the statement of financial position as at 30 June, 2019 could not be confirmed.

3.2 Third-Party Payments

Payments received from third-parties totalling Kshs.50,613,201 as at 30 June, 2019 included sums totalling Kshs.25,835,950 whose records were, however, not presented for audit review. As a result, the accuracy, completeness and validity of the third-party payments totalling to Kshs.50,613,201 as at 30 June, 2019 could not be confirmed.

3.3 Other Payables

Included in the other payables balance totalling Kshs.33,095,492 is Kshs.6,147,071 reflected as payments owed to resource persons, contract employees and other personnel. However, the latter balance was not analyzed and as a result, the accuracy and validity of the aggregate payables balance totalling Kshs.33,095,495 could not be confirmed.

3.4 Value-Added-Tax (VAT) Payables

Unpaid Value-Added-Tax (VAT) balance totalling Kshs.46,388,703 as at 30 June, 2019 was not supported by monthly VAT returns. In the circumstance, the accuracy of the balance could not be confirmed.

3.5 Withholding Taxes

Included in the aggregate other payables balance are Withholding VAT and Income Tax payables totalling Kshs.8,123,443. However, the respective tax return certificates were not provided for audit verification and as a result, the accuracy of the withholding taxes totalling Kshs.8,123,443 as at 30 June, 2019 could not be confirmed.

In view of these anomalies, the accuracy and validity of the other payables balance totalling Kshs.1001,901,551 reflected in the statement of financial position as at 30 June, 2019 could not be confirmed.

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

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.

1.0 Outstanding Imprests

Examination of imprests records indicated that imprests totalling Kshs.9,081,192 were overdue for surrender as at 30 June, 2019 with Kshs.8,985,302 of the amount outstanding for more than one year. Delay in surrender of the imprests contravened Regulation 93(5) of the Public Financial Management Regulations, 2012, which requires imprest holders to account for imprests within seven (7) days after returning to the duty station.

No satisfactory explanation was provided for the failure to recover the imprests from the salaries of the defaulters as provided for in Regulation 93(6) of the Regulations.

Further, as previously reported, the balance includes imprests totalling Kshs.8,488,761 (2018-19) and Kshs.66,123 (2017-18) owed by a person who is no longer in service. Despite the recovery of the imprests being doubtful, no provision for impairment has been made in the financial statements.

2.0 Long Outstanding House Rent Arrears

Included in the staff debtors balance totalling Kshs.10,429,771 reflected in Note 22 to the financial statements are rent arrears totalling Kshs.2,776,183 due from employees occupying the School's houses. A sum of Kshs.1,450,566 of the balance had been outstanding for more than one year as at 30 June, 2019.

The cause of the arrears was not clear given that Section 5 of the School's Human Resource Management Policy and Procedures Manual provides that rental payments for houses occupied by employees are to be offset against the monthly salaries payable to the respective tenants.

In addition, records at Mombasa Campus indicated that rental income totalling Kshs.210,000 from one of the School's houses occupied by a former Director had not been collected since October, 2017 when the Officer left the School to join the parent Ministry, but retained the house meant for the Campus Director. Management has not provided a satisfactory explanation for its failure to collect the outstanding rent and secure the house for use by the School.

3.0 Pay-As-You-Earn (PAYE)

Included in the trade and other payables balance totalling Kshs.1,001,901,551 as at 30 June, 2019 are statutory deductions for Pay As You Earn (PAYE) tax totalling Kshs.14,572,646. The deductions include taxes amounting to Kshs.546,519 which

had remained unremitted since 1 July, 2018. No explanation was provided for the failure to remit the statutory deductions. Failure to comply with the PAYE law attracts interest and penalties defined in the Income Tax Act and may, therefore, result in wasteful expenditure.

Basis for Conclusion

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 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

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 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 overall governance.

In preparing the financial statements, Management is responsible for assessing the ability of the School to continue sustaining its services, disclosing, as applicable, matters related to sustainability of services and using the applicable basis of accounting unless the Management is aware of the intention to dissolve the School 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 Council is responsible for overseeing the financial reporting process, reviewing the effectiveness of how the Kenya School of Government 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 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. 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.

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 appropriate 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 School 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 School to cease 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 School to express an opinion on the financial statements.
- Perform such other procedures as I consider necessary in the circumstances.

I communicate with 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 communicate with them all relationships and other matters that may reasonably be thought to bear on my independence, and where applicable, related safeguards.



Nancy Gathungu
AUDITOR-GENERAL

Nairobi

20 August, 2021