

REPORT OF THE AUDITOR GENERAL ON NATIONAL INDUSTRIAL TRAINING AUTHORITY FOR THE YEAR ENDED 30 JUNE 2017

REPORT ON THE FINANCIAL STATEMENTS

Qualified Opinion

I have audited the accompanying financial statements of National Industrial Training Authority set out on pages 1 to 29, which comprise the statement of financial position as at 30 June 2017, statement of financial performance, statement of changes in net assets, statement of cash flow 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 of Qualified Opinion section of my report, the financial statements present fairly, in all material respects, the financial position of National Industrial Training Authority 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 Accounting Standards (Accrual Basis) and comply with the Public Finance Management Act, 2012 and Industrial Training (Amendment) Act, 2011 .

In addition, as required by Article 229(6) of the Constitution, except for the matters described in the Basis of Qualified Opinion section 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 of Qualified Opinion

1.0 Plant, Property and Equipment

1.1 Difference between Valuation Report and Financial Statement Figures

Note 16 to the financial statements as at 30 June, 2017 reflects cost values of assets which are different from the last valuation report dated 28 February, 2014 as shown below:

Item	Valuation Report Figures Kshs.	Financial Statement Figures	Over/(Under) Kshs.
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		Kshs.	
Land	5,653,615,000	5,653,615,000	-
Building & Site works	2,199,285,800	2,372,867,000	173,581,200
Plant & Machinery	449,640,216	116,495,000	(333,145,216)
Motor Vehicles	92,707,600	27,752,000	(64,955,600)
Computer & Accessories	72,900,026	24,999,000	(47,901,026)
Furniture & fittings	92,970,805	30,460,000	(62,510,805)
Equipment	37,711,573	62,183,000	24,471,427
Total	8,598,831,020	8,288,371,000	(310,460,020)

In view of the material differences between the last valuation report and the financial statement balances, it has not been possible to confirm the source and accuracy of the plant, property and equipment balance of Kshs.8,289,527,000 reflected in the statement of financial position as at 30 June 2017.

1.2 Incomplete Fixed Assets Register

During the audit inspection carried out in December 2017, it was noted that NITA did not maintain a proper fixed assets register for property, plant and equipment with necessary details such as; description of the asset, location, serial number, date purchased, source, cost price, additions, depreciation and disposals. Documents availed for audit indicated that only an inventory listing of assets in the various offices was maintained.

In the circumstances, it has not been possible to confirm the accuracy, custody and safety of the property, plant and equipment balance of Kshs.8,289,527,000 reflected in the statement of financial position as at 30 June 2017.

1.3 Allocation of National Industrial Training Authority Land to a Private Developer

The statement of financial position as at 30 June 2017 reflects property, plant and equipment balance of Kshs.8,289,527,000. Included in the figure is land valued at Kshs.5,653,615,000 which however, still excludes disputed plots No. 464/R and No. 6229 of undetermined value. As previously reported, land of unknown value measuring 6.2 hectares (Ref: No. Plot No.464/R) located in Bombolulu area was on 23 May 1996 allocated to Mombasa Industrial Training Centre (MITC) as an alternative to plot No. 6229 which had been carved out and allocated to a private developer. Although the Authority has indicated that the matter was in the Ndung'u Report, no evidence was presented for audit to show that the Authority is pursuing the matter with the National Land Commission to hasten acquisition of titles to avoid losing the property.

Further, no reasons have been given for failure to disclose the status of the two parcels of land in the financial statements.

2.0 Outstanding Imprests

The statement of financial position reflects receivables from exchange transactions of Kshs.81,846,000 as at 30 June 2017. Included in the figure is an amount of Kshs.47,543,000 in respect of temporary imprests out of which imprests totalling Kshs.12,276,280 were as at the time of audit on 1 December 2017 still outstanding beyond the due dates.

No satisfactory explanation has been provided for the failure to recover the outstanding imprests in full from defaulting officers' salaries.

3.0 Uncollected Training Levy

Included in the statement of financial position as at 30 June, 2017 are receivables from exchange transactions balance of Kshs.81,846,000 out of which, an amount of Kshs.18,345,000 relates to receivables from employers in respect of training levy. Further, Note 13 to the financial statements indicates that receivables from employers increased by Kshs.13,012,000 from Kshs.5,333,000 in 2015/2016 to Kshs.18,345,000 in 2016/2017.

The respective employers are therefore guilty of an offence under Section 5B (4) of Industrial Training (Amendment) Act, 2011 and liable to a fine not exceeding Kshs.100,000 and monthly penalty not exceeding Kshs.50,000 for continued failure to remit the training levy after conviction.

No evidence was availed for audit review on any imposition of fines or penalties or conviction to the defaulting employers.

4.0 Deposits held in Collapsed Banks

As previously reported, the National Industrial Training Authority held deposits amounting to Kshs.129,466,400 in various banks that had collapsed over twenty (20) years ago.

However, no provision for contingent asset has been made in the statement of financial position as at 30 June 2017. The amount has also been totally omitted from the financial statements for the year ended 30 June 2017.

Further, there was no evidence to indicate that the Authority was still pursuing recovery of the deposits through the Deposit Protection Fund even though the collapsed banks owned assets secured by the Government Official Receiver.

In the circumstances, the recoverability of deposits totalling Kshs.129,466,400 is doubtful.

The audit was conducted in accordance with International Standards of Supreme Audit Institutions (ISSAIs). I am independent of National Industrial Training Authority management 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 judgement, are of most significance in the audit of the financial statements. Except for the matters described in the Basis for Qualified Opinion section of my report, I have determined that there are no Key Audit Matters to communicate in my report.

Other Matter

1.0 Budget and Budgetary Performance

1.1 Revenue

The actual receipts amounted to Kshs. 1,861,466,000 against the budgeted amount of Kshs.1,991,500,000 resulting to a shortfall of Kshs.130,034,000 or 7% as tabulated below:

Revenue Head	Budget Kshs.	Actual Kshs.	Excess/ (shortfall) Kshs.	Exces/ (shortfall) %
Training Levy collections	750,000,000	679,789 ,000	(70,211,000)	(9)
Government grants & subsidies	598,000,000	523,466,000	(74,534,000)	(12.5)
Rendering of Services	371,500,000	348,705,000	(22,795,000)	(6)
Finance Income	50,000,000	44,558,000	(5,442,000)	(11)
Other income, rental & agencies	222,000,000	264,948,000	42,948,000	19
Total	1,991,500,000	1,861,466,000	(130,034,000)	(7)

However, the management explanations for excess or shortfall of 10% were not included in the notes to the financial statements as required.

1.2 Expenditure

NITA had budgeted to spend Kshs.1,724,233,000 in 2016/2017 but spent Kshs.1,368,424,000 and as a result underspent by Kshs.355,809,000 or 21% as tabulated below:

Expenditure	Budget Kshs.	Actual Kshs.	Over/(Under) Kshs.	Over/ (under) %
Employees costs	777,299,000	690,138,000	(87,161,000)	(11)

Use of goods and services	37,382,000	48,605,000	11,223,000	30
Remuneration of Directors	41,600,000	26,757,000	(14,843,000)	(36)
Repairs and maintenance	25,445,000	26,835,000	1,390,000	5
Contracted Services	23,928,000	16,946,000	(6,982,000)	(29)
General Expenses	818,579,000	559,143,000	(259,436,000)	(32)
Total	1,724,233,000	1,368,424,000	(355,809,000)	(21)

The under expenditures mainly occurred under general expenses by Kshs.259,436,000 or 32%, employees' costs by Kshs.87,161,000 or 11% and Directors remuneration by Kshs.14,843,000 or 36%. However, the over expenditure of Kshs.11,223,000 or 30% in respect of use of goods and services was not explained in the Notes to the financial statements.

The failure to spend Kshs.355,809,000 or 21% of the budgeted expenditure implies that the Authority's goals and objectives were not achieved as planned.

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

The management is responsible for the preparation and fair representation of these financial statements in accordance with International Public Sector Accounting Standards (Accrual Basis) and for such internal control such as management determines is necessary to enable the preparations 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 Authority's ability to continue to sustain services, disclosing, as applicable, matters related to sustainability of services and using the going concern basis of accounting unless the Government intends to cease operations of the Authority, or have no realistic alternative but to do so.

Management is also responsible for the submission of the financial statement to the Auditor-General in accordance with the provision of Section 47 of the Public Audit Act 2015.

Those charged with governance are responsible for overseeing the Authority'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 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.
- 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 Authority'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 Authority's ability to continue as a going concern. 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 Authority to cease to continue as a going concern.
- 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 Authority 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.



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

Nairobi

08 March 2018