

REPORT OF THE AUDITOR-GENERAL ON NATIONAL INDUSTRIAL TRAINING AUTHORITY FOR THE YEAR ENDED 30 JUNE, 2019

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 36, 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 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 National Industrial Training Authority as at 30 June, 2019, 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 Industrial Training Act and the Public Finance Management Act, 2012.

Basis for Qualified Opinion

1.0 Property, Plant and Equipment

The statement of financial position as at 30 June, 2019 reflects a balance of Kshs.9,725,738,000 in respect of property, plant and equipment. However, a review of the supporting records for the balance revealed the following anomalies:

1.1 Assets Without Ownership Documents

The property, plant and equipment balance of Kshs.9,725,738,000 includes amounts of Kshs.6,608,300,000 and Kshs.2,547,948,000 relating to land and buildings respectively. However, and as previously reported, the Authority did not provide ownership documents for the land for audit verification. Further, included in the property, plant and equipment balance is an amount of Kshs.386,331,000 being the net book value for motor vehicles which excluded the value of motor vehicle Reg. No. Ex -UN 205K donated by United Nations Industrial Development Organization (UNIDO) in 2001. As at the time of audit, the donated vehicle was in use at the Athi River Centre of the Authority though the vehicle was yet to be registered in the name of the Authority.

1.2 Allocation of NITA Land to a Private Developer

As previously reported, the value of Kshs.6,608,300 for land excluded the value of disputed plots No. 464/R and No. 6229 of undetermined value. The land 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. No evidence

that the Authority was pursuing the matter with the National Land Commission to hasten acquisition of ownership documents to avoid losing the property was presented for audit. Further, the status of the two parcels of land was not disclosed in the financial statements.

In view of the foregoing matters, it has not been possible to confirm the accuracy and completeness of the reported property, plant and equipment balance of Kshs.9,725,738,000 as at 30 June, 2019.

2.0 Cash and Cash Equivalents

The statement of financial position reflects a balance of Kshs.45,698,000 in respect of cash and cash equivalents. However, a review of the cashbooks and other supporting records revealed the following anomalies:

2.1 Stale Cheques

The bank reconciliation statements for the various bank accounts held by the Authority for June, 2019, reflected un-presented cheques amounting to Kshs.23,327,315 out of which cheques totalling Kshs.1,030,126 were stale. No satisfactory reason was provided for not reversing the stale cheques in the cashbook.

2.2 Dormant Bank Account

The Authority maintained a dormant current account with Standard Chartered Bank. The account continued to attract bank charges for no justifiable reason. In the financial year 2018/2019, bank charges amounting to Kshs.17,100 were incurred reducing the bank balance.

2.3 Bank Certificate and Board of Survey Report

The Authority did not provide certificate of bank balances for the bank accounts held and board of survey reports as at 30 June, 2019 for audit purposes.

2.4 Unsupported Clearance of Bank Reconciliation Items

An amount of Kshs.5,677,181 brought forward from June 2016 was cleared from the June, 2019 bank reconciliation statement. However, supporting documents for the clearance of the balance were not provided for audit.

Under the circumstances, the accuracy of the cash and cash equivalents balance of Kshs.45,698,000 could not be confirmed.

3.0 Receivables from Exchange Transactions

The statement of financial position reflects receivables from exchange transactions balance of Kshs.149,993,000. The following observations were made regarding the balance:

3.1 Unsupported Receivables

As disclosed at Note 20 to the financial statements, the balance included Kshs.50,936,000 and Kshs.67,475,000 described as conference and students receivables respectively. However, supporting documents for the receivables were not provided for audit verification.

3.2 Missing Cheques

The balance included an amount of Kshs.12,823,000 described as missing cheques in the June, 2018 bank reconciliation statement. The Management explained that the amount was misappropriated by a former accountant and that the matter was in court.

3.3 Bounced Cheques

As disclosed at Note 20 to the financial statements, the reported receivables balance included an amount of Kshs.18,759,000 relating to bounced cheques dating back to February, 2015. Supporting documents for the balance were not provided for audit verification.

In the circumstances, it was not possible to confirm the accuracy, completeness and full recoverability of the reported receivables from exchange transactions balance of Kshs.149,993,000.

4.0 Deposits Held in Collapsed Banks and not Disclosed in the Financial Statements

As disclosed in Note 27 to the financial statements, the Authority had deposits amounting to Kshs.129,466,000 held in various collapsed financial institutions. Although the deposits were provided for in full, they were not disclosed in the statement of financial position. Further, the Authority did not demonstrate any efforts to recover the deposits through the Deposit Protection Fund. The recoverability of the deposits totaling to Kshs.129,466,000 remained doubtful. It could not also be confirmed that the financial statements achieved fair presentation as provided for under Paragraph 27 of IPSAS 1 – Presentation of Financial Statements.

5.0 Unsupported Trade and Other Payables

The statement of financial position reflects trade and other payables balance of Kshs.198,175,000. However, the Authority did not provide supporting schedules and documents for audit verification. In the absence of the supporting documents, it was not possible to confirm the accuracy and validity of the reported trade and other payables balance.

6.0 Unsupported Remuneration of Directors Expenses

The statement of financial performance reflects an amount of Kshs.26,581,000 for remuneration of Directors. However, payment vouchers for expenditure amounting to

Kshs.23,581,000 were not availed for audit. Further, Board Minutes and Board Attendance Registers were also not provided for audit review.

Consequently, the authenticity, validity and accuracy of the reported remuneration of Directors expenses amounting to Kshs.26,581,000 could not be confirmed.

The audit was conducted in accordance with International Standards of Supreme Audit Institutions (ISSAIs). I am independent of the National Industrial Training Authority 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. I have determined that there are no key audit matters to communicate in my report.

Other Matter

Budgetary Control and Performance

The statement of comparison of budget and actual amounts reflects a final revenue budget and actual on comparable basis of Kshs.1,898,318,000 and Kshs.1,566,845,000 respectively, resulting to an under-funding of Kshs.331,473,000 or 17% of the budget. Similarly, the Authority expended Kshs.1,594,015,000 against an approved budget of Kshs.1,777,942,000 resulting to an under-expenditure of Kshs.183,927,000 or 10% 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 matters 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

1.0 Staff Car Loan and Mortgage Scheme Fund Bank Balance

The statement of financial position reflects a short-term investments balance of Kshs.890,000,000 which, as disclosed at Note 19 (b) to the financial statements, included amounts of Kshs.20,000,000 and Kshs.120,000,000 relating to the Staff Car Loan and Staff Mortgage Scheme Fund of the Authority respectively. It is not clear why separate financial statements for the Fund were not prepared and submitted for audit as required under Section 4 of the Salaries and Remuneration Commission Circular Ref. No SRC/ADM/CIR/1/13 Vol.III (128) of 17 December, 2014.

In addition, the Authority did not maintain cashbooks or prepare monthly bank reconciliation statements for the Staff Car Loan and Mortgage Fund bank account as required under Regulation 90 and Regulation 100 of the Public Finance Management (National Government) Regulations, 2015.

Further, the bank statements for the Car Loan and Mortgage Schemes reflected a balance of Kshs.20,469,417 and Kshs.120,877,076 respectively which differed with the reported bank balances of Kshs.20,000,000 and Kshs.120,000,000 by Kshs.469,417 and Kshs.877,076 respectively. The variances were neither explained nor reconciled.

In view of the foregoing, it was not possible to confirm the validity and completeness of the balance of Kshs.890,000,000 reported for short term investments.

2.0 Receivables from Non-Exchange Transaction (Outstanding Imprests)

The statement of financial position reflects receivables from non-exchange transactions balance of Kshs.43,110,000 which represented staff imprests that had been outstanding for long. The Authority did not demonstrate efforts to recover the imprests from the defaulting officers in line with the provisions of Regulation 93(6) of the Public Finance Management (National Government) Regulations, 2015.

3.0 Non- Compliance with National Treasury Circular on Investments in Call Deposits

As disclosed at Note 19 (b) to the financial statements, the Authority held call deposits amounting to Kshs.750,000,000 at a local Commercial Bank. This is contrary to The National Treasury Circular Ref.DMD 4/02 'H' (63) of 26 March, 2018 that directed all State Corporations and SAGAs to invest surplus funds in Treasury Bills or Treasury Bonds directly through the Central Bank of Kenya.

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, except for the matters described in the Basis for Conclusion on Effectiveness of Internal Controls, Risk Management and Governance sections of my report, 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

1.0 Incomplete Assets Register

The Authority did not maintain a comprehensive register for its property, plant and equipment or supporting records indicating details of the assets, including description of the assets, location, serial number, date purchased, source, capital expenditure, additions, depreciations and disposals.

2.0 Lack of Secure Offsite Storage Facility

Part 9(1) of the NITA Information, Communication and Technology Policy Document states that, all backup media must be stored in a safe and secure location. An analysis of records and documentary evidence provided revealed that the Authority did not have data backups stored in a secure offsite location.

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 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, risk management and governance.

In preparing the financial statements, Management is responsible for assessing the Authority's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the applicable basis of accounting unless the Management is aware of the intention to terminate the Authority 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.

Those charged with governance are responsible for overseeing the Authority's financial reporting process, reviewing the effectiveness of how the entity 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 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 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 Authority'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 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 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 Authority to cease to continue as a going concern or 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 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.



Nancy Gathungu
AUDITOR-GENERAL

Nairobi

14 July, 2021