

REPORT OF THE AUDITOR-GENERAL ON NATIONAL INDUSTRIAL TRAINING AUTHORITY (NITA) FOR THE YEAR ENDED 30 JUNE 2018

REPORT ON THE FINANCIAL STATEMENTS

Qualified Opinion

I have audited the accompanying financial statements of National Industrial Training Authority (NITA) set out on pages 1 to 36, which comprise the statement of financial position as at 30 June 2018, 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 National Industrial Training Authority (NITA) as at 30 June, 2018, 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, 2011.

Basis for Qualified Opinion

1. Property, Plant and Equipment

The statement of financial position as at 30 June 2018 reflects a balance of Kshs.8,391,544,000 in respect of property, plant and equipment. A review of the supporting records for this balance revealed the following matters:

1.1 Carrying Value of Assets

As previously reported, a valuation of the Authority's assets was last done in February 2014. However, the assets amount as per the valuation report were not reflected in the financial statements leading to an overall understatement of Kshs.310,460,020 on the assets cost/valuation amount as at 30 June 2017 which also affects the assets balance for the year ended 30 June 2018.

1.2 Incomplete Assets Register

The Authority did not maintain a complete 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 disposal, contrary to the requirements of Part XII of PFM Act, 2012 on assets management.

1.3 Assets Without Ownership Documents

Included in the property, plant and equipment balance of Kshs.8,391,544,000 as at 30 June 2018 is Kshs.5,653,615,000 and Kshs.2,427,492,000 for land and building

respectively. However, the Authority did not avail land ownership documents for audit review. Further, property, plant and equipment balance of Kshs.8,391,544,000 includes motor vehicles with a carrying amount of Kshs.43,951,000 which however excludes motor vehicle Reg. No. Ex -UN 205K which was donated by United Nations Industrial Development Organization (UNIDO) in 2001 but still in use at Athi River Centre had not been registered in the name of the Authority.

1.4 Allocation of NITA Land to a Private Developer

As previously reported, included in the property, plant and equipment balance of Kshs.8,391,544,000 is land valued at Kshs.5,653,615,000 which excludes disputed plots No. 464/R and No. 6229 of undetermined value. The 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 Land Report, no evidence was presented for audit scrutiny 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.

In view of the foregoing, it has not been possible to confirm the completeness, valuation, custody and accuracy of the property, plant and equipment balance of Kshs.8,391,544,000 in the statement of financial position as at 30 June 2018.

2. Cash and Cash Equivalents

The statement of financial position as at 30 June 2018 reflects a balance of Kshs.81,538,000 in respect of cash and cash equivalents which includes a bank balance of Kshs.80,926,000. A review of the cashbooks and other supporting records revealed the following anomalies;

2.1 Dormant Bank Account

The Authority maintains a current account with Standard Chartered No. 104031408200 which had no transactions during the year under review but still the bank levied charges amounting to Kshs.22,440 which in effect reduced the opening balance from Kshs.180,589 to Kshs.158,149 as at 30 June 2018.

2.2 Unreconciled Bank Balances

Included in the bank balance of Kshs.80,926,000 as at 30 June 2018 is an amount of Kshs.36,934,000 for revenue Account No. 11202588075 maintained at Kenya Commercial Bank Limited. A review of the supporting cashbook and bank reconciliation statement for June 2018 revealed the following:

- **Missing Cheques**

The bank reconciliation statement showed receipts in cashbook not in bank statements amounting to Kshs.12,823,321 which were described as missing cheques. The management has indicated that the amount was misappropriated by a former accountant and the matter is in court.

- **Payment in Bank Statements Not Recorded in Cashbook**

The bank reconciliation statement showed payments totalling Kshs.18,256,125 which appeared in the bank statements but not in the cashbook dating back to February 2015. It was not clear if these debits were authorized by the management since they had not been captured in the Authority's cashbook.

- **Payment in Cashbook not in Bank Statements**

The bank reconciliation statement also shows payments in cashbook not in bank statement totalling Kshs.30,677,181. Included in this balance is an amount of Kshs.5,677,181 described as balance brought forward from June 2016 for which no analysis was provided. It was also not explained why this amount had remained outstanding for a period of two (2) years.

Under the circumstances, the completeness and accuracy of the cash and cash equivalents balance of Kshs.81,538,000 as at 30 June 2018 could not be ascertained.

3. Uncollected Training Levy

The statement of financial position as at 30 June 2018 reflects receivables from exchange transactions balance of Kshs.44,026,000. As previously reported, the statement of financial position for the year ended 30 June 2017 reflected receivables from exchange transactions balance of Kshs.81,846,000 which included receivables from employers in respect of training levy amounting to Kshs.18,345,000. The defaulting employers were liable to pay fines as per Section 5 B (4) of the Industrial Training Act, 2011 but no evidence was availed for audit verification to confirm whether any fines had been imposed.

A review of the matter during the year under audit disclosed that the Kshs.18,345,000 balance did not appear as outstanding receivables as at 30 June 2018 but no evidence was availed to show when and how the balance was settled.

In the circumstances, it has not been possible to confirm the completeness and accuracy of receivables from exchange transactions balance of Kshs.44,026,000 as at 30 June 2018.

4. Unresolved Prior Year Matter - 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 2018. 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 consequence, the recoverability of the deposits totalling Kshs.129,466,400 remains doubtful.

5. Un-surrendered Imprests

The statement of financial position as at 30 June 2018 reflects receivables from non-exchange transactions balance of Kshs.33,494,000 which represents staff imprests which were outstanding beyond the due dates. It was not clear why the management had not enforced surrender or recovery of the imprests from the defaulting officers in line with the provisions of Regulation 93(5) of the Public Finance Management Act, 2012. In addition, a review of the supporting records showed that included in this balance is Kshs.7,382,689 held by ex-employees and Kshs.347,400 owed by deceased staff and their recoverability is in doubt and no provision for bad and doubtful debts has been made.

Consequently, the accuracy, completeness and recoverability of the unsurrendered imprest of Kshs.33,494,000 as at 30 June 2018 could not be confirmed.

The audit was conducted in accordance with International Standards of Supreme Audit Institutions (ISSAIs). I am independent of National Industrial Training Authority (NITA) 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 matter(s) described in the Basis for Qualified Opinion section, I have determined that there are no other key audit matters to communicate in my report.

Other Matter

Budget and Budgetary Performance

1. Revenue

The Authority had budgeted for revenue totalling Kshs.2,156,600,000 but actual realised amounted to Kshs.1,533,715,000 resulting to a shortfall of Kshs.622,885,000 or 29% as itemized below:

Revenue	Budgeted Kshs.	Actual Kshs.	Excess/Shortfall Kshs.	Variance %
Fines, penalties and Levies	900,000,000	686,658,000	(213,342,000)	24
Government Grants	521,000,000	401,400,000	(120,500,000)	23
Rendering of Services	647,200,000	333,109,000	(314,091,000)	49
Finance Income	57,500,000	49,828,000	(7,672,000)	13
Other Income	30,000,000	62,721,000	32,721,000	109
Total	2,156,600,000	1,533,715,000	(622,885,000)	29

The shortfall mainly occurred under fines, penalties and levies, Government grants and rendering of services at Kshs.213,342,000 or 24%, Kshs.120,500,000 or 23% and Kshs.314,091,000.00 or 49% respectively while other income realized excess receipts of Kshs.32,721,000 or 109%.

2. Expenditure

The Authority had budgeted for expenditure totaling Kshs.1,775,195,000 but actual expenditure amounted to Kshs.1,480,585,000 resulting to an under expenditure of Kshs.294,610,000 or 17% as itemized below:

Component	Budget Kshs.	Actual Kshs.	Over/(under) Kshs.	Variance %
Use of Goods and Services	61,064,000	50,904,000	(10,160,000)	(17)
Employee Costs	703,759,000	699,220,000	(4,537,000)	(1)
Remuneration of Directors	50,800,000	43,203,000	(7,597,000)	(15)
Repairs and Maintenance	32,296,000	24,384,000	(7,912,000)	(24)
Contracted Services	25,900,000	12,626,000	(13,274,000)	(51)
General Expenses	901,376,000	650,248,000	(251,127,000)	(28)
Total	1,775,195,000	1,480,585,000	(294,610,000)	(17)

The under expenditure mainly occurred under use of goods and services, employee costs, remuneration of directors, repairs and maintenance, contracted services and general expenses at Kshs.10,160,000, Kshs.4,537,000, Kshs.7,597,000, Kshs.7,912,000, Kshs.13,274,000 and Kshs.251,127,000 respectively.

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(s) described in the Basis for Qualified Opinion 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

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 INTERNAL CONTROLS EFFECTIVENESS, GOVERNANCE AND RISK MANAGEMENT SYSTEMS

Conclusion

As required by Section 7 (1) (a) of the Public Audit Act, 2015, based on the procedures performed, I confirm that, except for the matters described in the Basis for Conclusion on

Effectiveness of Internal Controls, Governance and Risk Management section of my report, 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

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 extraneous to the location of the backed up systems. All backup media must be stored in a fireproof safe. All software full backup and monthly backup media must be stored in an off-site backup archive storage location. Analysis of records and documentary evidence availed revealed that the entity does not have data backups stored in a secure offsite location.

The audit was conducted in accordance with ISSAI 1315 and ISSAI 1330. 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 National Government either intends to liquidate the Authority 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.

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.



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

Nairobi

22 May 2019