

REPORT OF THE AUDITOR-GENERAL ON ALDAI TECHNICAL TRAINING INSTITUTE FOR THE YEAR ENDED 30 JUNE, 2020

REPORT ON THE FINANCIAL STATEMENTS

Adverse Opinion

I have audited the accompanying financial statements of Aldai Technical Training Institute set out on pages 1 to 42, which comprise the statement of financial position as at 30 June, 2020, 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, because of the significance of the matters discussed in the Basis for Adverse Opinion section of my report, the financial statements do not present fairly, the financial position of the Aldai Technical Training Institute as 30 June, 2020, 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 do not comply with the Public Finance Management Act, 2012 and the Technical and Vocational Education and Training Act, 2013.

Basis for Adverse Opinion

1.0 Presentation of the Financial Statements

The financial statements do not include appendices, progress on follow up of auditor recommendations, projects implemented by the entity, inter-entity transfers and recording of transfers from other government entities as required by the Public Sector Accounting Standards Board (PSASB). Inconsistencies were also noted between the Notes referenced in the financial statements and the information contained in the Notes. Further, transactions with related parties including the Ministry of Education, key management and Board of Directors have not been disclosed in Note 46 to the financial statements. In addition, the ICPAK membership number of the accountant who prepared the financial statements has not been provided.

Consequently, the financial statements do not comply with the financial reporting guidelines issued by the PSASB pursuant to the provisions of Section 194(1) of the Public Finance Management Act, 2012.

1.2 Variances between Financial Statements and Supporting Schedules and Ledgers

The statement of financial performance reflects a balance of Kshs.21,817,908 under use of goods and services which as disclosed at Note 15 to the financial statements, includes Kshs.4,086,840 being examinations expenses and Kshs.1,119,176 being

expenditure related to advertisement. A review of the supporting schedules and ledgers provided in support of the two expenditure components revealed variances as detailed below:

Item	Financial Statements (Kshs.)	Supporting Schedules/Ledger (Kshs.)	Variances (Kshs.)
Examinations	4,086,840	1,587,480	2,499,360
Advertisements	1,119,176	1,376,776	(257,600)

Consequently, the accuracy of the reported balance for the two expenditure items could not be confirmed.

2.0 Unsupported Transfers from the National Government

The statement of financial performance reflects transfers from the National Government amounting to Kshs.16,725,000. However, the analysis of the receipts provided for audit review amounted to Kshs.14,368,350 resulting to an unreconciled variance of Kshs.2,356,650.

Therefore, the accuracy and completeness of the transfers of Kshs.16,725,000 from the National Government could not be confirmed.

3.0 Unsupported Rendering of Services - Fees from Students

The statement of financial performance reflects Kshs.39,549,783 on rendering of services - fees from students of which was not supported with detailed analysis of fees charged per student. In addition, the balance includes an amount of Kshs.10,840,480 received from the National Youth Service and loans and bursaries of Kshs.19,095,025 whose details were not provided for audit.

Consequently, the accuracy and completeness of revenue from rendering of services balance of Kshs.39,549,783 could not be confirmed.

4.0 Unvalued and Unreported Property, Plant and Equipment Balance

The statement of financial position reflects a property, plant and equipment balance of Kshs.14,332,304. As previously reported, the Institution stands on a 20.23 hectares parcel of land in Nandi County. However, the land had not been valued and recognized in the Institute's books. Further, the asset register reflected assets with an acquisition cost of Kshs.14,095,472 which had not been reported in the financial statements. The details of the unreported assets are provided below;

S/no	Description	Year of Acquisition	Cost (Kshs.)
1	Ablution Block	2017	1,761,250
2	Block Making Shed	2017	2,787,500
3	Water System	2017	3,071,375
4	Generator House	2018	499,440
5	Computers	Not indicated	4,050,186
6	Electrical Tools	Not indicated	927,400
7	Furniture and Fittings	Not indicated	832,721
8	Kitchen Appliances	Not indicated	165,600
	Total		14,095,472

In addition, three (3) buildings including the security office, a pit latrine and a ladies' hostel all acquired/constructed in 2015 had not been valued and recognized as part of the Institute's assets.

Consequently, the accuracy and completeness of the property, plant and equipment of balance Kshs.14,332,304 could not be confirmed.

6.0 Unsupported Receivables from Exchange Transactions

The statement of financial position reflects receivables from exchange transactions balance of Kshs.10,512,820. However, the Management did not provide the aging analysis for the trade receivables. Further, the Institute did not have a debtor's policy.

Consequently, the accuracy and recoverability of receivables from exchange transactions balance of Kshs.10,512,820 could not be confirmed.

7.0 Unsupported Trade and Other Payables from Exchange Transactions.

The statement of financial position reflects trade and other payables from exchange transactions of Kshs.2,528,109. However, the schedule provided for audit did not contain details such as works or services rendered. Further, the Management did not provide an ageing analysis, requisitions, invoices, certificate of works completed, local purchase orders, contracts documents, tender opening minutes, tender evaluation minutes and professional opinion to support the trade payables balance of Kshs.2,009,612.

Consequently, the accuracy and completeness of the trade and other payables from exchange transactions balance of Kshs.2,528,109 could not be confirmed.

8.0 Lack of an Approved Budget

The statement of comparison of budget and actual amounts reflects total actual expenditure on comparable basis of Kshs.10,853,945 whereas the statement of financial performance reflects a total expenditure of Kshs.35,991,215 resulting into an unreconciled variance of Kshs.25,137,270. Further, the Management did not provide the Institute's approved budget for the year contrary to paragraph 22 of the Second Schedule of the Technical and Vocational Education and Training Act, 2013 which

stipulates that the Board of Governors may incur expenditure for the purpose of the Institution in accordance with the estimates approved by the Cabinet Secretary, and any approved expenditure under any head of the estimates may not be exceeded without the prior approval of the Cabinet Secretary.

Consequently, the accuracy and completeness of the statement of comparison of budget and actual amounts could not be confirmed

The audit was conducted in accordance with International Standards of Supreme Audit Institutions (ISSAIs). I am independent of the Aldai Technical Training Institute 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 adverse 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.

REPORT ON LAWFULNESS AND EFFECTIVENESS IN USE PUBLIC RESOURCES

Conclusion

As required by Article 229(6) of the Constitution, because of the significance of the matters discussed in the Basis for Adverse Opinion, and Basis for Conclusion on Lawfulness and Effectiveness in Use of Public Resources sections of my report, based on the audit procedures performed, I confirm that public resources have not been applied lawfully and in an effective way.

Basis for Conclusion

1.0 Contract for Construction of Eight (8) Storey Classrooms

The statement of financial position as at 30 June, 2020 reflects a property, plant and equipment balance of Kshs.14,332,304. As previously reported, the Institute had capital work in progress in respect of construction of eight (8) Storey Classrooms which was funded by the Ministry of Education. The tender was awarded to a construction company at a contract sum of Kshs.9,911,189. According to the project work plan, the project was to be completed by 27 February, 2018. However, audit inspection of the Project carried out on 13 April, 2021 revealed that the project completion was behind schedule by over three (3) years. Further, the Project had stalled, and the contractor had vacated the site.

In the circumstances, value for money from the expenditure amounting to Kshs.5,094,560 incurred on the Project could not be confirmed.

2.0 Lack of Imprest Warrants

The statement of financial performance reflects expenditure on use of goods and services amounting to Kshs.21,817,908 which as disclosed at Note 15 to the financial statements includes local transport and travel expenses of Kshs.1,198,888. However, imprest warrants maintained as required under Regulations 91(1) and 93(2) of the Public Finance Management (National Government) Regulations, 2015 were not provided.

In the circumstances, the Management was in breach of the law.

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, because of the significance of the matters discussed in the Basis for Adverse Opinion, and Basis for Conclusion on Effectiveness of Internal Controls, Risk Management and Governance sections of my report, based on the audit procedures performed, I confirm that internal controls, risk management and governance were not effective.

Basis for Conclusion

1.0 Lack of Risk Management Strategies

As previously reported, the Institute had not developed risk management strategies, which include fraud prevention mechanisms and a system of risk management and internal control that builds robust business operations

Consequently, ability to identify threats and definition of strategy to eliminate or minimize the impact of the risks could have been compromised.

2.0 Lack of an Internal Audit Function

The Institute had not established an internal audit department as required under Section 73 (1) (a) of the Public Finance Management Act, 2012. In the absence of an internal audit function, effective internal controls and compliance with relevant laws, rules and regulations could not be confirmed.

The audit was conducted in accordance with ISSAI 2315 and ISSAI 2330. The standard requires that I plan and perform the audit to obtain assurance about whether processes and systems of internal control, risk management and overall 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 the Board of Governors

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 ability of the Institute to sustain its services, disclosing, as applicable, matters related to sustainability of services and using the applicable basis of accounting unless Management is aware of the intention to terminate the Institute or 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 Board of Governors are responsible for overseeing the Institute's financial reporting process, reviewing the effectiveness of how the Institute 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 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 applicable 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 Institute 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 Institute 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 Institute 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.



CPA Nancy Gathungu, CBS
AUDITOR-GENERAL

Nairobi

16 February, 2022