

REPORT OF THE AUDITOR-GENERAL ON COAST INSTITUTE OF TECHNOLOGY FOR THE YEAR ENDED 30 JUNE, 2019

REPORT ON THE FINANCIAL STATEMENTS

Disclaimer of Opinion

I have audited the accompanying financial statements of Coast Institute of Technology set out on pages 1 to 27, 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 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 do not able to express an opinion on the accompanying financial statements of Coast Institute of Technology. Because of the significance of the matters described in the Basis for Disclaimer of Opinion section of my report, I have not been able to obtain sufficient appropriate audit evidence to provide a basis for an audit opinion on these financial statements.

Basis for Disclaimer of Opinion

1.0 Unaudited Opening Balances

Records provided for audit indicated that Coast Institute of Technology was inaugurated opened in 1981 by the Ministry of Education and Technology and Management had, until the 2017/2018 financial year, prepared the Institute's financial statements for audit by the Schools Audit Unit stationed at the Ministry.

However, the audit reports for previous years were not provided for audit review. Further, the records indicated that Management was directed by the Accountant-General in 2016 to prepare and submit the Institute's financial statements to the Auditor-General beginning 2015/2016 in accordance with Section 14(3) of the Technical and Vocational Education and Training Act, 2013. Contrary to the instructions and provisions of the Act, Management did not submit financial statements for the financial years 2015/2016, 2016/2017 and 2017/2018 for audit.

Failure to submit the accounts to the Auditor-General, in addition, contravened Regulation 101(4) of the Public Finance (National Government) Management Regulations, 2015.

In view of the foregoing, the opening balances reflected in financial statements for the year under review were not verified. As a result, the accuracy, validity and completeness of the balances reflected in financial statements for the year under review could not be confirmed.

2.0 Improper Presentation of Financial Statements

The financial statements contain the following anomalies:

- i. The table of contents indicates that the Notes to the financial statements are on pages 20 to 27 yet these are presented on pages 7 to 27.
- ii. The table of contents indicates that the Management Report, the Corporate Social Responsibility Statement and the Report of the Board of Governors are on Pages Xi, Xii and Xiii respectively whereas the first two are omitted from the financial statements and the report of the Board of Governors is on Page Xiv.
- iii. The statement of financial position indicates that there are further disclosures on capital reserves, accumulated surplus and capital fund at Notes 31,32, and 33 respectively. However, the Notes are missing in the financial statements.
- iv. Note 22 on property and equipment does not have a comparative balance for the previous year contrary to Paragraph 53 of International Public Sector Accounting Standard No.1 which requires disclosure of comparative information for all amounts reported in financial statements.
- v. The table of contents does not indicate Page numbers for inter-entity transfers.
- vi. Two of the financial that would have read as Page 28 and Page 29 are not marked as such.

In view of these discrepancies, the financial statements for the year ended 30 June, 2019 do not conform to International Public Sector Accounting Standard No. 1 on presentation of financial statements and the reporting framework prescribed by the Public Sector Accounting Standards Board.

3.0 Discrepancies in the Financial Statements

3.1 Statement of Cash Flows

The statement of cash flows for the year ended 30 June, 2019 contains the following inaccuracies.

- i. The statement makes reference to Note 8 as providing further disclosure on rental income whereas the Note provides disclosure on sale of goods. Similarly, Note 9 reflects revenue from rental income and hire of facilities whereas disclosures on rental income are provided in Note 8.
- ii. The statement of cash flows reflects initial recognition balance of Kshs.49,691,473 in accordance with effects of IPSAS 33. However, the item is not supported with any explanatory note and therefore its basis and purpose has not been confirmed.

- iii. The statement of cash flows reflects purchase of property and equipment balance totalling Kshs.352,915,177. However, Notes 22 and 23 respectively reflect property and equipment additions totalling Kshs.15,171,723 and intangible asset additions totalling Kshs.11,342,500, all totaling Kshs.26,514,223, resulting to a difference of Kshs.326,400,954.
- (iv) The statement of cash flows reflects changes in capital fund balance totalling Kshs.321,039,780 which however are not explained in a Note to the financial statements.
- (v) Several balances reflected in the statement of cash flows and statement of financial performance vary as shown in the attached **Appendix 1**. No explanations have been provided for the variances and as a result, the accuracy and completeness of the financial statements for the year ended 30 June, 2019, could not be confirmed.

In view of these discrepancies, the accuracy and completeness of the statement of cash flows for the year ended 30 June, 2019, could not be confirmed.

3.2 Statement of Changes in Net Assets

The statement of changes in net assets for the year ended 30 June, 2019 contains the following discrepancies:

- i. The capital reserve balance totalling Kshs.321,039,780 is not supported with an explanatory note and as a result, its accuracy and validity could not be confirmed.
- ii. The statement of changes in net assets for the year ended 30 June, 2019 reflects prior year adjustments totaling Kshs.49,691,473. However, the adjustments were effected in the current financial year instead of the prior year, contrary to the International Public Sector Accounting Standard No. 3. The Standard provides that errors in financial statements are to be corrected in the first set of financial statements authorized for issue after their discovery by restating the comparative amounts for the prior or earliest period(s) presented.
- iii. The statement of changes in net assets reflects development capital fund balance totalling Kshs.11,401,481 as at 30 June, 2019. However, Note 6 to the financial statements reflects the fund's balance as Kshs.94,548,240, resulting to an unexplained difference of Kshs.83,146,759 between the two sets of records.

In view of these discrepancies, the accuracy and completeness of the statement of changes in net assets for the year ended 30 June, 2019 could not be confirmed.

3.3 Statement of Financial Position

Notes 22 and 23 to the financial statements reflects work-in-progress and software additions in the year totalling Kshs.15,171,723 and Kshs.11,342,500 respectively, all totaling Kshs.26,514,223. However, the statement of cash flows reflects property and

equipment additions totalling Kshs.352,915,177. The difference totalling Kshs.326,400,954 between the balances reflected in the two sets of records could not be explained.

3.4 Variances Between Final Budget Statement and Statement of Comparison of Budget and Actual Amounts

The statement of comparison of budget and actual amounts for the year ended 30 June, 2019 reflects a revenue budget of Kshs.198,319,869 whereas the budget statement reflects Kshs.216,211,300, resulting to an unexplained variance of Kshs.17,891,431 between the two sets of records. In addition, the statement reflects expenditure totalling Kshs.148,179,818 whereas the budget statement reflects Kshs.209,787,940, resulting to an unexplained variance of Kshs.61,608,122 as summarized in the attached **Appendix II**.

As a result of these unexplained differences, the accuracy, validity and completeness of the statement of comparison of budget and actual amounts for the year under review could not be confirmed.

4.0 Unsupported Balances

The following balances were not adequately supported with records:

4.1 Cash and Bank Balance

The statement of financial position as at 30 June, 2019 reflects cash and bank balance totalling Kshs.58,788,411, as further disclosed in Note 19 to the financial statements. Included in the balance are bank balances totalling Kshs.58,722,295 held in five (5) bank accounts. However, the bank reconciliation statements presented for audit reflect cash book balances totaling Kshs.36,860,058, resulting to an unexplained aggregate variance of Kshs.21,862,237. No explanation was provided for the discrepancy which suggests that some receipts were not banked upon collection. Further, the bank reconciliation statements reflect receipts totalling Kshs.31,144,170 in cash books not reflected in bank statements. Records explaining the receipts were not presented for audit review.

In the circumstance, it was not possible to confirm the validity, accuracy and completeness of cash and bank balance totalling Kshs.58,788,411 as at 30 June, 2019.

4.2 Trade Debtors and Student Debtors

Note 20 to the financial statements reflects receivables from exchange transactions balance totalling Kshs.87,470,012. Included in the balance are trade and student debtors totalling Kshs.86,648,102. However, the list supporting the debtors was not presented for audit verification. In addition, the debts were not analyzed to indicate the periods they had been outstanding. Further, the Institute did not have a debt management policy to guide grant of credit.

Consequently, the accuracy, completeness and recoverability of the debtors balance totalling Kshs.86,648,102 could not be confirmed.

4.3 Outstanding Imprests

Note 20 to the financial statements for the year ended 30 June, 2019 reflects receivables from exchange transactions totalling Kshs.87,470,012. Included in the balance are outstanding imprests totalling Kshs.821,910. However, examination of the imprests register revealed that the imprests had been outstanding for a long time. Therefore, failure by Management to recover them from the salaries of their holders was contrary to Section 92(6) of the Public Finance Management (National Government) Regulations, 2015. The provision provides for recovery of long outstanding imprests through deductions of defaulter's salaries.

In the circumstance, the recoverability of accounts receivables - outstanding imprest balance totalling Kshs.821,910 as at 30 June, 2019, could not be confirmed and further, Management was in breach of the Law for failing to recover the imprests in due time.

4.4 Receivables from Non-Exchange Transactions

Note 21 to the financial statements reflects receivables from non-exchange transactions balance totalling Kshs.268,477. Included in the balance is Kshs.105,838 owed by Msambweni Technical and Vocational College and Kshs.162,639 owed by Kinango Technical and Vocational College. However, no further information was provided on the balances.

In the circumstance, the accuracy and completeness of the receivables from non-exchange transactions balance totalling Kshs.268,477 as at 30 June, 2019 could not be confirmed.

4.5 Trade and Other Payables from Exchange Transactions

The statement of financial position as at 30 June, 2019 reflects trade and other payables from exchange transactions balance totalling Kshs.16,908,764, as further disclosed in Note 24 to the financial statements. The balance includes Kshs.3,361,232 denoted as payable to other technical and vocational colleges which, however, has not been analyzed. As a result, the accuracy and completeness of trade and other payables from exchange transactions balance totalling Kshs.16,908,764 as at 30 June, 2019, could not be confirmed.

4.6 Property, Plant and Equipment

The statement of financial position as at 30 June, 2019 reflects property and equipment balance totalling Kshs.336,274,762, as further disclosed in Note 22 to the financial statements. The balance includes land valued at Kshs.63,424,800. However, the title deed for the land the Institute sits on is registered in the name of a private entity, not the Institute. Further, as disclosed in Note 19 to the financial statements, the land and buildings were last valued in June, 2010, contrary to Paragraph 49 of IPSAS 17 which

requires annual revaluation for items of property, plant and equipment which experience significant and volatile changes in fair value, and revaluations every three or five years for items with insignificant changes in fair value.

Since the title deed to the land and the Institute is located on is registered in the name of a private party, ownership of the land by the Institute has not been confirmed. In addition, in view of the failure to revalue the land as well as property and equipment, the accuracy of their carrying values totalling Kshs.336,274,762 reflected in the financial statements as at 30 June, 2019, could not be confirmed.

The audit was conducted in accordance with International Standards of Supreme Audit Institutions. I am independent of Coast Institute of Technology 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.

Key Audit Matters

Key Audit Matters are those matters that, in my professional judgement, are of most significance in the audit of financial statements. I have determined that there are no key audit matters in the year under review.

Budgetary Control and Performance

Statement of comparison of budget and actual amounts for the year ended 30 June, 2019, indicates that the budgeted revenue for the year under review was Kshs.198,319,869 and expenditure Kshs.148,179,818, resulting to a budgeted surplus of Kshs.50,140,051, contrary to Regulation 33 of the Public Finance Management (National Government) Regulations, 2015, which requires each public entity to prepare and approve a balanced budget.

Consequently, the budget may not have been prepared in accordance with the Public Finance Management (National Government) Regulations, 2015.

The revenue and expenditure budgets were as follows:

1.0 Revenue Budget

The statement of comparison of budget and actual amounts for the year under review reflects a final revenue budget of Kshs.198,319,869 against overall revenue collections of Kshs.189,808,071 or 96 % of the budget, resulting to a gross minimal revenue shortfall of Kshs.8,511,798 or 4% of the budget.

2.0 Expenditure Budget

The statement of comparison of budget and actual amounts for the year under review reflects total expenditure budget of Kshs.148,179,818 against actual expenditure of Kshs.157,555,808 resulting to over-expenditure of Kshs.9,375,990 or 6 %.

No records were provided for audit to confirm that the over-expenditure was approved by the Board. As a result, the validity of the expenditure could not be confirmed.

REPORT ON LAWFULNESS AND EFFECTIVENESS IN USE OF PUBLIC RESOURCES

Conclusion

I do not express a conclusion on the Lawfulness and Effectiveness in the Use of Public Resources as required by Article 229(6) of the Constitution. I have not been able to obtain sufficient appropriate audit evidence to provide a basis for my audit conclusion.

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 have not obtained sufficient and appropriate audit evidence to conclude on these matters.

REPORT ON EFFECTIVENESS OF INTERNAL CONTROLS, RISK MANAGEMENT AND GOVERNANCE

Conclusion

I do not express a conclusion on the effectiveness of internal controls, risk Management systems and governance as required by Section 7(1)(a) of the Public Audit Act, 2015. I have not been able to obtain sufficient appropriate audit evidence to provide a basis for my audit conclusion.

I have not been able to obtain sufficient appropriate audit evidence to provide a basis for my audit conclusion. Therefore, I do not express a conclusion on the effectiveness of internal controls, risk Management systems and governance as required by Section 7(1)(a) of the Public Audit Act, 2015.

Basis for Conclusion

Audit review of the Institute's management systems indicated that Management had not established policies and guidance on the following operations:

1.0 Internal Audit and Audit Committee

The Institute operates without an Internal Audit Unit and an Audit Committee contrary to Section 73(1)(a) and Section 73(5) of the Public Finance Management Act, 2012.

In the circumstance, the Institute is in breach of the Law and, in addition, does not have sufficient means to monitor, control and provide oversight on its operations.

2.0 Risk Management

Management had not developed a risk management strategy as required in Regulation 165 (1) of the Public Finance Management (National Government) Regulations, 2015. Without the strategy, the Management lacked objective means to identify, measure and mitigate risks faced by the Institute.

3.0 Human Resource Management

The Institute lacked a Human Resource Department to formulate and maintain relevant policies including a scheme of service and a staff establishment. The Code bestows the Board of Directors with roles and functions which include setting and overseeing the overall strategy and approval of significant entity policies and organizational structure.

In the circumstance, the Institute was in breach of the Law and its operations may not be transparent and effective.

4.0 Use of Information Communication Technology

Management had not developed policies on use of Information Communication Technology (ICT). Without ICT policies, its investment and use of ICT resources may not be effective.

5.0 Management of Fixed Assets

The Institute does not maintain a fixed assets register and does not have a policy to guide its acquisition use, including depreciation, and replacement of its assets. This is contrary to Regulation 139(1) of the Public Finance Management (National Government) Regulations, 2015 which requires the Accounting Officer of a National Government entity to ensure that proper control systems exist for assets.

As a result, the Institute is in breach of the law and its assets are at risk of misuse and loss.

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 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 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 Institute's ability to sustain its services, disclosing, as applicable, matters related to sustainability of services and using the appropriate basis of accounting unless Management is aware of the intention to dissolve 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 is responsible for overseeing the 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 overall control environment.

Auditor-General's Responsibilities for the Audit

My responsibility is to conduct an audit of the Institute's financial statements in accordance with International Standards of Supreme Audit Institutions (ISSAIs) 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. However, because of the matters described in the Basis for Disclaimer of Opinion section of my report, I was not able to obtain sufficient appropriate audit evidence to provide a basis for an audit opinion on these financial statements.

In addition, my responsibility is 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.

I also consider internal control, risk Management and governance processes and systems in order to give an assurance on the effectiveness of internal controls, risk Management and governance 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. However, because of the matters described in the Basis for Conclusion on Lawfulness and Effectiveness in Use of Public Resources, and Internal Controls, Risk Management and Governance sections of my report, I was not able to obtain sufficient appropriate audit evidence to provide a basis for an audit conclusion.



CPA Nancy Gathungu, CBS
AUDITOR-GENERAL

Nairobi

10 January, 2022

Appendix I: Variances in Financial Statements

Item		Note to the Financial Statements	Statement of Financial Performance (Kshs.)	Statement of Cash Flows (Kshs.)	Difference (Kshs.)
	Income				
1.	Transfers from Other Government - Grants	6	40,034,063	51,435,544	(11,401,481)
2.	Rendering of Services/ Tuition Fees	7	124,115,270	64,088,323	60,026,947
3.	Sale of Goods	8	17,528,345	700,534	16,827,811
4.	Rental Revenue from Facilities & Equipment/ Production Unit	9	700,534	17,528,345	(16,827,811)

Appendix II: Variances Between Final Budget and Statement of Comparison of Budget and Actual Amounts

Component		Budget Statement (Final Budget) (Kshs.)	Statement of Comparison of Budget and Actual Amounts (Kshs.)	Variance (Kshs.)
Revenue				
1.	GoK Grants	35,000,000	30,500,000	4,500,000
2.	Capitation Recurrent Grant	28,000,000		28,000,000
3.	Development Fund	25,700,000		25,700,000
4.	Rendering of Services	87,617,300	135,045,869	(47,428,569)
5.	Sale of Goods	27,500,000	21,300,000	6,200,000
6.	Rental Income	374,000	374,000	0
7.	Other Income	12,020,000	11,100,000	920,000
	Total Revenue	216,211,300	198,319,869	17,891,431
Expenditure				
8.	Compensation of Employees	34,447,080	40,547,080	(6,100,000)
9.	Use of Goods and Services	10,300,000	9,700,000	600,000
10.	Remuneration of Directors	6,376,050	1,576,000	4,800,050
11.	Repairs and Maintenance	3,700,500	4,450,500	(750,000)
12.	General Expenses	82,114,310	91,906,238	(9,791,928)
13.	Construction of Student Hostel	31,150,000	0	31,150,000
14.	sanitation and Beddings	2,200,000	0	2,200,000
15.	Purchase of Office Equipment	1,000,000	0	1,000,000
16.	Purchase of ICT Equipment	1,000,000	0	1,000,000
17.	CCTV Camera	2,500,000	0	2,500,000
18.	Construction of Tuition Block Phase I	35,000,000	0	35,000,000
	Total expenditure	209,787,940	148,179,818	61,608,122

