

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

REPORT ON THE FINANCIAL STATEMENTS

Qualified Opinion

I have audited the accompanying financial statements of Ekerubo Gietai Technical Training Institute set out on pages 1 to 15 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, 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 Ekerubo Gietai Technical Training Institute as at 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 comply with the Public Finance Management Act 2012 and the Technical and Vocational Education and Training Act, 2013.

Basis for Qualified Opinion

1. Inaccuracies in the Financial Statements

The statement of financial position as at 30 June, 2020 reflects total net assets and liabilities balance of Kshs.577,840,218 and a comparative balance of Kshs.559,704,909 while the statement of changes in net assets for the year then ended reflects a balance of Kshs.71,875,434 and a comparative balance of Kshs.47,467,154 resulting to unreconciled variances of Kshs.505,964,784 and Kshs.512,237,755 respectively.

Further, the statement of cash flows for the year ended 30 June, 2020 reflects Kshs.1,500,382, and Kshs.3,856,915 in respect of increase in trade payables and development project grant respectively which have not been supported.

Consequently, the accuracy of the financial statements for the year ended 30 June, 2020 could not be confirmed.

2. Overstatement of Property, Plant and Equipment

The statement of financial position as at 30 June, 2020 and as disclosed in Note 13 to the financial statements reflects a balance of Kshs.546,909,486 in respect of property, plant and equipment. However, no provision for depreciation was made against non-current assets as required under International Public Sector Accounting Standards 17. In addition, assets register was not provided for audit review.

In the circumstances, accuracy, valuation, and completeness of the property, plant and equipment balance of Kshs.546,909,486 as at 30 June, 2020 could not be ascertained.

3. Long Outstanding Receivables from Exchange Transactions

The statement of financial position as at 30 June, 2020 and as disclosed in Note 11 to the financial statement reflects receivables from exchange transactions balance of Kshs.16,184,626 in respect of student fee debtors which has been outstanding for more than one (1) year with no evidence on any management's effort to recover the amounts owed from students.

Further, there was no provision made to allow for any likely loss of revenue from non-collectable debtors.

Consequently, the completeness, accuracy and recoverability of the receivables from exchange transactions of Kshs.16,184,626 as at 30 June, 2020 could not be confirmed.

The audit was conducted in accordance with International Standards of Supreme Audit Institutions (ISSAIs). I am independent of the Ekerubo Gietai Technical Training Institute's 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. There were no other key audit matters to report in the year under review.

Other Matter

Budgetary Control and Performance

The statement of comparison of budget and actual amount for the year ended 30 June, 2020 reflects Ksh.71,535,400 and Ksh.44,880,069 in respect to budgeted and actual revenue on comparable basis respectively translating to an under-realization of 39%.

Similarly, the statement reflects Kshs.71,535,400 and Kshs.36,656,541 in respect budgeted and actual expenditure respectively resulting to under absorption of 49 %.

The budget under absorption of Kshs.36,879,695 is equivalent to services budgeted for but not delivered to the students of the Institute.

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 described in the Basis for Conclusion on Lawfulness and Effectiveness in Use of Public Resources sections 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

Delay in Construction of Library Block

The statement of financial position as at 30 June, 2020 and as disclosed under Note 13 to the financial statement reflects a balance of Kshs.546,909,486 in respect of property plant and equipment which include capital work in progress balance of Kshs.26,304,356 relating to construction of Library Block. As previously reported, a company was awarded a tender for construction of a library block at a contract sum of Kshs.48,919,38 for a duration of thirty-six (36) weeks and expected to end on 14 April 2010. However, the contract completion period has been revised severally but the project still remains incomplete to date contrary to Section 151(2)(d) of the Public Procurement and Asset Disposal Act, 2015 which requires right quality and within the time frame. Physical verification in February 2021 revealed that the that contractor was not on site and the project had stalled.

In the circumstances, validity and value for money of Kshs.26,304,356 as at 30 June, 2020 could not be ascertained.

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 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 governance were not effective.

Basis for Conclusion

1. Lack of Approved Staff Establishment and Human Resource Plan

The Institute lacks an approved staff establishment to support achievement of goals and objectives in the strategic plan. In the circumstances, the Institute may face challenges in determining its optimal staffing levels while recruiting new staff since the available positions are not properly identified and defined in the organizational structure.

2. Lack of Risk Management Policy

The review of the internal controls revealed that the Institute lacks a Risk Management Strategy to ensure that all operations are performed within the approved risk tolerance levels. There was no documented disaster recovery plan to deal with loss of data or information in case of systems failures to protect the IT infrastructure in the event of a disaster. Further, there is no assurance on the effectiveness of Risk Management

strategies as required by the provisions of section 165(1a) of Public Finance Management (National Governments) Regulations, 2015.

In the circumstance, the institute may not be able to respond effectively in an event of a disaster.

3. Lack of Debts Management Policy

The Institute does not have a clear policy and strategy on debts management; spelling out modalities on recovery of outstanding debts, when a debt becomes bad and doubtful, and when a bad debt is to be written off.

In the circumstance, the Institute may not be able to manage its cash flow effectively.

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 due to fraud or error and for its assessment of the effectiveness of internal the preparation of financial statements that are free from material misstatement, whether control, risk management and governance.

In preparing the financial statements, Management is responsible for assessing the ability of the Institute to sustain 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 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.

The Board of Governors are responsible for overseeing the Institute'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 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 doubts on the Institute's ability 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 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

10 February, 2022