

REPORT OF THE AUDITOR-GENERAL ON KAIBOI TECHNICAL TRAINING INSTITUTE FOR THE YEAR ENDED 30 JUNE, 2019

REPORT ON THE FINANCIAL STATEMENTS

Qualified Opinion

I have audited the accompanying financial statements of Kaiboi Technical Training Institute set out on pages 1 to 33, 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 combined 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 effects 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 Kaiboi Technical Training Institute 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 Technical and Vocational Education and Training Act, 2013.

Basis for Qualified Opinion

1.0 Refundable Deposits from Customers

As disclosed under Note 30 to the financial statements, the statement of financial position as at 30 June, 2019 reflects refundable deposits from customers of Kshs.1,882,779. However, the management did not maintain a separate account for refundable deposits. Further, a list of the students with deposits to support the amount was not provided for audit review.

Consequently, the validity, existence and completeness of the refundable deposits balance of Kshs.1,882,779 as at 30 June, 2019 could not be confirmed.

2.0 Receivables from Exchange Transactions

As disclosed under Note 24 to the financial statements, the statement of financial position as at 30 June, 2019 reflects receivable from exchange transactions (student debtors) of Kshs.53,506,221. Although the aging analysis was provided, management had not made available any policy on managing any long outstanding debts.

Consequently, the validity and proper valuation of the student debtors balance of Kshs.53,506,2121 as at 30 June, 2019 could not be confirmed.

3.0 Trade and other Payables from Exchange Transactions

As disclosed under Note 29 to the financial statements, the statement of financial position as at 30 June, 2019 reflects trade and other payables from exchange transactions of Kshs.22,746,954. However, the aging analysis schedule and creditors policy were not made available for audit verification.

Under the circumstances, the validity, accuracy and existence of other payables from exchange transactions of Kshs.22,746,954 as at 30 June, 2019 could not be confirmed

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

Other Matter

Budgetary Control and Performance

The statement of comparison of budgets and actual amounts combined reflects a revenue and expenditure budget of Kshs.210,452,317 and Kshs.314,789,817 respectively resulting to a budget deficit of Kshs.104,337,500. During the same period, the institute incurred expenditure of Kshs. 270,864,893 of the approved budgets resulting to an over-expenditure of Kshs.43,924,924 or 14 % of the approved budget as detailed below:

	Final Budget (Kshs.)	Actual on Comparable Basis (Kshs.)	Variance (Kshs.)	%
Receipts				
Approved Budget	210,452,317	248,783,489	(38,331,172)	(18)
Payments				
Compensation of Employees	10,580,000	10,904,025	(324,025)	(3)
Use of Goods and Services	5,400,000	2,070,544	3,329,456	62
Repairs and Maintenance	2,700,000	988,440	1,711,560	63
Plant, Property and Equipment	45,500,000	34,944,026	10,555,974	23

Receipts	Final Budget (Kshs.)	Actual on Comparable Basis (Kshs.)	Variance (Kshs.)	%
Transfers to Mentoring Institutions	48,834,817	48,834,817	0	0
General Expenses	126,775,000	101,024,251	25,750,749	20
Provision for Depreciation	75,000,000	72,098,790	2,901,210	4
Totals	314,789,817	270,864,893	43,924,924	14

Consequently, the institute was unable to align its activities within the approved budgetary provisions.

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 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 Failure to Observe One Third Rule on Staff Establishment

As reported in the previous period, a review of personnel records presented for the audit revealed that as at 30 June, 2019 Kaiboi Technical Training Institute had eighty-seven (87) employees out of which seventy-eight (78) employees (90%) came from the same ethnic community contrary to Sections 7(1) and (2) of National Cohesion and Integration Act, 2008 that advocates for diversity in recruitment.

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

2.0 Transfers to Mentoring Institutions

As disclosed under note 12 to the financial statements, the statement of financial performance for the year ended 30 June, 2019 reflects transfers to mentoring institutions of Kshs.48,834,817. According to a letter from the Principal Secretary, Ministry of Education, Science and Technology, Ref No. MST/DTE/6/5/VOL.V of 21 May, 2015, a mentoring institution is responsible for management of the project implementation process from tendering, construction and finally handing over completed institution to the ministry. Further, the mentoring institution will be accountable to the Ministry and will be guided by the provisions of Public Procurement

and Disposal Act, its regulations and the Public Finance Management (PFM) Act, 2012 and Chapter 12 of the Constitution of Kenya, 2010. However, the Institute's Management has not provided tender documents, bills of quantities, contract documents, technical drawings, tender opening minutes, evaluation committee minutes, adverts/quotations, certificates of completion, site meeting minutes and certificates of handing over for audit review.

Consequently, it was not possible to confirm whether the transfers to mentoring institutions of Kshs.48,834,817 for the year ended 30 June, 2019 to Technical Training Institutes have been applied lawfully and in an effective way.

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 matter(s) described in the Basis for Conclusion on Effectiveness of Internal Controls, Risk Management and Governance section 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

1.0 Risk Management Policy

During the year under review, the Institute did not have a Risk Management Policy, risk management strategies and a system of risk management to enable them develop appropriate risk strategies in order to improve on effective and efficient management of public resources, therefore, contravening the requirement of the Treasury Circular No.3/2009 of 23 February, 2009 which provided a broad policy framework for developing and implementing customized Risk Management Strategies in Public Institutions. The circular required all heads of Public Institutions to develop and implement a Risk Management Framework as a fundamental step towards establishing an accountable and innovative public service. The circular requires that all Public Institutions develop an institutional Risk Management Policy Framework (IRMPF). The circular also requires accounting officers and others to put in place structures and systems to manage their identified risks, considering their legal obligations, policy decisions, business objectives and public sector expectations.

Failure to develop a risk management policy exposes the Institute and in the event of a risk, there may not be strategies to counter that risk.

2.0 Lack of Internal Audit Committee

During the year under review, the Institute had not established an audit committee contrary to Section 73(5) of the Public Finance Management Act, 2012 which requires every national government entity to establish an audit committee whose composition and functions shall be as prescribed by the regulations.

No reasonable assurance can be provided on the state of risk management, internal controls and governance within the organization and no review of the effectiveness of the financial and non-financial performance management systems of the entities has been provided in the absence of an audit committee.

No satisfactory explanation has been provided for the failure to establish the audit committee.

3.0 Failure to Establish an Internal Audit Function

Audit review of the institution charter and human resource documents provided for audit revealed that the Management of Kaiboi Technical Training Institute had not established an internal audit department to carry out internal audit functions contrary to Section 73(1)(a) of the Public Finance Management Act, 2012.

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

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 institute's ability to continue as a going concern/ sustain services, disclosing, as applicable, matters related to sustainability of services and using the applicable basis of accounting unless the Management is aware of the intention to liquidate the Kaiboi Technical Training 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.

Those charged with governance 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 Institute'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 Institute'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 Institute 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 Kaiboi Technical Training 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

19 January, 2022