

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

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## **REPORT ON THE FINANCIAL STATEMENTS**

### **Adverse Opinion**

I have audited the accompanying financial statements of Katine Technical Training Institute set out on pages 1 to 39, 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 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 Katine Technical Training Institute as at June 30, 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 do not comply with the Technical and Vocational Education Training (TVET) Act, 2013 and the Public Finance Management Act, 2012.

### **Basis for Adverse Opinion**

#### **1. Inaccuracies in the Financial Statements**

A review of the financial statement for the year ended 30 June, 2021 revealed the following errors;

- i) The statement of financial position reflects trade and other payables from exchange transactions balance of Kshs.10,903,309 while the supporting disclosure Note 35 to the financial statements reflects Kshs.8,019,083 resulting to an unexplained variance of Kshs.2,884,226.
- ii) The statement of financial position reflects refundable deposits from customers balance of Kshs.7,751,896 while the disclosure Note 36 to the financial statements reflects Kshs.2,884,226 resulting to an unexplained variance of Kshs.4,867,670.
- iii) The statement of cash flows for the year ended 30 June, 2019 includes, capital reserves of Kshs.28,853,234 which was not supported with the relevant documents or explained what it entailed by way of a note to the financial statements.

In the circumstances, the completeness and accuracy of the financial statements for the year ended 30 June, 2019 could not be confirmed.

## **2. Unaudited Opening Balances**

The statement of financial position reflects the total net assets and liabilities of Kshs.177,009,652 as at 30 June, 2019. The balance includes the amounts of Kshs.35,787,142 relating to accumulated surplus brought forward from previous years and 121,224,507 relating to capital fund. However, Management of the institute did not provide prior year's audited financial statements to confirm the accuracy of the opening balances.

In the circumstances, the accuracy, validity, and completeness of these balances could not be confirmed.

## **3. Unsupported Property, Plant and Equipment**

Statement of financial position reflects property, plant and equipment (PPE) balance of Kshs.136,230,043. The following anomalies were noted;

- i) Management did not provide an updated fixed asset register for audit which is a requirement under Regulation 143 of Public Finance Management (National Governments) Regulations, 2015.
- ii) No depreciation was charged on the assets during the year and there was no balance of accumulated depreciation.

In the circumstances, it has not been possible to confirm the accuracy, valuation, ownership and completeness of property, plant and equipment balance of Kshs.136,230,043 as at 30 June, 2019.

## **4. Unsupported Receivables from Exchange Transactions**

The statement of financial position and Note 28 to the financial statements reflects receivables from exchange transactions balance of Kshs.11,792,080 which relates to student debtors. However, the balance was not supported with a detailed ageing analysis. Further, no provision for bad and doubtful debts has been made to recognize impairments affecting the balance.

In the circumstance, it has not been possible to ascertain the accuracy, completeness and recoverability of fees debtors of Kshs.11,792,080 as at 30 June, 2019.

## **5. Unsupported Expenditure**

Review of financial statements revealed that the expenditures totalling Kshs.9,045,889 were not supported with relevant documents as shown below;

<b>Component</b>	<b>Amount as per Statement of Financial Performance (Kshs)</b>	<b>Amount not Supported (Kshs)</b>	<b>Lacking information</b>
General Expenses	3,815,130	415,000	Payment vouchers and invoices.
Employee Costs	4,545,959	4,545,959	Analysis and salaries journal vouchers.
Remuneration of Directors	438,000	438,000	Payment vouchers and related supporting documents.
Use of Goods and Services	11,957,794	3,227,820	Payment vouchers and related supporting documents.
Repairs and Maintenance	643,330	419,110	Payment vouchers.
<b>Total</b>		<b>9,045,889</b>	

In the circumstances, the accuracy, completeness and validity of expenditure totaling Kshs.9,045,889 could not be confirmed.

## **6. Inaccuracies in Cash and Cash Equivalents**

The Statement of financial position and Note 27 to the financial statements reflects cash and cash equivalents balance as at 30 June, 2019 of Kshs.28,987,529. The balance represents amounts held in four (4) bank accounts, and also cash in hand. However, review of documents provided in support of the balance revealed the following anomalies:

- i) Included in cash and bank amount is Kshs.57 in respect to cash balance as at 30 June, 2019 which was however, not supported by way of a board of survey report and a cash count certificate.
- ii) Included in the cash and cash equivalents balance of Kshs.28,987,529 is an amount of Kshs.1,064,800 for bank account No.1141253852 at Kenya Commercial Bank (KCB). However, the supporting cashbook provided for audit verification showed a balance of Kshs.5,984,953 which implies that there is a Kshs.4,920,153 understatement on the bank balance.

In the circumstances, the completeness and accuracy of the cash and cash equivalents balance of Kshs.28,987,529 could not be confirmed.

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

## **Other Matter**

### **Budgetary Control and Performance**

Statement of comparison of budget and actual amounts reflects revenue budget and actual amount for the year of Kshs.145,990,655 and Kshs.41,398,216 respectively, resulting in a shortfall of Kshs.104,592,439 which is equivalent to 72% of the approved budget. Further, the statement reflects actual expenditure incurred during the year of Kshs.21,400,213 against an approved budget of Kshs.145,990,655 resulting in an under-expenditure of Kshs.124,590,442 or 85% of the approved budget.

In addition, the statement of comparison of budget and actual amounts also reflects Kshs.438,000 which was incurred on Board of Governors expenses with no budgetary allocation..

The shortfall in realization of the budgeted revenue and the resultant under-expenditure negatively affected the planned programs and activities of the Institute for the year and may be indicative of weaknesses in management of the Institute's assets to optimize revenue generation.

## **REPORT ON LAWFULNESS AND EFFECTIVENESS IN USE OF PUBLIC RESOURCES**

### **Conclusion**

As required by Article 229(6) of the Constitution, because of the significance of the matters discussed in the Basis for Conclusion on Lawfulness and Effectiveness in Use of Public Resources section 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. Failure to Submit Financial Statements for the Previous Years for Audit**

The Institute failed to submit financial statements for the financial years 2013/2014 to 2017/2018 to the Auditor-General for audit. This is a contravention of Section 29 (1 & 2) of the second schedule of the Technical and Vocational Education and Training Act of 2013.

To this extent, the Management is in breach of the law.

#### **2. Errors of Presentation and Disclosures in the Financial Statements**

Review of the financial statements revealed errors of presentation and non-compliance with the reporting format prescribed by the Public Sector Accounting Standards Board (PSASB) as follows:

- i) Report on Key Entity Information and Management does not include Board of Governors while Chairman of Board of Governors is erroneously listed as part of fiduciary management. Only the names of Fiduciary Management Committee members are indicated, instead of providing a high-level description of the fiduciary oversight arrangements. Further, Audit Committee and its functions is not included as an oversight body.

- ii) Report on Board of Governors lack adequate information regarding dates of birth, key qualifications, work experience and photos for some Board Members.
- iii) Chairman's Statement and Statement of Board of Governors Responsibilities has not been signed by Chairman of BOG.
- iv) Report on Management Discussion and Analysis and Report of the Principal does not make use of diagrams, charts and tables as provided for in the prescribed template. Further, details of operational and financial performance for the year were not included.
- v) Statement of Financial Position has not been signed by the Chairman of Board of Governors and Finance Officer as required. Further, details of ICPAK membership of the Finance Officer have not been included.
- vi) The statement of cashflows reflects notes against various items which do not correspond to the specified disclosure notes in the notes to the financial statements as shown below;

<b>Statement of Cash Flows</b>	<b>Note as indicated in the Statement of Cash Flows</b>	<b>Correct Notes to the Financial Statements</b>
Other Income, Rentals & Agency Fees	15	14
Use of Goods and Services	16	15
Compensation of Employees	17	16
Other Payments	18,20,23	17,19,22

- vii) The statement of comparison of budget and actual erroneously reflects use of goods and services actual expenditure of Kshs.3,815,130 instead of Kshs.11,957,794 while actual expenditure for general expenses is erroneously reflected as Kshs.11,957,794 instead of Kshs.3,815,130.

In the circumstances, the financial statements for the year ended 30 June, 2019 do not comply with the reporting template prescribed by the Public Sector Accounting Standards Board.

### **3. Failure to Comply with Budget Approval Procedures**

Review of documents revealed that, Management prepared annual estimates for the year ended 30 June, 2019 but the estimates were not submitted to the Cabinet Secretary for approval as required by Section 22(2) of Second Schedule of Technical and Vocational Education and Training (TVET) Act, 2013, and Regulation 31(1-2) of the Public Finance Management Act (National Government) Regulations, 2015. Consequently, the Management breached the law.

### **4. Award of Tenders to Non-Prequalified Suppliers**

Review of procurement documents revealed that payments totaling Kshs.4,949,046 were made to thirteen (13) suppliers for the supply of various goods and services during the year under review.

This is in contravention of Section 95(3) of the Public Procurement and Assets Disposal Act, 2015 which provides that procuring entity shall invite tenders from only the approved persons who have been prequalified.

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 OVERALL 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 Conclusion on Effectiveness of Internal Controls, Risk Management and Governance section of my report, based on the audit procedures performed, I confirm that internal controls, risk management and overall governance were not effective.

### Basis for Conclusion

#### 1. Lack of Approved Staff Establishment and Salary Grading Structure

The Institute did not have an approved staff establishment during the year under audit and there was no approved salary grading structure for the employees.

Consequently, it was not possible to confirm how the salaries and other remunerations paid to staff members were determined.

#### 2. Staff Recruitment

Review of the payroll revealed that fourteen (14) staff members were recruited on permanent terms of service during the year under review. However, the Institute does not have an approved policy document on recruitment and it was not clear whether the said staff were recruited in a lawful and competitive manner. Further, review of the related personal files revealed that application letters (including the curriculum vitae) for some of the applicants were missing. In addition, review of the recruitment minutes presented for audit showed that some staff members recruited during the year had not been shortlisted for interviews as shown in table below:

	<b>Name</b>	<b>Department</b>
1	Martin Nderitu Githae	Electrical Engineering
2	Daniel Masika Mutuku	Electrical Engineering
3	Faith Chebet Sambu	Electrical Engineering
4	Kitaka Kitati Raymond	Mechanical engineering
5	Kaunda Prince Joy	Building and civil engineering
6	Martin Gitoga Mbogo	Building and civil engineering
7	Muoki Yvonne Ndanu	ICT
8	Njoroge Paul	ICT

In the circumstances, it was not possible to confirm the regularity of the recruitment process.

### **3. Missing Employee Documents**

Management did not provide for audit details on casual employees engaged by the Institute during the year under review including, how the need was determined, approval for engagement and terms of service.

Further, the payrolls provided for audit lacked authorization from responsible officers and were not consistent. In addition, Management did not provide a complete list of its employees for audit verification.

In the circumstances, management of the Institute has failed to comply with the Section 3(1) of Technical and Vocational Education and Training Act, 2013 on matters of human resource Management.

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 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 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 to sustain services, disclosing, as applicable, matters related to sustainability of services and using the going concern 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.

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 non-compliance. 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 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 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**

**14 January, 2022**