

REPORT OF THE AUDITOR-GENERAL ON KATINE 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 Katine Technical Training Institute set out on pages 1 to 42, which comprise of the statement of financial position as at 30 June, 2020, 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 Katine 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 do not comply with the Technical and Vocational Education Training Act, 2013 and the Public Finance Management Act, 2012.

Basis for Adverse Opinion

1. Presentation and Disclosures in the Financial Statements

Review of the financial statements revealed unsatisfactory matters of presentation and disclosure as follows:

- i. The report on key entity information and management does not include the Board of Governors as part of key management, while the Chairman of the Board of Governors is erroneously listed as part of fiduciary management. Further, the report only indicates the name of fiduciary management committee members without providing a high-level description of the fiduciary oversight arrangements. In addition, the Audit Committee and its functions is not included as an oversight body.
- ii. The report of the Principal does not include some prescribed information such as; successes consolidated, challenges being faced and the way forward or future outlook for the Institute. In addition, high level information on the financial performance has not been included.
- iii. The report of the Board of Governors indicates the financial performance of the Institute for the year ended 30 June, 2019 instead of 2020. The report further indicates that the financial performance of the Institute is set out on page 22 to page 43 while the reports are on pages 1 to 45. The same report has reported

that the members of the Board who served during the year are shown on pages 5 to 8 while the financial statements reflect them on pages xviii to xx.

- iv. The statement of the Board of Governors' Responsibilities reported that the Board of Governors are responsible for preparation of financial statements for the year ended 30 June, 2019 instead of 30 June, 2020.
- v. The ICPAK membership number of the Finance Officer who signed the financial statements was not indicated.
- vi. Appendix 1 on progress on follow up of auditor recommendation does not indicate the previous year's audit issues and their subsequent resolution or otherwise.

In the circumstances, the financial statements are not accurately presented in accordance with International Public Sector Accounting Standards and the reporting template recommended by the Public Sector Accounting Standards Board.

2. Inaccuracies in the Statement of Comparison of Budget and Actual Amounts

The statement of comparison of budget and actual amounts reflects Nil receipts on transfers from other Government entities, while the statement of financial performance and Note 6 to the financial statements reflects actual receipts of Kshs.2,800,750. Further, the heading of the statement of comparison of budget and actual amounts is indicated as for the year ended 30 June, 2019 instead of 30 June, 2020.

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

3. Inconsistencies in Referencing of Notes to the Financial Statements

Review of the financial statements revealed various inconsistencies between references to disclosure Notes to the financial statements and the actual numbering of the corresponding Notes as detailed out below;

Description	Report Component	Amount (Kshs.)	Indicated Note Reference	Actual Corresponding Note to Financial Statements
Cash and Cash Equivalents	Statement of Financial Position	43,353,691	26	27
Current Portion of Receivables from Exchange Transactions	Statement of Financial Position	18,703,059	27(a)	29(a)
Cash flow from Operating Activities	Statement of Cash flows	27,499,040	44	45

In the circumstances, the completeness and accuracy of the financial statements could not be confirmed.

4. Unsupported Property, Plant and Equipment Balance

The statement of financial position and as disclosed in Note 33 to the financial statements, reflects a balance of Kshs.153,323,654 in respect of property, plant and equipment. However, no supporting documents including valuation reports and ownership documents, were provided. Further, the Management did not provide a fixed asset register in support of the balances of the assets held by the Institute as at 30 June, 2020.

Consequently, the accuracy, completeness, existence, valuation and ownership of the property, plant and equipment balance of Kshs.153,323,654 could not be confirmed.

5. Unsupported Related Party Transaction

The statement of financial position reflects a related party balance of Kshs.37,884,284 under current assets which was not supported by way of a Note to the financial statements. Further, the balance was not supported with the relevant supporting documents.

Therefore, it was not possible to determine the validity and accuracy of the related party balance.

6. Unsupported Repairs and Maintenance Expenditure

The statement of financial performance and as disclosed in Note 19 to the financial statements reflects an amount of Kshs.2,757,141 in respect to repairs and maintenance expenses. Included in the expenditure is an amount of Kshs.1,282,981 which was not supported with adequate relevant supporting documents such as payment vouchers and invoices.

Consequently, the completeness, accuracy and validity of the repairs and maintenance expenditure of Kshs.1,282,891 could not be confirmed.

7. Unsupported Remuneration of Directors

The statement of financial performance and as disclosed in Note 17 to the financial statements reflects an expenditure on remuneration of Directors of Kshs.1,127,250. The expenditure was not supported with adequate relevant documents such as payment vouchers and expenditure schedules.

Consequently, the completeness, accuracy and validity of the remuneration of Directors' expenditure of Kshs.1,127,250 could not be confirmed.

8. Overstated Administrative Fees

The statement of financial performance and as disclosed in Note 15 to the financial statements, reflects the use of goods and services expenditure of Kshs.30,975,872. The expenditure includes an amount of Kshs.19,163,199 in respect of administration fees which in turn includes Kshs.7,940,441 relating to inter-bank transfers (Kshs.6,440,441 transferred to EC Work and Kshs.1,500,000 refund of money

borrowed from Co-operative Bank Development Account). Inter-bank transfers do not represent expenditures of the Institute and thus the administrative fees amount has been overstated by the amount of Kshs.7,940,441.

In the circumstances, the accuracy and completeness of the use of goods and services expenditure of Kshs.30,975,872 could not be confirmed.

9. Differences Between the Financial Statements and the General Ledger

Examination of the amounts and balances reflected in the financial statements, against the general ledger provided revealed variances as detailed below;

Component	Financial Statement Figure (Kshs.)	General Ledger Figure (Kshs.)	Variances (Kshs.)
Property Plant and Equipment	153,323,654	121,224,507	32,099,147
Transfers from the National Government-Grants	2,800,750	0	2,800,750
Reserves	55,785,145	190,285,893	(134,500,748)
Capital Fund	121,224,507	0	121,224,507

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

10. Unreconciled Cash and Cash Equivalents

The statement of financial position and as disclosed in Note 27 to the financial statements reflects a balance of Kshs.43,353,691 in respect of cash and cash equivalents. The balance represents funds held in four (4) commercial bank accounts operated by the Institute. However, cash books for three (3) bank accounts were not up to date as at 30 June, 2020. Further, the bank reconciliation statements for three (3) bank accounts had not been prepared on a monthly basis for 6 months from January to June, 2020. This is contrary to Regulation 90(1) of the Public Finance Management, (National Government) Regulations, 2015.

In addition, the cash book for one (1) bank account was not provided for the audit.

In the circumstances, the accuracy and completeness of the cash and cash equivalents balance of Kshs.43,353,691 could not be ascertained.

11. Unsupported Receivables from Exchange Transactions

The statement of financial position and as disclosed in Note 29(a) to the financial statements reflects current portion of receivables from exchange transactions balance of Kshs.18,703,059 which relates to student debtors. However, the balance was not supported by way of a detailed debtors ageing analysis. Further, the provision for bad and doubtful debts was not made to recognize impairments on the balance.

Consequently, the accuracy, completeness and recoverability of the student debtors balance of Kshs.18,703,059 could not be confirmed.

12. Inaccuracy of the Financial Statements

The statement of financial position reflects a total net assets and liabilities amount of Kshs.253,788,768, while the statement of changes in net assets, reflects an amount of Kshs.204,508,692 thereby resulting in an unexplained variance of Kshs.49,280,076.

In the circumstances, the accuracy of the financial statements could not be confirmed.

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

The statement of comparative budget and actual amounts reflects final receipts budget and actual on comparable basis of Kshs.94,728,031 and Kshs.63,851,749 respectively resulting to an under-funding of Kshs.30,876,282 or 33% of the budget. Similarly, the Institute expended Kshs.39,153,459 against an approved budget of Kshs.94,728,031 resulting to an under-expenditure of Kshs.55,574,572 or 59% of the budget.

The underfunding and underperformance affected the Institute's planned activities and may have impacted negatively on service delivery to the public.

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 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. Delayed Completion of Administration and Tuition Block

The contract for the construction and completion of an administration and tuition block was awarded to a contractor on 20 November, 2015 at a contract sum of Kshs.19,969,041 a contract period of 52 weeks ending on 14 November, 2016. However, physical inspection carried out in February, 2021 revealed that the project had not been completed. The contractor had been paid Kshs.16,405,474 vide interim certificate No. 4 of 21 December, 2016 and two requests for payment had been submitted through interim certificates No.5 for Kshs.1,800,575 and No.6 for Kshs.1,882,110 but which were not honored due to a dispute.

Further, it was noted that the contractor had placed a demand for payment of Kshs.10,377,643 consisting of an outstanding balance from the awarded contract and claims for delay in settlement of the submitted interim certificates.

In addition, no documents were provided to confirm that an extension of time had been granted by the Institute to the contractor for the execution of the contract.

The delay may lead to additional costs since the Management had failed to manage the contract as required by Sections 139 and 140 of the Public Procurement and Asset Disposal Act, 2015.

Consequently, the Management breached the law.

2. Failure to Comply with Budget Approval Procedures

Review of records revealed that the Institute's Management prepared annual estimates for the year but the estimates were not submitted to the Cabinet Secretary for approval as required by Section 22 of the Second Schedule of the Technical and Vocational Education and Training Act, 2013, and Regulation, 31(1) and (2) of the Public Finance Management (National Government) Regulations, 2015.

Consequently, the Management breached 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 overall governance were not effective.

Basis for Conclusion

1. Lack of Approved Staff Establishment and Salary Grading Structure

During the audit it was noted that the Institute did not have an approved staff establishment. Further, there was no approved salary grading structure for the employees and it was not possible to confirm how the salaries and other terms of service were determined. This is contrary to Section C.2 (1) of the Human Resource Policies and Procedures Manual for the Public Service of May, 2016 which states that the Public Service salary structure will be based on the grading levels spelt out in the various career progression guidelines.

2. Irregular Recruitment of Staff

Review of the payroll records revealed that five (5) employees were recruited during the year under review. However, the Institute does not have an approved documented policy on recruitment and it was not clear whether the staff were recruited through a lawful and competitive process. Further, it was observed that, all the five (5) recruited employees were males implying that the requirement for gender balance was not observed. This is contrary to Section B.5 of the Human Resource Policies and Procedures Manual for the Public Service of May, 2016 which states that recruitment will be undertaken on the basis of fair competition and merit; representation of Kenya's diverse communities; adequate and equal opportunities to all gender, youth, members of all ethnic groups, persons with disabilities and minorities.

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 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 overall 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 applicable basis of accounting unless Management is aware of 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 is responsible for overseeing the Institute's financial reporting process, reviewing the effectiveness of how Management 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 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 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 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 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

17 February, 2022