

REPORT OF THE AUDITOR-GENERAL ON KEROKA 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 Keroka Technical Training Institute set out on pages 1 to 41, which comprise the statement of financial position as at 30 June, 2020, and the statement of financial performance, the statement of changes in net assets, statement of cash flows and statement comparison of budget 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 significant 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 Keroka 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 the Public Sector Accounting Standards (Accrual Basis) and do not comply with the Technical and Vocational Education and Training Act, 2013 and the Public Finance Management Act, 2012.

Basis for Adverse Opinion

1. Unconfirmed Cash and Cash Equivalents

Note 15 to the financial statements reflects cash and cash equivalents balance of Kshs.111,891,006. However, Management did not provide cash books for bank accounts that the Institute operated during the year under review.

Consequently, the accuracy, validity and completeness of cash and cash equivalents balance of Kshs.111,891,006 as at 30 June, 2020 could not be confirmed.

2. Inaccurate Presentation of Property, Plant and Equipment and Lack of Land Ownership Documents

As disclosed in Note 20 to the financial statements, the statement of financial position reflects property, plant and equipment balance of Kshs.434,518,256. The following inaccuracies were noted:-

- i. The accumulated depreciation was omitted in calculating the net book value as at 30 June,2020,

- ii. Land and buildings have a cost of Kshs.207,252,229 and netbook value balance of Kshs.192,563,620 resulting to unexplained variance amounting to Kshs.14,688,609,
- iii. Other assets (boreholes) have netbook value of Kshs.4,117,050 as at 30 June, 2019 and a nil balance under the current year. However, there was no disposal or reclassification done during the period,
- iv. Capital work in progress have netbook value of Kshs.23,267,806 as at 30 June, 2019 and a balance of Kshs.17,791,174 under the current year resulting to unexplained variance amounting to Kshs.5,476,632. There were no reclassification or capitalization done during the period,
- v. As disclosed in Note 20 to the financial statements, the statement of financial position reflects property, plant and equipment balance of Kshs.434,518,256 which includes land and building balance of Kshs.192,563,230. Included is land with an amount of Kshs.11,780,000. As reported in the previous year, the Institute does not have title deed to confirm ownership of the land where it is situated. Information available indicates that the Institute is located on a ten acres' piece of land that was donated by ten community members. However, a valuation report dated August, 2020 indicate that the Institute occupies un-surveyed land measuring 4.53 acres.

Further, minutes of the meeting of the Board of Governors (BOG) which was held on 29 June, 2017, indicates that there was a claim for compensation by the above mentioned ten members of the community that was rejected by the County Land Management Board. No explanation was provided by Management on the status of the ten acres that were donated by the community.

Consequently, the accuracy, completeness and ownership of the property, plant and equipment balance of Kshs.434,518,256 could not be ascertained.

The audit was conducted in accordance with International Standards of Supreme Audit Institutions (ISSAIs). I am independent of the Keroka 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 other key audit matters 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.166,245,626 and Kshs.134,980,771 respectively resulting to an under-funding of Kshs.31,264,855 or 19% of the budget. Similarly, the Institute expended Kshs.102,307,141 against an approved budget of Kshs.166,245,628 resulting to an under-expenditure of Kshs.63,938,487 or 38% of the budget.

The underfunding and underperformance affected the 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 significant of the matters discussed in the Basis for Conclusion on Lawfulness and Effectiveness in Use of Public Resources section of my report. I confirm that that public resources have not been applied lawfully and in an effective way.

Basis for Conclusion

1. Lack of Age Analysis on Receivables from Exchange Transactions

Notes 16 to financial statement reflects receivables from exchange transactions amounting to Kshs.11,329,992 in respect of student's debtors. However, the Institution does not have an effective fee collection policy in place to ensure outstanding fees are remitted by students in a timely manner contrary to Public Finance Management (National Government) Regulation, 2015 Section 64(1)(a). In addition, the ageing analysis of these outstanding receivables was not availed for audit review.

Consequently, Management is in breach of the law

2. Lack of Training Needs Assessment

As disclosed in Note 9 to the financial statements, the statement of financial performance reflects use of goods and services amounting to Kshs.38,273,725 which includes Kshs.616,550 paid in respect to industrial attachment and training expenses. However, there was no training needs assessment report availed for audit as per the provisions of part VI Section H.3(1) of Human Resource Policies and Procedures Manual for the Public Service 2016 .

Consequently, the Institute is in breach of the law.

3. Staff Ethnic Composition

As disclosed in Note10 to the financial statements, the statement of financial performance reflects an amount of Kshs.21,123,341 in respect of employee cost out of which an amount of Kshs.17,616,775 relates to salaries and wages to staff. Examination of

employee records revealed that out of 85 employees, 66, translating to 78% were from one dominant community, contrary to Section 7(1) and (2) of the National Cohesion and Integration Act, 2008 which states that all public establishments shall seek to represent the diversity of the people of Kenya in the employment of staff and no public establishment shall have more than one third of its staff from the same ethnic community.

Consequently, the Institute is in breach of 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 section of my report, based on the audit procedures performed, I confirm that internal controls, risk management and governance were not effective.

Basis for Conclusion

1. Inactive Audit Committee

Examination of the Internal Audit Department revealed that the audit committee of the Institute was largely dormant and did not execute its mandate as enshrined in the Public Finance Management Regulations, 2015. Further, there was no evidence that the audit committee has been meeting to deliberate on these reports since no board meeting minutes were availed for audit. In addition, there was no established Internal Audit Charter put in place to guide the operations of the audit committee for the period under review.

In the circumstances, it has not been possible to ascertain that the internal control processes of the Institute have been operating effectively.

2. Lack of Key Positions in Administration

Examination of the Institute's staff establishment structure revealed that there was a under staffing in key critical positions in disregard of circular reference number MOE/VTT/ADM/CONF/2/5/27 of 19 June, 2020 from the parent Ministry of Education which called for recruitment of competent members of staff. Some of the critical staff positions which are vacant are Finance Officer, Accountant Internal Auditor, Supply Chain Management and Human Resource Officer.

Consequently, the Institute is in breach of the directive from the parent ministry which in turn compromises the effectiveness of the internal controls and governance structures.

3. Institute's Strategic Plan

The Management developed a strategic plan for a period of five (5) years from July, 2016 to June, 2021 which was revised in August, 2016. The plan highlights the key issues, goals, objectives and strategies that will assist the institution in the development and management of its resources. Review of the strategic plan however did not give a breakdown on a yearly basis of the programmes that were to be implemented so as to achieve the end goal of attaining the desired objective.

During the audit , it was noted that a number of desired programmes namely construction of men and female hostels and erection and completion ICT Complex that were to be implemented had not been done five (5) months to the expiry of the 5-year.

Consequently, the effectiveness of the Institute's internal controls and governance structures were compromised in the absence of full implementation of the strategic plan

4. Lack of Information Technology (ICT) Policy

Audit of the Information Technology (IT) environment and its controls revealed that there is no Information Communication Technology (ICT) Policy in place to govern IT environment. In the absence of a clear Information Communication Technology (ICT) policy data recovery mechanisms, data confidentiality and integrity cannot be guaranteed in case of an attack on the ICT environment.

Consequently, the Institute's Management is in breach of the best practices on maintenance of an effective ICT Policy to guide the operations of its ICT environment

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 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 the 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 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 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 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 ability of the Institute 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 sustaining 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.

From the matters communicated with Management, I determine those matters that were of most significance in the audit of the financial statements of the current period and are therefore the key audit matters. These matters are described in my auditor's report unless law or regulation precludes public disclosures about the matter or when, in extremely rare circumstances, I determine that a matter should not be communicated in my report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.



CPA Nancy Gathungu, CBS
AUDITOR-GENERAL

Nairobi

11 February, 2022