

# **REPORT OF THE AUDITOR-GENERAL ON RAMOGI INSTITUTE OF ADVANCED TECHNOLOGY FOR THE YEAR ENDED 30 JUNE, 2019**

---

## **REPORT ON THE FINANCIAL STATEMENTS**

### **Adverse Opinion**

I have audited the accompanying financial statements of Ramogi Institute of Advanced Technology set out on pages 22 to 45, which comprise of 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 the 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, in all material respects, the financial position of Ramogi Institute of Advanced Technology as at 30 June, 2019, and 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 Public Finance Management Act, 2012 and the Technical and Vocational Education and Training Act, 2013.

### **Basis for Adverse Opinion**

#### **1.0 Late Submission of Financial Statements**

The Institute's 2018/2019 financial statements were submitted for audit on 10 January, 2020, which is one-hundred and two (102) days after the statutory date of 30 September, 2019. This is contrary to Section 68(2)(k) of the Public Finance Management Act, 2012 which requires an Accounting Officer to prepare and submit the financial statements to the Auditor-General within three months after the end of financial year to which the accounts relate.

Management was therefore in breach of the law.

#### **2.0 Inaccuracies in the Financial Statements**

The statement of financial performance reflects balances in respect of four items which differ from the amounts disclosed in the statement of cash flows and the statement of comparison of budget and actual amounts as follows;

<b>Item</b>	<b>Statement of Financial Performance (Kshs.)</b>	<b>Statement of Cash Flows (Kshs.)</b>	<b>Statement of Comparison Budget and Actual (Kshs.)</b>
Actual Revenue	117,692,776	104,713,589	94,169,716
Sale of Goods	6,885,242	6,221,967	6,885,242
Use of Goods & Services	44,860,119	39,953,261	44,860,119
Rental Revenue	987,478	936,927	987,478

The differences between the three statements have not been reconciled.

As a result, the accuracy and completeness of the financial statements for the year ended 30 June, 2019 could not be ascertained.

### **3.0 Cash and Cash Equivalents**

The statement of financial position reflects a cash and cash equivalents balance of Kshs.47,192,230, which as further disclosed under Note 13 to the financial statements, includes an amount of Kshs.39,642,617 in respect of the main bank account at National Bank. However, this amount differs from the reconciled cash book balance of Kshs.45,829,617 resulting to an unexplained variance of Kshs.6,187,000. Further, the cash and cash equivalents includes cash at hand of Kshs.37,166, which was not supported by a board of cash survey report.

Consequently, the accuracy and completeness of the reported cash and cash equivalents balance of Kshs.47,192,230 could not be confirmed.

### **4.0 Long Outstanding Receivables from Exchange Transactions**

As disclosed in Note 14 to the financial statements, the statement of financial position reflects receivables from exchange transactions balance of Kshs.51,105,197. Review of a schedule on aging analysis showed that the balance included fees arrears and rent debtors totalling Kshs.29,175,269 and Kshs.1,153,052 respectively which date back to the financial year 2014/2015 had not been recovered as of 30 June, 2019. However, the Management did not explain reasons for not collecting the debt or include a provision for bad and doubtful debts in these financial statements.

Consequently, the accuracy and recoverability of receivables from exchange transactions balance of Kshs.51,105,197 reflected in the statement of financial position as at 30 June, 2019 could not be confirmed.

### **5.0 Unconfirmed Ownership of Property, Plant and Equipment**

The statement of financial position reflects property, plant and equipment balance of Kshs.1,679,796,448. However, the following anomalies were noted in respect to the balance;

- i. Contrary to the requirements of the Public Sector Accounting Standards Board (PSASB), depreciation charge and amortization on the assets was not charged against revenue for the year. Further, an asset movement schedule was not prepared and included in the financial statements under review.
- ii. Included under Note 17 to the financial statements is a new bus worth Kshs.11,000,000 which has been classified under work in progress instead of disclosing the asset as a motor vehicle.
- iii. Disclosed under Note 17 to the financial statements is an amount of Kshs.1,120,000,000 in respect of land. The balance includes land measuring 200 acres at Kibos valued at Kshs.120,000,000. However, records confirming ownership of the land by the Institute were not provided for audit review. Further, records presented for audit revealed that, a National Government entity had claimed ownership against a portion of the land measuring approximately 150 acres, resulting in a dispute.
- iv. Valuation report provided for audit showed that the Institute has a 200-acre parcel of land at RIAT Dago. However, the title deed issued to the Institute indicated ownership of 156 acres. Available information indicated that, the balance of 44 acres had been sub-divided and ownership given to private developers and individuals.

In the circumstances, the ownership, existence, completeness and accuracy of the property, plant and equipment balance totalling Kshs.1,679,796,448 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 Ramogi Institute of Advanced Technology 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 our professional judgment, are of most significance in the audit of the financial statements of the current year. There were no key audit matters to report in the year under review.

# REPORT ON LAWFULNESS AND EFFECTIVENESS IN USE OF PUBLIC RESOURCES

## **Conclusion**

As required by Article 229(6) of the Constitution, based on the procedures performed, except for the matters described in the Conclusion on Lawfulness and Effectiveness section of my report, I confirm that, nothing else has come to my attention to cause me to believe that public money has not been applied lawfully and in an effective way.

## **Basis for Conclusion**

### **1. Unauthorized Over Expenditure**

As reflected in the statement of comparison of budget and actual amounts for the year under review, the Institute had an expenditure budget of Kshs.17,429,099 and Kshs.18,761,500 in respect of employees' cost and general expense respectively and incurred actual expenditure on comparable basis of Kshs.20,235,140 and Kshs.23,263,345 resulting to an over expenditure of Kshs.2,806,041 and Kshs.4,501,845 in respect of the two items. However, there was no evidence to show that Management sought necessary approvals before incurring the expenditure.

Management was therefore in breach of the law.

### **2. Long Outstanding Employee Benefit Obligation**

As disclosed in Note 24 to the financial statements, the statement of financial position reflects a balance of Kshs.5,259,782 in respect to employee benefit obligation relating to the financial years 2010/2011 to 2018/2019. However, no satisfactory explanation was provided for the failure to settle the long outstanding liability.

The delays in settling the debt, is likely to expose the Institute to unnecessary penalties and interests.

### **3. Failure to Charge Tax on Board of Governors' Expenses**

Note 11 to the financial statements reflect Board of Governors' (BOG) costs amounting to Kshs.2,312,500. However, the Management did not charge and remit due taxes totaling Kshs.303,900 on allowances and benefits paid to the Board Members during the year under review contrary to the Income Tax Act.

Consequently, the Management was 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, based on the audit procedures performed, except for the matter 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 overall governance were not effective.

### Basis for Conclusion

#### 1. Lack of Segregation of Duties on Cash Management

A review of the Institutes accounting records in respect of cash management revealed that the duties of maintaining cashbook and preparation of bank reconciliations were being handled by one person instead of segregating among other officers. No explanation was provided for the failure to segregate duties. Further, there was no evidence that the cash book was checked and balanced regularly. This is contrary to Regulation 23(1)(c) of the Public Finance Management (National Government) Regulations, 2015 which requires an Accounting Officer to maintain effective systems of internal control and measures taken to ensure that they are effective.

In the circumstances, key processes and internal controls of the Institute may be prone to risk of abuse or errors.

#### 2. Lack of Audit Committee

Section 73(5) of the Public Finance Management Act, 2012 provides that every National Government public entity shall establish an audit committee whose composition and functions shall be as prescribed by the regulations. However, the Institute did not have an Audit Committee in place to oversee governance and promote transparency in the management of public resources.

In the circumstances, the effectiveness of the internal controls, risk management and governance of the Institute could not be confirmed.

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 Board of Governors

Management is responsible for the preparation and fair presentation of these financial statements in accordance with 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 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.

The Board of Governors is responsible for overseeing the financial reporting process, reviewing the effectiveness of how the 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 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 Ramogi Institute of Advanced Technology 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**

**24 November, 2021**