

REPORT OF THE AUDITOR-GENERAL ON SANG'ALO INSTITUTE OF SCIENCE AND TECHNOLOGY FOR THE YEAR ENDED 30 JUNE, 2019

REPORT ON THE FINANCIAL STATEMENTS

Qualified Opinion

I have audited the accompanying financial statements of Sang'alo Institute of Science and Technology set out on pages 1 to 31, which comprise of the statement of financial position as at 30 June, 2019, 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, 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 the Sang'alo Institute of Science and Technology 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 (TVET) Act, 2013 and the Public Finance Management Act, 2012.

Basis for Qualified Opinion

1. Revenue from Non Exchange Transactions

Reported under revenue from non-exchange transactions in the statement of financial performance, is a figure Kshs.83,670,000 in respect of capitation grants from the National Government. However, the statement of cash flows reflects a figure Kshs.41,835,000 resulting in a variance of Kshs.41,835,000. Recognizing an asset from non-exchange transaction before the entity gains control of the asset is against the provisions of IPSAS 23 paragraph 29 which provides that an entity will recognize an asset arising from non-exchange transactions only when it gains control of resources that meet the definition of an asset and satisfy the recognition criteria.

In the circumstances, the accuracy and completeness of the revenue from exchange transactions balance of Kshs.83,670,000 could not be ascertained.

2. Property Plant and Equipment

The statement of financial position and Note 23 to the financial statements reflects property plant and equipment balance of Kshs.920,458,545. However, the figure was not supported by a credible valuation report or any other supporting document on how it was arrived at.

Failure to make necessary disclosures in the financial statements is contrary to the provisions of IPSAS 17.

In the circumstances, the existence and valuation of the property, plant and equipment balance of Kshs.920,458,545 could not be ascertained.

3. Depreciation and Amortization Expense

Reported under depreciation and amortization expense in the statement of financial performance and in Note 15 to the financial statement is a balance of Kshs.15,063,598. However, Note 23 to the financial statements under property plant and equipment has a depreciation charge of Kshs.23,835,598 whereas Note 24 on intangible assets has a balance of Kshs.1,450,000 for amortization charge for the year, resulting in combined sum of Kshs.25,285,598 under depreciation and amortization.

The variance between the reported figure in the statement of financial performance and the Note 23 and Note 24 combined of Kshs.10,222,000 was not explained or reconciled.

In the circumstances, it was not possible to ascertain accuracy and completeness of the statements of financial performance for the year under review.

4. Misstatement of Employee Costs

The statement of financial performance and Note 13 to the financial statement reflects employee costs balance of Kshs.47,672,485. Included in this amount is an expenditure of Kshs.3,750,000 on security expenses. This expenditure was a misclassification considering that security expenditure should not be part of employee costs.

In the circumstances, the financial statements were not prepared in accordance with the IPSAS on classification of accounting expenses.

5. Non-disclosure of Biological Assets

A review of records provided for audit revealed that the Institute has a farm which produces both crop and animal yields which were not valued and incorporated in the financial statements under review, contrary to provisions of IPSAS 27 which outlines the accounting treatment for agricultural activity, the biological transformation and harvest of biological assets and conversion into agricultural produce.

In the circumstances, the reported assets as at 30 June, 2019 are understated by the omission.

The audit was conducted in accordance with International Standards of Supreme Audit Institutions (ISSAIs). I am independent of the Sang'alo Institute of Science and 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 qualified 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

1. Budgetary Control and Performance

1.1 Failure to Meet Budget Targets

The statement of comparison of budget and actual amounts reflects final revenue budget and actual on comparison basis of Kshs.249,404,610 and Kshs.220,559,315 respectively resulting to an under-funding of Kshs.28,845,295 or 12% of the budget. Similarly, the Institute expended Kshs.225,087,735 against an approved budget of Kshs.247,871,250 resulting to an under-expenditure of Kshs.22,783,515 or 9% of the budget. The underfunding and underperformance affected the planned activities and may have impacted negatively on service delivery to the public.

In addition, it was established that the Institute had an approved revenue budget of Kshs.339,404,610 which varies with the figure captured in the statement of comparison of budget and actual amounts of Kshs.249,404,610 by a variance of Kshs.90,000,000. Further, no explanation was provided for the unbalanced budget.

1.2 Spending on Unbudgeted Items

The Institute incurred a total of Kshs.5,301,962 on unbudgeted items as illustrated below. No explanation was provided for spending outside the budget.

Audit Components	Current Year Final Budget Figures (Kshs.)	Actual Expenditure Figures (Kshs.)
Revenue		
Clothing Textile Department	0	278,560
Hospitality Department	0	1,854,263
Electrical/Electronics Department	0	678,451
Agriculture Department	0	489,573
Applied Science Department	0	328,415
Automotive Department	0	578,920
Registration	0	1,093,780
Total	0	5,301,962

Expenditure on unbudgeted items may result in failure to meet the planned and approved programmes for the year.

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 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

Non-compliance with the One-Third Basic Salary Rule

A review of the payroll revealed that Sang'alo Institute made deductions from employees exceeding two-thirds of their basic salary as detailed below:

Month	No. Officers who Earned Less than $\frac{1}{3}$ of their Basic Pay
July, 2018	3
August, 2018	2
September, 2018	0
October, 2018	2
November, 2018	2
December, 2018	2
January, 2019	2
February, 2019	4
March, 2019	5
April, 2019	5
May, 2019	4
June, 2019	6

Payment of employee benefits below a third of their basic pay may lead to pecuniary embarrassment of staff.

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 matters 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. Inventory Control

During the year under review, the Management of the Institute conducted an annual stock take only instead of quarterly stock taking in contravention of Section 162(2) of the Public Procurement and Asset Disposal Act, 2015 which requires that public institutions should undertake at least quarterly annual inventory and stock take in each calendar year. Lack of quarterly stock take means that stores, inventory and assets procured by the Institute may suffer deterioration from preventable causes and overstocking which may take a whole year to be detected unlike situations where quarterly stock take is done as it ensures better management of stocks.

2. Weaknesses in Human Resource Management

Sang'alo Institute of Science and Technology had material gaps in its Human Resource Management System as indicated below:

- i) The Institute did not maintain a staff establishment showing details of staff positions available, filled positions, vacant positions and a record of staff recruitments and/ or exits.
- ii) The Institute developed a Policy and Procedures manual in 2016 and a staff Code of Conduct and Ethics in 2012 both of which have never been approved by the Board.
- iii) It was also noted that staff payrolls lacked basic employee details such as date of birth, appointment date, personal number, tax PIN, gender, marital status, ethnic background, home county, job designation and job group, date of retirement and incremental month.
- iv) The Institute maintained a separate payroll for the town campus even though it is not an autonomous or semi-autonomous entity. The Institute has also not filled the position of a Human Resource Officer since 2015.

These omissions contravene the provisions of Section 79 of the Employment Act Cap 226 No. 11 of 2007 which requires that an employer shall keep a register in which the employer shall enter the full name, age, sex, occupation, date of

employment, nationality and educational level of each of his employees and a return of employees for each calendar year.

3. Irregularities in Discharging Board Mandate

During the financial year under review, the Board of Governors held meetings categorized as full board, special full board and committee meetings. However, the following anomalies were noted:

- i) The Board had no annual Board work plan to guide its activities during the period under review, neither did it have a charter.
- ii) The Board did not carry out an annual evaluation of its performance at the end of the period as required by Mwongozo guidelines.
- iii) The Board operated without a formal and transparent remuneration policy for board members during the year under review.

Lack of this policy guidelines means that the board may not have been able to assess its overall performance, work within its predetermined objectives and also remunerate board members fairly which is against the requirements of Mwongozo code for state corporations.

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

20 December, 2021