

REPORT OF THE AUDITOR-GENERAL ON TSEIKURU TECHNICAL TRAINING INSTITUTE FOR THE YEAR ENDED 30 JUNE, 2020

REPORT ON THE FINANCIAL STATEMENTS

Qualified Opinion

I have audited the accompanying financial statements of Tseikuru Technical Training Institute set out on pages 1 to 43, which comprise the statement of financial position as at 30 June, 2020, and 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 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 effect 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 Tseikuru Technical Training Institute as at 30 June, 2020 and 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 Technical and Vocational Education and Training Act, 2013 and the Public Finance Management Act, 2012.

Basis for Qualified Opinion.

1. Property, Plant and Equipment

1.1 Undisclosed and Unsupported Property, Plant and Equipment Balances

As disclosed in Note 32 to the financial statements, the statement of financial position reflects property plant and equipment balance of Kshs.109,591,101 as at 30 June, 2020. The following anomalies were noted:

- i. Disclosure Note to the financial statements is erroneously indicated as Note 33 instead of Note 32 which disclosed the schedule of plant property and equipment.
- ii. The schedule under Note 32 reflects nil balances for certain classes of assets which is not accurate.
- iii. The schedule reflects plant and equipment balance of Kshs.109,591,101 which was not supported with relevant documents.
- iv. The Institute had other classes of non-current assets including, the land, developments thereon, furniture, office equipment and teaching equipment which were not disclosed as part of the non-current assets.

In the circumstances, it has not been possible to ascertain, the accuracy, completeness, ownership and existence of property, plant and equipment valued at Kshs.109,591,101 as at 30 June, 2020.

1.2 Encroachment of the Institution's Land

Audit revealed that land parcel No.TSEIKUKURU/TSEIKUKURU 'A'/367 of approximate area of 19.61 hectares owned by the Institute has been encroached upon by informal settlers. Although a legal dispute has been filed through Suit No. 7 of 2018 dated 31 January, 2018, no determination had been made by the time of the audit and the informal settlers were still occupying the land.

In view of the foregoing, the Institute's ownership of the land is threatened and this may interfere with its operations.

2. Trade and Other Payables

The statement of financial position reflects a balance of Kshs.87,960; (2019-Kshs.5,849,742) in respect of trade and other payables. However, the corresponding disclosure Note 35 (erroneously indicated as 36) reflects nil balances for both 2019/2020 and 2018/2019 financial years.

Consequently, the accuracy and completeness of trade and other payables balance of Kshs.87,960 could not be confirmed.

3. Current Portion of Receivables from Exchange Transactions

As disclosed in Note 27(a) to the financial statements, the statement of financial position reflects a balance of Kshs.63,158,563;(2019: - Kshs.59,736,723) in respect of current portion of receivables from exchange transactions. However, the balance was not supported by an ageing analysis of individual debtors as well as the debtors' ledger. Further, there was no provision for bad and doubtful debts.

In the circumstances, it has not been possible to confirm the accuracy, completeness, existence and collectability of trade and other receivables amounting to Kshs.63,158,563 as at 30 June, 2020.

4. Statement of Changes in Net Assets

The statement of changes in net assets reflects Kshs.337,077,063 in respect of revaluation reserve which was not explained or supported and also did not appear in the statement of financial position. Further, the total net assets balance reflected on the statement of Kshs.381,320,327 differed with the amount of Kshs.216,170,040 reflected in the statement of financial position in respect to reserves and funds.

In the circumstances, it has not been possible to confirm the accuracy and fair statement of changes in net assets for the year ended 30 June, 2020.

5. Statement of Cash Flows

The statement of cash flows reflects cash and cash equivalents balance of Kshs.43,428,666. However, the statement indicates a nil balance as net increase in cash and cash equivalents during the year and does not consider the opening balance of Kshs.1,672,204.

Consequently, the statement of cash flows does not reflect the correct position on movement in cash and cash equivalents during the year.

6. Statement of Comparison of Budget and Actual Amounts

The statement of comparison of budget and actual amounts reflects Kshs.67,479,068 in respect of actual revenue realized during the year which however differs with the amount of Kshs.67,708,468 reflected in the statement of financial performance occasioning a Kshs.229,400 variance which was not explained.

In addition, the statement of comparison of budgets and actual amounts indicates a performance difference under total income of Kshs.18,202,000 instead of the correct difference of Kshs.18,257,068 obtained on re-computation of difference between the budget and actual income of Kshs.49,222,000 and Kshs.67,708,468 respectively. The resultant variance of Kshs.55,068 was not explained.

In the circumstances, it has not been possible to verify the accuracy and completeness of the statement of comparison of budget and actual amounts for the year ended 30 June, 2020.

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

Budgetary Control and Performance

The statement of comparison of budget and actual amounts reflects budgeted income and actual on comparable basis of Kshs.49,222,000 and Kshs.67,479,068 respectively, with a resultant over-realization of Kshs.18,257,068 (erroneously stated as Kshs.18,202,000) or 37% of the approved budget. Management did not provide explanation as to what led to the over-realization of revenue.

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 matters 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

1. Noncompliance with the Public Sector Accounting Standards Board Requirements

Review of the financial statements presented for audit revealed that the statement of Board of Governors/Council Members responsibilities had not been signed by the Principal while disclosure Note number 20 has been skipped making the notes that comes thereafter not to align with the notes as per the financial statements.

Further, the note on cash and cash equivalents and the analysis thereon appear on two separate Notes i.e. 27 and 28(a) instead of one while specific information on financial risk management has not been provided from page 36. In addition, the reported year is indicated as 'xxx' in some places with amounts left as blank.

In the circumstances, the Institute's financial statements as presented do not fully comply with the reporting template and the disclosures prescribed by Public Sector Accounting Standards Board for Technical Vocational Education Training (TVET) Institutions, National Polytechnics and Teacher Training Colleges.

2. Late Submission of Financial Statements

The Management submitted the financial statements for the year ended 30 June, 2020 to the Auditor-General for audit on 20 November, 2020 which was about two months after the prescribed date of 30 September, 2020. This is contrary to the provisions of Sections 68(1) k of the Public Finance Management Act, 2012 which stipulates that financial statements must be submitted to the Auditor-General within three months after the end of each financial year.

In the circumstances, the Management was in breach of the law.

3. Lack of Regional Diversity

Review of the Institute's staff data as at 30 June, 2020 revealed that out of the thirty-two (32) employees, twenty-eight (28) or 88% were from the local dominant ethnic community. This is contrary to the provisions of Section 7(1)(2) of the National Cohesion and Integration Act, 2008 which stipulates that not more than a third (33.33%) of the staff composition should be from the same ethnic community.

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 matters described in the Basis for Conclusion on Effectiveness of Internal Controls, Risk Management and Overall 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 Risk Management Policy and Disaster Recovery and Business Continuity Plan

Audit revealed that the Institute does not have an approved Risk Management Policy and a Disaster Recovery and Business Continuity Plan. This is contrary to the provisions of Regulation 165 (a) and (b) of the Public Finance Management (National Government) Regulations 2015, which requires the Accounting Officer to ensure that the National Government entity develops risk management strategies which include fraud prevention mechanisms and develop a system of risk management and internal control that builds robust business operations.

Consequently, the Institute lacks a blue print for identifying, and mitigating against risks and is exposed to loss and interruption of operations in case of a disaster.

2. Weaknesses in the Procurement Function

Audit revealed that the Institute had only one officer who is in charge of the procurement section and also doubled up as the stores officer leading to lack of segregation of duties. Further, it was noted that the Institute lacked the necessary documents for receipt and issue of stores items such as counter receipts vouchers and store requisitions.

With a weak procurement function, the Institute is exposed to loss through irregularities in procurement process and stores management due to lack of checks and balances occasioned by inadequate staffing.

3.Lack of an Internal Audit Function

Audit revealed that the Institute does not have an Internal Audit function and an Audit Committee contrary to the requirements of Section 73 of the Public Finance Management Act, 2012. The section requires every National Government entity to have arrangement in place for Internal Audit Function for the purpose of carrying out in depth reviews of management operations and internal controls.

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 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 overall governance.

In preparing the financial statements, Management is responsible for assessing the ability of the Institute to sustain its 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 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 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 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

03 February, 2022