

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

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## **REPORT ON THE FINANCIAL STATEMENTS**

### **Adverse Opinion**

I have audited the accompanying financial statements of Weru Technical Training Institute set out on pages 1 to 29, which comprise of the statement of financial position as at 30 June, 2020, 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, the financial position of the Weru 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 and Training Act, 2013 and the Public Finance Management Act, 2012.

### **Basis for Adverse Opinion**

#### **1.0 Inaccuracies of the Financial Statements**

The financial statements for the year ended 30 June, 2020 submitted for audit had the following inaccuracies:

- i. Note 21 to the financial statements for the year ended 30 June, 2020 reflects surplus for the year before tax of Kshs.6,419,763 against the statement of financial performance deficit of Kshs.1,404,696, resulting to a variance of Kshs.7,824,459 which has not been explained nor reconciled.
- ii. The statement of financial position comparative figures for 2018/2019 vary with the supporting notes to the financial statements as follows:

	<b>Details</b>	<b>Note</b>	<b>Statement of Financial Position Balance (Kshs.)</b>	<b>Supporting Note Amount (Kshs.)</b>	<b>Variance (Kshs.)</b>
1	Current Portion of Receivables from Exchange Transactions	15(a)	-	1,250,000	(1,250,000)
2	Inventories	16	-	750,000	(750,000)

- iii. The statement of financial position reflects total net assets and liabilities of Kshs.70,462,653 against a re-casted figure of Kshs.65,274,623 resulting to a variance of Kshs.5,188,030 which has not been explained nor reconciled.
- iv. The accumulate losses of Kshs.1,404,696 shown in the statement of changes in net assets excludes accumulated losses of Kshs.2,047,670 as at 30 June, 2019. No explanation has been given for the exclusion.
- v. The statement of changes in net assets reflects capital fund of Kshs.58,837,759. However, details of how the figure was arrived at were not provided for audit review.
- vi. The statement of cashflows reflects increase in student deposits of Kshs.9,845,055 which varies with actual increase of Kshs.9,784,055 by Kshs.61,000 which has not been explained nor reconciled.
- vii. The statement of cashflows reflects nil surplus for the year before tax while the statement of financial performance indicates a deficit of Kshs.1,404,696, resulting in variance of the same amount which has not been explained nor reconciled.
- viii. The statement of cashflows reflects depreciation of Kshs.1,413,750 which varies with the figure as per the statement of financial performance of Kshs.1,508,660 by Kshs.94,910 which has not been explained nor reconciled.
- ix. The statement of cashflows reflects purchase of property, plant, equipment and intangible assets of Kshs.58,837,759 while Note 17 reflects additions of Kshs.3,796,419, resulting to an unexplained variance of Kshs.55,041,340.
- x. The statement of cashflows reflects increase in deposits of Kshs.375,200 while the re-computed figure is a decrease of Kshs.558,675, resulting to a variance of Kshs.933,875 which was not explained nor reconciled.
- xi. The statement of cashflows for the comparative figures for 2018/2019 had the following casting errors which have not been corrected:

S/No.	Details	Amount as per Statement Cashflows (Kshs.)	Re-casted Amount (Kshs.)	Variance (Kshs.)
1	Cashflows from Operating Activities (2018/2019)	35,460	66,180	(30,720)
2	Net Cashflows used in Financing Activities (2018/2019)	58,000,000	663,850	57,336,150

- xii. The statement of comparison of budget and actual amounts reflects total income of Kshs.14,010,067 against a re-casted amount of Kshs.20,290,882, resulting to a variance of Kshs.6,280,815 which has not been explained or reconciled.
- xiii. The statement of comparison of budget and actual amounts reflects a performance difference of Kshs.17,274,933 against a re-casted amount of Kshs.10,994,118 varying by Kshs.6,280,815 which has not been explained or reconciled.
- xiv. Note 19 to the financial statements for the comparative figures for 2018/2019 reflects total deposits of Kshs.602,850 against a re-casted figure of Kshs.60,850 resulting to a variance of Kshs.542,000 which has not been explained or reconciled.

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

## 2.0 Rendering of Services – Fees from Students

The statement of financial performance reflects rendering of services - fees from students of Kshs.4,498,397, out of which Kshs.3,891,810 is in respect of student fees paid by Higher Education Loans Board (HELB). The amount received from HELB was posted as a block figure without details of the benefitting students.

Consequently, the accuracy and completeness of the receipts of Kshs.4,498,397 from rendering of services - fees from students could not be confirmed.

## 3.0 Other Income

As disclosed in Note 8 to the financial statements, the statement of financial performance reflects other income of Kshs.2,236,670. However, the following unsatisfactory issues were observed:

### 3.1 Registration Fees

The note reflects registration fees of Kshs.26,600. However, audit of student records revealed that one hundred and thirty (130) students were registered during the year under review with a registration fee charge of Kshs.300 per student. Therefore, expected total registration fees would have been Kshs.39,000, resulting to an unexplained variance of Kshs.12,600.

Consequently, the accuracy and completeness of registration fees of Kshs.26,600 could not be confirmed.

### **3.2 Students Outstanding Debtors**

the note reflects students' outstanding debtors of Kshs.392,140. However, ageing analysis was not provided for audit verification.

Consequently, the accuracy and completeness of students outstanding balances of Kshs.392,140 could not be confirmed.

### **4.0 Use of Goods and Services**

As disclosed Note 9 to the financial statements, the statement of financial performance reflects use of good and services of Kshs.5,704,546 However, the following unsatisfactory issues were observed:

#### **4.1 Security Costs**

The note reflects security costs of Kshs.1,252,744, out of which Kshs.427,744 was in respect of security services offered from December, 2018 to April, 2019 at a rate of Kshs.75,000 per month. However, the recognition of previous year's expenditure in the current year is contrary to accrual basis of accounting which requires transactions to be recorded in the time and period in which they occur.

Further, the supporting documents indicated that the security expenses amounted to Kshs.75,000 per month or an annual cost of Kshs.900,000 in respect of five (5) guards at a cost of Kshs.15,000 per guard. However, expenditure recorded was Kshs.1,252,744, resulting to unexplained or unreconciled variance of Kshs.352,744.

Consequently, the accuracy and completeness of security costs of Kshs.1,252,744 could not be confirmed.

#### **4.2 Consumable Materials**

The note also reflects consumable materials of Kshs.2,026,900 out of which Kshs.165,000 is in respect of purchase of a motor vehicle. However, classification of the motor vehicle as consumable material is contrary to International Public Sector Accounting Standard No. 19 Paragraph 13 which defines property, plant and equipment as tangible items that: (a) are held for use in the production or supply of goods and services, for rent to others, or for administrative purposes; and (b) are expected to be used for more than one reporting period.

Further, the Management did not provide evidence to confirm that the transfer process to the Institute had been initiated as the logbook was not yet in the name of the Institute.

Consequently, the accuracy and propriety of consumable materials expenditure of Kshs.165,000 could not be confirmed.

## **5.0 Employee Costs**

As disclosed in Note 10 to the financial statements, the statement of financial performance reflects employee costs of Kshs.5,787,557 out of which Kshs.3,863,062 is in respect of salaries and wages. The Institute had a total of thirty-eight (38) employees out of whom salaries for sixteen (16) are paid by the Ministry of Education. However, the salary payments to the teachers was not recognized as revenue grant in the financial statements.

Consequently, the accuracy and completeness of employee cost of Kshs.3,863,062 could not be confirmed.

## **6.0 Remuneration of Directors**

As disclosed in Note 11 to the financial statements, the statement of financial performance reflects remuneration of directors of Kshs.1,859,782 out of which Kshs.1,718,506 was not supported by evidence of invitation to the board meetings, signed meeting attendance registers and details of venues and dates when the meetings were held.

Consequently, the accuracy and completeness of remuneration of directors of Kshs.1,859,782 could not be confirmed.

## **7.0 Cash and Cash Equivalents**

As disclosed in Note 14 to the financial statements, the statement of financial position reflects cash and cash equivalents balance of Kshs.6,420,267. The statement of financial performance for the year ended 30 June, 2020, indicates that the institution received a grant of Kshs.3,796,419 from National Government Constituency Development Fund - Malindi Constituency for construction of a fence through a Project Management Committee (PMC) bank account. However, the bank account balance was not disclosed in the financial statements while the PMC cashbook, bank statements and certificate of bank balance were not provided for audit verification.

Consequently, the accuracy and completeness of the cash and cash equivalents balance of Kshs.6,420,267 could not be confirmed.

## **8.0 Receivables from Exchange Transactions**

As disclosed in Note 15 to the financial statements, the statement of financial position reflects current portion of receivables from exchange transactions balance of Kshs.2,454,678 and long-term receivables from exchange transactions balance of Kshs.44,175, all totalling to Kshs.2,498,853. However, the details of the debtors and an ageing analysis, were not provided for audit review.

Consequently, the accuracy, completeness and recoverability of Kshs.2,498,853 could not be confirmed.

## **9.0 Inventories**

As disclosed in Note 16 to the financial statements, the statement of financial position reflects inventories balance of Kshs.2,705,774. However, a stock take certificate and a schedule detailing the specific inventory items, quantities, and values to support the inventories balance were not provided for audit review.

Consequently, the accuracy, completeness, and existence of the inventories of Kshs.2,705,774 could not be confirmed.

## **10.0 Property, Plant and Equipment**

As disclosed in Note 17 to the financial statements, the statement of financial position reflects property, plant and equipment balance of Kshs.58,837,759. The following anomalies were noted:

### **10.1 Land and Buildings**

The note reflects land and building net book value of Kshs.55,136,250. However, audit review of the property, plant and equipment schedule revealed the following matter:

- i) As previously reported, Note 17 to the financial statements reflected land and building additions at inception of Kshs.58,000,000. However, no records to support the value of land and buildings and nor handing over report for these assets from Kenya National Coast Polytechnic (the mentoring Institution) were provided for audit verification.
- ii) As previously reported, land and buildings net book value as at the beginning of the year of Kshs.56,550,000 was depreciated at 25%. However, Note 4 to the financial statements – summary of significant accounting policies on property, plant and equipment does not indicate the rate of depreciation applicable to different classes of assets and the method of depreciation adopted by the Institute.
- iii) As previously reported, Note 17 to the financial statements for the year ended 30 June, 2020 reflects land and buildings with a combined net book value of Kshs.55,136,250. However, the individual values of land and buildings have not been disclosed separately, contrary to the template prescribed by the Public Sector Accounting Standards Board which has separate columns for land and buildings. Further, the net book value was arrived after a depreciation charge of Kshs.1,413,750, an indication that depreciation was charged on both land and buildings. However, land is not normally depreciated.

Under the circumstances, the accuracy and completeness of land and buildings balance of Kshs.55,136,250 could not be confirmed.

## **10.2 Omitted Fixed Assets**

As previously reported, records provided for audit review indicated that the Institute received high value automotive training equipment, computers and computer accessories, furniture and fittings of undetermined value from the State Department of Technical and Vocational Training. However, these assets have not been included in the property, plant and equipment schedule.

Consequently, the accuracy and completeness of property, plant and equipment balance of Kshs.58,837,759 could not be confirmed.

## **11.0 Trade and Other Payables from Exchange Transactions**

As disclosed in Note 18 to the financial statements, the statement of financial position reflects trade and other payables of Kshs.9,845,055, out of which Kshs.6,236,100 is in respect of fees paid in advance by National Youth Service and others. However, a supporting schedule detailing the students' names and fees paid in advance was not provided for audit review.

Further, included in the balance are third party payments(suppliers) and other payables balances of Kshs.3,608,955. However, the balances were not supported by a schedule detailing the supplier's names, amount owed, invoices issued, services rendered and delivery notes.

Consequently, the accuracy and completeness of trade and other payables of Kshs.9,845,055 could not be confirmed.

## **12.0 Refundable Deposits from Students**

As disclosed in Note 19 to the financial statements, the statement of financial position reflects refundable deposits from students of Kshs.44,175. However, the balance was not supported by a schedule indicating the list of students and amount of refundable deposits owed.

In addition, the Institution did not maintain a separate bank account for the refundable deposits from students and therefore the same may be spent on operations.

Consequently, the accuracy and completeness of refundable deposits from students of Kshs.44,175 could not be confirmed.

## **12.0 Repairs and Maintenance**

The statement of financial performance reflects repairs and maintenance of Kshs.554,218, out of which Kshs.402,675 was paid in cash without acknowledgment of receipt, cash payment vouchers and cash receipts from the suppliers.

Further, included in the expenditure is Kshs.507,438 incurred through cash payments above Kshs.5,000 maximum limit contrary to the Public Procurement and Disposal

Regulations, 2006 Threshold Matrix for Class C procuring entities for low value procurements.

Consequently, the accuracy, regularity of repairs and maintenance of Kshs.554,218 could not be confirmed.

### **13.0 Sustainability of Services**

The statement of financial performance reflects a net loss of Kshs.1,404,696, resulting to an accumulated retained deficit of Kshs.3,452,366. This is an indication that the Institute may not be able to finance its operations in future. The Institute's continued existence as a going concern is therefore highly dependent on support by the National Government.

However, the going concern issue has not been disclosed in the financial statements concerning the existence of this material uncertainty or how the Management intends to reverse the poor performance.

The audit was conducted in accordance with International Standards of Supreme Audit Institutions (ISSAIs). I am independent of the Weru 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 are no key audit matters to report in the year under review.

#### **Other Matter**

### **1.0 Budgetary Control and Performance**

#### **1.1 Revenue Budget**

The statement of comparison of budget and actual amounts for the year ended 30 June, 2020, reflects a final revenue budget of Kshs.31,285,000 against actual revenue of Kshs.20,290,882, resulting to under collection of Kshs.10,994,118 or 35% of the budget.

The overall under collection is an indication that the Institution may not be able to meet its core mandate, a situation which could negatively affect delivery of quality training to the students.

#### **1.2 Expenditure Budget**

The statement of comparison of budget and actual amounts for the year ended 30 June, 2020, reflects a final expenditure budget of Kshs.31,285,000 against actual



expenditure of Kshs.15,414,763 resulting to an overall under absorption of Kshs.15,870,237 or 51% of the budget.

The under expenditure is an indication that the Institution may not have realized its core mandate of providing quality training to students.

## 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 Conclusion on Lawfulness and Effectiveness in Use of Public Resources and the Basis for Adverse Opinion 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

#### 1.0 Presentation of Financial Statements

The financial statements for the year ended 30 June, 2020 submitted for audit contained the following presentation anomalies:

- 1.1 The Corporate Governance Statement do not include the number of board meetings held, attendance of the meetings, succession plan, existence of a board charter, process of appointment and removal of council members, roles and functions of the Board, induction and training, board and member performance, conflict of interest, board remuneration, ethics and conduct as well as governance audit as required by Public Sector Accounting Standards Board financial reporting template.
- 1.2 Management discussion and analysis does not include the following as per the requirements by Public Sector Accounting Standards Board financial reporting template:
  - i) The institutions key projects or investments decision implemented or ongoing.
  - ii) Entity's compliance with statutory requirements.
  - iii) Major risks facing the organisation.
  - iv) Material arrears in statutory and other financial obligations.
- 1.3 The statement of financial position as at 30 June, 2020 refers to eighteen months ended 30 June, 2019 instead of as at 30 June, 2019 on the comparative column.
- 1.4 The statement of changes in net assets does not have comparative movement for the prior period.

**1.5 Appendix 1 – progress on follow up of auditor recommendations does not disclose the issues raised by the Auditor-General in the prior year**

Consequently, the financial statements are not prepared in accordance with requirements of International Public Sector Accounting Standard 1 as prescribed and published by the Public Sector Accounting Standards Board.

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 Conclusion on Effectiveness of Internal Controls, Risk Management and Governance and the Basis for Adverse Opinion sections of my report, based on the audit procedures performed, I confirm that internal controls, risk management and governance were not effective.

**Basis for Conclusion**

**Lack of a Finance and Accounting Policy Manual**

As previously reported, the Institute has not developed finance and accounting manual to guide Management in processing financial transactions. This is contrary to Section 68 (2)(e) of The Public Finance Management Act, 2012 which states that ‘an Accounting Officer for a National Government entity is accountable to the National Assembly for ensuring that all applicable accounting and financial controls, systems, standards, laws and procedures are followed when procuring or disposing of goods, adequate arrangements are made for their custody, safeguarding and maintenance’.

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 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 Institute's ability to sustain services, disclosing, as applicable, matters related to sustainability of services and using the applicable basis of accounting unless the Management is aware of intention to either dissolve 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.

Those charged with governance are responsible for overseeing the 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 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 as 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 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**

**14 February, 2022**