

REPORT OF THE AUDITOR-GENERAL ON WOTE TECHNICAL TRAINING INSTITUTE FOR THE YEAR ENDED 30 JUNE, 2019

REPORT ON THE FINANCIAL STATEMENTS

Adverse Opinion

I have audited the accompanying financial statements of Wote Technical Training Institute set out on pages 1 to 19, which comprise the 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 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 Wote Technical Training Institute 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 do not comply with the Public Finance Management Act, 2012 and the Technical and Vocational Education Training (TVET) Act, 2013.

Basis for Adverse Opinion

1. Errors of Presentation and Disclosures in the Financial Statements

Review of the financial statements prepared and presented for audit revealed errors of presentation as follows:

- i. Table of Contents includes ageing of debtors and creditors analysis as part of the indices under Page 20 which is not in the financial statements.
- ii. Page numbers under ii and xii have not been indicated.
- iii. Page numbers from 10 to 15 appear in the middle of the pages. This has caused obstruction of some of contents in the said pages.
- iv. Title of the financial statements is either missing or incomplete from Page 5 to 19.
- v. Information provided under Management Discussion and Analysis report is very summarized and does not make use of descriptive tools such as diagrams, charts and tables to make information more understandable. In addition, details of operational and financial performance for the year under review have not been included.
- vi. The financial statements as presented are incomplete as the following disclosures are missing: General information, statement of compliance and basis of

preparation, adoption of new and revised standards, summary of significant accounting policies and significant judgments and sources of estimation uncertainty.

- vii. The following indexes required as per the prescribed reporting template have not been included; Progress on follow up of auditor's recommendation, projects implemented by the entity and recording of transfers from other government entities.

In view of the above, the presentation and disclosures in the financial statements do not fully comply with the reporting format prescribed by the Public Sector Accounting Standards Board (PSASB) and the International Public Sector Accounting Standards.

2. Unaudited Opening Balances

The statement of financial position reflects total assets and liabilities of Kshs.496,593,039 and 3,626,149 respectively as at 30 June, 2018. However, Management did not submit the financial statements for the year ended 30 June, 2018 to Auditor-General for audit. This is a contravention of Section 68(1)k of the Public Finance Management Act 2012 which requires each National Government entity to prepare annual financial statements and submit within 3 months after the end of each financial year to the Auditor General for audit.

In the circumstances, the accuracy and completeness of the opening balances could not be confirmed.

3. Variances Between Statement of Financial Performance and General Ledger

Comparison of the statement of financial performance with the general ledger revealed variances as detailed out below:

Item Revenue	Financial Statements (Kshs.)	General Ledger (Kshs.)	Variance (Kshs.)
Local Transport and Travelling	2,479,978	2,477,777	2,201
Electricity, Water and Conservancy	2,842,555	2,839,914	2,641
Contingencies	704,410	704,670	(260)
Repairs Maintenance and Improvements	1,550,486	1,549,086	1,400
Boarding, Equipment and Stores	6,323,220	6,332,209	(8,989)
Practical Fees	2,784,247	2,671,197	113,050
Registration Fees	841,865	838,645	3,220
Expenditure			
Medical Fees	420,620	420,350	270
Local Transport and Travelling	7,412,245	7,492,545	(80,300)
Marketing and Registration	1,061,614	1,062,614	(1,000)
Student Council	765,136	763,136	2,000

No explanation or reconciliation was provided for the variances.

In the circumstances, the accuracy and completeness of the statement of financial performance as at 30 June, 2019 could not be confirmed.

4. Statement of Financial Position

Statement of financial position reflects the total assets of Kshs.399,390,377 and total reserves and liabilities of Kshs.527,045,440 as at 30 June, 2019 resulting in a variance of Kshs.127,655,063. No explanation was given for the anomaly.

In the circumstances, the completeness and accuracy of the statement of financial position as at 30 June, 2019 could not be confirmed.

5. Statement of Cash Flows

Review of the statement of cash flows revealed the following errors:

- i. The statement of cash flows reflects Kshs.9,149,570 in respect to cash and cash equivalents as at the end of the year which is however at variance with a balance of Kshs.8,657,492 in the statement of financial position. The resultant difference of Kshs.492,078 has not been explained.
- ii. The statement of cashflows has also accounted for grants for development amounting to Kshs.2,547,250 twice as both cash flows from operating and financing activities.

In the circumstances, the statement of cash flows as presented does not reflect the correct position on cash movements for the year as well as the closing balance as at 30 June, 2019.

6. Cash and Cash Equivalents

The statement of financial position reflects Kshs.8,657,492 in respect of cash and cash equivalents as disclosed under Note 19 to the financial statements. However, review of the documents provided in support of the balance revealed the following anomalies:

6.1 Differences with the Cashbook and Financial Statements

Comparison of the bank balances as per the cashbooks with the financial statements revealed a difference of Kshs.1,947,705,25 as detailed below:

Bank Account	Financial Statements Balance (Kshs.)	Cashbook Balance (Kshs.)	Variance (Kshs.)
Main Account KCB -1105324559	950,213.00	787,426.15	162,787
Absa Operations Account (2021583580)	7,597,236.00	5,812,318	1,784,918
Total	8,547,449	6,599,744	1,947,705

No explanation or reconciliation was provided for the variances.

6.2 Un-disclosed Cash in Hand Balance

The board of survey report presented for audit revealed that the Institute had cash in hand balance of Kshs.320,905 as at 30 June, 2019 which was not disclosed in the financial statements.

Consequently, it was not possible to confirm the accuracy and completeness of the cash and bank balance of Kshs.8,657,492 reflected in the financial statements as at 30 June, 2019.

7. Local Transportation and Travel

The statement of financial performance reflects expenditure of Kshs.80,552,372 in respect of operating expenses as disclosed under Note 17 to the financial statements. Included in the expenditure is an amount of Kshs.7,412,245 in relation to local transport and travel which was not supported with relevant documentation such as; ledgers, schedules, work tickets, imprest warrants and surrender vouchers.

In the absence of relevant supporting documents, the validity, accuracy and completeness of the expenditure of Kshs.7,412,245 incurred in local transport and travel could not be confirmed.

8. Staff Costs

The statement of financial performance reflects an expenditure of Kshs.16,759,574 incurred on staff costs as disclosed under Note 13 to the financial statements. However, review of documents revealed that the amount included Kshs.1,121,654 which was paid to a security company for provision of security services but misclassified as staff costs.

Consequently, staff costs for the year was overstated by Kshs.1,121,654 relating to security services.

9. Receivables from Exchange Transactions

The statement of financial position reflects receivables from exchange transactions balance of Kshs.28,492,728 as disclosed under Note 20 to the financial statements. Included in the balance are debtors totalling Kshs.9,841,546 that were not supported by

way of a detailed ageing analysis. In addition, the statement shows a comparative balance of Kshs.116,492,060 while the disclosure Note 20 to the financial statements has a nil comparative balance. Further, Management did not demonstrate any tangible efforts towards recovery of these debts.

In the circumstances, the validity, accuracy and recoverability of receivables from exchange transactions of Kshs.9,841,546 could not be confirmed.

10. Trade and Other Payables

The statement of financial position reflects a balance of Kshs.22,000,099 in respect of trade and other payables from exchange transactions as disclosed under Note 24 to the financial statements. The balance includes amount of Kshs.678,950 relating to refundable deposits which has been disclosed separately in the statement of financial position.

In view of the foregoing, it has not been possible to ascertain the fair statement of trade and other payables balance of Kshs.22,000,099 as at 30 June, 2019.

11. Property, Plant and Equipment

The statement of financial position reflects Kshs.362,240,157 in respect of property, plant and equipment as disclosed under Note 21 to the financial statements. However, the statement of financial position reflects a comparative balance of Kshs.376,376,306 while the disclosure Note 21 to the financial statements has a nil balance on the same. In addition, the following unsatisfactory matters were noted:

11.1 Undisclosed Acquisition of Assets

Review of the general ledger and supporting documents revealed that during the year, the Institute acquired assets valued at Kshs.11,415,101 which were not disclosed in the financial statements as detailed out in the table below:

Asset Details	Date Paid	Payment Voucher Number	Payee	Amount Kshs.
Isuzu bus registration number KCP602K registered on 20th November 2018	16/11/2018	03805	Ryce East Africa Ltd	6,765,376
Restaurant workshop equipment	13/7/2018	D099	Serviscope E.A. Ltd	2,036,224.
Restaurant workshop equipment	18/11/208	DO101	Serviscope E.A. Ltd	896,496
Not indicated	16/10/2018	03739	Ryce East Africa Ltd	1,300,000
Supply and installation of Kitchen equipment LPG	26/2/2019 and 07/3/2019	D102 and 04211	Wilmak Engineering Services Ltd	417,005
Total				11,415,101

11.2 Lack of Assets Register

Management did not provide for audit a fixed asset register and it was therefore not possible to confirm the details and accountability over the non-current assets owned by the Institute as well as the accuracy of the values reflected in the financial statements. This is a breach of Section 139(1&2) of Public Finance Management (National Government) Regulations of 2015.

In the circumstances, the accuracy and completeness of property plant and equipment balance of Kshs.362,240,157 shown in statement of financial position could not be confirmed.

12. Unexplained Balances on Related Entities

Review of the financial statements revealed additional workings outside the disclosure notes on account of related parties' transactions with amounts totaling Kshs.122,152,078 as detailed out in the table below:

Note No.	Description	Entity	Amount Kshs.
9	Transfers from non-exchange transactions	Ikutha TVC	19,948,359
		Kibwezi West TVC	12,382,154
		Wambuli TVC	2,503,715
		Nuu TVC	3,124,460
10	Revenues from Non-exchange transactions	NYS fees collection	12,677,744
		Capitation	17,070,000
		KCB foundation allocation	3,070,670
		Helb allocation	7,034,500
22	Work in progress	Ikutha South TVC	16,706,966
		Kibwezi West TVC	10,776,966
25	Retentions	Ikutha South TVC	2,736,437
		Kibwezi West TVC	5,910,796
28	Payables to Contractors	Ikutha South TVC	2,736,437
		Kibwezi West TVC	5,472,874
	Total		122,152,078

No explanation was provided on the nature and the effects of the transactions to the Institute's financial statements for the year ended 30 June, 2019. In addition, these transactions/balances were not disclosed under related parties' transactions as provided in the prescribed reporting template.

The audit was conducted in accordance with International Standards of Supreme Audit Institutions (ISSAIs). I am independent of Wote 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. I have determined that there are no key audit matters to communicate in my report.

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 section 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. Failure to Submit Previous Years' Financial Statements for Audit

The Institute did not submit financial statements for the 2013/2014 to 2017/2018 financial years to the Auditor-General for audit as required. This a contravention of Section 29(1 & 2) of second schedule of the Technical and Vocational Education and Training Act, 2013 and Section 68(1) of the Public Finance Management Act 2012 which stipulates that, technical training institutions shall submit financial statements to the Auditor-General for audit within 3 months after the end of each financial year.

To this extent, the Management is in breach of the Law.

2. Unauthorized Over-expenditure

Review of the statement of comparison of budget and actual amounts revealed that the Institute incurred expenditure over and above the approved budget totalling Kshs.58,886,610 under three components as detailed out below:

Expenditure	Final Budget Kshs.	Actual Expenditure Kshs.	Variance Kshs.	% Variance
Bulk Purchases of Water & Electricity	2,400,000	4,232,664	(1,832,664)	176
Staff Costs	11,000,000	16,759,574	(5,759,574)	152
Operating Expenses	29,258,000	80,552,372	(51,294,372)	275
Total	42,658,000	101,544,610	(58,886,610)	138

Management did not provide documents for audit to confirm the approval of the excess expenditure as required under Regulation 54(1) and (2) of Public Financial Management (National Government) Regulations, 2015.

Consequently, the Institute contravened the Law.

3. Lack of Approved Budget

The statement of financial performance reflects receipts and expenditure for the year of Kshs.92,607,340 and Kshs.129,212,417 respectively. However, no supporting documents were provided for audit to show that annual estimates relating to the year under review were submitted to the Cabinet Secretary for approval. This is a contravention of the requirements of Section 22 of Second Schedule of Technical and Vocational Education and Training (TVET) Act, 2013, and Regulation 31(1) and (2) of the Public Finance Management Act (Regulations) 2015.

Consequently, the Management is in breach of the Law.

4. Irregularity in Procurement of Goods and Services

During the year under audit, the Institute procured through request for quotations method; goods and services, bulk water supply and boarding equipment and stores worth Kshs.4,236,226, Kshs.809,300 and Kshs.3,644,470 respectively from suppliers who had not been prequalified in the year. This was contrary to the provisions of Section 95(3) of Public Procurement and Asset Disposal Act of 2015 which stipulates that procuring entity shall only invite tenders from approved persons who have been prequalified.

To this extent, the Management is in breach of the Law.

5. Irregular Advance Payments

Review of payment documents for the year revealed that the Institute paid a total of Kshs.2,423,664 vide P.V. No. DOIO1 and P.V. No. D0099 of 16/11/2018 and 13/7/2018 respectively as advance payments in respect to a contract for installation of a food and beverages restaurant.

Date	Details	Contract Sum (Kshs.)	Advance Payment (Kshs.)
16/11/2018	Supply of Kitchen Equipment for LPG installation at food and beverage restaurant.	2,545,280	2,036,224
13/07/2018	Supply of Kitchen Equipment for LPG installation at food and beverage restaurant.	387,440	387,440
Total		2,932,720	2,423,664

The advance payment which represented about 83% of the total contract sum of Kshs.2,932,720 was paid without any form of security from the contractor which exposes the Institute to loss in the event of non-performance of the contracts. Further, this was done in contravention of section 147(1) of the Public Procurement and Asset Disposal Act, 2015 which stipulates that advance payments should not exceed 20% of the contract sum and should be secured.

Consequently, Management breached 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 OVERALL 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 Overall Governance section of my report, bases on the audit procedures performed, I confirm that, internal controls, risk management and overall governance were not effective.

Basis for Conclusion

Lack of a Risk Management Policy and Disaster Recovery and Business Continuity Plan

The audit revealed that the Institute did not have in place an approved Risk Management Policy and a Disaster Recovery and Business Continuity plan. This is contrary to the provisions of Section 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.

The Institute therefore lacks a blue print for identifying, and mitigating against risks in case of a disaster.

The audit was conducted in accordance with ISSAI 2315 and ISSAI 2330. The standard requires 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 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 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 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 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 going concern 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 a going concern or 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

14 January, 2022