

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

REPORT ON THE FINANCIAL STATEMENTS

Qualified of Opinion

I have audited the accompanying financial statements of Emining Technical Training Institute set out on pages 1 to 28, which comprise the statement of financial position as at 30 June, 2020, statement of financial performance, statement of changes in equity, 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.

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 Emining Technical Training Institute as at 30 June, 2020 and of its financial performance and its cash flows for the year ended, in accordance International Public Sector Accounting Standards (Accrual Basis) and comply with the Technical Training Education and Training Act, 2013 and the Public Finance Management Act, 2012.

Basis for Qualified of Opinion

1. Inaccuracies in the Financial Statements

The annual reports and the financial statements prepared and presented for audit had the following inaccuracies: -

- i. Note 20 on cash generated from operations reflects decrease in payables balance of Kshs.2,076,582 whereas the correct calculations as per statement of financial position was an increase of Kshs.7,960,180 resulting to an unexplained and unreconciled variance amounting to Kshs.10,036,762.
- ii. The statement of cash flow has omitted increase in refundable deposits from customers amounting to Kshs.222,600 as reflected in the statement of financial position.

Consequently, the accuracy and completeness of financial statements could not be confirmed.

2. Unsupported Revenue from Non-Exchange Transactions

The statement of financial performance reflects revenue from non-exchange transactions amount of Kshs.16,365,000 while the supporting ledger availed for audit reflects an amount of Kshs.16,080,000 resulting to an unexplained and unreconciled variance of Kshs.285,000.

Consequently, the accuracy and completeness of the revenue from non-exchange transactions amount of Kshs.16,365,000 could not be confirmed.

3. Inaccurate Statement of Cash Flows

The statement of cash flows reflects revenue from rendering services balance of Kshs.31,117,192 with no corresponding Note which was at variance from the statement of financial performance amount of Kshs.23,265,963 resulting to unexplained and unreconciled variance of Kshs.7,851,229. Further, the statement of cash flows reflects cash from investing activities amount of Kshs.3,329,297 for purchase of property plant and equipment while Note 16 reflects a balance of Kshs.3,799,297 resulting to an unexplained and unreconciled variance amounting to Kshs.470,000.

Consequently, the accuracy and completeness of the cash flows statement could not be confirmed.

4. Unsupported Receivable from Exchange Transactions

The statement of financial position and as disclosed in Note 14 to the financial statements reflects trade receivables balance of Kshs.20,220,058. However, the figure was not supported by aging analysis report. Further Management did not provide for audit review the Institute's debt collection policy. In addition, there was no provisions made for likely impairment by way of provision of bad and doubtful debts.

In the circumstances, the accuracy, completeness and recoverability of the trade receivables balance of Kshs.20,220,058 could not be confirmed.

5. Unsupported Caution Money

The statement of financial position and as disclosed in Note 18 to the financial statements reflects refundable deposits balance of Kshs.804,700. However, the certificate of bank balance was not provided for audit review.

In the circumstances, the accuracy and completeness of the refundable deposits balance of Kshs.804,700 could not be confirmed.

6. Fair Statement of Property Plant and Equipment

As previously reported, the statement of financial position reflects property, plant and equipment balance of Kshs.96,473,864. The following issues were noted;

- i. The balance includes land valued at Kshs.15,000,000 whose ownership documents were not provided for audit. However, the basis for the valuation of the land could not be established as this was neither based on historical cost nor valuation.
- ii. The balance excludes donations of undermined value comprising of equipment, furniture and computers.
- iii. The includes biological assets balance of Kshs.1,420,000. However, the biological assets balance were not supported by a valuation report. It was also noted that the biological assets were not categorized by their broad group. This was contrary to the provisions of Paragraph 41 of the International Accounting Standards (IAS) No 41 on Agriculture which requires an entity to provide a description of group of biological assets.
- iv. The statement of financial performance for the year ended 30 June, 2020 reflects loss on sale of biological asset of Kshs.80,000 which was not supported by any Note in the financial statements. Further, there was no sale agreement neither a valuation report stating the value of the sold biological asset.

Consequently, the accuracy, ownership, valuation, presentation and disclosure of property, plant and equipment balance of Kshs.96,473,864 could not be confirmed.

The audit was conducted in accordance with International Standards of Supreme Audit Institutions (ISSAIs). I am independent of the Emining 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 comparative budget and actual amounts reflects final receipts budget and actual on comparable basis of Kshs.70,234,524 and Kshs.42,840,992, respectively resulting to an under-funding of Kshs.27,393,532 or 39% of the budget. Similarly, the Institute expended Kshs.33,206,487 against an approved budget of Kshs.70,234,524 resulting to an under-expenditure of Kshs.37,028,037 or 53% of the budget.

The underfunding and underperformance affected the planned activities and may have impacted negatively on service delivery to the public.

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. Delay in Project Completion

Audit inspection of two (2) projects with a total contract sum of Kshs.55,933,651 and payments of Kshs.39,603,677 at the time of the audit in February, 2021 were at 67% and 80% complete respectively. However the contractors were not on site. Management attributed the delay in completion of the project to lack of funding from the Ministry of Education.

Consequently, value for money has not been realised in implementation of the projects and there is risk of cost escalation.

2. Deposits Held in a Non-Financial Institution

As previously reported, the cash and cash equivalents balance in the statement of financial position reflects a balance of Kshs.28,877,670 and as disclosed in Note 13 to the financial statements. Included is a balance of Kshs.1,095,450 maintained at a Sacco Society. However, Management did not seek authority from The National Treasury to operate the account in a non-financial institution.

Consequently, the Institute is 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 procedures performed, except for the matters described in the Conclusion on Effectiveness of Internal Controls 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 and Fraud Policies

The Institute does not have a risk management and fraud policies in place. This is contrary to the provisions of Section 165(1) of the Public Finance Management (National Government) Regulations, 2015 which states that the Accounting Officer shall ensure that the national government entity develops risk management strategies, which include fraud prevention mechanism; and a system of risk management and internal control that builds robust business operations.

Consequently, the Institute is exposed to the risks.

2. Lack of Information Technology Strategy

There is no IT strategy in place which could provide guidance to IT-related decision-making processes, with IT task prioritized and implemented using the plan as a framework. The Institute did not produce the minutes of the strategic committee meetings. In addition, the management has no back-up data stored in an off-site location.

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 (Cash Basis) and for such 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.

In preparing the financial statements, Management is responsible for assessing the Institute's ability to continue to sustain services, disclosing, as applicable, matters related to sustainability of services and using the applicable basis of accounting unless Management is aware of the intention to abolish 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 money is applied in an effective manner.

The Board of Governors are responsible for overseeing the financial reporting process, reviewing the effectiveness of how the Management monitors compliance with relevant legislative and regulatory requirements, ensuring that effective processes and systems are in place to address key roles and responsibilities in relation to governance and risk management, and ensuring the adequacy and effectiveness of the control environment.

Auditor-General's Responsibilities for the Audit

The audit objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes my opinion in accordance with the provisions of Section 48 of the Public Audit Act, 2015 and submit the audit report in compliance with Article 229(7) of the Constitution of Kenya. 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 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 review is planned and performed to express a conclusion with limited assurance as to 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 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. The nature, timing and extent of the compliance work is limited compared to that designed to express an opinion with reasonable assurance on the financial statements.

Further, in planning and performing the audit of the financial statements and review 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 time period by employees in the normal course of performing their assigned functions.

Because of its inherent limitations, internal control may not prevent or detect misstatements and instances of non-compliance. Also, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies and procedures may deteriorate.

As part of an audit conducted in accordance with ISSAIs, I exercise professional judgement and maintain professional skepticism throughout the audit. I also:

- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for my opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, and for the purpose of giving an assurance on the effectiveness of the Institute's 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 offering 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 offering 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 of the entities or 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 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

16 February, 2022