

REPORT OF THE AUDITOR-GENERAL ON SIAYA INSTITUTE OF TECHNOLOGY FOR THE YEAR ENDED 30 JUNE, 2020

REPORT ON THE FINANCIAL STATEMENTS

Adverse Opinion

I have audited the accompanying financial statements of Siaya Institute of Technology set out on pages 1 to 31, which comprise the statement of financial position as at 30 June, 2020, and the statement of financial performance, statement of changes in equity, 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 the Siaya Institute of Technology 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 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

1.1 Comparative Balances

The statement for changes in net assets for the year ended 30 June, 2020 reflects comparative balances for capital reserve of Kshs.295,766,707 and retained earnings of Kshs.35,947,429 while the certified financial statements for year 2018-2019 reflect Kshs.299,805,813 and Kshs.31,908,323 respectively, both resulting in a variance of Kshs.4,039,106.

In the circumstance, the accuracy and completeness of the capital reserve and retained earnings balances as at 30 June, 2020 could not be confirmed.

1.2 Cash Flow Statement

The statement of cash flow for the year ended 30 June, 2020 reported cash and cash equivalent balance of Kshs.24,669,682. However, recasting of the cash flow statement revealed a closing cash and cash equivalent balance of Kshs.101,666,339 resulting in an unexplained variance of Kshs.76,996,657. In addition, the statement reflects a net decrease in cash in hand amount of Kshs.76,996,657 and not the correct casted amount of Kshs.47,582,237 resulting in an unexplained variance of Kshs.124,578,894. Further, the resultant casted cash and cash equivalent balance of

Kshs.101,666,339 varies with the balance reflected in the statement of financial position of Kshs.24,669,682.

The statement of cash flow for the year ended 30 June, 2020 also reflects development income of Kshs.68,822,592 disclosed at Note 22 and development expenses of Kshs.47,511,379 disclosed at Note 23(i). However, the development income and expenditure were not supported by documentary evidence and which the Management has not explained.

Consequently, the accuracy and completeness of the statement of cashflow for the year ended 30 June, 2020 and the cash and cash equivalent balance of Kshs.24,669,682 reflected in the statement of financial position could not be confirmed.

1.3 Revenue from Exchange Transaction

The statement of financial performance for the year ended 30 June, 2020 reflects revenue from rendering of services (fees from students) balance of Kshs.100,054,455. However, the corresponding Note 7 to the financial statements reflects Kshs.146,747,760 resulting to unreconciled difference of Kshs.46,693,305 and which has not been explained by the Management.

In the circumstances, the accuracy, validity and completeness of revenue from exchange transaction of Kshs.100,054,455 for the year ended 30 June, 2020 could not be confirmed.

2.0 Unsupported Revaluation of Assets

The statement of changes in net assets for the year ended 30 June, 2020 reflects revaluation reserve of Kshs.2,941,206 in respect to revaluation of land. However, the land valuation report was not provided for audit review.

Consequently, accuracy and validity of the revaluation reserve of Kshs.2,941,206 as at 30 June, 2020 could not be confirmed.

3.0 Unsupported Provision for Bad Debts

The statement of financial position as at 30 June, 2020 and as disclosed in Note 18 reflects receivables from exchange transactions balance of Kshs.22,014,556. This balance is net of Kshs.15,847,500 in respect to provision of bad and doubtful debts. However, Management has not provided for audit review a debt management policy to support the provision or a Board of Governors approval.

Consequently, the accuracy of the receivables from exchange transactions balance of Kshs.22,014,556 as at 30 June, 2020 could not be confirmed.

4.0 Unsupported Receivables from Non-Exchange Transactions

Disclosed in Note 19 to the financial statements and reflected in the statement of financial position as at 30 June, 2020 is receivables from non-exchange transaction of Kshs.49,163,721. However, the amount is not reflected as a development grant income in the statement of changes in net assets.

Consequently, the accuracy of the receivables of non-exchange transaction of Kshs.49,163,721 as at 30 June, 2020 could not be confirmed.

5.0 Unconfirmed Depreciation Charge

Included in the statement of financial position as at 30 June, 2020 and as disclosed under Note 23 is property, plant and equipment netbook value of Kshs.332,231,163. However, the Board of Governors had not approved the fixed assets depreciation policy. Therefore, the validity of the cumulative depreciation of Kshs.12,803,079 and the respective depreciation rates per annum could not be confirmed.

Consequently, the accuracy and completeness of the property, plant and equipment balance of Kshs.332,231,163 could not be confirmed as at 30 June, 2020.

6.0 Unsupported Retention Fees

The statement of financial position and Note 24 to the financial statements, reflects a balance of Kshs.31,360,613 as at 30 June, 2020 in respect of current liabilities. This balance includes retention fees of Kshs.2,813,761 which were not supported with documentary evidence including the interim payment certificates on projects funded.

In the circumstances, the accuracy and completeness of retention fees of Kshs.2,813,761 could not be confirmed as at 30 June, 2020.

7.0 Misclassification General Administration Cost

Disclosed in Note 14 to the financial statements and reflected in the statement of financial performance for the year ended 30 June, 2020 is general administration cost of Kshs.14,175,334. However, the schedule in support of the administration cost included expenditure on board allowances, extraneous duty allowance and staff salary totalling to Kshs.300,000.

In the circumstances, the accuracy of the general administration cost of Kshs.14,175,334 for the year ended 30 June, 2020 could not be confirmed.

The audit was conducted in accordance with International Standards of Supreme Audit Institutions (ISSAIs). I am independent of the Siaya Institute of Technology Management in accordance with ISSAI 130 on Code of Ethics. I have fulfilled other ethical responsibilities in accordance with the ISSAI and in accordance with other ethical requirements applicable to performing audits of financial statements in Kenya. I believe that the audit evidence I have obtained is sufficient and appropriate to provide a basis for my 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 of the current year. 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 for the year ended 30 June, 2020 reflects total final budget receipts of Kshs.240,216,037 and actual receipts of Kshs.153,306,763 resulting to a budget shortfall of Kshs.86,909,274 or 36% of the budget. Similarly, the Institute spent Kshs.127,873,662 against a total final expenditure budget of Kshs.181,465,021 resulting to a budget under absorption of Kshs.53,591,359 or 30% of the budget.

The budget shortfall and under absorption may have negatively impacted on the delivery of services goods and services or works were not delivered.

Further, the statement of comparison of budget and actual amounts for the year ended 30 June, 2020 reflects an original revenue budget of Kshs.323,687,803 and adjusted revenue budget of Kshs.240,216,037 resulting in budget adjustments totalling Kshs.83,471,766. However, no approval by the Board of Governors of the revised budget was provided for audit review.

Consequently, the accuracy, validity, and completeness of the budgeted revenue figure of Kshs.240, 216,037 for the year ended 30 June, 2020 could not be confirmed.

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, because of the significance of the matters discussed in the Basis for Adverse Opinion and the Basis for Conclusion on Lawfulness and Effectiveness in Use of Public Resources sections of my report, I confirm that public resources have not been applied lawfully and in an effective way.

Basis for Conclusion

1.0 Improper Disclosure of Assets

The statement of financial position as at 30 June, 2020 and as disclosed in Note 21 reflects mattresses and animals balances of Kshs.450,000 and Kshs.97,600 respectively. However, the mattresses and the animals should have been classified under inventories and biological assets respectively.

This is contrary to requirements of IPSAS 1 on presentation of financial statements and in the circumstances the financial statements do not comply with the prescribe reporting framework.

2.0 Failure to Deduct Income Tax

Disclosed in Note 11 to the financial statements and reflected in the statement of financial performance for the year ended 30 June, 2020 is Board of Governors expenses of Kshs.2,224,240. However, out of the board allowances paid, Kshs.1,396,500 was on sitting allowances from which taxes were not deducted contrary to Section 5(2)(a) of the Income Tax Act Cap 470 which requires sitting allowances to be taxed at 30% of the gross figure and be remitted to the Commissioner of Domestic Taxes.

In the circumstances, 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, because of the significance of the matters discussed in the Basis for Adverse Opinion section of my report, I confirm that, internal controls, risk management and governance were not effective.

Basis of Conclusion

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 Board of Governors

Management is responsible for the preparation and fair presentation of these financial statements in accordance 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 applicable basis of accounting unless Management is aware of the intention to abolish the Institute or to cease operations.

Management is also responsible for the submission of the financial statements to the Auditor-General in accordance with the provisions of Section 47 of the Public Audit Act, 2015.

In addition to the responsibility for the preparation and presentation of the financial statements described above, Management is also responsible for ensuring that the activities, financial transactions and information reflected in the financial statements are in compliance with the authorities which govern them, and that public resources are applied in an effective way.

The Board of Governors 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 noncompliance. 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 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 February, 2022