

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

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## **REPORT ON THE FINANCIAL STATEMENTS**

### **Adverse Opinion**

I have audited the accompanying financial statements of Sotik Technical Training Institute set out on pages 1 to 20, which comprise the statement of financial position as at 30 June, 2020, statement of financial performance, statement of cash flows, statement of changes in net assets 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 Sotik 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 and Management Act, 2012.

### **Basis for Adverse Opinion**

#### **1.0 Errors in Annual Reports and Financial Statements**

The financial statements had the following presentation and disclosure errors;

- 1.1** The statement of financial performance reflects transfers from the National Government while the statement of comparison of budget and actual amounts and Note 6 to the financial statements reflects transfers from other governments for the same item leading to inconsistencies.
- 1.2** The statement of financial performance reflects Board allowances while the statement of comparison of budget and actual amounts reflects remuneration of Directors.
- 1.3** The statement of financial position refers property, plant and equipment to Note 18. However, Note 18 reflects refundable deposits from customers.
- 1.4** The statement of financial position reflects trade and other payables from exchange transactions as detailed in Note 16, which however, is for property, plant and equipment.
- 1.5** The statement of financial position reflects accumulated surplus and capital fund which are not referenced to any notes to the financial statements.
- 1.6** Notes 19, 20, 21 and 22 on pages 19 and 20 are not referenced to the financial statements.

- 1.7 The statement of cash flows indicates that net cashflow from operating activities is supported by Note 18. However, Note 18 reflects refundable deposits from customers.
- 1.8 The statement of cash flows indicates that cash flows from investing activities is supported by Note 19. However, Note 19 relates to capital grants.
- 1.9 An annex on the progress on follow up of Auditor recommendation was not attached to the financial statements.
- 1.10 Appendix I on page 21 reflects assets donated by the parent Ministry that have no cost attached and therefore their net book value is unknown.

Consequently, the annual report and financial statements as prepared and presented are not in the format prescribed by the Public Sector Accounting Standards Board (PSASB).

## **2.0 Inaccuracies in the Financial Statements**

A review of the financial statements revealed the following inaccuracies;

- 2.1 Management discussion and analysis on page xvi reflects key projects and investments completed at a cost of Kshs.3,500,000. However, the projects have not been reflected in the property, plant and equipment schedule resulting to unreconciled variance of Kshs.3,500,000.
- 2.2 Management discussion and analysis on page xiii reflects surplus for the year of Kshs.3,830,964 while statement of receipts and payment reflects Kshs.3,806,804 resulting to unreconciled variance of Kshs.24,160.
- 2.3 The statement of financial performance reflects comparative figure of use of goods and services of Kshs.9,999,349. However prior year financial statement reflects Kshs.3,980,005 resulting to unreconciled variance of Kshs.6,019,344.
- 2.4 The statement of cash flows reflects net cash flows used in operating activities comparative figure of Kshs.7,214,781. However, the prior year financial statements reflect Kshs.7,206,781 resulting to an unreconciled variance of Kshs.8,000.
- 2.5 The statement of financial position as at 30 June, 2020 reflects trade payables of Kshs.24,160 and comparative of Kshs.1,104,718 while corresponding Note 17 reflects Kshs.552,410 and a comparative of Kshs.1,657,128 resulting to unreconciled variance of Kshs.528,250 and Kshs.552,410 respectively.
- 2.6 The statement of financial position as at 30 June, 2020 reflects comparative refundable deposit of Kshs.469,100 while corresponding Note 18 reflects Kshs.476,100 resulting to unreconciled variance of Kshs.7,000.
- 2.7 The statement of financial performance reflects use of goods and services of Kshs.15,446,630 as detailed in Note 9, which however, reflects Kshs.17,012,970 resulting to unreconciled variance of Kshs.1,566,340.

- 2.8** The statement of financial performance reflects use of goods and services comparative of Kshs.9,999,349 as detailed in Note 9. However, Note 9 reflects Kshs.12,232,507 resulting to unreconciled variance of Kshs.2,233,158.
- 2.9** The statement of financial performance reflects employee costs of Kshs.8,876,414 as detailed in Note 10. However, Note 10 reflects Kshs.7,310,074 resulting to unreconciled variance of Kshs.1,566,340.
- 2.10** The statement of financial performance reflects comparative employee's costs of Kshs.6,464,728 as detailed in Note 10. However, Note 10 reflects Kshs.4,231,570 resulting to unreconciled variance of Kshs.2,231,158.
- 2.11** The statement of comparison of budget and actual amounts reflects capital expenditure of Kshs.6,421,535 which has not been reflected in the statement of changes in net assets resulting to an understatement of Kshs.6,421,535.

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

### **3.0 Variances Between Financial Statements and Supporting Schedules**

The following unreconciled variances were noted between figures reported in the financial statements and supporting schedules resulting to variances shown in the table below;

<b>Item</b>	<b>Note No.</b>	<b>Financial Statement Figure (Kshs.)</b>	<b>Schedules Figure (Kshs.)</b>	<b>Variances (Kshs.)</b>
Rendering of Service -Tuition Fees	7	12,904,305	13,038,100	(133,795)
Registration and Examination Fees	7	2,908,570	2,873,150	35,420
Industrial Attachments Fees	7	526,730	478,370	48,360
Activity Fees	9	617,055	641,555	(24,500)
Subscriptions	9	257,476	397,850	(140,374)
Cleaning Expenses	9	194,910	238,920	(44,010)
Printing and Stationary	9	2,408,673	2,412,553	(3,880)
Insurance	9	10,500	12,000	(1,500)
Salaries and Wages	10	6,773,494	6,914,460	(140,966)
Social Contributions	10	536,580	620,520	(83,940)

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

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

The statement of financial performance reflects use of goods and services of Kshs.15,446,630 as detailed in Note 9 to the financial statements. However, the following issues were noted;

#### **4.1 Unsupported Examination and Registration**

Included in the use of goods and services is examination and registration figure of Kshs.1,973,250. However, no payment vouchers were provided to confirm payments made to the respective institutions offering examinations.

In the circumstances, the accuracy and completeness of examination and registration expenditure of Kshs.1,973,250 for the year ended 30 June, 2020 could not be confirmed.

#### **4.2 Unsupported Activity Fee**

Included in the use of goods and services is activity fee balance of Kshs.617,055. However, the activities were not supported by evidence of actual attendance and travel documents.

In the circumstances, the accuracy and completeness of activity fee expenditure of Kshs.617,055 for the year ended 30 June, 2020 could not be confirmed.

#### **4.3 Unsupported Conference Fee**

Included in the use of goods and services is conference expenses of Kshs.397,850 that has not been supported by actual travel documents and attendance records.

In the circumstances, the accuracy and completeness of conference expenses figure of Kshs.397,850 for the year ended 30 June, 2020 could not be confirmed.

#### **5.0 Unsupported Board Allowances**

The statement of financial performance reflects Board allowances of Kshs.534,500. However, the allowances have not been analyzed to reflect meetings attended by Board Members, agenda, date and allowances received.

In the circumstances, the accuracy and completeness of the board allowances balance of Kshs.534,500 for the year ended 30 June, 2020 could not be confirmed.

#### **6.0 Non-Disclosure of Institution's Land**

The statement of financial position as at 30 June, 2020 reflects property, plant and equipment balance of Kshs.56,834,524. However, the financial statements have made reference to Note 18 while the actual Note is at 16. The Institute occupies a piece of land measuring approximately 2.43 hectares as per the title deed. However, the value of the land has not been included in the financial statements and asset register. No explanation was given for the omission.

In the circumstances, the accuracy and completeness of the plant, property and equipment balance of Kshs.56,834,524 as at 30 June, 2020 could not be confirmed.

#### **7.0 Receivables from Exchange Transactions**

The statement of financial position as at 30 June, 2020 reflects receivables from exchange transactions balance of Kshs.2,639,691 as disclosed in Note 15 to the financial statements. However, the students' fees statements or students' debtors

control ledgers indicating the chargeable fees, payments and movements were not provided for audit review.

In the circumstances, the accuracy and completeness of receivables from exchange transactions balance of Kshs.2,636,691 as at 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 Sotik 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 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.114,596,128 and Kshs.40,169,135 respectively resulting to an under funding of Kshs.74,426,993 or 65% of the budget.

Similarly, the expenditure budget totalled to Kshs.33,646,128 against actual expenditure amounting to Kshs.36,380,951, resulting to an over-expenditure totalling to Kshs.2,734,823 or 8% of the budget. The underfunding 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, because of the significance of the matters discussed in the Basis for Adverse Opinion and in the Basis of 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**

#### **Late Submission of the Financial Statements**

The annual report and financial statements for the year ended 30 June, 2020 were submitted on 14 January, 2021 which was three (3) months and sixteen (16) days past the statutory deadline of 30 September, 2020. This is contrary to Section 47(1) of the Public Audit Act, 2015 which states that the financial statements required under the Constitution, the Public Finance Management Act, 2012 and any other legislation shall

be submitted to the Auditor-General within three (3) months after the end of the fiscal year to which the accounts relate.

To that extend, the Institute was in breach of the law.

The audit was conducted in accordance with ISSAI 4000. The standard requires that I comply with ethical requirements, 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 and in the Basis for Conclusion on Effectiveness of Internal Controls, Risk Management and Governance sections of my report, I confirm that internal controls, risk management and overall governance were not effective.

### **Basis for Conclusion**

#### **Assets not Tagged**

The statement of financial position as at 30 June, 2020 reflects property, plant and equipment balance of Kshs.56,834,524. A verification of assets register provided revealed that all assets including computers and its accessories, office equipment, other assets, library books and automotive engineering equipment were not tagged to secure them from loss, pilferage and destruction. In addition, the automotive engineering equipment worth Kshs.123,348,100 were not included in the property, plant and equipment movement schedule.

In the circumstances, the safety of the property, plant and equipment could not be ascertained as at 30 June, 2020.

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 (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, and for its assessment of the effectiveness of internal control, risk management and 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 Management is aware of the intention to terminate 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 Institute's 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 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. 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 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.

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 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**

**17 February, 2022**