

REPORT OF THE AUDITOR-GENERAL ON COAST 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 Coast 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 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 the Coast Institute of the Technology as at 30 June, 2020, and 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 Presentation of the Financial Statements

The statement of changes in net assets as at 30 June, 2020 and Note 23 to the financial statements on property, plant and equipment did not include movements in the previous year as prescribed by the Public Sector Accounting Standards Board and International Public Sector Accounting Standard.

Consequently, the financial statements presented for the year ended 30 June, 2020 do not conform to No. 1 on presentation of financial statements as prescribed and published by the Public Sector Accounting Standards Board.

2.0 Inaccuracies in Statement of Cash Flows

The statement of cash flows reflects total payments of Kshs.163,577,822 after adjustment for depreciation of Kshs.36,846,403. However, the same depreciation figure has been added back, thereby understating cash balance by Kshs.36,846,403. In addition, the cash flows statement reflects increase in debtors by Kshs.56,809,896, while the re-computed figure is a decrease of the same amount, thereby misstating cash balance by Kshs.113,619,792.

Further, although the cash flows statement reflects purchase of intangible assets balance of Kshs.5,058,816, Note 24 to the financial statements indicated that there were no additions to the intangible assets during the year under review.

Consequently, the accuracy and completeness of the statement of cash flows for the year ended 30 June, 2020 could not be confirmed.

3.0 Cash and Bank Balance

The statement of financial position as at 30 June, 2020 reflects cash and bank balance of Kshs.89,763,369 as detailed in Note 19 to the financial statements. However, these are balances as per bank confirmation certificates and not the reconciled cash book balances of Kshs.81,431,920 resulting to unexplained variance of Kshs.8,331,449.

Other observations are as detailed below:

3.1 Cooperative Bank Collection A/c No. 01129220357100

Note 19 to the financial statements for the year ended 30 June, 2020 reflects cash and bank balance of Kshs.89,763,369. Included in this balance is Kshs.8,151,095, in respect to Co-operative Bank balance. However, the bank reconciliation statement as at 30 June, 2020 reflected balance as per bank statement of Kshs.8,131,095 while the bank confirmation certificate indicated a balance of Kshs.8,151,095, resulting to unreconciled and unexplained variance of Kshs.20,000. In addition, the bank reconciliation reflects receipts in bank statement not yet recorded in cash book of Kshs.30,000. No explanation was given as to why the receipts have not been entered in the cash book.

3.2 Diamond Trust Bank Collection A/c No. 0255123001

Note 19 to the financial statements for the year ended 30 June, 2020 reflects cash and bank balance of Kshs.89,763,369. Included in this balance is Kshs.2,646,684 held in Diamond Trust Bank Collection Account. However, bank reconciliation statement reflects receipts in bank statement not yet recorded in cash book of Kshs.806,126.23. No explanation was given as to why the receipts have not been entered in the cash book.

3.3 Equity Bank Collection A/c No. 0790299323142

Note 19 to the financial statements for the year ended 30 June, 2020 reflects cash and bank balance of Kshs.89,763,369. Included in this balance is Kshs.8,265,806 held in Equity Bank Collection account and whose bank reconciliation indicates receipts in bank statement not yet recorded in cash book of Kshs.426,225. No explanation was given as to why the receipts have not been entered in the cash book.

3.4 Kenya Commercial Bank main operations A/c No. 01104806185

Note 19 to the financial statements for the year ended 30 June, 2020 reflects cash and bank balance of Kshs.89,763,369. Included in this balance is Kshs.9,312,711 held in Kenya Commercial Bank Main Operations Account and whose bank reconciliation statement as at 30 June, 2020 reflects receipts in bank statement not yet recorded in cash book of Kshs.3,198,150. It was not explained why the receipts have not been entered in cash book. The bank reconciliation statement also reflects payments in the cashbook not in bank statement (unrepresented cheques) of Kshs.3,883,158 and whose re-casted balance is Kshs.4,894,358, resulting to a difference of Kshs.1,011,200 which has not been explained nor reconciled. In addition, the payments in cash book not in bank statement (unrepresented cheques) of Kshs.3,883,158 includes a payment totaling Kshs.28,520 whose dates and details such as cheque number and payee were not availed for audit review. Further, Dates when the reconciling items were subsequently cleared by the bank were not provided for audit review.

4.0 Receivables from Exchange Transactions

4.1 Trade Debtors and Student Debtors

Note 20 to the financial statements for the year ended 30 June, 2020 reflects receivables from exchange transactions balance of Kshs.30,928,593. Included in the balance is trade debtors balance of Kshs.2,832,945 and student debtors of Kshs.27,361,495. However, ageing analysis to support the balance was not availed for audit verification. Further, the Institute did not have an approved policy on debtors' management.

Consequently, the recoverability of the debtor's balances of Kshs.30,928,593 and the accuracy and completeness of the same as at 30 June, 2020 could not be confirmed.

4.2 Outstanding Imprest

Note 20 to the financial statements for the year ended 30 June, 2020 reflects receivables from exchange transactions balance of Kshs.30,928,593. Included in the balance is Kshs.734,153 in respect to outstanding imprests. Audit review of imprests register revealed that the imprests have been outstanding for over two months, contrary to Section 92 (5,6) of the Public Finance Management (National Government) Regulations, 2015 which states that the "A holder of a temporary imprests shall account or surrender the imprests within seven (7) working days after returning to duty station, and in the event of the imprests holder failing to account for or surrender the imprests on the due date, the Accounting Officer shall take immediate action to recover the full amount from the salary of the defaulting officer with an interest at the prevailing Central Bank Rate." Although management indicated that the imprests shall be recovered through payroll, it was not clearly explained why it had taken long to effect the same.

In the circumstances, recoverability of imprest balances of Kshs.734,153 as at 30 June, 2020 could not be confirmed and the Institute is in breach the Law.

5.0 Trade and Other Payables from Exchange Transactions

The statement of financial position as at 30 June, 2020 and as disclosed in Note 25 to the financial statements reflects trade and other payables from exchange transactions balance of Kshs.9,843,866, comprising trade payables balance of Kshs.9,343,866 and audit fees payable balance of Kshs.500,000. However, creditors movement schedule was not availed for audit verification.

In the circumstances, the accuracy and completeness of trade and other payables from exchange transactions balance of Kshs.9,843,866 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 Coast 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. 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 under review reflects a final revenue budget of Kshs.341,260,500 against overall revenue collections of Kshs.188,334,793 resulting to a gross revenue shortfall of Kshs.153,069,397 or 45%. Similarly, the Institute expended Kshs.163,577,822, resulting to budget under expenditure of Kshs.177,682.678 or 52 % of the budget.

Further, the Institute exceeded the budgetary provisions on remuneration of Board of Governors by Kshs.593,600. Approval of the over-expenditure was not availed for audit review.

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, because of the significance of the matters discussed in the Basis for Adverse Opinion section of my report, and based on the audit procedures performed, I confirm that public resources have not been applied lawfully and in an effective way.

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 section of my report, based on the audit procedures performed, I confirm that internal controls, risk management and governance were not effective.

Basis for Conclusion

1.0 Failure to Develop Risk Management Strategy

As previously reported, Coast Institute of Technology Board did not develop risk management strategies during the year under audit review. Without a risk management strategy, the Board may not be effective in managing a robust business operation of the Institute. This is contrary to Section 165(1) of the Public Finance Management (National Government) Regulations, 2015 which requires the Accounting Officer of the National Government entity to develop risk management strategies, which include fraud prevention mechanism; and a system of risk management and internal control that builds robust business operations.

In the circumstances, the Institute is in breach of the Law and may fail to develop a system of risk management and internal control that builds robust business operations as required by the Public Finance Management (National Government) Regulations, 2015.

2.0 Lack of Information Communication Technology (ICT) Policy

As previously reported, the Coast Institute of Technology Board did not develop Information Communication Technology (ICT) policies during the year under audit review. Without ICT policies, the Board may not be effective in managing and securing data for the Institute. This is contrary to Section Chapter Three Paragraph 3.6 of Mwongozo Code of Governance for State Corporations on accountability, risk management and internal control which states that “The Board should establish an ICT policy which is aligned to the objectives of the organization, establish an ICT function, integrate ICT in the operation of the organization, ensure the ICT related risks are identified and managed and utilize ICT in monitoring the performance of the organization.

In the circumstances, the Institute is in breach of the Law and may fail to utilize ICT, and manage and secure data in a manner required by Mwongozo code of Governance for State Corporations.

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 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 Institute’s Board

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 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 applicable basis of accounting unless Management is aware of the intention to 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 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 Institute's 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 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 Institute's 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 sustainability of service 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 as a going concern or 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 Coast Institute of Technology 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

02 February, 2022