

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

REPORT ON THE FINANCIAL STATEMENTS

Qualified Opinion

I have audited the accompanying financial statements of Kaiboi Technical Training Institute set out on pages 1 to 43, which comprise the statement of financial position as at 30 June, 2020, 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, except for the effect 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 Kaiboi 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 comply with the Public Finance Management Act, 2012 and the Technical and Vocational Education and Training Act, 2013.

Basis for Qualified Opinion

1.0 Unsupported Student and Rent Debtors

As disclosed in Note 28 to the financial statements, the statement of financial position reflects receivables from exchange transactions amount of Kshs.111,252,947 which includes a student debtors' figure of Kshs.122,649,264 (2018/2019: Kshs.59,451,357) and a rent debtors' figure of Kshs.577,109 (2018/2019: Kshs.Nil). The student debtors and rent debtors balances were however not supported by a movement schedule showing the opening balances, additions, amounts paid during the year and the closing balances as at 30 June, 2020.

In addition, a review of an ageing analysis provided in support of the debtors revealed that debts amounting to Kshs.41,621,321 have been outstanding for more than one year. The management has also not provided the strategies that have been put in place to ensure that the debts are recovered in time.

Further, the failure by the Management to receive debt repayments may adversely affect the cash flow of the Institute thereby affecting service delivery to the public. Consequently, the accuracy, validity and existence of student debtors' figure of Kshs.122,649,264 and rent debtors' figure of Kshs.577,109 as at 30 June, 2020 could not be confirmed.

2.0 Inventory – Variance between Stores Ledger Balances and the Stock Take Report

As disclosed in Note 30 to the financial statements, the statement of the financial position as at 30 June, 2020 reflects an inventory balance of Kshs.3,326,565 . However, an examination of records in support of the inventory figures revealed variances between stores ledger balances and physical stock take report as at 30 June, 2020 amounting to Kshs.447,770.

The accuracy, completeness and validity of the inventory figure of Kshs.3,326,565 for the year ended 30 June, 2020 could therefore not be confirmed.

3.0 Missing Details of Refundable Deposits from Customers

As disclosed in Note 36 to the financial statements, the statement of financial position as at 30 June, 2020 reflects a refundable deposits from customers balance of Kshs.2,512,674 and the supporting summary schedule was provided for audit. However, the management did not maintain a separate account for refundable deposits. Further, the supporting schedule provided did not show a detailed listing indicating the students' names, admission numbers, academic year and amount deposited.

Consequently, the accuracy existence and completeness of the refundable deposits from customers amounting to Kshs.2,512,674 as at 30 June, 2020 could not be confirmed.

4.0 Lack of Ownership Documents for the Institute's Land

As disclosed in Note 32 to the financial statements, the statement of financial position reflects a balance of Kshs.771,501,854 for property, plant and equipment. Included in this amount is a revalued land amount of Kshs.74,560,000 for four pieces of land owned by the Institute. However, one piece of land, with an approximate area of 13 acres and a valuation amount of Kshs.19,500,000 had no title deed or other ownership documents.

In the circumstance, the accuracy and completeness of the revalued land amount of Kshs.74,560,000 as at 30 June, 2020 and the ownership of one piece of land could not be confirmed.

5.0 Unsupported Trade and Other Payables from Exchange Transactions

The statement of financial position as at 30 June, 2020 reflects trade and other payables from exchange transactions of Kshs.23,655,352 which increased from Kshs.22,746,954 in 2018/2019 financial year. However, an ageing analysis schedule and creditors' policy were not provided for audit verification.

Under the circumstances, the accuracy, validity and existence of trade and other payables from exchange transactions of Kshs.23,655,352 as at 30 June, 2020 could not be confirmed.

6.0 Unexplained Variance Between the Approved Budget and the Statement of Comparison of Budget and Actual Amounts

The approved budget provided for the audit shows that the total revenue budget amounted to Kshs.148,251,000 differs with the figure shown in the statement of comparison of budget and actual amounts under original budget of Kshs.153,201,000 by an unexplained variance of Kshs.4,950,000. The statement further indicates an expenditure budget of Kshs.230,780,000 under original budget which differs with the budgeted expenditure of Kshs.148,251,000 as per the approved budget by an unexplained difference of Kshs.82,529,000.

In addition,, the statement reflects an adjustment in revenue figure of Kshs.164,795,544 and an adjustment in expenditure figure of Kshs.170,216,544 which were not supported and could therefore not be confirmed.

Further, no reconciliation of actual amounts on a comparable basis and actual amounts in the financial statements was prepared as required by IPSAS 24.

Consequently, the statement of comparison of budget and actual amounts is not fairly stated.

7.0 Accuracy of the Statement of Comparison of Budget and Actual Amounts

The statement of comparison of budget and actual amounts shows actual on comparable basis total revenues of Kshs.281,870,445 while the recomputed amount is Kshs.328,915,258 thereby resulting in an unexplained difference of Kshs.47,044,813. Further, the statement shows actual on comparable basis total expenses of Kshs.327,239,049 while the recomputed amount is Kshs.319,594,407 thus giving rise to an unexplained difference of Kshs.7,644,642.

Consequently, the accuracy of the statement of comparison of budget and actual amounts could not be confirmed.

The audit was conducted in accordance with International Standards of Supreme Audit Institutions (ISSAIs). I am independent of the Kaiboi Technical Training Institute 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 comparison budget and actual amounts reflects final expenditure budget and actual on comparable basis of Kshs.382,996,544 and Kshs.319,594,407 respectively resulting to an under-expenditure of Kshs.63,402,137 or 17% of the budget.

Based on the approved estimates, the under-expenditure 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

1.0 Employee Costs

1.1. One Third Rule on Staff Composition

An examination and analysis of the human resource records of Kaiboi Technical Training Institute as at 30 June, 2020 revealed that, the institution had nine (9) members in the board of governors out of which six (6) or (66%) came from the dominant community. Further, the Institute had forty-four (44) non-teaching staff with all (100%) of them coming from the dominant community. In addition, there were fifty-four (54) teaching staff out of which forty-seven (47) or 87% came from the dominant community.

This staff composition is contrary to section 7(1) and (2) of National Cohesion and Integration Act, 2008.

Consequently, the Management is in breach of the law.

1.2. Payment of Basic Salary below the One Third Rule

Audit review of payroll records of Kaiboi Technical Training Institute for the year ended 30 June, 2020 revealed that there were employees getting net salaries that were less than one third of their basic pay Contrary to Section 19(3) of the Employment Act, 2007 as detailed below;

Salary Month	August 2019	October 2019	November 2019	February 2020	March 2020
Number of employees whose net salary was less than one third of their basic salary.	1	3	1	4	2

The employees earning net salary less than a third of their basic pay risk suffering pecuniary embarrassment to the employer.

1.3. Penalty on Late Remittance of National Social Security Fund Deductions

The statement of financial performance for the year ended 30 June, 2020 reflects an employee costs figure of Kshs.22,512,288. Further, as disclosed Note 17 to the financial statements, this amount includes social contributions-NSSF payments amounting to Kshs.2,823,677 paid to the National Social Security Fund. However, available records in support of the payment revealed that the Institute had paid an NSSF penalty payment of Kshs.2,197,498 via demand letter dated 17 June, 2020 for non-remittance of NSSF deduction for the period between January, 1996 and January 2004. The unremitted amounts of the said period were two amounts of Kshs.189,476 and Kshs.22,703 all totaling to Kshs.212,179 which attracted the penalty of Kshs.2,197,498.

No explanation was provided by the Management for failure to remit the NSSF deductions in time and why a waiver of the penalties was not negotiated with the Institution.

Further, the NSSF deductions schedule showing the names, date of employment and NSSF amount that was to be remitted by each employee was not provided for audit verification.

Consequently, the accuracy and validity of the social contributions – NSSF of Kshs.2,823,677 could not be confirmed.

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 audit procedures performed, except for the matters described in the Basis for Conclusion on Effectiveness of Internal Controls, Risk Management and Governance 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

1.0 Term in Office of the Board of Governors

During the year under review, oversight on the running of the Institute was done by an eight-member board excluding the Principal. It was further established that all the current board members were appointed on 10 July, 2019 through, individual appointment letters, and the term expires after three (3) years as provided for in the Technical and Vocational

Education and Training Act, 2013. In the circumstances, the entire board's term in office will come to an end at the same time which is against corporate governance best practice and it is also likely to affect the operations of the Institute.

The Institute risks running into operational and oversight challenges in the absence of a well constituted board.

2.0 Information and Communication Technology (ICT)

A review of the Information and Communication Technology Internal Controls revealed that the Institute did not have an approved IT continuity and disaster recovery plan to guide ICT operations.

Further, the Institute did not have an approved IT strategic committee which is important in performing the oversight function and formulation of policies to ensure that the IT department functions properly and that it assists in the achievement of organizational objectives in an economic, efficient and effective way.

Information Technology organizational objectives may not be achieved in the absence of an approved IT strategic committee and IT continuity and disaster recovery plans.

3.0 Lack of Risk Assessment Policy

The audit of the internal controls of the Institute revealed that risk assessments were not done for the financial year 2019/2020 and a risk management policy was not in place.

The management is in breach of Regulation 165(1) of Public Finance Management (National Government) Regulations, 2015. There is also a likelihood that risks occurring in the normal course of operations of the Institute may not be identified and the appropriate mitigations measures taken.

4.0 Lack of an Audit Committee and an Internal Audit Function

During the audit, it was noted that Kaiboi Technical Training Institute had not established an audit committee contrary to Section 73 (5) of the Public Finance Management Act, 2012 which states that every national government public entity shall establish an audit committee whose composition and functions shall be as prescribed by the regulations. No satisfactory explanation was provided for the failure to establish an independent audit committee.

Further, an audit review of the Institute's charter and human resource documents availed for audit revealed that the Management of Kaiboi Technical Training Institute had not established an internal audit department to carry out internal audit functions contrary to Section 73 (1) (a) of the Public Finance Management Act, 2012.

In the circumstances, the management was in breach of the law.

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 those Charged with Governance

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 continue to sustain its services, disclosing, as applicable, matters related to sustainability of services and using the applicable basis of accounting unless the National Government either intends 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 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 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 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 ability of Institute 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

15 February, 2022