

REPORT OF THE AUDITOR-GENERAL ON KOSHIN 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 Koshin Technical Training Institute set out on pages 1 to 40, 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, 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 Koshin 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 Property, Plant and Equipment

1.1 Land Ownership and Valuation

The statement of financial position reflects property, plant and equipment of Kshs.40,337,238. However, as previously reported, available information indicated that the institution stands on a 2.023 hectares of land title reference No. Tembelio/Elgeyo Border Block 15/45 in Uasin Gishu County but which has not been valued and included as part of property, plant and equipment. A copy of the title deed provided for audit review indicated that the land is reserved for Sergoek Youth Polytechnic Vocational Training Centre which handed over to the Ministry for the establishment Koshin Technical Training Institute. Although Management explained that the processing of the title deed is ongoing, it was not possible to confirm the status of the process and when the title is likely to be obtained. .

Therefore, the accuracy, completeness, ownership and valuation of the land as at 30 June, 2020 could not be confirmed.

1.2 Buildings Valuation

The statement of financial position reflects property, plant and equipment of Kshs.40,337,238. However, as reported in the previous year, available information indicated that capital work in progress certified amounting to Kshs.5,137,040 in respect of construction of two workshops and office extension were not supported with contract documents, bills of quantities, tender opening minutes, tender evaluation reports, inspection and acceptance committee minutes and certificates of completion. In addition, six buildings that were handed over to the institution by the community did not have values attached to them and hence were excluded from the assets balance as detailed below:

Serial No.	Description of the Asset
1.	Administration Block
2.	Classrooms and Electrical Workshops
3.	Penina Hall
4.	Pit Latrine
5.	Generator House
6.	Building Technology Workshop

In the circumstances, the accuracy, completeness, and valuation of property, plant and equipment of Kshs.40,327,238 as at 30 June, 2020 could not be confirmed.

2.0 Cash and Cash Equivalents

As disclosed in Note 21 to the financial statements, the statement of financial position as at 30 June, 2020 reflects cash and cash equivalents of Kshs.6,273,348 which include recurrent, development bank balances and cash in hand of Kshs.870,728, Kshs.5,383,523 and Kshs.20,097 respectively. However, the certificate of bank balance for recurrent and development accounts and cash count certificate as at 30 June, 2020 were not provided for audit review. Further, the cash book, bank reconciliation statement and Mpesa confirmation certificate for Mpesa Paybill No.678649 were not provided for audit review.

Consequently, the accuracy and completeness of the cash and cash equivalents balance of Kshs.6,273,348 as at 30 June, 2020 could not be confirmed.

3.0 Receivables from Exchange Transactions

The statement of financial position reflects Kshs.6,359,523 in respect to receivables from exchange transactions which is at variance with the supporting schedule balance of Kshs.3,795,670 resulting to unexplained variance of Kshs.2,563,853. In addition, the increase of Kshs.5,400,233 (85%) from Kshs 959,290 in the financial year 2018/2019 was not reconciled. Further, there was no evidence that that Management carried out an assessment of impairment of receivables including preparation of an aging analysis for the trade receivables and the institution did not maintain a debtor's policy.

In the circumstances, the collectability, accuracy and completeness of receivables from exchange transactions balance of Kshs.6,359,523 as at 30 June, 2020 could not be confirmed.

4.0 Receivables from Non-Exchange Transactions

The statement of financial position reflects Kshs.1,582,500 in respect to receivables from non-exchange transactions for which no supporting schedules were provided for audit review.

Consequently, the accuracy and completeness of non-exchange transactions balance of Kshs.1,582,500 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 Koshin 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 are no key audit matters to report in the year under review.

Other Matter

Failure to Provide Approved Budget

The statement of comparison of budget and actual amounts reflects Kshs.16,045,600 and Kshs.12,997,056 in respect to total actual income and payments for the year ended 30 June, 2020 respectively. However, the Management did not provide the approved budget contrary to Paragraph 22 of the Second Schedule of the Technical and Vocational Education and Training Act, 2013 which stipulates that Board of Governors may incur expenditure for the purpose of the institution in accordance with the estimates approved by the Cabinet Secretary, and any approved expenditure under any head of the estimates may not be exceeded without the prior approval of the Cabinet Secretary.

The Management of the Institute is in breach of the law and the propriety of the total payments of Kshs.12,997,056 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, 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. Fixed Assets Register

The statement of financial position reflects property, plant and equipment of Kshs.40,327,238. However, as reported in the previous year, the asset register provided for audit review did not conform with the formats in **Appendix 6** of the Guidelines approved by the Public Sector Accounting Standards Board (PSASB) and issued by the National Treasury on asset and liability management in the public sector dated July, 2020.

In the circumstances, the Management was in breach of the guidelines on maintenance of the fixed asset register.

2. Human Resource Policy and Staff Establishment

As reported in the previous year, a review of the human resource records provided revealed that the Institute did not have an approved staff establishment and an approved Human Resource Policy in place as at the time of audit. Without the approved staff establishment, it is not possible to confirm the deficit or surplus of the number of staff per department or the institution.

Consequently, the Management was in contravention of Section B2(1) of the Human Resource Policies and Procedures Manual for the Public Service 2016 which requires every Ministry/State Department to prepare human resource plans to support achievement of goals and objectives in their strategic plans.

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

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 Qualified Opinion section of my report, I confirm that, nothing 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 Internal Audit Function

During the financial year under review, it was observed that the institution did not have an Internal Audit department in place as required by regulation 162(2) of the Public Finance Management (National Governments) Regulations, 2015.

Consequently, the Management is in breach of the regulations.

2. Failure to Establish an Audit Committee

The Koshin Technical Training Institute has 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 has been provided for the failure to establish independent audit committee and consequently, the Institute's Management is in breach of the law.

3. Lack of IT Policy

A scrutiny of the Institute's IT internal controls shows that the Institute it did not have an IT Strategic Committee, IT Steering Committee, IT Security Policy, Emergency procedures and an approved back up and retention strategy in place, this is contrary to the requirement of Section 165(1)(b) of the Public Finance Management Act, 2012 that provides that Accounting officer shall ensure that the National Government entity develops a system of risk management and internal control that builds robust business operations. Such controls are instituted as appropriate to provide access controls needed to minimizes breaches in systems of information, confidentiality, data integrity and loss of business continuity.

In the absence of a back-up in an off-site location, there is the risk of the operations coming to a complete shut down in the event of a disaster.

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 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 overall 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 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.

Board of Governors 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 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 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

01 February, 2022