

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

REPORT ON THE FINANCIAL STATEMENTS

Disclaimer of Opinion

I have audited the accompanying financial statements of Nkabune Technical Training Institute set out on pages 1 to 43, 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 do not express an opinion on the accompanying financial statements. Because of the significance of the matters described in the Basis for Disclaimer of Opinion section of my report, I have not been able to obtain sufficient appropriate audit evidence to provide a basis for an audit opinion on these financial statements.

Basis for Disclaimer of Opinion

1.0 Unbalanced Statement of Financial Position

The statement of financial position as at 30 June, 2020 reflects Kshs.751,379,165 and Kshs.747,558,290 in respect of total assets and total liabilities and reserves resulting to unexplained variance of Kshs.3,820,875 where total assets should balance with total liabilities and reserves. Further, the same statement reflects Kshs.14,105,202 in respect of total liabilities. However, a re-cast of the same reflects Kshs.16,060,130 resulting to an unexplained variance of Kshs.1,954,928.

In addition, the same statement also reflects a nil balance in respect of net assets. However, a re-cast of the same indicates net asset of Kshs.737,273,963.46 resulting to a variance of the same amount.

Further, three (3) components in the statement of financial position reflects balances that are at variance with the balances in the statement of changes in net assets as shown below:

Component	Balance as per the Statement of changes in Net Assets (Kshs.)	Balance as per the Statement of Financial Position (Kshs.)	Variance (Kshs.)
Revaluation gain/reserve	542,872,376	508,707,727	34,164,649
Retained earnings (Accumulated Surplus)	204,703,195	212,506,106	(7,802,911)
Total reserve and liabilities as at 30 June, 2020.	747,575,571	747,558,290	17,281

In the circumstances, the accuracy, completeness and validity of the statement of financial position as at 30 June, 2020 could not be confirmed.

2.1 Overstated Statement of Changes in Net Assets

The statement of changes in net assets for the year ended 30 June, 2020 reflects Kshs.64,757,406 in respect of total net asset brought forward. However, the 2018/2019 financial statement reflects Kshs.11,941,320 on the same item resulting to unexplained variance of Kshs.52,816,086. Further, the same statement reflects the previous year's closing balances as at "30 June, 2020" instead of 30 June, 2019.

In addition, the same statement reflects Kshs.747,575,571 in respect of total net assets as at 30 June, 2020. However, a recast of the balances reflects Kshs.804,212,514 resulting to unexplained variance of Kshs.56,636,943.

In the circumstances, the accuracy, completeness and validity of the statement of changes in net assets for the year ended 30 June, 2020 could not be confirmed.

2.2 Understated Statement of Cash Flows

The statement of cash flows for the year ended 30 June, 2020 reflects Kshs.163,678,225 in respect of cash and cash equivalents as at 30 June, 2020. However, a recast of the balances reflects Kshs.248,214,594 resulting to unexplained variance of Kshs.84,536,369.

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

3.0 Understated Cash and cash Equivalents

Note 27(a) to the financial statements for the year under review reflects a cash and cash equivalents balance of Kshs. 163,678,225. However, a review of bank reconciliation statement for the month of June, 2020 reflects Kshs.3,680,115 in respect of unrepresented cheques which includes Kshs. 34,817 in respect of stale cheques which have not been replaced or reversed in the cash book and therefore understating the cash and cash equivalents by the same amount.

Consequently, accuracy and completeness of the the cash and cash equivalents balance of Kshs.163,678,225 as at 30 June, 2020 could not be confirmed.

4.0 Unsupported Contingent Rentals Income

As disclosed in Note 12 to the financial statement, the statement of financial performance for the year ended 30 June, 2020 reflects an amount of Kshs.95,052,838 in respect of revenue from exchange transactions out of which Kshs.860,450 relates to rental revenue from facilities and equipment which includes Kshs.636,210 in respect of contingent rentals. However, supporting documents including tenant agreement, the list of occupied properties (houses), the bank deposit slips, board minutes which approved the rates payable and valuation report from the Ministry of Land and Physical Planning were not made available for audit review.

In the circumstances, the accuracy and completeness of the Kshs.636,210 in respect of contingent rentals income for the year ended 30 June, 2020 could not be confirmed.

5.0 Unaccounted expenditure on student meals

The statement of financial performance for the year ended 30 June, 2020 and as disclosed in Note 15 to the financial statements reflects Kshs. 57,908,148 in respect of use of goods and services which includes Kshs.44,129,527 relating to other general expenses out of which an amount of Kshs.6,225,440 were payments made to a firm for the provision of meals to sponsored students from National Youth Service (NYS). The Institute adopted a Pay As You Eat (PAYE) system in the year under review where all students apart from those sponsored by NYS paid cash for their meals, while the NYS students were served meals on credit and the invoices raised to the Institute. However, the payments made by the Institute to the firm were not supported by daily registers signed by the said sponsored students.

In the circumstances, the accuracy, validity and value for money for the Kshs.6,225,440 expenditure for the year ended 30 June, 2020 could not be confirmed.

6.0 Long Outstanding Students Debtors

The statement of financial position as at 30 June, 2020 and as disclosed in Note 27(b) to the financial statements reflects Kshs.23,451,497 in respect of receivables from exchange transactions out of which an amount of Kshs.8,385,597 or (36%) has been outstanding for over two (2) years. However, no evidence was provided for audit on the strategies the Management is taking to recover the said outstanding debts. Further, management has not adopted any provision policy for likely doubtful debts or made any specific provision to cater for the doubtful debts arising in the course of time.

In circumstances, the recoverability of the Kshs.8,385,597 in respect of outstanding students' debts as at 30 June, 2020 could not be confirmed. In addition, it has not been possible to ascertain if the balance is fairly stated as at 30 June, 2020.

7.0 Property, Plant and Equipment

The statement of financial position as at 30 June, 2020 and as disclosed in Note 32 to the financial statements reflects Kshs.551,309,714 in respect of property, plant and equipment which includes Kshs.453,820,875 in respect of land and buildings. However, ownership documents including title deeds or lease documents were not provided for audit. Further, physical verification carried out in November, 2020 revealed that the Institute's assets are not tagged for ease of identification contrary to Section 139(1) (b) of the Public Finance Management (National Government) Regulations, 2015 which states that accounting officer of a national government entity shall take full responsibility and ensure that proper control systems exist for assets and that movement and conditions of assets can be tracked.

Consequently, the accuracy, ownership, and security of property, plant and equipment of Kshs.551,309,714 as at 30 June, 2020 could not be confirmed.

8.0 Unsupported Balances - Trade and Other Payables

The statement of financial position reflects Kshs.13,054,235 and Kshs.447,180 all totaling to Kshs.13,501,415 in respect of trade and other payables from exchange transactions and refundable deposits from customers as disclosed in Notes 35 and 36 respectively. However, supporting documents including schedules and ledgers were not provided for audit.

In the circumstances, the accuracy and validity of the Kshs.13,501,415 included in current liabilities as at 30 June, 2020 could not be confirmed.

9.0 Budgetary Control and Performance

The statement of comparison of budget and actual amounts for the year ended 30 June, 2020 reflects budgeted receipts of Kshs. 149,302,110 and an actual receipt of Kshs.289,879,690 resulting to a net under collection of Kshs.140,577,580.

Similarly, the statement reflects an expenditure budget and actual amounts of Kshs.149,302,110 and Kshs.92,637,463 respectively resulting to a net under expenditure of Kshs.56,664,647.

In the circumstances, the intended beneficiaries did not get expected services equivalent to the under collection Kshs.140,577,580 and over expenditure of Kshs.56,664,647 for the year ended 30 June, 2020.

10.0 Withdrawal of Cash Over and Above the Approved Limit

The statement of financial position as at 30 June, 2020 and as disclosed in Note 27(a) to the financial statements reflects Kshs.163,678,225 in respect of cash and cash equivalents. However, review of the cash book revealed that on various dates, the Institute withdrew cash totaling to Kshs.3,200,000 on batches of Kshs.400,000 beyond the cash withdrawal limit of Kshs.300,000 per week contrary to paragraph 5(1) of the

Ministry of Education circular reference MOEST/VTT/11/8 dated 22 July, 2019 on administration and financial management which state that the cash limit for training and vocation colleges shall be limited to Kshs.300,000 per week.

11.0 Presentation of Financial Statements

The Institute's financial statements for the year under review showed included the following anomalies Pages 10,11,18,20,33,36,39,40 and 41 contain "xxx" which has not been customized to reflect information relevant to the Institute.

- i. The financial statements figures are in decimal contrary to the best accounting practice which recommends figures in the financial statements to be rounded off to the nearest whole number of the reporting currency.
- ii. Note 30 to the financial statements has been assigned to two different components; inventories and property, plant and equipment.

Consequently, the financial statements for the year under review are not prepared in accordance with the International Public Sector Accounting Standards as prescribed by the Public Sector Accounting Standard Board (PSASB) financial reporting template.

12.0 Information, Communication and Technology (ICT) Environment

Review of the Institute's ICT environment revealed that there was no formal approved ICT policy in place during the year under review which includes data security policy and disaster recovery plans. Further, the Institute's ICT structure was not provided for review.

In addition, during the year under review, the Technical Institute did not have an Information Technology (IT) steering committee or strategic Committee for ensuring effective IT controls and strategies.

In the circumstance, the security and reliability of the Technical Institute's data including its Management Information System could not be ascertained and in addition, the Institute is in breach of the law.

REPORT ON LAWFULNESS AND EFFECTIVENESS IN USE OF PUBLIC RESOURCES

Conclusion

I do not express a conclusion on the lawfulness and effectiveness in the use of public resources as required by Article 229(6) of the Constitution. Because of the significance of the matters described in the Basis for Disclaimer of Opinion section of my report, I have not been able to obtain sufficient appropriate audit evidence to provide a basis for my audit conclusion.

REPORT ON EFFECTIVENESS OF INTERNAL CONTROLS, RISK MANAGEMENT AND GOVERNANCE

Conclusion

I do not express a conclusion on the effectiveness of internal controls, risk management and governance as required by Section 7(1)(a) of the Public Audit Act, 2015. Because of the significance of the matters described in the Basis for Disclaimer of Opinion section of my report, I have not been able to obtain sufficient appropriate audit evidence to provide a basis for my audit 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 overall 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 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.

The Board of Governors is responsible for overseeing the financial reporting process, reviewing the effectiveness of how the Institute 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 overall governance and risk management, and ensuring the adequacy and effectiveness of the control environment.

Auditor-General's Responsibilities for the Audit

My responsibility is to conduct an audit of the financial statements in accordance with International Standards of Supreme Audit Institutions (ISSAIs) 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. However, because of the matter described in the Basis for Disclaimer of

Opinion section of my report, I was not able to obtain sufficient appropriate audit evidence to provide a basis for an audit opinion on these financial statements.

In addition, my responsibility is 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. I also consider internal control, risk management and governance processes and systems in order to give an assurance on the effectiveness of internal controls, risk management and governance 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. However, because of the matters described in the Basis for Disclaimer of Opinion section of my report, I was not able to obtain sufficient appropriate audit evidence to provide a basis for an audit conclusion on lawfulness and effectiveness in use of public resources, and on effectiveness of internal controls, risk management and governance.

I am independent of the Nkabune 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.



CPA Nancy Gathungu, CBS
AUDITOR-GENERAL

Nairobi

11 February, 2022