

# **REPORT OF THE AUDITOR-GENERAL ON OL' LESSOS 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 Ol' Lessos Technical Training Institute set out on pages 23 to 44, which comprise of the statement of financial position as at 30 June, 2020, statement of financial performance, statement of changes in net assets, statement of cash flows, and the 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 Ol' Lessos 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 Vocational Education and Training Act, 2013 and the Public Finance Management Act, 2012.

### **Basis for Adverse Opinion**

#### **1. In- Accuracies of the Financial Statements**

Audit of the financial statements presented for audit for the year ended 30 June, 2020 revealed the following errors:

- i. The statement of financial performance reflects sale of goods amount of Kshs.3,543,060 which differ with the amount of Kshs.261,500 reflected in Note 8 to the financial statements resulting to a variance of Kshs.3,281,560 which was not explained or reconciled.
- ii. Statement of financial position reflects refundable deposits from customers amounting to Kshs.2,559,424 which is not reflected in Note 21 to the financial statement as referenced.
- iii. The capital and reserves amount of Kshs.769,273,376 reflected in the statement of financial position is presented in the recommended format.

- iv. The accumulated surplus amount of Kshs.759,619,619 reflected in the statement of financial position varies with the recomputed surplus amounting to Kshs.737,209,299 resulting in a variance of Kshs.22,410,320 which has not been explained or reconciled.
- v. Statement of changes in net assets and the statement of cash flows for the year under review are not presented in the recommended format.
- vi. Statement of changes in net asset for the year ended 30 June, 2020 reflects adjustment of Kshs.22,410,320 in respect of prior year assets which has not been supported or explained.
- vii. The statement of cash flows for the year reflects net cash flows from operating activities amounting to Kshs.160,133,768. However, the referenced Note 22 to the financial statements is in respect of events after the reporting period and not does not relate to the item.
- viii. The statement of cash flows for the year reflects Kshs.238,784,465 in respect of cash and cash equivalents as at 30 June, 2019. However, the referenced explanatory Note 168 to the financial statements for the amount is not in the financial statement.
- ix. Note 11 to the financial statements reflect paid payables from prior year amounting to Kshs.1,410,934 whose basis for expensing under use of goods and services was not supported or explained.
- x. Note 12 to the financial statements reflect travel, motor car, accommodation, subsistence, and other allowances amounting to Kshs.666,391 which was not supported.

Note 16 to the financial statements reflects cash and cash equivalents amounting to Kshs.238,784,466. However, the supporting Note 16 to the financial statements does not disclose the respective bank accounts and the makeup of the amount.

## **2. Variances between the Statement of Financial Performance and Statement of Comparison of Budget and Actual Amounts**

A comparison of the statement of financial performance and the statement of comparison of budget and actual amounts revealed variances between the two statements as shown below:

<b>Item</b>	<b>Statement of Financial Performance (Kshs.)</b>	<b>Statement of Comparison of Budget and Actual Amounts (Kshs.)</b>	<b>Variance (Kshs.)</b>
Rendering of Service Fees from Students	194,910,557	278,642,474	(83,731,917)

Sale of Goods	3,543,060	92,630	3,450,430
Other Income	1,338,146	0	1,338,146
Compensation of Employees	25,003,333	24,563,792	439,541
Use of Goods and Services	206,527,368	4,390,826	202,136,542
Finance Costs		33,660	(33,660)
Depreciation and Amortization	12,207,666	0	12,207,666
Repairs and Maintenance	3,101,124	3,016,830	84,294
General Expenses	0	201,215,784	(201,215,784)

The variances between the two statements were not explained or reconciled.

### 3. Difference between the Statement of Financial Performance and Supporting Schedules

Review of supporting schedules provided in support of financial statements amounts revealed difference between amounts in the schedules and those reflected in the financial statements as shown below:

Item	Note	Financial Statements Figures (Kshs.)	Supporting Schedule Figures (Kshs.)	Variance (Kshs.)
Transfers from National Government Ministries	6	96,265,000	158,190,000	(61,925,000)
Student Debtors	17	285,723,229	182,150,740	103,572,489
Skills Development Levies and Training Materials	11	71,412,883	72,530,533	(1,117,650)
Other	11	84,752,057	84,523,963	228,094
Salaries and Wages	12	2 4,336,942	24,465,567	(128,625)
Travel, Motor Car, Accommodation, Subsistence, and Other Allowances	12	666,391	-	666,391
Cash and Cash Equivalents	16	238,784,446	244,597,554	(5,813,108)

Consequently, the accuracy of the financial statements could not be confirmed.

### 4. Rendering of Services - Fees from Students

The statement financial performance for the year ended 30 June, 2020 reflects rendering services - fees from students amounting to Kshs.194,910,557 in respect of student fees. However, computation of amounts reflected in Note 7 to the financial statements supporting the fees amounts gives a total amount of Kshs.95,021,101 for items making up the reported amount, resulting in unexplained and unreconciled variance of Kshs.99,889,456.

In addition, the financial statement amount varies with supporting documents total of Kshs.173,811,226 resulting, in unexplained and unreconciled variance of Kshs.21,099,331. Further, analysis of students records and supporting schedules revealed 452 students who had not been invoiced.

In the circumstances, the accuracy, validity, and completeness of Kshs.194,910,557 in respect of rendering services - fees from students for the year ended 30 June, 2020 could not be confirmed.

## **5. Use of Goods and Services**

### **5.1 Unsupported Expenditure on Skills Development Levies and Training Materials**

The statement of financial performance reflects expenditure amounting to Kshs.206,527,368 on the use of goods and services. The amount includes skills development levies and training materials expenditure amounting to Kshs.71,412,883 as disclosed under Note 11 to the financial statements, out of which, Kshs.7,483,028 was incurred towards travelling and accommodation by officers attending various activities during the year. However, the expenditure was not supported with air tickets, motor vehicle work tickets, bus tickets, invitation letters, event programs and timetables, passports, boarding passes, and attendance registers.

Further, Kshs.71,412,883 expenditure on skills development levies and training materials includes salaries and wages expenditure amounting to Kshs.12,064,758 which was incorrectly charged to the item.

Consequently, the accuracy of expenditure on skills development levies and training materials amounting to Kshs.71,412,883 could not be confirmed.

### **5.2 Expenditure Wrongly Charged to Training Expenses**

The statement of financial performance for the year ended 30 June, 2020 reflects use of goods and services expenditure amounting to Kshs.206,527,368 which includes training expenses amounting to Kshs.23,794,430. Review of training expenditure revealed an amount of Kshs.23,794,430 which was incurred in respect of safari imprests but was directly expensed.

Further, available information indicate that the institute has no training committee, and no assessment was done during the year to identify the training needs. Further, the training expenses amounting to Kshs.23,794,430 included boarding expenses amounting to Kshs.4,588,305, graduation expenses amount of Kshs.1,866,340, ICT expenses totaling Kshs.910,720 and research expenses amounting to Kshs.3,509,032 all totaling to Kshs.10,874,397 which are not training in nature.

Consequently, the accuracy and completeness of training expenses amounting to Kshs.23,794,430 could not be confirmed.

### **5.3 Other Expenses**

Included in the use of goods and services amount of Kshs.206,527,368 reflected in the statement of financial performance are other expenses amounting to Kshs.84,752,057 which have been disclosed separately in the notes to financial statements. Review of documents provided for on other expenses revealed the following anomalies:

#### **5.3.1 Unsupported Activity and Sports, and Catering Expenses**

Payment vouchers for activity and sports expenses amounting to Kshs.2,146,355 were not provided for audit review. Further, the supporting schedule did not reflect the names of the payees.

Similarly, payment vouchers in respect of Kshs.5,677,930 incurred on catering expenses were also not provided for audit review, and the supporting schedule did not reflect the names of the payees.

#### **5.3.2 Unrelated Expenditure on Operational Grants**

The other expenses amounting to Kshs.84,752,057 includes Kshs.4,201,401 incurred on the construction of two storey twin workshop classrooms and offices at Kiptaragon Technical Training Institute in Kuresoi South, Nakuru County, an Institute being mentored by Ol'Lessos Technical Training Institute. However, the expenditure was capital in nature and was not related to the Institute and is not properly charged.

#### **5.3.3 Purchase of Motor Vehicles**

The other expenses includes Kshs.16,510,000 incurred on the purchase of two motor vehicles. However, the expenditure was capital in nature and therefore, not properly charged to other expenses. Further, procurement records such as tender advertisement, tender evaluation, award tender acceptance and inspection and acceptance reports were not provided for audit review.

#### **5.3.4 Unaccounted for Performance Contract Expenses**

The other expenses amount includes performance contract expenses amounting to Kshs.1,528,104. However, payment vouchers relating to performance contract expenses were not provided for audit review.

Further, the amount includes performance contract expenses amounting to Kshs.1,392,153.40 in respect of salaries to non-teaching staff for the month of May, 2020 paid on 28 May, 2020, which was incorrectly charged to performance contract account. Under the circumstances, the accuracy and completeness other expenses of Kshs.84,752,057 could not be confirmed.

### **6. Cash and Cash Equivalents**

The statement of financial position as at 30 June, 2020 reflects Cash and Cash equivalent amounting to Kshs.238,784,466. However, review of the records including cash books, bank statements, and certificates of bank balances revealed the following anomalies:

## **6.1 Undisclosed Bank Accounts**

The statement of financial position reflects Cash and Cash equivalent balance of Kshs.238,784,466. However the corresponding Note 16 to the financial statements did not provide the breakdown of the cash and cash equivalents balance.

## **6.2 Board of Survey Report**

Although the trial balance indicated a cash at hand balance of Kshs.312,459 as at 30 June, 2020 no document including the board of survey report and cashbook extract were provided to support the balance.

## **6.3 Undisclosed Outstanding Imprests**

Records of imprests provided for audit review revealed that various officers had outstanding imprests totaling Kshs.883,515. However, the outstanding imprests were not disclosed in the financial statements. Further, all the imprests had exceeded the required timelines of 7 days without being surrendered. In addition, the Management did not maintain an imprest register for control and management of imprests.

No evidence was provided to indicate steps Management had taken or initiated to recover the long outstanding imprests.

## **6.4 Unreconciled Cash and Cash Equivalents**

The statements of financial position reflect cash and cash equivalent amounting to Kshs.238,784,466. However, supporting schedules and records indicated an amount of Kshs.244,285,095 resulting in unexplained and unreconciled variance of Kshs.5,500,629.

Further, the Institute did not maintain a petty cashbook for control and management of the petty cash used in the day to day running of the office.

Under the circumstances, the accuracy and existence of the cash and cash equivalents amounting to Kshs.238,784,466 as at 30 June, 2020 could not be confirmed.

## **7. Receivables from Exchange Transactions**

The statement of financial position reflects receivables from exchange transaction balance of Kshs.285,653,229 which includes students' fees debtors amounting to Kshs.285,688,229 and other exchange debtors (staff advances) amounting to Kshs.35,000. However, there was no policy on provision for doubtful debts, and an ageing analysis of the debtors was provided for audit review. However, available information indicated that some of the debts dates back in the year 2009. Further, the balance varies with the amount of Kshs.285,723,229 reflected in Note 17 to the financial statements resulting in a variance of Kshs.70,000 which was not explained or reconciled.

In the circumstances, the accuracy and completeness of receivables from exchange transactions balance of Kshs.285,653,229 could not be confirmed.

## **8. Consumable Stores**

Note 18 to the financial statements reflects inventories valued at Kshs.4,416,260 relating to consumable stores. However, stock records such store ledgers, bin cards, stock taking instructions, stock taking sheets and stock taking reports were not provided for audit review. Further, the inventories valuation policy is not been indicated under summary of significant accounting policies.

Consequently, the accuracy and completeness of inventories valued at Kshs.4,416,260 could not be confirmed.

## **9. Property, Plant and Equipment**

### **9.1 Land and Buildings**

Note 19 to the financial statements reflects land valued at Kshs.185,000,000. However, valuation report for the land and register of parcels of land owned by the Institute were not provided for audit review. Further, the note reflects nil value for buildings while the Institute owns several buildings, whose valuation details was not provided for audit review.

Consequently, the accuracy, completeness and existence of land and buildings valued at Kshs.185,000,000 could not be confirmed.

### **9.2 Motor Vehicles**

Note 19 to the financial statement reflect motor vehicles cost value of Kshs.19,494,000 where additions during the year are indicated as Kshs.16,500,000. However, procurement records such as tender advertisement, tender evaluation minutes, tender award, tender acceptance, delivery notes, inspection and acceptance reports were not provided for audit review.

Further, 2 motor vehicles comprising a 33-seater Isuzu Bus, Isuzu Pick Up were jointly registered between the Institute and banking institutions, while a Focin motor cycle, a Ford Tractor and a Toyota Hiace van were registered in the names of individuals and a company.

In the circumstances, the accuracy and completeness of the motor vehicle balance of Kshs.19,494,000 could not be confirmed.

## **10. 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 amounting to Kshs.7,094,333 which include fees paid in advance of Kshs.983,882. However, a list of creditors and ledgers, and an ageing analysis in support of fees paid in advance were not provided for audit review.

Under the circumstances, the accuracy and completeness of fee paid in advance balance of Kshs.983,882 could not be confirmed.

## **11. Unsupported Remuneration of Directors**

The statement of financial performance for the year ended 30 June, 2020 reflects remuneration of directors amounting to Kshs.3,297,650. However, invitation letters for meetings, attendance register, Board meeting minutes and schedule of board meetings were not provided for audit review. Further, appointment letters for four (4) Members of Board of Governors were not provided for audit review. Further, approved rates of board allowances and payment vouchers in support of Kshs.426,150 expenditure on remuneration of directors were not provided.

Under the circumstances, the accuracy of remuneration of Board expenditure Kshs.3,297,650 could not be confirmed.

## **12. Unaccounted for Management and Consultancy Fees**

Note 19 to the financial statements reflects capital work in progress costing Kshs.29,350,010 as at 30 June, 2020 in respect of a proposed hospitality and management centre. Available information indicates that a contractor was engaged to construct the centre on 12 August, 2015 at a contract price of Kshs.29,350,010, which has since been fully paid.

Review of the contract revealed the contract period was for 48 weeks from contract date and a certificate of completion and handing over certificate were issued on 12 April, 2018 and 11 March, 2019 respectively. However, plumbing, and mechanical works of Kshs.1,500,000, electrical works of Kshs.2,000,000 and painting works of Kshs.1,847,500 included in the bills of quantities had not been completed.

The Institute has since taken over completion of the works under labour-based terms. However, no records of the works being completed were provided for audit review. Further, the additional work was not included in the capital work in progress balance as at 30 June, 2020.

Further, the contractor did not account for project management fees and contingencies amounts of Kshs.500,000 and Kshs.1,500,000 respectively included in the bills of quantities.

Under the circumstances, the accuracy and completeness of capital work in progress amounting to Kshs.29,350,010 could not be confirmed.

The audit was conducted in accordance with International Standards of Supreme Audit Institutions (ISSAIs). I am independent of the Ol'Lessos 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.

## **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 and the Basis for Conclusion on Lawfulness and Effectiveness in Use of Public Resources sections of my report, based on the audit procedures performed, I confirm that public resources have not been applied lawfully and in an effective way.

### **Basis for Conclusion**

#### **1. Presentation of the Financial Statements**

Review of the financial statements provided for audit review revealed that the report of the Board of Governors had not been signed by the Chairman and the Secretary to the Board and therefore, the financial statements were not approved by the Board of Governors. Some pages were also missing including pages 24, 25 and 27.

This is contrary to the format prescribed by the Public Sector Accounting Standard Board (PSASB) in accordance with section 194(1)(d) of the Public Finance Management Act, 2012.

Consequently, the annual report and the financial statements for the year ended 30 June 2019 as prepared and presented are not IPSAS compliant.

#### **2. Lease of Hostels**

Note 11 to the financial statements reflect training expenses amounting to Kshs.23,794,430, which include expenditure of Kshs.2,490,000 incurred on lease of hostels. However, procurement records such as tender advertisement, evaluation minutes, tender award, acceptance letter, and contracts or lease agreements were not provided for audit review.

Under the circumstances, the validity and legality of the lease of hostels expenditure amounting to Kshs.2,490,000 for the year ended 30 June, 2020 could not be confirmed.

### **3. Employment Costs**

#### **3.1 Irregular Engagement of Casuals Workers and Teaching Staff**

During the year under review, the Institute engaged fifteen (15) casual employees in various departments and paid them wages amounting to Kshs.134,740 per month. However, the casual employees were engaged for a period exceeding three (3) months contrary to Section 37 and Section 35(1)(c) of the Employment Act, 2007. In addition, sixty-eight employees were employed on renewable contracts every term and were paid a total of Kshs.1,036,704. However, the contracts were not renewed as stipulated in the contracts.

Consequently, the Management was in breach of the law.

#### **3.2 Non-Compliance with Law on Ethnic Composition**

During the year under review, the total number of employees was ninety-two (92) out of which eighty-four (84) or 91% of the total number were members of the same ethnic community. This is contrary to Section 7(1) and (2) of the National Cohesion and Integration Act, 2008 which states that, “all public offices shall seek to represent the diversity of the people of Kenya in employment of staff and that no public institution shall have more than one third of its staff establishment from the same ethnic community”.

#### **3.3 Non-Compliance with the One Third of Basic Salary Rule**

During the year ended 30 June, 2020, seventeen (17) employees earned a net salary of less than a third (1/3) of the basic salary contrary to Section C.1(3) of the Public Service Commission (PSC) Human Resource Policies, 2016. The Management has not given explanation for failure to comply with the policy.

In the circumstances, the County contravened Section C.1(3) of the Public Service Commission (PSC) Human Resource Policies, 2016 as this may expose the staff to pecuniary embarrassment.

#### **3.4 Payment of Salaries Below Minimum Wage**

A review of the staff payroll revealed that seventeen (17) members of staff were paid salaries below the basic minimum monthly wages contrary to the provisions of first schedule of the Regulation of Wages (General) (Amendment) Order, 2018 which provide that the basic minimum monthly wages (exclusive of housing allowance) as Kshs.13,573

Consequently, the Management was in breach of the law.

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 Adverse Opinion and the Basis for Conclusion on Effectiveness of Internal Controls, Risk Management and Governance sections 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. Lack of Risk Management Policy**

During the year ended 30 June, 2020, the Management of Ol'lessos Technical Training Institute did not have in place a risk management policy, risk management strategies and a system of risk management to enable development appropriate risk strategies in order to improve on effective and efficient management of public resources.

#### **2. IT Internal controls**

Review of Information Technology (IT) in used at the Institute revealed that no IT strategic plan was in place which could provide guidance to IT related decision making processes, task prioritization and implementation using the plan as a framework. In addition, the management had no back-up data stored in an off-site location and therefore in case of any interruptions the Institute might not be able to seamlessly continue with operations. This may impact on business-continuity and information recovery.

#### **3. Internal Audit Function**

A review of internal audit function revealed that the Institute did not have an internal auditor in place during the year. Therefore, the responsibility for reviewing governance mechanisms of Institute, conducting risk - based, value for money and systems audits, verifying the existence of assets of the Institute and ensuring that there are proper safeguards for their protection, providing assurance that appropriate institutional policies and procedures and good business practices are followed by Institute and evaluating the adequacy and reliability of information available to management for making decisions with regard to the entity and its operations.

#### **4. Audit Committee**

During the year, the Institute did not have an audit committee which would be responsible for monitoring the Institute's governance process, accountability process and control systems of the entity and offer objective advice on issues concerning risk, control, regulatory requirement and governance.

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 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 sustain its services, disclosing, as applicable, matters related to sustainability of services and using the going concern 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.

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 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 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 ability of the 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**

**16 February, 2022**