

REPORT OF THE AUDITOR-GENERAL ON RIFT VALLEY INSTITUTE OF SCIENCE AND TECHNOLOGY FOR THE YEAR ENDED 30 JUNE, 2020

REPORT ON THE FINANCIAL STATEMENTS

Adverse Opinion

I have audited the accompanying financial statements of Rift Valley Institute of Science and Technology set out on pages 1 to 31, which comprise the statement of financial position as at 30 June, 2020, statement of financial performance, statement of cashflows and summary 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 Rift Valley Institute of Science and Technology 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 and Vocational Education and Training Act, 2013 and the Public Finance Management Act, 2012.

Basis for Adverse Opinion

1.0 Unsupported Rendering of Services

The statement of financial performance for the year ended 30 June, 2020 reflects revenue from rendering of services of Kshs.331,593,883 as detailed under Note 7 to the financial statements. Included in the balance is Kshs.198,054,877 in respect of tuition fees. However, the supporting schedules did not indicate the amount receivable per student per semester and the amount received. Further, the balance includes Kshs.124,907,819 in respect of facilities and materials. However, the amount includes personnel emolument of Kshs.34,138,397, which is an expenditure item.

Consequently, the accuracy and validity of the revenue of Kshs.331,593,883 obtained from rendering of services for the year ended 30 June, 2020 could not be confirmed.

2.0 Unsupported Sale of Goods

The statement of financial performance for the year ended 30 June, 2020 reflects sale of goods balance of Kshs.42,981,802 as detailed under Note 8 to the financial statements. Out of the balance is Kshs.35,491,019 in respect of accommodation production unit,

boarding, bakery and farm incomes. However, the schedules provided to support the income items did not provide details as shown below:

Item	Balance (Kshs.)	Remarks
Accommodation production unit	5,732,450	No description of the number of persons and days/dates of accommodated
Boarding	20,660,629	No description of the term or semester for which the income relates
Bakery	3,443,626	No description of the items sold and the rate per item.
Farm income	5,654,314	No description of the items sold and the rate per item.
Total	35,491,019	

Consequently, the accuracy and completeness of the revenue from sale of goods of Kshs.35,491,019 for the year ended 30 June, 2020 could not be confirmed.

3.0 Unsupported Use of Goods and Services

The statement of financial performance for the year ended 30 June, 2020 reflects Kshs.182,851,517 in respect of use of goods and services as detailed under Note 11 to the financial statements. The amount was spent on various items including administration, tuition, boarding, farm and rent expenses. However, the schedules provided to support the respective expenditure items did not indicate the activity for which the payments were made.

Consequently, the accuracy and completeness of the use of goods and services balance of Kshs.182,851,517 for the year ended 30 June, 2020 could not be confirmed.

4.0 Unsupported Employee Costs

The statement of financial performance for the year ended 30 June, 2020 reflects Kshs.87,346,623 in respect of employee costs as detailed under Note 12 to the financial statements. Included in the amount is expenditure of Kshs.64,468,985 in respect of salaries and wages of permanent and casual employees. However, it was noted that the payrolls had payees whose identification numbers were not indicated. Further, employee cost included Kshs.17,449,720 in respect of facilitators allowance which was not supported by a schedule detailing the names of the facilitators and their terms of engagement.

Consequently, the accuracy and validity of the expenditure of Kshs.87,346,623 on employee costs for the year ended 30 June, 2020 could not be confirmed.

5.0 Cash and Cash Equivalents

The statement of financial position as at 30 June, 2020 reflects cash and cash equivalents balance of Kshs.251,234,119 and as detailed in Note 16 to the financial statements. The amount is held in 10 bank accounts, M-pesa account and cash at hand. However, although the bank reconciliation statements were provided for the 10 bank accounts, cashbooks were not provided to support the balances for the respective accounts.

Consequently, the accuracy and validity of the cash and cash equivalents balance of Kshs.251,234,119 as at 30 June, 2020 could not be confirmed.

6.0 Unsupported Prepayment of Examination Fees

The statement of financial position as at 30 June, 2020 reflects deferred income of Kshs.84,002,959 as detailed in Note 22 to the financial statements. The amount includes Kshs.43,937,230 in respect of pre-paid examination fees. However, no supporting schedule was provided to show the amount paid in excess of the balance payable by the respective students.

Consequently, the accuracy and existence of the pre-paid examination fees of Kshs.43,937,230 as at 30 June, 2020 could not be confirmed.

The audit was conducted in accordance with International Standards of Supreme Audit Institutions (ISSAIs). I am independent of the Rift Valley Institute of Science and Technology Management in accordance with ISSAI 130 on Code of Ethics. I have fulfilled other ethical responsibilities in accordance with the ISSAI and in accordance with other ethical requirements applicable to performing audits of financial statements in Kenya. I believe that the audit evidence I have obtained is sufficient and appropriate to provide a basis for my Adverse opinion.

Key Audit Matters

Key audit matters are those matters that, in my professional judgment, are of most significance in the audit of the financial statements. There were no key audit matters to report in the year under review.

Other Matter

Budgetary Control and Performance

The statement of comparative budget and actual amounts reflects final receipts budget and actual on comparable basis of Kshs.600,515,000 and Kshs.394,150,567 respectively resulting to an under funding of Kshs.206,364,433 or 34% of the budget.

Similarly, the expenditure budget was Kshs.394,515,000 against actual expenditure of Kshs.309,340,134, resulting to an under-expenditure of Kshs.85,174,866 or 22% of the budget.

The underfunding and under performance affected the planned activities and may have impacted negatively on service delivery to the public.

REPORT ON LAWFULNESS AND EFFECTIVENESS IN USE OF PUBLIC RESOURCES

Conclusion

As required by Article 229(6) of the Constitution, because of the significance of the matters discussed in the Basis Adverse Opinion section 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

The audit was conducted in accordance with ISSAI 4000. The standard requires that I comply with ethical requirements and plan and perform the audit to obtain assurance about whether the activities, financial transactions and information reflected in the financial statements are in compliance, in all material respects, with the authorities that govern them. I believe that the audit evidence I have obtained is sufficient and appropriate to provide a basis for my conclusion.

REPORT ON EFFECTIVENESS OF INTERNAL CONTROLS, RISK MANAGEMENT AND GOVERNANCE

Conclusion

As required by Section 7(1)(a) of the Public Audit Act, 2015, because of the significance of the matters discussed in the Basis for Conclusion on Effectiveness of Internal Controls, Risk Management and Governance and in the Basis of Adverse Opinion 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. Fixed Assets Register

The statement of financial position as at 30 June, 2020 reflects non-current assets Kshs.1,114,271,704 as detailed under Note 20 to the financial statements. However, assets register provided for audit lacked vital information which include, dates of acquisition assets, year of acquisition, cost of acquisition (or valuation), additions or disposals made during the financial year, serial numbers and title deeds where applicable and location of moveable assets.

Consequently, the asset register may not be a reliable document for effective control of non-current assets.

2. Long Outstanding Trade Payables

The statement of financial position as at 30 June, 2020 reflects trade and other payables from exchange transactions balance of Kshs.7,374,017 and as detailed in Note 21 to the financial statements. However, included in that amount are liabilities amounting to Kshs.5,488,847 that have been outstanding for over ten years. No evidence has been provided to indicate the action taken by the management to settle the liabilities.

Consequently, the Institute is likely to face costly lawsuits.

3. Lack of a Risk Management Policy

During the year under review, it was noted that the Institute does not have a risk management policy that guides on assessment and evaluation of risk and to develop the strategies to mitigate them. This is contrary to clause Regulation 165(1) of the Public Finance Management Act (National Government) Regulations, 2015 which require the Accounting Officer to ensure that the national government entity develops risk management strategies, which include fraud prevention mechanism; and a system of risk management and internal control that builds robust business operations. Consequently, the service delivery may be adversely affected by avoidable risks.

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.

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 money is applied in an effective manner.

Those charged with governance are responsible for overseeing the Institute's financial reporting process, reviewing the effectiveness of how Management 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 review is planned and performed to express a conclusion with limited assurance as to 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 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. The nature, timing and extent of the compliance work is limited compared to that designed to express an opinion with reasonable assurance on the financial statements.

Further, in planning and performing the audit of the financial statements and review 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 sustainability of service basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Institute's ability to continue 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

09 June, 2022