

REPORT OF THE AUDITOR-GENERAL ON RIFT VALLEY 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 Rift Valley Technical Training Institute set out on pages 1 to 31, which comprise the statement of financial position as at 30 June, 2020, and the statement of financial performance, statement of cash flows, statement of net assets 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, 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 Rift Valley 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 Technical and Vocational Education and Training Act, 2013 and the Public Finance Management Act, 2012.

Basis for Qualified Opinion

1.0 Unsupported Property Plant and Equipment

As disclosed in Note 16 to the financial statements, the statement of financial position reflects property, plant and equipment totalling to Kshs.1,784,269,955. However, included in the balance is work-in-progress amounting to Kshs.31,713,331 whose contract documents and interim certificates for work in progress were not provided. No explanation was provided for failure to complete the work in progress which has remained the same as the previous year.

In addition, the balance includes additions of Kshs.29,511,581. Included in additions is a balance of Kshs.10,457,850 in respect of procured motor vehicles whose procurement documents were not provided.

In the circumstances, the accuracy and propriety of the property, plant and equipment balance of Kshs.1,784,269,955 could not be confirmed.

2.0 Inaccuracies in Cash and Cash Equivalents

As disclosed in Note 12 to the financial statements, the statement of financial position reflects cash and cash equivalents balance of Kshs.58,919,550. However, the balance is at variance with reconciled cash-book balance of Kshs.51,026,635 resulting to an unreconciled variance of Kshs.7,892,915.

Further, stale cheques amounting to Kshs.651,968 had not been reversed and cheques amounting to Kshs.5,621,009 were unrepresented.

Consequently, the accuracy and completeness of cash and cash equivalents of Kshs.58,919,550 could not be confirmed.

3.0 Misstated Employee Costs

As disclosed in Note 7 to the financial statements, the statement of financial performance reflects employee costs of Kshs.56,581,099 for the year ended 30 June, 2020. A review of the supporting schedule reflected expenses of Kshs.7,473,999 not related to employee costs.

Consequently, the accuracy and completeness of employee costs of Kshs.56,581,099 could not be confirmed.

4.0 Unsupported Receivables from Exchange Transactions

As disclosed in Note 13 to the financial statements, the statement of financial position reflects receivables from exchange transactions amounting to Kshs.114,462,848. The comparative balance reflects an amount of Kshs.38,917,889 therefore indicating an increase of Kshs.75,544,939 or 64% in the year under review. Further, the receivables include examination debtors of Kshs.45,678,818 which were not supported. In addition, the management did not provide a debtor's policy and aging analysis.

In the circumstances, the accuracy and completeness of receivables from exchange transactions of Kshs.114,462,848 could not be confirmed.

5.0 Unsupported Trade and Other Payables from Exchange Transactions

As disclosed in Note 17 to the financial statements, the statement of financial position reflects trade and other payables from exchange transactions of Kshs.11,911,051. However, the list of creditors provided supported payables totalling to Kshs.18,143,399 resulting to an unexplained variance of Kshs.6,232,348. Further, procurement records to support the creditors bills of Kshs.11,911,734 were not provided.

In the circumstances, the validity, accuracy, and completeness of trade and other payables balance of Kshs.11,911,051 could not be confirmed.

6.0 Unsupported Refundable Customer Deposits

As disclosed in Note 18 to the financial statements, the statement of financial position reflects refundable deposits from customers of Kshs.12,181,030. However, customer deposits amounting to Kshs.7,880,616 were not supported by detailed schedules. Further, the Management did not maintain a separate bank account for the customers deposits.

In the circumstances, the accuracy, completeness and existence of the customers deposits of Kshs.12,181,030 could not be confirmed.

7.0 Unsupported Inventories

As disclosed in Note 15 to the financial statements, the statement of financial position reflects inventories balance of Kshs.800,500. The institutions summary of accounting policies on inventories indicates that inventories are measured at lower of cost and net realizable value. However, the costs and the net realizable values have not been provided.

In addition, a stock take report as at 30 June, 2020 was not provided.

Consequently, the accuracy and completeness of inventories balance of Kshs.800,500 could not be confirmed.

8.0 Unsupported Rental Revenue from Facilities and Equipment

As disclosed in Note 4 to the financial statements, the statement of financial performance reflects rental revenue from facilities and equipment balance of Kshs.938,481. However, lease agreements were not provided.

Consequently, the validity and occurrence of rental revenue of Kshs.938,481 could not be confirmed.

9.0 Teachers Allowances Charged to Training Expenses

As disclosed in Note 6 to the financial statements, the statement of financial performance reflects an amount of Kshs.192,244,549 in respect of use of goods and services. Included in this balance is an amount of Kshs.43,471,328 relating to training expenses. Included in the training expenses are allowances paid to teachers amounting to Kshs.14,418,786 which should form part of personnel emoluments. Further, the payments were not supported and not budgeted for.

Consequently, the validity of Teachers' allowances amounting to Kshs.14,418,786 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 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 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

Unresolved Prior Year Matters

In the audit report of the previous year, several issues were raised. However, the Management has not resolved the issues or given satisfactory explanation for failure to adhere to the provisions of the Public Sector Accounting Standards Board templates and The National Treasury and Planning Circular reference No.AG.4/16/3 Vol.1(9) dated 24 June, 2020.

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. Lack of Approved Budget

The statement of comparison of budget and actual amounts for year ended 2020 reflects income of Kshs.342,920,820 and total payments of Kshs.336,879,208 for the year ended 30 June, 2019. 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 validity of the payments amounting to Kshs.336,879,208 could not be confirmed.

2. Staff Establishment

A review of the staff establishment provided indicated that the institute has an approved staff establishment that excluded positions currently held by one hundred and thirty one (131) staff deployed by Public Service Commission. As a result, the staff establishment do not show the optimal staffing levels of the Institute.

In the absence of approved staff establishment, the Institution may not be able to determine the optimum size of personnel establishment to discharge services to the stakeholders of the institute.

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 Risk Management Policy

The Institute lacks a risk management policy, risk management strategies and a system of risk management to enable them develop appropriate risk strategies in order to improve on effective and efficient management of public resources. This is contrary to the requirements of the Treasury Circular No. 3/2009 of 23 February, 2009 which provides for a broad policy framework for developing and implementing customized risk management strategies in public institutions. Further, the circular required all heads of Public Institutions to develop and implement a Risk Management Framework as a fundamental step towards establishing an accountable and innovative public service. The circular requires that all Public Institutions develop an institutional Risk Management Policy Framework (IRMPF). The circular also requires accounting officers to put in place structures and systems to manage their identified risks, considering their legal obligations, policy decisions, business objectives and public sector expectations.

Failure to develop a risk management policy exposes the Institute and in the event of a risk, there may not be strategies to counter that risk.

2.0 Lack of Information Communication Technology (ICT) Policy

A review of ICT Internal Control Environment during the year revealed that the Institute did not have an ICT strategic plan and steering committee which could provide guidance to IT-related decision-making processes, with IT task prioritized and implemented using the plan as a framework. The Institute did not produce the minutes of the strategic committee meetings. In addition, the management has no back-up data stored in an off-site location and therefore in case of any interruptions the Institute might not recover vital data. This may affect the business-continuity and recovery plan. No reasons or explanation has been provided for failure to have an IT Strategic plan and back-up data in an off-site location.

In the circumstances, 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 overall 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 the 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 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 reporting process, reviewing the effectiveness of how the 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 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 overall 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 the Institute's ability to continue or 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