

REPORT OF THE AUDITOR-GENERAL ON SOT 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 Sot Technical Training Institute set out on pages 1 to 24, which comprise the statement of financial position as at 30 June, 2020, and statement of financial performance, statement of changes in net asset, 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 Disclaimer of Opinion

1.0 Inaccuracies in the Financial Statement

Review of financial statements for the year ended 30 June, 2020 as presented for audit revealed the following inaccuracies.

- 1.1 As disclosed in Note 6 to the financial statements, the statement of financial performance reflects transfers from national government ministries of Kshs.62,424,500 which includes development grants of Kshs.5,094,500 which has been reported as part of recurrent grants instead of capitalizing through the statement of changes in net assets.
- 1.2 The comparative figures were erroneously stated as shown in the table below: -

Audit Component	Note	2019/2020 Financial Statements Opening Balance (Kshs.)	2018/2019 Financial Statements (Kshs.)	Variance (Kshs.)
Use of Goods and Services	9	38,761,756	29,037,276	9,724,480
Cash and Cash Equivalents	14	12,796,012	15,384,063	(2,588,051)
Accumulated Surplus		35,740,783	35,770,787	(30,004)
Purchase of PPE – Cash Flow Statement	17	10,752,093	12,291,041	(1,538,948)
General Expenses		0	9,724,480	(9,724,480)

Audit Component	Note	2019/2020 Financial Statements Opening Balance (Kshs.)	2018/2019 Financial Statements (Kshs.)	Variance (Kshs.)
Development Grants/Fund		0	2,558,047	(2,558,047)
Accumulated Surplus in the Statement of Changes in Net Assets		35,770,787	43,041,958	(7,271,171)

- 1.3** The statement of changes in net assets prior year adjustment on development funds of Kshs.2,558,047 and on expenses of Kshs.30,004 were not supported with journals and detailed schedules.
- 1.4** The statement of financial performance reported an expenditure of Kshs.961,500 on board allowances. However, the allowances were not reflected in the statement of comparison of budget and actual amounts and therefore they were not budgeted for.
- 1.5** As disclosed in Note 10 to the financial statements, the statement of financial performance reflects employee cost of Kshs.22,143,655. However, the schedule provided in support included Kshs.2,609,674 relating to travel, motor car, accommodation, subsistence and other allowances which should have been classified under use of goods and services.

In the circumstances, the accuracy and completeness of the above reported balances in these financial statements could not be confirmed.

2.0 Variances Between the Financial Statements and the Ledgers

The following variances were noted between reported financial statements figures and the supporting ledgers as detailed below:

Component	Note	Financial Statements (Kshs.)	Ledger Balance (Kshs.)	Variance (Kshs.)
Accommodation	9	608,100	639,420	(31,320)
Refundable Deposits	20	1,240,304	1,235,804	4,500
Receivable from Exchange Transactions	15	56,370,256	55,917,685	452,571
Property, Plant and Equipment	17	89,463,040	52,534,652	36,928,388

In the circumstances, the accuracy and completeness of the financial statements could not be confirmed.

3.0 Revenue from Exchange Transactions

As disclosed in Note 7 to the financial statements, the statement of financial performance reflects revenue from exchange transactions of Kshs.63,509,891. However, the following anomalies were noted:

- 3.1** The report generated from the student's billing system for the period 1 July, 2019 to 30 June, 2020 reflects invoiced amount of Kshs.197,829,230 resulting to unexplained variance of Kshs.134,319,369. Further, the billing system did not generate a report on every revenue stream (tuition, examination, activity and registration fees) as reported under Note 7 to the financial statements.
- 3.2** An analysis of students' records revealed that the institution had a student population of 3242 with annual fee payable per student of Kshs.26,420 with an expected income of Kshs.85,653,640. However, only Kshs.62,424,500 was reported in the financial statements resulting to a variance of Kshs.23,229,140.
- 3.3** Further analysis revealed that 2303 students were billed above the expected annual fees of Kshs.26,420 resulting to overbilling of Kshs.127,960,400, while 972 students were billed below the expected annual fees resulting to under billing of Kshs.16,600,230.
- 3.4** In addition, an analysis on a sample of forty (40) students revealed that the billing system reported Kshs2,460,020 as the amount invoiced while the students' statements revealed Kshs1,478,110 as the amount invoiced resulting to unexplained variance of Kshs.981,910 between the two sets of records.

In the circumstances, the accuracy and completeness of revenue form exchange transactions of Kshs.63,509,891 could not be confirmed.

4.0 Compensation of Employees

As disclosed under Note 10 to the financial statements, the statement of financial performance reflects an expenditure of Kshs.22,143,655 incurred in respect of compensation of employees. However, there was no approval from the board to hire employees who are involved in management and governance of the institution on contract basis. Further, the Institution had 59 teaching staff and 83 non-teaching staff who were not supported with a staff establishment record. In addition, the Institution did not maintain employee master data showing the personal details of each employees which include; the positions held, the job group, nature of employment nor were these details included in the payrolls making it not possible to ascertain whether the rates of payment were as per the scheme of service and contract terms.

In addition, in February, 2020, the Institution hired 3 teaching staff and 5 non-teaching staff. However, advertisement of the vacancies, list of shortlisted candidates, minutes of interview panel and appointment letters were not presented for audit verification.

In the circumstances, the accuracy and completeness of employee cost of Kshs.22,143,655 could not be confirmed.

5.0 Unsupported Repairs and Maintenance Expenses

As disclosed in Note 13 to the financial statements, the statement of financial performance reflects repairs and maintenance of Kshs.6,756,267. However, the expense was not supported by end user requisition, schedule of items being repaired or maintained, pre-inspection repair report, post repair inspection reports, repair logbooks or registers indicating the repairs carried out.

In the circumstances, the accuracy and completeness of Kshs.6,756,267 incurred on repairs and maintenance could not be confirmed.

6.0 Unconfirmed Cash and Cash Equivalents

As disclosed in Note 14 to the financial statement, the statement of financial position reflects cash and cash equivalents balance of Kshs.33,646,880 which includes a balance of Kshs.22,461 relating to a development account which was not supported with bank reconciliation statement. In addition, the reconciliation statement for the recurrent bank account reflected bank charges of Kshs.540, overcasting error of Kshs.112,120, double entry of cheques of Kshs.424,416 and suspense account of Kshs.79,444 which were not supported with detailed schedules.

In the circumstances, the accuracy and completeness of the cash and cash equivalents balance of Kshs.33,646,880 could not be confirmed.

8.0 Unsupported Receivables from Exchange Transactions

As disclosed in Note 15 to the financial statements, the statement of financial position reported receivables from exchange transactions of Kshs.56,370,256 which includes a balance of Kshs.56,131,654 in respect to student debtors and Kshs.238,602 in respect to staff debtors. The schedule from the billing system on students' debtors did not agree with individual student's fees statements. A sample of twenty (20) students revealed a balance of Kshs.1,851,230 as per the billing system and Kshs.1,139,420 as per the individual student's statement resulting to unexplained variance of Kshs.711,810. Further, staff debtors' balances of Kshs.238,602 were not supported with detailed schedules.

In addition, a student debtors' ageing schedule with information on the period the fees had remained outstanding, the student fee policy or manual explaining the registration of a student, billing, payment, exemptions, and cancelation procedures for students was not provided for audit verification.

In the circumstances, the accuracy and completeness of receivables from exchange transactions of Kshs.56,156,287 could not be confirmed.

9.0 Property, Plant and Equipment

9.1 Valuation of Assets

As disclosed in Note 17 to the financial statement, the statement of financial position reflects property, plant and equipment balance of Kshs.89,463,040 which includes assets valued at Kshs.11,458,171 for the financial year 2018/2019 being the first year of adopting International Public Sector Accounting Standards (accrual basis) which were not supported by a valuation report.

Further, the asset register presented for audit did not include important information on the assets which include fixed asset number, location and responsibility for custody, nature and description of the asset, the cost and date of purchase, and the estimated useful life or residual value.

In the circumstances, the accuracy and completeness of the property, plant and equipment net book value of Kshs.89,463,040 could not be confirmed.

9.2 Undisclosed Donated Equipment

As disclosed in Note 17 to the financial statement, the statement of financial position reflects property, plant and equipment at Kshs.89,463,040. However, the balance does not include various equipment, furniture and computers equipment received from China through bilateral contract agreement Avic/Kez/13m5077, dubbed Kenya-China Project on establishment of Technical and Vocational Training Workshop in Kenya signed on 25-May, 2016. The assets had not been valued to obtain the cost or fair value of the assets for recognition in the property, plant and equipment.

In the circumstances, the accuracy and completeness of the property, plant and equipment net book value of Kshs.89,463,040 could not be confirmed.

10.0 Intangible Assets

As disclosed in Note 18 to the financial statements, the statement of financial position reflects intangible assets of Kshs.340,000. The intangible assets relate to management information software for management of the students' fees. However, service level agreements were not provided for audit review. In addition, the intangible assets were not amortized over their useful life contrary to IPSAS 31 paragraph 73 which requires an intangible asset shall be carried at its cost less any accumulated amortization and any accumulated impairment losses.

In the circumstances, the accuracy and completeness of the intangible assets of Kshs.340,000 could not be confirmed.

11.0 Trade Payables

As disclosed in Note 19 to the financial statements, the statement of financial position reported trade and other payables from exchange of transactions of Kshs.29,890,080.. However, the trade payables were not supported with, purchase requisitions, purchase orders, invoices, delivery notes and counter receipts vouchers while the student fees

prepayment report generated from the billing system did not agree with amounts reflects in individual student's fees statements.

A sample of twenty (20) students reflected fees prepayment of Kshs.1,865,120 as per billing system while the students' statements reflected a balance of Kshs.1,365,680 resulting to unexplained variance of Kshs.499,440.

In the circumstances, the accuracy and completeness of the trade and other payables of Kshs.29,890,080 could not be confirmed.

12.0 Budget and Budgetary Performance

The statement of comparison of budget and actual amounts for the year ended 30 June, 2020 reflects final revenue budget and actual on comparable basis of Kshs.370,534,346 and Kshs.127,341,235 respectively resulting to revenue under realization of Kshs.243,193,111 or 66% of the budget.

Further, of the receipts amount realized of Kshs.127,341,235, only Kshs.91,334,225 was absorbed resulting to an under absorption of Kshs.36,007,010 or 28% of the receipts.

The under realization and under absorption affected the planned activities and Projects which may have impacted negatively on service delivery by Sot Technical Training Institute.

13.0 Late Submission of Annual Financial Statements

The annual report and financial statements for year ended 30 June, 2020 were submitted on 20 January, 2021 three (3) months and twenty (20) days late. This is contrary to Section 47(1) of the Public Audit Act, 2015 which states that the financial statements required under the Constitution, the Public Finance Management Act, 2012 and any other legislation, shall be submitted to the Auditor-General within three (3) months after the end of the fiscal year to which the accounts relate.

In the circumstances, the Management was in breach of the law.

14.0 Lack of Risk and Fraud Management Policy

The Institution does not have a risk management policy in place contrary to the provisions of Regulation 165 (1) of the Public Finance Management (National Government) Regulations, 2015 which states that the Accounting Officer shall ensure that the national government entity develops (a) risk management strategies, which include fraud prevention mechanism; and (b) a system of risk management and internal control that builds robust business operations.

In the circumstances, the Management is not in a position to identify individuals' risks, significance areas, likely hood of occurrence of identified risks and appropriate control measures.

15.0 Lack of IT Strategic Plan

Review of information technology in use at the Institute revealed that no IT strategic plan was in place which could provide guidance to IT-related decision-making processes, with IT task prioritized and implemented using the plan as a framework. In addition, the Management has no back-up data stored in an off-site location and therefore the Institute might not recover from an interruption and this may affect the business-continuity and recovery plan.

No explanation has been provided for failure to have an IT Strategic plan and back-up data in an off-site location.

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 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 liquidate the Institute or to cease operations.

Management is also responsible for the submission of Institution's 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 reflects 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 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 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 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 Sot 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

14 February, 2022