

# **REPORT OF THE AUDITOR-GENERAL ON SANG'ALO INSTITUTE OF SCIENCE AND TECHNOLOGY FOR THE YEAR ENDED 30 JUNE, 2020**

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## **REPORT ON THE FINANCIAL STATEMENTS**

### **Qualified Opinion**

I have audited the accompanying financial statements of Sang'alo Institute of Science and Technology set out on pages 1 to 32, which comprise the statement of financial position as at 30 June, 2020, and the statement of financial performance, statement of changes in net assets, statement of cash flows and statement of comparison of budget and actual amounts for the year then ended and a summary of significant accounting policies and other explanatory information in accordance with the provisions of Article 229 of the Constitution of Kenya and Section 35 of the Public Audit Act, 2015. I 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 Sang'alo 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 comply with the Public Finance Management Act, 2012 and the Technical and Vocational Education Training Act, 2013.

### **Basis for Qualified Opinion**

#### **1. Errors in Presentation of Financial Statements**

The statement of comparison of budget and actual amounts reflected revenue and expenditure items instead of class of transactions as prescribed by the Public Sector Accounting Standards Board. Further, review of the statement revealed receipts and expenditure budget of Kshs.350,188,000 and Kshs.334,711,924, respectively, resulting to an unbalanced budget by Kshs.15,476,076 contrary to Regulation 33(c) of the Public Finance Management (National Government) Regulations, 2015, which requires the budget to be balanced.

Consequently, the financial statements presented do not comply with the requirements of the Public Sector Accounting Standards Board (PSASB) reporting guidelines issued in June, 2020.

#### **2. Inaccuracies in the Statement of Cash Flows**

The statement of cash flows reflects Kshs.60,704,041 in respect to net cash flows from operating activities and a Nil balance on net cash flows from financing activities respectively. However, review of the financial statements reflects the following balances that were not included in the statement of cash flows.

| Details   | 2019/2020<br>Kshs. | 2018/2019<br>Kshs. | Changes<br>Kshs. |
|---|--------------------|--------------------|------------------|
| <b>Operating activities</b>                         |                    |                    |                  |
| Receivables from exchange transactions              | 28,385,071         | 9,880,742          | 18,504,329       |
| Receivables from non-exchange transactions          | 15,295,000         | 41,835,000         | (26,540,000)     |
| Inventories   | 343,650            | 833,240            | (489,590)        |
| Trade and other payables from exchange transactions | 12,500,000         | 25,722,358         | (13,222,358)     |
| Payments received in advance                        | 44,135,260         | 17,456,561         | 26,678,699       |
| <b>Financing activities</b>                         |                    |                    |                  |
| Borrowings  | 0                  | 736,956            | (736,956)        |

Further, the statement of cash flows reflects a negative balance of Kshs.7,685,080 in respect of purchase of property, plant, equipment and intangible assets while the statement of changes in net assets did not reflect any additions resulting in a variance of Kshs.7,685,080.

In addition, the statement of cash flows reflects an amount of Kshs.26,124,169 in respect of general expenses however the statement of financial performance reflects an amount of Kshs.97,670,679 resulting in a variance of Kshs.71,546,510.

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

### 3. Non-Disclosure of Biological Assets

The statement of financial position reflects property, plant and equipment (PPE) balance of Kshs.902,165,727 as at 30 June, 2020. However, the PPE schedules excludes the Institute's biological assets comprising of crop and animal contrary to the provisions of IPSAS 27 which outlines the accounting treatment for agricultural activity, the biological transformation and harvest of biological assets and conversion into agricultural produce.

In the circumstances, the accuracy and completeness of the Kshs.902,165,727 assets reflected in the statement of financial position as at 30 June, 2020 could not be confirmed.

### 4. Variances in Depreciation and Amortization Expense

The statement of financial performance reflects depreciation and amortizations figure of Kshs.17,205,898. However, Note 23 to the financial statements reflects a depreciation charge of Kshs.25,977,898 and Note 24 reflects amortization charge for the year of Kshs.1,450,000, resulting in total depreciation and amortization of Kshs.27,427,898 and a variance of Kshs.10,222,000 between the statements of financial performance figure of Kshs.17,205,898 and the figure disclosed in the two Notes of Kshs.27,427,898.

In the circumstances, the accuracy and completeness of the depreciation and amortization charge of Kshs.17,205,898 could not be confirmed.

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

#### **Budgetary Control and Performance**

The statement of comparative budget and actual amounts reflects final receipts budget and actual on comparable basis of Kshs.350,188,000 and Kshs.156,935,157 respectively resulting to an under-funding of Kshs.193,252,843 or 55% of the budget. Similarly, the Institute expended Kshs.144,903,524 against an approved budget of Kshs.350,188,000 resulting to an under-expenditure of Kshs.205,284,476 or 59% of the budget.

The underfunding and underperformance 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, 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. Partial Implementation of ERP**

The Institute procured an ERP system in the year 2014 at a contract price of Kshs.5,800,000. However, the contract price had been varied upwards by 22 % to Kshs.7,053,564 with Kshs.4,553,564 being paid during the year under review towards the project. However, it was noted that the procurement module of the system has not been enabled several years after the project was procured.

In the circumstances, the Institute is not getting value for money spent.

## **2. Non-Remission of Employees Gratuity**

Review of the Human Resource records revealed that a total of Kshs.8,994,049 in respect of employees' gratuity deduction up to 30 September, 2019 was still being held in the Institute's accounts pending migration to the staff retirement benefits scheme. However, the money has not been transferred to the respective staff benefits accounts nor disclosed as accounts payables in the financial statements for the year under review.

Consequently, the Institute is operating in breach of Section 53A(1) of the Retirement Benefits Act, 2012, which states that where an employer, having with the agreement of an employee who is a member of a scheme, made a deduction from the employee's emoluments for remittance to the scheme, fails to remit the deduction within fifteen days of the deduction, the scheme may, after giving such employer not less than seven days' notice, institute proceedings for the recovery of the deduction.

## **3. Irregularities in Discharging the Board's Mandate**

During the financial year under review, the Board of Governors held meetings categorized as full board, special full board and committee meetings. However, the following anomalies were noted:

- i. The Board of Governors had no annual work plan to guide its activities during the period under review contrary to Governance Parameter 1.9(1) of Mwongozo - The Code of Governance for State Corporations, 2015 which states that Board members should ensure the development of an annual Board work plan. It also did not have a charter contrary to Governance Parameter 1.11(1) of Mwongozo - The Code of Governance for State Corporations, 2015 which states that the Board should develop and adopt a Board Charter.
- ii. The Board of Governors did not carry out an annual evaluation of its performance at the end of the period contrary to Governance Parameter 1.12 (1)(b) of Mwongozo - The Code of Governance for State Corporations, 2015 which states that the Board should undertake an annual evaluation of its performance.
- iii. The Board of Governors operated without a formal and transparent remuneration policy for Board members during the year under review contrary to Governance Parameter 1.15(1) of Mwongozo - The Code of Governance for State Corporations, 2015 which states that the relevant authority shall establish a formal and transparent remuneration policy and remunerate Board members fairly, ethically and responsibly.

Lack of this policy guidelines means that the Board may not have been able to assess its overall performance, work within its predetermined objectives and also remunerate Board members fairly which is against the requirements of Mwongozo Code for State Corporations.

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. Weaknesses in Human Resource Management

The Institute had material gaps in its human resource management system as evidenced by the following anomalies:

- i. The Institute did not maintain a staff establishment records showing details of staff positions available, filled positions, vacant positions and a record of staff recruitments and/ or exits.
- ii. The Institute developed a Policy and Procedures Manual in 2016 and a staff Code of Conduct and Ethics in 2012 both of which have never been approved by the Board.
- iii. It was also noted that staff payrolls lacked basic employee details such as date of birth, appointment date, personal number, tax PIN, gender, marital status, ethnic background, home county, job designation and job group, date of retirement and incremental month.
- iv. The Institute maintained a separate payroll for the town campus even though it is not autonomous or semi-autonomous entity. The Institute has also never filled the position of a Human Resource Officer since 2015.

These omissions contravene the provisions of Section 79 of the Employment Act, 2007 which requires that an employer shall keep a register in which the employer shall enter the full name, age, sex, occupation, date of employment, nationality and educational level of each of his employees and a return of employees for each calendar year.

In the circumstances, the Management is in breach of the Act.

## **2. Lack of Quarterly Stock Take**

During the year under review, the Management of the Institute did not conduct quarterly stock taking in contravention of Section 162(2) of the Public Procurement and Asset Disposal Act, 2015 which requires that public institutions should undertake at least quarterly annual inventory and stock take in each calendar year.

In the circumstances, the Management is in breach of the Act.

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.

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 resource are applied in an effective manner.

The Board of Governors is responsible for overseeing the Institute's financial 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 overall 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 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 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 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 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 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 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**

**11 February, 2022**