

REPORT OF THE AUDITOR-GENERAL ON THIKA 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 Thika 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 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 Thika 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 Public Finance Management Act, 2012 and the Technical and Vocational Education and Training Act, 2013.

Basis for Qualified Opinion

1.0 Errors in Disclosure and Presentation of Accounting Policies

Disclosed in the summary of significant accounting policies under Note 4(c) are taxes - International Accounting Standard (IAS) 12 while the financial statements have been prepared in accordance with IPSAS accrual. Further, the accounting policy is misleading as the disclosure policy on tax rates and laws used by the Institute relate to generation of taxable income instead of tax exemption as per Income Tax Act. In addition, Accounting Policy Note 4(d) refers to IPSAS 16 as relating to property, plant and equipment, instead of the correct IPSAS 17.

2.0 Inaccuracies in the Financial Statements

2.1 Inconsistencies of Balances

Review of the financial statements reflected the following inaccuracies;

Details	Statement of Financial Performance Kshs.	Statement of Cash Flows Kshs.	Statement of Comparison of Budget Kshs.
Transfers from other Government entities	113,872,500	224,355,000	75,915,000
Rendering of services – Fees from students	192,893,245	192,554,517	147,710,340
Rental revenue from facilities and equipment	12,112,216	12,112,216	13,360,211

Further, review of the statement of cash flows reflected the following balances that were not included in the statement of cash flows;

Details	2019/2020 Kshs.	2018/2019 Kshs.	Changes Kshs.
Receivables from exchange transactions	45,182,905	53,424,309	(8,241,404)
Receivables from non-exchange transactions	37,957,500	148,440,000	(110,482,500)
Trade and other payables from exchange transactions	23,437,204	8,454,115	14,983,089
Refundable deposits from customers	1,146,240	873,000	273,240
Payable to mentored institutions	34,784,421	35,462,787	678,366

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

2.2 Deferred Income

The statement of financial position reflects deferred income of Kshs.7,037,800 and Kshs.11,113,400 in respect of financial years 2018/2019 and 2019/2020, respectively. The deferred income relates to restricted development grants from the National Government to the Institute for construction of a resource centre. However, Note 25 to the financial statements reflects different amounts of Kshs.2,037,800 and Kshs.4,075,600 for the respective financial years. In addition, the same Note 25 to the financial statements reflects deferred income movement schedule balance of Kshs.11,113,400 as at 30 June, 2020 resulting to unexplained differences.

Consequently, the accuracy and completeness of the deferred income could not be confirmed.

2.3 Net Cash Flows from Operating Activities

The statement of cash flows reflects comparative net cash flows of Kshs.37,810,202 from operating activities for 2018/2019, which is at variance with a figure of Kshs.8,020,300 disclosed in Note 27 to the financial statements. The resultant variance of Kshs.29,789,902 has not been explained or reconciled.

As a result, the accuracy and validity of the opening and closing cash and cash equivalents could not be confirmed.

2.4 Inaccurate Accumulated Surplus

Disclosed in the statement of changes in net assets is accumulated surplus balance of Kshs.345,686,430. However, the balance includes an amount of Kshs.14,759,153 described as “transfer of depreciation from retained earnings to capital fund” which ordinarily is included and expensed through the statement of financial performance for the year.

The amount was therefore double counted as an expenditure and reversed again in the statement of changes in net assets thus understating the expenditure for the year. Consequently, the completeness and accuracy of accumulated surplus of Kshs.345,686,430 could not be confirmed.

3.0 Long Outstanding Debts

The statement of financial position reflects a balance of Kshs.45,182,905 in respect of receivables from exchange transactions as at 30 June, 2020. According to a schedule on aging analysis presented for audit, the balance includes students’ debtors totalling Kshs.26,089,987 relating to financial years 2018/2019 and prior years. In addition, disclosed in Note 18 to the financial statements are rent debtors of Kshs.969,998, which as previously reported includes an amount of Kshs.693,815 owed by former employees of the Institute, who left before clearing the debt. However, a provision for bad and doubtful debts of Kshs.2,811,806 made in the financial statements to cover the debts was inadequate.

Consequently, recoverability of the receivables balance of Kshs.45,182,905 as at 30 June, 2020 is doubtful.

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

1.0 Budgetary Control and Performance

The statement of comparative budget and actual amounts reflects final receipts budget and actual on comparable basis of Kshs.387,707,957 and Kshs.236,985,551 respectively resulting to an under-funding of Kshs.150,722,408 or 39% of the budget. Similarly, the Institute expended Kshs.157,335,409 against an approved budget of Kshs.387,707,957 resulting to an under-expenditure of Kshs.230,372,550 or 59% of the budget.

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

2.0 Prior Year Issues

In the audit report of the previous year, several matters were raised under the Report on Financial Statements, Report on Lawfulness and Effectiveness in Use of Public Resources, and Report on Effectiveness of Internal Controls, Risk Management and Governance. However, the Management has not resolved the issues or explained its failure to report on the progress made in resolving the issues as prescribed in the reporting requirements set by the Public Sector Accounting Standards Board.

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

1.0 Failure to Submit Financial Statements for Audit

As previously reported, the Management did not submit financial statements for the financial year 2017/2018 to the Auditor General for audit contrary to the requirements under 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.

Consequently, the Management of the Institute was in breach of the law.

2.0 Failure to Insure Institute's Assets

The statement of financial position and as disclosed in Note 20 to the financial statements reflects property, plant and equipment with a net book value of Kshs.1,823,343,875 as at 30 June, 2020. It was however noted that, except for the motor vehicles with a net book value of Kshs.19,662,500, all other assets including buildings, plant, equipment, furniture and fittings were not insured contrary to Regulation 139(1)(a) of Public Finance Management (National Government) Regulations, 2015 which states that The Accounting Officer of a national government entity shall take full responsibility and ensure that proper control systems exist for assets and that preventative mechanisms are in place to eliminate theft, security threats, losses, wastage and misuse.

The Institute is therefore exposed to possible loss from insurable risks which in turn may impact negatively on the Institute's service delivery.

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 matter described in the Basis for Conclusion on Effectiveness of Internal Controls, Risk Management and Overall 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

Weakness in Information Technology (IT) Controls

Review of Information Technology (IT) control environment revealed lack of an Information, Communication and Technology (ICT) policy, ICT strategic plan and IT steering committee in place. Absence of the policy and strategic plan may lead to inconsistent approach towards addressing ICT issues and data confidentiality, accuracy, reliability, integrity and availability. Further, it was noted that remote hosting of the

Enterprise Resource Planning (ERP) System was at the vendor servers posing a risk of unauthorized access and manipulation of the institute's financial and non-financial data.

Also, the ERP system had no defined user roles which could result to unauthorized editing of records in the system while some desktop computers lacked reliable antivirus which could expose the institution to loss of data. In addition, computer server room lacked temperature regulation system thus exposing the hardware to damage.

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 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 overall 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 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 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 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 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

14 February, 2022