

REPORT OF THE AUDITOR-GENERAL ON KENYA INSTITUTE OF SPECIAL EDUCATION FOR THE YEAR ENDED 30 JUNE, 2021

PREAMBLE

I draw your attention to the contents of my report which is in three parts:

- A. Report on the Financial Statements that consider whether the financial statements are fairly presented in accordance with the applicable financial reporting framework, accounting standards, and the relevant laws and regulations that have a direct effect on the financial statements.
- B. Report on Lawfulness and Effectiveness in Use of Public Resources which considers compliance with applicable laws, regulations, policies, gazette notices, circulars, guidelines, and manuals and whether public resources are applied in a prudent, efficient, economic, transparent, and accountable manner to ensure Government achieves value for money and that such funds are applied for the intended purpose.
- C. Report on the Effectiveness of Internal Controls, Risk Management, and Governance which considers how the entity has instituted checks and balances to guide internal operations. This responds to the effectiveness of the governance structure, the risk management environment, and the internal controls developed and implemented by those charged with governance for orderly, efficient, and effective operations of the entity.

An unmodified opinion does not necessarily mean that an entity has complied with all relevant laws and regulations, and that its internal control, risk management, and governance systems are properly designed and were working effectively in the financial year under review.

The three parts of the report are aimed at addressing the statutory roles and responsibilities of the Auditor-General as provided by Article 229 of the Constitution and the Public Audit Act, 2015. The three parts of the report, when read together constitute the report of the Auditor-General.

REPORT ON THE FINANCIAL STATEMENTS

Qualified Opinion

I have audited the accompanying financial statements of Kenya Institute of Special Education set out on pages 1 to 27, which comprise of the statement of financial performance, statement of financial position, statement of changes in net assets, statement of cash flows, statement of comparison of budget and actual amounts, and a summary of significant accounting policies, notes to the financial statements and other important disclosures 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 Kenya Institute of Special Education as at 30 June, 2021, 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 Kenya Institute of Special Education Order Legal Notice No. 17 of 1986 and the Public Finance Management Act, 2012.

Basis for Qualified Opinion

1.0 Inaccuracies in Cash and Cash Equivalents

The statement of financial position and as disclosed in Note 20 to the financial statements reflects cash and cash equivalents of Kshs.124,968,954. Review of the records provided for audit revealed that the KCB Fee Collection Account and KCB Call Accounts shared the same account number. Management did not provide for audit the bank statement for the KCB Call Accounts and supporting documents for the balance of Kshs.104,790,000 reported under KCB Call Accounts. In addition, the movement in balances of the Call Account from the previous financial year of Kshs.30,000,000 to the current financial year of Kshs.104,790,000 was not supported.

In the circumstances, the accuracy and completeness of the cash and cash equivalents balance of Kshs.124,968,954 could not be confirmed.

2.0 Unsupported Fees and Student Contribution

The statement of financial performance and as disclosed in Note 8 of the financial statements, reflects fees and student contribution amount of Kshs.73,555,096. The fees and students' contribution include administration fees and activity fees amounting to Kshs.9,018,100 and Kshs.346,000 respectively. However, the amount could not be confirmed as information and documentation relating to the student population was not provided to give a basis for confirmation.

In the circumstances, the accuracy and completeness of fees and student contribution of Kshs.73,555,096 could not be confirmed.

3.0 Unsupported Trade and Other Payables

The statement of financial position and as disclosed in Note 25 to the financial statements reflects trade and other payables balance of Kshs.19,591,079. The balance includes an amount of Kshs.8,805,480 due to Kenya National Examination Council. Review of the Council's books of accounts reported a Nil balance resulting in an unexplained and unreconciled variance of Kshs.8,805,480. Further, the amount includes an amount of Kshs.7,034,566 due to the Jomo Kenyatta University of Agriculture and Technology (JKUAT&) and ABS project. The amount has not been reflected in the accounting records of the University.

In the circumstances, the accuracy of trade and other payables balance of Kshs.19,591,079 as at 30 June, 2021 could not be confirmed.

4.0 Unsupported Refundable Deposits from Customers

The statement of financial position and as disclosed in Note 27 to the financial statements reflects a balance of Kshs.19,984,633 in respect of refundable deposits from customers. The balance includes an amount of Kshs.13,196,480 refundable to Kenya National Examination Council (KNEC) which was not reflected in the KNEC's accounting records resulting in an unexplained and unreconciled variance of the same amount. Further, the Institute Management did not provide supporting evidence for fees by sponsors amount of Kshs.4,232,329.

In the circumstances, the accuracy and completeness of refundable deposits from customers amounting to Kshs.19,984,633 could not be confirmed.

5.0 Unsupported and Unexplained Deferred Income

The statement of financial position and Note 26 to the financial statement reflects deferred income amounting to Kshs.9,811,116. However, the movement of the balance from the previous year of Kshs.42,858,379 was not supported by an equivalent recognition of the income amounting to Kshs.33,047,263 in the statement of financial performance. Further, the deferred income includes an amount totaling Kshs.6,854,631 that had no movement in the financial year 2018/2019.

In the circumstances, the completeness and accuracy of accounting of deferred income amounting to Kshs.9,811,116 could not be confirmed.

6.0 Unsupported Research Expenses

The statement of financial performance reflects operations and maintenance amount of Kshs.77,128,996 and as detailed on Note 13 to the financial statements. Included in this amount is research expenses of Kshs.2,220,871 out of which an amount of Kshs.400,000 was not supported with details of services rendered and goods supplied.

In the circumstances, the accuracy and completeness of research expenses of Kshs.2,220,871 could not be confirmed

7.0 Unsupported Receivable from Exchange Transactions

The statement of financial position and as disclosed in Note 21 to the financial statements reflects receivables from exchange transactions of Kshs.65,421,637. The following anomalies were observed: -

- i. The student debtors listing had a total of 5,462 student debtors while the Institute's capacity is less than 500 students in a year. Review of the debtor listing revealed that there were debtors with outstanding amounts of more than ten (10) years raising doubt on the recoverability of the students' debts;
- ii. The trade debtors balance of Kshs.7,0372,520 includes amounts of Kshs.3,135,437 in respect of receivables from various entities that were not reflected in the balance of their respective accounting records as detailed below;

Name of Entity	Balance as Per KISE Financial Statements (Kshs.)	Balance as Per Entity (Kshs.)	Unreconciled Variance (Kshs.)
Higher Education Loans Board	737,920	-	737,920
Kenya National Commission for UNESCO	30,000	-	30,000
Kenya Literature Bureau	215,517	-	215,517
Kenya Pipeline Company	1,179,000	-	1,179,000
Maseno University	1,000,000	-	1,000,000
Total	3,135,437		3,135,437

iii. The general debtors' balance of Kshs.10,937,830 includes amounts receivable from various institutions which are not included in the entity accounting records as detailed below;

Name of Entity	Balance as Per KISE Kshs.	Balance as Per Entity Kshs.	Unexplained and Unreconciled Amount Kshs.
Ministry of Education	1,993,000	-	1,993,000
Teachers Service Commission	253,080	-	253,080
Jomo Kenyatta Foundation	498,500	-	498,500
Directorate of Personnel Management	630,000	-	630,000
Total	3,374,580		3,374,580

In the circumstances, the accuracy, completeness, recoverability, and validity of receivables from exchange transactions of Kshs.65,421,637 could not be confirmed.

The audit was conducted in accordance with the International Standards of Supreme Audit Institutions (ISSAIs). I am independent of the Kenya Institute of Special Education Management in accordance with ISSAI 130 on the 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.

Emphasis of Matter

Receivables from Exchange Transactions

As disclosed in Note 21 to the financial statements, the receivables from exchange transactions balance of Kshs.65,421,637. Included in this balance is outstanding fees due from students of Kshs.89,970,293 before provision for bad and doubtful debts which have been outstanding for over eleven (11) years and whose recoverability is doubtful.

My opinion is not modified in respect of this matter.

Key Audit Matters

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

REPORT ON LAWFULNESS AND EFFECTIVENESS IN THE 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 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 Non-Compliance with International Public Sector Accounting Standard (IPSAS) and Public Sector Accounting Standards Board (PSASB) Guidelines

The financial statements provided for audit did not conform to the IPSAS and PSASB prescribed format of preparation of financial statements as indicated below-.

- (i) The approval for the financial statements is indicated as 30 August, 2020.
- (ii) Accounting policy on taxation is incomplete.
- (iii) The accounting policy indicates that the Institute accounts for deferred tax is not included in the financial statements.

In the circumstances, the Management did not follow the prescribed format and guidelines prescribed and published by the Board.

2.0 Irregular Payment of Sitting Allowance to Members of Staff

During the year under review audit, twelve (12) members of staff were paid sitting allowances totaling Kshs.195,000 for different council and committee meetings while they were not members of the council. This is contrary to State Corporations Act Cap 446 Section 10 sub-section (1) on remuneration and expenses of chairman and members which states that the chairman and members of a Board other than the chief executive and public officers in receipt of salary, shall be paid out of the funds of the corporation such as sitting allowances or other remuneration as the Board may, within the scales of remuneration specified from time to time by the Committee, approve.

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

3.0 Unbalanced Budget

The Management prepared a budget that reflects the final budgeted receipts of Kshs.336,302,981 against the budgeted expenditure of Kshs.311,939,627 resulting in a budget variance of Kshs.24,363,354. This was contrary to Section 33(c) of the Public Finance Management (National Government) Regulations, 2015 which provides that the budget shall be balanced.

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

4.0 Delay in Implementation of the Enterprise Resource Planning (ERP) System

The Institute procured an Enterprise Resource Planning (ERP) System at a contract sum of Kshs.9,822,233.30. The contract was to run for a period of seventeen (17) weeks, from 5 June, 2020 to 12 October, 2020. The firm was to implement and customize eighteen (18) modules for the easier and more efficient running of the Institute's operations. It was noted that the final payment of Kshs.7,057,556 was made to the firm on 12 July, 2021. However, a review of the records in respect of the system confirmed the following anomalies: -

- i. According to the Internal auditor report dated 12 February, 2021 the project was behind schedule and most of the modules were either facing challenges or were at the 0% implementation stage. The key modules that had challenges included financial management, academic and admission management, purchase and procurement management, human resource and payroll, staff and student portal, and the store and inventory management;
- ii. It was observed the system was unable to do reconciliations, edit erroneous postings, print cheques, and meals control to distinguish various categories of students thus making meals available for all. The procurement module's inability to edit an item when an LPO had been raised, the disappearance of posted LPO, and updating stores inventory amongst other issues;
- iii. The payment of Kshs.7,057,556 was not supported with a certificate of completion and therefore the basis of payment could not be confirmed;
- iv. Management did not provide evidence of approval of the extension of contract duration as required by Section 139(1)(a) of the Public Procurement and Asset Disposal Act,2015; and,
- v. The approval for contract variation from the original contract sum of Kshs.9,143,526.30 to Kshs.9,822,233.30 was not provided. No commissioning report or handover report from the supplier to the Institute was not provided for audit.

In the circumstances, value for money has not been realised on the expenditure of Kshs.7,057,556 for the acquisition of the Enterprise Resource Planning system.

5.0 Unauthorized Council Retreat Expenditure

The statement of financial performance and Note 14 to the financial statements reflect an amount of Kshs.3,843,045 in respect of Council expenses. Included in the amount is Kshs.1,829,793 in respect of retreat allowance paid to Council Members. However, the approval for the retreat by the Cabinet Secretary was not provided for audit.

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

The audit was conducted in accordance with ISSAI 4000. The standard requires that I comply with ethical requirements, 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 THE 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, I confirm that nothing has come to my attention to cause me to believe that internal controls, risk management and governance were not effective.

Basis for Conclusion

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 controls, 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 Directors

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 controls 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 controls, 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 the 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 Directors is 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 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 controls 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 controls would not necessarily disclose all matters in the internal controls 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 components of the internal control 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 controls may not prevent or detect misstatements and instances of non-compliance. Also, projections of any evaluation of effectiveness in future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with policies and procedures may deteriorate.

As part of an audit conducted in accordance with ISSAIs, I exercise professional judgment 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 controls.
- 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 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 controls 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 September, 2022