REPORT OF THE AUDITOR-GENERAL ON NATIONAL INDUSTRIAL TRAINING AUTHORITY 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 considers 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 intended purpose.

C. Report on 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 controls, 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, the Public Finance Management Act, 2012 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

Adverse Opinion

I have audited the accompanying financial statements of National Industrial Training Authority set out on pages 1 to 38, which comprise of the statement of financial position as at 30 June, 2021, statement of financial performance, statement of changes in net assets, statement of cash flows, 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, because of the significance of the matters discussed in the Basis for Adverse Opinion section of my report, the financial statements do not present fairly, the financial position of National Industrial Training Authority as at 30 June, 2021, and of its financial performance and its cash flows for the year then ended, in accordance with the

International Public Sector Accounting Standards (Accrual Basis) and do not comply with the Industrial Training Act, 2011 and the Public Finance Management Act, 2012.

Basis for Adverse Opinion

1. Inaccuracies in the Financial Statements

1.1. Difference in the Financial Statements and the Supporting Documents

The budget balances reflected in the statement of comparison of budget and actual amounts differed from those in the approved budget provided for audit as analyzed below:

Revenue	Budget Balances in Financial Statements (Kshs)	Budget Balances in the Approved Budget (Kshs)	Variances (Kshs)
Government Grants and Subsidies	298,120,000	305,600,000	7,480,000
Expenditure			
Use of Goods and Services	901,560,000	914,757,000	13,197,000
Employee Costs	735,677,000	722,930,000	12,747,000
Depreciation and Amortization	169,100,000	176,600,000	7,500,000
Capital Expenditure	169,100,000	164,000,000	5,100,000

Further, review of payrolls provided for audit revealed unexplained discrepancies with the balances reflected in the statement of financial performance as analyzed below:

Component	Financial Statement Balance (Kshs)	Payroll Analysis Balance (Kshs)	Difference (Kshs)
Basic Salaries and Wages	324,304,000	312,468,002	11,835,998
Staff Pension	49,829,000	33,190,246	16,638,754
Commuter Allowances	57,220,000	57,268,000	48,000
House Allowances	148,565,000	148,695,000	130,000
Other Allowance	9,428,000	25,828,376	16,400,376
NSSF Employer Contribution	0	1,176,800	1,176,800

In addition, the statement of financial performance and as disclosed in Note 11 to the financial statements reflects fuel, oil and lubricants balance of Kshs.8,966,000 out of which an amount of Kshs.10,181,899 spent during the year was not posted to the general ledger.

1.2. Prior Year Comparative Balances

The comparative balances in the 2020/2021 financial statements differs with the balances reflected in the year 2019/2020 audited financial statements although the prior year balances had not been restated. Details are as shown below:

Item	2019/2020 Audited Balance (Kshs)	2020/2021 Comparative Balance (Kshs)	Difference (Kshs)
Use of Goods	62,742,000	939,006,000	876,264,000
Grants and Subsidies	0	7,295,000	7,295,000

1.3. Unsupported Adjustments in the Financial Statements

The following adjustments in the revised financial statements were not supported by the journal vouchers and necessary documentary evidence:

Item	Submitted Financial Statement Balance 29 September, 2021 (Kshs)	Revised Financial Statement Balance 26 May, 2022 (Kshs)	Variance (Kshs)
Training Levy	664,333,000	670,140,000	5,807,000
Use of Goods	807,662,000	791,393,000	16,269,000
Employee Costs	645,563,000	671,200,000	25,637,000
Cash and Cash Equivalents	31,740,000	27,860,000	3,880,000
Trade and Other Payables	311,619,000	315,018,000	3,399,000

Further, the statement of changes in net assets and the statement of cash flows reflect an adjustment balance of Kshs.3,717,000 which was not supported.

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

2. Property, Plant and Equipment

The statement of financial position and as disclosed in Note 21 to the financial statements reflects property, plant and equipment balance of Kshs.9,536,201,000. However, as previously reported, the balance includes land valued at Kshs.6,608,300,000 without title deeds. The balance also includes disputed parcel of land measuring 12.91 hectares valued at Kshs.1,260,000,000 which was allocated to a private developer. In compensation, the Authority's regional centre in Mombasa, that is, the Mombasa Industrial Training Centre was allocated another parcel of land measuring 6.2 hectares located in Bombolulu area. This fact has not been disclosed in the financial statements and Management, did not show effort made by the Authority in pursuing the matter with the National Land Commission to acquire the titles to avoid losing the property.

Further, motor vehicles with a carrying amount of Kshs.20,578,000 excludes the value of eleven (11) vehicles where ten (10) were registered under the Ministry of Labour and Manpower Development, and one is registered under Danida/Rural Development Fund.

No documents were provided for audit to show efforts by the Management to have the vehicles registered in the Authority's name.

In the circumstances, the accuracy and completeness of property, plant and equipment balance of Kshs.9,536,201,000 2021 could not be confirmed.

3. Cash and Cash Equivalents-Current Account and Cash in Hand

The statement of financial position and as disclosed in Note 17(a) and (b) to the financial statements reflects cash and cash equivalents balance of Kshs.27,860,000. However, the following anomalies were noted:

3.1 Unreconciled Balances - Current Accounts

The current accounts balance of Kshs.27,013,000 reflected in Note 17(a) lacked necessary bank reconciliations supporting documents.

Further, some current accounts balances reflected in Note 17(a) and (b) did not agree with the cash books balances provided for audit. Details are as shown below:

Account	Financial Statements Balance (Kshs)	Cash Book Balance (Kshs)
KCB Payments	16,218,000	16,343,021
KCB Kisumu	19,000	27,918
KCB Kitengela	1,720,000	1,700,356
Standard Chartered Bank	140,000,000	Not provided

3.2 Unsupported Cash in Hand

In addition, the statement of financial position in Note 17(a) reflects a balance of Kshs.847,000 for cash in hand, however, petty cash books for Kisumu, Mombasa and Kitengela centres were not provided for audit verification. As reported in previous year, a loss of Kshs.248,496 which arose in 2008 from one of the officers still remains outstanding as cash in hand and there is no evidence of efforts to recover the same.

Consequently, the accuracy and completeness of cash and cash equivalents balance of Kshs.27,860,000 could not be confirmed.

4. Unsupported Current Provisions

The statement of financial position and as disclosed in Note 24(a) to the financial statements reflects deposits amounting to Kshs.129,466,000 held in various banks that collapsed over twenty (20) years ago. During the year under review, no contingent liability was provided for the likely loss from these doubtful deposits. The Management did not demonstrate any efforts to recover the deposits through the Deposit Protection Fund.

Further, Note 24(b) to the financial statements reflects provisions for receivables balance of Kshs.31,582,000. Review of the balance revealed that there was no Board approval for the Management to transfer bounced cheques and Diamond Trust Bank (DTB) cheques from receivables from exchange transactions to provisions account.

In the circumstances, the accuracy, completeness and validity of deposits amounting to Kshs.129,466,000 and provisions for receivables balance of Kshs.31,582,000 could not be confirmed.

5. Inaccuracy in Trade and Other Payables

The statement of financial position and as disclosed in Note 23 to the financial statements reflects trade and other payables balance of Kshs.315,018,000 included in the balance is an amount of Kshs.188,622,749 which relates to 2019/2020 and prior years. Some trade payables date back to 2016/2017 and there was no explanation why they had not been paid to date.

Further, the balance excludes audit fees payable. In addition, review of payrolls revealed that an amount of Kshs.48,645,600 being employer contributions equivalent to 15% of basic salaries and Kshs.24,322,800 being employee contribution equivalent to 7.5% of basic salaries both totalling to Kshs.72,968,400. However, only an amount of Kshs.29,375,225 was remitted to the pension scheme, leaving an unremitted amount of Kshs.43,593,175 which was not included in accounts payable balance reflected in the financial statements. It is not clear why the deductions were not remitted to the administrator as required by law.

Consequently, the accuracy and completeness of the balance of Kshs.315,018,000 could not be confirmed.

6. Unsupported Investments

The statement of financial position reflects short term investments balance of Kshs.580,000,000 which, as disclosed in Note 20(a) to the financial statements includes a balance of Kshs.440,000,000 being balance on call deposits. However, fixed deposit receipts, certificate of balance, Board approval and interest earned were not provided. Further, the register provided did not reflect the fixed deposit receipt references, period, date deposited, maturity date and the interest rate.

In addition, included in short term investments balance of Kshs.580,000,000 is Kshs.140,000,000 relating to mortgage (Kshs.120,000,000) and car loan (Kshs.20,000,000) maintained at a commercial bank. The audit revealed that the Authority does not maintain separate cashbook or prepare separate monthly reconciliations for the staff mortgage and car loan.

In the circumstances, the propriety and accuracy of Kshs.580,000,000 could not be confirmed.

7. Long Outstanding Imprest

The statement of financial position and as disclosed in Note 19 to the financial statements reflects receivables from non-exchange transaction balance of Kshs.44,209,000 in respect of outstanding imprest. Examination of the 2020/2021 imprest register revealed outstanding imprest of Kshs.10,572,937 resulting to an unreconciled variance of Kshs.33,636,063. The difference was brought about by incomplete imprest register. Further, outstanding imprest schedule revealed long outstanding imprest some dating back in financial year 2014/2015 contrary to Regulation 93(5) Public Finance

Management Regulations, 2015 which states that a holder of a temporary imprest shall account or surrender the imprest within 7 working days after returning to duty station. In the event of the imprest holder failing to account for or surrender the imprest on the due date, the Accounting Officer shall take immediate action to recover the full amount from the salary of the defaulting officer with an interest at the prevailing Central Bank Rate.

Consequently, accuracy and completeness of accounts receivable balance of Kshs.44,209,000 could not be confirmed and Management was in breach of the law.

8. Inaccuracy in Training Levy

The statement of financial performance reflects training levy balance of Kshs.670,140,000 which, as disclosed in Note 6 to the financial statements includes training levy receipt vouchers amounting to Kshs.7,000,166 which were provided for audit but were not posted in the ledger, and in the financial statements.

Consequently, the accuracy and completeness training levy balance of Kshs.670,140,000 could not be confirmed.

9. Inaccuracy in Finance Income

The statement of financial performance reflects finance income of Kshs.32,450,000 which, as disclosed in Note 9 to the financial includes an amount of Kshs.9,629,545 being net interest received on 27 August, 2020 for a principal deposit of Kshs.568,000,000, invested for 31 days in the previous year on 28 May, 2020. The amount of Kshs.9,629,545 should have been prorated and the portion for one month and 27 days (1 July - 27 August 2020) of Kshs.6,031,693 included in the total interest for the year under review. Therefore, the finance income balance is overstated by Kshs.3,597,852.

In the circumstances, the accuracy of Kshs.9,629,545 could not be confirmed.

The audit was conducted in accordance with International Standards of Supreme Audit Institutions (ISSAIs). I am independent of the National Industrial Training Authority 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 adverse opinion.

Other Matter

1. Budget and Budgetary Performance

The statement of comparison of budget and actual amounts reflects final receipts budget and actual on comparable basis totalling to Kshs.2,010,320,000 and Kshs.1,465,952,000 respectively, resulting to an underfunding amounting to Kshs.544,368,000 or 27% of the budget. Similarly, the statement reflects final expenditure budget and actual on comparable basis totalling to Kshs.2,045,637,000 and Kshs.1,512,764,000 respectively, resulting to an underperformance amounting to Kshs.532,873,000 or 26% of the budget.

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

2. 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.

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.

REPORT ON LAWFULNESS AND EFFECTIVENESS IN USE OF PUBLIC RESOURCES

Conclusion

As required by Article 229(6) of the Constitution, because of the significance of the matters discussed in the Basis for Adverse opinion section of my report, based on the audit procedures performed, I confirm that public resources have not been applied lawfully and in an effective way.

Basis for Conclusion

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, because of the significance of the matters discussed in the Basis for Adverse Opinion section of my report, based on the audit procedures performed, I confirm 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 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 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 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 Authority's ability to continue to sustain its services, disclosing, as applicable, matters related to sustainability of services and using the going concern basis of accounting unless Management is aware of the intention to terminate the Authority 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 Authority'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 Authority'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 Authority 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 Authority 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

26 July, 2022