

REPUBLIC OF KENYA



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THE AUDITOR-GENERAL

ON

THE FINANCIAL STATEMENTS OF
NATIONAL INDUSTRIAL TRAINING
AUTHORITY

FOR THE YEAR
ENDED 30 JUNE 2018

11





NATIONAL INDUSTRIAL TRAINING AUTHORITY

ANNUAL REPORT AND FINANCIAL STATEMENTS

FOR THE FINANCIAL YEAR ENDING

JUNE 30, 2018

Prepared in accordance with the Accrual Basis of Accounting Method under the International Public Sector Accounting Standards (IPSAS)

**National Industrial Training Authority
Annual Reports and Financial Statements
For the year ended June 30, 2018**

| Table of Contents | Page |
|--|--------|
| KEY ENTITY INFORMATION AND MANAGEMENT | ii |
| KEY ENTITY INFORMATION AND MANAGEMENT (Continued) | iv |
| THE BOARD OF DIRECTORS | v |
| MANAGEMENT TEAM | ix |
| CHAIRMAN'S STATEMENT | xi |
| REPORT OF THE DIRECTOR GENERAL | xiii |
| CORPORATE GOVERNANCE STATEMENT | xvii |
| MANAGEMENT DISCUSSION AND ANALYSIS | xxi |
| CORPORATE SOCIAL RESPONSIBILITY STATEMENT / SUSTAINABILITY REPORTING | xxv |
| REPORT OF THE DIRECTORS | xxvii |
| STATEMENT OF DIRECTORS' RESPONSIBILITIES | xxviii |
| STATEMENT OF FINANCIAL PERFORMANCE | 1 |
| STATEMENT OF FINANCIAL POSITION | 2 |
| STATEMENT OF CHANGES IN NET ASSETS | 3 |
| STATEMENT OF CASHFLOWS | 4 |
| STATEMENT OF COMPARISON OF BUDGET AND ACTUAL AMOUNTS | 5 |
| NOTES TO THE FINANCIAL STATEMENTS | 7 |
| APPENDIX 1: PROGRESS ON FOLLOW UP OF AUDITOR RECOMMENDATIONS | 33 |
| APPENDIX III: INTER-ENTITY TRANSFERS | 35 |
| APPENDIX IV: RECORDING OF TRANSFERS FROM OTHER GOVERNMENT ENTITIES | 36 |

KEY ENTITY INFORMATION AND MANAGEMENT

(a) Background information

The National Industrial Training Authority (NITA) is a State Corporation established under the Industrial Training Act of 2011 under the Ministry of Labour and Social Protection. The mandate of the Authority is to promote the highest standards in the quality and efficiency of industrial training in Kenya and ensure adequate supply of properly trained manpower at all levels in industry.

The Authority is governed by a Board of Directors under whom the Director General serves. The Director General is responsible for the day-to-day management of the Authority and strategic direction.

(b) Principal Activities

NITA's principal mandate, vision and mission are as follows:

Vision

A globally competitive and adequate workforce for industrial development

Mission

To regulate and facilitate quality industrial training for enhanced productivity

Principal Activities

Core Values

Customer Focus; Integrity; Transparency and Accountability; Creativity and Innovation Lifelong Learning; Stakeholder Engagement and Equity and Access

Strategic Objectives

Facilitate provision of adequate, relevant and portable skills for productivity enhancement and competitiveness; Mainstream the informal sector with relevant curriculum in industrial training; Mainstream quality assurance among key stakeholders; Enhance and expand service delivery in industrial training at National and County Government levels; Ensure skilled and productive Workforce; Enhance industry-institutional linkages and expand capacity of industrial training institutions; Establish and implement sustainable funding model for industrial training

Mandate

Industrial training; assessing and collecting industrial training levy and fees; regulating trainers registered under the Act; developing industrial training curricula; integrating labour market information into skills development; harmonizing curricula and certificates of competence; Assessing industrial training, testing occupational skills and awarding certificates including Government trade test certificates; equating certificates; accrediting institutions engaged in skills training for industry

NITA has five industrial training centres:

1. NITA, Nairobi
2. NITA, Mombasa
3. NITA, Athi River
4. NITA, Nairobi Textile Training Institute
5. NITA, Kisumu

**National Industrial Training Authority
Annual Reports and Financial Statements
For the year ended June 30, 2018**

(c) Key Management

The entity’s day-to-day management is under the following key organs:

- NITA Board of Directors
- Director General
- Management

(d) Fiduciary Management

The key management personnel who held office during the financial year ended 30th June 20XX and who had direct fiduciary responsibility were:

| No. | Designation | Name |
|-----|--|-----------------|
| 1. | Director General | Paul K Kosgei |
| 2. | Director, Industrial training | Stephen Ogenga |
| 3. | Director Human Resource and Administration | Dr.Julius Olayo |

(e) Fiduciary Oversight Arrangements

National Industrial Training Board comprises of four committees that provide oversight. These are the;

1. Industrial Training and Strategy Committee previously the Industrial Training Committee (ITC);
2. Finance and Levy Administration Committee (FLAC);
3. Human Resource, Governance and Administration Committee (HRGA), previously the Human Resources and Administration Committee(HRAC);
4. Audit and Risk Management Committee (ARMC) formerly Audit and Compliance Committee(AACC)

The ITSC provides oversight on operations within NITA as well as strategy. It thus covers areas such as industrial training, trade testing, curriculum development and management of the Industrial Training Centres.

The FLAC provides oversight on all matters to do with Finance and Levy. It handles budgets and Financial Statements, quarterly management accounts, changes in rates for any income generating activities and any significant (un-budgeted) expenditure.

At the same time the committee provides oversight on the operations of the levy section, including collections strategies and operational reports on performance.

The HRGAC provides oversight on HR, Governance and Administration of NITA. Its’ responsibilities include supporting an adequate, competent and well-motivated workforce. The committee is also charged with ensuring that other NITA resources (e.g. Offices and pool motor vehicles) are utilized in an optimal manner. It also ensures that tenets of good corporate governance are maintained.

The ARMC provides oversight on risk management, internal controls, external audit, compliance and overall organizational reporting as stipulated in the Audit and Compliance Committee Charter.

NITA is also guided and complies with circulars giving guidance from the National Treasury as well as any other direction given by the Parent Ministry.

KEY ENTITY INFORMATION AND MANAGEMENT (Continued)

(f) Headquarters

P.O. Box 74494-00200-
NAIROBI Commercial Street-
Industrial Area opposite
KEMSA
Nairobi, KENYA

(g) Contacts

Telephone :(254) 720-917897/
(254)-736-290676
E-mail: directorgeneral@nita.go.ke
Website: www.nita.go.ke

(h) Bankers

1. Kenya Commercial Bank Ltd.
Industrial Area Branch
P. O. Box 18031-00500
Nairobi, Kenya
2. National Bank of Kenya Ltd.
Harambee Avenue Branch
P.O. Box 41862
City Square 00200
Nairobi, Kenya
3. Standard Chartered Bank of Kenya Ltd.
Industrial Area Branch
P. O. Box 18081-00500
Nairobi, Kenya

(i) Independent Auditors

Auditor General
Office of the Auditor General
Anniversary Towers, University Way
P.O. Box 30084
GOP 00100
Nairobi, Kenya

(j) Principal Legal Adviser




The Attorney General
State Law Office
Harambee Avenue
P.O. Box 40112
City Square 00200
Nairobi, Kenya

**National Industrial Training Authority
Annual Reports and Financial Statements
For the year ended June 30, 2018**

THE BOARD OF DIRECTORS





| NAME | QUALIFICATION AND WORK EXPERIENCE |
|---|--|
|  <p>Dr. Kamau Gachigi</p> <p>PhD. in Solid State Science, IMRL, The Pennsylvania State University (USA) M.S. in Solid State Science, IMRL, The Pennsylvania State University (USA) B.Sc. (Hons) in Materials Science, University of Bath (UK)</p> | <p>Chairman National Industrial Training Board</p> <p>Aug 2014 to date - Founding Executive Director, Gearbox April 2015 to date - Board, State Corporation Board Member, Numerical Machining Complex</p> |
|  <p>Ernest Nadome</p> <p>MA in Labour Management Relations</p> | <p>Member National Industrial Training Board representing COTU</p> <p>Chairman, Human Resource Committee NITA</p> <p>2013 to date –1st Assistant Secretary General COTU-K 2003 to date –General Secretary Kenya Electrical Trade & Allied Workers Union 1991-2003–Electrician KENGEN</p> |
|  <p>Jacqueline Mugo, MBS, OGW</p> <p>Bachelor of laws (LLB, HONS) Higher Diploma in Human Resource Management</p> | <p>Member National Industrial Training Board representing FKE</p> <p>2005 to date - Executive Director FKE; 2003-2004 - Head of HR Kenya Airways 1996-2002 - Employee Relations Manager/Regional Operations Manager Unilever 1982 -1996 - Magistrate, Judicial Department</p> |

THE BOARD OF DIRECTORS (Continued)

| | |
|--|---|
|  <p>Hirji Shah, OGW</p> | <p>Member National Industrial Training Board representing FKE</p> <p>Chairman Audit and Risk Management Committee NITB</p> <p>Been in business for over 60 years,50 in leadership positions; Been MD/Chairman in Kenya & several regional companies; Been Chairman FKE, East African Business Council and others; Been in Wages Advisory Board, Labour Board, NACC, NSSF and Productivity Centre of Kenya</p> |
|  <p>Benson Okwaro</p> | <p>Member National Industrial Training Board representing COTU (K)</p> <p>Communication Workers Union General Secretary Central Organization of Trade Unions – Deputy Secretary General affiliated to UN Africa – Committee Member / ICT President</p> |
|  <p>James Onyango MSC. I.S</p> | <p>Member National Industrial Training Board Representing the Principal Secretary, Ministry of Education, Science and Technology [MoEST]</p> |
|  <p>Joyce Mwale MBA</p> | <p>Member National Industrial Training Board Representing Principal Secretary Ministry of East African Community, Labour & Social Protection (State Department for Labour)</p> |

**National Industrial Training Authority
Annual Reports and Financial Statements
For the year ended June 30, 2018**

THE BOARD OF DIRECTORS (Continued)

| | |
|--|--|
|  <p>Rajabu Mwondi. MBS</p> | <p>Member National Industrial Training Board Representing COTU (K)</p> <p>2003 to date- Chairman General COTU(K) 1986-2003- 2nd Vice Chairman COTU (K) 1983-1986 - General Secretary Kenya Union of Printing, Publishing, Paper Manufacturers and Allied Workers Union 1981-1982 - Production Manager Stellase Printing Works Ltd; 1979-1981- Assistant Works Manager Nation Newspapers; 1961-1978- Machine Operator/Supervisor Nation Newspapers</p> |
|  <p>Rajen Premchand Shah</p> | <p>Member – National Industrial Training Board Representing Special Interests</p> <p>Chairman Industrial Training Sector Committee</p> <p>Founding CEO of Multimoto Co. Ltd to present He is trained in, sales consulting, production operations, R & D, projects etc. He has varied roles in diverse industries – like auto component Manufacturing to leading fleet owner catering to diverse Kenyan and East African client base.</p> |
|  <p>Eng. Aram Mbui MSC</p> | <p>Member National Industrial Training Board representing FKE</p> <p>Chairman Finance Committee NITB</p> <p>1987 to date – Managing Director Rift Valley Machinery Services; 1978-1987 –Senior Management Unilever Group</p> |
|  <p>Mrs. Alice Nyariki MSC Risk Management; Bachelor of Arts (Sociology)</p> | <p>Member National Industrial Training Board Representing the Principal Secretary National Treasury,</p> <p>Senior Deputy Director Pensions Extensive knowledge in public service pension policies and planning and budgeting.</p> |

THE BOARD OF DIRECTORS (Continued)



Paul Kipsang Kosgei

Master of law in Labour laws,
University of South Africa
Post graduate diploma in law, Kenya
School of law
Bachelor of laws (LLB) Upper
second division, University of
Nairobi

**Director General – NITA
Secretary to the National Industrial Training Board**

2014 to date –Director General, NITA;

Secretary, National Industrial Training Board

2013-2014 –Lecturer St. Paul’s University;

2004-2012–Judge, Industrial Court of Kenya;

1996-2004–Private legal practice;

1992-1995–Executive Officer Legal& Industrial Relations FKE;

1989-1992- Private legal practice;

1988– Labour Officer; Ministry of Labour

National Industrial Training Authority
Annual Reports and Financial Statements
For the year ended June 30, 2018

MANAGEMENT TEAM

| | |
|---|--|
|  <p>Paul Kipsang Kosgei Master of law in Labour laws, University of South Africa Post graduate diploma in law, Kenya School of law Bachelor of laws (LLB) Upper second division, University of Nairobi</p> | <p>Director General - NITA</p> |
|  <p>Stephen O. Ogenga M. Eng. Sc. (Computer Engineering) B. Eng. Tech. (Electrical/Electronic) Member IEEE Member (Inst. of Eng. Australia)</p> | <p>Director Industrial Training</p> |
|  <p>Dr. Julius O. Olayo Doctor of Philosophy (HRM) JKUAT, MBA (HRM) and BA from Kenyatta University</p> | <p>Director Human Resource and Administration</p> |
|  <p>Irine Moraa Ogamba Master of law, Bachelor of laws (LLB), Certified Public Secretary Diploma in law from the Kenya School of Law</p> | <p>Manager, Legal Affairs</p> |

**National Industrial Training Authority
Annual Reports and Financial Statements
For the year ended June 30, 2018**

MANAGEMENT TEAM (Continued)

| | |
|--|---|
|  <p>Galm Guyo MBA strategic Management, Degree in Cooperative Management, Diploma in cooperative management, Diploma in banking.</p> | <p>Manager, Levy Administration</p> |
|  <p>Julius M. Ndenge MBA from Kenyatta University BCOM Finance, CPA (K)</p> | <p>Ag. Manager Finance</p> |
|  <p>Teresa Lagat MBA from University of Nairobi CFE, CPA (K)</p> | <p>Manager Internal Audit</p> |
|  <p>Eliva Osodo MBA in Procurement and Supply Chain Management from University of Nairobi, BBA(Entrepreneurship)KE MU Diploma in Procurement and Supply Chain Management TUK Member of KISM.</p> | <p>Manager, Supply Chain Management</p> |
|  <p>Festus Kituyi MSc.in Management Information system from the Institute of Technology Australia (IOTA) and BSc. in Mathematics, Physics & Computing from Maseno University.</p> | <p>Manager, Information Communication Technology</p> |

**National Industrial Training Authority
Annual Reports and Financial Statements
For the year ended June 30, 2018**

CHAIRMAN'S STATEMENT

Welcome to NITA's 2017/2018 Annual Report and Financial Statements which I am pleased to present. In commenting on NITA's performance in the Financial Year it is necessary to acknowledge the extraordinary events and the significant strides we have taken during this period. The deliberate and strategic collaboration between the Board of Directors and Management has played a critical role in ensuring we achieve our goals and objectives in the Financial Year. The Board has continuously dedicated itself to serve NITA and its stake holders to ensure they create new opportunities and sustain existing ones as it looks to achieve NITA's Vision.

Membership to The Board of the Authority is composed of competent, diverse and qualified members that continue to offer stable leadership and effectively discharge their oversight role. The Board has exhibited objective and independent judgment in its decisions during the year; of significance, the Board reconstituted its committees to ensure expeditious delivery of its mandate and facilitate a more strategic approach in its operations to meet the legitimate expectations of the stakeholders.

This year has seen the National Industrial Training Authority (NITA) provide strategic leadership in the skills transformation ecosystem. This lead role was strongly exemplified in the process that led to the development of NITA's Transformation Document that promises to enhance the existing landscape in Industrial Training and Regulation. The content of this landmark document includes the internal transformation of NITA along key thematic areas. This document was adopted by the Board and Management and is currently at an advanced stage of consideration at the Ministry of Labor and Social Protection and relevant stakeholders.

The quality management system adopted by the Authority has significantly enhanced effective and efficient service delivery and we are now part of the rank and file of Government institutions that are ISO 9001: 2008 certified which is a distinguishing marker point of our standing as an authority.

During the year under review, the Authority embarked on the robust implementation of the Kenya Youth Employment and Opportunities Project (KYEOP) which is a strategic intervention by the Government of Kenya with support from the World Bank to empower and increase employment opportunities for the vulnerable youth. This project offers job specific training to targeted youth through formal and informal training providers.

It is also during this financial year, that our Parent Ministry of Labor and Social Protection under the diligent Leadership of the Hon. Amb. Ukur Yatani, took a keen interest in the operations and performance of NITA. This renewed interest in the Authority has resulted in greater levels of Partnership and Collaboration with International Partners such as KOICA who have significantly increased their levels of investment in Infrastructure projects that will enhance the Authority's mandate. The keen interest in the Authority by the CS has injected new ideas that have renewed the energy levels in the operations of the Authority and created synergy between the Ministry and the Authority as it manoeuvres this very transitional and transformative period.

National Industrial Training Authority
Annual Reports and Financial Statements
For the year ended June 30, 2018

As part of the effort to enhance corporate relationships and increase stakeholders' participation in the Authority's affairs, we organized four forums in Kericho, Kisii Embu, and Kakamega. The objective was to enhance the public understanding of our operations and strategy, achievements and challenges in order to maximize on their contributions in delivery of our services. We have received positive feedback and we intend to make stakeholders participation our culture and value.

Once again, the Authority achieved its Performance Contract targets as set out with the Government of Kenya by attaining its operational, financial and strategic goals. With our visionary management, under the able leadership of the Director General and Chief Executive Officer, I have no doubt that we are on the path to achieving our goals of ensuring adequate supply of properly trained manpower in the industry and thus realizing the vision.

These accomplishments notwithstanding, NITA faces some challenges that must be addressed in the year ahead and beyond. These challenges include lack of modern tool and equipment, weak labour market intelligence, weak linkages with the industry, among others.

In conclusion I wish to restate that that the year under review was a year of great progress in all aspects but we know that we are not at our zenith. We will not tire in striving for a better tomorrow and therefore bold strategies have been put in place for a greater NITA. On behalf of the Board, I would like to thank all- the Government, our employees and partners for their support. My team, the Board, words simply fail me, your dedication, passion and zeal for the Authority is evident many thanks your way.

I look forward to many great years ahead



Dr. Kamau Gachigi
CHAIRMAN

REPORT OF THE DIRECTOR GENERAL

The National Industrial Training Authority (NITA) is charged with the management and coordination of industrial training in the country. The expectations from stakeholders involved in Industry and employment is very high, and their goodwill towards implementation of the Transformation agenda of skills in Industry is paramount; therefore, it is important for NITA to continue to develop and nature this goodwill.

The enhancement of the skills ecosystem provides a key economic catalyst as driven by Industrial Training whose major role is to improve the skills system and help raise employment, industry productivity and drive industries up the value-chains. While supplying the skills required by industry for development industrial training also contributes to poverty reduction and economic development. It forms the basis for competence based Training with demand rather than supply as its driving force.

Status of Industrial Training in Kenya

Industrial Training (Work Based Learning) relates to training for the semi-skilled and skilled employees who are the back bone of the economy. According to the International Standard Classification of Occupations (ISCO 2008), ILO No. 42, skills are presented as having four levels. The semi-skilled are placed in levels 1 & 2, while skilled persons/workers are in level 3 & 4 respectively.

Industrial training improves the skills system and helps raise employment, industry productivity and drive industries up the value-chains, contributing to poverty reduction and economic development. It is the basis for competence based Training with demand rather than supply being its driving force.

In order to reap from Industrial Training in Kenya therefore it is proposed that in order to streamline industrial training in Kenya there is need to consider the creation of a coordinating body to be known as the National Skills Development Council while looking into developing a National Skills Development Policy. The country also needs to look into mainstreaming the informal sector in to the country's skills development while developing a sustainable funding model for Skills Development for the formal and informal sectors. Other interventions are incorporating of the Sector Skills Councils in Skills Development, anchoring all training programs on Occupational Standards and aligning all qualifications on the Kenya National Qualifications Framework.

These efforts require a multi-agency and government institutions approach to facilitate seamless implementation and enhancement of industrial skills acquisition in Kenya.

Performance and Utilization of Funds

As reflected in this Annual Report and Financial Statement of the Authority, the Financial Year ending 30th June, 2018 was successful and on behalf of the Management and Staff of NITA I am delighted to be part of the team that delivered such notable results. NITA has continued and will continue to improve its financial management system to ensure that its financial records are accurate and are a true reflection of the financial position of the Authority.

Transformation Agenda

It is in the interest of NITA that the development of specific frameworks and standards are dynamically undertaken to respond to the demands of both formal and informal sector skills patterns. This skills transformation framework identifies key reforms and agencies that should be brought on board for a common partnership. It is designed to develop a positive relationship and collaboration model supportive of a multi-stakeholder ecosystem. To align herself to the national skills development agenda, NITA has initiated the process of internal transformation along key thematic areas resonating around the industrial training function. The Transformation Document therefore is a response to the various strategic changes that the Government of Kenya is carrying out or intends to implement in the skills development arena.

The transformational thematic areas include; Skills Development; Sector Skills Councils; Industrial Training Levy Fund; Research and Curriculum Development; Registration and Accreditation of Trainers; Apprenticeship and Indentured Learner-ship; Assessment and Certification; Industry Based Training; Industrial Training Centres and Quality Assurance. Further, the Authority has carried out a details analysis of the Legal, Policy and Institutional Reforms that need to be undertaken to support the Transformation Agenda.

Kenya Youth Employment and Opportunities Project (KYEOP)

The Kenya Youth Employment and Opportunities Project (KYEOP) aims to increase employment and earnings opportunities for targeted youths. The main beneficiaries of the proposed project will be youth between 16 and 29 years of age, who are without jobs and have experienced extended spells of unemployment or who are currently working in vulnerable jobs.

NITA's role will be to improve quality of training in the informal sector. In this regard Component 1 of the project which NITA will implement addresses the skills mismatch of youth by engaging training providers and private sector employers to offer training and work experience to targeted youth. The youth targeted as beneficiaries of the project are categorized as unemployed youth aged between 18-29 years targeted for Training and Work Experience under the first component of the Project.

The Project has already rolled out to youth in Nairobi, Kisumu, Kwale, Mombasa and Nakuru counties and is currently being implemented in Migori, Kitui, Turkana and Kiambu counties.

Development of the Strategic Plan 2018-2022

The development of NITA's Strategic Plan 2018-2022 will effectively be the Authority's implementation blueprint for the next five years. It has been developed in the backdrop of several changes in the operational environment, key amongst them being the proposed Transformation Agenda of the Authority, the need to entrench skills development and the provision of relevant skills to Industry, the Big Four Agenda and the Third Medium Term Plan.

In developing the Strategic Plan, the Authority took into account the Authority's performance and experiences so far, the dynamic operating environment and the opportunities and challenges it poses to the Authority, so as to provide strategies and mechanisms that will respond adequately to the challenges, opportunities and the expected changes.

**National Industrial Training Authority
Annual Reports and Financial Statements
For the year ended June 30, 2018**

Performance Contracting

The National Industrial Training Authority also signed its 2018/19 Performance Contract with the Government of Kenya through the Ministry of Labour and Social Protection with the purpose of establishing the basis for ensuring that efficient and effective services are delivered to Kenyans in line with the provisions of the Constitution and by requiring the Authority to adapt systems that enable innovativeness and adaptability of public services to the needs of users.

The Key Performance Indicators outlined in the Performance Contract include Financial & Stewardship, Service Delivery. Operational and qualitative indicators are derived from the Authority's Priority Projects/Programmes (Big Four Initiatives, Vision 2030 Flagship Projects, Projects/Programmes aligned to Sustaining Development Goals and Sector Performance Standards and the Medium Term Expenditure Framework.

ISO Certification

The Board has maintained the ISO 9001:2008 – Quality Management System (QMS) certification. The Board endeavors to maintain and continually improve the effectiveness of its quality management systems that meet the stakeholders' expectations in accordance with ISO 9001:2008 requirements. The Authority is currently in the process of transitioning from this Standard to ISO 9001: 2015.

Future Outlook

NITA shall endeavour to perform its functions, and exercise its powers in a manner that respects the functional and institutional integrity of the National and County Governments, and respect the constitutional status and institutions of government at both levels of government.

The Authority shall also assist, support, implement and consult as appropriate, legislation of all levels of government; and liaise with the national and county governments for the purpose of exchanging information, coordinating policies, administration and enhancing capacity in industrial training.

The Authority also seeks to facilitate the provision of adequate, relevant and portable skills for productivity enhancement and competitiveness while establishing adequate and sustainable funding models for industrial training. Through these interventions the Authority also aims to mainstream the informal sector in Industrial training; operationalization of the skills sub-framework in the Kenya National Qualification Framework. The Authority also seeks to continue in its pursuit of enhancing the quality in Industrial Training through the development of an integrated quality assurance framework; enhancement and expansion of service delivery in Industrial Training at the National and County Government level; enhance Industry - Institutional linkages.

Appreciation

I would like to thank the Board of Directors, Management and Staff of the National Industrial Training Authority for their continued support and dedication, without which our ambitious objectives could not have been achieved. I would also wish to extend our gratitude to the Government of Kenya, the Ministry of Labour and Social Protection and the National Treasury for their continued support.

National Industrial Training Authority
Annual Reports and Financial Statements
For the year ended June 30, 2018

Finally, I would like to thank all taxpayers, levy compliant employers and stakeholders and assure them of our strong commitment to delivering outstanding value to Kenya for we know industrial training is to what oxygen is to the human body.

Thank You



Stephen O. Ogenga
A.g DIRECTOR GENERAL

CORPORATE GOVERNANCE STATEMENT

Corporate Governance defines and outlines the processes and structure used to direct and manage business affairs of a corporation with the aim of enhancing efficiency and corporate accountability.

The National Industrial Training Board has developed a Charter to guide the Board and its Committees in exercising its roles to the Authority of supervisory, performance, strategic leadership, concordance and compliance. The Charter guides the Board in running the Authority and ensure adherence to corporate governance tenets. The Charter seeks to ensure efficiency, effectiveness, fairness, transparency and accountability in management of the Authority's resources.

The Charter sets out systems and structures of operations and control over NITA with a view to achieving long-term strategic goals that satisfy NITA and all its stakeholders by complying with legal and regulatory requirements and meeting environmental and society needs. Overall, it will ensure an efficient process of value-creation and value addition.

The Board acknowledges that it is responsible for ensuring fairness, efficiency, effectiveness, accountability and transparency in the administration of the Authority to meet well-defined objectives. It shall ensure integrity of financial and internal systems in the organization and herewith confirm that mechanisms have been put in place to safeguard the Authority. The Board has in place a conflict of interest policy which requires the members to declare any interests and conflict of interests is a standing agenda item in all Board and Committee meetings.

The Board consists of members who have diverse skills and where skill gaps exist, the members of the Board have been trained to bridge the gaps. The continuous development has led to high performance. During the year under review, the members were not evaluated and governance audit not undertaken. The Authority is hopeful that in the coming financial year, the State Corporation and Advisory Committee will be ready to undertake the Audit.

Composition and Structure of the Board

The Board is constituted in accordance with the Act. The membership consists of;

- i) Chairperson appointed by the Cabinet Secretary;
- ii) Principal Secretary of the Ministry for the time being responsible for matters relating to labour or a representative duly appointed in writing;
- iii) Principal Secretary of the Ministry for the time being responsible for matters relating to science and technology or a representative duly appointed in writing;
- iv) Principal Secretary of the Ministry for the time being responsible for matters relating to finance or a representative duly appointed in writing;
- v) Members nominated as follows and appointed by the Cabinet Secretary-
 - a. three persons nominated by the Federation of Kenya Employers; and
 - b. three persons nominated by the Central Organization of Trade Unions; and
 - c. one other member appointed by the Cabinet Secretary.

- d. Director General/ Secretary to the Board

Board Committees

The Board has established the following Committees:

- i. Industrial Training and Strategy Committee
- ii. Human Resource, Governance and Administration Committee
- iii. Finance and Levy Administration Committee
- iv. Audit and Risk Management Committee

1. Finance and Levy Administration Committee

The terms of reference for the Committee include;

- i. To approve and maintain budgetary systems of the Authority.
- ii. To oversee financial reporting process and Authority's system of internal controls.
- iii. Monitor the financial reporting process to ensure compliance with all regulatory returns, and reports as required to be filed.
- iv. Review, approve or recommend to the Board as appropriate all matters pertaining to investments.

The members of this Committee are as follows:

- a. Eng. Aram Mbui – Representing FKE
- b. Jacqueline Mugo, OGW, MBS – Representing FKE
- c. Mrs. Alice Nyariki - Representing Ministry responsible for Finance
- d. Rajabu Mwondi, MBS- Representing COTU (K)
- e. Ms. Joyce Mwale- representing the Principal Secretary- Ministry responsible for Labour

1. Human Resource, Governance and Administration Committee

The terms of reference for the Committee include:

- i. To approve recommendations on Terms and Conditions of Employment in the Authority, recruitment functions and staff appraisals.
- ii. To ensure effective management, succession planning and management development plans are in place.
- iii. To approve programmes and policies involving the overall compensation of employees and Authority's collective bargaining agreement.
- iv. Regularly assess staff benefit plans including new trends.
- v. To review and monitor corporate performance against approved targets.

The members of this Committee are as follows:

- a. Mr. Ernest Nadome- Chairman- representing COTU (K)
- b. Mr. Rajabu Mwondi, MBS- representing COTU (K)
- c. Mrs. Jacqueline Mugo, MBS- representing FKE
- d. Ms. Joyce Mwale – representing Principal Secretary, Ministry of East African Community, Labour & Social Protection
- e. Mr. James Onyango - representing the Principal Secretary, Ministry of Education

2. Industrial Training and Strategy Committee

The terms of reference for the Committee include;

- i. To develop strategies for Industrial Training.
- ii. Ensure that implementation of industrial training is effective and efficient.
- iii. Advice on terms and conditions of industrial training providers.
- iv. Develop regulations to facilitate effective industrial training.
- v. Monitor industrial training and advice on Industrial training.

The members of this Committee are as follows:

- a. Mr. Hirji Shah, OGW- Chairman representing FKE
- b. Mr. Rajen Shah- representing special interests
- c. Eng. Aram Mbui- representing FKE
- d. Mr. James Onynago - representing the Principal Secretary Ministry of Education
- e. Ernest Nadome- representing COTU

3. Audit and Risk Management Committee

The terms of reference for the Committee include;

- i. Consider the NITA's risk management policy;
- ii. Ensure risk management practices at NITA;
- iii. Review the scope and planning of the external audit
- iv. Review the annual financial statements of the Authority, focusing particularly on;
- v. To approve and monitor compliance with significant policies and procedures which have a material impact on the operations of the Authority.
- vi. Ensure that the internal audit function is independent of the activities of the management and is performed with impartiality, proficiency and due professional care; and determine the effectiveness of the internal audit function.
- vii. Review the compliance and effectiveness of the Authority's accounting and internal control systems.
- viii. Assist the Board in fulfilling its oversight responsibilities as they relate to financial reporting processes and the internal structures.
- ix. Promote and enhance corporate accountability- ensuring effectiveness, efficiency, accountability, transparency and integrity of people, structures, and processes among others.

The members of this Committee are as follows:

- a. Mr. Rajen Shah- Chairman- representing other interests
- b. Mr. Hirji Shah, OGW- representing FKE
- c. Mr. Ernest Nadome- representing COTU (K)
- d. Mr. Rajabu Mwondi, MBS- representing COTU (K)
- e. Ms. Alice Nyariki- representing the Principal Secretary responsible for Finance.

**National Industrial Training Authority
Annual Reports and Financial Statements
For the year ended June 30, 2018**

5. Ad Hoc Steering Committee on Kenya Youth Employment Opportunities Programme

During the year under review, the Board established the AD Hoc Committee. The terms of reference are

- i. To monitor, evaluate and receive regular reports on implementation/ execution of the KYEOP
- ii. To report to the Board on implementation of the KYEOP
- iii. Give direction to PIU on strategy for effective management of the Programme
- iv. Monitor utilization of the project funds

The members include;

- i. Mrs. Jacqueline Mugo, EBS
- ii. Dr. Kamau Gichigi- Chair, NITB
- iii. Mr. Hirji Shah, OGW- Chair ARMC
- iv. Mr. Rajen Shah- Chair ITSC
- v. Mr. Ernest Nadome- Chair HRGAC
- vi. Eng. Aram Mbui- Chair FLAC

Summary of Board and Board Committee Meetings for Financial Year 2017/2018

| S/NO | BOARD/COMMITTEE | NO OF MEETINGS |
|-------------|--|-----------------------|
| 1 | National Industrial training Board | 14 |
| 2 | Human Resource Governance and Administration | 12 |
| 3 | Finance and Levy Administration Committee | 7 |
| 4 | Industrial Training and Strategy Committee | 7 |
| 5 | Audit and Risk Management Committee | 9 |
| 6 | ADHOC Committee | 4 |

Total No. of Meetings 53

MANAGEMENT DISCUSSION AND ANALYSIS

The National Industrial Training Authority management team oversees development and implementation of annual budget approved by the National Industrial Training Board (NITB). NITA management therefore monitors the use of funds in line with the approved budget and Corporate Work Plan during the financial year. The Authority makes quarterly reports on budget utilization which are submitted to the Board of Directors, Parent Ministry and to The National Treasury. The reports indicate the achievements by the Authority, the challenges experienced during the implementation period and makes recommendations for overcoming the challenges.

The management also gives advice to the Board of Directors on issues related to its budget implementation such as low absorption of funds and revenue performance. This therefore promotes accountability in the use of financial resources.

The process of budget implementation ensures compliance to the Public Financial Management (PFM) Act 2012 and all other statutory requirements. NITA management has continued to improve its financial management system to ensure that financial records of the Authority are accurate and offers a true reflection of the financial position.

During the year under review, the Authority improved industrial training levy collections by 0.65% compared to the previous year. The management however recognises that the Training levy collection for the period under review is 23.9% below the budget. This under achievement of budget can be attributed to challenges faced during 2017 when the country went into election where the business environment was unfavourable to many organizations. The authority has therefore continued to improve its customer relations with employers, which has been achieved through closer liaison with the Authority's stakeholders. From the implementation of 2017/18 FY budget, it was clear that about 44.7% of the total revenue to the Authority was realized from Industrial training levy, Government grants and subsidies 26.2% while revenue from exchange transactions accounted for 29.1%. It was also realized that over 41.7% of the total expenditure was on employees' which is also 45.9% of the total revenue collected. General expenses were at 38.4% while Depreciation and amortization of assets was 11.9% as illustrated below.

Total Revenue Collection

TOTAL REVENUE PERCENTAGE

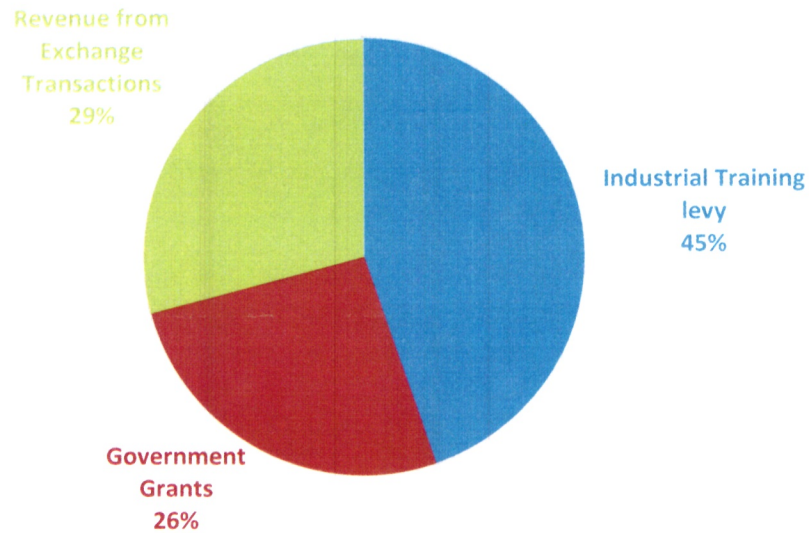


Figure 1.0 Total revenue collected for the year 2017/2018

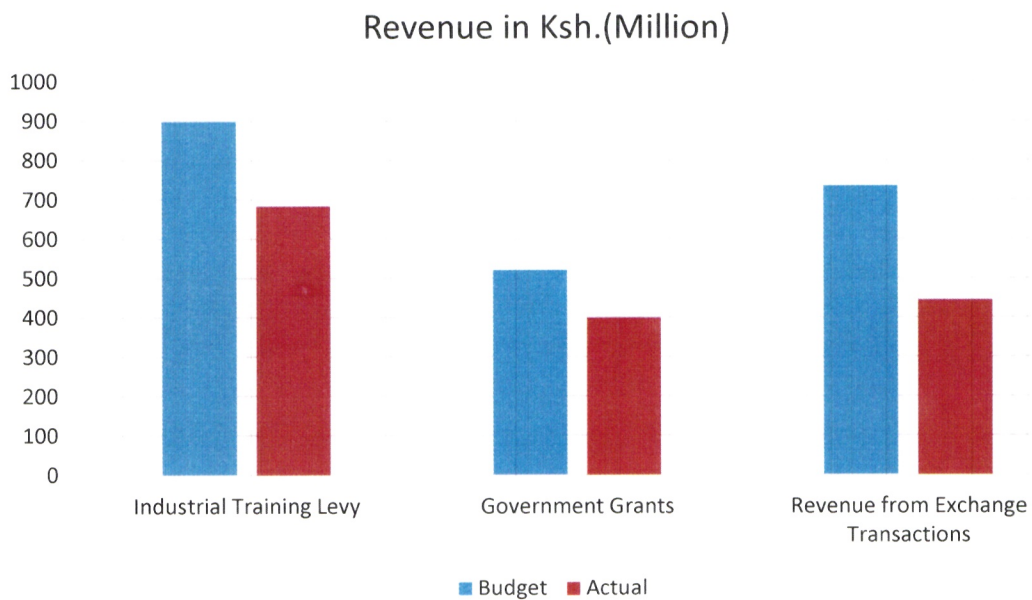


Figure 1.1 Total revenue and Budget for the year 2017/2018

**National Industrial Training Authority
Annual Reports and Financial Statements
For the year ended June 30, 2018**

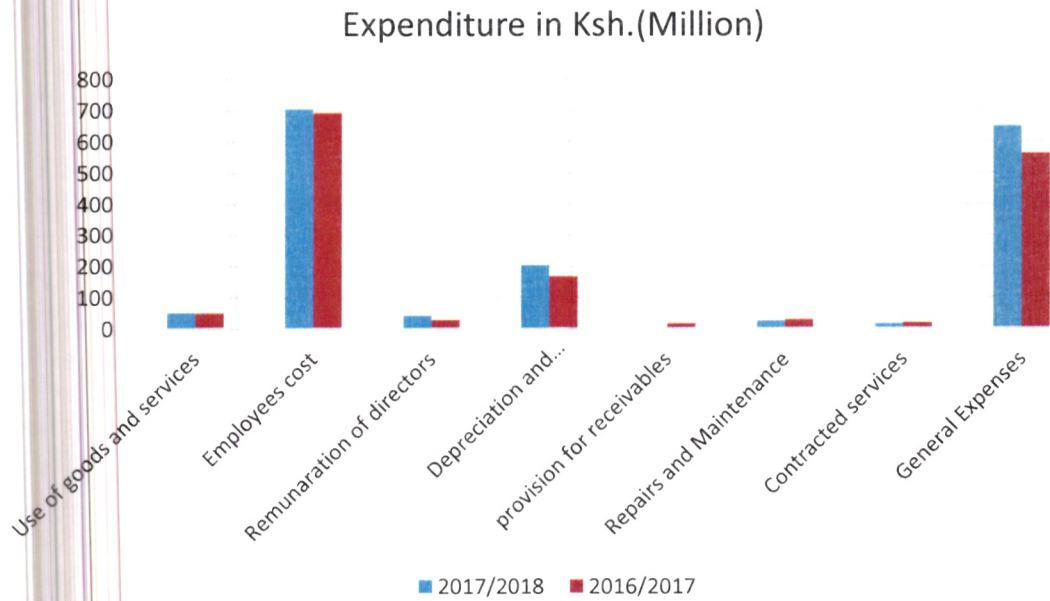


Figure 2.0 Expenditure comparison for the year 2017/18 and 2016/17

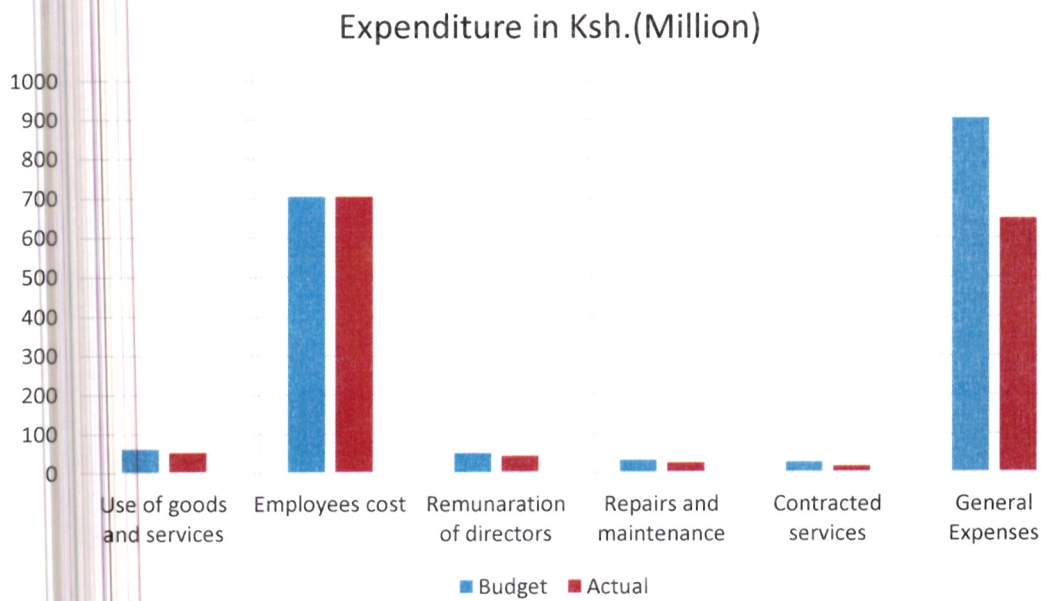


Figure 2.2 Total Expenditure in comparison with Budget for the year 2017/2018

National Industrial Training Authority
Annual Reports and Financial Statements
For the year ended June 30, 2018

The major risk facing the National Industrial Training Authority are financial and operational risks associated with the Authority's business. During the financial year 2017/2018 the management updated and monitored the risk profiles for each of the operating businesses and major projects to identify the nature and likelihood of its occurrence for specific material risks, key controls that are in place to mitigate and manage the risks, sources and levels of assurance provided on the effective operations of key controls and responsibilities for managing risks. Therefore, the risk framework, policies and procedures will continue to be enhanced as the Authority's existing operations develop and its range of activities expand. During the year under review the Authority procured and implemented an ERP system as a way of automating and improving on service delivery and strengthening its internal control systems so as to enhance efficiency, accountability and transparency in its operations.

The year 2017/2018 the Authority's income on investment increased 10.6% as compared to the last financial year but 13.3% below the budget. This under achievement of the budget was attributed to changes in investment from fixed deposits to on call deposits as per the National Treasury directive. During the transition period the Authority was not able to invest in the 1st quarter of the period under review. During the 2nd quarter of the year, the Authority had investments in on call deposit account with the Kenya Commercial bank totalling KSh. 980M. The Authority is also in the process of opening a CDS account with the Central bank of Kenya to facilitate investment in Treasury bills as directed by the National Treasury. The Authority so far liquidated 180m invested in treasury bills with Co-operative bank and National bank as advised by The National Treasury that required government organs to liquidate all its maturing investments in Treasury bills with commercial banks and invest in Treasury bills/bonds directly with the Central Bank of Kenya. Equity shares with the Consolidated Bank of Kenya is 8.4M

CORPORATE SOCIAL RESPONSIBILITY STATEMENT / SUSTAINABILITY REPORTING

Corporate Social Responsibility (CSR) is the concept whereby organizations integrate social and environmental concerns into their business operations and into their interaction with their stakeholders. CSR is an avenue to portray NITA as caring member of the society while building a trusted brand.

Female Engineering Sponsorship Programme (FEP)

NITA sponsors 25 Kenyan female students from needy backgrounds annually to pursue engineering courses at craft, certificate and diploma levels in an effort to reduce gender disparity in technical/engineering disciplines through the Female Engineering Training Programme (FETP) as a part of its Corporate Social Investment. The programme was initiated in 2006 as follow-up to recommendations of an overseas study tour, to date over three hundred (300) Kenyan deserving and qualified girls have benefitted across the country.

The Programme was started by the National Industrial Training Council (NITC) through the former Directorate of Industrial Training (DIT) in August 2006. Studies conducted by the Directorate had revealed that there was a great disparity between females and males in various engineering careers in industry. The concept had been conceived out of a report and experience from an overseas study tour in 2005 to fifteen (15) countries.

The first group of twenty-five (25) females was selected by the Directorate in November 2006 and enrolled in respective National Polytechnics and Technical Training Institutes in January 2007, a practice that has continued every year for the last 10 (ten) years and to date the programme has benefitted over 300, three hundred needy and qualified females in Kenya .

The programme which is in its twelfth year is overseen by Female Engineering Programme (FEP) Committee and implemented by the Corporate Communications Department which handles the technical and financial aspects of the programme. The programme currently focuses on marginal Counties of Mandera, Turkana, Lamu, Wajir, West Pokot, Kwale, Ijara, Tana River, Garissa, Isiolo, Marsabit, Samburu, Elgeyo - Marakwet, Homabay, Kajiado, Kilifi, TaitaTaveta, Bugoma, Kitui, Mwingi, Tharaka, Mbeere, Transmara, Makueni, and Busia.

The objectives of the Programme include

- i) Bridging the observed gap in engineering practice between female and males in various Kenyan industries.
- ii) Identification qualified and needy females for the programme.
- iii) Identification suitable technical institutions that offer courses selected by the qualified applicants.
- iv) Ensuring that the course requirements are adequately met.
- v) Ensuring continuity of training for the beneficiaries during the duration of the course.
- vi) Assisting where possible in attainment of gainful employment by creating avenues of collaboration between NITA and prospective employers on behalf of the beneficiaries. This is in line with the aspirations of the constitution on the rights to equal opportunities for both genders. The Vision 2030 also stipulates that women should have at least 30% representation in recruitment, selection and appointments.

National Industrial Training Authority
Annual Reports and Financial Statements
For the year ended June 30, 2018

The procedure for identification and selection of candidates for sponsorship into the program is as follows:

- i) Drafting and placement of an advertisement in the local newspapers inviting interested female form four leavers.
- ii) Receiving applications and creation of an application database,
- iii) Short-listing of applicants,
- iv) Invitation of shortlisted applicants for an interview.
- v) Conducting interviews and carrying out initial selection from the list of interviewed applicants
- vi) Carrying out fact finding visits to homes of initially selected candidates to verify their neediness,
- vii) Receive and study reports of the fact finding visits and apply the findings in carrying out a final selection of the candidates,
- viii) Application for admission of selected candidates to suitable Technical Training Institutions.
- ix) Invitation of the selected candidates to the NITA headquarters to have them taken through an induction programme,
- x) Obtain medical clearance from a health institution for the candidates.
- xi) Issue of materials and books necessary for their respective courses to the selected candidates.
- xii) Assist the successful candidates to report to the Training Institutions and ensure that they are duly enrolled.

The sponsorship provisions include the following:

- i) Tuition;
- ii) Accommodation;
- iii) Text books and stationery;
- iv) Training equipment (basic tools and drawing instruments);
- v) Protective gear/clothing;
- vi) Transport to and from the training institutions during opening and closing;
- vii) Out of pocket allowance.

The Authority has partnered with various institutions over the years and currently partners with Kisumu Polytechnic, Railway Training Institute (RTI), Kenya Institute of Highways & Building Technology) and Rift Valley Institute of Science for the 2018 Intake.

**National Industrial Training Authority
Annual Reports and Financial Statements
For the year ended June 30, 2018**

REPORT OF THE DIRECTORS

The Directors submit their report together with the audited financial statements for the year ended June 30, 2018 which show the state of the National Industrial Training Authority affairs.

Principal activities

The Principal activities of the Industrial Training Authority are:

- Industrial training;
- Assessing and collecting industrial training levy and fees;
- Regulating trainers registered under section 7C of the Act
- Developing industrial training curricula;
- Integrating labour market information into skills development;
- Harmonizing curricula and certificates of competence;
- Assessing industrial training, testing occupational skills and awarding certificates including Government trade test certificates;
- Equating certificates;
- Accrediting institutions engaged in skills training for industry;
- Associating or collaborating with any other body or organization within or outside Kenya as the Board may consider desirable or appropriate and in furtherance of the purposes for which the Authority is established;

Results

The results of the National Industrial Training Authority for the year ended June 30, 2018 are set out on page 1 to page 5 of the Financial Statement.

Directors

The members of the Board of Directors who served during the year are shown on page vi to page ix.

Auditors

The Auditor General is responsible for the statutory audit of the National Industrial Authority in accordance with Article 229 of the Constitution of Kenya and the Public Audit Act 2015

STATEMENT OF DIRECTORS' RESPONSIBILITIES

Section 81 of the Public Finance Management Act, 2012 and section 14 of the State Corporations Act, under the Industrial Training Act 2011 require the Directors to prepare financial statements in respect of that National Industrial Training Authority (NITA) which give a true and fair view of the state of affairs of NITA at the end of the financial year and the operating results of the NITA for that year. The Directors are also required to ensure NITA keeps proper accounting records which disclose with reasonable accuracy the financial position of NITA. The Directors are also responsible for safeguarding the assets of NITA.

The Directors are responsible for the preparation and presentation of the NITAs financial statements, which give a true and fair view of the state of affairs of NITA for and as at the end of the financial year ended on June 30, 2018. This responsibility includes:

- (i) Maintaining adequate financial management arrangements and ensuring that these continue to be effective throughout the reporting period.
- (ii) maintaining proper accounting records, which disclose with reasonable accuracy at any time the financial position of NITA
- (iii) designing, implementing and maintaining internal controls relevant to the preparation and fair presentation of the financial statements, and ensuring that they are free from material misstatements, whether due to error or fraud;
- (iv) safeguarding the assets of NITA
- (v) selecting and applying appropriate accounting policies; and
- (vi) Making accounting estimates that are reasonable in the circumstances.

The Directors accept responsibility for NITA financial statements, which have been prepared using appropriate accounting policies supported by reasonable and prudent judgements and estimates, in conformity with International Public Sector Accounting Standards (IPSAS), and in the manner required by the PFM Act, 2012 and Industrial Training (Amendment) Act, 2011.

The Directors are of the opinion that NITA financial statements give a true and fair view of the state of NITA transactions during the financial year ended June 30, 2018, and of the NITAs financial position as at that date. The Directors further confirm the completeness of the accounting records maintained for NITA which have been relied upon in the preparation of the NITAs statements as well as the adequacy of the systems of internal financial control.

Nothing has come to the attention of the Directors to indicate that the NITA will not remain a going concern for at least the next twelve months from the date of this statement.

Approval of the financial statements

NITA financial statements were approved by the Board on 26th September, 2018 and signed on its behalf by:



Director

Director



Ag. Director General

REPUBLIC OF KENYA

Telephone: +254-20-342330
Fax: +254-20-311482
E-mail: oag@oagkenya.go.ke
Website: www.kenao.go.ke



P.O. Box 30084-00100
NAIROBI

OFFICE OF THE AUDITOR-GENERAL

REPORT OF THE AUDITOR-GENERAL ON NATIONAL INDUSTRIAL TRAINING AUTHORITY (NITA) FOR THE YEAR ENDED 30 JUNE 2018

REPORT ON THE FINANCIAL STATEMENTS

Qualified Opinion

I have audited the accompanying financial statements of National Industrial Training Authority (NITA) set out on pages 1 to 36, which comprise the statement of financial position as at 30 June 2018, 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 National Industrial Training Authority (NITA) as at 30 June, 2018, 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 Industrial Training Act, 2011.

Basis for Qualified Opinion

1. Property, Plant and Equipment

The statement of financial position as at 30 June 2018 reflects a balance of Kshs.8,391,544,000 in respect of property, plant and equipment. A review of the supporting records for this balance revealed the following matters:

1.1 Carrying Value of Assets

As previously reported, a valuation of the Authority's assets was last done in February 2014. However, the assets amount as per the valuation report were not reflected in the financial statements leading to an overall understatement of Kshs.310,460,020 on the assets cost/valuation amount as at 30 June 2017 which also affects the assets balance for the year ended 30 June 2018.

1.2 Incomplete Assets Register

The Authority did not maintain a complete fixed assets register for property, plant and equipment with necessary details such as; description of the asset, location, serial number,

Report of the Auditor-General on National Industrial Training Authority (NITA) Financial Statements for the year ended 30 June 2018

date purchased, source, cost price, additions, depreciation and disposal, contrary to the requirements of Part XII of PFM Act, 2012 on assets management.

1.3 Assets Without Ownership Documents

Included in the property, plant and equipment balance of Kshs.8,391,544,000 as at 30 June 2018 is Kshs.5,653,615,000 and Kshs.2,427,492,000 for land and building respectively. However, the Authority did not avail land ownership documents for audit review. Further, property, plant and equipment balance of Kshs.8,391,544,000 includes motor vehicles with a carrying amount of Kshs.43,951,000 which however excludes motor vehicle Reg. No. Ex -UN 205K which was donated by United Nations Industrial Development Organization (UNIDO) in 2001 but still in use at Athi River Centre had not been registered in the name of the Authority.

1.4 Allocation of NITA Land to a Private Developer

As previously reported, included in the property, plant and equipment balance of Kshs.8,391,544,000 is land valued at Kshs.5,653,615,000 which excludes disputed plots No. 464/R and No. 6229 of undetermined value. The land of unknown value measuring 6.2 hectares (Ref: No. Plot No.464/R) located in Bombolulu area was on 23 May 1996 allocated to Mombasa Industrial Training Centre (MITC) as an alternative to plot No. 6229 which had been carved out and allocated to a private developer.

Although the Authority has indicated that the matter was in the Ndung'u Land Report, no evidence was presented for audit scrutiny to show that the Authority is pursuing the matter with the National Land Commission to hasten acquisition of titles to avoid losing the property. Further, no reasons have been given for failure to disclose the status of the two parcels of land in the financial statements.

In view of the foregoing, it has not been possible to confirm the completeness, valuation, custody and accuracy of the property, plant and equipment balance of Kshs.8,391,544,000 in the statement of financial position as at 30 June 2018.

2. Cash and Cash Equivalents

The statement of financial position as at 30 June 2018 reflects a balance of Kshs.81,538,000 in respect of cash and cash equivalents which includes a bank balance of Kshs.80,926,000. A review of the cashbooks and other supporting records revealed the following anomalies;

2.1 Dormant Bank Account

The Authority maintains a current account with Standard Chartered No. 104031408200 which had no transactions during the year under review but still the bank levied charges amounting to Kshs.22,440 which in effect reduced the opening balance from Kshs.180,589 to Kshs.158,149 as at 30 June 2018.

2.2 Unreconciled Bank Balances

Included in the bank balance of Kshs.80,926,000 as at 30 June 2018 is an amount of Kshs.36,934,000 for revenue Account No. 11202588075 maintained at Kenya Commercial

Bank Limited. A review of the supporting cashbook and bank reconciliation statement for June 2018 revealed the following:

- **Missing Cheques**

The bank reconciliation statement showed receipts in cashbook not in bank statements amounting to Kshs.12,823,321 which were described as missing cheques. The management has indicated that the amount was misappropriated by a former accountant and the matter is in court.

- **Payment in Bank Statements Not Recorded in Cashbook**

The bank reconciliation statement showed payments totalling Kshs.18,256,125 which appeared in the bank statements but not in the cashbook dating back to February 2015. It was not clear if these debits were authorized by the management since they had not been captured in the Authority's cashbook.

- **Payment in Cashbook not in Bank Statements**

The bank reconciliation statement also shows payments in cashbook not in bank statement totalling Kshs.30,677,181. Included in this balance is an amount of Kshs.5,677,181 described as balance brought forward from June 2016 for which no analysis was provided. It was also not explained why this amount had remained outstanding for a period of two (2) years.

Under the circumstances, the completeness and accuracy of the cash and cash equivalents balance of Kshs.81,538,000 as at 30 June 2018 could not be ascertained.

3. Uncollected Training Levy

The statement of financial position as at 30 June 2018 reflects receivables from exchange transactions balance of Kshs.44,026,000. As previously reported, the statement of financial position for the year ended 30 June 2017 reflected receivables from exchange transactions balance of Kshs.81,846,000 which included receivables from employers in respect of training levy amounting to Kshs.18,345,000. The defaulting employers were liable to pay fines as per Section 5 B (4) of the Industrial Training Act, 2011 but no evidence was availed for audit verification to confirm whether any fines had been imposed.

A review of the matter during the year under audit disclosed that the Kshs.18,345,000 balance did not appear as outstanding receivables as at 30 June 2018 but no evidence was availed to show when and how the balance was settled.

In the circumstances, it has not been possible to confirm the completeness and accuracy of receivables from exchange transactions balance of Kshs.44,026,000 as at 30 June 2018.

4. Unresolved Prior Year Matter - Deposits held in Collapsed Banks

As previously reported, the National Industrial Training Authority held deposits amounting to Kshs.129,466,400 in various banks that had collapsed over twenty (20) years ago. However, no provision for contingent asset has been made in the statement of financial position as at 30 June 2018. Further, there was no evidence to indicate that the Authority

Report of the Auditor-General on National Industrial Training Authority (NITA) Financial Statements for the year ended 30 June 2018

was still pursuing recovery of the deposits through the Deposit Protection Fund even though the collapsed banks owned assets secured by the Government Official Receiver.

In consequence, the recoverability of the deposits totalling Kshs.129,466,400 remains doubtful.

5. Un-surrendered Imprests

The statement of financial position as at 30 June 2018 reflects receivables from non-exchange transactions balance of Kshs.33,494,000 which represents staff imprests which were outstanding beyond the due dates. It was not clear why the management had not enforced surrender or recovery of the imprests from the defaulting officers in line with the provisions of Regulation 93(5) of the Public Finance Management Act, 2012. In addition, a review of the supporting records showed that included in this balance is Kshs.7,382,689 held by ex-employees and Kshs.347,400 owed by deceased staff and their recoverability is in doubt and no provision for bad and doubtful debts has been made.

Consequently, the accuracy, completeness and recoverability of the unsurrendered imprest of Kshs.33,494,000 as at 30 June 2018 could not be confirmed.

The audit was conducted in accordance with International Standards of Supreme Audit Institutions (ISSAIs). I am independent of National Industrial Training Authority (NITA) in accordance with ISSAI 30 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. Except for the matter(s) described in the Basis for Qualified Opinion section, I have determined that there are no other key audit matters to communicate in my report.

Other Matter

Budget and Budgetary Performance

1. Revenue

The Authority had budgeted for revenue totalling Kshs.2,156,600,000 but actual realised amounted to Kshs.1,533,715,000 resulting to a shortfall of Kshs.622,885,000 or 29% as itemized below:

| Revenue | Budgeted Kshs. | Actual Kshs. | Excess/Shortfall Kshs. | Variance % |
|-----------------------------|----------------------|----------------------|------------------------|------------|
| Fines, penalties and Levies | 900,000,000 | 686,658,000 | (213,342,000) | 24 |
| Government Grants | 521,000,000 | 401,400,000 | (120,500,000) | 23 |
| Rendering of Services | 647,200,000 | 333,109,000 | (314,091,000) | 49 |
| Finance Income | 57,500,000 | 49,828,000 | (7,672,000) | 13 |
| Other Income | 30,000,000 | 62,721,000 | 32,721,000 | 109 |
| Total | 2,156,600,000 | 1,533,715,000 | (622,885,000) | 29 |

The shortfall mainly occurred under fines, penalties and levies, Government grants and rendering of services at Kshs.213,342,000 or 24%, Kshs.120,500,000 or 23% and Kshs.314,091,000.00 or 49% respectively while other income realized excess receipts of Kshs.32,721,000 or 109%.

2. Expenditure

The Authority had budgeted for expenditure totaling Kshs.1,775,195,000 but actual expenditure amounted to Kshs.1,480,585,000 resulting to an under expenditure of Kshs.294,610,000 or 17% as itemized below:

| Component | Budget Kshs. | Actual Kshs. | Over/(under) Kshs. | Variance % |
|---------------------------|----------------------|----------------------|----------------------|-------------|
| Use of Goods and Services | 61,064,000 | 50,904,000 | (10,160,000) | (17) |
| Employee Costs | 703,759,000 | 699,220,000 | (4,537,000) | (1) |
| Remuneration of Directors | 50,800,000 | 43,203,000 | (7,597,000) | (15) |
| Repairs and Maintenance | 32,296,000 | 24,384,000 | (7,912,000) | (24) |
| Contracted Services | 25,900,000 | 12,626,000 | (13,274,000) | (51) |
| General Expenses | 901,376,000 | 650,248,000 | (251,127,000) | (28) |
| Total | 1,775,195,000 | 1,480,585,000 | (294,610,000) | (17) |

The under expenditure mainly occurred under use of goods and services, employee costs, remuneration of directors, repairs and maintenance, contracted services and general expenses at Kshs.10,160,000, Kshs.4,537,000, Kshs.7,597,000, Kshs.7,912,000, Kshs.13,274,000 and Kshs.251,127,000 respectively.

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 matter(s) described in the Basis for Qualified Opinion 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

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 INTERNAL CONTROLS EFFECTIVENESS, GOVERNANCE AND RISK MANAGEMENT SYSTEMS

Conclusion

As required by Section 7 (1) (a) of the Public Audit Act, 2015, based on the procedures performed, I confirm that, except for the matters described in the Basis for Conclusion on Effectiveness of Internal Controls, Governance and Risk Management section of my

report, I confirm that, nothing has come to my attention to cause me to believe that internal controls, risk management and overall governance were not effective.

Basis for Conclusion

Lack of Secure Offsite Storage Facility

Part 9 (1) of the NITA Information Communication and Technology Policy Document states that, all backup media must be stored in a safe and secure location extraneous to the location of the backed up systems. All backup media must be stored in a fireproof safe. All software full backup and monthly backup media must be stored in an off-site backup archive storage location. Analysis of records and documentary evidence availed revealed that the entity does not have data backups stored in a secure offsite location.

The audit was conducted in accordance with ISSAI 1315 and ISSAI 1330. 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 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 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 governance.

In preparing the financial statements, management is responsible for assessing the Authority's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the applicable basis of accounting unless the National Government either intends to liquidate the Authority or to cease operations, or have no realistic alternative but to do so.

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.

Those charged with governance are responsible for overseeing the Authority's financial reporting process, reviewing the effectiveness of how the entity 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 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 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 noncompliance. 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 Authority's policies and procedures may deteriorate.

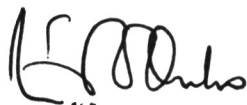
As part of an audit conducted in accordance with ISSAIs, I exercise professional judgement and maintain professional skepticism throughout the audit. I also:

- 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 going concern 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 as a going concern or 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 as a going concern or 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.



FCPA Edward R. O. Ouko, CBS
AUDITOR-GENERAL

Nairobi

22 May 2019

**National Industrial Training Authority
Annual Reports and Financial Statements
For the year ended June 30, 2018**

**STATEMENT OF FINANCIAL PERFORMANCE
FOR THE YEAR ENDED 30 JUNE 2018**

| | Note | 2017-2018 | 2016-2017 |
|---|-------|------------------|------------------|
| | | Kshs '000' | Kshs '000' |
| Revenue from non-exchange transactions | | | |
| Training Levy | 6 | 686,658 | 679,789 |
| Transfers from other governments—gifts and services-in-kind | 7 | 401,400 | 523,466 |
| | | 1,088,058 | 1,203,255 |
| Revenue from exchange transactions | | | |
| Rendering of services | 8 | 333,108 | 348,705 |
| Finance income-external investments | 9 | 49,828 | 44,558 |
| Other income | 10 | 62,721 | 264,948 |
| | | 445,657 | 658,211 |
| Total revenue | | 1,533,715 | 1,861,466 |
| Expenses | | | |
| Use of goods and services | 11 | 50,904 | 48,605 |
| Employee costs | 12 | 699,220 | 690,137 |
| Remuneration of directors | 13 | 43,203 | 26,757 |
| Depreciation and amortization expense | 14 | 184,357 | 165,161 |
| Provision for Receivables | 14(a) | - | 14,623 |
| Repairs and maintenance | 15 | 24,384 | 26,835 |
| Contracted Services | 16 | 12,626 | 16,946 |
| General Expenses | 17 | 650,248 | 559,144 |
| Total Expenses | | 1,664,942 | 1,548,208 |
| Surplus/(deficit)for the period | | (131,227) | 313,258 |
| | | (131,227) | 313,258 |

The notes set out on pages 7 to 32 form an integral part of these Financial Statements

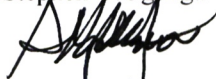
**National Industrial Training Authority
Annual Reports and Financial Statements
For the year ended June 30, 2018**

**STATEMENT OF FINANCIAL POSITION
AS AT 30 JUNE 2018**


| | Note | 2017-2018 | 2016-2017 |
|--|---------------|------------------|-------------------|
| | | Kshs '000' | Kshs '000' |
| Assets | | | |
| Current Assets | | | |
| Cash and cash equivalents | 18 | 81,538 | 1,453,807 |
| Receivables from exchange transactions | 19 | 44,026 | 34,303 |
| Receivables from non-exchange transactions | 20 | 33,494 | 47,543 |
| Investments | 21 (c) | 8,400 | 8,400 |
| Short term Investments | 18 (c) & (d) | 1,120,000 | 260,000 |
| | | 1,287,458 | 1,804,053 |
| Non-Current Assets | | | |
| Property, Plant and Equipment | 22 | 8,391,544 | 8,289,527 |
| Intangible assets | 23 | 25,925 | 3,737 |
| | | 8,417,469 | 8,293,264 |
| Total Assets | | 9,704,927 | 10,097,317 |
| Liabilities | | | |
| Prepaid Fees | | | |
| Trade and other payables | 24 | 242,502 | 63,666 |
| Provision for receivables | 14 (a) | 12,823 | 14,623 |
| | | 255,325 | 78,289 |
| Net assets | | 9,449,601 | 10,019,028 |
| Capital Reserves | | 90,000 | 90,000 |
| Revaluation Reserve | | 8,243,800 | 8,243,800 |
| Accumulated surplus | | 1,115,801 | 1,245,228 |
| Total net assets and liabilities | | 9,449,601 | 9,579,028 |

The Financial Statements set out on pages Page 1 to Page 48 were signed on behalf of the Board of Directors by:


A.g. Director General
Name: Stephen O. Ogenga


Date: 30/9/2018

Chief Accountant
Julius M Ndenge
ICPAK Member Number:8325


Date: 27/9/2018

Chairman of the Board
Name: Dr Kamau Gachigi


Date: 24.09.19

STATEMENT OF CHANGES IN NET ASSETS
FOR THE YEAR ENDED 30 JUNE 2018

| | Capital replacement development reserve/Capital Reserve | Revaluation Reserve | Accumulated surplus | Total |
|----------------------------------|---|------------------------|---------------------|------------|
| | Kshs '000' | Kshs '000' | Kshs '000' | Kshs '000' |
| As at 1 July 2016 | 90,000 | 8,243,800 | 931,970 | 9,265,770 |
| Surplus/(deficit) for the period | - | - | 313,258 | 313,258 |
| As at 30 June 2017 | 90,000 | 8,243,800 | 1,245,228 | 9,579,028 |
| As at 1 July 2017 | 90,000 | 8,243,800 | 1,245,228 | 9,579,028 |
| Adjustment for Prov. | | | 1,800 | 1,800 |
| (Loss) for the period | - | - | (131,227) | (131,227) |
| As at 30 June 2018 | 90,000 | 8,243,800 | 1,115,801 | 9,449,601 |

National Industrial Training Authority
Annual Reports and Financial Statements
For the year ended June 30, 2018

STATEMENT OF CASHFLOWS
FOR THE YEAR ENDED 30 JUNE 2018

| | Notes | 2017-2018 | 2016-2017 |
|--|--------------|------------------|------------------|
| | | Kshs '000' | Kshs '000' |
| Cash flows from operating activities | | | |
| Receipts | | | |
| Training Levy | 6 | 686,658 | 679,789 |
| Government grants and subsidies | 7 | 401,400 | 523,466 |
| Rendering of services | 8 | 333,108 | 348,705 |
| Finance income | 9 | 49,828 | 44,558 |
| Other income ,rentals and agency fees | 10 | 62,721 | 264,948 |
| Decrease/Increase in Account Receivables | | | |
| Total Receipts | | 1,533,715 | 1,861,466 |
| Payments | | | |
| Compensation of employees | 12 | 699,220 | 690,137 |
| Goods and services | 11 | 50,904 | 48,605 |
| Other payments | 13,15,16 &17 | 730,461 | 629,681 |
| Decreased in receivables exchange | 20 | (14,049) | -145,041 |
| Decrease/Increase in Account Payables | 24 | (178,836) | 71,477 |
| Increase in receivables non exchange | 19 | 9,723 | |
| Total Payments | | 1,297,422 | 1,294,859 |
| Net cash flows from operating activities | | 236,293 | 566,607 |
| Cash flows from investing activities | | | |
| Purchase of property, plant, equipment and intangible assets | 22 | (269,355) | (131,784) |
| Purchase of intangible assets | 23 | (39,209) | |
| Net cash flows used in investing activities | | (72,271) | 434,823 |
| Cash flows from financing activities | | | |
| Net increase/(decrease)in cash and cash equivalents | | (72,271) | 434,823 |
| | | | |
| Cash and cash equivalent as at 1 JULY 2017 | 18 | 1,273,809 | 838,986 |
| Cash and cash equivalents at 30 JUNE 2018 | | 1,201,538 | 1,273,809 |

STATEMENT OF COMPARISON OF BUDGET AND ACTUAL AMOUNTS
FOR THE YEAR ENDED 30 JUNE 2018

| | Original budget | Adjustments | Final budget | Actual on comparable basis | Performance difference |
|---------------------------------------|------------------|---------------|------------------|----------------------------|------------------------|
| | 2017-2018 | 2017-2018 | 2017-2018 | 2017-2018 | 2016-2017 |
| | Kshs '000' | Kshs '000' | Kshs '000' | Kshs '000' | Kshs '000' |
| Revenue | | | | | |
| Fines, penalties and levies | 900,000 | - | 900,000 | 686,658 | (213,342) |
| Government grants and subsidies | 521,900 | - | 521,900 | 401,400 | (120,500) |
| Rendering of services | 647,200 | - | 647,200 | 333,108 | (314,092) |
| Finance income | 57,500 | - | 57,500 | 49,828 | (7,672) |
| Other income, rentals and agency fees | 30,000 | - | 30,000 | 62,721 | 32,721 |
| Total income | 2,156,600 | - | 2,156,600 | 1,533,715 | (622,885) |
| Expenses | | | | | |
| Use of goods and services | 44,550 | 16,514 | 61,064 | 50,904 | 10,160 |
| Employee costs | 698,600 | 5,159 | 703,759 | 699,220 | 4,539 |
| Remuneration of directors | 40,800 | 10,000 | 50,800 | 43,203 | 7,597 |
| Repairs and maintenance | 25,500 | 6,796 | 32,296 | 24,384 | 7,912 |
| Contracted services | 28,500 | (2,600) | 25,900 | 12,626 | 13,274 |
| General Expenses | 889,604 | 11,772 | 901,376 | 650,248 | 251,129 |
| Total Expenses | 1,727,554 | 47,641 | 1,775,195 | 1,480,585 | 294,610 |

Budget notes

1. Fines, Penalties and Levies.

The under collection by 24 % was as a result the unfavourable political climate during the 2017 General election. During this period the Authority reported low collection of Industrial Training Levy

2. Government grants and subsidies

The performance variance of 23% was as a result of the National Government withdrawal of Development grant made for the Authority

3. Rendering of services

The under collection of 49% was as a result of low admission of students and Trade Test registration.

4. Finance income

The under collection of 13% of Finance income is as a result of delayed investment in the first quarter following the National Treasury direct to convert all maturing fixed deposits investments to on call deposits with commercial banks.

5. Other income, rentals and agency fees

National Industrial Training Authority
Annual Reports and Financial Statements
For the year ended June 30, 2018

6. Use of goods and services

The under expenditure of 17% for good and services is as a result sound procurement plan in place thus reducing the cost for procurement for goods and services.

7. Remuneration of directors.

The under expenditure of 24% for director's remunerations is as a result of fewer Board and Board committee meeting than was budgeted for.

8. Repairs and Maintenance

The under Expenditure of 27% of repairs and Maintenance is as a result of management cost containment measure assets management to safe guard NITAs Assets.

9. Contracted services.

The under expenditure of 51% was as a result of asset valuation activity that was to be carried out during the period under review but due to the lengthy procurement process the activity was done in the current financial year.

10. Changes between original and final budget

The changes between original and final budget of 2.7% increase is as a result of reallocation of fund to cater for activities occasioned by circumstances that were un foreseen at the time of preparing the original budget.

NOTES TO THE FINANCIAL STATEMENTS

1. GENERAL INFORMATION

National Industrial Training Authority (NITA) is a state corporation established under the Industrial Training (Amendment) Act 2011. Its mandate is to promote the highest standards in the quality and efficiency of Industrial Training in Kenya and ensure adequate supply of properly trained manpower at all levels in industry.

2. STATEMENT OF COMPLIANCE AND BASIS OF PREPARATION

The financial statements have been prepared on a historical cost basis except for the measurement at re-valued amounts of certain items of property, plant and equipment, marketable securities and financial instruments at fair value, impaired assets at their estimated recoverable amounts and actuarially determined liabilities at their present value. The preparation of financial statements in conformity with International Public Sector Accounting Standards (IPSAS) allows the use of estimates and assumptions. It also requires management to exercise judgement in the process of applying the authorities accounting policies. The areas involving a higher degree of judgement or complexity, or where assumptions and estimates are significant to the financial statements, are disclosed in Note xx

The financial statements have been prepared and presented in Kenya Shillings, which is the functional and reporting currency of National Industrial Training Authority.

The financial statements have been prepared in accordance with the PFM Act, the State Corporations Act and International Public Sector Accounting Standards (IPSAS). The accounting policies adopted have been consistently applied to all the years presented.

3. ADOPTION OF NEW AND REVISED STANDARDS

i. Relevant new standards and amendments to published standards effective for the year ended 30 June 2018

| Standard | Impact |
|---------------------------------------|--|
| IPSAS 39: Employee Benefits | Applicable: 1st January 2018 The objective to issue IPSAS 39 was to create convergence to changes in IAS 19 Employee benefits. The IPSASB needed to create convergence of IPSAS 25 to the amendments done to IAS 19. The main objective is to ensure accurate information relating to pension liabilities arising from the defined benefit scheme by doing away with the corridor approach. |

NOTES TO THE FINANCIAL STATEMENTS (Continued)

3 ADOPTION OF NEW AND REVISED STANDARDS (Continued)

ii. New and amended standards and interpretations in issue but not yet effective in the year ended 30 June 2018

| Standard | Effective date and impact: |
|---|---|
| IPSAS 40: Public Sector Combinations | Applicable: 1st January 2019: The standard covers public sector combinations arising from exchange transactions in which case they are treated similarly with IFRS 3 (applicable to acquisitions only) Business combinations and combinations arising from non-exchange transactions which are covered purely under Public Sector combinations as amalgamations. |

iii. Early adoption of standards

NITA did not early – adopt any new or amended standards in year 2018.

4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

a) Revenue recognition

i) Revenue from non-exchange transactions

Fees, taxes and fines

NITA recognizes revenues from fees, taxes and fines when the event occurs and the asset recognition criteria are met. To the extent that there is a related condition attached that would give rise to a liability to repay the amount, deferred income is recognized instead of revenue. Other non-exchange revenues are recognized when it is probable that the future economic benefits or service potential associated with the asset will flow to NITA and the fair value of the asset can be measured reliably.

Transfers from other government entities

Revenues from non-exchange transactions with other government entities are measured at fair value and recognized on obtaining control of the asset (cash, goods, services and property) if the transfer is free from conditions and it is probable that the economic benefits or service potential related to the asset will flow to the entity and can be measured reliably. Recurrent grants are recognized in the statement of comprehensive income. Development/capital grants are recognized in the statement of financial position and realised in the statement of comprehensive income over the useful life of the assets that has been acquired using such funds

NOTES TO THE FINANCIAL STATEMENTS (Continued)

4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

a) Revenue recognition (Continued)

ii) Revenue from exchange transactions

Rendering of services

The entity recognizes revenue from rendering of services by reference to the stage of completion when the outcome of the transaction can be estimated reliably. The stage of completion is measured by reference to labour hours incurred to date as a percentage of total estimated labour hours.

Where the contract outcome cannot be measured reliably, revenue is recognized only to the extent that the expenses incurred are recoverable.

Interest income

Interest income is accrued using the effective yield method. The effective yield discounts estimated future cash receipts through the expected life of the financial asset to that asset's net carrying amount. The method applies this yield to the principal outstanding to determine interest income each period.

Rental income

Rental income arising from operating leases on investment properties is accounted for on a straight-line basis over the lease terms and included in revenue.

b) Budget information

The original budget for FY 2017-2018 was approved by the National Assembly in 2017. Subsequent revisions or additional appropriations were made to the approved budget in accordance with specific approvals from the appropriate authorities. The additional appropriations are added to the original budget by the entity upon receiving the respective approvals in order to conclude the final budget.

NITA's budget is prepared on a different basis to the actual income and expenditure disclosed in the financial statements. The financial statements are prepared on accrual basis using a classification based on the nature of expenses in the statement of financial performance, whereas the budget is prepared on a cash basis. The amounts in the financial statements were recast from the accrual basis to the cash basis and reclassified by presentation to be on the same basis as the approved budget. A comparison of budget and actual amounts, prepared on a comparable basis to the approved budget, is then presented in the statement of comparison of budget and actual amounts.

In addition to the Basis difference, adjustments to amounts in the financial statements are also made for differences in the formats and classification schemes adopted for the presentation of the financial statements and the approved budget.

A statement to reconcile the actual amounts on a comparable basis included in the statement of comparison of budget and actual amounts and the actuals as per the statement of financial performance has been presented under page 5 of these financial statements.

NOTES TO THE FINANCIAL STATEMENTS (Continued)

4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

c) Taxes

Current income tax

Current income tax assets and liabilities for the current period are measured at the amount expected to be recovered from or paid to the taxation authorities. The tax rates and tax laws used to compute the amount are those that are enacted or substantively enacted, at the reporting date in Kenya where the NITA operates and generates taxable income.

Current income tax relating to items recognized directly in net assets is recognized in net assets and not in the statement of financial performance. Management periodically evaluates positions taken in the tax returns with respect to situations in which applicable tax regulations are subject to interpretation and establishes provisions where appropriate.

Deferred tax

Deferred tax is provided using the liability method on temporary differences between the tax bases of assets and liabilities and their carrying amounts for financial reporting purposes at the reporting date.

Deferred tax liabilities are recognized for all taxable temporary differences, except in respect of taxable temporary differences associated with investments in controlled entities, associates and interests in joint ventures, when the timing of the reversal of the temporary differences can be controlled and it is probable that the temporary differences will not reverse in the foreseeable future.

Deferred tax assets are recognized for all deductible temporary differences, the carry forward of unused tax credits and any unused tax losses. Deferred tax assets are recognized to the extent that it is probable that taxable profit will be available against which the deductible temporary differences, and the carry forward of unused tax credits and unused tax losses can be utilized, except in respect of deductible temporary differences associated with investments in controlled entities, associates and interests in joint ventures, deferred tax assets are recognized only to the extent that it is probable that the temporary differences will reverse in the foreseeable future and taxable profit will be available against which the temporary differences can be utilized.

The carrying amount of deferred tax assets is reviewed at each reporting date and reduced to the extent that it is no longer probable that sufficient taxable profit will be available to allow all or part of the deferred tax asset to be utilized. Unrecognized deferred tax assets are re-assessed at each reporting date and are recognized to the extent that it has become probable that future taxable profits will allow the deferred tax asset to be recovered.

Deferred tax assets and liabilities are measured at the tax rates that are expected to apply in the year when the asset is realized or the liability is settled, based on tax rates (and tax laws) that have been enacted or substantively enacted at the reporting date.

Deferred tax relating to items recognized outside surplus or deficit is recognized outside surplus or deficit. Deferred tax items are recognized in correlation to the underlying transaction in net assets.

Deferred tax assets and deferred tax liabilities are offset if a legally enforceable right exists to set off current tax assets against current income tax liabilities and the deferred taxes relate to the same taxable entity and the same taxation authority.

NOTES TO THE FINANCIAL STATEMENTS (Continued)

4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

c) Taxes (Continued)

Sales tax

Expenses and assets are recognized net of the amount of sales tax, except:

- When the sales tax incurred on a purchase of assets or services is not recoverable from the taxation authority, in which case, the sales tax is recognized as part of the cost of acquisition of the asset or as part of the expense item, as applicable
- When receivables and payables are stated with the amount of sales tax included

The net amount of sales tax recoverable from, or payable to, the taxation authority is included as part of receivables or payables in the statement of financial position.

d) Property, plant and equipment

All property, plant and equipment are stated at cost less accumulated depreciation and impairment losses. Cost includes expenditure that is directly attributable to the acquisition of the items. When significant parts of property, plant and equipment are required to be replaced at intervals, the entity recognizes such parts as individual assets with specific useful lives and depreciates them accordingly. Likewise, when a major inspection is performed, its cost is recognized in the carrying amount of the plant and equipment as a replacement if the recognition criteria are satisfied. All other repair and maintenance costs are recognized in surplus or deficit as incurred. Where an asset is acquired in a non-exchange transaction for nil or nominal consideration the asset is initially measured at its fair value. Depreciation is calculated on straight line basis at annual rates estimates to write off carrying amounts values of property plant and equipment over the expected useful life.

e) Leases

Finance leases are leases that transfer substantially all of the risks and benefits incidental to ownership of the leased item to the Entity. Assets held under a finance lease are capitalized at the commencement of the lease at the fair value of the leased property or, if lower, at the present value of the future minimum lease payments. The Entity also recognizes the associated lease liability at the inception of the lease. The liability recognized is measured as the present value of the future minimum lease payments at initial recognition.

Subsequent to initial recognition, lease payments are apportioned between finance charges and reduction of the lease liability so as to achieve a constant rate of interest on the remaining balance of the liability. Finance charges are recognized as finance costs in surplus or deficit.

An asset held under a finance lease is depreciated over the useful life of the asset. However, if there is no reasonable certainty that the Entity will obtain ownership of the asset by the end of the lease term, the asset is depreciated over the shorter of the estimated useful life of the asset and the lease term.

Operating leases are leases that do not transfer substantially all the risks and benefits incidental to ownership of the leased item to NITA. Operating lease payments are recognized as an operating expense in surplus or deficit on a straight-line basis over the lease term.

f) Intangible assets

Intangible assets acquired separately are initially recognized at cost. The cost of intangible assets acquired in a non-exchange transaction is their fair value at the date of the exchange. Following initial recognition, intangible assets are carried at cost less any accumulated amortization and accumulated impairment losses. Internally generated intangible assets, excluding capitalized development costs, are not capitalized and expenditure is reflected in surplus or deficit in the period in which the expenditure is incurred.

The useful life of the intangible assets is assessed as either finite or indefinite.

g) Financial instruments

Financial assets

Initial recognition and measurement

Financial assets within the scope of IPSAS 29 Financial Instruments: Recognition and Measurement are classified as financial assets at fair value through surplus or deficit, loans and receivables, held-to-maturity investments or available-for-sale financial assets, as appropriate. NITA determines the classification of its financial assets at initial recognition.

Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. After initial measurement, such financial assets are subsequently measured at amortized cost using the effective interest method, less impairment. Amortized cost is calculated by taking into account any discount or premium on acquisition and fees or costs that are an integral part of the effective interest rate. Losses arising from impairment are recognized in the surplus or deficit.

Held-to-maturity

Non-derivative financial assets with fixed or determinable payments and fixed maturities are classified as held to maturity when NITA has the positive intention and ability to hold it to maturity. After initial measurement, held-to-maturity investments are measured at amortized cost using the effective interest method, less impairment. Amortized cost is calculated by taking into account any discount or premium on acquisition and fees or costs that are an integral part of the effective interest rate. The losses arising from impairment are recognized in surplus or deficit.

Impairment of financial assets

NITA assesses at each reporting date whether there is objective evidence that a financial asset or an entity of financial assets is impaired. A financial asset or entity of financial assets is deemed to be impaired if, and only if, there is objective evidence of impairment as a result of one or more events that has occurred after the initial recognition of the asset (an incurred 'loss event') and that loss event has an impact

on the estimated future cash flows of the financial asset or NITA of financial assets that can be reliably estimated. Evidence of impairment may include the following indicators:

- The debtors or a entity of debtors are experiencing significant financial difficulty
- Default or delinquency in interest or principal payments
- The probability that debtors will enter bankruptcy or other financial reorganization
- Observable data indicates a measurable decrease in estimated future cash flows (e.g. changes in arrears or economic conditions that correlate with defaults)

Financial liabilities

Initial recognition and measurement

Financial liabilities within the scope of IPSAS 29 are classified as financial liabilities at fair value through surplus or deficit or loans and borrowings, as appropriate. The Entity determines the classification of its financial liabilities at initial recognition. All financial liabilities are recognized initially at fair value and, in the case of loans and borrowings, plus directly attributable transaction costs.

Loans and borrowing

After initial recognition, interest bearing loans and borrowings are subsequently measured at amortized cost using the effective interest method. Gains and losses are recognized in surplus or deficit when the liabilities are derecognized as well as through the effective interest method amortization process.

Amortized cost is calculated by taking into account any discount or premium on acquisition and fees or costs that are an integral part of the effective interest rate.

h) Provisions

Provisions are recognized when NITA has a present obligation (legal or constructive) as a result of a past event, it is probable that an outflow of resources embodying economic benefits or service potential will be required to settle the obligation and a reliable estimate can be made of the amount of the obligation.

Where NITA expects some or all of a provision to be reimbursed, for example, under an insurance contract, the reimbursement is recognized as a separate asset only when the reimbursement is virtually certain.

The expense relating to any provision is presented in the statement of financial performance net of any reimbursement.

Contingent liabilities

NITA does not recognize a contingent liability, but discloses details of any contingencies in the notes to the financial statements, unless the possibility of an outflow of resources embodying economic benefits or service potential is remote.

Contingent assets

NITA does not recognize a contingent asset, but discloses details of a possible asset whose existence is contingent on the occurrence or non-occurrence of one or more uncertain future events not wholly within the control of NITA in the notes to the financial statements. Contingent assets are assessed continually to ensure that developments are appropriately reflected in the financial statements. If it has become virtually certain that an inflow of economic benefits or service potential will arise and the asset's value can be measured reliably, the asset and the related revenue are recognized in the financial statements of the period in which the change occurs.

i) Nature and purpose of reserves

NITA creates and maintains reserves in terms of specific requirements. *Currently NITA maintains 3 reserves:*

- Capital Reserve of Shs 90 million relating to grants from Parent Ministry
- A Revaluation reserve of shs 8,235,400 relating to revaluation of fixed assets after formation of NITA
- Revenue reserves relating to accumulated surpluses/deficit including prior year adjustments.

j) Changes in accounting policies and estimates

NITA recognizes the effects of changes in accounting policy retrospectively. The effects of changes in accounting policy are applied prospectively if retrospective application is impractical.

k) Employee benefits

Retirement benefit plans

NITA provides retirement benefits for its employees and directors. Defined contribution plans are post-employment benefit plans under which an entity pays fixed contributions into a separate entity (a fund), and will have no legal or constructive obligation to pay further contributions if the fund does not hold sufficient assets to pay all employee benefits relating to employee service in the current and prior periods. The contributions to fund obligations for the payment of retirement benefits are charged against income in the year in which they become payable.

Defined benefit plans are post-employment benefit plans other than defined-contribution plans. The defined benefit funds are actuarially valued tri-annually on the projected unit credit method basis. Deficits identified are recovered through lump sum payments or increased future contributions on proportional basis to all participating employers. The contributions and lump sum payments reduce the post-employment benefit obligation.

NOTES TO THE FINANCIAL STATEMENTS (Continued)

4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

l) Related parties

The Entity regards a related party as a person or an entity with the ability to exert control individually or jointly, or to exercise significant influence over the Entity, or vice versa. Members of key management are regarded as related parties and comprise the directors, the CEO and senior managers.

m) Cash and cash equivalents

Cash and cash equivalents comprise cash on hand and cash at bank, short-term deposits on call and highly liquid investments with an original maturity of three months or less, which are readily convertible to known amounts of cash and are subject to insignificant risk of changes in value. Bank account balances include amounts held at the Central Bank of Kenya and at various commercial banks at the end of the financial year. For the purposes of these financial statements, cash and cash equivalents also include short term cash imprests and advances to authorised public officers and/or institutions which were not surrendered or accounted for at the end of the financial year.

n) Comparative figures

Where necessary comparative figures for the previous financial year have been amended or reconfigured to conform to the required changes in presentation.

o) Subsequent events

There have been no events subsequent to the financial year end with a significant impact on the financial statements for the year ended June 30, 2018.

5 SIGNIFICANT JUDGMENTS AND SOURCES OF ESTIMATION UNCERTAINTY

The preparation of the Entity's financial statements in conformity with IPSAS requires management to make judgments, estimates and assumptions that affect the reported amounts of revenues, expenses, assets and liabilities, and the disclosure of contingent liabilities, at the end of the reporting period. However, uncertainty about these assumptions and estimates could result in outcomes that require a material adjustment to the carrying amount of the asset or liability affected in future periods. State all judgements, estimates and assumptions made:

Estimates and assumptions

The key assumptions concerning the future and other key sources of estimation uncertainty at the reporting date, that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year, are described below. The Entity based its assumptions and estimates on parameters available when the consolidated financial statements were prepared. However, existing circumstances and assumptions about future developments may change due to market changes or circumstances arising beyond the control of the Entity. Such changes are reflected in the assumptions when they occur. IPSAS 1.140

Useful lives and residual values

The useful lives and residual values of assets are assessed using the following indicators to inform potential future use and value from disposal:

- The condition of the asset based on the assessment of experts employed by the Entity
- The nature of the asset, its susceptibility and adaptability to changes in technology and processes
- The nature of the processes in which the asset is deployed
- Availability of funding to replace the asset
- Changes in the market in relation to the asset

Provisions

Provisions were raised and management determined an estimate based on the information available. Additional disclosure of these estimates of provisions is included in Note 14(a).

Provisions are measured at the management's best estimate of the expenditure required to settle the obligation at the reporting date, and are discounted to present value where the effect is material.

National Industrial Training Authority
Annual Reports and Financial Statements
For the year ended June 30, 2018

NOTES TO THE FINANCIAL STATEMENTS (Continued)

6 TRAINING LEVIES

| Description | 2017-2018 | 2016-2017 |
|--------------------------|-------------------|-------------------|
| | Kshs '000' | Kshs '000' |
| Industrial Training Levy | 686,658 | 679,789 |
| Total | 686,658 | 679,789 |

(This is revenue collected as a contribution by employers for employee training)

7 TRANSFERS FROM OTHER GOVERNMENTS

| Name of the Entity sending the grant | Amount recognized to Statement of Comprehensive Income Kshs '000' | Amount deferred under deferred income Kshs | Amount recognised in capital fund. | Total grant income during the year 2017-2018 | 2016-2017 |
|--|--|---|---|---|-------------------|
| | | | Kshs '000' | Kshs '000' | Kshs '000' |
| Ministry/State Department Labour and Social Protection | 401,400 | 0 | 0 | 401,400 | 523,466 |
| Total | 401,400 | 0 | 0 | 401,400 | 523,466 |

8 RENDERING OF SERVICES

| Description | 2017-2018 | 2016-2017 |
|--------------------------------|-------------------|-------------------|
| | Kshs '000' | Kshs '000' |
| Tuition Fees and Accommodation | 73,507 | 54,514 |
| Registration of Trainers | 8,298 | 7,504 |
| Trade Test Fees | 212,668 | 229,387 |
| Conference | 38,635 | 57,300 |
| Total | 333,108 | 348,705 |

(Revenue collected are tuition and Accommodation fees, Registration of trainers, trade test and conference activities)

NOTES TO THE FINANCIAL STATEMENTS (Continued)

9 FINANCE INCOME - EXTERNAL INVESTMENTS

| Description | 2017-2018 | 2016-2017 |
|--------------------|-------------------|-------------------|
| | Kshs '000' | Kshs '000' |
| Investment Income | 49,828 | 44,558 |
| Total | 49,828 | 44,558 |

(This refers to interest's income from on call deposit accounts with KCB)

10 OTHER INCOME

| Description | 2017-2018 | 2016-2017 |
|------------------------|-------------------|-------------------|
| | Kshs '000' | Kshs '000' |
| Miscellaneous Receipts | 12,789 | 96,338 |
| Deposit Receivables | 49,932 | 168,610 |
| Total | 62,721 | 264,948 |

11 USE OF GOODS AND SERVICES

| Description | 2017-2018 | 2016-2017 |
|--------------------|-------------------|-------------------|
| | Kshs '000' | Kshs '000' |
| Electricity | 21,566 | 19,628 |
| Water | 9,001 | 11,074 |
| Security | 18,527 | 16,091 |
| Subscriptions | 1,810 | 1,812 |
| Total | 50,904 | 48,605 |

12 EMPLOYEE COSTS

| | 2017-2018 | 2016-2017 |
|--------------------|-------------------|-------------------|
| | Kshs '000' | Kshs '000' |
| Salaries and wages | 549,044 | 498,136 |
| Staff Pension | 45,724 | 42,169 |
| Medical Expenses | 60,000 | 97,228 |
| Staff Development | 24,225 | 32,952 |
| Other Allowance | 4,642 | 7,617 |
| Welfare | 15,586 | 12,035 |
| Total | 699,222 | 690,137 |

NOTES TO THE FINANCIAL STATEMENTS (Continued)

13 REMUNERATION OF DIRECTORS

| Description | 2017-2018 | 2016-2017 |
|-------------------------|-------------------|-------------------|
| | Kshs '000' | Kshs '000' |
| Director Emoluments | 969 | 1,054 |
| Board Other Expenses | 10,468 | 11,738 |
| Board Capacity Building | 24,663 | 11,523 |
| Board Sub Committee | 7,103 | 2,442 |
| Total | 43,203 | 26,757 |

14 DEPRECIATION AND AMORTIZATION EXPENSE

| Description | 2017-2018 | 2016-2017 |
|--------------------------|-------------------|-------------------|
| | Kshs '000' | Kshs '000' |
| Buildings | 65,375 | 62,692 |
| Plant and Machinery | 29,636 | 29,636 |
| Motor Vehicle | - | 43,104 |
| Computer and Accessories | 47,128 | - |
| Furniture and Fittings | 7,654 | 6,590 |
| Equipment | 17,420 | 14,184 |
| Books | 123 | 123 |
| Intangibles | 17,021 | 8,832 |
| Total | 184,357 | 165,161 |

14(a) PROVISIONS

| Description | 2017-2018 | 2016-2017 |
|----------------------|-------------------|-------------------|
| | Kshs '000' | Kshs '000' |
| Accounts receivable | 12,823 | 12,823 |
| Audit Fees | - | 1,500 |
| Contingent Liability | - | 300 |
| Total | 12,823 | 14,623 |

**National Industrial Training Authority
Annual Reports and Financial Statements
For the year ended June 30, 2018**

15 REPAIRS AND MAINTENANCE

| Description | 2017-2018 | 2016-2017 |
|------------------------------|-------------------|-------------------|
| | Kshs '000' | Kshs '000' |
| Maintenance of Equipment | 1,249 | 1,097 |
| Maintenance of Buildings | 2,831 | 3,036 |
| Maintenance of Furniture | 295 | 93 |
| Maintenance of Grounds | 659 | 207 |
| Maintenance of Motor Vehicle | 12,927 | 10,726 |
| Maintenance of Software | 6,423 | 11,676 |
| Total | 24,384 | 26,835 |

16 CONTRACTED SERVICES

| Description | 2017-2018 | 2016-2017 |
|--------------------|-------------------|-------------------|
| | Kshs '000' | Kshs '000' |
| Part time lectures | 12,626 | 16,946 |
| Total | 12,626 | 16,946 |

17 GENERAL EXPENSES

| Description | 2017-2018 | 2016-2017 |
|--|-------------------|-------------------|
| | Kshs '000' | Kshs '000' |
| Audit fees | 960 | - |
| Advertising and Publicity | 20,647 | 19,308 |
| Bedding & Linen | 1,269 | 204 |
| Chemicals, Detergents & Industrial gases | 560 | 456 |
| Claims, Damages & Compensation | 3,408 | 5,293 |
| Conference Expenses | 8,649 | 15,549 |
| Curriculum Development | 10,675 | 5,673 |
| Domestic Travel | 16,248 | 18,141 |
| Female Sponsorship | 11,664 | 9,720 |
| Finance Expenses | 12,802 | 7,863 |
| Food & Ratio | 24,521 | 19,303 |
| Foreign Travel | 2,405 | 3,444 |

**National Industrial Training Authority
Annual Reports and Financial Statements
For the year ended June 30, 2018**

| | | |
|---|----------------|----------------|
| Fuel, Oil and Lubricants | 18,324 | 23,913 |
| Hospitality | 11,945 | 6,636 |
| Industrial Attachment | 32,615 | 23,219 |
| Insurance | 2,878 | 8,833 |
| Internal Audit Expenses | 4,787 | 4,127 |
| Legal Fees | 18,040 | 7,094 |
| Library | 286 | 211 |
| Management Consultancy | 1,782 | 3,043 |
| Marketing Expenses | 18,952 | 4,847 |
| Professional services | 18,036 | - |
| Office and General Supplies | 18,571 | 13,378 |
| Planning Expenses | 5,894 | 6,580 |
| Quality Assurance Expenses | 12,682 | 7,312 |
| Registration of Training Providers & Approvals for Training | 5,707 | 6,367 |
| Reimbursements for Management & Supervisory | 95,703 | 91,049 |
| Rent & Rates | 600 | 953 |
| Sector Committees | 21,405 | 11,008 |
| Seminars & Workshops | 2,510 | 5,022 |
| Specialized Materials | 21,209 | 22,652 |
| Student Examination | 2,671 | 5,311 |
| Supplies Chain Management Expenses | 5,093 | 5,135 |
| Telecommunication | 7,230 | 12,011 |
| Trade Test Expenses | 164,701 | 141,162 |
| Training Levy Expenses | 32,562 | 44,174 |
| Uniforms & Protective Clothing | 756 | 153 |
| Valuation Services | 11,500 | |
| Total | 650,248 | 559,144 |

**National Industrial Training Authority
Annual Reports and Financial Statements
For the year ended June 30, 2018**

NOTES TO THE FINANCIAL STATEMENTS (Continued)

18 CASH AND CASH EQUIVALENTS

| Description | 2017-2018 | 2016-2017 |
|--------------------------|-------------------|-------------------|
| | Kshs '000' | Kshs '000' |
| Current account | 80,926 | 989,120 |
| Cash in Hand | 612 | 688 |
| Cash in Transit | - | 24,000 |
| | 81,538 | 1,013,808 |
| Treasury bills | - | 180,000 |
| On Call deposits | 980,000 | - |
| Staff car loan/ mortgage | 140,000 | 80,000 |
| | 1,120,000 | 260,000 |
| Total | 1,201,538 | 1,273,808 |

18(a) DETAILED ANALYSIS OF THE CASH AND CASH EQUIVALENTS

| Financial institution | Account number | 2017-2018 | 2016-2017 |
|---|-----------------------|-------------------|-------------------|
| | | Kshs '000' | Kshs '000' |
| a) Current account | | | |
| Kenya Commercial bank Industrial Area (Revenue) | 1102588075 | 36,934 | 909,161 |
| Kenya Commercial bank Industrial Area (Payments) | 1158641931 | 4,940 | 23,647 |
| Kenya Commercial bank Kisumu | 1144138434 | 11,922 | 20,035 |
| Kenya Commercial bank Mombasa | 1144254639 | 15,315 | 26,464 |
| Kenya Commercial bank Kitengela | 1170854729 | 993 | 2,853 |
| Standard Chartered Bank Industrial Area | 104031408200 | 158 | 179 |
| National Bank Harambee Avenue | 1001000902800 | 664 | 6,781 |
| Sub- total | | 80,926 | 989,120 |
| b) Treasury bills | | | |
| National Bank of Kenya | | - | 100,000 |
| Co-operative Bank of Kenya | 1150012924502 | - | 80,000 |
| Sub- total | | - | 180,000 |
| c) Fixed deposits account | | | |
| Kenya Commercial bank | | 980,000 | - |
| Sub- total | | 980,000 | - |

National Industrial Training Authority
Annual Reports and Financial Statements
For the year ended June 30, 2018

| | | | |
|------------------------------------|------------|------------------|------------------|
| d) Staff car loan/ mortgage | | | |
| Kenya Commercial bank (Car) | 1206410337 | 20,000 | 20,000 |
| Kenya Commercial bank (Mortgage) | 1206410248 | 120,000 | 60,000 |
| Sub- total | | 140,000 | 80,000 |
| | | | |
| e) Others(specify) | | | |
| Cash in hand | | 612 | 688 |
| Cash in Transit | | - | 24,000 |
| Sub- total | | 612 | 24,688 |
| Grand total | | 1,201,538 | 1,273,808 |

19 RECEIVABLES FROM EXCHANGE TRANSACTIONS

| Description | 2017-2018 | 2016-2017 |
|----------------------------|-------------------|-------------------|
| | Kshs '000' | Kshs '000' |
| Current receivables | | |
| Receivables – Conference | 26,553 | 18,345 |
| Receivables- Students | 17,473 | 15,958 |
| Total | 44,026 | 34,303 |

20 RECEIVABLES FROM NON-EXCHANGE CONTRACTS

| Description | 2017-2018 | 2016-2017 |
|----------------------------|-------------------|-------------------|
| | Kshs '000' | Kshs '000' |
| Current receivables | | |
| Receivables – Staff | 33,494 | 47,543 |
| Total | 33,494 | 47,543 |

NOTES TO THE FINANCIAL STATEMENTS (Continued)

21 INVESTMENTS

| Description | 2017-2018 | 2016-2017 |
|---|----------------|----------------|
| | Kshs '000' | Kshs '000' |
| a) Investment in Treasury bills and bonds | | |
| Financial institution | | |
| National Bank of Kenya | - | 180,000 |
| Sub- total | - | 180,000 |
| b) Investment with Financial Institutions/ Banks | | |
| KCB-On-Call deposits | 980,000 | - |
| Sub- total | 980,000 | - |
| c) Equity Investments | 8,400 | 8,400 |
| Equity in Shares | 8,400 | 8,400 |
| Grand total | 988,400 | 188,400 |

d) Shareholding in other entities

For investments in equity share listed under note 27 (c) above, list down the equity investments under the following categories:

| Name of entity where investment is held | No of shares | | | Nominal value of shares | Fair value of shares | Fair value of shares |
|---|---------------------|-----------------------|------------------------|-------------------------|----------------------|----------------------|
| | Direct shareholding | Indirect shareholding | Effective shareholding | | | |
| | % | % | % | Shs | Shs | Shs |
| Consolidated Bank of Kenya-Ordinary Shares | 90,000 | | | 8,400 | 8,400 | |
| Consolidated Bank of Kenya- Preference shares | 90,000 | | | 8,400 | 8,400 | |

National Industrial Training Authority
Annual Reports and Financial Statements
For the year ended June 30, 2018

NOTES TO THE FINANCIAL STATEMENTS (Continued)

22 PROPERTY, PLANT AND EQUIPMENT

| | Land | Buildings | Plant & Machinery | Motor Vehicles | Computer & Accessories | Furniture | Equipment | Books | Totals |
|-------------------------------------|------------------|------------------|------------------------------|-----------------------|-----------------------------------|------------------|------------------|--------------|------------------|
| Cost | Kshs '000' | Kshs '000' | Kshs '000' | Kshs '000' | Kshs '000' | Kshs '000' | Kshs '000' | Kshs '000' | Kshs '000' |
| At 1st July 2016 | 5,653,615 | 2,507,675 | 237,084 | 164,659 | 124,973 | 45,958 | 111,045 | 1,233 | 8,846,242 |
| Additions | - | 107,329 | | 7,755 | 1,311 | 6,763 | 2,427 | - | 125,585 |
| At 30 June 2017 | 5,653,615 | 2,615,006 | 237,084 | 172,414 | 126,284 | 52,721 | 113,472 | 1,233 | 8,971,828 |
| At 1st July 2017 | 5,653,615 | 2,615,006 | 237,084 | 172,414 | 126,284 | 52,721 | 113,472 | 1,233 | 8,971,829 |
| Additions | - | 119,585 | | 16,200 | 37,082 | 13,015 | 83,472 | | 269,355 |
| At 30 June 2018 | 5,653,615 | 2,734,589 | 237,084 | 188,614 | 163,366 | 65,736 | 196,944 | 1,233 | 9,241,181 |
| Depreciation and Impairment | | | | | | | | | |
| At 1st July 2016 | - | 116,696 | 61,318 | 60,394 | 63,793 | 9,926 | 23,224 | 246 | 335,597 |
| Depreciation | - | 62,334 | 29,636 | 41,165 | 37,491 | 5,745 | 13,880 | 123 | 190,374 |
| Accumulated Dep 30 June 2016 | - | 179,030 | 90,954 | 101,559 | 101,285 | 15,671 | 37,105 | 369 | 525,973 |
| At 1st July 2017 | - | 179,030 | 90,954 | 101,559 | 101,285 | 15,671 | 37,105 | 369 | 525,973 |
| Depreciation | - | 62,692 | 29,636 | 43,104 | - | 6,590 | 14,184 | 123 | 156,329 |
| Accumulated Dep 30 June 2017 | - | 241,722 | 120,590 | 144,663 | 101,285 | 22,261 | 51,289 | 492 | 682,302 |
| Depreciation | - | 65,375 | 29,636 | - | 47,128 | 7,654 | 17,420 | 123 | 167,336 |
| Accumulated Dep 30 June 2018 | - | 307,097 | 150,226 | 144,663 | 148,413 | 29,915 | 68,709 | 615 | 849,638 |
| Net Book Values | | | | | | | | | - |
| At 30 June 2018 | 5,653,615 | 2,427,492 | 86,859 | 43,951 | 14,953 | 35,821 | 128,235 | 618 | 8,391,544 |
| At 30 June 2017 | 5,653,615 | 2,373,284 | 116,494 | 27,751 | 24,999 | 30,460 | 62,183 | 741 | 8,289,527 |
| Depreciation Rate | | 2.50% | 12.50% | 25.00% | 30.00% | 12.50% | 12.50% | 10.00% | |

NOTES TO THE FINANCIAL STATEMENTS (Continued)

(An amount of kshs 204,145,000 was not depreciated because at the closure of the financial year the assets had not been delivered but duly committed).

23 INTANGIBLE ASSETS-SOFTWARE

| Description | 2017-2018 | 2016-2017 |
|--|---------------|---------------|
| | Kshs '000' | Kshs '000' |
| Cost | | |
| At beginning of the year 1 st July | 29,441 | 23,243 |
| Additions | 39,209 | 6,198 |
| At end of the year 2018 | 68,650 | 29,441 |
| At end of the year | 68,650 | 29,441 |
| At beginning of the year | 25,704 | 16,872 |
| Amortization | 17,021 | 8,832 |
| At end of the year 30th June | 42,725 | 25,704 |
| NBV | 25,925 | 3,737 |

(An amount of kshs 11,913,000 was not depreciated because at the closure of the financial year the assets had not been delivered but duly committed).

24 TRADE AND OTHER PAYABLES FROM EXCHANGE TRANSACTIONS

| Description | 2017-2018 | 2016-2017 |
|------------------------------|----------------|---------------|
| | Kshs '000' | Kshs '000' |
| Trade payables | 242,502 | 63,666 |
| Payments received in advance | - | - |
| Other payables | - | - |
| Total | 242,502 | 63,666 |

National Industrial Training Authority
Annual Reports and Financial Statements
For the year ended June 30, 2018

NOTES TO THE FINANCIAL STATEMENTS (Continued)

25 CASH GENERATED FROM OPERATIONS

| | 2017-2018 | 2016-2017 |
|--|--------------------|-------------------|
| | Kshs '000'. | Kshs '000' |
| Surplus for the year before tax | (131,227) | 313,258 |
| Adjusted for: | | |
| Depreciation | 184,357 | 165,161 |
| Provision for receivables | - | 14,623 |
| Working Capital adjustments | | |
| Decreased in receivables exchange | 14,049 | 34,167 |
| Increase in receivables non exchange | (9,723) | 110,874 |
| Increase in Payables | 178,836 | (71,477) |
| Net cash flow from operating activities | 236,293 | 566,606 |

26 DEPOSITS HELD IN COLLAPSED BANKS

| Deposits held in collapsed banks | | |
|---|------------------|------------------|
| Description | 2017-2018 | 2016-2017 |
| Prudential Bank Ltd | 50,595 | 50,595 |
| Thabiti Finance Company | 26,029 | 26,029 |
| Pioneer Building Society | 15,000 | 15,000 |
| Continental Credit Finance Ltd | 8,830 | 8,830 |
| Nairobi Finance Company | 8,530 | 8,530 |
| Allied Credit Limited | 5,388 | 5,388 |
| Middle Africa Finance Co. Ltd | 5,345 | 5,345 |
| Meridian BIAO Bank (K) Ltd | 3,988 | 3,988 |
| Inter Africa Credit Ltd | 2,461 | 2,461 |
| Country Building Society | 2,000 | 2,000 |
| United Trustee Finance Co. Ltd | 1,300 | 1,300 |
| Total Deposits held in collapsed banks | 129,466 | 129,466 |
| Provision for Deposits in collapsed Banks | 129,466 | 129,466 |
| Total Deposits held in collapsed banks | Nil | Nil |

NOTES TO THE FINANCIAL STATEMENTS (Continued)

27 FINANCIAL RISK MANAGEMENT

The entity's activities expose it to a variety of financial risks including credit and liquidity risks and effects of changes in foreign currency. The company's overall risk management programme focuses on unpredictability of changes in the business environment and seeks to minimise the potential adverse effect of such risks on its performance by setting acceptable levels of risk. The company does not hedge any risks and has in place policies to ensure that credit is only extended to customers with an established credit history.

The entity's financial risk management objectives and policies are detailed below:

(i) Credit risk

The entity has exposure to credit risk, which is the risk that a counterparty will be unable to pay amounts in full when due. Credit risk arises from cash and cash equivalents, and deposits with banks, as well as trade and other receivables and available-for-sale financial investments.

Management assesses the credit quality of each customer, taking into account its financial position, past experience and other factors. Individual risk limits are set based on internal or external assessment in accordance with limits set by the directors. The amounts presented in the statement of financial position are net of allowances for doubtful receivables, estimated by the company's management based on prior experience and their assessment of the current economic environment.

FINANCIAL RISK MANAGEMENT

(i) Credit risk (Continued)

The carrying amount of financial assets recorded in the financial statements representing the entity's maximum exposure to credit risk without taking account of the value of any collateral obtained is made up as follows:

| | Total Amount | Fully Performing | Past due | Impaired |
|--|---------------------|-------------------------|-------------------|-------------------|
| | kshs '000' | kshs '000' | kshs '000' | kshs '000' |
| At 30 June 2018 | | | | |
| Receivables from Exchange Transactions | | | | |
| Conference Fees | 26,553 | 6,528 | 5,999 | 14,026 |
| Student Fees | 17,473 | 13,943 | 3,530 | - |
| Bank Balances | 1,200,520 | - | - | - |
| Total | 1,244,546 | 20,471 | 9,529 | 14,026 |
| At 30 June 2017 | | | | |
| Receivables from Exchange Transactions | | | | |
| Conference Fees | 18,345 | 18,345 | | |
| Student Fees | 15,958 | 15,958 | | |
| Bank Balances | 1,273,808 | - | | |
| Total | 1,308,111 | 34,303 | - | - |

NOTES TO THE FINANCIAL STATEMENTS (Continued)

The customers under the fully performing category are paying their debts as they continue trading. The credit risk associated with these receivables is minimal and the allowance for uncollectible amounts that the company has recognised in the financial statements is considered adequate to cover any potentially irrecoverable amounts.

The board of directors sets the company's credit policies and objectives and lays down parameters within which the various aspects of credit risk management are operated.

(ii) Liquidity risk management

Ultimate responsibility for liquidity risk management rests with the entity's directors, who have built an appropriate liquidity risk management framework for the management of the entity's short, medium and long-term funding and liquidity management requirements. The entity manages liquidity risk through continuous monitoring of forecasts and actual cash flows.

The table below represents cash flows payable by the company under non-derivative financial liabilities by their remaining contractual maturities at the reporting date. The amounts disclosed in the table are the contractual undiscounted cash flows. Balances due within 12 months equal their carrying balances, as the impact of discounting is not significant.

| | Less than 1 Month | Between 1-3 Months | Over 5 Months | Total |
|------------------------|--------------------------|---------------------------|----------------------|-------------------|
| | kshs '000' | kshs '000' | kshs '000' | kshs '000' |
| At 30 June 2018 | | | | |
| Trade Payables | 53,264 | 63,856 | 125,382 | 242,502 |
| Total | 53,264 | 63,856 | 119,448 | 242,502 |
| At 30 June 2017 | | | | |
| Trade Payables | 38,200 | 25,466 | - | 63,666 |
| Total | 38,200 | 25,466 | - | 63,666 |

NOTES TO THE FINANCIAL STATEMENTS (Continued)

FINANCIAL RISK MANAGEMENT (Continued)

iv) Capital Risk Management

The objective of the entity's capital risk management is to safeguard the Board's ability to continue as a going concern. The entity capital structure comprises of the following funds:

| | 2017-2018 | 2016-2017 |
|----------------------------------|--------------------|-------------------|
| | Kshs '000'. | Kshs '000' |
| Revaluation Reserve | 8,243,800 | 8,243,800 |
| Retained Earnings | 1,115,801 | 1,245,228 |
| Capital Reserve | 90,000 | 90,000 |
| Total Funds | 9,449,601 | 9,579,028 |
| Current liabilities | 242,502 | 63,666 |
| Total Current Liabilities | 242,502 | 63,666 |
| Net debt ratio to Equity | 3% | 1% |

Debt ratio an alternative gearing ratio calculated as total debt divided by total assets is shown below

| | 2017-2018 | 2016-2017 |
|---------------------------------|--------------------|-------------------|
| | Kshs '000'. | Kshs '000' |
| Total Debt | 242,502 | 63,666 |
| Total Assets | 9,709,167 | 9,657,317 |
| Net debt ratio to Assets | 2% | 1% |

28 RELATED PARTY BALANCES

Nature of related party relationships

Entities and other parties related to the entity include those parties who have ability to exercise control or exercise significant influence over its operating and financial decisions. Related parties include management personnel, their associates and close family members.

Government of Kenya

The Government of Kenya is the principal shareholder of the National Industrial Training Authority holding 100% of the *NITA's* equity interest. The Government of Kenya has provided full guarantees to all long-term lenders of the entity, both domestic and external. Other related parties include:

- i) The National Government;
- ii) Ministry of Labour and social protection.

**National Industrial Training Authority
Annual Reports and Financial Statements
For the year ended June 30, 2018**

NOTES TO THE FINANCIAL STATEMENTS (Continued)

28. RELATED PARTY BALANCE (Continued)

| | 2018 | 2017 |
|--|----------------|----------------|
| | Kshs | Kshs |
| Transactions with related parties | | |
| a) Grants from the Government | | |
| Grants from National Govt | 401,400 | 523,466 |
| Total | 401,400 | 401,400 |
| b) Key management compensation | | |
| Directors' emoluments | 963 | |
| Compensation to the DG | 5,518 | |
| Compensation to key management | 54,507 | |
| Total | 60,988 | |

NOTES TO THE FINANCIAL STATEMENTS (Continued)

29 CAPITAL COMMITMENTS

| Capital commitments | 2017-2018 | 2016-2017 |
|-------------------------------|------------------|------------------|
| | Kshs | Kshs |
| Authorised for | | |
| Authorised and contracted for | 120,474 | 130,194 |
| Total | 120,474 | 130,194 |

(NB: Capital commitments are commitments to be carried out in the next financial year and are disclosed in accordance with IPSAS 17. Capital commitments may be those that have been authorised by the board but at the end of the year had not been contracted or those already contracted for and ongoing)

30 EVENTS AFTER THE REPORTING PERIOD

There were no material adjusting and non- adjusting events after the reporting period.

31 ULTIMATE AND HOLDING ENTITY

NITA is a State Corporation/ or a Semi- Autonomous under the Ministry of Labour and Social Protection.

32 Currency

The financial statements are presented in Kenya Shillings (Kshs).rounded to the nearest 1,000.00

**National Industrial Training Authority
Annual Reports and Financial Statements
For the year ended June 30, 2018**

APPENDIX 1: PROGRESS ON FOLLOW UP OF AUDITOR RECOMMENDATIONS

The following is the summary of issues raised by the external auditor, and management comments that were provided to the auditor. We have nominated focal persons to resolve the various issues as shown below with the associated time frame within which we expect the issues to be resolved.

| Reference No. on the external audit Report | Issue / Observations from Auditor | Management comments | Focal Point person to resolve the issue (Name and designation) | Status: (Resolved / Not Resolved) | Timeframe: (Put a date when you expect the issue to be resolved) |
|---|--|--|---|---|---|
| 1 | Difference between valuation report and Fs Figures | Valuation being done | Julius Ndenge Chief Accountant | Valuation being done to determine the accuracy | 30 th August 2018 |
| 2 | Outstanding debtors | Follow done on recoveries | Julius Ndenge Chief Accountant | Efforts have been done and amounts have reduced. | 30 th October 2018 |
| 3 | Uncollected Training Levy | Demand letters had been issued to specific companies | GalmGuyo Levy Manager | Amounts have significantly reduced | 30 th Nov 2018 |
| 4 | Deposits held in Collapsed banks | Matter being followed by PIC | Julius Ndenge Chief Accountant | Matter being followed by PIC and advised that the parent Ministry should shed light as it is a historical issue. PIC recommend er that the amounts should not be written off. | 30 th June 2019 |

A.g Director General

Date.....

**National Industrial Training Authority
Annual Reports and Financial Statements
For the year ended June 30, 2018**

APPENDIX II: PROJECTS IMPLEMENTED BY THE ENTITY

Projects

Projects implemented by the State Corporation/ SAGA Funded by development partners

| Project title | Project Number | Donor | Period/duration | Donor commitment | Separate donor reporting required as per the donor agreement (Yes/No) | Consolidated in these financial statements (Yes/No) |
|---------------|----------------|------------|-----------------|------------------|---|---|
| KYEOP | P151831 | World Bank | 4 Years | 5.7B | YES | No |

Status of Projects completion

| | Project | Total project Cost | Total expended to date | Completion % to date | Budget | Actual | Sources of funds |
|---|---------|--------------------|------------------------|----------------------|--------|--------|------------------|
| 1 | KYEOP | 5.7B | 169M | 4.3% | 5.7B | 133M | Donor Funds |

**National Industrial Training Authority
Annual Reports and Financial Statements
For the year ended June 30, 2018**

APPENDIX III: INTER-ENTITY TRANSFERS

| | | | |
|--|--------------------------------|--------------------------|--|
| ENTITY NAME: | | | |
| Break down of Transfers from the State Department of Labour | | | |
| FY 17/18 | | | |
| | | | |
| | | | |
| a. Recurrent Grants | | | |
| | <u>Bank Statement Date</u> | <u>Amount (KShs)</u> | <u>Indicate the FY to which the amounts relate</u> |
| | 3/10/2017 | 100,350 | 2017/208 |
| | 17/01/2018 | 100,350 | 2017/2018 |
| | 8/3/2018 | 100,350 | 2017/2018 |
| | 9/5/2018 | 100,350 | 2017/2018 |
| | Total | 401,400 | |
| b. Development Grants | | | |
| | <u>Bank Statement Date</u> | <u>Amount (KShs)</u> | <u>Indicate the FY to which the amounts relate</u> |
| | | | |
| | | | |
| | Total | Nil | |
| c. Direct Payments | | | |
| | <u>Bank Statement Date</u> | <u>Amount (KShs)</u> | <u>Indicate the FY to which the amounts relate</u> |
| | | | |
| | | | |
| | Total | Nil | |
| d. Donor Receipts | | | |
| | <u>Bank Statement Date</u> | <u>Amount (KShs)</u> | <u>Indicate the FY to which the amounts relate</u> |
| | 18/08/2017 | 3,516 | 2017/2018 |
| | 16/03/2018 | 54,371 | 2017/2018 |
| | 11/04/2018 | 8,316 | 2017/2018 |
| | 16/05/2018 | 9,915 | 2017/2018 |
| | 31/05/2018 | 81,397 | 2017/2018 |
| | Total | 157,516 | |

The above amounts have been communicated to and reconciled with the parent Ministry

Finance Manager
NITA

Sign -----

Head of Accounting Unit
Ministry of Labor and social protection.

Sign-----

**National Industrial Training Authority
Annual Reports and Financial Statements
For the year ended June 30, 2018**

APPENDIX IV: RECORDING OF TRANSFERS FROM OTHER GOVERNMENT ENTITIES

| Name of the MDA/Donor Transferring the funds | Date received | Nature: Recurrent/Development/Others | Total Amount - KES | Where Recorded/recognized | | | | | Total Transfers during the Year |
|--|-----------------------|--------------------------------------|--------------------|------------------------------------|--------------|-----------------|-------------|---------------------------|---------------------------------|
| | as per bank statement | | | Statement of Financial Performance | Capital Fund | Deferred Income | Receivables | Others - must be specific | |
| Ministry of Labour and Social Protection | 3/10/2017 | Recurrent | 100,350 | 100,350 | - | - | - | - | 100,350 |
| Ministry of Labour and Social Protection | 17/01/2018 | Recurrent | 100,350 | 100,350 | - | - | - | - | 100,350 |
| Ministry of Labour and Social Protection | 8/3/2018 | Recurrent | 100,350 | 100,350 | - | - | - | - | 100,350 |
| Ministry of Labour and Social Protection | 9/5/2018 | Recurrent | 100,350 | 100,350 | - | - | - | - | 100,350 |
| Total | | | 401,400 | 401,400 | | | | | 401,400 |