

REPORT OF THE AUDITOR-GENERAL ON KISUMU NATIONAL POLYTECHNIC FOR THE YEAR ENDED 30 JUNE 2017

REPORT ON THE FINANCIAL STATEMENTS

Qualified Opinion

I have audited the accompanying financial statements of Kisumu National Polytechnic set out on pages 10 to 24, which comprise the statement of financial position as at 30 June 2017 and the statement of financial performance, and statement of cash flows 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,

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 Kisumu National Polytechnic as at 30 June 2017, and of its financial performance and its cash flows for the year then ended, in accordance with International Public Sector Accounting Standard (Accrual Basis).

In addition, as required by Article 229(6) of the Constitution, based on the procedures performed, except for matters raised in both the Basis for Qualified Opinion and Other Matter section of my report, I confirm that, nothing else has come to my attention to cause me to believe that public money has not been applied lawfully and in an effective way.

Basis of Qualified Opinion

1. Inaccuracies of Financial Statements

1.1 Statement of Financial Position

Included in the financial statements under note 21 is property, plant and equipment of Kshs.2,613,960,031 whose values are based on estimation except work in progress since their valuation is yet to be done

Further, depreciation for the assets has not been incorporated in the financial statements.

Consequently, the accuracy and status of balances of these financial statements as presented for the year ended 30 June 2017 cannot be confirmed.

1.2 Failure to Maintain a Deposit Account

Included in the statement of financial position under note 22 is trade and other payables balance of Kshs.33,072,856 which includes retention fees of Kshs.13,731,509 held for various projects. However, the institution did not maintain a deposit account for the retention fees. No explanation has been provided by management on the same. However, contrary to section 81(2) of Public finance

management Act (national government) regulations 2015 stipulates that the accounting officer shall include in the financial statements, a statement of the entity's assets and liabilities as at the end of the financial year in respect of the recurrent vote, development vote and funds and deposits.

Consequently, the accuracy of the deposit figure could not be confirmed

1.3 Unsupported Procurement

Included in the financial statements under note 9 is general expenses of Kshs.38,537,044 which includes production unit of Kshs.28,702,105 out of which Quest Consultants Ltd was paid a total of Kshs.751,390 through voucher number 313767 during FY 2016/2017 but procurement documents were not availed for audit. However, contrary to Section 104(I) of Public Finance Management Regulations, 2015 stipulate that all receipts and payment vouchers of public moneys shall be supported by pre-numbered receipt and payment vouchers and shall be supported by the appropriate authority and documentation.

Consequently, the accuracy and validity of the expenditure of Kshs.751,390 could not be confirmed

1.4 Lack of Interface System Functions

Included in the statement of financial performance is revenue from exchange transaction of Kshs.214,251,268 which includes tuition and other related fees of Kshs.196,008,850 under note 4, out of which tuition fees of Kshs.186,609,612 is reflected. However, the fees collection module was not linked to the financial module thus the system could not give the summary of invoice amount, fees paid and outstanding balances per student in relation to the total figure of Kshs.186,609,612. However, contrary to section 109(1) of Public Finance Management National Government Regulations 2015 stipulate that for efficient and effective utilization of electronic systems in processing financial data, the National Treasury shall develop and regularly issue standard operating procedures and instructions on the automated integrated financial management system operations, use and maintenance

Consequently, the accuracy on tuition fees of Kshs.186,609,612 could not be confirmed.

1.5 Provision for Bad and Doubtful Debts

Included in the statements of financial position under note 17 is receivables from exchange transaction figure of Kshs.17,274,167 which includes student debtors of Kshs.16,390,757. However, the management had not made a provision for bad and doubtful debts, while it is not certain that the amount in question will be fully recovered. However, contrary to section 64 (1) (a) stipulate that an accounting officer and a

receiver of revenue are personally responsible for ensuring that adequate safeguards exist and are applied for the prompt collection and proper accounting for all national government revenue and other public moneys relating to their ministries, departments or agencies.

Consequently, validity and accuracy of the current assets could not be confirmed.

1.6 Debtors Aging Analysis

Included in the statements of financial position under note 17 is receivables from exchange transaction figure of Kshs.17,274,167 which includes students' debtors (fee arrears) of Kshs.16,390,757. However, the list made available did not contain the dates when the income (fees) was recognized and there was no aging analysis for the debtors. This was, contrary to section 100 of Public Finance Management Regulation of 2015 which stipulate that Accounting Officers shall keep in all offices concerned with receiving cash or making payments, a cash book showing the receipts and payment and shall maintain such other books and register as may be necessary for the proper maintenance and production of the accounts of the vote for which he or she is responsible

Emphasis of Matter

1. Budgetary Under Performance

- 1.1 During the year 2016/2017, the Polytechnic approved budget estimates of Kshs.287,050,992 while the actual expenditure was Kshs.355,110,137. However, the items listed below had material variances between the budgets, and seven items expenditure was exceeded by over 30% of the budgeted items figures without approval.

| Item | Budget 2016/2017 Kshs. | Actual Kshs. | Variance Kshs. | Percentage Variance % |
|--|------------------------------|-----------------|-------------------|-----------------------------|
| General Expenses/Use of Goods | | | | |
| Domestic Travel and Subsistence | 2,674,662 | 5,368,817 | 2,694,155 | 201 |
| Boarding Related Expenses | 12,410,000 | 22,675,644 | 10,265,644 | 183 |
| Sports Activity Expenses | 7,360,000 | 9,682,045 | 2,322,045 | 132 |
| Contingencies (Hospitality Services) | 5,280,000 | 8,557,322 | 3,277,322 | 162 |
| Medical Related Expenses (Clinic Expenses) | 2,640,000 | 2,820,164 | 180,164 | 107 |
| Industrial attachment Expenses | 4,000,000 | 5,772,325 | 1,772,325 | 144 |
| Application Fees (Advertisements) | 1,000,000 | 1,107,444 | 107,444 | 111 |
| Learning Materials and Training | 37,976,943 | 72,877,880 | 34,900,937 | 192 |

| Item | Budget 2016/2017 Kshs. | Actual Kshs. | Variance Kshs. | Percentage Variance % |
|----------------------------|------------------------------|-----------------|-------------------|-----------------------------|
| Practical Related Expenses | 11,452,000 | 19,429,118 | 7,977,118 | 170 |
| Utility Supplies | 5,895,184 | 6,323,471 | 428,287 | 107 |
| Repairs and Maintenance | 37,236,871 | 39,955,029 | 2,718,158 | 107 |

1.2 Further, we observed that the financial statements under use of goods and services does not reflect marketing courses expenses of Kshs.7,100,000, rent expenses of Kshs.1,656,000 and Kisumu garment making project Kshs.3,840,000 which were budgeted for while security services Kshs.4,903,500, ICT expenses Kshs.1,086,850 and catering expenses of Kshs.6,698,691 were reflected in the financial statement but not budgeted for. However, contrary to Section 31:2(a) of the Public Finance Management Regulations 2015 states that an Accounting Officer is responsible, in particular for ensuring that all services which can be reasonably foreseen are included in the estimates and that they are within the capacity of her/his national government entity during the financial year. Subsection 2(b) states that the estimates should be complete and accurate, while section 43(b) Public Finance Management Regulations 2015 states that an Accounting Officer shall ensure that public funds entrusted to their care are properly safeguarded and applied for purpose for only which they were intended and appropriated by the National Assembly.

Consequently, the Polytechnic breached the law by overspending on various items without approval

2. Stalled Library Construction, Model Training Laboratory and Clinic Projects

Included in the financial statements under note 21 is property, plant and equipment of Kshs.2,508,141,883 which includes work in progress of Kshs.163,970,382 while the correct casting it is 269,788,818 resulting to understatement of Kshs.105,818,436. Hence, the property, plant and equipment should be Kshs.2,613,960,319. However, the following were noted.

- i) The polytechnic awarded a contract of Kshs.110,672,457 to Cell Arc Systems on 19 December 2011 for the construction of a library. However, the contract had a variation midway of Kshs.12,821,012 (about 11.6%), and the contract has not been executed to completion to date and the contractor abandoned the site. In addition, the matter had also been referred to arbitration over disputes with total payment to the contractor amounting to Kshs.123,492,468 including retention as resolved and determined by arbitration after the contract was terminated by the minutes of consultative meeting of 28th February 2017.

- ii) The award of the Model Training Laboratory and contract was also made to M/s Diaspora Designs Build Ltd on 21st January 2013 at a contract sum of Kshs.47,227,422, however, the same was varied midway to Kshs.59,045,505 by Kshs.11,818,083 (25%) but the contract has not been executed to completion to date and the contractor abandoned the site.

However, contrary to section 23:2(e) of Public Finance Management Regulations, 2015 states that an Accounting Officer shall take into account all relevant financial considerations, including issues of propriety, regularity and value for money. Consequently, delayed projects completion could lead to cost escalation and the Polytechnic have not got value for money

Responsibilities of Management and Those Charge with Governance for the Financial Statements

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 such 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.

In preparing the financial statements, management is responsible for assessing the Kisumu National Polytechnic ability to sustain services, disclosing, as applicable, matters related to sustainability of services and unless the management either intends 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.

Those charged with governance are responsible for overseeing the Kisumu National Polytechnic financial reporting process.

Auditor-General's Responsibilities for the Audit of the Financial Statements

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 of Kenya. 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 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.

As part of an audit 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.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Kisumu National Polytechnic and 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 Kisumu National Polytechnic ability to continue offering 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 Kisumu National Polytechnic to cease to continue Offering 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 of the entity's or business activities to express an opinion on the financial statements.

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.

From the matters communicated with management, I determine those matters that were of most significance in the audit of the financial statements of the current period

and are therefore the key audit matters. These matters are described in my auditor's report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, I determine that a matter should not be communicated in my report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.



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

Nairobi

23 August 2019