

REPORT OF THE AUDITOR-GENERAL ON NORTH EASTERN NATIONAL POLYTECHNIC FOR THE YEAR ENDED 30 JUNE 2018

REPORT ON THE FINANCIAL STATEMENTS

Qualified Opinion

I have audited the accompanying financial statements of North Eastern National Polytechnic set out on pages 18 to 40, 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 North Eastern National Polytechnic 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 Public Finance Management Act, 2012 and the Technical and Vocational Education and Training Act, 2013.

Basis for Qualified Opinion

1. Financial Statements

1.1 Late Submission of Financial Statements

During the year under review, the Polytechnic did not submit financial statements to the Auditor-General within statutory deadline of 30 September. The financial statements of the Polytechnic were submitted to the Auditor-General on 26 April 2019, ten (10) months after the closure of the financial year contrary to Section 47(1) and 164(4) of the Public Audit Act, 2015 and Public Finance Management Act, 2012 respectively which stipulates that within three months after the end of each financial year, the accounting officer for an entity shall submit the entity's financial statements to the Auditor-General.

The management of the Polytechnic was therefore in breach of the law.

1.2 Omissions on Financial Statements

The financial statements submitted for audit by the Polytechnic were not in the format approved by the Public Sector Accounting Standards Board since no trial balance was availed to support the financial statements balances, contrary to Section 47(2) of the Public Audit Act, 2015 which states that the financial statements shall be in the form

and content as prescribed by the Public Sector Accounting Standards Board. No proper explanation was given for not adhering to the Public Sector Accounting Standards Board's format on presentation of financial statements.

2. Cash and Cash Equivalents

Included in the total assets balance of Kshs.619,052,359 disclosed in the statement of financial position and note 7 of the financial statements is cash and cash equivalents balance of Kshs.39,603,524, being Kshs.32,889,880 and Kshs.6,713,644 for main account and development account respectively. However, there was no bank reconciliation statements for the bank accounts. Further, the cash book availed for audit review was system generated and the transactions reflected were both the main account and development account. No proper reason was given for not maintaining two separate cash books for the accounts.

In the circumstances, the accuracy and completeness of cash and cash equivalents figure of Kshs.39,603,524 as at 30 June 2018 could not be ascertained.

3. Unaccounted For Boarding and Equipment Expenses

The statement of financial performance and note 5 to the financial statements reflects general expenses of Kshs.39,050,703 which include Kshs.11,612,236 being Kshs.5,978,085 for development expenses and boarding and Kshs.5,634,151 for equipment expenses. However, a review of the expenditure for the same reflects the following anomalies:

- i. There was no prequalification list of suppliers,
- ii. Copies of quotations sent to various suppliers of goods and services were not availed for audit review.
- iii. There were no inspection and acceptance reports on the goods and services procured to confirm whether they were of the right quality and quantity.
- iv. The procured goods were not taken on charge in the stores ledgers and there were no issue notes to confirm the usage.

In the circumstances, the probity of the expenditure amounting to Kshs.11,612,236 as at 30 June 2018 could not be confirmed.

4. Unaccounted for Activity Expenses

The statement of financial performance and note 5 to the financial statements reflects Kshs.39,050,703 for general expenses which includes Kshs.5,795,709 in respect of activity expenses. However, audit review of the expenditure revealed that an amount of Kshs.3,217,249 was not properly supported as detailed below:

- i. Proforma invoice to confirm activity fees were not availed for audit scrutiny.
- ii. The programs/timetables of the trainings undertaken by the institution were not used to support the expenditure and was not also availed for audit review.
- iii. The mode of transport including bus tickets, air tickets and work tickets used were not availed for audit review.
- iv. The attendance registers for some of the trainings alleged to have been conducted were not availed for audit scrutiny.
- v. A total of Kshs.929,046 was paid to three different suppliers for supply and delivery of sports equipment. However, a review of the expenditure for the same revealed that the goods were directly procured from the suppliers and were not competitively bided. In addition, contract agreements or local purchase orders, delivery notes and inspection and acceptance reports/minutes for the same expenditure were not availed for audit review.

In the circumstances, the probity of the expenditure of Kshs.3,217,249 as at 30 June 2018 could not be ascertained.

5. Unaccounted for Foreign Travel Expenses

Included in the general expenses of Kshs.39,050,703 in the statement of financial performance and note 5 to the financial statements is an amount of Kshs.4,898,149 spent on local tours and travels. However, audit review of the expenditure records revealed that Kshs.1,118,519 spent on foreign travel expenses for three (3) members of staff attending a training in Newfoundland and New Brunswick in Canada between 6th and 18th May 2018 had the following anomalies;

- i. The expenditure was not budgeted for the financial year under review but instead it was charged to local tours and travel. There was no approval of re-allocation from the Board.
- ii. The invitation letter from the college of North Atlantic reflected that the travel costs including economy, international airfare, accommodation, per diems, local transportation, visa application costs, health insurance and all other applicable expenses for the activity were catered for by the college. However, the three staff were paid per diem from the institutions' fund.
- iii. There was no documentary evidence to proof that the three staff obtained clearance from the parent ministry of education before travelling for the training.
- iv. Copy of visas, passports and air tickets were not used to support the expenditure to confirm the alleged travel indeed took place.

In the circumstances, the probity of the expenditure of Kshs.1,118,519 as at 30 June 2018 could not be ascertained.

6. Procurement of Insurance Services

Included in the general expenses of Kshs.39,050,703 in the statement of financial performance and note 5 to the financial statements is an amount of Kshs.681,158 spent on insurance services for the Polytechnic. However, it was noted that the mode of procurement used for acquiring the insurance services such as request for quotations, requisition from user department and other relevant documents were not availed for audit review and was not also used to support the expenditure.

In the circumstances, the probity of the expenditure of Kshs.681,158 as at 30 June 2018 could not be confirmed.

7. Unsupported Expenditure on Repairs and Maintenance

The statement of financial performance and note 6 to the financial statements reflects a balance of Kshs.7,605,823 in respect of repairs and maintenance out of which Kshs.1,480,940 was paid to suppliers for supply and delivery of various goods and services. However, the expenditure was not supported with records such as request for quotations, requisition from user departments and list of unsuccessful bidders.

In the circumstances, the probity of the expenditure of Kshs.1,480,940 as at 30 June 2018 could not be ascertained.

8. Understatement of Fees

Included in the total revenue for the year under review of Kshs.63,330,755 as reflected in the statement of financial performance and note 2 of the financial statements is an amount of Kshs.13,943,255 relating to fees paid by students. However, the total fees collected from the students during the period under review according to the cash book was Kshs.17,902,729 resulting to unexplained variance of Kshs.3,959,474.

In the circumstances, accuracy of the fees balances reported in the financial statements as at 30 June 2018 could not be confirmed.

9. Property, Plant and Equipment

The statement of financial position and note 12 to the financial statement reflects property, plant and equipment with a net book value of Kshs.577,914,218. The property, plant and equipment movement schedule disclosed under note 12 indicates an opening balance of Kshs.589,635,000. However, there was no valuation of the property to support the balance availed for audit review. Further, the land and mechatronics equipment owned by the Polytechnic was not disclosed. An asset register showing nature, number, type and book value of assets owned by the institution was not maintained.

Consequently, the accuracy of the balance of Kshs.577,914,218 for property, plant and equipment as at 30 June 2018 could not be confirmed.

10. Depreciation

The depreciation and amortization charge of Kshs.4,514,850 on property, plant and equipment disclosed as at 30 June 2018 was not properly supported. The Polytechnic had no depreciation policy in place to provide guidance on deprecation rates to be applied on different asset classes.

In the circumstances, accuracy of the depreciation charge figure of Kshs.4,514,850 as at 30 June 2018 cannot be confirmed.

The audit was conducted in accordance with International Standards of Supreme Audit Institutions (ISSAIs). I am independent of North Eastern National Polytechnic 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 of the current year under review. Except for the matters described in the Basis for Qualified Opinion section of my report, I confirm that there were no Key Audit Matters to report in the year under review.

Other Matter

1. Budgetary Control and Performance

1.1 Budgetary Process

A review of the budgetary process, control and performance revealed that there was no budget circular to departments setting out the legal framework, instructions on the budget process and budget calendar and a copy of the formally approved budget maintained for the financial year ended 30 June 2018. No proper explanation was provided for not maintaining the relevant documents.

1.2 Budget Analysis

	Budget	Actual	Variance
Revenue	Kshs.	Kshs.	Kshs.
Grants	53,253,427	49,387,500	3,865,927
Fee and Other Income	31,774,805	13,943,255	17,831,550
Total Income	85,028,232	63,330,755	21,697,477
Expenses			
Compensation of Employees	7,538,900	7,546,726	(7,826)
Other Payments	77,489,332	51,171,376	26,317,956
Total Expenditure	85,028,232	58,718,102	26,310,130
Surplus/(Deficit) for the Year		4,612,653	(4,612,653)

From the above budget analysis, the following observations were made:

- i. The basis or source information for setting the budget estimates especially for revenue collection was not provided for audit review.
- ii. The Polytechnic had an annual revenue estimates of Kshs.85,028,232 but the actual revenue realized was Kshs.63,330,755 resulting in a shortfall in revenue of Kshs.21,697,477 representing 26%, an indication of underperformance in collection of fees and other income.
- iii. There was an over expenditure of Kshs.7,826 on the compensation of employees.

No proper explanation was given for the under collection of the revenue and the over expenditure on compensation of employees.

2. Human Resource Management

The statement of financial performance and note 3 to the financial statements reflects a balance of Kshs.7,546,726 on salaries and wages. It was noted that the polytechnic had twenty six (26) permanent employees and eighteen (18) casual workers. However, a review of the records on Human Resource revealed the following anomalies:

- i. Two (2) new staff i.e. a secretary and procurement officer were recruited on permanent and pensionable terms without any advertisement for the posts.
- ii. There was no muster roll for the casual workers maintained.
- iii. The Polytechnic had no human resource policy on engagement and management of casual laborers.

Consequently, there was no compliance of the Human Resource Policies and Procedures Manual for the Public Service in regard to recruitment and other relevant policies.

REPORT ON LAWFULNESS AND EFFECTIVENESS IN USE OF PUBLIC RESOURCES

Conclusion

As required by Article 229(6) of the Constitution, based on the audit procedures performed, except for the matters described in the Basis for Qualified Opinion 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 for Conclusion

The audit was conducted in accordance with ISSAI 4000. The standard requires that I comply with ethical requirements and plan and perform the audit to obtain assurance about whether the activities, financial transactions and information reflected in the financial statements are in compliance, in all material respects, with the authorities that govern them. I believe that the audit evidence I have obtained is sufficient and appropriate to provide a basis for my conclusion.

REPORT ON EFFECTIVENESS OF INTERNAL CONTROLS, RISK MANAGEMENT AND GOVERNANCE

Conclusion

As required by Section 7 (1) (a) of the Public Audit Act, 2015, based on the audit procedures performed, except for the matters described in the Basis for Conclusion on Effectiveness of Internal Controls, Risk Management and Governance section of my report, I confirm that, nothing else has come to my attention to cause me to believe that internal controls, risk management and overall governance were not effective.

Basis for Conclusion

1. Lack of Internal Audit Department and Audit Committee

Section 73 of the Public Finance Management Act, 2012 requires each national government entity to establish an audit committee. Contrary to the Act, the Polytechnic did not establish both internal audit department and audit committee to monitor the entity's governance process, accountability process and control systems and also offer objective advice on issues concerning risk, control, regulatory requirements and governance.

In the circumstances, the Polytechnic was in breach of Section 73 of the Public Finance Management Act, 2012.

2. Lack of Risk Management Policy and Fraud Prevention Mechanisms

Section 165(1)(a) of the Public Finance Management Act, 2012 (National Government) Regulations states that each national government entity shall develop (a) risk management strategies, which include fraud prevention mechanism. Contrary to the Act, the Polytechnic did not put in place a risk management policy and fraud prevention mechanisms to assist in enhancing its internal controls.

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

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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 Polytechnic's ability to continue to sustain its services, disclosing, as applicable, matters related to sustainability of services and using the going concern basis of accounting, unless the management either intends to liquidate the Polytechnic or to cease operations, or 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 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

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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 non-compliance. Also, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies and procedures may deteriorate.

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

- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for my opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the management.
- Conclude on the appropriateness of the management's use of the 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 Polytechnic's ability to continue as a going concern. 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 Polytechnic to cease to continue to sustain its services.

- Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.
- Obtain sufficient appropriate audit evidence regarding the financial information and business activities 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

21 August 2019