

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

REPORT ON THE FINANCIAL STATEMENTS

Qualified Opinion

I have audited the accompanying financial statements of The Kisumu National Polytechnic set out on pages 10 to 23, which comprise the statement of financial position as at 30 June 2018, the statements of financial performance, statement of changes in equity, 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 effects of the matter described in the Basis for Qualified Opinion section of my report, the financial statements present fairly, in all material respects, the financial position of The Kisumu 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 Public Finance Management Act, 2012.

Basis for Qualified Opinion

1. Inaccuracy in the Financial Statements

1.1 Failure to make a Provision for Bad and Doubtful Debts

Included in the financial statements under note 17 is receivable from exchange transactions balance of Kshs.25,757,830 which includes Student Debtors of Kshs.23,316,383 as at 30 June 2018. However, it is observed from the financial statement that the management had not made a provision for bad and doubtful debts putting in question whether it is certain that the amount in question will be fully recovered. A review of the individual students' statements revealed that some accounts had been dormant for over one year. However, contrary to Section 64(1) (a) Public Finance Management National Government Regulation 2015 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, the accuracy and validity of student debtors of Kshs.23,316,383 could not be confirmed.

1.2 Long Outstanding Rent Arrears

Included in the financial statements under note 17 is receivable from exchange transactions figure of Kshs.25,757,830 which includes rent receivable of Kshs.729, 712 remained outstanding as at 30.06.2018 under rent arrears mostly from members of staff. However, analysis of rent receivable statement revealed that most of these members of staff were employed by the Teachers Service Commission. The management had no policy on how the same should be recovered. Two of the staff had retired and one had left the institution with outstanding rent arrears of Kshs.413,952 as at 30 June 2018. It was not clear how the outstanding amount will be recovered from them. However, 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.

In consequence, the accuracy and recoverability of the rent arrears of Kshs.413,952 is highly doubtful

1.3 Recovery of Advances

Included in the financial statements under note 17 is receivable from exchange transactions balance of Kshs.25,757,830 which includes salary advances of Kshs.697,509, out of which a staff was advance Kshs.508,700 to supply chairs to the institution on 27th May 2015 and by 30 June 2018 the chairs had not been delivered. Further, out of the advances figure there were also three staff who were advanced more than thrice salary advance totaling Kshs.189,000. However, it was noted that the recovery of the salary advances from employees remained doubtful due to lack of a policy by the management on the issue and repayment of salary advances. Some of the employees who have taken salary advances are lecturers employed by the Teachers Service Commission and casual workers. 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.

Under the circumstance, the accuracy and recoverability of the salary advances of Kshs.697,509 remains doubtful

1.4 Lack of Circularization of Trade Creditors

Included in the financial statements under note 20 is trade and other payables of Kshs.49,375,364 which includes accounts payable amount of Kshs.23,316,383. However, the management did not undertake any circularization of the trade creditors as at the end of the year. However, contrary to section 99(3) of Public finance management Act (National Government) Regulations 2015 stipulate that every entry in the accounts shall be supported by a voucher or other approved document gazetted by the Cabinet Secretary containing the full details, clear narrations and particulars of the item or items to which it relates.

In the circumstances, the accuracy and validity of the accounts payable of Kshs.23,316,383 could not be confirmed

1.5 Interface System Functions

Included in the statements of financial performance is revenue from exchange transaction of Kshs.261,753,057 which includes tuition and other related fees of Kshs.228,108,165 under note 4 as at 30 June 2018. However, the fees collection module supporting the same was not linked to the institution finance module and thus could not generate reports of invoice number, invoice amount, fees paid and fees balance. Therefore, the accuracy and completeness of tuition and other related charges amounting to Kshs.228,108,165 could not be confirmed.

Further, under note 7 is other income of Kshs.15,742,826 which includes the pay as you eat system which was not linked to the finance module thus revenue collected of Kshs.9,198,760 could not be confirmed from the system. However, contrary to Section 109(1) of the 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 and validity of Kshs.261,753,057 could not be confirmed as at 30 June 2018.

1.6 Property Plant and Equipment

Included in the financial statements under note 19 is property, plant and equipment of Kshs.2,655,169,500 as at 30 June 2018. Analysis of the financial statements figure against the assets register revealed that three items had different amounts as below:

Asset Category	Amount as per Asset Register Kshs.	Amount as per Financial Statement Kshs.	Variance Kshs.
Equipment and Machinery	327,749,143	325,915,640	1,833,503
Furniture & Fittings	32,679,879	31,610,215	1,069,664
Computers	19,223,368	21,266,885	(2,043,517)

Further, work in progress of Kshs.5,970,909 reflected in the financial statements while the amount paid during the year under review is Kshs.2,285,896 on 27th April 2018 vide Cheque No. 011292 for the construction of an incinerator whose contract was undertaken by Eco Homs Ltd at a sum of Kshs.5,942,077. Hence, Work in Progress is overstated by Kshs.3,685,013.

In addition, the property, plant and equipment reflects category of assets whose values are based on estimation except Work in Progress since their valuation is yet to be done and depreciation has not been incorporated in the financial statements. However,

contrary to Section (100) of Public Finance Management (National Government) Regulations 2015 stipulates that Accounting Officers shall keep in all offices concerned with receiving cash or making payments a cash book showing the receipts and payments and shall maintain such other books and registers as may be necessary for the proper maintenance and production of the accounts of the Vote for which he or she is responsible.

Under the circumstances, the accuracy, completeness and validity of the property, plant and equipment balance of Kshs.2,655,169,500 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 The Kisumu 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 opinion.

Emphasis of Matter

1. Budget Performance

During the year 2017/2018, the Polytechnic approved budget estimates of Kshs.312,546,032 while the actual expenditure was Kshs.400,608,021. However, the items listed below had material variances between the budgets, and four items expenditure namely; use of goods, general expenses, repair and maintenance and contracted services were exceeded against the budgeted items figures without approval

Item	Budget 2017 /2018 Kshs.	Actual Kshs.	Variance Kshs.	Percentage Variance %
Employee Costs	47,374,010	45,715,987	1,658,023	97
Use of Goods	168,116,351	238,655,455	(70,539,104)	142
General Expenses	10,000,000	21,285,395	(11,285,395)	213
Repairs and Maintenance	37,235,671	40,287,082	(3,051,411)	108
Contracted Services	5,320,000	5,349,000	(29,000)	101
Council Expenses	8,500,000	8,105,921	394,079	95
Capital Expenses	36,000,000	41,209,181	(5,209,181)	114
Total	312,546,032	400,608,021	(88,061,989)	128

However, contrary to section 43(b) of the 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 purposes for only which they were intended and appropriated by the National Assembly

Key Audit Matters

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

Other Matters

REPORT ON COMPLIANCE WITH LAWFULNESS AND EFFECTIVENESS IN USE OF PUBLIC MONEY

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 [Conclusion on Lawfulness and Effectiveness in Use of Public Resources/ 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

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

Included in the financial statements under note 19 is property, plant and equipment of Kshs.2,655,169,500 which includes work in progress of Kshs.275,759,727 out of which the following were noted.

- (i) The polytechnic awarded a contract of Kshs.110,672,456.60 to Cell Arc Systems on 19th December 2011 for the construction of a Library. However, the contract though had a variation midway of Kshs.12,821,012 (about 11.6%), the contract has not been executed to completion to date and had been referred to arbitration over disputes with total payment to the contractor amounting to Kshs.120,777,416.40 including retention as resolved and determined by arbitration.
- (ii) The award of the Model Training Laboratory was 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 (about 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 National Government Regulations, 2015 that an Accounting Officer shall take into account all relevant financial considerations, including issues of propriety, regularity and value for money.

Consequently, the incomplete library, model training laboratory and clinic projects are yet to serve the intended purpose and the polytechnic have not get value for money.

2. Failure to Maintain a Deposit Account

Included in financial statements under note 22 is refundable deposits of Kshs.3,994,519. However, the institution did not maintain a deposit account for the deposits. Further, 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 existence, accuracy and validity of the refundable deposits of Kshs.3,994,519 as at 30 June 2018 could not be confirmed.

My responsibility is to express a conclusion based on the review. The review was conducted in accordance with ISSAI 4000. The standard requires that I comply with ethical requirements and plan and perform the review so as to obtain limited assurance as to 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.

A review is limited primarily to analytical procedures and to inquiries, and therefore provides less assurance than an audit. I have not performed an audit, and, accordingly, express my conclusion in the form of limited assurance, which is consistent with the more limited work I have performed under this compliance review.

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, 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

1. Information Technology Internal Control

During the year under review an assessment of the entity's IT internal control environment, revealed the following observations:

Information Technology Governance: the entity does not have active IT strategy and IT steering committees, lacks an approved, operational IT policy.

Security Management: the entity does not have an IT security policy.

Program Change Management; the entity does not have documented and approved processes to manage upgrades made to financial information systems as well as a formal change request documentation to indicate what changes have been made to financial systems and reasons for these changes.

Physical Access Controls; Physical access to sensitive areas like the computer rooms housing the server computers is not adequately controlled, the organization does not have a well-equipped and dedicated server room to safeguard and ensure optimal performance of the server computers.

Environmental Controls: No policies and procedures to cover environmental controls, there was no formal, documented and tested emergency procedure in place to minimize disruption of business in case of an emergency, the server room lacked the following important equipment: - Fire suppression system, Temperature control system for air conditioning.

IT Service Continuity: The organization lacks a disaster recovery plan, Backups are not stored in a secure off site facility.

Logical Access Control: The organization does not have a formally documented and approved user management standard and procedure i.e. user account management policy.

Consequently, in the absence of a formally documented IT policy could lead to lack of a clear direction on the management and use of the IT systems in place and their related controls and also understate the assets and liability of the Institution.

My responsibility is to express a conclusion based on the review. The review was conducted in accordance with ISSAI 1265. The standard requires that I plan and perform the review so as to obtain limited assurance as to whether effective processes and systems of internal control, risk management and governance was maintained in all material respects.

The matters reported are limited to the deficiencies identified during the audit that I have concluded are material to be reported. I have not performed an audit, and, accordingly, express my conclusion in the form of limited assurance, which is consistent with the more limited work I have performed under this review.

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.

In preparing the financial statements, management is responsible for assessing the projects ability to continue to sustain services, disclosing, as applicable, matters related to sustainability of services and using the applicable basis of accounting unless the management either intends to liquidate the Kisumu National Polytechnic 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 money is applied in an effective manner.

Those charged with governance are responsible for overseeing the Kisumu National Polytechnic 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 review is planned and performed to express a conclusion with limited assurance as to 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 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. The nature, timing and extent of the compliance work is limited compared to that designed to express an opinion with reasonable assurance on the financial statements.

Further, in planning and performing the audit of the financial statements and review 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 Kisumu National Polytechnic 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 Kisumu National Polytechnic 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 Kisumu National 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 of the Kisumu National Polytechnic 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

03 June 2019