

# **REPORT OF THE AUDITOR-GENERAL ON THE KENYA COAST NATIONAL POLYTECHNIC FOR THE YEAR ENDED 30 JUNE, 2018**

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## **REPORT ON THE FINANCIAL STATEMENTS**

### **Adverse Opinion**

I have audited the accompanying financial statements of Kenya Coast National Polytechnic set out on pages 1 to 21, which comprise of the statement of financial position as at 30 June, 2018, the statement of financial performance, statement of changes in net assets, statement of cash flows and the statement of comparison of budget and actual amounts for the year then ended, and a summary of significant accounting policies and other explanatory information in accordance with the provisions of Article 229 of the Constitution of Kenya and Section 35 of the Public Audit Act, 2015. I have obtained all the information and explanations which, to the best of my knowledge and belief, were necessary for the purpose of the audit.

In my opinion, because of the significance of the matters discussed in the Basis for Adverse Opinion section of my report, the financial statements do not present fairly, in all material respects, the financial position of the Kenya Coast 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 do not comply with the Kenya Coast National Polytechnic Order, 2016 and the Public Finance Management Act, 2012.

### **Basis for Adverse Opinion**

#### **1.0 Accuracy of the Financial Statements**

The audit of the financial statements for the year ended 30 June, 2018 revealed the following unsatisfactory matters:

#### **1.1 Unsupported Opening Reserves**

The statement of changes in net assets for the year ended 30 June, 2018 reflects a balance of Kshs.2,055,304,366. As previously reported, this balance includes an opening balance of Kshs.1,846,650,764 in respect of the opening reserves balance as at 01 June, 2016, being fair value adjustment reserve of Kshs.3,000,000, Mentored TTI grant of Kshs.221,731,315, retained earnings of Kshs.77,236,487 and capital/development grants/fund of Kshs.1,544,682,962. However, available information indicates that the financial year 2016/2017 was the first year of preparation of accounts and their audit and the opening balance remains unsupported.

Consequently, the accuracy and completeness of the statement of changes in net assets with a total balance of Kshs.2,055,304,366 as at 30 June, 2018 could not be confirmed.

## 1.2 Unsupported Balances in the Statement of Cash flows

The statement of cash flows for the year ended 30 June, 2018 reflects a cash and cash equivalents balance of Kshs.178,089,157 as at 30 June, 2018. However, the balance includes an opening balance of Kshs.153,368,135 being the cash and cash equivalents as at 01 July, 2016 which has not been supported. Further, the statement of cashflows reflects an increase in payables of Kshs.37,547,357 instead of Kshs.31,974,584 as per Note 23 to the financial statements resulting to a variance of Kshs.5,572,773 and which has not been explained or reconciled.

In addition, the statement reflects unsupported internal development fund amount of Kshs.13,951,903 under receipts.

Consequently, the accuracy and completeness of the statement of cash flows for the year ended 30 June, 2018 could not be confirmed.

## 2.0 Unsupported Revenue and Expenditure

The statement of financial performance for the year ended 30 June, 2018 reflects total revenue of Kshs.261,836,115 and total expenses of Kshs.228,092,969. However, these amounts include revenue of Kshs.211,586,115 and expenditure of Kshs.56,581,264 which were not supported with the relevant schedules, receipt vouchers and payment documents as detailed below:

Item	Note	Amounts as per Financial Statements (Kshs.)	Unsupported Amount (Kshs.)
<b>Revenue</b>			
Rendering of Services - Fees from Students	6	175,517,088	175,517,088
Other Services Rendered	7	29,762,032	29,762,032
Rental Revenue from Facilities and Equipment	8	1,123,500	1,123,500
Other Income	9	5,183,495	5,183,495
<b>Sub-Total</b>		<b>211,586,115</b>	<b>211,586,115</b>
<b>Expenditure</b>			
Employee Costs	10	35,683,176	35,683,176
Repairs and Maintenance	13	21,379,690	20,594,868
General Expenses	14	47,740,583	40,000
Operating Expenses	15	73,679,173	263,220
<b>Sub-Total</b>		<b>178,482,622</b>	<b>56,581,264</b>

In the circumstances, the accuracy and completeness of the statement of financial performance for the year ended 30 June, 2018 could not be confirmed.

### **3.0 Cash and Cash Equivalents**

As disclosed in Note 17 to the financial statements, the statement of financial position as at 30 June, 2018 reflects cash and cash equivalents balance of Kshs.178,089,157. The audit of the cash and cash equivalents revealed following unsatisfactory matters:

#### **3.1 Lack of Cash Books and Bank Reconciliation Statements**

The Cash and Cash equivalents balance includes savings accounts balances of reserve fund balance of Kshs.1,985,126, capital development balance of Kshs.1,073,847 and caution money balance of Kshs.522,537 whose supporting cash books and bank reconciliation statements were not provided for audit review.

Consequently, the savings account balances could not be confirmed.

#### **3.2 Non-Disclosure of Bank Overdraft**

Note 17 (a) to the financial statements reflects a current account balance of Kshs.23,997,535 which is net of a negative cash book balance of Kshs.11,870,092. This is contrary to International Public Sector Accounting Standard 1 on presentation of financial statements which prohibits the setting-off of negative cashbook balance against positive bank balances. The standard requires negative cash book balances to be presented under liabilities.

Further, the bank reconciliation statement for June, 2018 reflects unrepresented cheques totaling Kshs.13,489,799 whose dates of issue and names of payees were not disclosed nor indicated. In addition, the figure is different from the re-casted figure of Kshs.13,403,317 by Kshs.86,482, a difference which has not been explained or reconciled. In addition, the bank reconciliation statement as at 30 June, 2018 reflects direct bankings amounting to Kshs.15,178,083 without dates, names of drawers and amounts deposited nor explanations provided as to why they have not been entered in cash book. Bank statements to show when these cheques and deposits were subsequently presented and cleared in the bank were also not availed for audit verification.

Further, the authority from The National Treasury to overdraw the bank account was not provided for audit review, contrary to Section 82(7) of the Public Finance Management (National Government) Regulations, 2015 which provides that 'No official government bank account shall be overdrawn, nor shall any advance or loan be obtained from a bank account for official purposes beyond the limit, authorized by The National Treasury'. Paragraph 8 of the regulations provides that 'the authority shall be conveyed in writing to the responsible Accounting Officer'.

Consequently, the accuracy and completeness of the bank overdraft could not be confirmed.

### **3.3 Bankings not Recorded in Cashbook – College Fund Account 2**

Included in the cash and cash equivalents balance of Kshs.178,089,157 is College Fund account balance of Kshs.2,739,797 and Production Unit account balance of Kshs.30,862,615. However, the supporting bank reconciliation statement as at 30 June, 2018 reflects direct bankings of Kshs.715,596.50 and Kshs.416,635 respectively whose non-recording in cash book has not been explained.

Consequently, accuracy of the bank balances reflected in the statement of financial performance could not be confirmed.

### **3.4 Unsupported Fixed Deposit Account**

The statement of financial position as at 30 June, 2018 reflects cash and cash equivalents balance of Kshs.178,089,157. Included in the balance is fixed deposit account balance of Kshs.150,000,000 whose support certificate of investment was not availed for audit verification.

### **3.5 Unsupported Cash in Hand**

Included in the cash and cash equivalents balance of Kshs.178,089,157 is cash in hand balance of Kshs.510,112 which was not supported with a cash survey certificate as at 30 June, 2018.

In the circumstances, existence, accuracy and completeness of the cash and cash equivalents balance of Kshs.178,089,157 as at 30 June, 2018 could not be confirmed.

## **4.0 Receivables from Exchange Transactions**

The statement of financial position as at 30 June, 2018 reflects a balance of Kshs.47,151,509 in respect of receivables from exchange transactions. Audit verification of the receivables from exchange transactions balance revealed the following anomalies:

### **4.1 Lack of Ageing Analysis**

Included in receivables from exchange transactions balance of Kshs.47,151,509 and as disclosed in Note 18 to the financial statements is student debtors balance of Kshs.22,953,897 (2016/2017 - Kshs.20,351,915) which, as previously reported, was not supported with an ageing analysis of the outstanding debts. In the absence of an ageing analysis, it was not possible to confirm how long the debts have been outstanding. Further, the receivables from exchange transactions balance of Kshs.47,151,509 includes Kshs.4,159,310 in respect of a staff debtor. Available information indicates that the debt relates to fraud committed by the staff member and which was a subject of a court case which was determined in favour of the staff. However, it was not clearly explained why the debt has not been written off considering the Management did not appeal against the judgement.

Further, the receivables from exchange transactions balance of Kshs.47,151,509 includes Kshs.20,038,302 which was not supported with a detailed debtors' schedule. Also, there was no credit policy in place for Management of credit facilities. As such, the

basis for granting credit facility and computing provision for bad debts could not be ascertained.

## **4.2 Unaccounted for Refundable Deposits**

As previously reported, the financial statements for the period ended 30 June, 2018 have excluded an undetermined amount of refundable cash deposits to service providers for various services including water, electricity, internet, telephone and radio frequencies. Although the Management has argued that they are unable to trace documentation on the deposits, no efforts appear to have been made to trace the same for the purposes of determining balances.

In the circumstances, the accuracy, completeness and recoverability of receivables from exchange transactions of Kshs.47,151,509 as at 30 June, 2018 could not be ascertained.

## **5.0 Inaccuracies in Inventories Balance**

As disclosed in Note 19 to the financial statements, the statement of financial position reflects a balance of Kshs.618,221 in respect of inventories as at 30 June, 2018. This balance includes Kshs.582,953 brought forward from the financial year 2016/2017 in respect of food and beverage, training stores and corner restaurant stores. However, as previously reported, there was no evidence that closing inventories including consumables and teaching materials in all the nine (9) course departments and teaching workshops have been accounted for in the financial statements. Further, Management did not maintain a proper inventory system for recording movement and recognition of inventory in line with Paragraph 45 of the International Public Sector Accounting Standards (IPSAS) 12 which states that, for a service provider, the point when inventories are recognized as expenses normally occurs when services are rendered, or upon billing for chargeable services.

In the circumstances, the accuracy and completeness of inventories balance of Kshs.618,221 as at 30 June, 2018 could not be confirmed.

## **6.0 Property, Plant and Equipment**

### **6.1 Lack of Valuation of Assets**

The statement of financial position as at 30 June, 2018 reflects a balance of Kshs.1,632,062,353 in respect of property, plant and equipment. However, as previously reported, the valuation report showing how the opening balance of Kshs.1,517,436,734 as at 01 July, 2016 was determined was not provided for audit. Further, considering that some of the assets have been in existence for several years there was no evidence that appropriate depreciation charge was applied to their initial cost.

In addition, the Management has not maintained an assets register of all assets owned by the Polytechnic. It was, therefore, not possible to determine the number, costs, depreciation, locations and status of the assets.

As a result, valuation, accuracy and existence of property, plant and equipment balance of Kshs.1,632,062,353 as at 30 June, 2018 could not be confirmed.

## **6.2 Ownership of Land and Motor Vehicles**

As disclosed in Note 20 to the financial statements, the statement of financial position shows a property, plant and equipment balance of Kshs.1,632,062,353 which includes Kshs.832,486,760 in respect of land in Shanzu and Kshs.240,349,188 in respect of Town land all totalling Kshs.1,072,835,948. However, as previously reported, according to the land title deed for Shanzu land, the parcel of land measures about twenty-two (22) hectares and is owned by the Polytechnic. However, available information indicates that the land has been encroached by squatters who have put up permanent structures. Although the Management confirmed that the National Land Commission had issued a notice to the squatters to vacate the land, no action had been taken by the time of audit in the month of August 2019 and the squatters continue to occupy the land. The possible impairment as a result of the encroachment has however not been provided for in the financial statements.

Further, the town land is the property on which the Polytechnic presently stands. Available information also indicates that the land is registered in the name of the County Government of Mombasa. It was also noted that the same parcel of land has four (4) public primary schools and two (2) secondary schools. In addition, the Polytechnic has four (4) motor vehicles valued at Kshs.4,055,889 and whose log books are registered in the name of the defunct Mombasa Technical Training Institute.

Consequently, it has not been possible to ascertain the ownership and fair presentation of property, plant and equipment balance of Kshs.1,632,062,353 as at 30 June, 2018.

## **7.0 Unsupported Intangible Assets**

The statement of financial position as at 30 June, 2018 reflects a balance of Kshs.4,382,210 in respect of intangible assets. However, the balance is not supported with an assets register detailing name of the software, cost, date of acquisition, supplier, purpose, amortization and net book value.

In the circumstances, the accuracy and completeness of intangible assets balance of Kshs.4,382,210 as at 30 June, 2018 could not be confirmed.

## **8.0 Unsupported Trade and Other Payables from Exchange Transactions**

As disclosed in Note 23 to the financial statements, the statement of financial position as at 30 June, 2018 reflects trade and other payables from exchange transactions balance of Kshs.116,963,194. Included in the balance are suppliers' balances amount of Kshs.10,998,360 whose ageing analysis was not provided for audit verification. It was therefore not possible to confirm how long the liabilities have been outstanding. Further, the trade and other payables from exchange transactions balance of Kshs.116,963,194 includes Kshs.105,964,834 which was not supported with a detailed creditors' schedule.

Consequently, the accuracy and completeness of the trade and other payables from exchange transactions balance of Kshs.116,963,194 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 Kenya Coast National Polytechnic Management in accordance with ISSAI 130 on Code of Ethics. I have fulfilled other ethical responsibilities in accordance with the ISSAI and in accordance with other ethical requirements applicable to performing audits of financial statements in Kenya. I believe that the audit evidence I have obtained is sufficient and appropriate to provide a basis for my adverse opinion.

### **Emphasis of Matter**

Note 2 of the significant accounting policies, on statement of compliance and basis of preparation, states that the Polytechnic adopted IPSAS Accrual in the financial year 2016/2017 and therefore the provisions of IPSAS 33 (first time adoption of IPSAS Accrual) apply to the Polytechnic.

It should be noted that these financial statements are transitional statements from cash basis accounting framework to IPSAS Accrual. Therefore, the audit is cognizant of IPSAS 33 (First time adoption of accrual basis) which grants the Polytechnic certain exemptions for fair presentation of the financial statements and its ability to assert compliance with accrual basis IPSASs for a period of at least three (3) years before full compliance.

My opinion is not modified in respect to this matter.

### **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**

#### **Budgetary Control and Performance**

The statement of comparative budget and actual amounts reflects final expenditure budget and actual on comparable basis of Kshs.262,002,520 and Kshs.194,033,268 respectively resulting to an under-expenditure of Kshs.67,969,252 or 26% of the budget. The underperformance affected the Polytechnic's planned activities and may have impacted negatively on service delivery to the public.

## **REPORT ON LAWFULNESS AND EFFECTIVENESS IN USE OF PUBLIC RESOURCES**

### **Conclusion**

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

## **Basis for Conclusion**

### **1.0 Late Submission of the Financial Statements for Audit**

The financial statements for the financial year 2017/2018 were submitted to the Auditor-General on 16 September, 2019, eleven (11) months after the statutory submission deadline of 30 September, 2018. This is contrary to Section 68(2)(k) of the Public Finance Management Act, 2012 which requires all accounting officers to prepare financial statements for each financial year and within three months after the end of the financial year, submit them to the Auditor-General for audit.

The Management is therefore in breach of the law.

### **2.0 Employee Costs**

The statement of financial performance for the year ended 30 June, 2018, reflects employee costs total of Kshs.35,683,176. Audit verification revealed the following anomalies:

#### **2.1 Flawed Recruitment Process**

As reported in the year 2016/2017, the Polytechnic had twenty-eight (28) non-teaching staff and one hundred and thirty (130) outsourced part-time teachers on its payroll. However, the process of recruitment for the various cadres of staff including job advertisements, shortlisting, interviews, and appointment were not provided for audit verification. It was therefore not clear whether the vacancies were declared by the Council and recruitment done competitively. In the absence of competitive selection, the best candidates may not have been selected.

#### **2.2 Non-Compliance with the Law on Income Tax**

As reported in the year 2016/2017, included in employee costs of Kshs.35,683,176 for the year ended 30 June, 2018 are salaries amounting to Kshs.9,312,331 paid to part-time teachers and casuals. However, there was no evidence that the salaries were subjected to income tax deductions in line with Section 37 of the Income Tax Act (Cap 470).

Consequently, the Polytechnic to penalties and fines by the Kenya Revenue Authority.

#### **2.3 Non-Compliance with the One Third of Basic Salary Rule**

During the year ended 30 June, 2018, seven (7) employees earned a net salary of less than a third (1/3) of the basic salary contrary to Section C.1(3) of the Human Resource Policies and Procedures Manual for the Public Service, 2016. The Management has not given an explanation for failure to comply with the policy.

In the circumstances, the Polytechnic Management were in breach of law.



## 2.4 Irregular Acting Appointments

As previously reported, audit verification of staff files and payrolls revealed that the Chief Principal appointed ten (10) heads of department in acting capacities for periods beyond the stipulated six (6) months. It was further noted that the officers continued acting in the various positions during the year under review as detailed below:

No.	Department	Date of Appointment to Acting Position	Duration
1.	Head of Department Electrical and Electronics Engineering	06 January, 2016	3 years
2.	Head of Department Information and Communication	10 May, 2010	9 years
3.	Head of Department Applied Sciences	27 February 2015	4 years
4.	Head of Department Medical Sciences	03 October, 2016	5 years
5.	Building and Civil Engineering	14 October, 2017	2 years
6.	Mechanical and Automotive Engineering	01 November, 2016	3 years
7.	Head of Department Secretarial and Liberal Studies	18 May, 2017	2 years
8.	Head of Department Hospitality and Tourism	17 July, 2017	2 years
9.	Examinations Officer	31 August, 2010	9 years
10.	Human Resource Officer	01 October, 2018	8 months

This is contrary Section C.14(1) of Public Service Commission Human Resource Policies and Procedures Manual which prohibits an officer from acting in a position for more than 6 (six) months. It was not clear why the positions were not competitively filled by either confirming the acting staff or advertising the vacancies.

Consequently, the Management was breach of the law.

## 3.0 Irregular Payment of Responsibility Allowance

During the year under review, the Polytechnic paid responsibility allowance of Kshs.50,000 per month to three top managers or Kshs.600,000 per year which was not reflected on payroll, as previously reported in the audit of the financial year 2016/2017. Further, the Council meeting minutes provided for audit review indicated that the allowance was paid to the managers for performing extra work since they are employees of Teachers Service Commission. However, payment of the allowance is contrary to the Salaries and Remuneration Commission Circular Ref. No: SRC/ADM/CIR/1/13 Vol.III (126) of 10 December, 2014 which provides that 'responsibility allowance should be awarded by employer and reflected on payroll'. Therefore, the responsibility allowance should have been paid by the Teachers Service Commission.

In the circumstances, responsibility allowance paid to the top managers amounting to Kshs.600,000 for the year ended 30 June, 2018 was irregular.

## 4.0 Irregular Investment in Fixed Deposits

As disclosed in Note 17 to the financial statements, the statement of financial position reflects a cash and cash equivalents balance of Kshs.178,089,157 which includes

Kshs.150,000,000 in respect of investment in fixed deposits in Kenya Commercial Bank Limited. However, the investment is contrary to the National Treasury Circular Ref: DMD 4/02 'H' (63) dated 26 March, 2018 which directed all State Corporations and Semi-Autonomous Government Agencies (SAGAs) to invest surplus funds in Treasury Bills and/or Bonds.

In the circumstances, the validity and value for money for fixed deposits of Kshs.150,000,000 as at 30 June, 2018 could not be confirmed.

## **5.0 Irregularities in Imprests Management**

As previously reported, Management issued imprests to various staff to undertake various activities. However, audit examination of support payment vouchers revealed that imprest requests are not formally made through imprest warrants as per Regulation 91(2) of the Public Finance Management (National Government) Regulations, 2016 which states that, "the officer authorized to hold and operate an imprest shall make a formal application for the imprest through an imprest warrant". Further, the Management did not maintain imprests register to record names of staff, warrant numbers and dates and amounts of imprest as required by Regulation 93(4)(c) of the Public Finance Management (National Government) Regulations, 2016.

In the circumstances, it was not possible to keep track of imprests issued and Management was in breach of law.

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

## **REPORT ON EFFECTIVENESS OF INTERNAL CONTROLS, RISK MANAGEMENT AND GOVERNANCE**

### **Conclusion**

As required by Section 7(1)(a) of the Public Audit Act, 2015, , because of the significance of the matters discussed in the Basis for Adverse Opinion and Conclusion on Effectiveness of Internal Controls, Risk Management and Governance sections of my report, based on the audit procedures performed, I confirm that, internal controls, risk management and governance were not effective.

### **Basis for Conclusion**

### **Unresolved Prior Year Matters**

In the audit report of the previous year, several issues were raised on attendance of council meetings by a non-member, delayed appointment of the chief principal and the deputy principal, lack of an academic board and council members who are signatories to bank accounts. Further, there were other issues on lack of segregation of duties, failure

to fully operationalise the enterprise management system and low staffing levels against the staff establishment. However, the Management has not resolved the issues.

The audit was conducted in accordance with ISSAI 2315 and ISSAI 2330. The standard requires that I plan and perform the audit to obtain assurance about whether effective processes and systems of internal control, risk management and overall governance were operating effectively, in all material respects. I believe that the audit evidence I have obtained is sufficient and appropriate to provide a basis for my conclusion.

### **Responsibilities of Management and Polytechnic Council**

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 and for its assessment of the effectiveness of internal control, risk management and overall governance

In preparing the financial statements, Management is responsible for assessing the Polytechnic's ability to continue to sustain services, disclosing, as applicable, matters related to sustainability of services and using the applicable basis of accounting unless Management is aware of the intention to terminate the Polytechnic or to cease operations.

Management is also responsible for the submission of the financial statements to the Auditor-General in accordance with the provisions of Section 47 of the Public Audit Act, 2015.

In addition to the responsibility for the preparation and presentation of the financial statements described above, Management is also responsible for ensuring that the activities, financial transactions and information reflected in the financial statements are in compliance with the authorities which govern them, and that public resources are applied in an effective way.

The Council Members are responsible for overseeing the Polytechnic's financial reporting process, reviewing the effectiveness of how Management monitors compliance with relevant legislative and regulatory requirements, ensuring that effective processes and systems are in place to address key roles and responsibilities in relation to overall governance and risk management, and ensuring the adequacy and effectiveness of the control environment.

### **Auditor-General's Responsibilities for the Audit**

The audit objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes my opinion in accordance with the provisions of Section 48 of the Public Audit Act, 2015 and submit the audit report in compliance with Article 229(7) of the Constitution. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISSAIs will always detect a material misstatement and weakness when it exists. Misstatements can arise from fraud

or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

In addition to the audit of the financial statements, a compliance audit is planned and performed to express a conclusion about whether, in all material respects, the activities, financial transactions and information reflected in the financial statements are in compliance with the authorities that govern them and that public resources are applied in an effective way, in accordance with the provisions of Article 229(6) of the Constitution and submit the audit report in compliance with Article 229(7) of the Constitution.

Further, in planning and performing the audit of the financial statements and audit of compliance, I consider internal control in order to give an assurance on the effectiveness of internal controls, risk management and overall governance processes and systems in accordance with the provisions of Section 7(1) (a) of the Public Audit Act, 2015 and submit the audit report in compliance with Article 229(7) of the Constitution. My consideration of the internal control would not necessarily disclose all matters in the internal control that might be material weaknesses under the ISSAIs. A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements caused by error or fraud in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions.

Because of its inherent limitations, internal control may not prevent or detect misstatements and instances of non-compliance. Also, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies and procedures may deteriorate.

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

- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for my opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the Management.
- Conclude on the appropriateness of the Management's use of the applicable basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Polytechnic's ability to continue to sustain its services. If I conclude that a material uncertainty exists, I am required to draw attention in the auditor's report to the related

disclosures in the financial statements or, if such disclosures are inadequate, to modify my opinion. My conclusions are based on the audit evidence obtained up to the date of my audit report. However, future events or conditions may cause the 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 Polytechnic to express an opinion on the financial statements.
- Perform such other procedures as I consider necessary in the circumstances.

I communicate with Management regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that are identified during the audit.

I also provide Management with a statement that I have complied with relevant ethical requirements regarding Independence, and to communicate with them all relationships and other matters that may reasonably be thought to bear on my independence, and where applicable, related safeguards.



**CPA Nancy Gathungu, CBS**  
**AUDITOR-GENERAL**

**Nairobi**

**09 February, 2022**