

REPORT OF THE AUDITOR-GENERAL ON THE KENYA COAST NATIONAL POLYTECHNIC FOR THE YEAR ENDED 30 JUNE, 2019

REPORT ON THE FINANCIAL STATEMENTS

Disclaimer of 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, 2019, 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 do not express an opinion on the accompanying financial statements. Because of the significance of the matters described in the Basis for Disclaimer of Opinion section of my report, I have not been able to obtain sufficient appropriate audit evidence to provide a basis for an audit opinion on these financial statements.

Basis for Disclaimer of Opinion

1.0 Inaccuracies of the Financial Statements

The financial statements for the year ended 30 June, 2019 and which were presented for audit had the following anomalies:

1.1 Unsupported Opening Reserves Balance

The statement of changes in net assets for the year ended 30 June, 2019 reflects a total closing balance of Kshs.2,137,501,763. Included in the balance is Kshs.1,846,650,764 in respect of opening reserves balance as at 01 July, 2016, being Mentored TTI Fund balance of Kshs.221,731,315, fair value adjustment reserve of Kshs.3,000,000, retained earnings of Kshs.77,236,487 and capital development fund of Kshs.1,544,682,962. The balances have remained unsupported since the financial year 20 June, 2017.

Consequently, the accuracy, validity and completeness of the statement of changes in net assets with a total balance of Kshs.2,137,501,763 as at 30 June, 2019 could not be confirmed.

1.2 Unsupported Balances in the Statement of Cashflows

The statement of cash flows reflects a cash and cash equivalents balance of Kshs.137,624,858 as at 30 June, 2019. However, the balance includes an amount of Kshs.153,368,135 being the cash and cash equivalents as at 01 July, 2016 which has not been supported. In addition, the statement reflects an internal development fund amount of Kshs.12,770,264 under receipts which has not been supported.

Consequently, the accuracy and completeness of the statement of cash flows for the year ended 30 June, 2019 could not be confirmed.

2.0 Unsupported Revenue and Expenditure

The statement of financial performance for the year ended 30 June, 2019 reflects total revenue of Kshs.385,739,917 and total expenses of Kshs.343,556,827. However, a total amount of revenue of Kshs.346,439,917 and expenditure of Kshs.56,088,204 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.)	Missing Support Document/Remarks
Revenue				
Rendering of Services - Fees from Students	6	292,302,776	292,302,776	The entire revenue amount is not supported with schedules.
Other Services Rendered	7	45,722,381	45,722,381	The revenue is not supported with schedules.
Rental Revenue from Facilities and Equipment	8	1,686,000	1,686,000	The revenue amount relates to use of swimming pool of Kshs.1,080,000, house rent of Kshs.66,000 and mini shops of Kshs.540,000 which lacks supporting schedules.
Other Income	9	6,728,760	6,728,760	The revenue amount is not supported with schedules.
Sub-Total		346,439,917	346,439,917	
Expenditure				
Employee Costs	10	56,088,204	56,088,204	The expenditure is not supported with schedules for items in the note.
Sub-Total		56,088,214	56,088,214	

In the circumstances, the accuracy and completeness of the financial statements for the year ended 30 June, 2019 could not be confirmed.

3.0 Cash and Cash Equivalents

As disclosed in Note 17 to the financial statements, the statement of financial position shows a cash and cash equivalents balance of Kshs.137,624,858. However, the following unsatisfactory matters were noted.

3.1 Lack of Cash Books and Bank Reconciliation Statements

The Polytechnic Management did not provide for audit the cashbooks and bank reconciliation statements in support of the reserve fund account with a balance of Kshs.2,119,596, the capital development account with a balance of Kshs.1,162,782 and the caution money account with a balance of Kshs.621,472 all held at a local bank. This is contrary to Section 68(2)(b) of the Public Finance Management Act which states that

in the performance of a function under subsection (1), an accounting officer shall - ensure that the entity keeps financial and accounting records that comply with this Act. Further, Regulation 90(1) of the Public Finance Management (National Government) Regulations, 2015 states that all Accounting Officers shall ensure bank accounts reconciliations are completed for each bank account held by that Accounting Officer, every month and submit a bank reconciliation statement not later than the tenth day of the subsequent month to the National Treasury with a copy to the Auditor-General.

Consequently, the accuracy and completeness of the cash and cash equivalents balance of Kshs.137,624,858 as at 30 June, 2019 could not be confirmed.

3.2 Uncleared items in the Bank Reconciliation Statements

3.2.1 Main Bank Account

Note 17 (a) to the financial statements for the year ended 30 June, 2019 reflects a main current account balance of Kshs.58,110,204. However, the bank reconciliation statement as at the same date reflects direct bankings amounting to Kshs.24,028,550 without dates or explanations provided as to why they were not captured in the cash book. Further, the bank statements showing when these cheques and deposits were subsequently presented and cleared in the bank were also not provided for audit verification.

3.2.2 Production Unit Account 3

Included in the cash and cash equivalents balance of Kshs.137,624,858 is a production unit account balance of Kshs.53,131,033. However, the supporting bank reconciliation statement as at 30 June, 2019 reflects direct bankings of Kshs.335,472. Management did not explain why the deposits had not been recorded in cash book.

In the circumstances, accuracy and completeness of the cash and cash equivalents balance of Kshs.137,624,858 as at 30 June, 2019 could not be confirmed.

4.0 Receivables from Exchange Transactions

As disclosed in Note 18 to the financial statements, the statement of financial position as at 30 June, 2019 reflects a balance of Kshs.157,264,782 in respect of receivables from exchange transactions. Included in the receivables from exchange transactions balance is a student debtors balance of Kshs.93,536,553 which was not supported with an ageing analysis of the outstanding debts. In the absence of an ageing analysis, it was not possible to confirm names of student debtors and how long the debts have been outstanding (to determine recoverability of the debts). Further, as previously reported, receivables from exchange transactions balance of Kshs.157,264,782 includes Kshs.4,159,310 in respect of a staff debtor. Available information indicates that the debt relates to fraud by the staff member and which was a subject of a court case which was determined in favour of the staff. However, the Management did not explain why the debt has not been written off considering that the Polytechnic did not appeal against the judgement.

In addition, the receivables from exchange transactions balance of Kshs.157,264,782 were not supported with detailed debtors' schedules. In addition, 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.

In the circumstances, the accuracy, completeness and recoverability of receivables from exchange transactions of Kshs.157,264,782 as at 30 June, 2019 could not be ascertained.

5.0 Inaccuracies in Inventories Balance

As reported in the year 2017/2018, Note 19 to the financial statements reflects a balance of Kshs.1,451,680 in respect of inventories as at 30 June, 2019. The balance of Kshs.1,451,680 includes an opening balance of Kshs.618,221 from the financial year 2017/2018 in respect of food and beverage, training stores and corner restaurant stores. However, 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.

In addition, the Management does 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) No.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.1,451,680 as at 30 June, 2019 could not be confirmed.

6.0 Property, Plant and Equipment

6.1 Valuation of Assets

As disclosed in Note 20 to the financial statements, the statement of financial position reflects a balance of Kshs.1,670,994,755 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. Also, 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. Further, Management does not maintain an assets register of all assets owned by the Polytechnic.

In the circumstance, accuracy completeness and valuation of the property, plant and equipment balance of Kshs.1,670,994,755 as at 30 June, 2019 could not be confirmed.

6.2 Unaccounted for Donations of Assets

Available information revealed that during the financial year under audit, the Polytechnic received various equipment of undetermined value from donors including the People's Republic of China and National Government Constituency Development Fund - Mvita Constituency among other donations in kind to the Polytechnic. However, the list of donated assets and their values was not maintained. Therefore, it was not clear how the donated assets have been accounted for in the financial statements.

Consequently, it has not been possible to ascertain the accuracy, completeness and valuation of property, plant and equipment balance of Kshs.1,670,994,755 as at 30 June, 2019.

7.0 Unsupported Intangible Assets Balance

The statement of financial position as at 30 June, 2019 reflects a balance of Kshs.4,327,547 in respect of intangible assets. However, as previously reported, 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.4,327,547 as at 30 June, 2019 could not be confirmed.

8.0 Unsupported Trade and Other Payables from Exchange Transactions Balance

As disclosed in Note 23 to the financial statements , the statement of financial position as at 30 June, 2019 reflects trade and other payables from exchange transactions balance of Kshs.160,867,075. Included in this balance are suppliers' balances of Kshs.33,396,803 (2017/2018 - Kshs.10,998,360) whose ageing analysis was not provided for audit verification and therefore it was not possible to confirm how long the liabilities have been outstanding. Further, the trade and other payables from exchange transactions balance of Kshs.160,867,075 includes total payables of Kshs.73,212,233 which were not supported with a detailed creditors' schedule.

Consequently, the accuracy and completeness of the trade and other payables from exchange transactions balance of Kshs.160,867,075 as at 30 June, 2019 could not be confirmed.

9.0 Unresolved Prior Year Matters

In the audit report of the previous year, several issues were raised under the Report on Financial Statements, Report on Lawfulness and Effectiveness in Use of Public Resources, and Report on Effectiveness of Internal Controls, Risk Management and Governance. However, the Management has not resolved the issues.

10.0 Unconfirmed Budget Approval Process

The statement of comparison of budget and actual amounts indicates that the Polytechnic had expenditure budget of Kshs.307,681,790 for the financial year 2018/2019. However, the Polytechnic Management did not provide any evidence that the budget was approved by the respective line Ministry in line with Section 17(4) of Kenya Coast National Polytechnic Order, 2016 which states that “annual estimates shall be approved by the Council before the commencement of the financial year to which they relate, and shall be submitted to the Cabinet Secretary for approval”.

Consequently, the Management may have incurred expenditure in disregard of the Kenya Coast National Polytechnic Order, 2016.

11.0 Budgetary Control and Performance

The statement of comparison of budget and actual amounts for the for the year ended 30 June, 2019 reflects an expenditure budget of Kshs.307,681,790 against actual expenditure of Kshs.305,904,301 or 99%, resulting to under expenditure of Kshs.1,777,489 or 1%.

However, it was noted that the Polytechnic had a budgeted expenditure of Kshs.222,551,552 against actual on comparative basis expenditure of 201,843,150 resulting in an over-expenditure of Kshs.20,708,402 or 9% of the budget. However, there was no evidence of authority to overspend/ reallocate funds amounting to Kshs.20,708,402. This is contrary to Section 48(5) of the Public Finance Management (National Government) Regulations, 2016 which states that ‘reallocations under this regulation shall be approved by the respective Accounting Officer of the entity’.

12.0 Irregular Payment of Responsibility Allowances

The statement of financial performance for the year ended 30 June, 2019, reflects employee costs total of Kshs.56,088,204. During the year under review, the Polytechnic paid responsibility allowances amounting to Kshs.50,000 per month to three top managers or Kshs.600,000 for the year. However, as previously reported, the allowances were not reflected in the payroll for the officers involved. 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 the Teachers Service Commission.

This was contrary to the Salaries and Remuneration Commission Circular Ref. No: SRC/ADM/CIR/1/13 Vol.III (126) dated 10 December, 2014 which provides that ‘responsibility allowance should be awarded by the employer and reflected on the payroll’.

As a result, the responsibility allowance paid to the top managers amounting to Kshs.600,000 for the year ended 30 June, 2019 was irregular.

13.0 Irregular Use of Request for Quotations Method

During the year under review, the Polytechnic procured a staff medical cover at a cost of Kshs.3,751,221 and general insurance cover at a cost of Kshs.2,065,562, all amounting to Kshs.5,816,783 through request for quotations method. However, the two contracts' costs were above the set threshold for request for quotation method of Kshs.1,000,000 for procurement of services for Class B entities under which the Polytechnic falls as provided for in the Public Procurement and Disposal Regulations, 2006, Threshold Matrix for Class 'B' Entities.

The Management was in breach of the law and the Polytechnic may not have realized value for money due to limited competition in the award of the two contracts.

14.0 Irregular Attendance of Council Meetings by a Non-Member

Review of the Council meeting minutes provided, revealed that an officer representing State Department for Vocational and Technical Training attended Council meetings and was paid sitting allowances totaling Kshs.529,855. However, the officer was not gazetted as a Council member in line with Mwongozo guidelines Chapter 1(1.1)(11) which states that, each Board member shall be formally appointed to the Board through a gazette notice and thereafter issued with an appointment letter.

In the Circumstances, the Council meetings were not properly constituted and payment of the allowance to the Officer was irregular.

15.0 Lack of Proper Policy Guidelines on Management of Part-Time Classes

During the year under audit review, the Polytechnic incurred a total of Kshs.56,726,313 on running of part-time programmes as indicated under Note 15 to the financial statements. According to the records provided for audit review, both external and internal staff are engaged in the programmes to teach part-time students. However, the approved academic policy showing how the part-time courses are run was not provided for audit verification. It was therefore not clear how part-time programmes, the course contents, minimum academic entry qualifications, minimum student number, course duration, time allocated for the course, qualifications of trainers, fees payable per course and the minimum and maximum workload for each trainer per given period among others were determined.

In addition, information available indicates that tuition fees collected from part-time courses are shared in the ratio of 70% and 30% respectively between part-time teachers and the Polytechnic. This implies that tutors are using the Polytechnic's facilities at the expense of service delivery to the students.

In the absence of clear policy guidelines, it was not possible to confirm if the full-time tutors were qualified and eligible to undertake part-time courses at the Polytechnic.

REPORT ON LAWFULNESS AND EFFECTIVENESS IN USE OF PUBLIC RESOURCES

Conclusion

I do not express a conclusion on the lawfulness and effectiveness in the use of public resources as required by Article 229(6) of the Constitution. Because of the significance of the matters described in the Basis for Conclusion on Lawfulness and Effectiveness in Use of Public Resources section of my report, I have not been able to obtain sufficient appropriate audit evidence to provide a basis for my audit conclusion.

REPORT ON EFFECTIVENESS OF INTERNAL CONTROLS, RISK MANAGEMENT AND GOVERNANCE

Conclusion

I do not express a conclusion on the effectiveness of internal controls, risk management and governance as required by Section 7(1)(a) of the Public Audit Act, 2015. Because of the significance of the matters described in the Basis for Conclusion of Internal Controls, Risk Management and Governance section of my report, I have not been able to obtain sufficient appropriate audit evidence to provide a basis for my audit conclusion.

Responsibilities of Management and the 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, the 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 applicable basis of accounting unless the 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 financial reporting process, reviewing the effectiveness of how the Polytechnic 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

My responsibility is to conduct an audit of the financial statements in accordance with International Standards of Supreme Audit Institutions (ISSAIs) 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. However, because of the matters described in the Basis for Disclaimer of Opinion section of my report, I was not able to obtain sufficient appropriate audit evidence to provide a basis for an audit opinion on these financial statements.

In addition, my responsibility is 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. I also consider internal control, risk management and governance processes and systems in order to give an assurance on the effectiveness of internal controls, risk management and governance 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. However, because of the matters described in the Basis for Conclusion on Lawfulness and Effectiveness in Use of Public Resources, and Internal Controls, Risk Management and Governance sections of my report, I was not able to obtain sufficient appropriate audit evidence to provide a basis for an audit conclusion.

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.



CPA Nancy Gathungu, CBS
AUDITOR-GENERAL

Nairobi

11 February, 2022