

REPORT OF THE AUDITOR-GENERAL ON NORTH EASTERN NATIONAL POLYTECHNIC FOR THE YEAR ENDED 30 JUNE, 2020

REPORT ON THE FINANCIAL STATEMENTS

Qualified Opinion

I have audited the accompanying financial statements of North Eastern National Polytechnic set out on pages 1 to 36, which comprise the statement of financial position as at 30 June, 2020 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 the North Eastern National Polytechnic as at 30 June, 2020 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

1.0 Unsupported Council Allowances

As disclosed in Note 11 to the financial statements, the statement of financial performance reflects a balance of Kshs.1,605,600 on remuneration of Council Members. However, the payments were not sufficiently supported. Further, council meetings were held in Nairobi and not in Garissa therefore spending more on accommodation and traveling. This may have led to a wasteful expenditure contrary to Section 197 of the Public Finance Management Act, 2012 which states “A public officer employed by the national government or a national government entity commits an offence of financial misconduct if, without lawful authority, the officer - (i) incurs wasteful expenditure on behalf of that government or entity;”

Consequently, the validity of the remuneration of Council amounting to Kshs.1,605,600 as at 30 June, 2020 could not be ascertained.

2.0 Unsupported Repair and Maintenance

As disclosed in Note 13 to the financial statements, the statement of financial performance reflects a balance of Kshs.5,252,157 on repair and maintenance. However, included in this balance were payments totaling to Kshs.3,264,679 that were not supported.

In the circumstance, the validity and accuracy of Kshs.5,252,157 on repairs and maintenance as at 30 June, 2020 could not be confirmed.

3.0 General Expenses

As disclosed in Note 14 to the financial statements, the statement of financial performance reflects general expenses of Kshs.26,882,313. However, review of records relating to general expenses revealed the following unsatisfactory matters: -

3.1 Misstated Boarding and Equipment Expenses

Disclosed in Note 14 is a balance of Kshs.2,627,698 incurred on boarding and equipment expenses. However, review of records revealed that payments totaling to Kshs.667,020 were not included in the said balance resulting to misstatement of boarding and equipment.

3.2 Unaccounted for Contingency Expenses

Further, disclosed in Note 14 to the financial statements is a balance of Kshs.4,455,475 incurred on contingency expenses. However, included in this balance were payments amounting to Kshs.938,250 which were not supported.

3.3 Unsupported Development Expenses

Similarly, Note 14 discloses a balance of Kshs.1,788,557 in respect of development expenses. However, included in this balance is an amount of Kshs.757,057 that was not supported.

3.4 Unsupported Local Tours and Travel Expenses

Disclosed in Note 14 is a balance of Kshs.5,399,087 incurred on local tours and travel. However, included in this balance is an amount of Kshs.3,617,840 that was not supported.

3.5 Unsupported Tuition Fees Expenses

Disclosed in Note 14 to the financial statements is an amount of Kshs.3,298,882 incurred on tuition fee expenses. However, included in this balance is an amount of Kshs.2,619,272 which was not supported.

In the circumstances, the accuracy and validity of General expenses balance of Kshs.26,882,313 for the year ended 30 June, 2020 could not be ascertained.

4.0 Property, Plant and Equipment

As disclosed in Note 21 to the financial statements, the statement of financial position reflects non-current assets with a Net Book Value (NBV) of Kshs.569,815,450 as at 30 June, 2020. However, the Management did not provide an updated fixed assets register neither did they provide ownership documents of the land and building and motor vehicles with a net book value of Kshs.540,727,500 and 6,207,500 respectively.

Further, the non-current assets decreased by Kshs.4,514,850 from Kshs.574,330,300 to Kshs.569,815,450 as a result of depreciation. However, Management did not provide depreciation policy for review.

Consequently, the accuracy and Validity of property, plant and equipment balance of Kshs.569,815,450 as at 30 June, 2020 could not be confirmed.

5.0 Employment Costs

As disclosed in Note 10 to the financial statements, the statement of financial performance reflects a balance of Kshs.15,325,518 on Employees cost. However, review of records revealed the following unsatisfactory issues:-

5.1 Irregular Recruitment and Engagement of Trainers

Included in the balance of Employee costs is an amount of Kshs.1,035,000 incurred on payment of salaries and wages for eighteen (18) part time trainers. However, no documentary evidence was provided to show how the trainers were recruited and whether they performed their duties.

5.2 Irregular Recruitment and Engagement of Casual Employees

Similarly, included in the balance of Employees cost is an amount of Kshs.2,031,400 incurred on casual wages. However, records in respect of how the temporary employees were hired, the work for which they were hired, reason for their recruitment and terms and conditions of services were not provided.

In the circumstances, the validity and accuracy of Employee costs balance of Kshs.15,325,518 as at 30 June, 2020 could not be confirmed.

The audit was conducted in accordance with International Standards of Supreme Audit Institutions (ISSAIs). I am independent of the North Eastern National Polytechnic 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 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. There were no key audit matters to report in the year under review.

Other Matter

Budgetary Control and Performance

The statement of comparative budget and actual amounts reflects final receipts budget and actual on comparable basis of Kshs.137,299,500 and Kshs.69,813,611

respectively resulting to an under-funding of Kshs.67,485,889 or 49% of the budget. The Project expenditure was limited to the amount realized.

Based on the approved estimates, under funding and expenditure affected the 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, based on the audit procedures performed, except for the matters described in the Basis for Conclusion on Lawfulness and Effectiveness in the Use of Public Resources section of my report, I confirm that, nothing 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

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 overall 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

Lack of Risk Management Policy and Fraud Prevention Mechanisms

The North Eastern National Polytechnic did not provide a risk management policy and fraud prevention mechanism for review. This is contrary to section 165(1)(a) of the Public Finance Management Act, 2012 (National Government) Regulations which states that each national government entity shall develop risk management strategies,

which include fraud prevention mechanism and Treasury Circular No.3/2009 of 23 February, 2009 which requires all heads of public institutions to develop and implement a risk management framework. Management did not explain the reason for failure to comply with the regulations.

The audit was conducted in accordance with ISSAI 2315 and ISSAI 2330. 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

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 Management is aware of the intention to liquidate 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.

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 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 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 to sustain 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 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.



CPA Nancy Gathungu, CBS
AUDITOR-GENERAL

Nairobi

10 February, 2022