

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

REPORT ON THE FINANCIAL STATEMENTS

Qualified Opinion

I have audited the accompanying financial statements of The Kisumu National Polytechnic as set out on Pages 1 to 28, which comprise the statement of financial position as at 30 June, 2020, and the statement of financial performance, statement of cash flows and summary 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 Kisumu 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 Property Plant and Equipment

The statement of financial position reflects a balance of Kshs.2,476,819,672 in respect of property, plant and equipment and as disclosed in Note 25 to the financial statements, the amount includes Kshs.1,075,000,000 and Kshs.9,000,000 in respect of a parcel of land and a motor vehicle respectively whose ownership documents were not provided for audit. Although Management indicated that the ownership documents of the two assets had been lost, there was no evidence of the efforts in place to obtain their replacement.

In the circumstances, the accuracy, completeness and ownership of property, plant and equipment balance of Kshs.1,084,000,000 as at 30 June, 2020 could not be confirmed.

2.0 Unsupported Inventories

The statement of financial position as at 30 June, 2020 reflects a balance of Kshs.2,808,206 in respect of inventories as disclosed in Note 21 to the financial statements. However, stock taking reports and analysis to support the various categories of inventories including unvalued training items that were held at the Electrical and Electronics, Estates Department, Building and Civil Engineering,

Department of Applied Science, Automotive, Mechanical Engineering and Garment making department stores were not provided for audit.

Under the circumstances, the accuracy and completeness of inventory balance of Kshs.2,808,206 as at 30 June, 2020 could not be confirmed.

3.0 Unallocated Funds - Refundable Deposits from Customers

The statement of financial position as at 30 June, 2020 reflects a balance of Kshs.59,296,774 in respect of refundable deposits from customers and as disclosed in Note 24 to the financial statements, the amount represents funds held in bursary, HELB loans and miscellaneous clearance accounts of Kshs.22,010,006, Kshs.18,020,622 and Kshs.19,266,146 respectively. There was no analysis provided to support the uncleared amounts and Management has not provided any explanations as to why the amounts have remained pending as unallocated funds in the Enterprise Resource Plan (ERP) system. In addition, this amount was not represented by equivalent funds in the polytechnic's bank accounts.

In the circumstance, the accuracy and completeness of the refundable deposit balance of Kshs.59,296,774 as at 30 June, 2020 could not be confirmed.

4.0 Unaccounted Imprest

The statement of financial performance for the year ended 30 June, 2020 and as included in Note 10 to the financial statements reflects an amount of Kshs.381,009,384 in respect of use of goods and services out of which an amount Kshs.31,919,300 was issued in form of imprests to staff but neither recorded in the imprest register nor where the subsequent surrender vouchers recorded in the cash book and ledger as required.

In the circumstances, it was not possible to confirm the accuracy of Kshs.31,919,300 issued as imprest and whether it was properly accounted and spent on activities that were beneficial to the Institution for the year ended 30 June, 2020.

5.0 Unsupported Council Expenses

The statement of financial performance reflects an amount of Kshs.21,324,315 and as disclosed in Note 12, the amount includes Kshs.5,538,433 paid to council members without necessary supporting documents including minutes, calendar of activities and attendance register. Further, an amount of Kshs.1,150,792 was paid to members over and above the approved rate of Kshs.20,000 per member per sitting without any justification.

Consequently, the accuracy and completeness of the council expenses totalling to Kshs.6,689,225 for the year ended 30 June, 2020 could not be confirmed.

6.0 Unsupported Prior Year Adjustment

The statement of changes in net assets reflects prior year adjustments of Kshs.185,411,810 under capital/development grants and whose details have not been disclosed. However, prior year adjustment may arise either as a correction of an error in the financial statements reported for a prior period or change in accounting policy/estimate from the previous year in accordance paragraph 57 of the International Public Sector Accounting Standards (IPSAS) 3 which requires an entity to disclose the nature of the prior period error, to the extent practicable, the amount of the correction for each financial statement line item affected, the amount of the correction at the beginning of the earliest prior period presented, and if retrospective restatement is impracticable for a particular prior period, the circumstances that led to the existence of that condition and a description of how and from when the error has been corrected.

In the circumstances, this treatment does not conform to the International Public Sector Accounting Standards (IPSAS 3) and hence the accuracy of the statement of the statement of changes in net assets for the year ended 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 Kisumu 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 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

1. Budgetary Control and Performance

The statement of comparative of budget and actual reflects a final expenditure budget and actual on comparable basis of Kshs.588,714,483 and Kshs.530,547,698 respectively resulting to an under-expenditure of Kshs.58,166,785 or 10% of the budget.

The under absorption of Kshs.58,166,785 may have resulted to non-delivery of goods and services of equivalent amount to the stakeholders.

2. 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 or given any explanation for failure to adhere to the provisions of the Public Sector Accounting Standards Board templates and The National Treasury's Circular Ref: No. AG.4/16/3 Vol.1(9) dated 24 June, 2020

REPORT ON LAWFULNESS AND EFFECTIVENESS IN USE OF PUBLIC RESOURCES

Conclusion

As required by Article 229(6) of the Constitution, based on the procedures performed, except for the matters described in the Basis for Conclusion on Lawfulness and Effectiveness use of Public Resources 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

1.0 Council Expenses in Excess of Budget

The statement of financial performance reflects an amount of Kshs.21,324,315 in respect of council expenses as disclosed in Note 12 to the financial statements. However, a review of the approved budget provided for audit reflected an approved budget of Kshs.7,000,000 on council expenses and hence an unauthorized over expenditure of Kshs.14,324,315 contrary to Section 43 of the Public Finance Management Act, 2012 which gives an accounting officer limited powers of to reallocate appropriated funds.

There was no evidence provided to show any application for re-allocation of funds.

Consequently, it was not possible to confirm the validity and value for money of the expenditure of Kshs.14,324,315 on Council expenses for the year ended 30 June, 2020.

2.0 Procurement of Goods and Services

2.1 Irregular Procurement of Enterprise Resource Planning (ERP) Software

The statement of financial position as at 30 June, 2020 reflects Kshs.17,035,000 in respect of intangible assets and as disclosed in Note 22 to the financial statements, the amount relates to procurement of an ERP software through request for expression of interest. Documents provided for audit revealed that, management adopted a prequalification list from the Ministry of ICT but no letter requesting for use of the

prequalified list of the Ministry as well as letter granting authority to use the prequalified list was provided for audit review contrary to section 56(1) of the Public Procurement and Asset Disposal Act, 2015 which states that to identify qualified persons, a State organ or public entity may seek, in writing, to use another State organ's, public entity's or regulated professional body's registration list of all registered persons in the category, provided that the list is valid and developed through a competitive process in accordance with the relevant provisions of this Act. In addition, only one supplier responded to the request.

The tender was awarded to a local firm at contract price of Kshs.23,896,000 via contract no TKNP/C/4/19/32 made on 26th Day of April, 2019 against a budget of Kshs.18,340,000.

The Management did not make available for audit user requisition detailing needs and preferences of various users/departments arising from need assessment contrary to section 22(1) of the Public Procurement Regulations 2006 which states that every procurement requirement shall be initiated using a purchase requisition which shall include all necessary information pertaining to the procurement.

There was also no certification from the ICT department to indicate whether the software installed met the needs of users and that the modules were effective as per the needs of the institution including inspection and acceptance committee report to authenticate the satisfaction of the system to the needs of the institution.

In the circumstances, it was not possible to confirm the validity and value for money the expenditure of Kshs.17,035,000 spent on the new ERP system for year ended 30 June, 2020.

2.2 Procurement of Computers and Learning Materials

During the year under review, the Polytechnic purchased desktop, laptops and learning material from three suppliers at a cost of Kshs.2,228,155 using request for quotation method of procurement.

However, the requests for quotation were sent to two suppliers only for each of the purchases contrary to section 106(2b) of the Public Procurement and Asset Disposal Act, 2015 which requires that the request shall be given to as many persons as necessary to ensure effective competition and shall be given to at least three persons, unless that is not possible.

In the circumstance, it was not possible to confirm the validity and value for money on the purchase of computers and learning materials of Kshs.2,228,155 for the year ended 30 June, 2020.

2.3 Construction of Library

2.3.1 Installation of CCTV Surveillance System and Air Conditioning in the Library

As disclosed in Note 25 to the financial statements, the statement of financial position reflects an amount of Kshs.191,766,953 in respect of work in progress out of which an amount of Kshs.33,501,201 was paid to a contractor engaged by the to complete the construction of a Library and classified as work in progress. Included in the payments of Kshs.33,501,201 to the contractor of were amounts of Kshs.2,000,000 and Kshs.1,500,000 being provisional sum for installation of CCTV surveillance system and air conditioning respectively. However, physical verification of the project carried out on 9 February, 2021 revealed that the contractor had not installed the CCTV surveillance system and had also not installed the air conditioner which were part of items in the bill of quantities and fully paid.

Consequently, the validity and value for money of the expenditure of Kshs.3,500,000 for the year ended 30 June, 2020 could not be confirmed.

2.3.2 Unsupported Payment of Provisional Sums

Included in the work in progress of Kshs.33,501,201 and as disclosed in Note 25 to the financial statements were provisional sums amounting to Kshs.7,500,000 as detailed below;

Item	Amount
	Kshs.
Land Scaping, Driveways and Parking Areas	3,000,000
External Works, Fire-Fighting Equipment and Storm Water Drainage	1,500,000
Contingencies	2,000,000
Project Management Expenses and Stationery	1,000,000
Total	7,500,000

However, there were no invoices, Bills of Quantities or other documents to support the provisional sums contrary to contrary to Section 70(6a & b) of the Pubic Procurement and Asset Disposal Act, 2015 which requires the tender documents to provide specific details relating to goods, works and services being procured.

In addition, an additional amount of Kshs.3,999,600 was incurred through a different contractor for electrical works. However, tender documents including the contract agreement indicating how the contractor was identified were not provided for audit.

The award of a separate contract for electrical works had an effect of increasing the initial contract sum to Kshs.37,500,801 despite the fact that a provision for the electrical works of Kshs.3,500,000 had been included in the original contract sum of Kshs.33,501,201.

In the circumstances, the validity and value for money of Kshs.7,500,000 and Kshs.3,999,600 in respect of provisional sums and electrical works respectively all totaling to Kshs.11,499,600 could not be confirmed.

The Audit was conducted in accordance with ISSAI 4000. The standard require that I comply with ethical requirements and plan and perform the audit 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. 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 procedures performed, except for the matter described in the Basis for Conclusion on Effectiveness of Internal Controls, 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

Failure to Carry out Asset Reconciliations

In the year 2018/2019, the Polytechnic purchased twenty (20) desk top computers from a company on 17 July, 2018 at a cost of Kshs.1,598,000. The computers were received in the stores vide and subsequently issued for installation at the business department without inventory as required for permanent stores. However, and as per documents provided for audit, eighteen (18) computers valued at Kshs.1,438,200 were reported missing by the head of business department. The loss of assets could be attributed to weakness in physical controls and failure by Management to carry out regular asset verifications as required by section 15.7 of the Financial Management Policy of the Polytechnic.

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 the Governing 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 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 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 the Management is aware of the intention to terminate 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 Governing Council is responsible for overseeing the Polytechnic's 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

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 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 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 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

11 February, 2022