

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

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## **REPORT ON THE FINANCIAL STATEMENTS**

### **Qualified Opinion**

I have audited the accompanying financial statements of The Eldoret National Polytechnic set out on pages 28 to 54, which of 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 Eldoret 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 Technical and Vocational and Training Act, 2013.

### **Basis for Qualified Opinion**

#### **1. Inaccuracies in the Financial Statements**

##### **1.1. Misstatement of Comparative Balances**

The statement of financial performance reflects administration and central services comparative figure of Kshs.290,580,162. However, Note 11 reflects a figure of Kshs.312,651,706 for the same item resulting to a variance of Kshs.22,071,544.

In addition, Note 11 to the financial statements reflects comparative balances in respect to travelling, transport and accommodation expenses amount of Kshs.29,316,029 and tuition and related expenses amount of Kshs.43,780,252. However, the audited financial statements for the year ended 30 June, 2019 reflects travelling, transport and accommodation expenses figure of Kshs.34,309,971 and tuition and related expenses amount of Kshs.30,016,832 resulting in a variance of Kshs.4,993,942 and Kshs.13,763,420 respectively.

Further, the statement of financial performance reflects marketing and expenses comparative figure of Kshs.14,600,182. However, Note 13 reflects marketing expense of Kshs.12,914,344 resulting to unexplained and unreconciled variance of Kshs.1,685,838.

## **1.2. Arithmetic Error in the Notes to the Financial Statements**

Note 11 to the financial statements reflects administration and central services comparative figure of Kshs.312,651,706. However, summation of the balances indicates a total of Kshs.303,882,236 resulting in a variance of Kshs.8,769,470.

## **1.3. Unsupported Prior Year Adjustment**

The statement of cash flow statement reflects prior year adjustment figure of Kshs.3,028,799 which has not been explained in the notes to the financial statements.

Consequently, the accuracy and completeness of the financial statements for the year ended 30 June, 2020 could not be ascertained

## **1.4. Errors in the Statement of Comparison of Budget and Actual Amounts**

The statement of comparison of budget and actual amounts reflects a budget income amount of Kshs.592,057,837. However, the budgeted expenditure reflects a total of Kshs.573,057,837 resulting to a budget variance of Kshs.19,000,000.

Further, summation of the final budget figures for tuition fees and other incomes has been wrongly reflected in the statement as a nil balance instead of a total of Kshs.487,057,837.

## **2. Non-Maintenance Fixed Assets Register**

The statement of financial position as at 30 June, 2020 reflects property, plant and equipment figure of Kshs.5,110,095,115 comprising of land, building, work in progress, plant and equipment, furniture and fittings and motor vehicles whose total cost amounts to Kshs.5,362,619,422 as disclosed in Note 18 to the financial statements. However, there was no evidence to indicate that the Management kept and maintained a fixed assets register. This is contrary to Regulation 143(1) of the Public Finance Management (National Government) Regulation, 2015 which states that the Accounting Officer shall be responsible for maintaining a register of assets under his or her control or possession as prescribed by the relevant laws.

In the circumstances, the existence, location and value of the Polytechnic's property plant and equipment could not be confirmed.

## **3. Unsupported Rental Revenue**

The statement of financial performance for the year ended 30 June, 2020 reflects rental revenue from facilities and equipment figure of Kshs.979,566. The rent was earned from members of staff housed by the Institution as disclosed in Note 5 to the financial statements. However, valuation reports and the lease agreements between the staff and the Management were not provided for audit review. Further, the Institution does not have a register of all rental housing units.

Consequently, the accuracy and completeness of rental revenue from facilities and equipment figure of Kshs.979,566 for the year ended 30 June, 2020 could not be confirmed.

#### **4. Unsupported Journal Entries**

The statement of financial performance reflects repairs and maintenance figure of Kshs.29,347,932 as disclosed in Note 10 to the financial statements which includes an amount of Kshs.24,661,763 relating to journal entries made in the repairs and maintenance account. However, the entries were not supported by journal vouchers, sufficient explanations and documentations. In addition, no documentary evidence was provided for audit review to indicate that the entries were authorized by the accounting officer as required by Regulation 103(1,2) of Public Finance Management - (National Government) Regulations 2015.

Consequently, the accuracy of repairs maintenance expenditure totaling to Kshs.29,347,932 for the year ended 30 June, 2020 could not be confirmed.

#### **5. Unsupported Outstanding Advances**

The statement of financial position as at 30 June, 2020 reflects receivables from exchange transactions figure of Kshs.256,161,905 which includes advances from production unit staff figure of Kshs.17,701,119 as disclosed in Note 15 to the financial statements. However, aging analysis of staff advances and evidence of the measures put in place to ensure full recovery of advances were not provided for audit review. Further, The Management had not made any provisions for bad and doubtful debts in the financial statements.

Consequently, the accuracy of advances to production unit staff amounting to Kshs.17,701,119 as at 30 June, 2020 could not be confirmed and public funds may be lost if the staff advances are not recovered.

#### **6. Unreceipted Deposits and Transfers**

The statement of financial position reflects trade and other payables from exchange transactions figure of Kshs.205,023,820 as disclosed in Note 19 to the financial statements. This amount includes bursaries receipts figure of Kshs.36,558,222, bank deposits of Kshs.16,670,884 and student smart card collections of Kshs.5,053,535 all totalling to Kshs.58,282,641 that had not been receipted and posted to the relevant revenue streams.

Consequently, the completeness and accuracy of the trade and other payables from exchange transactions figure of Kshs.205,023,820 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 Eldoret 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 to report in the year under review.

## **Other Matter**

### **1. Budgetary Control and Performance**

The statement of comparison of budget and actual amounts reflects a revenue budget of Kshs.592,057,837. However, actual receipts amounted to Kshs.544,000,302 which includes unbudgeted for funds amounting to Kshs.9,993,933 resulting to an underfunding of Kshs.48,057,535 or 8% of total revenue budget. Similarly, the Polytechnic had an approved expenditure budget of Kshs.623,014,337 which comprised of development vote budget of Kshs.49,956,500 and recurrent vote budget of Kshs.573,057,637. However, the Polytechnic expended a total of Kshs.555,391,341 resulting to an under expenditure amounting to Kshs.67,622,996 or 11% of the budget.

The underfunding and under expenditure may have affected the implementation of approved projects or programmes and therefore denies the intended beneficiaries the benefits accruing from completed project.

### **2. Unresolved Prior Year Matters**

There were issues raised in the audit report for 2018/2019 financial year. However, no report or recommendations from Eldoret National Polytechnic Management and oversight bodies were submitted for audit verification. Further, the issues remain unresolved contrary to Section 149(2)(l) of the Public Finance Management Act, 2012 which require accounting officers designated for national government entities to try to resolve any issues resulting from an audit that remain outstanding.

## **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 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. Non-Compliance with the Financial Reporting Template**

The financial statements for the year ended 30 June, 2020 were prepared in accordance IPSAS (Accrual Basis) Financial Reporting framework and applicable government legislations and regulations. However, following anomalies were noted;

- i. Statement of adoption of new revised and revised standards in not included in the financial statements.
- ii. Financial risk management and related party transactions have not been included in the financial statements.
- iii. The following annexes are not included in the financial statements: progress on follow up on audit recommendations, project implementation status, inter entity transfers and reconciliation of transfers from other entities.
- iv. The report of the governing council erroneously indicates that the results of Institution are shown on Pages 1-5 instead of Pages 21-25. Further, the report indicates that particulars of governing council members is on Page v-x instead of Page 1-5.
- v. The statement of financial position reflects note XIII in respect of revaluation reserves, accumulated surplus, GOK exchequer grants and donated non-current assets. However, the corresponding notes was not included in the notes to the financial statements.

Consequently, the financial statements were not prepared in accordance with TVET financial reporting template approved by the Public Sector Accounting Standards Board.

### **2. Employees with Net Earnings of Less than a Third of Basic Salaries**

The statement of financial performance for the year ended 30 June, 2020 reflects compensation of employees' figure of Kshs.197,038,420 which includes an amount of Kshs.138,183,484 relating to basic salaries of permanent employees. Examination of the payroll for the year ended 30 June, 2020 revealed instances of employees of Polytechnic receiving net salaries which is less than a third of their respective basic salaries contrary to Section 19(3) of the Employment Act, 2007.

Consequently, the Management is in breach of the law and there is risk of staff suffering from pecuniary embarrassment as they may not be able to meet their financial obligations.

### **3. Failure to Observe One Third Rule on Staff Composition**

Audit review of personnel records revealed that during the year ended 30 June, 2020, the Polytechnic had a total staff of 296 and 11 council members. However, the Council had six (6) members or 55% who were from the dominant community. Further, four (4) senior management staff or 67% were from the dominant community while 235 of other permanent staff or 81% were from the dominant community contrary to section 7 (1) and (2) of National Cohesion and Integration Act, 2008 that advocates for diversity in recruitment.

Consequently, the Management of the Polytechnic is in breach of the Law.

### **4. Non-Submission of Monthly Financial and Non-Financial Budgetary Report**

During the year under review, the Polytechnic had an approved budget of Kshs.623,014,337 which comprised of development vote budget of Kshs.49,956,500 and recurrent vote budget of Kshs.573,057,637. However, there was no evidence availed for audit review to indicate that management prepared and submitted monthly financial and non-financial budgetary reports to the National Treasury with copies to the Controller of Budget and the Auditor-General contrary to Regulation 55(1) of the Public Finance Management (National Government) Regulations, 2015 which requires an Accounting Officer of a national government entity to submit, not later than the tenth day of each month, monthly financial and non-financial budgetary reports to the National Treasury with copies to the Controller of Budget and the Auditor-General.

Consequently, the Management is in beach of the law.

### **5. Failure to Open a Project Bank Account**

The statement of financial position reflects payables from exchange transactions figure of Kshs.205,023,820 which includes Ministry of Education outstanding grant amount of Kshs.3,542,029 as disclosed in Note 19 to the financial statements for the completion of the construction of Bomet Technical Training Institute; a project which the Management was undertaking on behalf of The Ministry of Education. However, the Management did not open a separate bank account for the project. This is contrary to Regulation 76(1) of the Public Finance Management (National Government) Regulations, 2015. Further, Management did not maintain a separate deposit bank account and deposit ledger to account for the retention funds deducted from the contractors' payments.

Consequently, the Management was in beach of the 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, based on the audit procedures performed, except for the matters described in the Basis for Conclusion on Effectiveness of Internal Controls, Risk Management and 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**

#### **1. Lack of Inventory Management Policy**

The statement of financial position as at 30 June, 2020 reflects inventory amounting to Kshs.3,035,835. However, the Polytechnic did not have an inventory management policy to provide formal guidance on the management of inventory contrary to Section 165(1) of the Public Finance Management (National Government) Regulations, 2015 which states that the Accounting Officer shall ensure that the national government entity develops risk management strategies, which include fraud prevention mechanism and a system of risk management and internal control that builds robust business operations.

Consequently, the Institution is likely to incur stock losses and unaccountability of inventories due to lack of an inventory management policy.

#### **2. Data Centre Environment and Outdated Student Management System Server**

Audit review of Institution's information and communication technology systems revealed that the Institution uses a multifunctional student management system with a web portal to provide transparent and comprehensive information about study progress and includes a library management system. The system also controls applications and student registration processes. The Institution also runs Gigasoft, a proprietary enterprise resource planning (ERP) system. However, the following observations were made:

- i. The Institution is using an outdated server to run the student management system.
- ii. The Institution does not have a back-up server on standby to mitigate against hardware failure of the student management system server.

- iii. The ICT Data Centre room lacks: access control system to restrict and monitor access to the server room, a backup air conditioning equipment, an environmental monitoring system to monitor the humidity and temperature in the Data Centre.
- iv. The existing closed-circuit television (CCTV) system has also not been extended to the Data Centre.
- v. A backup uninterruptible power supply (UPS) device exists in the Data Centre but has not been installed and connected to the server cabinets.

Consequently, there is a risk of data loss or prolonged downtimes in the event of a disaster or equipment hardware failure.

### **3. Non-Adoption of Valuation Report on Property, Plant and Equipment**

The statement of financial position as at 30 June, 2020 reflects property plant and equipment figure of Kshs.5,110,095,115, whose cost figure is Kshs.5,362,619,422 as disclosed in Note 18 to the financial statements. According to interim valuation report dated 26 February, 2019, referenced No. LANDS/GEN/SW/1803 valuation was done on fixed and loose assets of the Polytechnic by registered a valuer. However, two (2) years after receiving the valuation reports, the Council has not adopted the report for implementation and it is not known when the report will be adopted.

### **4. Lack of an Approved Policy on Income Generating Activities**

The statement of financial performance reflects other income figure of Kshs.9,014,367 comprising of farm income, rental of physical facilities and services, guest house and conferences fees and disposal of obsolete assets as disclosed in Note 6 to the financial statements.

However, the Management does not have an approved policy for income generating activities (IGUs) contrary to Section 11(2)(b) of The Eldoret National Polytechnic Order, 2014 which states that the functions of the Board shall include assisting the principal in the day to day management of the National Polytechnic and shall, in this respect, be responsible for making proposals to the Council and the Academic Board on policies that have application across the entire Institution.

Consequently, the Management may not effectively and efficiently manage the income from income generating activities without an approved policy.

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 sustain services, disclosing, as applicable, matters related to sustainability of services and using the applicable basis of accounting unless the National Government 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.

Those charged with governance are responsible for overseeing the Polytechnic's 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 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's 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 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 the 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 the 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**

**17 February, 2022**