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

REPORT ON THE FINANCIAL STATEMENTS

Adverse Opinion

I have audited the accompanying financial statements of Kitale National Polytechnic set out on pages 1 to 22, which comprise the statement of financial position as at 30 June, 2020, 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, because of the significance of the matters discussed in the Basis for Adverse Opinion section of my report, the financial statements do not present fairly, the financial position of the Kitale 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 and do not comply with the Technical and Vocational Education and Training (TVET) Act, 2013 and the Public Finance Management Act, 2012.

Basis for Adverse Opinion

1.0 Preparation and Presentation of the Financial Statements

The Management of the Polytechnic did not prepare the financial statements in conformity with the reporting format approved by Public Sector Accounting Standards Board as detailed below:

i. The corporate governance statement section does not Indicate the number of Council meetings held during the year. Further, there was no mention of Council succession planning, existence of a Council charter, process of appointment and removal of Board Members, roles and functions of the Council, induction and training, Council and Members performance, conflict of interest, Council Members remuneration, ethics and conduct as well as governance audit.

ii. Paragraph 2(t) containing a summary of significant policies under the estimates and assumptions states that furniture and fittings are to be depreciated at 10%. However, a depreciation of 12.5% was applied to furniture and fittings during the year under review and prior years.

iii. The general expenses amount reported in the statement of financial performance of Kshs.199,382,204 differed with the amount in the
corresponding note which reflects Kshs.201,418,851 resulting in an unexplained and unreconciled variance of Kshs.2,036,647.

iv. The comparative figure in the statement of financial performance for repairs and maintenance is reflected as Kshs.8,025,551 while the corresponding note reflects Kshs.7,792,621 resulting in an unexplained and unreconciled variance of Kshs.232,390.

Consequently, there are non-compliance with the prescribed format.

**2.0 Unreconciled Differences Between the Financial Statements and the Ledgers**

Review of expenditure ledger revealed differences between the ledgers balances and the amounts reflected in financial statements as indicated below:

<table>
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<tr>
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</tr>
</thead>
<tbody>
<tr>
<td>Activity</td>
<td>Note. 10</td>
<td>9,626,980</td>
<td>9,818,370</td>
<td>(191,390)</td>
</tr>
<tr>
<td>Advertising</td>
<td>Note. 10</td>
<td>4,030,536</td>
<td>4,074,054</td>
<td>(43,518)</td>
</tr>
<tr>
<td>Capacity Building</td>
<td>Note. 10</td>
<td>4,475,680</td>
<td>2,949,680</td>
<td>1,526,000</td>
</tr>
<tr>
<td>Helb Refunded</td>
<td>Note. 10</td>
<td>416,131</td>
<td>464,859</td>
<td>(48,728)</td>
</tr>
<tr>
<td>Inventory</td>
<td>Note. 15</td>
<td>837,642</td>
<td>877,451</td>
<td>(39,809)</td>
</tr>
<tr>
<td>Sale of Meals</td>
<td>Note. 3</td>
<td>19,076,221</td>
<td>18,112,827</td>
<td>(963,394)</td>
</tr>
</tbody>
</table>

In the circumstances, the accuracy and completeness of the financial could not be ascertained.

**3.0 Inaccuracies in the Statement of Changes in Net Asset**

Review of the statement of changes in net assets revealed inaccuracies as detailed below:

i. The statement of changes in net assets reflect Kshs.1,447,785,262 in respect of development grants balance brought forward. However, the financial statements for the year 2018/2019 reflects Kshs.1,435,143,512 in respect of development grants resulting in an unexplained and unreconciled variance of Kshs.12,642,750.

ii. The statement reflects development grants amounting to Kshs.64,765,998 captured as fair value adjustment on quoted investment. However, no supporting documents were provided for review in respect of development grants/fund as reflected in the statement.
In the circumstances, the accuracy of the opening balances in the statement of changes in for the year under review could not be confirmed.

4.0 Inaccuracies in the Statement of Cash Flows

Review of statements of cash flows revealed the following inaccuracies:

i. The statement reflects net increase in cash and cash equivalents of Kshs.71,682,042 which is at variance with the recomputed cash and cash equivalents Kshs.72,297,273 resulting in an unexplained and unreconciled variance of Kshs.615,231.

ii. The statement reflects Kshs.4,291,748 in respect of cash out flows from investing activities. However, Note 19 to the financial statements reflects additions to property, plant and equipment amounting to Kshs.98,804,664 resulting in an unexplained and unreconciled variance of Kshs.94,512,916.

iii. The statement reflects decrease in current receivables is reflected as Kshs.23,291, the net decrease as per the statement of financial position is Kshs.4,090,869 resulting in an unexplained and unreconciled variance of Kshs.19,200,778.

In the circumstances, the accuracy of the statement of cash flows for the year ended 30 June, 2020 could not be confirmed.

5.0 Inaccuracies in Cash and Cash Equivalents

The statement of financial position reflects cash and cash equivalents amounting to balance of Kshs.181,653,440. Included in the amount is a cash in hand balance of Kshs.532,309 as reflected in Note 12(b) to the financial statements. The cash at hand balances relate to cash records for five bank accounts operated by the Polytechnic. However, the amount included a negative cash at hand balance in respect of the main bank account amounting to Kshs.3,208,467, and which was netted off from the other cash balances, to arrive at cash in hand balance of Kshs.532,309 as at 30 June, 2020.

Further the comparative amount for cash and cash equivalents in respect of 2018/2019 financial year is reflected in the statement of financial position as Kshs.104,025,924, which varies with the opening cash and cash equivalents amount in the statement of cash flows reflected as Kshs.109,971,398, resulting in an unexplained and unreconciled variance of Kshs.5,945,474.

In the circumstances, the accuracy and fair statement of the cash and cash equivalents amounting to Kshs.181,653,440 could not be confirmed.
6.0 Unsupported Council Capacity Building

The statement of financial performance reflects an amount of Kshs.14,547,893 in respect of remuneration of Directors. Included in this amount is Kshs.859,625 in respect of Board Members capacity building which was paid as sitting allowances, transport and per diem to Board Members in February, 2020 while attending a two-day induction course in Kisumu. However, the expenditure was not supported with an induction programme which targeted new members and a competency needs assessment had not been done to inform on the basis for the training.

In the circumstances, validity of the payment of Kshs.859,625 in respect of Board Members capacity building which was paid as sitting allowances, transport and per diem to Board Members could not be confirmed.

7.0 Unsupported Student Fees

The statement of financial performance reflects Kshs.212,935,060 under rendering of services - fees from students. However, an amount of Kshs.206,440,445 was not supported with schedules detailing names of the individual students from whom fees was received. Further, Management was unable to generate the student enrolment from data from the ERP System where student database and fees payment and other financial transactions are managed. Also, a system report of the total number of invoiced students and number of invoices was not provided by for audit review.

In the absence of student enrolment, invoiced student data and a list of students who paid the fees, the accuracy and completeness of student fees amount of Kshs.212,935,060 could not be confirmed.

The audit was conducted in accordance with International Standards of Supreme Audit Institutions (ISSAIs). I am independent of the Kitale National Polytechnic Management in accordance with ISSAI 130 on Code of Ethics. I have fulfilled other ethical responsibilities in accordance with the ISSAI and in accordance with other ethical requirements applicable to performing audits of financial statements in Kenya. I believe that the audit evidence I have obtained is sufficient and appropriate to provide a basis for my Adverse opinion.

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 during the year under review.
Other Matter

Budgetary Control and Performance

The statement of Comparison of Budget and Actual amounts reflects final receipts budget and actual on comparable basis of Kshs.579,754,031 and Kshs.444,025,052 respectively resulting in a shortfall of Kshs.135,728,979 or 23% of the approved budget. Similarly, the statement reflects final expenditure budget and actual on comparable basis of Kshs.551,796,583 and Kshs.406,402,461 respectively resulting in an under performance amounting to Kshs.145,394,112 or 26%.

The revenue underperformance and under expenditure affected the planned activities and may have impacted negatively on service delivery to the students and stakeholders of Kitale National Polytechnic.

REPORT ON LAWFULNESS AND EFFECTIVENESS IN USE OF PUBLIC RESOURCES

Conclusion

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

Basis for Conclusion

1.0 Non-Compliance with One-Third Basic Salary Rule

During the year ended 30 June, 2020, at least seven (7) employees earned a net salary less than a third (1/3) of the basic salary contrary to Section C.1(3) of the Public Service Commission (PSC) Human Resource Policies, 2016. The Management did not provide explanation for failure to comply with the policy.

In the circumstances, Management was in breach of the policy.

2.0 Lack of Quarterly Stock Taking

The Polytechnic conducted stock takes annually instead of quarterly as provided for in Section 162(2) of the Public Procurement and Assets Disposal Act, 2015 which require an entity to carry out quarterly stock take in each calendar year.

In the absence of quarterly stock take, the Polytechnic may not be able to prevent obsolescence and deterioration of stocks from preventable causes due to overstocking.
The audit was conducted in accordance with ISSAI 4000. The standard requires that I comply with ethical requirements and plan and perform the audit to obtain assurance about whether the activities, financial transactions and information reflected in the financial statements are in compliance, in all material respects, with the authorities that govern them. I believe that the audit evidence I have obtained is sufficient and appropriate to provide a basis for my conclusion.

REPORT ON EFFECTIVENESS OF INTERNAL CONTROLS, RISK MANAGEMENT AND GOVERNANCE

Conclusion

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

Basis for Conclusion

Lack of Remuneration Policy for Board Members

During the year under review, the Council held meetings categorized as full council, special full council, committee meetings and special committee meetings. Review of the records and information relating to the meetings revealed following anomalies:

i. The Polytechnic operated without a formal and remuneration policy for Board Members during the year under review.

ii. The Polytechnic reimbursed Board Members transport expenses and paid per diem without proof of travel and without indication of the criteria used for such payments.

iii. There was no prior declaration by Board Members of their places of residence for the purpose of payment of transport expenses and per diem.

iv. The Polytechnic did not carry out an annual evaluation of its performance at the end of the period as required by the Mwongozo guidelines.

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 Board of Governors

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 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 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 manner.

The Board of Governors 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

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. Misstated and 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 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 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

16 February, 2022