

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

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 22, which comprise of the statement of financial position as at 30 June, 2020, the statement of financial performance, statement of changes in net assets, statement of cash flows and the 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 Presentation of the Financial Statements

The financial statements for the year ended 30 June, 2020 have the following unsatisfactory matters:

- i) Management discussion and analysis, and the reports on projects implemented and inter-entity transfers are missing from the Polytechnic performance information.
- ii) The statement of cash flows reflects Kshs.57,065,630 and Kshs.28,331,051 in respect of movement on purchase of property, plant and equipment and intangible assets, and work in progress respectively. However, the increases in the assets do not match with the Notes 20 and 21 to the financial statements respectively.
- iii) The statement of comparison of budget and actual amounts has no adjustments and final budget columns.
- iv) There is no explanatory note on the new inventory items valued at Kshs.4,288,928 as disclosed in Note 19 to the financial statements.
- v) Note 20 to the financial statements on property, plant and equipment reflects assets movement for four years instead of two years. Further, depreciation charge has not been disclosed separately from asset costs.
- vi) The header on Note 23 to the financial statements erroneously indicates 2019/2020 for the comparative balance column instead of 2018/2019.

Consequently, the financial statements do not comply with the template issued and published by the Public Sector Accounting Standards Board in June, 2020.

2.0 Accuracy of the Financial Statements

Audit review of the financial statements for year ended 30 June, 2020 revealed that there were some unsatisfactory matters on their accuracy:

- i) The financial statements are not based on a properly maintained accounting ledger system which is able to generate trial balance and financial statements. Consequently, the Institute did not provide a trial balance for audit review.
- ii) Records provided revealed that the Polytechnic omitted receivables from non-exchange transactions of Kshs.21,810,000 from the financial statements in respect of outstanding government grants as at 30 June, 2020.
- iii) The statement of changes in net assets reflects an amount of development grants for mentored institutions of Kshs.20,940,211 out of which Kshs.9,092,250 has been accounted for under capital/development grants/fund instead of the mentored TTI Fund. The Management has not explained the inconsistency in classification of the grants.

In the circumstance, the accuracy and completeness of the financial statements for the year ended 30 June, 2020 could not be confirmed.

3.0 Unaudited Opening Reserves

The statement of changes in net assets for the year ended 30 June, 2020 reflects a closing balance of Kshs.2,217,695,936. As previously reported, included in the balance is Kshs.1,624,919,449 in respect of reserves balance as at 01 June, 2016, being mentored TTI fund 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. However, and as previously reported, available information indicates that the financial year 2016/2017 was the first year of preparation of accounts and their audit and this opening balance remains unsupported.

In addition, the statement of changes in net assets includes fair value adjustment of Kshs.13,055,784 and inventory reserve adjustment of Kshs.4,288,928. However, there was no evidence of revaluation of assets and stock taking of the inventory. The basis for adjustments could therefore not be verified.

Consequently, the accuracy, and completeness of the statement of changes in net assets balance of Kshs.2,217,695,936 as at 30 June, 2020 could not be confirmed.

4.0 Unsupported Opening Balance of Cash and Cash Equivalent

The statement of cash flows for the year ended 30 June, 2020 reflects a cash and cash equivalents balance of Kshs.491,302,864. However, as previously reported, the balance includes a brought forward balance of Kshs.153,368,135 as at 01 July, 2016 and which has not been supported.

Consequently, the accuracy and completeness of the statement of cash flows for the year ended 30 June, 2020 could not be confirmed.

5.0 Cash and Cash Equivalents

As disclosed in Note 17 to the financial statements, the statement of financial position reflects cash and cash equivalents balance of Kshs.491,302,864. However, the following unsatisfactory matters were noted.

5.1 Lack of Cash Books and Bank Reconciliation Statements

During the audit, the Polytechnic Management did not provide for audit review the cashbooks and bank reconciliation statements in support of the reserve fund account with a balance of Kshs.2,109,232, the capital development account with a balance of Kshs.1,152,417 and the caution money account with a balance of Kshs.619,341. 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.

5.2 Uncleared Items in the Bank Reconciliation Statements

5.2.1 Main Current Bank Account

Note 17(a) to the financial statements reflects a main current account balance of Kshs.260,683,843. However, the bank reconciliation statement as at 30 June, 2020 reflects direct bankings amounting to Kshs.15,024,555 without dates or explanations provided as to why they have not been entered in 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.

5.2.2 Production Unit Account 3

Included in the cash and cash equivalents balance of Kshs.491,302,864 is a Production Unit account balance of Kshs.21,078,480 held in a local bank. However, the supporting bank reconciliation statement as at 30 June, 2020 reflects direct bankings of Kshs.559,710 and the Management did not provide an explanation why the deposits had not been recorded in the cash book.

In the circumstances, existence, accuracy and completeness of the cash and cash equivalents balance of Kshs.491,302,864 as at 30 June, 2020 could not be confirmed.

6.0 Receivables from Exchange Transactions - Lack of an Ageing Analysis

As disclosed in Note 18 to the financial statements, the statement of financial position reflects a balance of Kshs.97,144,290 in respect of receivables from exchange transactions. Included in this balance is student debtors balance of Kshs.75,064,432 which was not supported with an ageing analysis of the outstanding debts. It was therefore not possible to confirm names of the student debtors and how long the debts have been outstanding in order to determine recoverability of the debts.

Further, the receivables from exchange transactions balance of Kshs.97,144,290 was not supported with detailed debtors' schedules. It was also noted that there was no credit policy in place for Management of credit facilities. As such, the basis for granting the credit facility and computing provision for bad debts could not be ascertained.

In addition, the receivables from exchange transactions balance also includes Kshs.4,159,310 in respect of a staff debtor which has remained outstanding since the financial year 2016/2017. However, the Management has not explained why the debt has not been written off.

In the circumstances, the accuracy and completeness of the receivables from exchange transactions balance of Kshs.97,144,290 could not be ascertained.

7.0 Unsupported Inventories Balance

As disclosed in Note 19 to the financial statements, the statement of financial position reflects a balance of Kshs.5,740,608 in respect of inventories as at 30 June, 2020. However, 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 addition, the inventories balance was not supported with detailed schedules of the inventory. Further, evidence supporting the adjustment of Kshs.4,288,928 was not provided for audit verification.

In the circumstances, the accuracy and completeness of inventories balance of Kshs.5,740,608 as at 30 June, 2020 could not be confirmed.

8.0 Property, Plant and Equipment

8.1 Assets not Valued

As disclosed in Note 20 to the financial statements, the statement of financial position reflects a balance of Kshs.1,691,269,095 in respect of property, plant and equipment which is the net book value as at 30 June, 2020. 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 review. Further, 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.

In addition, the Management does not maintain an assets register of all assets owned by the Polytechnic. It was therefore not possible to determine the number, costs, depreciation, locations and status of the assets.

Consequently, valuation, accuracy and existence of property, plant and equipment balance of Kshs.1,691,269,095 as at 30 June, 2019 could not be confirmed.

8.2 Unverified Works for Renovation of Chandaria Hall

Included in property, plant and equipment balance of Kshs.1,691,269,095 and disclosed at Note 20 to the financial statements is Kshs.455,007,483 in respect of buildings which further includes payments totalling Kshs.3,552,431 made to a contractor for renovation of Chandaria hall. However, the payments were not supported with the engineer's certificates of payments to confirm the work done. Further, the inspection report supporting the payment voucher noted unsatisfactory work/defects.

Consequently, the value of work done and the validity of the payment of Kshs.3,552,431 could not be confirmed.

9.0 Unsupported Intangible Assets

As disclosed in Note 21 to the financial statements, the statement of financial position reflects intangible assets-software balance of Kshs.21,350,795 as at 30 June, 2020 and . Included in the balance is a work in progress figure of Kshs.13,222,840 relating to the upgrade of ABNO Software which is the Polytechnic's Management Information System.

Records provided revealed that the Polytechnic entered into a contract agreement with a local firm at a contract sum of Kshs.15,000,000 for the supply, installation, configuring, testing and commissioning of the Enterprise Resource Planning system in order to operationalize the finance, procurement, banking and fifteen other modules. Further, the records indicated that the contractor had been paid a total of Kshs.17,545,000 of the allocated budget of Kshs.15,000,000 as at 30 June, 2020. However, as at the time of audit January, 2021, the modules were not functional, casting doubt about the propriety of the expenditure.

Consequently, the payments may have been made for non-delivered services.

It is also not clear how the over-payment of Kshs.2,545,000 was made over and above the budget amount contrary to Section 17(4) of The Kenya Coast National Polytechnic Order, 2016 which states in part that after the Cabinet Secretary has given his approval, the Council shall not increase any sum provided in the estimates without the consent of the Cabinet Secretary.

Further, the intangible assets-software balance of Kshs.21,350,795 was not supported with an assets register detailing the 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.21,350,795 as at 30 June, 2020 could not be confirmed.

10.0 Unsupported Trade and Other Payables from Exchange Transactions

As disclosed in Note 23 to the financial statements, the statement of financial position as at 30 June, 2020 reflects trade and other payables from exchange transactions balance of Kshs.226,241,832 . However, the balance include payables of Kshs.145,076,576 or 64% which was not supported with a detailed creditors' schedule.

Consequently, the accuracy and completeness of the trade and other payables from exchange transactions balance of Kshs.226,241,832 as at 30 June, 2020 could not be confirmed.

11.0 Mentored Institutions Projects – Lack of Handing Over Reports and Comingled Funds

The statement of financial position as at 30 June, 2020 reflects a balance of Kshs.337,130,116 in respect of mentored institutions projects. Available information revealed that Kenya Coast National Polytechnic was funded by the line Ministry with matching funds from respective local National Government Constituency Funds to construct and equip classrooms and administration block at the following technical training institutes; Ahmed Shahame Mwidani - Changamwe Constituency, Weru - Malindi Constituency, Lamu East - Lamu East Constituency, Lamu West - Lamu West Constituency, Kaloleni - Kaloleni Constituency and Likoni - Likoni Constituency. It was further noted that five the (5) institutes are now operational and the buildings are in use. However, there was no evidence of handing-over of the projects to the institutes' Management.

Further, it was also noted that funds for the mentored institutions are comingled with institution's funds in the Polytechnic's operational (main) bank account despite the existence of separate mentored institution's bank account. It was not possible to confirm the availability of unspent funds for the grants.

Consequently, the validity and completeness of mentored institutions projects/works balance of Kshs.337,130,116 as at 30 June, 2020 could not be confirmed.

12.0 Irregular Remuneration of Council a Member

The statement of financial performance for the year ended 30 June, 2020 reflects an amount of Kshs.5,690,565 in respect of remuneration of Council Members. Included in the expenditure is sitting allowance amounting to Kshs.391,553 paid to the County Director of Technical and Vocational Education and Training (TVET), Mombasa Region. However, there was no evidence that the officer was appointed as a Council Member in line with Mwongozo Guideline Section 11 which provides that 'each Board Member shall be formally appointed to the board through a gazette notice and thereafter an appointment letter'.

Further, available records revealed that the Chief Principal who doubles as Secretary to the Council received a total of Kshs.480,753 as sitting allowances for performing normal work.

Consequently, the Polytechnic made irregular expenditure amounting to Kshs.872,306 on sitting allowances to Council members.

13.0 Doubtful Expenditure on Repairs and Maintenance

The statement of financial performance for the year ended 30 June, 2020 reflects Kshs.28,625,154 in respect of repairs and maintenance. Included in the repairs and maintenance balance, are payments to four (4) contractors for various repair works totalling Kshs.4,829,215. However, the supporting invoices were for the financial year 2018/2019 and were not included in the list of creditors for that year. In addition, it was noted that although the payments were made on 10 January, 2020, the Financial Controller's signature was dated 18 March, 2020, casting doubt on the payment process.

Consequently, the validity of the repairs and maintenance expenditure of Kshs.4,829,215 for the year ended 30 June, 2020 could not be confirmed.

14.0 Use of Goods and Services

As disclosed at Note 16 to the financial statements, the statement of financial performance shows use of goods and services expenditure of Kshs.15,858,371 which includes amounts of Kshs.4,452,588 and Kshs.4,848,090 for part payment of the contract sum for internet services and security costs, respectively. Audit review of the contract agreements revealed that the two contracts expired in February, 2020. However, it was noted that payments amounting to Kshs.972,502 and Kshs.1,707,602 for internet services and security services, respectively were made to the services providers between the months of March, 2020 and June, 2020 after the expiry of the contracts.

Consequently, the validity and completeness of the expenditure totalling Kshs.2,680,104 on internet and security services could not be confirmed.

15.0 Budgetary Control and Performance

The statement of comparative budget and actual amounts reflects final receipts budget and actual on comparable basis of Kshs.457,946,000 and Kshs.323,181,398 respectively resulting to an under-funding of Kshs.134,764,602 or 29% of the budget. Similarly, the Polytechnic expended Kshs.293,772,148 against an approved budget of Kshs.457,216,000 resulting to an under-expenditure of Kshs.163,443,852 or 36% of the budget.

Although the underfunding and underperformance affected the Polytechnic's planned activities and may have impacted negatively on service delivery to the public.

16.0 Unconfirmed Budget Approval Process

The statement of comparison of budget and actual amounts indicates that the Polytechnic had an expenditure budget of Kshs.457,216,000 for the financial year 2019/2020. However, the Polytechnic Management did not provide evidence that the budget was approved by the respective line Ministry in line with Section 17(4) of The 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 and after the Cabinet Secretary has given his approval, the Council shall not increase any sum provided in the estimates without the consent of the Cabinet Secretary”.

Consequently, the Management may have incurred expenditure without regard to The Kenya Coast National Polytechnic Order, 2016

17.0 Irregular Payment of Responsibility Allowance

The statement of financial performance for the year ended 30 June, 2019, reflects employee costs total of Kshs.51,417,799. 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. The payment is 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’.

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

18.0 Failure to Operationalize E-Procurement Platform

The Polytechnic Management had not operationalized the e-procurement method, contrary to Executive Order No.6 of 06 March, 2015, which requires all state corporations and universities to migrate to e-procurement platform. According to the National Treasury Circular No.6/2015, all public entities were supposed to have migrated to the E-procurement platform by June 2015. Further, the Management spent a total of Kshs.17,000,000 in the year under review on upgrade of the Enterprise Resource Programme (ERP) software which includes the procurement module. However, as at the time of audit in January, 2021, the e-procurement portal was not operational.

In the circumstances, the Management is in breach of the law and the value for money for the expenditure of Kshs.17,000,000 could not be confirmed.

19.0 Irregular Attendance of Council Meetings by Non-Member

An audit 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 during the year ended

30 June, 2019. However, the officer was not gazetted as a Council member in line with Mwingozo 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”. Further, the National Treasury had not appointed a representative to the Council.

In the Circumstances, the Council meetings were not properly constituted and its decisions may be subsequently challenged in a court of law.

20.0 Lack of Policy on Management of Part-Time Classes

As disclosed in Note 15 to the financial statements, the statement of financial performance shows that during the year under audit review, the Polytechnic incurred a total expenditure of Kshs.77,342,810 on operating expenses which includes an expenditure of Kshs.36,389,039 incurred on running of part-time programmes. Available records revealed that both external and internal staff are engaged in the programmes to teach part-time students. However, as previously reported, 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.

Further, 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.

In addition, information available indicates that tuition fees collected from part-time courses are shared in the ratio of 70% and 30% respectively between the 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.

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 Disclaimer of Opinion 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 Disclaimer of Opinion 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 Council Members

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 ability of Kenya Coast National Polytechnic to continue to sustain services, disclosing, as applicable, matters related to sustainability of services and using the applicable basis of accounting unless Management is aware of the intention to terminate the National 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 Kenya Coast National Polytechnic 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

My responsibility is to conduct an audit of the Kenya Coast National Polytechnic 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 Disclaimer of Opinion section of my report, I was not able to obtain sufficient appropriate audit evidence to provide a basis for an audit conclusion on lawfulness and effectiveness in use of public resources, and on effectiveness of internal controls, risk management and governance.

I am independent of the Kenya Coast 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.



CPA Nancy Gathungu, CBS
AUDITOR-GENERAL

Nairobi

14 February, 2022