

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

REPORT ON THE FINANCIAL STATEMENTS

Qualified Opinion

I have audited the accompanying financial statements of Kisii National Polytechnic set out on pages 1 to 21, which comprise the statement of financial position as at 30 June, 2020, and the statement of financial performance, statement of changes in net assets, statement of cash flows and statement of comparison of budget and actual amounts for the year then ended, and a summary of significant accounting policies and other explanatory information in accordance with the provisions of Article 229 of the Constitution of Kenya and Section 35 of the Public Audit Act, 2015. I have obtained all the information and explanations which, to the best of my knowledge and belief, were necessary for the purpose of the audit.

In my opinion, except for the effect of the matters described in the Basis for Qualified Opinion section of my report, the financial statements present fairly, in all material respects, the financial position of the Kisii 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 Training and Vocational Act, 2013.

Basis for Qualified Opinion

1. Accuracy of Financial Statements

1.1 Casting Errors and Inaccurate Presentation of the Financial Statements

Examination of the financial statements reflects the following casting errors and inaccuracies in the presentation of financial statements: -

- i. The statement of cashflows reflects Kshs.264,377,366 in respect to rendering of services, however, Note 2 to the financial statements reflects accrued revenue students fees of Kshs.17,181,866 which has been included as part of the revenue earned,
- ii. Note 22 to the financial statements reflects additions to the assets of Kshs.175,370,639 whereas the statement of cashflows reflects investing activities of Kshs.166,162,524 resulting to unexplained and unreconciled variance of Kshs.1,994,221,
- iii. Working capital items have been omitted in the statement of cashflows,
- iv. Note 5 to the financial statements reflects comparative expenditure under use of goods and services of Kshs.219,595,805, recasting gives a total expenditure of Kshs.217,227,375 resulting to casting error of Kshs.2,368,430,

- v. Note 12 to the financial statements reflects comparative balance under cash and cash equivalents of Kshs.209,826,341, recasting gives a balance of Kshs.209,831,142 resulting to casting error of Kshs.4,801.

Consequently, the completeness, accuracy, presentation and disclosure of the financial statements could not be confirmed.

1.2 Wrong Classification of Other Income

As disclosed under Note 4 to the financial statements, the statement of financial performance reflects other income of Kshs.52,261,433 which include prepaid fees amounting to Kshs.5,331,933 classified as revenue instead of liability hence overstating other income by the same.

Consequently, the accuracy, validity and completeness of Kshs.52,261,433 for the year ended 30 June, 2020 could not be confirmed.

2. Revenue from Exchange Transactions

2.1 Unsupported Rendering of Services - Fees from Student

As disclosed under Note 2 to the financial statements, the statement of financial performance reflects rendering of services - fees from student of Kshs.311,760,979 which was not supported with analysis of the active students in session during the financial year 2019/2020 together with the fee chargeable per student.

Consequently, the accuracy, validity and completeness of Kshs.311,760,979 for the year ended 30 June, 2020 could not be confirmed.

3. Inaccurate Property Plant and Equipment

As disclosed under Note 22 to the financial statements, the statement of financial position reflects property, plant and equipment of Kshs.1,542,756,321 as at 30 June, 2020. The following anomalies were noted:

- i. Additions during the year amounted to Kshs.175,370,639 which differs with schedules provided of Kshs.123,716,899 resulting to unreconciled or supported variance of Kshs.51,653,740,
- ii. Included in the cost of assets is unexplained prior year adjustment of Kshs.191,053,795,
- iii. Further, recasting of the additions during the year amounts to Kshs.173,620,248 resulting to an error of Kshs.1,750,391,
- iv. The Net book value as at 30 June, 2019 has not been disclosed.

Consequently, the accuracy, validity, completeness, presentation and disclosure of the property, plant and equipment as at 30 June, 2020 could not be confirmed.

4. Receivables from Exchange Transactions

As disclosed under Note 13 to the financial statements, the statement of financial position reflects receivables from exchange transactions balance of Kshs.31,997,209 which includes an amount of Kshs.30, 544,183 in respect of Government sponsored National Youth Service trainees. Included is an amount of Kshs.10,547,796 outstanding for more than 4 years. However, there was no evidence of any correspondence between the institution and the Ministry seeking to recover these amounts.

Consequently, the completeness, accuracy and recoverability of the receivables from exchange transactions of Kshs.31,997,209 as at 30 June, 2020 could not be confirmed.

5. Prior Year Adjustments

The statement of changes in net assets for the year ended 30 June, 2020 reflects revaluation reserves of Kshs.1,238,961,632 which includes prior year adjustments of Kshs.7,061,365 as detailed in Note 9.3 to the financial statements. However, the adjustment was effected in the current financial year instead of prior year, contrary to International Public Sector Accounting Standard No.3; which states that 'Except to the extent that it is impracticable to determine either the period-specific effects or the cumulative effect of the error, an entity shall correct material prior period errors retrospectively in the first set of financial statements authorized for issue after their discovery by: (a) restating the comparative amounts for the prior period(s) presented in which the error occurred; or (b) if the error occurred before the earliest prior period presented, restating the opening balances of assets, liabilities and equity for the earliest prior period presented.'

Consequently, the accuracy, validity and completeness of the prior year adjustment balance of Kshs.7,061,365 as at 30 June, 2020 could not be ascertained.

6. Variances between the Statement of Budget and Actuals and the Summary Statement of Financial Performance

The statement of budget versus actual for the year ended 30 June,2020 reflects final budget and actual comparable basis of Kshs.692,770,539 and Kshs.585,206,986 respectively. The following anomalies were noted:-

- i. The statement of financial performance reflects total revenue of Kshs.617,204,195. However, the statement of budget and actuals reflects total revenue of Kshs.585,206,986 in respect to the same item resulting to unexplained and unreconciled variance of Kshs.31,997,209,
- ii. Note 22 to the financial statements reflects additions to the assets of Kshs.175,370,639 whereas the statement of budget and actuals reflects development expenditure of Kshs.166,162,524 resulting to unexplained and unreconciled variance of Kshs.1,994,221,

- iii. The statement of budget and actuals reflects final budget of Kshs.17,830,028 with an original budget of Kshs.19,824,549 resulting to a casting error of Kshs.1,994,521.

Consequently, the accuracy, validity, completeness, presentation and disclosure of the budget and actual comparable basis of Kshs.692,770,539 and Kshs.585,206,986 could not be confirmed.

The audit was conducted in accordance with International Standards of Supreme Audit Institutions (ISSAIs). I am independent of the Kisii 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. I have determined that there are no key audit matters to communicate in my report.

Other Matter

1. Budgetary Control and Performance

1.1 Revenue Analysis

The statement of budget and actual amount for the year ended 30 June, 2020 reflects Ksh.692,770,539 and Ksh.585,206,986 in respect to budgeted revenue and actual revenue respectively translating to an overall under - realization of Kshs.107,563,553 or 16% of the budget.

The Kshs.107,563,553 receipt shortfalls represent services planned for but not delivered to Kisii National Polytechnic.

1.2 Expenditure Analysis

The statement of comparison of budget and actual amounts for the year ended 30 June, 2020 reflects Kshs.699,759,945 and Kshs.532,257,286 in respect budget and actual expenditure respectively resulting to under absorption of Kshs.167,502,359 or 24%.

Further there was an approved over expenditure under remuneration of directors of Kshs.7,005,124 contrary to Section 52(1)(a) of Public Finance Management (National Government) Regulations, 2015 which states that no public officer can spend or commit funds until he or she has been properly authorized by means of an Authority to Incur Expenditure (AIE) to do so.

The budget under absorption of Kshs.167,507,659 is equivalent to services budgeted for but not delivered to the students of Kisii Polytechnic.

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. Property, Plant and Equipment

1.1 Uncompleted construction of Tuition, Workshop and Office Block

As disclosed under Note 22 to the financial statements, the statement of financial position reflects property, plant and equipment of Kshs.1,542,756,321 which includes mentee projects balance of Kshs.179,731,234. Included is Kshs.1,864,117 in respect of construction of tuition, workshop and office block at Riamo Technical Vacation Centre for contract sum of Kshs.48,627,833. The contract was awarded to a contractor on 6 November, 2014 for a period of 52 weeks. Although the project was behind schedule, it was noted that it is now approximately 97% complete as confirmed by site meeting report dated 17 June, 2020. However, physical verification the following defects were noted:-

- i. The firefight equipment has not been installed as provided by the specifications,
- ii. Clearing and labelling the site from some debris was done,
- iii. Installation of the transformer and completion of electrical wiring in the building had not been done.

1.2 Stalled Project - Construction of Tuition, Workshop and Office Block

As disclosed under Note 22 to the financial statement, the statement of financial position reflects property, plant and equipment balance of Kshs.1,542,756,321 which includes mentee projects balance of Kshs.179,731,234. Included is Kshs.18,941,236 in respect of construction of tuition, workshop and office block at South Mugirango Technical Vacation Centre for contract awarded and commissioned on 9 May, 2019, at a contract sum of Kshs.55,000,000 and expected completion date 24 April, 2021. Total amount paid to contractor as per certificate is Kshs.28,936,236 while percentage of work done to date is 62.2%.

Physical verification of that the project revealed that it has stalled and contractor was on site.

1.3 Incomplete Works on Construction of Twin Classroom and Office Block

As disclosed under Note 22 to the financial statements, the statement of financial position reflects property, plant and equipment of Kshs.1,542,756,321 which includes mentee projects balance of Kshs.179,731,234. Included is Kshs.6,359,872 in respect of construction of proposed erection and completion of twin classroom and office block at Kitutu Masaba Technical Training Institute. The contract was awarded on 15 February, 2016 at a contract sum of Kshs.54,983,210 for a period of 52 weeks. Amount certified to date is Kshs.48,873,876.40 under the certificate No. 27 while the contract time lapsed and practical completion/handing over was done on 23 December, 2020. However, physical verification revealed the following defects;

- i. Earthing of lightening not placed at 1.5 metres away from the building,
- ii. Screeding the top of the septic tank with nil finish not done,
- iii. Installation of two (2) water pumps not completed,
- iv. Pinching of stone work on the edger of the paving slabs from the main entrance, was not done hence risk of concrete slabs falling off with time.

In the circumstances, the regularity and value for money of the expenditure of Kshs.179,731,234 as at 30 June, 2020 could not be confirmed.

2. Employee Costs - Non-Adherence to Third Pay Rule

As disclosed under Note 6 to the financial statements, the statement of financial performance reflects Kshs.95,011,091 as compensation of employees which includes Kshs.86,385,056 in respect of salary and wages. Examination of the polytechnic's payroll revealed that thirty four (34) staff were earning less than the minimum allowable net pay as per their different job groups contrary to the third pay rule and Section 3.10 of the Kisii National Polytechnics human resource policy manual.

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

3. Staff Ethnic Composition

As disclosed under Note 6 to the financial statements, the statement of financial performance reflects Kshs.95,011,091 as compensation of employees which includes Kshs.86,385,056 in respect of salary and wages. The total number of employees of Kisii National Polytechnic was 256 out of which 230 or 90% are members of the dominant ethnic community, which is contrary to the requirement of Article 232(1)(h) of the constitution which states that the representation of Kenya's diverse communities; and Section 7(1) and (2) of the of the National Cohesion and Integration Act, 2008 which states that "all public establishment shall seek to represent the diversity of the people of Kenya in employment of staff and no public establishment shall have more than one third of its staff from the same ethnic community.

Consequently, the Polytechnic Management is in breach 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 Risk Management Strategy

The review of the internal controls revealed that Kisii National Polytechnic lack the Risk Management Strategy to ensure that all operations are performed within the approved risk tolerance levels. There was no documented disaster recovery plan to deal with loss of data or information in case of systems failures to protect the IT infrastructure in the event of a disaster. Further, there is no assurance on the effectiveness of Risk Management strategies as required by the provisions of Section 165(1a) of Public Finance Management (National Governments) Regulations, 2015.

In the circumstance, the Polytechnic may not be able to respond effectively in an event of a disaster.

2. Lack of Debts Management Policy

The Polytechnic does not have a clear policy and strategy on debts management; spelling out modalities on recovery of outstanding debts, when a debt becomes bad and doubtful, and when a bad debt is to be written off.

In the circumstance, the Polytechnic may not be able to manage its cash flow effectively.

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 due to fraud or error and for its assessment of the effectiveness of internal the preparation of financial statements that are free from material misstatement, whether control, risk management and overall governance.

In preparing the financial statements, Management is responsible for assessing the ability of the Polytechnic to sustain services, disclosing, as applicable, matters related to sustainability of services and using the applicable basis of accounting unless the Polytechnic either intends to cease operations, or have no realistic alternative but to do so.

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 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 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 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 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

02 February, 2022