

REPORT OF THE AUDITOR-GENERAL ON KISII NATIONAL POLYTECHNIC FOR THE YEAR ENDED 30 JUNE, 2023

PREAMBLE

I draw your attention to the contents of my report which is in three parts:

- A. Report on the Financial Statements that considers whether the financial statements are fairly presented in accordance with the applicable financial reporting framework, accounting standards and the relevant laws and regulations that have a direct effect on the financial statements.
- B. Report on Lawfulness and Effectiveness in Use of Public Resources which considers compliance with applicable laws, regulations, policies, gazetted notices, circulars, guidelines and manuals and whether public resources are applied in a prudent, efficient, economic, transparent and accountable manner to ensure Government achieves value for money and that such funds are applied for the intended purpose.
- C. Report on Effectiveness of Internal Controls, Risk Management and Governance which considers how the entity has instituted checks and balances to guide internal operations. This responds to the effectiveness of the governance structure, the risk management environment and the internal controls, developed and implemented by those charged with governance for orderly, efficient and effective operations of the entity.

An unmodified opinion does not necessarily mean that an entity has complied with all relevant laws and regulations and that its internal controls, risk management and governance systems are properly designed and were working effectively in the financial year under review.

The three parts of the report are aimed at addressing the statutory roles and responsibilities of the Auditor-General as provided by Article 229 of the Constitution, the Public Finance Management Act, 2012 and the Public Audit Act, 2015. The three parts of the report, when read together constitute the report of the Auditor-General.

REPORT ON THE FINANCIAL STATEMENTS

Qualified Opinion

I have audited the accompanying financial statements of Kisii National Polytechnic set out on pages 1 to 44, which comprise the statement of financial position as at 30 June, 2023, and the statement of financial performance, statement of cash flows, statement of changes in net assets 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, 2023, 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.

Basis for Qualified Opinion

1. Long Outstanding Current Portion of Receivables from Exchange Transactions

The statement of financial position and as disclosed in Note 21(a) to the financial statements reflects current portion of receivables from exchange transactions balance of Kshs.254,738,370, representing an increase of Kshs.108,587,305 from the prior year balance of Kshs.146,151,065. Review of the debtors ageing analysis revealed that debtors amounting to Kshs.7,153,204 have been outstanding for three (3) or more years. However, Management did not provide evidence of efforts made to collect the outstanding debts. Further, no evidence was provided for provision for bad and doubtful debts and the finance policy does not address how to treat the debts and the period they should remain outstanding before written off.

In the circumstances, the recoverability of the receivables from exchange transactions balance of Kshs.7,153,204 as at 30 June, 2023 could not be confirmed.

2. Unrecognized Revenue from Non-Exchange Transactions

The statement of financial performance and as disclosed in Note 6 to the financial statements reflects transfers from National Government entities amount of Kshs.176,353,900 which relates to capitation from the Government for student enrolled in the institution. The capitation is supposed to be Kshs.7,500 per trainee per quarter which amounts to Kshs.30,000 per year. However, the annual amount recognized is only Kshs.13,000 for the registered trainees based on the receipts during the year. The Management has not accrued for the difference of Kshs.17,000 per trainee that is receivable which would translate to approximately Kshs.228,587,000. The financial statements are prepared under accrual basis of accounting.

In the circumstances, the accuracy and completeness of revenue from non-exchange transactions as at 30 June, 2023 could not be confirmed.

3. Revenue from Exchange Transactions

The statement of financial performance and as disclosed in Note 7 to the financial statements reflects revenue from rendering of services – fees from students amount of Kshs.345,720,820 which is a reduction from the previous year amount of Kshs.465,407,123. The decrease of Kshs.119,686,303 has not been explained especially considering the student population has increased from 11,517 to 13,017.

In the circumstances, the accuracy of revenue from exchange transactions as at 30 June, 2023 could not be confirmed.

4. Inaccuracies in Statement of Comparison of Budget and Actual Amounts

The statement of comparison of budget and actual amounts reflects total actual expenditure of Kshs.507,007,515 while a recast gives Kshs.506,950,560 resulting to unexplained variance of Kshs.56,955. Further, the statement reflects use of goods and services performance difference of Kshs.16,901,051 while re-computation gives Kshs.10,099,746 resulting to unexplained variance of Kshs.6,801,305. In addition, the statement reflects employee costs performance difference of Kshs.10,617,738 while re-computation gives Kshs.3,873,388 resulting to unexplained variance of Kshs.6,744,350.

In the circumstances, the accuracy of the statement of comparison of budget and actual amounts 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.

Emphasis of 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.564,619,254 and Kshs.555,578,986 respectively resulting to an under-funding of Kshs.9,040,268 or 2% of the budget.

Similarly, the Polytechnic expended recurrent expenditure of Kshs.507,007,515 against an approved recurrent budget of Kshs.384,602,659 resulting to an over-expenditure of Kshs.122,404,856 or 32% of the budget.

In addition, included is the repair and maintenances of Kshs.143,989,653 against approved budget of Ksh.24,800,000 leading to an over expenditure of Kshs.119,189,653 whose approval was not provided for audit review.

Further, the Polytechnic incurred capital expenditure of Kshs.217,831,015 out of the approved budget of Kshs.180,016,595, resulting to an over-expenditure of Kshs.37,814,420 or 21% of the budget.

In the circumstances, the over expenditures were not supported by Board approvals and Management may have incurred unauthorized expenditure.

My opinion is not modified in respect of this matter.

Key Audit Matters

Key audit matters are those matters that, in my professional judgment, are of most significance in the audit of the financial statements. There were no key audit matters to report in the year under review.

Other Matter

Unresolved Prior Year Audit Matters

In the audit report of the previous year, several issues were raised under the Report on Financial Statements, Report on Lawfulness and Effectiveness in Use of Public Resources and Report on Effectiveness of Internal Controls, Risk Management and Governance. However, Management has not resolved some of the issues or given any explanation for failure to adhere to the provisions of the Public Sector Accounting Standards Board templates and The National Treasury's Circular Ref: No. AG.4/16/3 Vol.1(9) dated 24 June, 2020.

REPORT ON LAWFULNESS AND EFFECTIVENESS IN USE OF PUBLIC RESOURCES

Conclusion

As required by Article 229(6) of the Constitution, based on the 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. Staff Ethnic Composition

An analysis of the payroll records for the year under review revealed that Kisii National Polytechnic has a workforce of 263, out of which 225 or 86% are members of the dominant ethnic community. This is contrary to Section 7(1) and (2) of the National Cohesion and Integration Act, 2008 which states that all public establishments shall seek to represent the diversity of the people of Kenya in the employment of staff and no public establishment should have more than one third of its staff from the same ethnic community.

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

2. Construction of a Multipurpose Hall at Kitutu Masaba Technical Vocational College

The statement of financial position and as disclosed in Note 24 to the financial statements reflects property, plant and equipment balance of Kshs.2,580,402,456 which includes additions to capital work in progress of Kshs.155,832,721. Review of records revealed that the Polytechnic made a payment of Kshs.5,194,770 against contract sum of Kshs.9,419,280 to a local contractor towards the construction of a multipurpose hall at Kitutu Masaba Technical Vocational College. The project commenced on 27 February, 2022 and was to be completed within sixteen (16) weeks on 14 June, 2022.

However, project verification revealed the project has stalled at 55% completion state. At the time of audit, the contractor was not on sight. Management have not provided information and supporting documentation for stalling of the project.

Further, the Polytechnic is yet to have the land registered in its name as the ownership document is still registered under Mon'goni Secondary School and dispensary.

In the circumstances, the benefits expected from the project have been delayed and may not be realized.

3. Erection and Completion of a Twin Workshop, Classrooms and Offices Block at the Proposed Kitutu Chache South Technical and Vocational College

The statement of financial position and as disclosed in Note 24 to the financial statements reflects property, plant and equipment balance of Kshs.2,580,402,456 which includes additions to capital work in progress of Kshs.155,832,721. As previously reported, review of records revealed that the Polytechnic awarded a contract towards the erection and completion of a twin workshop, classrooms and offices block at the proposed Kitutu Chache South Technical and Vocational College to a local contractor at a contract sum of Kshs.57,053,885. The contract commenced on 15 April, 2019 for a duration of 52 weeks with expected completion date of 24 April, 2020. The contractor had cumulatively been paid Kshs.51,333,960 as at December, 2023.

Further, the contract sum had been varied upwards from Kshs.57,053,885 to Kshs.67,102,110 and completion period extended by 139 weeks as a result of a retention wall and extra classes which were not in the original approved drawings even though the performance bond that was valid until 7 March, 2020 was yet to be renewed after expiry.

However, physical verification revealed the project was behind schedule at 90% completion state. At the time of audit, the contractor was not on sight. Management have not provided information and supporting documentation for delay in completion of the project

In the circumstances, the benefits expected from the project have been delayed and may not be realized.

4. Construction of Classrooms, Workshops and Office Block for South Mugirango Technical and Vocational College

The statement of financial position reflects property, plant and equipment balance of Kshs.2,580,402,456 which includes additions to capital work in progress of Kshs.155,832,721 as disclosed in Note 24 to the financial statements. Review of records revealed that the National Polytechnic awarded a contract towards the construction of classrooms, workshops and office block for South Mugirango Technical and Vocational College to a local contractor at a contract sum of Kshs.55,241,205 for a period of 52 weeks starting from 9 May, 2019 to 9 May, 2020.

However, physical verification of the works carried out in December, 2023 revealed that the project stalled. Management have not provided information and supporting documentation for stalling of the project.

In the circumstances, the benefits expected from the project have been delayed and may not be realized.

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 matter 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

Weaknesses in the Enterprise Resource Planning (ERP) System

As previously reported, review of the ERP System employed by Kisii National Polytechnic to automate all its operations revealed that the system has one administrator whose account has all the roles in the system. In addition, the system administrator is able to grant him/herself roles that cut across all departments which is inconsistent with her job responsibilities. Further, it was noted that the users in the ICT Department have no defined roles.

In the circumstances, the security and performance of the Polytechnic's information technology systems could not be confirmed.

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 controls, risk management and overall governance were operating effectively, in all material respects. I believe that the audit evidence I have obtained is sufficient and appropriate to provide a basis for my conclusion.

Responsibilities of Management and the Governing Council

Management is responsible for the preparation and fair presentation of these financial statements in accordance with International Public Sector Accounting Standards (Accrual Basis) and for such internal controls 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 controls, risk management and overall 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 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 way.

The Governing Council is responsible for overseeing the Polytechnic's financial reporting process, reviewing the effectiveness of how Management 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 controls 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 controls would not necessarily disclose all matters in the internal controls 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 controls 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 policies and procedures may deteriorate.

As part of an audit conducted in accordance with ISSAIs, I exercise professional judgment and maintain professional scepticism 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 controls.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by 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 controls that are identified during the audit.

I also provide Management with a statement that I have complied with relevant ethical requirements regarding independence and communicate with them all relationships and other matters that may reasonably be thought to bear on my independence and where applicable, related safeguards.



FCPA Nancy Gathungu, CBS
AUDITOR-GENERAL

Nairobi

21 March, 2024