

REPORT OF THE AUDITOR-GENERAL ON ELDORET NATIONAL POLYTECHNIC FOR THE YEAR ENDED 30 JUNE 2017

REPORT ON THE FINANCIAL STATEMENTS

Qualified Opinion

I have audited the accompanying financial statements of Eldoret National Polytechnic set out on pages 1 to 28, which comprise the statement of financial position as at 30 June 2017, and the statement of financial performance, 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 Eldoret National Polytechnic as at 30 June 2017, and of its financial performance and its cash flows for the year then ended, in accordance with International Public Sector Accounting Standards (Accrual Basis) and comply with the Technical and Vocational Education and Training Act, 2013.

In addition, as required by Article 229(6) of the Constitution, based on the procedures performed, I confirm that, except for the matters described in the Basis for Qualified Opinion and Other Matter sections of my report, nothing has come to my attention to cause me to believe that public money has not been applied lawfully and in an effective way.

Basis for Qualified Opinion

1.0 Cash and Cash Equivalents

The statement of financial position reflects cash and cash equivalents figure of Kshs.88,861,197 as at 30 June 2017 which is at variance with the statement of cash flows balance of Kshs.88,701,197 resulting in a variance of Kshs.160,000 and which the management has not reconciled.

Under the circumstance, the validity, accuracy and completeness of the cash and cash equivalents of Kshs.88,861,197 could not be confirmed.

2.0 Property, Plant and Equipment

The property, plant and equipment balance of Kshs.1,156,533,343 includes a work-in-progress figure of Kshs.176,623,034 out of which a total of Kshs.106,744,771 relates to completed projects comprising of construction of institutional and hospitality and sewerage and elevated water tank which have remained as work-in-progress since 2015/2016. It is not clear and the management has not explained why the completed works have not been transferred to the respective classes.

Consequently, the propriety of the treatment of this expenditure of Kshs.106,744,771 as work-in-progress could not be confirmed.

3.0 Receivables from Exchange Transactions

3.1 Student Debtors

The statement of financial position as at 30 June 2017 includes receivables from exchange transactions balance of Kshs.191,288,440 which includes a student debtors figure of Kshs.127,779,546 as disclosed in note 15 to the financial statements. Records availed for audit scrutiny revealed that out of the total student debtors figure of Kshs.127,779,546, an amount of Kshs.74,376,889 owed by 5657 students had been outstanding for over one year and no provision for bad debts has been provided.

Consequently, the accuracy and completeness of student debtors balance of Kshs.127,954,386 and its recoverability could not be confirmed.

3.2 Advances

Also included in receivables from exchange transactions balance of Kshs.191,288,440 is an amount of Kshs.1,281,228 in respect of staff advances out of which staff advances amounting to Kshs.756,568 relate to 2015/2016 and earlier years. Further it was noted that no recoveries are being made from some staff advances since only Kshs.195,610 was recovered during the year. In addition, included in the receivables from exchange transactions are staff production unit advances amounting to Kshs.23,514,046 relate to 2015/16 financial year for which no recoveries have been made. No reason has been provided by management for non-recovery of these advances from staff salaries.

In the circumstances, the recoverability of these staff advances amounting to Kshs.23,514,046 is in doubt.

3.3 Rent Debtors

Further, included in receivables from exchange transactions balance of Kshs.191,288,440 is an amount of Kshs.3,967,705 being staff rent debtors which were due for collection as at 30 June 2017 with some having remained unpaid since the year 2015. No reason has been provided by management for non-recovery of these staff rent debtors from staff salaries.

Consequently, the recoverability of the staff rent debtors amounting to Kshs.3,967,705 is doubtful.

3.4 Imprest Debtors

Included in receivables from exchange transactions balance of Kshs.191,288,440 as disclosed under note 15 to the financial statements is outstanding staff imprests amounting to Kshs.5,318,745 which were all due for surrender on or before 30 June 2017 some of which are dating back to the year 2015. No reason was provided for non-recovery of the outstanding imprests. This is contrary to Section 93(5) of the Public Financial Management Regulations, 2015.

Consequently, the management is in breach of the law and the regularity of imprests totaling Kshs.5,318,745 could not be confirmed.

4.0 Financial Performance

During the year, the Polytechnic recorded a deficit of Kshs.11,007,920 which increased the accumulated deficit from Kshs.1,262,192 in year 2016 to accumulated deficit of Kshs.12,270,112 as at 30 June 2017.If strategies are not put in place to reverse the loss-making trend, the institution’s future operations are likely to face financial challenges.

The audit was conducted in accordance with International Standards of Supreme Audit Institutions (ISSAIs). I am independent of Eldoret National Polytechnic in accordance with ISSAI 30 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 that, in my professional judgement, are of most significance in the audit of the financial statements. Except for the matters described in the Basis for Qualified Opinion section, I have determined that there were no Key Audit Matters to communicate in my report.

Other Matter

Failure to Observe One Third Staff Establishment Rule

Included in the statement of financial performance are employee costs amounting to Kshs.116,365,411 for the year ended 30 June 2017. Audit review of the payroll records revealed that the Polytechnic had two hundred and sixty-five (265) employees out of whom, two hundred and nine (209) or 79 % of employees were from the dominant community, while fifty-six (56) or 21% are from non-dominant communities as detailed below:

| Details | Number of staff | No. from Dominant Community | No. from Non-dominant Community | % Dominant Community |
|-------------------------|------------------------|------------------------------------|--|-----------------------------|
| Governing Council | 9 | 4 | 5 | 44 |
| Middle level management | 6 | 5 | 1 | 83 |
| Other permanent staff | 250 | 200 | 50 | 80 |
| Total | 265 | 209 | 56 | 79 |

Consequently, the management is in contravention of Section 7 of the National Cohesion and Integration Act, No. 12 of 2008 and Article 232(1) (h) of the Constitution of Kenya which requires that all public establishments shall seek to represent the diversity of the people of Kenya in the employment of staff and that no public establishment shall have more than one third of its staff from the same ethnic community.

Responsibilities of Management and Those Charged with Governance for the Financial Statements

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 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.

In preparing the financial statements, management is responsible for assessing the College's ability to sustain services, disclosing, as applicable, matters related to sustainability of services and using the going concern basis of accounting unless the management either intends to liquidate the college or 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.

Those charged with governance are responsible for overseeing the Eldoret National Polytechnic financial reporting process.

Auditor-General's Responsibilities for the Audit of the Financial Statements

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.

As part of an audit conducted in accordance with ISSAIs, I exercise professional judgement 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 control.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances and for the purpose of giving an assurance on the effectiveness of the College's internal control.

- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the management.
- Conclude, if management have disclosed, on the appropriateness of the management's use of the going concern 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 College's ability to continue as a going concern or 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 College's to cease to continue as a going concern.
- 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 College's 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.



FCPA Edward R. O. Ouko, CBS
AUDITOR-GENERAL

Nairobi

02 August 2018