


## REPORT

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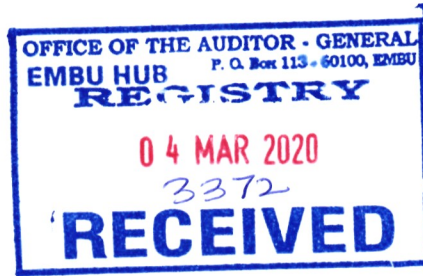
**THE AUDITOR-GENERAL**

ON

**MERU NATIONAL POLYTECHNIC**

**FOR THE YEAR ENDED  
30 JUNE, 2018**





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**MERU NATIONAL POLYTECHNIC**



**ANNUAL REPORT AND FINANCIAL STATEMENTS**

**FOR THE YEAR ENDED  
30<sup>TH</sup> JUNE 2018**

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Prepared in accordance with the Accrual Basis of Accounting Method under the International Public Sector Accounting Standards (IPSAS)

# MERU NATIONAL POLYTECHNIC

## ANNUAL REPORT AND FINANCIAL STATEMENTS FOR THE YEAR ENDED 30<sup>TH</sup> JUNE 2018

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**KEY MERU NATIONAL POLYTECHNIC INFORMATION AND MANAGEMENT**

**(a) Background information**

The Meru National Polytechnic is a state corporation, under the Ministry of Education domiciled in Kenya and with no subsidiaries.

It was established by the legal notice no. 94 in the year 2016 under the Technical and Vocational Education and Training Act (No. 29 of 2013), after the elevation to the polytechnic status of its former; the Meru Technical Training Institute (MTTI) which was established in the year 1986.

**(b) Principal Activities**

The principal activity of the Meru National Polytechnic is to offer technical and vocational education and training, the mission and vision are outlined as follows;

***Mission***

To provide technical and vocational education and training (TVET) for producing dependable and skilled human resource for commerce and industry.

***Vision***

To be an international Centre of excellence in technical and vocational education and training (TVET)

**(c) Key Management**

The Meru National Polytechnic day-to-day management is under the following key organs:

- The chief principal
- Deputy principal-administration and finance
- Deputy principal-academic affairs
- Dean of students
- Registrar-administration and finance
- Registrar-academic affairs

**(d) Fiduciary Management**

The key management personnel who held office during the financial year ended 30<sup>th</sup> June 2018 and who had direct fiduciary responsibility were:

No.	Designation	Name
1.	Chief Principal	Mr. Geoffrey M.C. Rukunja
2.	Deputy Principal (Admin & Finance)	Mrs. Elizabeth Laichena
3.	Deputy Principal (Academic Affairs)	Mr. Anderson M. Kigige
4.	Dean of Students	Mrs. Lucy K. Mutembei
5.	Registrar	Mr. George Muiruri Muthee

## MERU NATIONAL POLYTECHNIC

ANNUAL REPORT AND FINANCIAL STATEMENTS FOR THE YEAR ENDED 30<sup>TH</sup> JUNE 2018

### (e) Fiduciary Oversight Arrangements

Provided in two tiers;

- Polytechnic council  
Provide overall polytechnic oversight, supported by the nominated council committees as outlined below;
- Polytechnic council committees

<b>Committee</b>	<b>Members</b>
Audit & Risk Management Committee	1.Chairperson - Mrs. Eunice Munyi 2.Member - Mr.Jamaa Abdille 3.Member - Treasury Representative
Finance, Infrastructure & Human Resource Committee	1.Chairperson - Mr.Julius Mbaabu M'Inoti 2.Member - Dr.Rev. Mary Nkari 3.Member - Mr. Ramji Devshi Patel 4.Member - Mr. Geoffrey M.C. Rukunja
Education, Research & Training Committee	1.Chairperson - Dr.Rev. Mary Nkari 2.Member - Mr. Moses Wanjara 3.Member - Mr. Geoffrey M.C. Rukunja 4.Member - Mr. Julius Mbaabu M'Inoti

**KEY MERU NATIONAL POLYTECHNIC INFORMATION AND MANAGEMENT (Continued)**

**(f) Headquarters**

The Meru National Polytechnic  
Along Meru-Nanyuki Highway  
PO BOX 111-60200, Meru, Kenya

**(g) Meru National Polytechnic Contacts**

Telephone (254)0742428095  
E-mail: [info@merunationalpolytechnic.ac.ke](mailto:info@merunationalpolytechnic.ac.ke)  
Website: [www.merunationalpolytechnic.ac.ke](http://www.merunationalpolytechnic.ac.ke)

**(h) Meru National Polytechnic Bankers**

1. Cooperative Bank of Kenya,  
P.O. Box 1328,  
Meru, Kenya.
2. Kenya Commercial Bank  
P.O BOX 2755-60200,  
Meru – Makutano, Kenya.
3. Equity Bank Ltd  
P.O BOX 75104,  
Meru – Makutano, Kenya.
4. Standard Chartered Bank,  
P.O BOX 109,  
Meru – Makutano, Kenya.
5. Housing Finance Corporation,  
P.O BOX 956-60200,  
Meru, Kenya.

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ANNUAL REPORT AND FINANCIAL STATEMENTS FOR THE YEAR ENDED 30<sup>TH</sup> JUNE 2018

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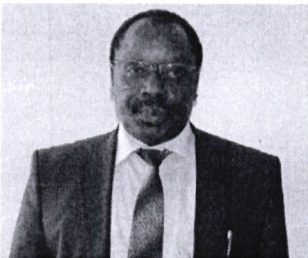
**(i) Independent Auditors**

Auditor General  
Office of Auditor General  
Anniversary Towers, University Way  
P.O. Box 30084  
GPO 00100  
Nairobi, Kenya

**(j) Principal Legal Advisor**




The Attorney General  
State Law Office  
Harambee Avenue  
P.O. Box 40112  
City Square 00200  
Nairobi, Kenya

**THE COUNCIL**

	PASSPORT	DATE OF BIRTH	QUALIFICATIONS	EXPERIENCE
1.	<p>MR. GEOFFREY.M.C.RUKUNJA</p>  <p>Chief Principal</p>	1958	MBA (HRM Option)	Many years in academic & administration in public sector
2.	<p>MRS.JOSEPHINE N.NKATHA</p>  <p>Council Chairperson</p>	1956	MBA(Entrepreneurship)	Many years in public and private sector
3.	<p>DR.MARY NKARI</p>  <p>Council Member</p>	1962	PhD.	Many years in academic both private and public sector
4.	<p>MR.JULIUS MBAABU M'INOTI</p>  <p>Council Member</p>	1962	LLB(Hons)	Many years in public and private practice

**MERU NATIONAL POLYTECHNIC**

ANNUAL REPORT AND FINANCIAL STATEMENTS FOR THE YEAR ENDED 30<sup>TH</sup> JUNE 2018

<p>5.</p>	<p>MR.PATEL RAMJI</p>  <p>Council Member</p>	<p>1963</p>	<p>Bsc (Quantity surveying)</p>	<p>Many years in private sector as an industrialist</p>
<p>6.</p>	<p>MRS.EUNICE MUNYI</p>  <p>Council Member</p>	<p>1959</p>	<p>MBA(Finance)</p>	<p>Many years in private and public sector</p>
<p>7.</p>	<p>MR.JAMAA ABDILLE</p>  <p>Council Member</p>		<p>Bsc(IT)</p>	<p>Many years in private sector</p>
<p>8.</p>	<p>COUNTY DIRECTOR TVET MR. MOSES WANJARA</p>  <p>Council Member</p>		<p>M.Ed (Planning)</p>	<p>Many years in public sector</p>

**MANAGEMENT TEAM**

	<b>Manager</b>	<b>Area of responsibility</b>
1.	 <p>Mr. Geoffrey MC Rukunja. MBA (HRM Option)</p>	Chief Principal.
2.	 <p>Mrs. Elizabeth Laichena. MBA (Economics)</p>	Deputy Principal (Admin & Finance)
3.	 <p>Mr. Anderson Mutembei Kigige. MBA (Mathematics)</p>	Deputy Principal (Academic Affairs)
4.	 <p>Mrs. Lucy K. Mutembei. MBA (HRM Option)</p>	Dean of Students
5.	 <p>Mr. George Muiruri Muthee B.Ed.</p>	Registrar

**MERU NATIONAL POLYTECHNIC**

ANNUAL REPORT AND FINANCIAL STATEMENTS FOR THE YEAR ENDED 30<sup>TH</sup> JUNE 2018

**CHAIRMAN’S STATEMENT**

**Foreword**

It is my great honor to present annual report of Meru National Polytechnic (MNP) for the period ended 30<sup>th</sup> June, 2018. During the year under review MNP recorded remarkable improvement in its financial and operational performance owing to the coordinated effort of all the key players.

**Key activities during the financial year under review:**

The following are key activities that took place during the FY 2017/2018:

**Achievements**

During the year under review, MNP made various achievements in its performance, which include the following:

- 1. Growth of student population from 4419 to 6500
- 2. Good governance which made the polytechnic to remain calm without any incidence of unrest.
- 3. Award of East Africa Skills for Transformational and Regional Integration Program(EASTRIP)
- 4. Successful mentorship of new technical and vocational colleges’ construction.

**Key challenge**

The major challenge that Meru National Polytechnic has faced since inception is inadequate financial resources to develop required infrastructure. Of key concern is the inadequate budgetary allocation, and sometimes unexpected reduction of the allocated funds.

**Future outlook**

Kenya government has set a clear objective towards achievement of Vision 2030. Meru National Polytechnic offer technical courses such as plumbing, electrical installations, building technology; electronics and beauty therapy and have gained popularity. The government is also sponsoring students through Kenya Universities and Colleges Central Placement Service (KUCCPS) with Ksh30, 000.00 per annum per student. The Higher Education Loans Board is also providing loans and bursaries to students in technical institutes unlike in the past.

This has led to massive enrolment of students, and is expected to grow exponentially.

Meru National Polytechnic is currently striving to expand its facilities and diversifying its academic programs to take advantage of this situation. This will be enhanced by the implementation of East Africa Skills for Transformational and Regional Integration Program (EASTRIP) which is being funded by the World Bank through the Government of Kenya.

**Appreciation**

I wish to express my sincere appreciation and gratitude to the Government of Kenya through the ministry of education and the National Treasury, for the support accorded to Meru National Polytechnic during the year under review. Further, I wish to convey my appreciation to my colleagues who served in the polytechnic council during the year, and the management for their invaluable contribution and dedication in guiding the polytechnic towards achieving the results so far made.

.....*Josephine N. Mbaya*.....

Mrs. Josephine N. Mbaya

**CHAIRPERSON-MERU NATIONAL POLYTECHNIC COUNCIL**

Date *28/02/2020*.....

**REPORT OF THE PRINCIPAL**

It is my pleasure to present the Annual Report and Financial Statements of Meru National Polytechnic (MNP) for the financial year ended 30<sup>th</sup> June, 2018

**NON-FINANCIAL INFORMATION**

**Academic programmes**

During the year under review, Meru National Polytechnic had 8 academic departments.

**Student population and students' welfare**

Meru National Polytechnic admits both Government sponsored (KUCCPS) and self-sponsored (SSP) students. Up to the end of the financial year 2017-2018, the polytechnic had a student population of 6500 students. The number is expected to rise to 8000 students by the end of the FY2018-2019. This will be achieved through increased marketing and also through expansion of facilities to accommodate more students. Meru National Polytechnic has a student leadership body which work with the polytechnic management to ensure that all student welfare issues are addressed promptly and in a satisfactory manner

**Provision of requisite infrastructure**

In an effort to attract and accommodate more students, the MNP management has continued to expand the existing facilities. During the financial year under review, the following projects were undertaken.

**(i) Completed projects**

1. New 28 seater bus
2. Electrical W/shop extension
3. New furniture
4. New computers
5. New tractor

**Performance contracting (PC)**

At the commencement of the year under review, the polytechnic council signed the 2017-2018 performance contracts with the Government of Kenya through the ministry of Education, Science & Technology. The signed contract was cascaded to all the staff by the polytechnic management for inclusiveness. The polytechnic management remained committed during the financial year to ensuring that all operations are concluded within the stipulated legal framework. Owing to the commitment by all staff, Meru National Polytechnic has year after year recorded impressive results in performance contracting activities.

**Strategic Focus of MNP**

As a commitment towards realization of its mandate, Meru National Polytechnic during the FY under review continued implementing its strategic plan for the period 2017 to 2022

The strategic plan has the following key areas:

1. To provide high quality market driven academic programs, attract and retain competent and efficient workforce
2. To strengthen the polytechnic financial management system
3. To upgrade training equipment and polytechnic physical infrastructure
4. To strengthen the established quality management system and enhance information communication technology (ICT) integration
5. To increase collaborations and partnerships

**MERU NATIONAL POLYTECHNIC**

**ANNUAL REPORT AND FINANCIAL STATEMENTS FOR THE YEAR ENDED 30<sup>TH</sup> JUNE 2018**

As we move into the future, we will remain focused on the strategies to be able to take advantage of emerging opportunities for business growth and sustainability. The polytechnic council is committed to providing the necessary support to the polytechnic management in implementing the strategic plan for ultimate realization of the polytechnic mandate.

**Key challenges**

This has been inadequate financial resources to develop the requisite infrastructure. The budgetary allocation by the National Government has been minimal. There has also been unexpected reduction of the development grants leading to interruption of work schedules and even delays in projects completion.

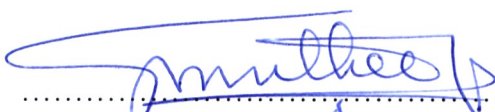
To tackle the problem of small budgetary allocations, the polytechnic has invested in production units, farm produce, expansion and diversification of existing programmes in order to supplement funds from the Government of Kenya.

**Appreciation**

I wish to express my sincere and deep gratitude to the ministry of Education Science & Technology, The National Treasury and the polytechnic council for their continued support and guidance to the polytechnic management, without which the achievement so far made would not have been possible.

My special recognition and gratitude goes to the polytechnic management and staff for the tireless effort and dedicated service, which led to the exemplary performance in the academic, administrative and performance contracting activities.

To our valued students, esteemed customers and other stakeholders, we are grateful for choosing Meru National Polytechnic. We appreciate you very much for your steadfast support and contribution towards the success that we have made so far.



Date

28/02/2020

Geoffrey M.C. Rukunja, OGW  
**Chief Principal**



## **CORPORATE GOVERNANCE STATEMENT**

### **Introduction**

Meru National Polytechnic recognizes the importance of applying standards of corporate governance as key contributor to its long term success, value and prosperity. This enables effective and efficient decision making and creates an appropriate atmosphere for the council to discharge its duty to promote success, while taking into account the interest of various stakeholders. The polytechnic council has established effective governance through a combination of strong process and structures underpinned by the right values and culture.

### **Corporate Governance Statement**

Good governance entails establishment and enhancement of sustainable value for the stakeholders, through adoption of ethically driven business structure, procedures and processes.

### **MNP COUNCIL**

- (i) Meru National Polytechnic Council is at the centre of good governance practice, for protection of long term interests of all the stakeholders. The council provides leadership, oversight to management, integrity and good judgment in directing polytechnic operations in the best interest of the stakeholders for continued viability and sustainability. The polytechnic council is vested with powers and authority by relevant laws of Kenya to discharge its mandate and effectively fulfil its corporate governance best practices in support of the polytechnic vision and provide world class services that delight customers, create value for money and meet stakeholders' expectations.

- (ii) **Appointment**

Positions of the council that served during the year under review were advertised, and appointment done by the cabinet secretary, ministry of Education Science and Technology.

### **Induction and capacity building for council members:**

Members of the council regularly attend training on corporate governance and other relevant areas to equip them with knowledge that is required to effectively discharge their responsibilities. Induction for new council members is conducted to enhance their understanding of the nature of the polytechnic business and operations. During the year under review, MNP council members attended relevant trainings to help improve their competencies.

- (iii) **Succession plan**

Meru National Polytechnic runs business through committees. As part of succession planning, council members are assigned more than one committees to expose them to various operations of the polytechnic. In addition, induction and other trainings are designed to cover a wide range of topics relevant to the polytechnic governance.

- (iv) **Meetings of the polytechnic council**

Dates of polytechnic council meetings in the ensuing year are decided in advance and scheduled in a work plan. The council holds its regular meetings on quarterly basis to transact planned business of the polytechnic. However, special meetings of the council may be called when there is business to transact. During the financial year 2017-2018, the council held 8 regular meetings and 6 special meetings. Members of the council receive adequate notice and detailed documents on issues to be discussed in good time, to enable them prepare for the meetings.

**MERU NATIONAL POLYTECHNIC****ANNUAL REPORT AND FINANCIAL STATEMENTS FOR THE YEAR ENDED 30<sup>TH</sup> JUNE 2018**

The table below gives a summary of the meetings held by the polytechnic council and its committees  
FY 2017/2018

Full council	Names	Total meetings	Attendance by each
Full council	Mrs Josephine N.Mbaya	8	8
	Mr.Geoffrey M.C.Rukunja		8
	Mr.Julius M.M'Inoti		8
	Mrs.Eunice Munyi		8
	Mr.Ramji D.Patel		7
	Mr. Moses Wanjara		7
Finance & Human Resource	Mrs.Josephine N.Mbaya	6	6
	Mr .Geoffrey M.C.Rukunja		6
	Mr.Julius M.M'Inoti		6
	Mr.Ramji D. Patel		6
Audit & Risk	Mrs.Eunice Munyi	1	1
	Mr. Jamaa Abdille		1
	Mrs .Josephine N. Mbaya		1
	Ministry representative		1
Education & Research	Mr.Geoffrey M.C.Rukunja	4	4
	Mrs.Josephine N.Mbaya		4
	Dr.Mary N.Nkari		4
	County director TVET		4
	Mr.Ramji D.Patel		4

**(v) Conflict of interest**

“Conflict of interest” appears as item in the agenda of all polytechnic council meetings. The council has a conflict of interest register for recording any declared conflict of interest. A conflicted member takes leaves during the deliberations of any issues that may lead to conflict of interest.

**(vi) Remuneration of MNP Council**

Council members are entitled to sitting allowance for every meeting attended and mileage reimbursement where applicable within set limits of the Government for state corporations.

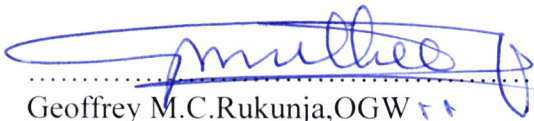
In addition, the chairperson of the polytechnic council is paid a monthly retainer allowance, also at the limits for state corporations.

(vii) Ethical standards

Meru National Polytechnic works towards ensuring that the management and staff conduct themselves with integrity and professionalism in accordance with the approved staff code of conduct, which stipulates expectations for each of them and holds people accountable for their conduct.

MNP regularly conduct integrity awareness, training, corruption risk assessments and enforcement of corruption prevention measures.

The management has established mechanisms for receiving complaints and making follow up on allegations and reported cases of unethical conduct. Objective analysis is done and appropriate action instituted to control and discourage unethical behaviour. MNP collaborates with Ethics & Anti-Corruption Commission to entrench a culture of ethics and integrity at the polytechnic



Date

28/02/2020

Geoffrey M.C. Rukunja, OGW

**Chief Principal**



## **MERU NATIONAL POLYTECHNIC**

ANNUAL REPORT AND FINANCIAL STATEMENTS FOR THE YEAR ENDED 30<sup>TH</sup> JUNE 2018

### **I. REPORT OF THE COUNCIL**

The Council members submit their report together with the financial statements for the year ended June 30, 2018 which show the state of the Meru National Polytechnic affairs.

#### **Principal activities**

The principal activity of the Meru National Polytechnic is to offer technical and vocational education and training.

#### **Results**

The results of the Meru National Polytechnic for the year ended June 30, 2018 are set out on pages 17 to 49.

### **COUNCIL**

The members of the Council who served during the year are shown on page 6.

#### **Auditors**

The Auditor General is responsible for the statutory audit of the Meru National Polytechnic in accordance with Article 229 of the Constitution of Kenya and the Public Audit Act 2015.

By Order of the Meru National Polytechnic Council



Mrs Josephine N. Mbaya

Council Chairperson

Date:.....

**II. STATEMENT OF THE COUNCIL MEMBERS' RESPONSIBILITIES**

Section 81 of the Public Finance Management Act, 2012 and (section 14 of the State Corporations Act, and section 29 of schedule 2 of the Technical and Vocational Education and Training Act, 2013 require the council members to prepare financial statements in respect of the Meru National Polytechnic, which give a true and fair view of the state of affairs of the Meru National Polytechnic at the end of the financial year/period and its operating results for that year/period. The council members are also required to ensure that the Meru National Polytechnic keeps proper accounting records which disclose with reasonable accuracy the financial position of the Meru National Polytechnic. The council members are also responsible for safeguarding the assets of the Meru National Polytechnic.

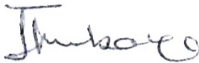
The council members are responsible for the preparation and presentation of the Meru National Polytechnic's financial statements, which give a true and fair view of the state of affairs of the Meru National Polytechnic for and as at the end of the financial year ended on June 30, 2018. This responsibility includes: (i) maintaining adequate financial management arrangements and ensuring that these continue to be effective throughout the reporting period; (ii) maintaining proper accounting records, which disclose with reasonable accuracy at any time the financial position of the Meru National Polytechnic; (iii) designing, implementing and maintaining internal controls relevant to the preparation and fair presentation of the financial statements, and ensuring that they are free from material misstatements, whether due to error or fraud; (iv) safeguarding the assets of the Meru National Polytechnic; (v) selecting and applying appropriate accounting policies; and (vi) making accounting estimates that are reasonable in the circumstances.

The council members accept responsibility for the Meru National Polytechnic's financial statements, which have been prepared using appropriate accounting policies supported by reasonable and prudent judgements and estimates, in conformity with International Public Sector Accounting Standards (IPSAS), and in the manner required by the PFM Act, 2012 and (the State Corporations Act, and the TVET Act). The council members are of the opinion that the Meru National Polytechnic's financial statements give a true and fair view of the state of Meru National Polytechnic's transactions during the financial year ended June 30, 2018, and of the Meru National Polytechnic's financial position as at that date. The council members further confirm the completeness of the accounting records maintained for the Meru National Polytechnic, which have been relied upon in the preparation of the Meru National Polytechnic's financial statements as well as the adequacy of the systems of internal financial control.

Nothing has come to the attention of the council members to indicate that the Meru National Polytechnic will not remain a going concern for at least the next twelve months from the date of this statement.

**Approval of the financial statements**

The Meru National Polytechnic's financial statements were approved by the Council on 28<sup>th</sup> February 2020 and signed on its behalf by:

  
\_\_\_\_\_  
Council Member

  
\_\_\_\_\_  
Council Member

  
\_\_\_\_\_  
Council Member

# REPUBLIC OF KENYA

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OFFICE OF THE AUDITOR-GENERAL

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NAIROBI

## REPORT OF THE AUDITOR-GENERAL ON MERU NATIONAL POLYTECHNIC FOR THE YEAR ENDED 30 JUNE, 2018

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### REPORT ON THE FINANCIAL STATEMENTS

#### Adverse Opinion

I have audited the accompanying financial statements of Meru National Polytechnic set out on pages 17 to 49, which comprise the statement of financial position as at 30 June, 2018, 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, 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 Meru National Polytechnic as at 30 June, 2018, 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 do not comply with the Technical and Vocational Education and Training Act, 2013 and the Public Finance Management Act, 2012.

#### Basis for Adverse Opinion

##### 1.0 Inaccuracies in the Statement of Cash Flows

The statement of cash flows reflects an increase in refundable deposits of Kshs.1,822,250. However, the statement of financial position and as disclosed in Note 25 to the financial statements reflects a net increase of Kshs.1,222,250 as at 30 June, 2018 resulting in an unexplained and unreconciled variance of Kshs.600,000.

In the circumstances, the accuracy of the statement of cash flows for the year under review could not be ascertained.

##### 2.0 Understatement of Revenues

The Polytechnic's statement of financial performance for the year ended 30 June, 2018 reflects Kshs.476,345,113 in respect to total revenue. However, the amount excludes Kshs.4,872,410 in respect to transfers from National Government ministries thus understating the total revenue by the same amount.

In the circumstances, the accuracy of Kshs.476,345,113 in respect to total revenue reflected in the statement of financial performance for the year ended 30 June, 2018 could not be ascertained.

### **3.0 Inaccuracies in the Statement of Changes in Net Assets**

The statement of changes in net asset for the year ended 30 June, 2018 reflects Kshs.4,872,410 in respect to development grants received during the year. However, records from the Ministry of Education reflects Kshs.13,552,906 in respect to the same item resulting to unexplained or unreconciled variances of Kshs.8,680,496.

In the circumstances, the accuracy of the Kshs.4,872,410 in respect to development grants received during the year under review could not be ascertained.

### **4.0 Inaccuracies in Cash and Cash Equivalents**

The statement of financial position and as disclosed in Note 22 (a) to the financial statements reflects Kshs.82,797,896 in respect to cash and cash equivalents. This includes Kshs.37,315,393 in respect to adjusted balances in four (4) cashbooks. However, the adjusted cashbook balances reflected an amount of Kshs.8,317,679 resulting to an unexplained and unreconciled variance of Kshs.28,997,714 leading to overstatement of the cash and cash equivalents balances.

In the circumstance, the accuracy of cash and cash equivalents balance of Kshs.82,797,896 as at 30 June, 2018 could not be ascertained.

### **5.0 Lack of Valuation Records**

The statement of financial position and as disclosed in Note 23 to the financial statements reflects Kshs.465,402,541 in respect to property, plant and equipment which includes Kshs.114,710,000 in respect to net book value of property, plant and equipment as at 30 June, 2016. However, the respective valuation records were not availed for audit review.

In the circumstances, the accuracy, completeness and valuation of the property, plant and equipment balance of Kshs.465,402,541 as at 30 June, 2018 could not be ascertained.

### **6.0 Inaccuracies in Government of Kenya (GOK) Grant**

The statement of financial performance and as disclosed in Note 6(a) to the financial statements reflects Kshs.68,756,070 in respect to transfers from National Government Ministries. This includes Kshs.50,250,000 in respect to operational grant. However, records from the Ministry of Education reflects Kshs.54,250,000 in respect to the same item resulting to an unexplained and unreconciled variance of Kshs.4,000,000. Further, Note 6 (b) to the financial statements reflects Kshs.4,872,410 in respect to transfers from National Government Ministries for conditional development grants. However, records from the Ministry of Education reflects Kshs.13,552,906 resulting in an unexplained and unreconciled variance of Kshs.8,680,496.

In the circumstances, the accuracy of the Kshs.68,756,070 in respect to transfers from National Government Ministries for the year under review could not be ascertained.

The audit was conducted in accordance with International Standards of Supreme Audit Institutions (ISSAIs). I am independent of the Meru 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 in the year under review.

### **Other Matter**

#### **Budgetary Control & Performance**

The statement of comparative budget and actual amounts reflects final receipts budget and actual on comparable basis of Kshs.425,061,949 and Kshs.476,345,113 respectively resulting to over realization of revenue of Kshs.51,283,164 of the budget. Similarly, the Polytechnic incurred expenditure of Kshs.483,128,454 against an approved budget of Kshs.425,061,949 resulting to an over expenditure of Kshs.58,066,505 of the budget.

## **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 Conclusion on Lawfulness and Effectiveness in Use of Public Resources section 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 Late Submission of Financial Statements**

The Polytechnic submitted the financial statements for the year ended 30 June, 2018 to the Office of the Auditor-General on 30 September, 2019 a year after the 30 September, 2018. This was contrary to Section 47(1) of Public Audit Act, 2015 which states that the financial statements required under the Constitution, the Public Finance Management Act, 2012 and any other legislation, shall be submitted to the Auditor-General within three months after the end of the fiscal year to which the accounts relate.

In the circumstances, the Polytechnic's Management is in breach of the law.

#### **2.0 Non-Compliance with Law on Ethnic Composition**

The Polytechnic recruited eighteen (18) additional employees in the financial year under review. However, fifteen (15) employees or 83% of the total recruited staff came from the dominant community. This was contrary to Section 7(2) of the National

Cohesion and Integration Act, 2008 which requires that no public establishment shall have more than one third of its staff from the same ethnic community.

In the circumstance, the Polytechnic 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, because of the significance of the matters discussed in the Basis for Conclusion on Effectiveness of Internal Controls, Risk Management and Governance section of my report, based on the audit procedures performed, I confirm that internal controls, risk management and governance were not effective.

### **Basis for Conclusion**

#### **Lack of an Independent Audit Function**

Evaluation of the Polytechnic's internal controls during the year under review revealed that the internal audit function had one staff member only. The internal audit operated without an approved internal audit charter which is supposed to outline the scope, responsibilities and purpose of internal audit function. Further, the internal audit department was not adequately facilitated as there was no clear budget line including staffing. Perusal of trainings done during the year revealed that the department had not been trained in the year under review.

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 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 Polytechnic's ability to continue to sustain its 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 way.

Those charged with governance are responsible for overseeing Polytechnic's 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**

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 noncompliance. 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 Meru National Polytechnic's 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 Meru National 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 Meru National Polytechnic to cease to continue as 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 Meru National 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**

**24 December, 2021**

**MERU NATIONAL POLYTECHNIC**ANNUAL REPORT AND FINANCIAL STATEMENTS FOR THE YEAR ENDED 30<sup>TH</sup> JUNE 2018**III. STATEMENT OF FINANCIAL PERFORMANCE FOR THE YEAR ENDED 30TH JUNE 2018**

	Notes	2017/2018	2016/2017
		Kshs	Kshs
<b>Revenue from non-exchange transactions</b>			
Transfers from the National Government – grants/ gifts in kind	6	68,756,070	228,943,903
Transfers from other levels of government	7	0	10,094,828
Public contributions and donations	8	70,816	0
<b>Total Revenue from non-exchange transactions</b>		<b>68,826,886</b>	<b>239,038,731</b>
<b>Revenue from exchange transactions</b>			
Rendering of services- Fees from students	9	385,600,557	148,901,197
Sale of goods	10	14,420,397	12,473,132
Rental revenue from facilities and equipment	11	6,304,814	27,150,330
Other income	12	427,925	240,212
Finance Income	13	764,534	
<b>Revenue from exchange transactions</b>		<b>407,518,227</b>	<b>188,764,871</b>
<b>Total revenue</b>		<b>476,345,113</b>	<b>427,803,602</b>
<b>Expenses</b>			
Use of goods and services	14	3,131,361	3,177,415
Employee costs	15	79,202,829	60,954,201
Remuneration of directors	16	4,468,041	3,398,550
Depreciation and amortization expense	17	11,630,047	12,739,386
Repairs and maintenance	18	16,372,523	27,347,516
Contracted services	19	1,764,000	1,308,197
Grants and subsidies	20	0	81,500
General expenses	21	192,945,471	160,633,060
<b>Total expenses</b>		<b>309,514,272</b>	<b>269,639,825</b>
<b>Net Surplus for the year</b>		<b>166,830,841</b>	<b>158,163,777</b>

**MERU NATIONAL POLYTECHNIC**


**ANNUAL REPORT AND FINANCIAL STATEMENTS FOR THE YEAR ENDED 30<sup>TH</sup> JUNE 2018**

The notes set out on pages -22- to -45- form an integral part of the Annual Financial Statements.

**IV. STATEMENT OF FINANCIAL POSITION AS AT 30<sup>TH</sup> JUNE 2018**

	Notes	2017/2018 Kshs	2016/2017 Kshs
<b>Assets</b>			
<b>Current assets</b>			
Cash and cash equivalents	21	82,797,896	71,256,530
<b>Total Current Assets</b>		<b>82,797,896</b>	<b>71,256,530</b>
<b>Non-current assets</b>			
Property, plant and equipment	22	465,402,541	303,418,407
<b>Total Non-current Assets</b>		<b>465,402,541</b>	<b>303,418,407</b>
<b>Total assets</b>		<b>548,200,437</b>	<b>374,674,937</b>
<b>Liabilities</b>			
<b>Current liabilities</b>			
Trade and other payables from exchange transactions	23	1,213,619	613,619
Refundable deposits from customers	24	2,207,722	985,472
<b>Total Current Liabilities</b>		<b>3,421,341</b>	<b>1,599,091</b>
<b>Total liabilities</b>		<b>3,421,341</b>	<b>1,599,091</b>
<b>Capital and Reserves</b>			
Reserves		0	0
Accumulated surplus		537,006,392	370,175,551
Capital Fund		7,772,704	2,900,294
<b>Total Capital and Reserves</b>		<b>544,779,096</b>	<b>373,075,845</b>
<b>Total Liabilities and Capital &amp; Reserves</b>		<b>548,200,437</b>	<b>374,674,936</b>

The financial statements set out on pages -17- to -45- were signed on behalf of the Meru national polytechnic Council by:



Chairman of Council

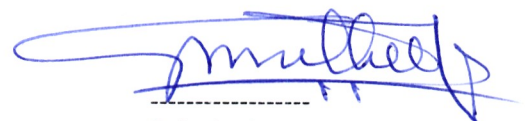
Date: 28/02/2020



Finance Officer

ICPAK No:

Date: 28/02/2020



Principal

Date: 28/02/2020



**V. STATEMENT OF CHANGES IN NET ASSET FOR THE YEAR ENDED 30 JUNE 2018**

	Revaluation reserve	Fair value adjustment reserve	Retained earnings	Capital/Development Grants/Fund	Total
<b>Balance b/f at July 1, 2016</b>			212,011,774		212,011,774
Revaluation gain					0
Fair value adjustment on quoted investments					0
Total comprehensive income			158,163,777		158,163,777
Capital/Development grants received during the year				2,900,294	2,900,294
<b>Balance c/d as at June 30, 2017</b>	-	-	<b>370,175,551</b>	<b>2,900,294</b>	<b>373,075,845</b>
<b>Balance b/f as at July 1, 2017</b>	-	-	<b>370,175,551</b>	<b>2,900,294</b>	<b>373,075,845</b>
Total comprehensive income			166,830,841		166,830,841
Capital/Development grants received during the year				4,872,410	4,872,410
<b>Balance c/d as at June 30, 2018</b>	-	-	<b>537,006,392</b>	<b>7,772,704</b>	<b>544,779,096</b>

VI. STATEMENT OF CASH FLOWS FOR THE YEAR ENDED 30<sup>TH</sup> JUNE 2018

	Note	2017/2018 Kshs	2016/2017 Kshs
<b>Cash flows from operating activities</b>			
<b>Receipts</b>			
Transfers from other Government entities/Govt. grants	6	73,628,480	231,844,197
Transfers from other levels of Government	7	-	10,094,828
Rendering of services- Fees from students	9	385,600,557	148,901,197
Sale of goods	10	14,420,397	12,473,132
Rental revenue from facilities and equipment	11	6,304,814	
Other income, rentals and agency fees	8,12	498,741	27,390,542
Finance Income	13	764,534	
<b>Total Receipts</b>		<b>481,217,523</b>	<b>430,703,896</b>
<b>Payments</b>			
Compensation of employees	15	79,202,829	60,954,201
Use of goods and services	14	3,131,361	3,177,415
Other payments		215,550,035	192,768,823
<b>Total Payments</b>		<b>297,884,225</b>	<b>256,900,439</b>
<b>Net cash flows from operating activities</b>		<b>183,333,298</b>	<b>173,803,457</b>
<b>Cash flows from investing activities</b>			
Purchase of property, plant, equipment and intangible assets	23	(173,614,182)	(201,447,791)
<b>Net cash flows used in investing activities</b>		<b>(173,614,182)</b>	<b>(201,447,791)</b>
<b>Cash flows from financing activities</b>			
Increase in refundable deposits		1,822,250	1,599,091
<b>Net cash flows used in financing activities</b>		<b>1,822,250</b>	<b>1,599,091</b>
<b>Net increase/(decrease) in cash and cash equivalents</b>		<b>11,541,366</b>	<b>(26,045,243)</b>
Cash and cash equivalents at 1 July 2017		<b>71,256,530</b>	97,301,774
<b>Cash and cash equivalents at 30 June 2018</b>	22	82,797,896	71,256,530
<b>Cash and cash equivalents as per the Balance Sheet</b>		<b>82,797,896</b>	<b>71,256,530</b>

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**VII. STATEMENT OF COMPARISON OF BUDGET AND ACTUAL AMOUNTS FOR THE YEAR ENDED 30<sup>TH</sup> JUNE 2018**

	Original budget		Adjustments		Final budget		Actual on comparable basis		Performance difference	
	2017-2018	Kshs	2017-2018	Kshs	2017-2018	Kshs	2017-2018	Kshs	2017-2018	Kshs
<b>Revenue</b>										
Transfers from other Govt entities Govt grants	120,168,000				120,168,000		68,756,070	51,411,930		
Public contributions and donations	-				-		70,816	(70,816)		
Rendering of services- Fees from students	282,243,949				282,243,949		385,600,557	(103,356,608)		
Sale of goods	22,650,000				22,650,000		14,420,397	1,984,189		
Finance Income	-				-		764,534	(764,534)		
Gains on disposal, rental income and agency fees	-				-		6,732,739	(487,325)		
<b>Total income</b>	<b>425,061,949</b>				<b>425,061,949</b>		<b>476,345,113</b>	<b>(51,283,164)</b>		
<b>Expenses</b>										
Development Projects (Capital Expenditure)	124,368,000				124,368,000		173,614,182	(49,246,182)		
Compensation of employees	61,346,800				61,346,800		79,202,829	(17,856,029)		
Use of Goods and services	3,432,000				3,432,000		3,131,361	300,639		
Remuneration of directors	4,500,000				4,500,000		4,468,041	31,959		
General expenses	163,079,930				163,079,930		222,712,041	(59,632,111)		
Grants and subsidies paid	68,335,219				68,335,219		-	68,335,219		
<b>Total expenditure</b>	<b>425,061,949</b>				<b>425,061,949</b>		<b>483,128,454</b>	<b>(58,066,505)</b>		
<b>Surplus for the period</b>	-				-		<b>(6,783,341)</b>	<b>6,783,341</b>		

**Budget notes**

1. Increase in revenue attributable to increased student enrolment.
2. Revenue from sale of goods not achieved since most of the farm produce was utilised in kitchen
2. Development projects completed up to 80% within the financial year.

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**VIII. NOTES TO THE FINANCIAL STATEMENTS**

**1. GENERAL INFORMATION**

Meru National Polytechnic is established by and derives its authority and accountability from TVET Act. The Meru National Polytechnic is semi-autonomous institution wholly owned by the Government of Kenya and is domiciled in Kenya. The Meru National Polytechnic's principal activity is to offer technical and vocational education and training.

**2. STATEMENT OF COMPLIANCE AND BASIS OF PREPARATION**

The financial statements have been prepared on a historical cost basis except for the measurement at re-valued amounts of certain items of property, plant and equipment, marketable securities and financial instruments at fair value, impaired assets at their estimated recoverable amounts and actuarially determined liabilities at their present value. The preparation of financial statements in conformity with International Public Sector Accounting Standards (IPSAS) allows the use of estimates and assumptions. It also requires management to exercise judgement in the process of applying the *Meru National Polytechnic's* accounting policies. The areas involving a higher degree of judgement or complexity, or where assumptions and estimates are significant to the financial statements, are disclosed in the notes.

The financial statements have been prepared and presented in Kenya Shillings, which is the functional and reporting currency of the *Meru National Polytechnic*.

The financial statements have been prepared in accordance with the PFM Act, the State Corporations Act, the TVET Act, and International Public Sector Accounting Standards (IPSAS). The accounting policies adopted have been consistently applied to all the years presented.

**3. ADOPTION OF NEW AND REVISED STANDARDS**

**i. Relevant new standards and amendments to published standards effective for the year ended 30 June 2019**

<b>Standard</b>	<b>Impact</b>
<b>IPSAS 40:</b> Public Sector Combinations	<b>Applicable: 1<sup>st</sup> January 2019</b> The standard covers public sector combinations arising from exchange transactions in which case they are treated similarly with IFRS 3 (applicable to acquisitions only). Business combinations and combinations arising from non-exchange transactions are covered purely under Public Sector combinations as amalgamations.

**MERU NATIONAL POLYTECHNIC  
ANNUAL REPORT AND FINANCIAL STATEMENTS  
FOR THE YEAR ENDED 30<sup>TH</sup>JUNE 2018  
NOTES TO THE FINANCIAL STATEMENTS (Continued)**

**3 ADOPTION OF NEW AND REVISED STANDARDS (Continued)**

**ii. New and amended standards and interpretations in issue but not yet effective in the year ended 30 June 2019**

<b>Standard</b>	<b>Effective date and impact:</b>
<p><b>IPSAS 41:</b> Financial Instruments</p>	<p><b>Applicable: 1<sup>st</sup> January 2022:</b> The objective of IPSAS 41 is to establish principles for the financial reporting of financial assets and liabilities that will present relevant and useful information to users of financial statements for their assessment of the amounts, timing and uncertainty of an Meru National Polytechnic’s future cash flows. IPSAS 41 provides users of financial statements with more useful information than IPSAS 29, by:</p> <ul style="list-style-type: none"> <li>• Applying a single classification and measurement model for financial assets that considers the characteristics of the asset’s cash flows and the objective for which the asset is held;</li> <li>• Applying a single forward-looking expected credit loss model that is applicable to all financial instruments subject to impairment testing; and</li> <li>• Applying an improved hedge accounting model that broadens the hedging arrangements in scope of the guidance. The model develops a strong link between an Meru National Polytechnic’s risk management strategies and the accounting treatment for instruments held as part of the risk management strategy.</li> </ul>
<p><b>IPSAS 42:</b> Social Benefits</p>	<p><b>Applicable: 1<sup>st</sup> January 2022</b> The objective of this Standard is to improve the relevance, faithful representativeness and comparability of the information that a reporting Meru National Polytechnic provides in its financial statements about social benefits. The information provided should help users of the financial statements and general purpose financial reports assess:</p> <ol style="list-style-type: none"> <li>(a) The nature of such social benefits provided by the Meru National Polytechnic;</li> <li>(b) The key features of the operation of those social benefit schemes; and</li> <li>(c) The impact of such social benefits provided on the Meru National Polytechnic’s financial performance, financial position and</li> </ol>

**MERU NATIONAL POLYTECHNIC**  
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<b>Standard</b>	<b>Effective date and impact:</b>
	cash flows.

**iii. Early adoption of standards**

The Meru National Polytechnic did not early – adopt any new or amended standards in year 2019.

**4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

**a) Revenue recognition**

**i) Revenue from non-exchange transactions**

**Transfers from other government entities**

Revenues from non-exchange transactions with other government entities are measured at fair value and recognized on obtaining control of the asset (cash, goods, services and property) if the transfer is free from conditions and it is probable that the economic benefits or service potential related to the asset will flow to the Meru National Polytechnic and can be measured reliably. Recurrent grants are recognized in the statement of comprehensive income. Development/capital grants are recognized in the statement of financial position and realised in the statement of comprehensive income over the useful life of the assets that has been acquired using such funds

**ii) Revenue from exchange transactions**

**Rendering of services**

The Meru National Polytechnic recognizes revenue from rendering of services by reference to the stage of completion when the outcome of the transaction can be estimated reliably. The stage of completion is measured by reference to labour hours incurred to date as a percentage of total estimated labour hours.

Where the contract outcome cannot be measured reliably, revenue is recognized only to the extent that the expenses incurred are recoverable.

**Sale of goods**

Revenue from the sale of goods is recognized when the significant risks and rewards of ownership have been transferred to the buyer, usually on delivery of the goods and when the amount of revenue can be measured reliably and it is probable that the economic benefits or service potential associated with the transaction will flow to the Meru National Polytechnic.

**Interest income**

Interest income is accrued using the effective yield method. The effective yield discounts estimated future cash receipts through the expected life of the financial asset to that asset's net carrying amount. The method applies this yield to the principal outstanding to determine interest income each period.

**MERU NATIONAL POLYTECHNIC**  
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**4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)**

**a) Revenue recognition (Continued)**

**ii) Revenue from exchange transactions (continued)**

**Rental income**

Rental income arising from operating leases on investment properties is accounted for on a straight-line basis over the lease terms and included in revenue.

**b) Budget information**

The original budget for FY 2018/2019 was approved by the Council or Board on **2018**. Subsequent revisions or additional appropriations were made to the approved budget in accordance with specific approvals from the appropriate authorities. The additional appropriations are added to the original budget by the Meru National Polytechnic upon receiving the respective approvals in order to conclude the final budget. Accordingly, the Meru National Polytechnic recorded additional appropriations of **2018** on the FY 2018/2019 budget following the Council/ Board's approval.

The Meru National Polytechnic's budget is prepared on a different basis to the actual income and expenditure disclosed in the financial statements. The financial statements are prepared on accrual basis using a classification based on the nature of expenses in the statement of financial performance, whereas the budget is prepared on a cash basis. The amounts in the financial statements were recast from the accrual basis to the cash basis and reclassified by presentation to be on the same basis as the approved budget. A comparison of budget and actual amounts, prepared on a comparable basis to the approved budget, is then presented in the statement of comparison of budget and actual amounts.

In addition to the Basis difference, adjustments to amounts in the financial statements are also made for differences in the formats and classification schemes adopted for the presentation of the financial statements and the approved budget.

A statement to reconcile the actual amounts on a comparable basis included in the statement of comparison of budget and actual amounts and the actuals as per the statement of financial performance has been presented under section .xxx of these financial statements.

**MERU NATIONAL POLYTECHNIC**  
**ANNUAL REPORT AND FINANCIAL STATEMENTS**  
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**NOTES TO THE FINANCIAL STATEMENTS (Continued)**

**4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)**

**c) Taxes (continued)**

*Sales tax/ Value Added Tax*

Expenses and assets are recognized net of the amount of sales tax, except:

- When the sales tax incurred on a purchase of assets or services is not recoverable from the taxation authority, in which case, the sales tax is recognized as part of the cost of acquisition of the asset or as part of the expense item, as applicable.
- When receivables and payables are stated with the amount of sales tax included.

The net amount of sales tax recoverable from, or payable to, the taxation authority is included as part of receivables or payables in the statement of financial position.

**d) Investment property**

Investment properties are measured initially at cost, including transaction costs. The carrying amount includes the replacement cost of components of an existing investment property at the time that cost is incurred if the recognition criteria are met and excludes the costs of day-to-day maintenance of an investment property.

Investment property acquired through a non-exchange transaction is measured at its fair value at the date of acquisition. Subsequent to initial recognition, investment properties are measured using the cost model and are depreciated over a period of 3 years.

Investment properties are derecognized either when they have been disposed of or when the investment property is permanently withdrawn from use and no future economic benefit or service potential is expected from its disposal. The difference between the net disposal proceeds and the carrying amount of the asset is recognized in the surplus or deficit in the period of de-recognition.

Transfers are made to or from investment property only when there is a change in use.

**e) Property, plant and equipment**

All property, plant and equipment are stated at cost less accumulated depreciation and impairment losses. Cost includes expenditure that is directly attributable to the acquisition of the items. When significant parts of property, plant and equipment are required to be replaced at intervals, the Meru National Polytechnic recognizes such parts as individual assets with specific useful lives and depreciates them accordingly. Likewise, when a major inspection is performed, its cost is recognized in the carrying amount of the plant and equipment as a replacement if the recognition criteria are satisfied. All other repair and maintenance costs are recognized in surplus or deficit as incurred. Where an asset is acquired in a non-exchange transaction for nil or nominal consideration the asset is initially measured at its fair value.

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**f) Depreciation and impairment of property, plant and equipment**

Depreciation is calculated using the straight line method to write down the cost or the revalued amount of each asset to its residual value over its estimated useful life.

Each part of an item of property, plant and equipment with a cost that is significant in relation to the total cost of the item, is depreciated separately.

Gains and losses on disposal of property, plant and equipment are determined by reference to their carrying amount and are taken into account in determining operating profit. On disposal of revalued assets, amounts in the revaluation surplus reserve relating to that asset are transferred to retained earnings.

Typically the estimated useful life of different classes of property, plant and equipment are as follows:

- Land and buildings capital expenditures are entitled to an investment deduction of 100% hence the depreciation rate of 0%.
- Computer Software is depreciated at an annual rate of 20% over a period of 5 years.

<b>CLASS I</b>	<b>CLASS II</b>	<b>CLASS III</b>	<b>CLASS IV</b>
<b>37.5%</b>	<b>30%</b>	<b>25%</b>	<b>12.5%</b>
Heavy Lorries, trucks and tractors <i>(Over 3 tonnes).</i>	Computers, photocopiers & scanners	Motor vehicles, motor bikes, light trucks and lorries <i>(Under 3 tonnes).</i>	Furniture and fittings, Plant and equipment.

**g) Leases**

Finance leases are leases that transfer substantially the entire risks and benefits incidental to ownership of the leased item to the Meru National Polytechnic. Assets held under a finance lease are capitalized at the commencement of the lease at the fair value of the leased property or, if lower, at the present value of the future minimum lease payments. The Meru National Polytechnic also recognizes the associated lease liability at the inception of the lease. The liability recognized is measured as the present value of the future minimum lease payments at initial recognition.

Subsequent to initial recognition, lease payments are apportioned between finance charges and reduction of the lease liability so as to achieve a constant rate of interest on the remaining balance of the liability. Finance charges are recognized as finance costs in surplus or deficit.

An asset held under a finance lease is depreciated over the useful life of the asset. However, if there is no reasonable certainty that the Meru National Polytechnic will obtain ownership of the asset by the end of the lease term, the asset is depreciated over the shorter of the estimated useful life of the asset and the lease term.

Operating leases are leases that do not transfer substantially all the risks and benefits incidental to ownership of the leased item to the Meru National Polytechnic. Operating lease payments are recognized as an operating expense in surplus or deficit on a straight-line basis over the lease term.

**h) Intangible assets**

Intangible assets acquired separately are initially recognized at cost. The cost of intangible assets acquired in a non-exchange transaction is their fair value at the date of the exchange. Following initial recognition, intangible assets are carried at cost less any accumulated amortization and accumulated impairment losses. Internally generated intangible assets, excluding capitalized development costs, are not capitalized and expenditure is reflected in surplus or deficit in the period in which the expenditure is incurred. The useful life of the intangible assets is assessed as either finite or indefinite

**i) Research and development costs**

The Meru National Polytechnic expenses research costs as incurred. Development costs on an individual project are recognized as intangible assets when the Meru National Polytechnic can demonstrate:

- The technical feasibility of completing the asset so that the asset will be available for use or sale
- Its intention to complete and its ability to use or sell the asset
- How the asset will generate future economic benefits or service potential
- The availability of resources to complete the asset
- The ability to measure reliably the expenditure during development.

Following initial recognition of an asset, the asset is carried at cost less any accumulated amortization and accumulated impairment losses. Amortization of the asset begins when development is complete and the asset is available for use. It is amortized over the period of expected future benefit. During the period of development, the asset is tested for impairment annually with any impairment losses recognized immediately in surplus or deficit.

**NOTES TO THE FINANCIAL STATEMENTS (Continued)**

**4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)**

**j) Financial instruments**

*Financial assets*

*Initial recognition and measurement*

Financial assets within the scope of IPSAS 29 Financial Instruments: Recognition and Measurement are classified as financial assets at fair value through surplus or deficit, loans and receivables, held-to-maturity investments or available-for-sale financial assets, as appropriate. The Meru National Polytechnic determines the classification of its financial assets at initial recognition.

*Loans and receivables*

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. After initial measurement, such financial assets are subsequently measured at amortized cost using the effective interest method, less impairment. Amortized cost is calculated by taking into account any discount or premium on acquisition and fees or costs that are an integral part of the effective interest rate. Losses arising from impairment are recognized in the surplus or deficit.

*Held-to-maturity*

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Non-derivative financial assets with fixed or determinable payments and fixed maturities are classified as held to maturity when the Meru National Polytechnic has the positive intention and ability to hold it to maturity. After initial measurement, held-to-maturity investments are measured at amortized cost using the effective interest method, less impairment. Amortized cost is calculated by taking into account any discount or premium on acquisition and fees or costs that are an integral part of the effective interest rate. The losses arising from impairment are recognized in surplus or deficit.

***Impairment of financial assets***

The Meru National Polytechnic assesses at each reporting date whether there is objective evidence that a financial asset or an Meru National Polytechnic of financial assets is impaired. A financial asset or a Meru National Polytechnic of financial assets is deemed to be impaired if, and only if, there is objective evidence of impairment as a result of one or more events that has occurred after the initial recognition of the asset (an incurred 'loss event') and that loss event has an impact on the estimated future cash flows of the financial asset or the Meru National Polytechnic of financial assets that can be reliably estimated. Evidence of impairment may include the following indicators:

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**4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)**

**i) Financial instruments (Continued)**

*Financial assets (Continued)*

*Impairment of financial assets (Continued)*

- The debtors or a Meru National Polytechnic of debtors are experiencing significant financial difficulty
- Default or delinquency in interest or principal payments
- The probability that debtors will enter bankruptcy or other financial reorganization
- Observable data indicates a measurable decrease in estimated future cash flows (e.g. changes in arrears or economic conditions that correlate with defaults)

*Financial liabilities*

*Initial recognition and measurement*

Financial liabilities within the scope of IPSAS 29 are classified as financial liabilities at fair value through surplus or deficit or loans and borrowings, as appropriate. The Meru National Polytechnic determines the classification of its financial liabilities at initial recognition.

All financial liabilities are recognized initially at fair value and, in the case of loans and borrowings, plus directly attributable transaction costs.

*Loans and borrowing*

After initial recognition, interest bearing loans and borrowings are subsequently measured at amortized cost using the effective interest method. Gains and losses are recognized in surplus or deficit when the liabilities are derecognized as well as through the effective interest method amortization process.

Amortized cost is calculated by taking into account any discount or premium on acquisition and fees or costs that are an integral part of the effective interest rate.

**i) Inventories**

Inventory is measured at cost upon initial recognition. To the extent that inventory was received through non-exchange transactions (for no cost or for a nominal cost), the cost of the inventory is its fair value at the date of acquisition.

Costs incurred in bringing each product to its present location and conditions are accounted for, as follows:

- Raw materials: purchase cost using the weighted average cost method
- Finished goods and work in progress: cost of direct materials and labour and a proportion of manufacturing overheads based on the normal operating capacity, but excluding borrowing costs

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**NOTES TO THE FINANCIAL STATEMENTS (Continued)**

**4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)**

**i) Inventories (Continued)**

After initial recognition, inventory is measured at the lower of cost and net realizable value. However, to the extent that a class of inventory is distributed or deployed at no charge or for a nominal charge, that class of inventory is measured at the lower of cost and current replacement cost.

Net realizable value is the estimated selling price in the ordinary course of operations, less the estimated costs of completion and the estimated costs necessary to make the sale, exchange, or distribution.

Inventories are recognized as an expense when deployed for utilization or consumption in the ordinary course of operations of the Meru National Polytechnic.

**j) Provisions**

Provisions are recognized when the Meru National Polytechnic has a present obligation (legal or constructive) as a result of a past event, it is probable that an outflow of resources embodying economic benefits or service potential will be required to settle the obligation and a reliable estimate can be made of the amount of the obligation.

Where the Meru National Polytechnic expects some or all of a provision to be reimbursed, for example, under an insurance contract, the reimbursement is recognized as a separate asset only when the reimbursement is virtually certain.

The expense relating to any provision is presented in the statement of financial performance net of any reimbursement.

***Contingent liabilities***

The Meru National Polytechnic does not recognize a contingent liability, but discloses details of any contingencies in the notes to the financial statements, unless the possibility of an outflow of resources embodying economic benefits or service potential is remote.

***Contingent assets***

The Meru National Polytechnic does not recognize a contingent asset, but discloses details of a possible asset whose existence is contingent on the occurrence or non-occurrence of one or more uncertain future events not wholly within the control of the Meru National Polytechnic in the notes to the financial statements. Contingent assets are assessed continually to ensure that developments are appropriately reflected in the financial statements. If it has become virtually certain that an inflow of economic benefits or service potential will arise and the asset's value can be measured reliably, the asset and the related revenue are recognized in the financial statements of the period in which the change occurs.

**NOTES TO THE FINANCIAL STATEMENTS (Continued)**

**4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)**

**k) Nature and purpose of reserves**

The Meru National Polytechnic creates and maintains reserves in terms of specific requirements.

**l) Changes in accounting policies and estimates**

The Meru National Polytechnic recognizes the effects of changes in accounting policy retrospectively. The effects of changes in accounting policy are applied prospectively if retrospective application is impractical.

**m) Employee benefits**

**Retirement benefit plans**

The Meru National Polytechnic provides retirement benefits for its employees and directors. Defined contribution plans are post-employment benefit plans under which an Meru National Polytechnic pays fixed contributions into a separate Meru National Polytechnic (a fund), and will have no legal or constructive obligation to pay further contributions if the fund does not hold sufficient assets to pay all employee benefits relating to employee service in the current and prior periods. The contributions to fund obligations for the payment of retirement benefits are charged against income in the year in which they become payable.

Defined benefit plans are post-employment benefit plans other than defined-contribution plans. The defined benefit funds are actuarially valued tri-annually on the projected unit credit method basis. Deficits identified are recovered through lump sum payments or increased future contributions on proportional basis to all participating employers. The contributions and lump sum payments reduce the post-employment benefit obligation.

**n) Foreign currency transactions**

Transactions in foreign currencies are initially accounted for at the ruling rate of exchange on the date of the transaction. Trade creditors or debtors denominated in foreign currency are reported at the statement of financial position reporting date by applying the exchange rate on that date. Exchange differences arising from the settlement of creditors, or from the reporting of creditors at rates different from those at which they were initially recorded during the period, are recognized as income or expenses in the period in which they arise.

**o) Borrowing costs**

Borrowing costs are capitalized against qualifying assets as part of property, plant and equipment.

Such borrowing costs are capitalized over the period during which the asset is being acquired or constructed and borrowings have been incurred. Capitalization ceases when construction of the asset is complete. Further borrowing costs are charged to the statement of financial performance.

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**NOTES TO THE FINANCIAL STATEMENTS (Continued)**

**4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)**

**p) Related parties**

The Meru National Polytechnic regards a related party as a person or an Meru National Polytechnic with the ability to exert control individually or jointly, or to exercise significant influence over the Meru National Polytechnic, or vice versa. Members of key management are regarded as related parties and comprise the directors, the CEO/principal and senior managers.

**q) Service concession arrangements**

The Meru National Polytechnic analyses all aspects of service concession arrangements that it enters into in determining the appropriate accounting treatment and disclosure requirements. In particular, where a private party contributes an asset to the arrangement, the Meru National Polytechnic recognizes that asset when, and only when, it controls or regulates the services. The operator must provide together with the asset, to whom it must provide them, and at what price. In the case of assets other than 'whole-of-life' assets, it controls, through ownership, beneficial entitlement or otherwise – any significant residual interest in the asset at the end of the arrangement. Any assets so recognized are measured at their fair value. To the extent that an asset has been recognized, the Meru National Polytechnic also recognizes a corresponding liability, adjusted by a cash consideration paid or received.

**r) Cash and cash equivalents**

Cash and cash equivalents comprise cash on hand and cash at bank, short-term deposits on call and highly liquid investments with an original maturity of three months or less, which are readily convertible to known amounts of cash and are subject to insignificant risk of changes in value. Bank account balances include amounts held at the Central Bank of Kenya and at various commercial banks at the end of the financial year. For the purposes of these financial statements, cash and cash equivalents also include short term cash imprests and advances to authorised public officers and/or institutions which were not surrendered or accounted for at the end of the financial year.

**s) Comparative figures**

Where necessary comparative figures for the previous financial year have been amended or reconfigured to conform to the required changes in presentation.

**t) Subsequent events**

There have been no events subsequent to the financial year end with a significant impact on the financial statements for the year ended June 30, 2019.

## **5 SIGNIFICANT JUDGMENTS AND SOURCES OF ESTIMATION UNCERTAINTY**

The preparation of the Meru National Polytechnic's financial statements in conformity with IPSAS requires management to make judgments, estimates and assumptions that affect the reported amounts of revenues, expenses, assets and liabilities, and the disclosure of contingent liabilities, at the end of the reporting period. However, uncertainty about these assumptions and estimates could result in outcomes that require a material adjustment to the carrying amount of the asset or liability affected in future periods.

### **Estimates and assumptions**

The key assumptions concerning the future and other key sources of estimation uncertainty at the reporting date, that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year, are described below. The Meru National Polytechnic based its assumptions and estimates on parameters available when the consolidated financial statements were prepared. However, existing circumstances and assumptions about future developments may change due to market changes or circumstances arising beyond the control of the Meru National Polytechnic. Such changes are reflected in the assumptions when they occur. IPSAS 1.140

### **Useful lives and residual values**

The useful lives and residual values of assets are assessed using the following indicators to inform potential future use and value from disposal:

- The condition of the asset based on the assessment of experts employed by the Meru National Polytechnic
- The nature of the asset, its susceptibility and adaptability to changes in technology and processes
- The nature of the processes in which the asset is deployed
- Availability of funding to replace the asset
- Changes in the market in relation to the asset

### **Provisions**

Provisions were raised and management determined an estimate based on the information available.

Provisions are measured at the management's best estimate of the expenditure required to settle the obligation at the reporting date, and are discounted to present value where the effect is material.

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**6 (a) TRANSFERS FROM NATIONAL GOVERNMENT MINISTRIES**

	<b>2017-2018</b>	<b>2016-2017</b>
	<b>KShs</b>	<b>KShs</b>
<b>Unconditional grants</b>		
Operational grant	50,250,000	78,711,343
<b>Conditional grants</b>		
Other mentorship tti grants	18,506,070	150,232,560
<b>Total Government grants and subsidies</b>	<b>68,756,070</b>	<b>228,943,903</b>

**6. (b) TRANSFERS FROM NATIONAL GOVERNMENT MINISTRIES**

	<b>2017-2018</b>	<b>2016-2017</b>
	<b>KShs</b>	<b>KShs</b>
<b>Conditional grants</b>		
Development grant	4,872,410	2,900,294
<b>Total Government grants and subsidies</b>	<b>4,872,410</b>	<b>2,900,294</b>

**7. TRANSFERS FROM OTHER LEVELS OF GOVERNMENT**

	<b>2017-2018</b>	<b>2016-2017</b>
	<b>KShs</b>	<b>KShs</b>
Transfer from Counties CDF		10,094,828
<b>Total transfers from other levels of Government</b>		<b>10,094,828</b>

**8. PUBLIC CONTRIBUTIONS AND DONATIONS**

	<b>2017-2018</b>	<b>2016-2017</b>
	<b>KShs</b>	<b>KShs</b>
Local Donations	70,816	
<b>Total public contributions and donations</b>	<b>70,816</b>	

**9. RENDERING OF SERVICES**

	<b>2017-2018</b>	<b>2016-2017</b>
	<b>KShs</b>	<b>KShs</b>
Tuition fees	367,575,231	138,645,435
Activity fees	937,020	819,195
Examination fees	13,932,506	6,425,290
Registration fees	3,155,800	3,011,277
<b>Total Rendering of Services</b>	<b>385,600,557</b>	<b>148,901,197</b>

**10. SALE OF GOODS**

	<b>2017-2018</b>	<b>2016-2017</b>
	<b>KShs</b>	<b>KShs</b>
Sale of farm produce	7,032,583	7,014,052
Other( include in line with your organisation)	7,387,814	5,459,080
<b>Total Sale of goods</b>	<b>14,420,397</b>	<b>12,473,132</b>

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**11. RENTAL REVENUE FROM FACILITIES AND EQUIPMENT**

	<b>2017-2018</b>	<b>2016-2017</b>
	<b>KShs</b>	<b>KShs</b>
Straight-lined operating lease receipts	59,400	55,700
Contingent rentals	6,245,414	27,094,630
<b>Total rentals</b>	<b>6,304,814</b>	<b>27,150,330</b>

**12. OTHER INCOME**

<b>Description</b>	<b>2017-2018</b>	<b>2016-2017</b>
	<b>KShs</b>	<b>KShs</b>
Income from sale of tender	7,000	6,000
Services concession income	250,785	
Income from disposal of assets	170,140	234,212
<b>Total other income</b>	<b>427,925</b>	<b>240,212</b>

**13. FINANCE INCOME**

	<b>2017-2018</b>	<b>2016-2017</b>
	<b>KShs</b>	<b>KShs</b>
Cash investments and fixed deposits	764,534	
<b>Total other income</b>	<b>764,534</b>	

**14. USE OF GOODS AND SERVICES**

	<b>2017-2018</b>	<b>2016-2017</b>
	<b>KShs</b>	<b>KShs</b>
Security	3,131,361	3,177,415
<b>Total good and services</b>	<b>3,131,361</b>	<b>3,177,415</b>

**15. EMPLOYEE COSTS**

	<b>2017-2018</b>	<b>2016-2017</b>
	<b>KShs</b>	<b>KShs</b>
Salaries and wages	64,469,640	47,364,312
Travel, motor car, accommodation, subsistence and other allowances	14,733,189	13,589,889
<b>Total Employee costs</b>	<b>79,202,829</b>	<b>60,954,201</b>

**16. REMUNERATION OF DIRECTORS**

	<b>2017-2018</b>	<b>2016-2017</b>
	<b>KShs</b>	<b>KShs</b>
Directors emoluments	4,468,041	3,398,550
<b>Total director emoluments</b>	<b>4,468,041</b>	<b>3,398,550</b>

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**NOTES TO THE FINANCIAL STATEMENTS (Continued)**

**17. DEPRECIATION AND AMORTIZATION EXPENSE**

	<b>2017-2018</b>	<b>2016-2017</b>
	<b>KShs</b>	<b>KShs</b>
Property, plant and equipment	11,630,047	12,739,386
<b>Total depreciation and amortization</b>	<b>11,630,047</b>	<b>12,739,386</b>

**18. REPAIRS AND MAINTENANCE**

	<b>2017-2018</b>	<b>2016-2017</b>
	<b>KShs</b>	<b>KShs</b>
Property	3,300	1,787,145
Equipment and machinery	16,369,223	25,560,371
<b>Total Repairs and Maintenance</b>	<b>16,372,523</b>	<b>27,347,516</b>

**19. CONTRACTED SERVICES**

	<b>2017-2018</b>	<b>2016-2017</b>
	<b>KShs</b>	<b>KShs</b>
Other contracted services - asbestos disposals		1,308,197
Other contracted services - sustainability growth plan	1,764,000	
<b>Total Contracted Services</b>	<b>1,764,000</b>	<b>1,308,197</b>

**20. GRANTS AND SUBSIDIES**

	<b>2017-2018</b>	<b>2016-2017</b>
	<b>KShs</b>	<b>KShs</b>
Community development		81,500
<b>Total grants and subsidies</b>		<b>81,500</b>

**21. GENERAL EXPENSES**

	<b>2017-2018</b>	<b>2016-2017</b>
	<b>KShs</b>	<b>KShs</b>
Advertising	7,261,788	8,319,243
Audit fees	600,000	600,000
Admin cost	24,988,405	9,769,817
Conferences and delegations	5,469,249	3,737,698
Consumables	32,165,728	59,394,650
Electricity	8,437,856	8,786,265
Fuel and oil	8,166,464	8,337,774
Insurance	185,624	422,474
Licenses and permits		1,352,528
Telecommunication	2,613,957	4,450,053
Training expenses – students	100,118,342	51,637,477
Other - Bank charges	524,388	308,485
Other - Staff development	2,413,670	3,516,596
<b>Total general expenses</b>	<b>192,945,471</b>	<b>160,633,060</b>

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**22. CASH AND CASH EQUIVALENTS**

	<b>2017-2018</b>	<b>2016-2017</b>
	<b>KShs</b>	<b>KShs</b>
Current account	82,797,896	71,256,530
<b>Total cash and cash equivalents</b>	<b>82,797,896</b>	<b>71,256,530</b>

**22(a). DETAILED ANALYSIS OF CASH AND CASH EQUIVALENTS**

<b>Financial institution</b>	<b>Account number</b>	<b>2017-2018</b>	<b>2016-2017</b>
		<b>KShs</b>	<b>KShs</b>
<b>a) Current account</b>			
Equity Bank (k) ltd - Development a/c	140292473814	3,124,360	7,137,249
Equity Bank (k) ltd - Farm a/c	1040297152680	1,570,441	882,218
Equity Bank (k) ltd - Production a/c	1040262403577	882,098	637,494
Equity Bank (k) ltd - Operations a/c	140292473819	33,352,631	(9,524,581)
Equity Bank (k) ltd - savings a/c	0140192473805		44,335
Equity Bank (k) ltd - economic stimulus	0140296297789	31,499	31,499
Standard Chartered Bank	102062031800	158,343	172,533
Housing Finance Bank	704-000-0867	1,528,462	139,235
Cooperative Bank - Operations a/c	1129075143100	10,797,378	264,993
Kenya Commercial Bank - Operations a/c	1197847472	10,002,777	9,373,210
Equity Bank (k) ltd - Fee collection a/c	1040275976049	4,884,680	0
Equity Bank (k) ltd - Saku tti a/c	140262845510	8,738,812	13,194,775
Equity Bank (k) ltd - Moyale tti a/c	140269121212	2,754,809	6,714,375
Equity Bank (k) ltd - Samburu West a/c	1040262845840	977,984	3,648,561
Cooperative Bank of Kenya - Tigania East tti a/c	1139525972700	119,809	4,801,140
Equity Bank (k) ltd - Samburu North tti a/c	140269120998	889,489	6,714,375
Equity Bank (k) ltd - Samburu tti a/c	1040262403565	1,146,859	12,401,394
Equity Bank (k) ltd - Chuka tti a/c	140262845461	325,480	689,754
Equity Bank (k) ltd - Tharaka tti a/c	1040262403552		13,070,630
Kenya Commercial Bank	1201310776	1,510,223	
<b>b) Call deposit</b>			
Equity Bank (k) ltd	1040264403400	1,762	3,890
<b>c) Others(specify)</b>			
Cash		0	859,451
<b>Sub- total</b>			
<b>Grand total</b>		<b>82,797,896</b>	<b>71,256,530</b>

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**23. PROPERTY, PLANT AND EQUIPMENT**

Cost	Land and Buildings		Motor vehicles		Furniture and fittings		Computers		Plant and Equipment		Capital Work in progress		Total	
	Shs	Shs	Shs	Shs	Shs	Shs	Shs	Shs	Shs	Shs	Shs	Shs	Shs	Shs
At 1 July 2015	0	0	0	0	0	0	0	0	0	0	0	0	0	0
Additions														
NBV as at 30th June 2016	32,500,000				3,180,000		6,000,000		2,780,000		70,250,000			114,710,000
Additions during the period ended 30th June 2017	37,864,454		0	0	4,740,318		23,406,830		5,343,374		130,092,816			201,447,792
<b>Total Assets</b>	<b>70,364,454</b>		<b>0</b>	<b>0</b>	<b>7,920,318</b>		<b>29,406,830</b>		<b>8,123,374</b>		<b>200,342,816</b>			<b>316,157,792</b>
Depreciation and impairment														
Depreciation during the year ended 30th June 2017		0		0	1,337,852		10,082,049		1,319,484			0		12,739,385
NBV As at 30th June 2017	<b>70,364,454</b>		<b>0</b>	<b>0</b>	<b>6,582,466</b>		<b>19,324,781</b>		<b>6,803,890</b>		<b>200,342,816</b>			<b>303,418,407</b>
Additions during the period ended 30th June 2018	93,831,240		9,531,364	9,531,364	2,969,721		1,649,202		7,284,015		58,348,639			173,614,182
<b>Total Assets during the period ended 30th June 2018</b>	<b>164,195,694</b>		<b>9,531,364</b>	<b>9,531,364</b>	<b>9,552,187</b>		<b>20,973,983</b>		<b>14,087,905</b>		<b>258,691,455</b>			<b>477,032,589</b>
Depreciation and impairment														
Depreciation charge during the year ended 30th June 2018		0		2,382,841	1,194,023		6,292,195		1,760,988			0		11,630,047
<b>NBV As at 30th June 2018</b>	<b>164,195,694</b>		<b>7,148,523</b>	<b>7,148,523</b>	<b>8,358,164</b>		<b>14,681,788</b>		<b>12,326,917</b>		<b>258,691,455</b>			<b>465,402,541</b>

CAPITAL WORK IN PROGRESS INCLUDE CAPITAL EXPENDITURE AMOUNTS IN MENTORSHIP PROJECTS AND DEVELOPMENT PROJECTS AS OUTLINED BELOW

MENTORED PROJECT	EXPENDED AMOUNT DURING THE YEAR
CHUKA TECHNICAL TRAINING INSTITUTE	1,000,000
THARAKA TECHNICAL TRAINING INSTITUTE	13,693,992
MOYALE TECHNICAL TRAINING INSTITUTE	8,513,824
TIGANIA EAST TECHNICAL TRAINING INSTITUTE	9,503,089
SAMBURU NORTH TECHNICAL TRAINING INSTITUTE	10,369,227
SAMBURU TECHNICAL TRAINING INSTITUTE	11,253,985
CONSTRUCTION OF AMPITHEATRE	485,000
BIOMETRIC GATE INSTALLATION	3,529,522
<b>TOTAL</b>	<b>58,348,639</b>

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**24. TRADE AND OTHER PAYABLES FROM EXCHANGE TRANSACTIONS**

	<b>2017-2018</b>	<b>2016-2017</b>
	<b>KShs</b>	<b>KShs</b>
Balance b/f as at 1 <sup>st</sup> July 2017	613,619	
Trade payables – Provision for audit fees	600,000	600,000
Other payables - Student welfare		13,619
<b>Total trade and other payables</b>	<b>1,213,619</b>	<b>613,619</b>

**25. REFUNDABLE DEPOSITS FROM CUSTOMERS/STUDENTS**

	<b>2017-2018</b>	<b>2016-2017</b>
	<b>KShs</b>	<b>KShs</b>
Balance b/f as at 1 <sup>st</sup> July 2017	985,472	
Caution money	1,222,250	985,472
<b>Total deposits</b>	<b>2,207,722</b>	<b>985,472</b>

**26. CASH GENERATED FROM OPERATIONS**

	<b>2017-2018</b>	<b>2016-2017</b>
	<b>KShs</b>	<b>KShs</b>
<b>Surplus for the year before tax</b>	<b>166,830,841</b>	<b>158,163,777</b>
<b>Adjusted for:</b>		
Development grants	4,872,410	2,900,294
Depreciation	11,630,047	12,739,386
<b>Net cash flow from operating activities</b>	<b>183,333,298</b>	<b>173,803,457</b>

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**27. FINANCIAL RISK MANAGEMENT**

The Meru National Polytechnic's activities expose it to a variety of financial risks including credit and liquidity risks and effects of changes in foreign currency. The institution's overall risk management programme focuses on unpredictability of changes in the business environment and seeks to minimise the potential adverse effect of such risks on its performance by setting acceptable levels of risk. The institution does not hedge any risks and has in place policies to ensure that credit is only extended to customers with an established credit history.

The Meru National Polytechnic's financial risk management objectives and policies are detailed below:

**(i) Credit risk**

The Meru National Polytechnic has exposure to credit risk, which is the risk that a counterparty will be unable to pay amounts in full when due. Credit risk arises from cash and cash equivalents, and deposits with banks, as well as trade and other receivables and available-for-sale financial investments.

Management assesses the credit quality of each customer, taking into account its financial position, past experience and other factors. Individual risk limits are set based on internal or external assessment in accordance with limits set by the directors. The amounts presented in the statement of financial position are net of allowances for doubtful receivables, estimated by the institution's management based on prior experience and their assessment of the current economic environment.

The carrying amount of financial assets recorded in the financial statements representing the Meru National Polytechnic's maximum exposure to credit risk without taking account of the value of any collateral obtained is made up as follows:

**FINANCIAL RISK MANAGEMENT (Continued)**

**(i) Credit risk (continued)**

The customers under the fully performing category are paying their debts as they continue trading. The credit risk associated with these receivables is minimal and the allowance for uncollectible amounts that the institution has recognised in the financial statements is considered adequate to cover any potentially irrecoverable amounts.

The Meru National Polytechnic has significant concentration of credit risk on amounts due from 2018

The board of directors sets the institution's credit policies and objectives and lays down parameters within which the various aspects of credit risk management are operated.

**(ii) Liquidity risk management**

Ultimate responsibility for liquidity risk management rests with the Meru National Polytechnic's directors, who have built an appropriate liquidity risk management framework for the management of the Meru National Polytechnic's short, medium and long-term funding and liquidity management requirements. The Meru National Polytechnic manages liquidity risk through continuous monitoring of forecasts and actual cash flows.

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**FINANCIAL RISK MANAGEMENT (Continued)**

**(iii) Market risk**

The board has put in place an internal audit function to assist it in assessing the risk faced by the Meru National Polytechnic on an ongoing basis, evaluate and test the design and effectiveness of its internal accounting and operational controls.

Market risk is the risk arising from changes in market prices, such as interest rate and equity prices/rates which will affect the Meru National Polytechnic's income or the value of its holding of financial instruments. The objective of market risk management is to manage and control market risk exposures within acceptable parameters, while optimising the return. Overall responsibility for managing market risk rests with the Audit and Risk Management Committee.

The institution's Finance Department is responsible for the development of detailed risk management policies (subject to review and approval by Audit and Risk Management Committee) and for the day to day implementation of those policies.

There has been no change to the Meru National Polytechnic's exposure to market risks or the manner in which it manages and measures the risk.

a) Interest rate risk

Interest rate risk is the risk that the Meru National Polytechnic's financial condition may be adversely affected as a result of changes in interest rate levels. The institution's interest rate risk arises from bank deposits. This exposes the institution to cash flow interest rate risk. The interest rate risk exposure arises mainly from interest rate movements on the institution's deposits.

*Management of interest rate risk*

To manage the interest rate risk, management has endeavoured to bank with institutions that offer favourable interest rates.

**FINANCIAL RISK MANAGEMENT (Continued)**

**(iii) Market risk (Continued)**

b) Interest rate risk(continued)

*Sensitivity analysis*

The Meru National Polytechnic analyses its interest rate exposure on a dynamic basis by conducting a sensitivity analysis. This involves determining the impact on profit or loss of defined rate shifts. The sensitivity analysis for interest rate risk assumes that all other variables, in particular foreign exchange rates, remain constant. The analysis has been performed on the same basis as the prior year.

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**iv) Capital Risk Management**

The objective of the Meru National Polytechnic's capital risk management is to safeguard the institution's ability to continue as a going concern. The Meru National Polytechnic capital structure comprises of the following funds:

	<b>2017-2018</b>	<b>2016-2017</b>
	<b>Kshs</b>	<b>Kshs</b>
Revaluation reserve	0	0
Retained earnings	537,006,392	370,175,551
Capital reserve	7,772,704	2,900,294
<b>Total funds</b>	<b>544,779,096</b>	<b>373,075,845</b>
Total borrowings		
Less: cash and bank balances	82,797,896	71,256,530
Net debt/(excess cash and cash equivalents)		
<b>Gearing</b>	<b>0%</b>	<b>0%</b>

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**NOTES TO THE FINANCIAL STATEMENTS (Continued)**

**28. RELATED PARTY BALANCES**

**Nature of related party relationships**

Entities and other parties related to the Meru National Polytechnic include those parties who have ability to exercise control or exercise significant influence over its operating and financial decisions. Related parties include management personnel, their associates and close family members.

**Government of Kenya**

The Government of Kenya is the principal shareholder of the Meru National Polytechnic, holding 100% of the Meru National Polytechnic's equity interest. The Government of Kenya has provided full guarantees to all long-term lenders of the Meru National Polytechnic, both domestic and external. Other related parties include:

- i) The National Government;
- ii) Ministry of Education;
- iii) Technical And Vocational Education and Training Authority (TVETA);
- iv) Key management;
- v) Polytechnic Council;

	<b>2017-2018</b>	<b>2016-2017</b>
	<b>Kshs</b>	<b>Kshs</b>
<b>Transactions with related parties</b>		
<b>a) Grants from the Government</b>		
Grants from National Govt	79,189,906	231,844,197
Grants from County Government		10,094,828
Donations in kind		
Less: Transfers to Tharaka technical training on handing over.	(5,561,426)	
<b>Total</b>	<b>73,628,480</b>	<b>241,939,025</b>
<b>b) Key management compensation</b>		
Directors' emoluments	4,468,041	3,398,550
<b>Total</b>	<b>83,657,947</b>	<b>245,337,575</b>

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**NOTES TO THE FINANCIAL STATEMENTS (Continued)**

**29. EVENTS AFTER THE REPORTING PERIOD**

There were no material adjusting and non- adjusting events after the reporting period.

**30. ULTIMATE AND HOLDING MERU NATIONAL POLYTECHNIC**

The Meru National Polytechnic is Semi- Autonomous Government Agency under the Ministry of Education. Its ultimate parent is the Government of Kenya.

**31. CURRENCY**

The financial statements are presented in Kenya Shillings (Kshs).

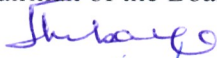
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**APPENDIX 1: PROGRESS ON FOLLOW UP OF AUDITOR RECOMMENDATIONS**

The following is the summary of issues raised by the external auditor, and management comments that were provided to the auditor. We have nominated focal persons to resolve the various issues as shown below with the associated time frame within which we expect the issues to be resolved.

<b>Reference No. on the external audit Report</b>	<b>Issue / Observations from Auditor</b>	<b>Management comments</b>	<b>Focal Point person to resolve the issue (Name and designation)</b>	<b>Status: (Resolved / Not Resolved)</b>	<b>Timeframe: (Put a date when you expect the issue to be resolved)</b>

Director General/C.E.O/M.D (enter title of head of Meru National Polytechnic)  
 Chairman of the Board



Date.....28/02/2020.....

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**APPENDIX II: PROJECTS IMPLEMENTED BY THE MERU NATIONAL POLYTECHNIC**

**Projects**

Projects implemented by the State Corporation/ SAGA Funded by development partners

Project title	Project Number	Donor	Period/duration	Donor commitment	Separate donor reporting required as per the donor agreement (Yes/No)	Consolidated in these financial statements (Yes/No)
1	NONE					
2						

**Status of Projects completion**

	Project	Total project Cost	Total expended to date	Completion % to date	Budget	Actual	Sources of funds
1	N/A						
2							
3							

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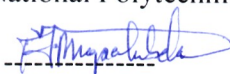
**APPENDIX III: INTER-MERU NATIONAL POLYTECHNIC TRANSFERS**

<b>MERU NATIONAL POLYTECHNIC NAME:</b>				
<b>Break down of Transfers from the State Department of TVET Ministry of Education.</b>				
<b>FY 2017/2018</b>				
a.	Recurrent Grants			
		<u>Bank Statement Date</u>	<u>Amount (KShs)</u>	<u>Indicate the FY to which the amounts relate</u>
		27/03/2018	12,562,500	2017/2018
		13/10/2017	12,562,500	2017/2018
		04/12/2017	12,562,500	2017/2018
		25/04/2018	12,562,500	2017/2018
		<b>Total</b>	<b>50,250,000</b>	
b.	Development Grants			
		<u>Bank Statement Date</u>	<u>Amount (KShs)</u>	<u>Indicate the FY to which the amounts relate</u>
		06/06/2018	1,472,264	2017/2018
		08/12/2017	3,400,146	2017/2018
		<b>Total</b>	<b>4,872,410</b>	
c.	Other mentorship project grants			
		<u>Bank Statement Date</u>	<u>Amount (KShs)</u>	<u>Indicate the FY to which the amounts relate</u>
	Chuka TTI	13/10/2017	500,000	2017/2018
	Chuka TTI	04/12/2017	500,000	2017/2018
	Chuka TTI	27/03/2018	500,000	2017/2018
	Chuka TTI	11/05/2018	500,000	2017/2018
	Tharaka TTI	13/10/2017	500,000	2017/2018
	Tharaka TTI	04/12/2017	500,000	2017/2018
	Tharaka TTI	04/07/2017	5,000,000	2017/2018
	Tharaka TTI	06/07/2017	3,587,000	2017/2018
	Tharaka TTI	27/03/2018	500,000	2017/2018
	Tharaka TTI	25/04/2018	500,000	2017/2018
	Moyale TTI	06/07/2017	600,000	2017/2018
	Moyale TTI	06/07/2017	800,000	2017/2018
	Moyale TTI	08/12/2017	4,554,534	2017/2018
	Samburu North TTI	06/07/2017	800,000	2017/2018
	Tigania East TTI	06/07/2017	600,000	2017/2018
	Tigania East TTI	01/11/2017	4,125,962	2017/2018
		<b>Total</b>	<b>24,067,496</b>	

The above amounts have been communicated to and reconciled with the parent Ministry

Finance Officer  
 Meru National Polytechnic

Sign



Head of Accounting Unit  
 Ministry of Education

Sign-----

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**APPENDIX IV: RECORDING OF TRANSFERS FROM OTHER GOVERNMENT ENTITIES**

Name of the MDA/Donor Transferring the funds	Date received as per bank statement	Nature: Recurrent/Development/Others	Total Amount - KES	Where Recorded/recognized	
				Statement of Financial Performance	Total Transfers during the Year
Ministry of Education	27/03/2018	Recurrent	12,562,500	12,562,500	12,562,500
Ministry of Education	13/10/2017	Recurrent	12,562,500	12,562,500	12,562,500
Ministry of Education	04/12/2017	Recurrent	12,562,500	12,562,500	12,562,500
Ministry of Education	25/04/2018	Recurrent	12,562,500	12,562,500	12,562,500
Ministry of Education	06/06/2018	Development	1,472,264	1,472,264	1,472,264
Ministry of Education	08/12/2017	Development	3,400,146	3,400,146	3,400,146
Ministry of Education	13/10/2017	Chuka TTI	500,000	500,000	500,000
Ministry of Education	04/12/2017	Chuka TTI	500,000	500,000	500,000
Ministry of Education	27/03/2018	Chuka TTI	500,000	500,000	500,000
Ministry of Education	11/05/2018	Chuka TTI	500,000	500,000	500,000
Ministry of Education	13/10/2017	Tharaka TTI	500,000	500,000	500,000
Ministry of Education	04/12/2017	Tharaka TTI	500,000	500,000	500,000
Ministry of Education	04/07/2017	Tharaka TTI	5,000,000	5,000,000	5,000,000
Ministry of Education	06/07/2017	Tharaka TTI	3,587,000	3,587,000	3,587,000
Ministry of Education	27/03/2018	Tharaka TTI	500,000	500,000	500,000
Ministry of Education	25/04/2018	Tharaka TTI	500,000	500,000	500,000
Ministry of Education	06/07/2017	Moyale TTI	600,000	600,000	600,000
Ministry of Education	06/07/2017	Moyale TTI	800,000	800,000	800,000
Ministry of Education	08/12/2017	Moyale TTI	4,554,534	4,554,534	4,554,534
Ministry of Education	06/07/2017	Samburu North TTI	800,000	800,000	800,000
Ministry of Education	06/07/2017	Tigania east TTI	600,000	600,000	600,000
Ministry of Education	01/11/2017	Tigania East TTI	4,125,962	4,125,962	4,125,962
Meru National Polytechnic	28/02/2018	Transfer of fund balance to Tharaka technical training institute on hand over	(5,561,426)	(5,561,426)	(5,561,426)
<b>TOTAL</b>			<b>73,628,480</b>	<b>73,628,480</b>	<b>73,628,480</b>