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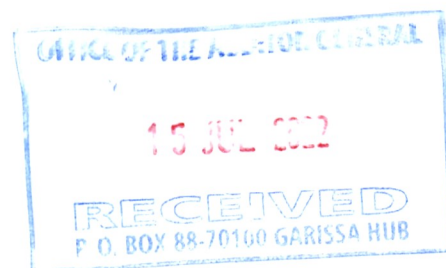
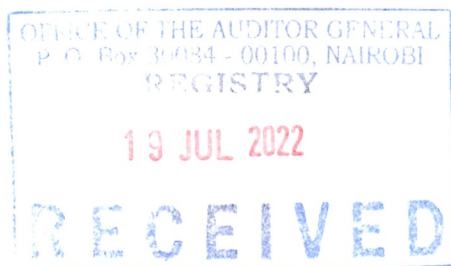
OF

**THE AUDITOR-GENERAL**

**ON**

**NORTH EASTERN NATIONAL POLYTECHNIC**

**FOR THE YEAR ENDED  
30 JUNE, 2021**



# THE NORTH EASTERN NATIONAL POLYTECHNIC

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## NORTH EASTERN NATIONAL POLYTECHNIC

### ANNUAL REPORT AND FINANCIAL STATEMENTS

FOR THE YEAR ENDED  
30 JUNE 2021

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

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## **1. KEY ENTITY INFORMATION AND MANAGEMENT**

### **(a) Background information**

North Eastern National Polytechnic, NENAP is the former North Eastern Province Technical Training Institute or NEPTTI. The institution became a National Polytechnic through the North Eastern National Polytechnic Legal order of 30th May 2016, under legal Notice No 89 provided for in Technical and Vocational Education and Training (TVET) Act, 2013.

The Polytechnic is situated within Garissa Township and occupies a 58-acre piece of land. The Institution was established as a community-based Technical Secondary school in 1983. In 1985 it was taken over by the Government and in 1998 it was converted to a Technical Training Institute a status it has held for three decades before assuming its current status as a National Polytechnic. Currently it is the only Government National polytechnic that offers Vocational, Technical and Entrepreneurial training in the whole of North-Eastern province and its environs. NENAP has a strategic plan and is managed by a Governing Council appointed by the Ministry of Education and run on a day-to-day basis by a principal who is appointed under the State department Vocational and Technical Training

### **(b) Principal Activities**

The principal activity/mission of the Polytechnic is to train highly skilled workforce that is suitable for further professional development through quality inclusive and equitable TVET programs responsive to national and global competitiveness, implementing training in TVET programs, carrying out research programs, and innovation into products and services

The core functions of North Eastern National Polytechnic include;

(a) Provide directly, or in collaboration with other institutions of higher learning, facilities for technical trainers in technological, professional, scientific education; conduct examinations for and grant such academic awards as provided under the polytechnic order.

(b) Participate in technological innovation as well as in the discovery, transmission and enhancement of knowledge and to stimulate the intellectual life in the economic, social cultural, scientific, and technological development;

(c) Contribute to industrial and technological development of Kenya in collaboration with industry and other organizations through transfer of technology and adopting programs that address the needs of the local community and the Nation at large.

(d) Develop an institution with excellence in teaching, training, scholarship, entrepreneurship, research, consultancy, community service, among other educational services and products, with emphasis on technology and its development, impact and application within and outside Kenya.)

### **(c) Key Management**

The Polytechnic's day-to-day management is under the following key organs:

- Council
- Accounting officer/ Principal

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**(d) Fiduciary Management**

The key management personnel who held office during the financial year ended 30<sup>th</sup> June 2020 and who had direct fiduciary responsibility were:

No.	Designation	Name
1.	Principal/Secretary to Governing Council	Muhammad Noor Hassan
2.	Deputy Principal, Administration	Abdirahman Kassim Shakul
3.	Deputy Principal, Academics	Ms Margret Wanjiru
4.	Registrar	John Githinji
5.	The Dean of Students	Timothy Nyasani
6.	Finance Office	Vincent Ohana
7.	Procurement Officer	Abdirizack Sheikh
8.	Domnic K. Mativo	Internal Auditor

**(e) Fiduciary Oversight Arrangements**

Name of the Committee	Members
Finance, infrastructure and HRM committee	Shakir Hussein - Chairman David Kivoto - Member Halkano Roba Duba - Member Muhammad H. Noor - Principal
Audit/Risk Management committee	Hassan Absiye - Chairman Salome Mwangi - Member Domnic Kalonzo - Internal Auditor

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**(f) Entity Headquarters**

North Eastern National Polytechnic  
P.O. Box 329-70100  
Garissa,  
KENYA

**(g) Entity Contacts**

Telephone :( 254)716 0601788/724750704  
E-mail: info@northeasternpoly.ac.ke  
Website: www.northeasternpoly.ac.ke

**(h) Entity Bankers**

1. Kenya Commercial Bank  
Garissa Branch  
P.O. Box 143  
Garissa, Kenya

**(i) Independent Auditors**




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

**(j) Principal Legal Adviser**



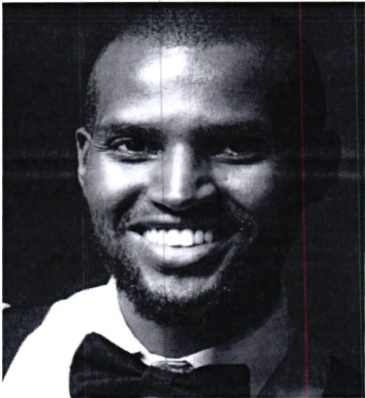
The Attorney General  
State Law Office  
Harambee Avenue  
P.O. Box 40112  
City Square 00200  
Nairobi, Kenya

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**2. THE COUNCIL MEMBERS**

<p>– Council Chairman</p>  <p>MR. MOHAMMED SHEIKH ABDI</p>	<ul style="list-style-type: none"> <li>• 56 yrs Old, Certified project management professional, APM Group (UK), 2013</li> <li>• Master’s in Business Administration, (HRM &amp; Strategic Management ) UoN 2008</li> <li>• Certified Public Secretary CPS(K) KASNEB 2006</li> <li>• Bachelor of Arts BA &amp; Econ, Moi University,1991</li> </ul>
<p>- Council Member</p>  <p>MR. SHAKIR HUSSEIN MOHAMED</p>	<ul style="list-style-type: none"> <li>• 45 years old, Master of Science (Finance and Investment) from KCA University.</li> <li>• Bachelor of Business Administration-Finance Option from Kenya Methodist University</li> <li>• Certified Public Accountant of Kenya (CPA K)</li> </ul>
<p>– Council Member</p>  <p>MS. SALOME CHEMJOR MWANGI</p>	<ul style="list-style-type: none"> <li>• 58 years old, Master of Arts Degree in Project Planning and Management-University of Nairobi.</li> <li>• Bachelors of Science Degree in Agriculture and Human Ecology Extension, Egerton university-Njoro.</li> <li>• Diploma in Agriculture and Home Economics, Bukura College of Agriculture and Certificate in General Agriculture and Home Economics</li> </ul>

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<p>- Council Member</p>  <p>MR. DAVID KIVOTO</p>	<ul style="list-style-type: none"> <li>• 55 years old, Has Bs. Technology degree in Education from.</li> <li>• Has Technical Training background with an Higher Diploma in Building and Civil Engineering.</li> <li>• He currently in-charge of Education affairs in Kitui County.</li> <li>• Has rich background in partnership engagements.</li> </ul>
<p>- Council Member</p>  <p>MR. HASSAN ABSIYE AHMED</p>	<ul style="list-style-type: none"> <li>• Kenyatta University Graduate in Master of Education degree in Education Administration</li> <li>• Kenyatta University Graduate, Bachelor of Education degree (Early Childhood Education)</li> <li>• Has worked for Teachers Service Commission (TSC) and Kenya Institute of Education (now Kenya Institute of Curriculum Development (KICD) UPT 2019</li> </ul>
<p>Council Member</p>  <p>MR, HALKANO ROBA DUBA</p>	<ul style="list-style-type: none"> <li>• Area of specialization, Project Engineering</li> <li>• Graduate Engineer Qualification: BSc Civil Engineering &amp; CPA-II.</li> <li>• Registered with Engineers board of Kenya (EBK), institution of engineers of Kenya (IEK)</li> <li>• And also with the Institution of Engineering Technologists and Technicians of Kenya (IET)</li> </ul>

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MR MUHAMMAD NOOR HASSAN  
( Chief Principal)

- Mr Muhammad Noor Hassan is the current Chief Principal of North Eastern National Polytechnic and Secretary to the Governing Council, He has,
- Master Degree in Business Administration from Kampala International University.
- Bachelors Degree in Education from Moi University ( Eldoret)

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**3. MANAGEMENT TEAM**

Muhammad Noor Hassan		The Current Chief Principal/Secretary to the Governing Council
Abdirahman Kassim Shakul		Deputy Principal, Administration
Ms Margret Wanjiru		Deputy Principal, Academics
John Githinji		Registrar
Timothy Nyasani		Dean Of Students
Vincent Ohana		Finance Officer
Domnic K. Mativo		Internal Auditor
Abdirizack Sheikh		Procurement Officer

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**CHAIRMAN'S STATEMENT**

The office of the Chairperson of the governing council of the North Eastern National Polytechnic (NENAP) has been active during the year under review in managing the affairs of the Polytechnic. We reckon the existing challenges including the issues of security, learning facilities, fewer teaching resources but above all the culture that associates technical training with mundane life. This requires change in the mindset of our people as we leveraged on the leaders to sensitize and educate our people to embrace the concept of technical and vocational training for our youth. The council is committed to ensuring that the changing world around is sensitive to the needs of the future.

We have continued to collaborate with a number of agencies both public and private sector in our endeavor to grow the institution. Our desire to achieve and deliver on our mandate has seen our drive in reaching out to each and every other partner willing to work with us.

During the year under review, the Polytechnic management has carried out an aggressive popularity campaign in Garissa County and its environs. Our mandate is to grow the student population through a number of strategies including effective outreach programs geared to popularize the institution from within and around the County. On matters of security, the management has put certain measures in place to beef security. This gesture of security provision has boosted somewhat the level of security in the institution to both staff and students.

As a council, we endeavour to continually putting in place governance systems to ensure that we not only comply with the code of ethics but engage in prudent leadership practices that creates value for the Polytechnic. The Polytechnic has remained a good corporate citizen that meets its obligations for its staff and students as well as the national obligation

The Polytechnic registered remarkable development during the period under review in the realization of its mandate with support of the Ministry of Education, state department of Vocational and Technical Training. As a result, the polytechnic has now been able to steer its progress through market research, linkages, collaboration and partnerships. The polytechnic continues to register an overall improvement in its performance due to enhanced resources, physical facilities and infrastructure.

Special thanks go to the State Department of Vocational and Technical Training, Ministry of education, the County Government of Garissa and all other development partners for the support they continue to accord the polytechnic, without which our achievements would not have been realized. Finally I wish to appreciate my Council members and the management staff for their efforts in supporting the realization of the polytechnic mandate.



Mohamed S Abdi  
Chairman/Governing Council

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**4. REPORT OF THE PRINCIPAL**

Pursuant to Section 83 of the Public Finance Management Act, 2012, I take this opportunity to present the polytechnic's Annual report and financial statements for the period ended 30 June 2021. The report focuses on the Polytechnic's Strategic intent enshrined in our performance contract which include Improvement of physical facilities and infrastructure, curriculum development, acquisition of workshop equipment and ICT infrastructure, advancement of TVET programs by promoting Research & Innovation, Partnership/ linkages and environmental management. Further to this the Polytechnic envisages to strengthen its financial base through promotion of good governance and effective management.

The above strategic issues are part of broad initiatives undertaken by the Polytechnic planning system to impart relevance to current National TVET reforms. This defines the polytechnic's mandate aimed at enhancing quality, competitiveness, creativity and innovativeness in TVET education. This report is premised on involvement on account of analysis of goals, strategic issues, strategic objectives, strategies and activities that the polytechnic intends to pursue in the next three years. The mandate of the Governing Council among other things is to provide apex management towards achieving the polytechnic mandate as per the TVET Act 2013. In the year under review the Polytechnic intends to employ through the PSC Vocational and Technical Trainers 24 new trainers.

The polytechnic has deepened collaboration towards enhancing staff capacity as well as incorporating best international practices. The polytechnic still expects to benefit from YAW-K collaboration through acquisition of ICT- automotive lab and a smart classroom among other things. The Polytechnic is an active player in the research and innovation initiatives.

The Polytechnic is committed to ensuring that the compound is beautified and landscaping within the compound is continually improved, since image is everything.

**Challenges**

The polytechnic emphasizes on the need for adequate staffing for the effective education in all departments. Majority of the departments do not have sufficient staff to handle the trainees. Shortage of trainers is therefore one of the challenges facing the Institution. In order to alleviate the shortage, the polytechnic has been hiring part-time staff to teach the trainees. The staff are paid by the polytechnic from its meagre resources. During the 2020/2021 financial year, the polytechnic maintained 17 trainers under the council but the number is likely to increase due to our increased programs.

Continuous dynamism in the ICT sector where both upgrade and updates of website are a priority. LAN enhancement as well as campus management system are not one-off systems for they require continuous upgrade. The systems are important for they assist student admissions, fees processing, payments and examinations registration.

The polytechnic mandate by the TVET Act, 2013 is expanded to ensure that training and research are top in our agenda. In order to effectively deliver on this mandate the polytechnic envisages to enhance capacity and deepen its training skills. Intend local experts with competition skills and expertise leading to low competition culture and this requires equalization funding.



Muhammad Noor Hassan.  
Principal/Secretary to Governing Council

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**5. REVIEW OF NORTH EASTERN NATIONAL POLYTECHNICS PERFORMANCE FOR THE FINANCIAL YEAR 2020/2021**

North Eastern National Polytechnic's strategic pillars within its strategic plan for the FY 2021/2025 are as follows.

1. To provide quality training
2. To increase infrastructural facilities
3. To enhance security surveillance.
4. To increase and strengthen NENAP human resource capacity
5. To enhance good governance and management practices
6. To integrate ICT in all training and management operations
7. To provide research and innovation in NENAP
8. To increase the polytechnics financial base
9. To raise the Polytechnics profile in the region
10. To provide quality customer service in line with the quality management system
11. To strengthen partnerships, linkages and collaborations
12. To improve trainee welfare
13. To improve the polytechnics environment to make it conducive for training and learning.

The Institution achieved its performance targets set for the financial year 2020/21 period for its eight strategic pillars as indicated in the diagram below.

<b>Strategic Pillar</b>	<b>Strategies</b>	<b>Activities</b>	<b>Outcomes</b>
To Provide quality training: development of new curricular	Expansion of training programmes	-Form curricular development team -Train curricular developers	a) Competent and skilled human resource that fits in the labour market b) Academics programmes that are aligned with industry and international standards
To increase infrastructural facilities	Build food and beverage	-Develop a proposal for food and beverage unit -Approval of the proposal -Tendering -Construction of the unit -Inspection and Commissioning	a) Increased and improved infrastructural facilities and enrolment
To enhance security surveillance and safety	Installation of biometric and CCTV systems	-Develop a proposal for installation of biometric, library security and CCTV systems -Approval of the Proposal Tendering -Installation of biometric and CCTV system Inspection and commissioning	a) Secure environment

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To increase and strengthen NENAP human resource capacity	Conduct Skills gap analysis	-Carry out skills gap survey -Adoption of skills gap analysis report -Formulate training and development needs -Conduct the training	a) Competent and highly motivated staff b) Adequate workforce in the Polytechnic c) Job Security d) Improved performance e) Job satisfaction and security f) Team work and team spirit
To enhance good governance and management practices	Develop and implement governance policies	-Acquire the relevant legal documents -Develop an IT policy -Develop internal quality assurance -Develop IGA policy	a) Improved management of the polytechnic b) Efficiency and effectiveness in decision making
To integrate ICT in all training and management operations in NENAP	Acquire and utilize and ERP	-Develop a proposal for ERP acquisition. -Approval of the proposal -Conduct demonstrations from interested service providers -Tendering -Installation of the ERP -Train staff	a) Modernised and improved operations in the polytechnic
To promote research and innovation in NENAP	Capacity building the research team	-Appointment of Research committee -Induction of the research committee -Develop research team capacity building work plan -Implement the capacity building work plan	a) Increase fee collection to 100% b) Acquire an updated ERP c) Hiring out of facilities
To increase the polytechnics financial base	Operationalise auto garage	-Register the auto garage with the county government -Appoint a manager -Engage qualified mechanic Market the Auto garage -Continuously monitor operations in the auto garage	a) Improved revenue to the Polytechnic b) Efficient delivery of Polytechnic mandate.
To raise the Polytechnics profile in the region	Engage local leadership and stakeholders	-Conduct sensitization forums -Prepare work plans -Prepare a budget - Perform road shows -Conduct an open day and career day.	c) Commitment and support of the community d) Community change in perception e) Raised Polytechnic profile f) Increased enrollment.

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To provide quality customer service	Conduct customer satisfaction survey	-Develop a proposal for customer satisfaction survey consultancy -Prepare a budget -Engage the consultancy firm -Implement recommendations from the customer satisfaction survey.	a) Increased customer base b) Increased enrolment.
To strengthen partnerships, linkages and collaborations	To strengthen engagements with county government, national governments and NGOs	-Identify the area of engagement -Prepare a plan -Implementation of the work plan	a) Compliance and relevance b) Increased donors
To Improve trainee welfare	Establish a cafeteria system	- Develop a proposal for Cafeteria system - Approval of the proposal - Conduct demonstrations from interested service providers - Tendering - Installation of the cafeteria system - Train staff	a) Increased enrolment b) Improved trainee welfare.
To improve the Polytechnics environment to make it conducive for training and learning	Waste management	-Develop a waste management policy -Appoint a waste management committee -Develop a proposal -Approval of a proposal -Prepare a work plan -Prepare a budget -Implement a work plan	c) Environmental conservation d) Compliance with environmental regulations e) Conducive environment.

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**6. CORPORATE GOVERNANCE STATEMENT**

The polytechnic affirms that good corporate governance is simply good business. The polytechnic commits to ensure that we comply with the statutory and all the legal requirements as well as meeting the set deadlines.

The core mandate of the institution is training as well as carrying out research activities. This entails imparting CBET skills, attitude and knowledge to the trainees. There are six (6) departments and basically engineering courses collectively form our centre of excellence including Building and Civil Engineering, Electrical Electronics, Mechanical & Automotive, Information Communication Technology, Business studies, Community development and Secretarial departments.

The current student population by the close of the year under review stood at stand at 870 students. We have always endeavoured to ensure that we hit the 1000 mark but this has been a challenge. The total staff population is about 52 trainers, both the PSC employees together with these on contract.

During the year under review, the polytechnic engaged in several regional and national activities such as ball games and sports at national level in Embu County.

Senior staff during the year underwent several capacity building sessions in Kisumu, Mombasa, and Nairobi to increase their management skills.

Currently, the polytechnic is partnering with KIRDI in the areas of Artisanal Nyir nyir meat processing pilot plant. The plant aims at training local farmers in high-end meat processing technologies.

The polytechnic has been a mentoring institution in the implementation of the up-coming TVET institutions as construction projects. The projects, located in Garissa County are in Lagdera Balambala and Ijara sub-Counties. Other projects are in Mandera North, Rhamu, Elwak, and Tarbaj in Wajir, Tana river and Garbatulla in Isiolo County.



Muhammad Noor Hassan

**PRINCIPAL/SECRETARY TO GOVERNING COUNCIL**

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**7. MANAGEMENT DISCUSSION AND ANALYSIS**

The Polytechnic's operational and financial performance

The Covid 19 pandemic has heavily impacted on our revenue as there was no substantive intake since the outbreak of the corona virus. The next substantive intake is due on September 2021 which is outside the financial year under review.

(2) The Council commits to ensure that a proper management structure is in place and to make sure that the structure functions to maintain corporate integrity, reputation and responsibility.

(2) The Council has a commitment to monitor and evaluate the implementation of strategies, policies, and management criteria and plans of North Eastern National Polytechnic.

(3) The Council constantly reviews the viability and financial sustainability of the Polytechnic once every year.

(4) The Council commits to ensure that the North Eastern National Polytechnic complies with all the relevant laws, regulations, governance practices, accounting and auditing standards.

**Challenges**

- In Security in the region has hindered growth in the polytechnic and this has contributed to Low enrolment in the polytechnic.
- Hardship related issues hinder capacity growth of our staff and this results to low staff moral and little or no income generating activities to generate more income to the institution
- Inadequate physical facilities in the polytechnic such as student hostels are some of the challenges relating to low enrolment.

**Polytechnic's compliance with statutory requirements**

The polytechnic has no court cases at the moment.as at the quarter the polytechnic had complied with the statutory obligations as far as debt payment to our creditors.

**Key projects and investment decisions the Polytechnic is planning/implementing**

Most of our projects are financed by partly by our internal generated revenue, and mostly grants from Government and Development partners, borrowings. However, in the year under review, there were projects undertaken.

**Major risks facing the Polytechnic**

Operational risks in the polytechnic include

- Loss of funds through student document forgery during payment of tuition and examination fee.  
Mitigation, Polytechnic intends to procure Student Biometric systems once procured will check the problem.
- Loss of funds through scrupulous suppliers and service providers providing inferior materials and services.

Mitigation, Enhanced inspection and monitoring of both works and services.

- Risk to loss of funds through downtime on internet and LAN systems.  
Mitigation, Signed Maintenance service contract to upgrade the equipment.

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- Loss of portable workshop tools and equipment from the workshop stores  
Proposal to carry out asset registration and asset tagging to identify tools and equipment from risk of pilfer and theft.

**Material areas in statutory/financial obligations**

By the close of year in question, the polytechnic had some pending bills as indicated but did not have any loan default or tax default on pension obligations to the exchequer.

**The Polytechnic's financial probity and serious governance issues**

The polytechnic has management committees and policies are in place to ensure that governance issues are well taken care of So far there has not been any conflicts of interest from among the council members.

## **8. ENVIROMENTAL AND SUSTAINABILITY REPORTING**

The Polytechnic affirms that good corporate governance is simply good business. The Polytechnic commits to ensure that we comply with all the legal requirements as well as meeting set deadlines. We commit to provide excellent training environment for our students who are our major clients.

### **1. Sustainability strategy and profile -**

The core mandate of the Institution is training as well as carrying out research activities. This entails imparting CBET skills, attitude and knowledge to the trainees. There are six (6) departments and basically engineering courses collectively form our centre for excellence including Building and Civil Engineering, Electrical and Electronics, Mechanical and Automotive, Information Communication Technology, Business Studies, Community development and Secretarial Departments.

### **2. Environmental performance**

We The North Eastern National Polytechnic have planted trees especially the neem trees around the compound which provide shade for the students, staff and visitors. The trees help to filter out the dust and carbon dioxide from the environment hence improving the quality of air that we breathe inside and around the institution. Despite the Institution being in a semi-arid area, the management has ensured that there is adequate flowing water for sanitation, consumption. And watering of the trees.

### **3. Employee welfare**

The Polytechnic has in place a human resource policy manual which guides it on all issues to do with human resource. The Policy addresses key areas in human resource such as hiring, appraisals, training, discipline and dismissal. North Eastern National Polytechnic has qualified staff both in training and subordinate staff composed of both male and female. To ensure that there is motivation and productivity amongst its staff, North Eastern National Polytechnic ensures that its employees attend regular workshops and trainings organised by the Institution and other stakeholders like the National Treasury, Kenya Association Technical Training Institutions (KATTI.)

### **4. Market place practices-**

The Polytechnic is guided by the TVETA Act, the PFM Act 2015 and the Public Procurement and Disposal Act 2015 among other key legislations governing public educational learning institutions. We strive to comply all statutory requirements such as ensuring our books are submitted on time, deducting and remitting of statutory deductions like PAYE, NSSF, NHIF.

### **5. Community Engagements-**

As part our corporate social responsibility, the polytechnic has equipped a dispensary constructed by the Garissa Township CDF with furniture and other fittings like water and electricity. The Dispensary serves the community from around the polytechnic as well as the students

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**9. REPORT OF THE COUNCIL**

The Council members submit their report together with the audited financial statements for the year ended June 30, 2021 which show the state of the polytechnic's affairs.

**Principal activities**

The principal activities of the Polytechnic are continue to be provision of technical and vocational training

**Results**

The results of the Polytechnic for the year ended June 30 2021 are set out on page 1 to page 37

**COUNCIL**

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

**Auditors**

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



**Muhammad Noor Hassan.  
Principal/Secretary to Governing Council**

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**10. STATEMENT OF COUNCIL MEMBERS' RESPONSIBILITIES**

Section 81 of the Public Finance Management Act, 2012 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 that Polytechnic, which give a true and fair view of the state of affairs of the Polytechnic at the end of the financial year/period and the operating results of the Polytechnic for that year/period. The council members are also required to ensure that the Polytechnic keeps proper accounting records which disclose with reasonable accuracy the financial position of the Polytechnic. The council members are also responsible for safeguarding the assets of the Polytechnic.

The council members are responsible for the preparation and presentation of the Polytechnic's financial statements, which give a true and fair view of the state of affairs of the Polytechnic for and as at the end of the financial year ended on June 30, 2021. 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 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 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 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 Public Finance Management Act, 2012 and the Technical and Vocational Education and Training Act, 2013. The council members are of the opinion that the Polytechnic's financial statements give a true and fair view of the state of Polytechnic's transactions during the financial year ended June 30, 2021, and of the Polytechnic's financial position as at that date. The council members further confirm the completeness of the accounting records maintained for the Polytechnic, which have been relied upon in the preparation of the 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 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 Polytechnic's financial statements were signed on 29-6-2021 on behalf of the Governing Council by:

Name Mohamed S. Abdel  
Signature [Handwritten Signature]

Name Muhamad Nasser  
Signature [Handwritten Signature]

Chairperson of the Council

Principal

# REPUBLIC OF KENYA



OFFICE OF THE AUDITOR-GENERAL

*Enhancing Accountability*

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NAIROBI

## **REPORT OF THE AUDITOR-GENERAL ON NORTH EASTERN NATIONAL POLYTECHNIC FOR THE YEAR ENDED 30 JUNE, 2021**

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### **PREAMBLE**

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

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

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

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

### **REPORT ON THE FINANCIAL STATEMENTS**

#### **Qualified Opinion**

I have audited the accompanying financial statements of North Eastern National Polytechnic set out on pages 1 to 33, which comprise of the statement of financial position

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*Report of the Auditor-General on North Eastern National Polytechnic for the year ended 30 June, 2021*

as at 30 June, 2021, and the statement of financial performance, statement of changes in net assets, statement of cash flows and the statement of comparison of budget and actual amounts for the year then ended, and a summary of significant accounting policies and other explanatory information in accordance with the provisions of Article 229 of the Constitution of Kenya and Section 35 of the Public Audit Act, 2015. I have obtained all the information and explanations which, to the best of my knowledge and belief, were necessary for the purpose of the audit.

In my opinion, except for the effect of the matters described in the Basis for Qualified Opinion section of my report, the financial statements present fairly, in all material respects, the financial position of the North Eastern National Polytechnic as at 30 June, 2021, and of its financial performance and its cash flows for the year then ended, in accordance with International Public Sector Accounting Standards (Accrual Basis) and comply with the Technical and Vocational Education and Training Act, 2013 and the Public Finance Management Act, 2012.

### **Basis for Qualified Opinion**

#### **1. Unsupported Expenditure**

The statement of financial performance reflects use of goods and services expenditure of Kshs.13,219,000 which, as disclosed in Note 8 to the financial statements includes boarding equipment and stores balance of Kshs.1,527,160 and tuition expenses amounting to Kshs.2,268,652 both totalling Kshs.3,795,812. However, there were no records showing that the boarding equipment and stores purchased were inspected and accepted by an Inspection and Acceptance Committee. The supplies were not received and issued vide receipt Note (S13) and issue Note (S11) respectively. Further, payment vouchers for tuition expenses amounting to Kshs.1,903,660 were not supported with quotation, opening and evaluation minutes, inspection and acceptance committee reports, S13 and S11.

Consequently, the accuracy, validity and completeness of use of goods and services of Kshs.3,795,812 could not be confirmed.

#### **2. Receivables from Exchange Transactions**

The statement of financial position and as disclosed in Note 16 to the financial statements reflects receivables from exchange transactions totalling Kshs.12,878,982 for the year. However, aging analysis for the receivables was not prepared. It was, therefore, not possible to confirm whether the Polytechnic was effectively collecting outstanding debts and especially from the students. Further, the institution does not have a debt collection and provision for bad and doubtful debts policies.

In the circumstances, the accuracy and recoverability of outstanding debtors amounting to Kshs.12,878,982 could not be confirmed.

### **3. Unsupported Property, Plant and Equipment**

The statement of financial position as at 30 June, 2021 reflects property plant and equipment balance of Kshs.1,687,550,809. This represents an increase of Kshs.1,117,735,359 from Kshs.569,815,450 as at 30 June, 2020. The increase was as a result of revaluation of assets during the year under review. A review of the property, plant and equipment schedule set out in Note 19 (a) to the financial statements and the assets valuation report revealed the following anomalies:

- (i) The Management did not maintain a fixed assets register;
- (ii) The Management did not provide ownership documents for its land;
- (iii) A logbook for one motor vehicle was not provided for audit review;
- (iv) According to the valuation report, the Polytechnic sits on 66.7 acres of land. The report however indicates that for the purposes of valuation, land element is a portion of the area currently occupied with the buildings. It is therefore clear that some part of the land of unknown size not currently occupied with buildings was not valued; and
- (v) The Management did not have an assets depreciation policy hence the basis of the method of depreciation and rates used could not be confirmed. Further, the depreciation rates used are not consistent with best practice.

Consequently, the accuracy, ownership and completeness of property plant and equipment balance of Kshs.1,687,550,809 could not be confirmed.

### **4. Un-supported Prior Year Adjustments**

The statement of changes in net assets for the year ended 30 June, 2021 reflects a negative prior year adjustment of Kshs.6,441,021. The explanatory note indicates that the adjustments relate to over-statement of non-current assets. However, journal vouchers were not provided to support the adjustments.

In the circumstances, the accuracy and completeness of negative prior year adjustments of Kshs.6,971,902 could not be confirmed.

### **5. Inaccuracy in Cash and Cash Equivalentents**

The statement of financial performance reflects a deficit of Kshs.18,592,420. However, Note 23 to the financial statements on reconciliation of cash generated from operations reflects a deficit of negative Kshs.25,817,921 resulting to an unreconciled difference of Kshs.7,225,501. This implies that the reconciliation of cash generated from operations is based on incorrect deficit for the year under review. Further the working capital adjustments for account movement balances for inventory, receivables and payables are not reflected in the reconciliation.

In the circumstances, the accuracy and completeness of cash and cash equivalents balance of Kshs.8,531,775 could not be confirmed.

The audit was conducted in accordance with International Standards of Supreme Audit Institutions (ISSAIs). I am independent of the North Eastern National Polytechnic Management in accordance with ISSAI 130 on Code of Ethics. I have fulfilled other ethical responsibilities in accordance with the ISSAI and in accordance with other ethical requirements applicable to performing audits of financial statements in Kenya. I believe that the audit evidence I have obtained is sufficient and appropriate to provide a basis for my qualified opinion.

### **Key Audit Matters**

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

### **Other Matter**

#### **Budgetary Control and Performance**

The statement of comparison of budget and actual amounts reflects the final revenue budget for the year under review of Kshs.94,000,000. However, actual amount realized during the year was Kshs.55,531,514 resulting to a shortfall of Kshs.38,468,486 or 41% of the budget.

In addition, the Management had a budgeted expenditure of Kshs.94,000,000 against actual expenditure of Kshs.41,790,205 resulting to under-absorption of Kshs.52,209,795 or 56% of the budget.

Although Management attributed the shortfall in revenue to reduction in the number of students applying for various courses as well as under funding by the State Department for Vocational and Technical Training and shortened school terms which led to scaling down of expenditure, Management should have considered adjusting the projected revenue budget after intake to make the budget more realistic.

Further, failure by Management to fully absorb the budgeted funds may have impacted negatively on service delivery to the public.

## **REPORT ON LAWFULNESS AND EFFECTIVENESS IN USE OF PUBLIC RESOURCES**

### **Conclusion**

As required by Article 229(6) of the Constitution, based on the audit procedures performed, except for the matters described in the Basis for Conclusion on Lawfulness and Effectiveness in Use of Public Resources section of my report, I confirm that nothing

else has come to my attention to cause me to believe that public resources have not been applied lawfully and in an effective way.

## **Basis for Conclusion**

### **1. Non-compliance with the Law on Ethnic Composition**

A review of staff records provided for audit review indicated that the Polytechnic had a total of twenty-five (25) permanent employees as at 30 June, 2021 out of whom sixteen(16) or 64% were from the dominant community in the region. This is contrary to Section 7(2) of the National Cohesion and Integration Act, 2008 which provides that no public establishment shall have more than one third of its staff from the same ethnic community.

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

### **2. Enterprise Resource Planning (ERP) System**

The Polytechnic entered into a contract agreement with a supplier for purchase and installation of an Enterprise Resource Planning (ERP) System with 9 modules for the institution at a contract sum of Kshs.4,708,000. However, review of documents provided for audit review revealed the following anomalies:

- (i) There was no documentary evidence provided to support the procurement method used.
- (ii) The ERP system was not factored in the procurement plan and budget estimates for the year under review.
- (iii) Payment for the system was not supported with Inspection and Acceptance Committee report or installation and commissioning report.
- (iv) Library and short messages (SMS) Modules had not been installed though they were part of the agreement and cost the institution an amount of Kshs.464,000.

It was further noted that although raising of purchase requisitions, processing of the purchase orders and the goods received notes are done in the ERP system, opening, evaluation, eventual award of tenders and approval of payments are done outside the system.

In the circumstances, it was not possible to confirm whether the Management obtained value for money in the acquisition of the ERP system.

The audit was conducted in accordance with ISSAI 4000. The standard requires that I comply with ethical requirements and plan and perform the audit to obtain assurance about whether the activities, financial transactions and information reflected in the financial statements are in compliance, in all material respects, with the authorities that

govern them. I believe that the audit evidence I have obtained is sufficient and appropriate to provide a basis for my conclusion.

## REPORT ON EFFECTIVENESS OF INTERNAL CONTROLS, RISK MANAGEMENT AND GOVERNANCE

### Conclusion

As required by Section 7(1)(a) of the Public Audit Act, 2015, based on the audit procedures performed, except for the matters described in the Basis for Conclusion on Effectiveness of Internal Controls, Risk Management and Governance section of my report, I confirm that, nothing else has come to my attention to cause me to believe that internal controls, risk management and overall governance were not effective.

### Basis for Conclusion

#### 1. Weakness in Internal Controls

Examination of sampled payment vouchers revealed weaknesses in enforcement of internal controls designed for ensuring effective administration of public funds. As a result of weaknesses in enforcement of internal controls, payments totalling to Kshs.1,553,880 were made without authorization by the accounting officer.

Further, it was noted that there was inadequate segregation of duties in the finance, accounts and human resource departments. The Finance Officer receives and records fees payment documents, prepares payment vouchers, maintains petty cash, reviews bank reconciliation statements and prepares payroll among other responsibilities

In the circumstances, existence of effective internal controls could not be confirmed.

#### 2. Lack of Approved Staff Establishment

The Management did not maintain an approved staff establishment that indicates the optimal number of staff for each category, the number in post and the variance.

In the circumstances, it was not possible to ascertain whether the Management was operating within optimal levels of staff establishment.

#### 3. Lack of Risk Management Policy

Review of records, indicated that the Management had not established a risk management system contrary to Regulation 165(1) of the Public Finance Management (National Government) Regulations, 2015 which requires all heads of public institutions to develop and implement a risk management framework as one way of establishing an accountable and innovative public service.

In the circumstances, existence of effective risk management system could not be confirmed.

The audit was conducted in accordance with ISSAI 2315 and ISSAI 2330. The standards require that I plan and perform the audit to obtain assurance about whether effective processes and systems of internal 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 the 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 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 the Polytechnic's financial reporting process, reviewing the effectiveness of how the Management monitors compliance with relevant legislative and regulatory requirements, ensuring that effective processes and systems are in place to address key roles and responsibilities in relation to governance and risk management, and ensuring the adequacy and effectiveness of the control environment.

### **Auditor-General's Responsibilities for the Audit**

The audit objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes my opinion in accordance with the provisions of Section 48 of the Public Audit Act, 2015 and submit the audit report in compliance with Article 229(7) of the Constitution. Reasonable assurance is a high level of assurance but is not a guarantee that an audit conducted in accordance with ISSAIs will always detect a material misstatement and weakness when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could

reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

In addition to the audit of the financial statements, a compliance audit is planned and performed to express a conclusion about whether, in all material respects, the activities, financial transactions and information reflected in the financial statements are in compliance with the authorities that govern them and that public resources are applied in an effective way, in accordance with the provisions of Article 229(6) of the Constitution and submit the audit report in compliance with Article 229(7) of the Constitution.

Further, in planning and performing the audit of the financial statements and audit of compliance, I consider internal control in order to give an assurance on the effectiveness of internal controls, risk management and governance processes and systems in accordance with the provisions of Section 7(1)(a) of the Public Audit Act, 2015 and submit the audit report in compliance with Article 229(7) of the Constitution. My consideration of the internal control would not necessarily disclose all matters in the internal control that might be material weaknesses under the ISSAIs. A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements caused by error or fraud in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions.

Because of its inherent limitations, internal control may not prevent or detect misstatements and instances of non-compliance. Also, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the Polytechnic'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 the Polytechnic's ability to continue to sustain its services. If I conclude that a material

uncertainty exists, I am required to draw attention in the auditor's report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify my opinion. My conclusions are based on the audit evidence obtained up to the date of my audit report. However, future events or conditions may cause the Polytechnic to cease to continue to sustain its services.

- Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.
- Obtain sufficient appropriate audit evidence regarding the financial information and business activities of the Polytechnic to express an opinion on the financial statements.
- Perform such other procedures as I consider necessary in the circumstances.

I communicate with the Management regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal 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**

**19 July, 2022**

**NORTH EASTERN NATIONAL POLYTECHNIC**  
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**FOR THE YEAR ENDED 30 JUNE 2021**

**11. STATEMENT OF FINANCIAL PERFORMANCE FOR THE YEAR ENDED 30 JUNE 2021**

	Notes	2020-2021	2019-2020
		Kshs	Kshs
<b>Revenue from non-exchange transactions</b>			
Transfers from the National Government–grants	5	32,902,500	55,345,730
		<b>32,902,500</b>	<b>55,345,730</b>
<b>Revenue from exchange transactions</b>			
Rendering of services- Fees from students	6	21,379,441	9,078,342
Other income	7	1,249,573	5,389,539
<b>Revenue from exchange transactions</b>		<b>22,629,014</b>	<b>14,467,881</b>
<b>Total revenue</b>		<b>55,531,514</b>	<b>69,813,611</b>
<b>Expenses</b>			
Use of goods and services	8	13,219,000	1,573,886
Employee costs	9	14,676,939	15,325,518
Remuneration of Council	10	638,000	1,605,600
Depreciation and amortization expense	11	32,333,729	4,514,850
Repairs and maintenance	12	4,093,815	5,252,157
General expenses	13	4,752,769	26,882,313
Grants and Subsidies	14	4,409,682	9,800,970
<b>Total expenses</b>		<b>74,123,934</b>	<b>64,955,294</b>
<b>Net Surplus for the year (Deficit)</b>		<b>(18,592,420)</b>	<b>4,858,317</b>

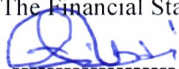
The notes set out on pages 6 to 34 form an integral part of the Annual Financial Statements.

**NORTH EASTERN NATIONAL POLYTECHNIC  
ANNUAL REPORT AND FINANCIAL STATEMENTS  
FOR THE YEAR ENDED 30 JUNE 2021**

**12. STATEMENT OF FINANCIAL POSITION AS AT 30 JUNE 2021**

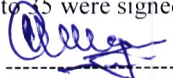
	Notes	2020-2021	2019-2020
		Kshs.	Kshs.
<b>Assets</b>			
<b>Current assets</b>			
Cash and cash equivalents	15	8,531,775	9,195,548
Receivables from exchange transactions	16	12,878,982	8,202,677
Receivables from Non-Exchange transactions	17	781,001	
Inventories	18	98,567	123,780
<b>Total Current Assets</b>		<b>22,290,325</b>	<b>17,522,005</b>
<b>Non-current assets</b>			
Property, Plant and equipment	19	1,687,550,809	569,815,450
Intangible Assets	20 (b)	4,001,800	
<b>Total Non-Current Assets</b>		<b>1,691,552,609</b>	<b>569,815,450</b>
<b>Total assets</b>		<b>1,713,842,934</b>	<b>587,337,455</b>
<b>Liabilities</b>			
<b>Current liabilities</b>			
Trade and other payables from exchange transactions	21	7,117,140	4,941,108
<b>Total Current Liabilities</b>		<b>7,117,140</b>	<b>4,941,108</b>
<b>Non-current liabilities</b>			
Total liabilities		7,117,140	4,941,108
<b>Net assets</b>		<b>1,706,725,794</b>	<b>582,396,347</b>
Accumulated surplus		(37,456,324)	(18,863,904)
Revaluation reserve		1,149,362,888	-
Capital Fund		594,819,230	601,260,251
<b>Total net assets and liabilities</b>		<b>1,713,842,934</b>	<b>587,337,455</b>

The Financial Statements set out on pages 1 to 35 were signed on behalf of the Council by:



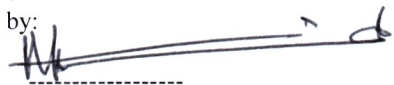
Chairman of Council

Date: 29/6/22



Finance Officer  
ICPAK No 12425

Date: 29<sup>th</sup> June 20 22



Principal

Date: 29-6-22

**NORTH EASTERN NATIONAL POLYTECHNIC**  
**ANNUAL REPORT AND FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2021**

**STATEMENT OF CHANGES IN NET ASSET FOR THE YEAR ENDED 30 JUNE 2021**

	Revaluation reserve	Fair value adjustment reserve	Retained earnings	Capital/Development Grants/Fund	Total
<b>At July 1, 2019</b>	-	-	(23,722,221)	72,282,752	48,560,531
Total comprehensive income	-	-	4,858,317	-	4,858,317
Prior year adjustments	-	-	-	528,977,499	528,977,499
<b>At June 30, 2020</b>	-	-	(18,863,904)	601,260,251	582,396,347
<b>At July 1, 2020</b>	-	-	(18,863,904)	601,260,251	582,396,347
Revaluation gain	1,149,362,888	-	-	-	1,149,362,888
Total comprehensive income	-	-	(18,592,420)	-	(18,592,420)
Capital/Development grants received during the year	-	-	-	-	-
Prior year adjustment*	-	-	-	(6,441,021)	(6,441,021)
<b>At June 30, 2021</b>	<b>1,149,362,888</b>	-	<b>(37,456,324)</b>	<b>594,819,230</b>	<b>1,706,725,794</b>

Revaluation relates to assets valuation at the beginning of the FY 2020/2021

Prior year adjustment relates to an overstatement of non-current assets in prior year .

**13. STATEMENT OF CASH FLOWS FOR THE YEAR ENDED 30 JUNE 2021**

		<b>2020-2021</b>	<b>2019-20</b>
	Note	<b>Kshs</b>	<b>Kshs</b>
<b>Cash flows from operating activities</b>			
<b>Receipts</b>			
Transfers from other Government entities/Govt. grants	5	32,902,500	55,345,730
Rendering of services- Fees from students	6	8,787,949	9,078,342
Other income,	7	1,249,573	5,389,539
<b>Total Receipts</b>		<b>42,940,022</b>	<b>69,813,611</b>
<b>Payments</b>			
Compensation of employees	9	14,676,939	15,325,518
Use of goods and services (net of payables)	8	13,219,000	1,573,886
Remuneration of Council	10	638,000	1,605,600
Repairs and maintenance	12	3,562,165	5,252,157
General expenses	13	4,752,769	26,882,313
Grants and Subsidies	14	4,409,682	9,800,970
<b>Total Payments</b>		<b>41,258,555</b>	<b>60,440,444</b>
<b>Net cash flows from operating activities</b>		<b>1,681,467</b>	<b>9,373,167</b>
<b>Cash flows from investing activities</b>			
Intangible assets	20 (b)	(2,345,240)	-
Increase in non-current receivables			-
<b>Net cash flows used in investing activities</b>		<b>(2,345,240)</b>	<b>-</b>
<b>Cash flows from financing activities</b>			
Repayment of borrowings	22	-	(4,957,063)
<b>Net cash flows used in financing activities</b>		<b>-</b>	<b>-</b>
<b>Net increase/(decrease)in cash and cash equivalents</b>			
Cash and cash equivalents at 1JULY 2020	15	9,195,548	4,779,444
<b>Cash and cash equivalents at 30 JUNE 2021</b>	15	<b>8,531,775</b>	<b>9,195,548</b>

**NORTH EASTERN NATIONAL POLYTECHNIC**  
**ANNUAL REPORT AND FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2021**

**14. STATEMENT OF COMPARISON OF BUDGET AND ACTUAL AMOUNTS FOR THE YEAR ENDED 30 JUNE 2021**

	Original budget	Adjustments	Final budget	Actual on comparable basis	Performance difference	
	2020-2021	2020-2021	2020-2021	2020-2021	2020-2021	%
Revenue	Kshs	Kshs	Kshs	Kshs	Kshs	
Transfers from other Govt entities Govt grants	39,000,000	-3,944,000	35,056,000	32,902,500	2,153,500	6.1 a
Rendering of services- Fees from students	58,944,000	-	58,944,000	21,379,441	37,564,559	64 b
Other Income	-	-	-	1,249,573	(1,249,573)	100 c
<b>Total income</b>	<b>97,944,000</b>	<b>-3,944,000</b>	<b>94,000,000</b>	<b>55,531,514</b>	<b>38,468,486</b>	
Expenses						
Compensation of employees	14,408,000	-	14,408,000	14,676,939	(268,939)	1.9 d
Use of Goods and services ( EWC)	8,507,000	-	8,507,000	13,219,000	(4,712,000)	155 e
Repairs and maintenance	12,610,000	-	12,610,000	4,093,815	8,516,185	67.5 f
General Expenses	58,219,000	-3,944,000	54,275,000	4,752,769	49,522,231	91 g
Remuneration of Council	4,200,000	-	4,200,000	638,000	3,562,000	84 h
Grants and subsidies	-	-	-	4,409,682	(4,409,682)	100
<b>Total expenditure</b>	<b>97,944,000</b>	<b>-3,944,000</b>	<b>94,000,000</b>	<b>41,790,205</b>	<b>52,209,795</b>	
<b>Surplus (deficit) for the period</b>				<b>13,741,308</b>		

**Budget notes**

- a) We had received slightly less students than anticipated hence the capitation was less than budgeted.
- b) We had only received a total of 381 students out of the budgeted figure of 1300
- c) Other income relate to the hiring out of facilities
- d) Less number of Contracted trainers were employed due to covid 19 disruptions
- e) This is largely contributed to the re classification of vote heads from general expenses to use of goods inoder to conform with the revised template
- f) Due to the shortened terms, the expenses incurred drastically reduced compared to the budgeted figure.
- g) Again this is largely contributed by the re classification of several vote heads that had previously been captured under general expenses to use of goods and services hnce the huge performance difeerence.
- h) Due to the shortened terms, the expenses incurred drastically reduced compared to the budgeted figure.

**15. NOTES TO THE FINANCIAL STATEMENTS**

**1. GENERAL INFORMATION**

North Eastern National Polytechnic is established by and derives its authority and accountability from the Technical and Vocational Education and Training Act, 2013. The Polytechnic is wholly owned by the Government of Kenya and is domiciled in Kenya. The Polytechnic's principal activity is provision of Technical and Vocational training programmes.

**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 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 Note 5.

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

The financial statements have been prepared in accordance with the Public Finance Management Act, 2012, the Technical and Vocational Education and Training Act, 2013, 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 2021**

<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.

**ii. New and amended standards and interpretations in issue but not yet effective in the year ended 30 June 2020**

<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></p> <p>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 entity's future cash flows.</p> <p>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 entity'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></p> <p>The objective of this Standard is to improve the relevance, faithful representativeness and comparability of the information that a reporting entity 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> <p>(a) The nature of such social benefits provided by the entity;</p> <p>(b) The key features of the operation of those social benefit schemes; and</p> <p>(c) The impact of such social benefits provided on the entity's financial performance, financial position and cash flows.</p>
<p>Amendments to Other IPSAS resulting from IPSAS 41, Financial Instruments</p>	<p><b>Applicable: 1st January 2022:</b></p> <p>a) Amendments to IPSAS 5, to update the guidance related to the components of borrowing costs which were inadvertently omitted when IPSAS 41 was issued.</p>

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<b>Standard</b>	<b>Effective date and impact:</b>
	<ul style="list-style-type: none"> <li>b) Amendments to IPSAS 30, regarding illustrative examples on hedging and credit risk which were inadvertently omitted when IPSAS 41 was issued.</li> <li>c) Amendments to IPSAS 30, to update the guidance for accounting for financial guarantee contracts which were inadvertently omitted when IPSAS 41 was issued.</li> <li>d) Amendments to IPSAS 33, to update the guidance on classifying financial instruments on initial adoption of accrual basis IPSAS which were inadvertently omitted when IPSAS 41 was issued.</li> </ul>
Other Improvements to IPSAS	<p><b>Applicable: 1<sup>st</sup> January 2021:</b></p> <ul style="list-style-type: none"> <li>a) Amendments to IPSAS 13, to include the appropriate references to IPSAS on impairment, in place of the current references to other international and/or national accounting frameworks</li> <li>b) IPSAS 13, Leases and IPSAS 17, Property, Plant, and Equipment. Amendments to remove transitional provisions which should have been deleted when IPSAS 33, First Time Adoption of Accrual Basis International Public Sector Accounting Standards (IPSASs) was approved</li> <li>c) IPSAS 21, Impairment of Non-Cash-Generating Assets and IPSAS 26, Impairment of Cash Generating Assets. Amendments to ensure consistency of impairment guidance to account for revalued assets in the scope of IPSAS 17, Property, Plant, and Equipment and IPSAS 31, Intangible Assets.</li> <li>d) IPSAS 33, First-time Adoption of Accrual Basis International Public Sector Accounting Standards (IPSASs). Amendments to the implementation guidance on deemed cost in IPSAS 33 to make it consistent with the core principles in the Standard.</li> </ul>

**iii. Early adoption of standards**

The entity did not early – adopt any new or amended standards in year 2020.

### **3 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 entity 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 entity 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 entity.

###### **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.

###### **Dividends**

Dividends or similar distributions must be recognized when the shareholder's or the entity's right to receive payments is established.

**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 2020/2021 was approved by the Council. 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 entity upon receiving the respective approvals in order to conclude the final budget. Accordingly, the entity recorded no additional appropriations for the FY 2020/2021.

The entity'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 17 of these financial statements.

**c) Taxes**

**Current income tax**

The entity is exempt from paying income taxes.

**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 xxx 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 entity 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.

**f) Leases**

Finance leases are leases that transfer substantially the entire risks and benefits incidental to ownership of the leased item to the Entity. 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 Entity 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 Entity 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 Entity. Operating lease payments are recognized as an operating expense in surplus or deficit on a straight-line basis over the lease term.

**g) 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

**h) Research and development costs**

The Entity expenses research costs as incurred. Development costs on an individual project are recognized as intangible assets when the Entity 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.

**i) 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 Entity 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**

Non-derivative financial assets with fixed or determinable payments and fixed maturities are classified as held to maturity when the Entity 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 Entity assesses at each reporting date whether there is objective evidence that a financial asset or an entity of financial assets is impaired. A financial asset or a entity 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 entity of financial assets that can be reliably estimated. Evidence of impairment may include the following indicators:

- The debtors or a entity 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 Entity 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 cost

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 Entity.

**j) Provisions**

Provisions are recognized when the Entity 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 Entity 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 Entity 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 Entity 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 Entity 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

**k) Nature and purpose of reserves**

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

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

The 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 Polytechnic provides retirement benefits for its employees and directors. Defined contribution plans are post employment benefit plans under which an entity pays fixed contributions into a separate entity (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.

**p) Related parties**

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

**q) Service concession arrangements**

The Entity 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 Entity 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

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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 Entity 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 imprest 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.

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

The preparation of the Entity'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 Entity 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 Entity. 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 Entity
- 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.

**5 TRANSFERS FROM NATIONAL GOVERNMENT MINISTRIES**

<b>Description</b>	<b>2020-2021</b>	<b>2020-2019</b>
	<b>KShs</b>	<b>KShs</b>
<b>Unconditional grants</b>		
Operational grant /Capitation	28,402,500	42,798,730
Other grants(Development)	-	2,547,000
Deferred Capitation grants	-	-
	<b>28,402,500</b>	<b>45,345,730</b>
<b>Conditional grants</b>		
Grants for Mentored Institutions(TTIs)	4,500,000	10,000,000
<b>Total government grants and subsidies</b>	<b>32,902,500</b>	<b>55,345,730</b>

**6 RENDERING OF SERVICES**

<b>Description</b>	<b>2020-2021</b>	<b>2019-2020</b>
	<b>KShs</b>	<b>KShs</b>
Fees from students	21,379,441	2,405,335
Activity fees	-	111,290
Library fees	-	42,670
Admission fees	-	408,901
Attachment fees	-	171,946
Boarding fees	-	440,950
Registration fees	-	154,150
Contingencies	-	196,910
Development levy	-	101,000
Electricity, Water and Conservancy fees	-	192,810
Insurance fees	-	90,310
Internet fees	-	82,950
Local Tours and travels	-	1,852,580
Medical fees	-	72,750
Personal Emoluments fees	-	824,710
Repairs and Maintenance fees	-	274,600
Other fees collections(packages, advanced packages and student council, caution)	-	22,230
Higher Education Loans Board Bursary and Loans	-	1,632,250
Bursaries	-	-
<b>Total revenue from the rendering of services</b>	<b>21,379,441</b>	<b>9,078,342</b>

**Fees actually paid is Kshs 8,787,949**

**Fees from students is net of advance payments for July 2021 ( 1/3 of fees payable in May-July Intake Kshs 862,470.**

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**7 OTHER INCOME**

<b>Description</b>	<b>2020-2021</b>	<b>2019-2020</b>
	<b>KShs</b>	<b>KShs</b>
Income from sale of tender	-	21,000
Production income and Hire of facilities	1,249,573	5,204,939
School based programme	-	141,600
Driving	-	22,000
<b>Total other income</b>	<b>1,249,573</b>	<b>5,389,539</b>

**8 USE OF GOODS AND SERVICES**

<b>Description</b>	<b>2020-2021</b>	<b>2019-2020</b>
	<b>KShs</b>	<b>KShs</b>
Utilities Supplies and Services	1,628,541	1,573,886
Attachment fees	373,400	-
Boarding Equipment and stores	1,527,160	-
Insurance	1,590,948	-
Development expenses	55,800	-
Internet expenses	494,643	-
Local Tours and travel	4,012,842	-
Production expenses	311,600	-
Registration expense	162,000	-
School based programme expenses	9,214	-
Tuition expenses	2,268,652	-
Admission expenses	397,100	-
Driving expenses	79,100	-
Fuel	308,000	-
<b>Total good and services</b>	<b>13,219,000</b>	<b>1,573,886</b>

SEVERAL VOTE HEADS THAT WERE PREVIOUSLY CLASSIFIED UNDER GENERAL EXPENSES IN THE LAST FINANCIAL YEAR HAVE BEEN ADDED TO USE OF GOODS IN THE FY 2020/2021 SO AS TO COMPLY WITH THE REVISED TEMPLATE.

**9 EMPLOYEE COSTS**

	<b>2020-2021</b>	<b>2019-2020</b>
	<b>KShs</b>	<b>KShs</b>
Salaries and wages including (NHIF, PAYE)	14,142,661	14,785,970
NSSF contributions	534,278	539,548
<b>Employee costs</b>	<b>14,676,939</b>	<b>15,325,518</b>

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**10 REMUNERATION OF COUNCIL**

<b>Description</b>	<b>2020-2021</b>	<b>2019-2020</b>
	<b>KShs</b>	<b>KShs</b>
Council Allowances	638,000	1,605,600
<b>Total Council emoluments</b>	<b>638,000</b>	<b>1,605,600</b>

**11 DEPRECIATION AND AMORTIZATION EXPENSE**

<b>Description</b>	<b>2020-2021</b>	<b>2019-2020</b>
	<b>KShs</b>	<b>KShs</b>
Property, plant and equipment	31,627,529	4,514,850
Amortization of ERP	706,200	-
<b>Total depreciation and amortization</b>	<b>32,333,729</b>	<b>4,514,850</b>

**12 REPAIRS AND MAINTENANCE**

<b>Description</b>	<b>2020-21</b>	<b>2019-20</b>
	<b>KShs</b>	<b>KShs</b>
Property, Motor vehicles, machinery	4,093,815	5,252,157
<b>Total repairs and maintenance</b>	<b>4,093,815</b>	<b>5,252,157</b>

**13 GENERAL EXPENSES**

<b>Description</b>	<b>2020-21</b>	<b>2019-20</b>
	<b>KShs</b>	<b>KShs</b>
Activity expenses	3,066,704	5,364,180
Attachment expenses	-	205,000
Boarding and equipment expenses	-	2,627,698
Contingency expenses	1,664,265	4,455,475
Imprest for operations and Staff Imprest	-	130,000
Insurance	-	428,655
Development Expenses	-	1,788,557
Internet	-	269,450
Local tours and travel expenses	-	5,399,087
Production expenses	-	1,633,663
Registration expenses	-	311,000
School based expenses	-	624,216
Tuition fees expenses	-	3,298,882
Admission Expenses	-	325,600
Driving	-	-
Fuel	-	-
Other general expenses(medical, Student Council, Exam related exp)	21,800	20,850
<b>Total general expenses</b>	<b>4,752,769</b>	<b>26,882,313</b>

**N/B Several vote heads which had been previously categorised under General Expenses in the last financial year have been reclassified under Use of Goods and Services so as to comply with the revised template.**

#### 14 GRANTS AND SUBSIDIES

Description	2020-2021	2019-2020
	KShs	KShs
Furniture for Mentored Institutions (TTIs)		9,800,970
Transfers to mentored institutions	4,409,682	-
<b>Total grants and subsidies</b>	<b>4,409,682</b>	<b>9,800,970</b>

#### 15 CASH AND CASH EQUIVALENTS

Description	2020-21	2019-20
	KShs	KShs
Main Account	8,531,775	9,174,140
Development Account	-	21,408
<b>Total cash and cash equivalents</b>	<b>8,531,775</b>	<b>9,195,548</b>

#### DETAILED ANALYSIS OF CASH AND CASH EQUIVALENTS

Financial institution	Account number	2020-2021	2019-2020
		KShs	KShs
<b>a) Main account</b>			
Kenya Commercial bank	110780226	8,531,775	9,174,140
<b>Sub- total</b>			<b>9,174,140</b>
<b>b) Development account</b>			
Kenya Commercial bank	1107469619	-	21,408
<b>Sub- total</b>			<b>21,408</b>
<b>Grand total</b>		<b>8,531,775</b>	<b>9,195,548</b>

#### 16 RECEIVABLES FROM EXCHANGE TRANSACTIONS

Description	2020-21	2019-20
	KShs	KShs
<b>Current receivables</b>		
Student debtors	12,878,982	8,202,677
Other exchange debtors	-	-
<b>Total current receivables</b>	<b>12,878,982</b>	<b>8,202,677</b>
<b>Non-current receivables</b>		-
<b>Total</b>		-
Current portion transferred to current receivables	-	-
<b>Total non-current receivables</b>	-	-
<b>Total receivables</b>	<b>12,878,982</b>	<b>8,202,677</b>

#### 17 RECEIVABLES FROM NON-EXCHANGE TRANSACTIONS

Description	2020-21	2019-20
	KShs	KShs
<b>Current receivables</b>		
Staff Advances	781,001	-

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<b>Total current receivables</b>	<b>781,001</b>	<b>-</b>
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**18 INVENTORIES**

<b>Description</b>	<b>2020-21</b>	<b>2019-20</b>
	<b>KShs</b>	<b>KShs</b>
Consumable stores	98,567	123,780
<b>Total inventories at the lower of cost and net realizable value</b>	<b>98,567</b>	<b>123,780</b>

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**19 (a) PROPERTY, PLANT AND EQUIPMENT**

Cost	Land	Buildings	Motor vehicles	Furniture and fittings	Computers	Plant and equipment	Total
		Kshs	Kshs	Kshs	Kshs	Kshs	Kshs
At 1 July 2020	-	551,500,000	7,900,000	5,700,000	2,405,000	22,130,000	589,635,000
Additions		-	-	-	-	-	-
Disposals		-	-	-	-	-	-
Valuation (Based on NBV as at 30 June 2020)	280,000,000	(122,367,307)	(767,500)	409,700	1,980,886	990,107,109	1,149,362,888
At 30 <sup>th</sup> June 2021	280,000,000	418,360,193	5,440,000	4,754,700	3,825,836	1,006,797,609	1,719,178,339
Depreciation and impairment	-	5%	2.5%	5%	7%	1%	
Depreciation/Amortisation	-	20,918,010	136,000	237,735	267,808	10,067,976	31,627,529
At 30 June 2021	-	20,918,010	136,000	237,735	267,808	10,067,976	31,627,529
NBV							
30 June 2020	-	540,727,500	6,207,500	4,345,000	1,844,950	16,690,500	569,815,450
30 June 2021	280,000,000	397,442,183	5,304,000	4,516,965	3,558,028	996,729,633	1,687,550,810

Since the assets were revalued at the beginning of the financial year, the carrying amount has excluded the accumulated depreciation from previous years but only net of the current year depreciation.

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**Valuation**

Land and buildings were valued by Ministry of Lands and housing an independent valuer on 1<sup>st</sup> July 2020 on. These amounts were adopted on 1<sup>st</sup> of July 2020.

**20 (a) Property, Plant and Equipment at Cost**

If the freehold land, buildings and other assets were stated on the historical cost basis the amounts would be as follows:

	<b>Cost</b>	<b>Accumulated Depreciation</b>	<b>NBV</b>
	<b>Kshs</b>	<b>Kshs</b>	<b>Kshs</b>
Land	-	-	-
Buildings	551,500,000	38,347,500	513,152,500
Plant and machinery	22,130,000	5,660,800	16,469,200
Motor vehicles, including motorcycles	7,900,000	1,890,000	6,010,000
Computers and related equipment	2,405,000	728,470	1,676,530
Office equipment, furniture, and fittings	5,700,000	1,640,000	4,060,000
<b>Total</b>	<b>589,635,000</b>	<b>48,266,770</b>	<b>541,368,230</b>

**( b ) INTANGIBLE ASSETS-SOFTWARE**

<b>Description</b>	<b>2020-2021</b>	<b>2019-2020</b>
	<b>KShs</b>	<b>KShs</b>
<b>Cost</b>		
<b>At beginning of the year</b>	-	-
Additions	4,708,000	-
<b>At end of the year</b>	-	-
Additions-internal development	-	-
<b>At end of the year</b>	<b>4,708,000</b>	<b>-</b>

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<b>Amortization and impairment</b>		
<b>At beginning of the year</b>	-	-
Amortization for the year	(706,200)	-
<b>At end of the year</b>	(706,200)	-
Impairment loss	-	-
<b>At end of the year</b>	-	-
<b>NBV</b>	<b>4,001,800</b>	-

**N/B** The software acquired costed Kshs 4,708,000 but the only amount which had been paid up to 30<sup>th</sup> June 2021 was Kshs 2,345,240

## 21 TRADE AND OTHER PAYABLES FROM EXCHANGE TRANSACTIONS

Description	2020-21	2019-20
	KShs	KShs
Trade payables	6,829,650	1,243,753
Fees paid in advance	287,490	3,697,355
Other payables	-	-
<b>Total trade and other payables</b>	<b>7,117,140</b>	<b>4,941,108</b>

## 22 BORROWINGS

Description	2020-21	2019-20
	KShs	KShs
Balance at beginning of the period	-	4,957,063
Repayments of external borrowings during the year	-	-
Repayments of domestics borrowings during the year	-	4,957,063
Balance at end of the period	-	-

## 23 CASH GENERATED FROM OPERATIONS

	2020-2021	2019-2020
	Kshs.	Kshs.
<b>Surplus for the year before tax</b>	(25,817,921)	4,858,317
<b>Adjusted for:</b>		
Depreciation	32,333,729	4,514,850
Finance cost		-
<b>Working Capital adjustments</b>		
Decrease/(Increase) in inventory	-	47,252
Increase in receivables	-	(5,935,532)
Decrease in Receivables from non-exchange transactions	-	2,151,089
Increase in payables	-	900,267
<b>Net cash flow from operating activities</b>	<b>6,515,808</b>	<b>6,536,243</b>

## 24 FINANCIAL RISK MANAGEMENT

The entity's activities expose it to a variety of financial risks including credit and liquidity risks and effects of changes in foreign currency. The company'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 company 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 entity's financial risk management objectives and policies are detailed below:

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**(i) Credit risk**

The entity 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 company'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 entity's maximum exposure to credit risk without taking account of the value of any collateral obtained is made up as follows:

	<b>Total amount Kshs</b>	<b>Fully performing Kshs</b>	<b>Past due Kshs</b>	<b>Impaired Kshs</b>
<b>At 30 June 2020</b>				
Receivables from exchange transactions	8,202,677	4,901,800	3,300,877	
Receivables from non-exchange transactions				
Bank balances	9,417,733.91			
<b>Total</b>	<b>17,620,410.91</b>	<b>4,901,800</b>	<b>3,300,8776</b>	
<b>At 30 June 2021</b>				
Receivables from exchange transactions	12,878,982	8,202,677	4,676,305	-
Receivables from non-exchange transactions	-			-
Bank balances	8,531,775			-
<b>Total</b>	<b>21,410,757</b>	<b>8,202,677</b>	<b>4,676,305</b>	<b>-</b>

**(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 company has recognised in the financial statements is considered adequate to cover any potentially irrecoverable amounts.

The council sets the Polytechnic'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 entity's directors, who have built an appropriate liquidity risk management framework for the management of the entity's short, medium and long-term funding and liquidity management requirements. The entity manages liquidity risk through continuous monitoring of forecasts and actual cash flows.

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The table below represents cash flows payable by the company under non-derivative financial liabilities by their remaining contractual maturities at the reporting date. The amounts disclosed in the table are the contractual undiscounted cash flows. Balances due within 12 months equal their carrying balances, as the impact of discounting is not significant.

	<b>Less than 1 month</b>	<b>Between 1-3 months</b>	<b>Over 5 months</b>	<b>Total</b>
	<b>Kshs</b>	<b>Kshs</b>	<b>Kshs</b>	<b>Kshs</b>
<b>At 30 June 2020</b>				
Trade payables		2,231,980	2,709,128	4,941,108
Current portion of borrowings				
Provisions				
Deferred income				
Employee benefit obligation				
<b>Total</b>		<b>2,231,980</b>	<b>2,709,128</b>	<b>4,941,108</b>
<b>At 30 June 2021</b>				
Trade payables	-	6,829,650	-	-
Current portion of borrowings	-	-		
Provisions	-	-		
Deferred income	-	-		
Employee benefit obligation	-	-		
<b>Total</b>	<b>-</b>	<b>6,829,650</b>	<b>-</b>	<b>6,829,650</b>

**(iii) Market risk**

The Council has put in place an internal audit function to assist it in assessing the risk faced by the entity 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, equity prices and foreign exchange rates which will affect the entity'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 company'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 entity'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 entity's financial condition may be adversely affected as a result of changes in interest rate levels. The company's interest rate risk arises from bank deposits. This exposes the company to cash flow interest rate risk. The interest rate risk exposure arises mainly from interest rate movements on the company'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.

b) Interest rate risk(continued)

Sensitivity analysis

The entity 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.

## **25 RELATED PARTY BALANCES**

### **Nature of related party relationships**

Entities and other parties related to the entity 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 *entity*, holding 100% of the *entity's* equity interest. The Government of Kenya has provided full guarantees to all long-term lenders of the entity, both domestic and external. Other related parties include:

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- i) The National Government;
- ii) The Parent Ministry;

	<b>2020-2021</b>	<b>2019-2020</b>	
	<b>Kshs</b>	<b>Kshs</b>	
<b>Transactions with related parties</b>			
<b>a) Grants from the Government</b>			
Grants from National Govt.	32,902,500	55,345,730	
Grants from County Govt	-	-	
<b>Total</b>	<b>32,902,500</b>	<b>55,345,730</b>	
<b>Total</b>	<b>32,902,500</b>	<b>55,345,730</b>	

**26 EVENTS AFTER THE REPORTING PERIOD**

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

**27 ULTIMATE AND HOLDING ENTITY**

The entity is a Semi- Autonomous Government Agency under the Ministry of Education (State Department for Technical and Vocational Education). Its ultimate parent is the Government of Kenya.

**28 Currency**

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

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APPENDICES

**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>
<b>Basis for Qualified Opinion</b>					
<b>1</b>	Recognition of revenue on cash basis	This has been resolved in the current financial year	Finance Officer	Resolved	N/A
<b>2</b>	Unsupported Repair and maintenance	This has been partly resolved	Procurement officer	Partly resolved	30 <sup>th</sup> June 2022
<b>3.1</b>	Unsupported Boarding and Equipment Expenses	Has resolved to ensure adequate documentation before payment	Procurement officer	Partly resolved	30 <sup>th</sup> June 2022
<b>3.2</b>	Unsupported Contingency expenses	This relates to airtime allowance given to administrators. They will now be given actual credit cards	Finance Officer	Resolved	N/A
<b>3.3</b>	Unsupported Development expenses	All procurement will be done on competitive bidding	Procurement Officer	Partly resolved	30 <sup>th</sup> June 2022
<b>3.4</b>	Unsupported local tours	Hence forth all staff going out on official duty must bring proper documentation to show proof of expenditure	Finance Officer	Partly resolved	30 <sup>th</sup> June 2022
<b>3.5</b>	Tuition fees	All procured goods and services must follow proper procurement procedures henceforth	Procurement officer	Partly resolved	1 <sup>st</sup> January 2022

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<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>
<b>3.6</b>	Unsupported Council allowances	This was a training organised by the MOE to train all council members in the entire country at a centralised location	Principal	Partly resolved	30 <sup>th</sup> December 2022
<b>4</b>	Property plant and equipment	We contracted a valuer to value our assets and assemble an assets register	Principal	Resolved	N/A
<b>1.1</b>	Budgetary process	Part of the reason for our under absorption of our budget was because of the COVID 19 pandemic that disrupted revenue collection and planned expenditure	Finance Officer	Not yet	30 <sup>th</sup> June 2022
<b>1.2</b>	Irregular recruitment and engagement of casual employees and trainers	All irregular employees are now employed on competitive basis	Deputy Principal (Administration)	Resolved	N/A
<b>1.3</b>	Uncollected furniture for mentored institutions	This was beyond the management's control as some of the institutions have not yet been completed	Principal	Partly resolved	30 <sup>TH</sup> June 2022
<b>1.4</b>	Lack of risk Management Policy and Fraud prevention mechanisms	The management has employed an Internal Auditor who is the secretary to the Audit and Risk Committee.	Principal	Resolved	N/A

Finance Officer

Date.....

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**APPENDIX II: PROJECTS IMPLEMENTED BY THE ENTITY**

**Projects**

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

<b>Project title</b>	<b>Project Number</b>	<b>Donor</b>	<b>Period/ duration</b>	<b>Donor commitment</b>	<b>Separate donor reporting required as per the donor agreement (Yes/No)</b>	<b>Consolidated in these financial statements (Yes/No)</b>
1	N/A					

There were no projects carried out by the Polytechnic in the financial year 2020/2021.

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**APPENDIX III: INTER-ENTITY TRANSFERS**

ENTITY NAME:				
<b>Breakdown of Transfers from the State Department of Technical and Vocational Education</b>				
<b>FY 2020/2021</b>				
a.	Recurrent Grants			
		<u>Bank Statement Date</u>	<u>Amount (KShs)</u>	<u>Indicate the FY to which the amounts relate</u>
		6/11/2020	7,567,500	2020/2021
		10/02/2021	7,567,500	2020/2021
		29/03/2021	5,355,000	2020/2021
		30/06/2021	7,912,500	
		<b>Total</b>	<b>28,402,500</b>	
b.	Development Grants			
		<u>Bank Statement Date</u>	<u>Amount (KShs)</u>	<u>Indicate the FY to which the amounts relate</u>
	For Mentored Institutions			-
		6/11/2020	500,000	2020/2021
		10/02/2021	1,000,000	2020/2021
		22/02/2021	500,000	2020/2021
		29/03/2021	500,000	2020/2021
		03/06/2021	500,000	2020/2021
		03/06/2021	1,000,000	2020/2021
		30/06/2021	500,000	2020/2021
		<b>Total</b>	<b>4,500,000</b>	

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

Finance Officer  
 North Eastern National Polytechnic

Sign  -----