

REPUBLIC OF KENYA



OFFICE OF THE AUDITOR-GENERAL

THE NATIONAL ASSEMBLY
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DATE: 19 SEP 2019

THURSDAY

REPORT

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THE-TABLE:

THE AUDITOR-GENERAL

ON

THE FINANCIAL STATEMENTS OF
NORTH EASTERN NATIONAL
POLYTECHNIC

FOR THE YEAR
ENDED 30 JUNE 2018



North Eastern National Polytechnic
Annual reports and Financial statements 2017/2018



**THE NORTH EASTERN
NATIONAL POLYTECHNIC**

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ANNUAL REPORT AND FINANCIAL STATEMENTS

FOR THE PERIOD ENDED

30 JUNE 2018

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

APPLICATION OF IPSAS 33 (FIRST TIME ADOPTION)

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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 *entity* 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 include

The core functions of North Eastern National Polytechnic is to—

(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.

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(c) Entity Headquarters

MINISTRY OF EDUCATION
STATE DEPARTMENT OF VOCATIONLAL & T.T
TELEPOSTA BUILDING/KENYATTA AVENUE
P. O Box 9853 – 00200, NAIROBI
KENYA

(d) Entity Contacts

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

(e) Entity Bankers

1. Central Bank of Kenya
Haile Selassie Avenue
P.O. Box 60000
City Square 00200
Nairobi, Kenya
2. Kenya Commercial Bank
Garissa Branch
Garissa, Kenya

(f) Independent Auditors

Auditor General
Kenya National Audit Office
Anniversary Towers, University Way
P.O. Box 30084
GOP 00100
Nairobi, Kenya



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KEY ENTITY INFORMATION AND MANAGEMENT (Continued)




(g) Principal Legal Adviser

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

(h) Council Members

Insert each Director's passport-size photo and name, and key profession/academic qualifications	Provide a concise description of each Director's date of birth, key qualifications and work experience
<p style="text-align: center;">– Council Chairman</p>  <p style="text-align: center;">MOHAMMED ADBI SHEIKH</p>	<ul style="list-style-type: none"> • 52 yrs Old, Certified project management professional, APM Group (UK), 2013 • Master's in Business Administration, (HRM & Strg Mgt) UoN 2008 • Certified Public Secretary CPS(K) KASNEB 2006 • Bachelor of Arts BA& Econ, Moi University, 1991
<p style="text-align: center;">- Council Member</p>  <p style="text-align: center;">SHAKIR HUSSEIN MOHAMED</p>	<ul style="list-style-type: none"> • 44 years old, Master of Science (Finance and Investment) from KCA University. • Bachelor of Business Administration-Finance Option from Kenya Methodist University • Certified Public Accountant of Kenya (CPA K)

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<p>- Council Member</p>  <p>HALIMA HUSSEIN SHEIKH</p>	<ul style="list-style-type: none"> • Halima is 49 years old, has Bachelor of Business Management, Human Resource option from Mount Kenya University • Has Diploma in Project Management – Cambridge Association of Managers, United Kingdom • Diploma in Business Administration and Management – The Association of Business Executive, London • Diploma in information technology from the Institute of Commercial Management United Kingdom
<p>- Council Member</p>  <p>ALI HASSAN DUBAT</p>	<ul style="list-style-type: none"> • Hassan is 63 years old and has a Master’s Degree in Special and Inclusive Education from University of Manchester. • Has Bed in Special Education from Kenyatta University. • He once served as Head of a Public Institution. • Currently a proprietor of a private educational establishment at Garissa town.
<p>- Member</p>  <p>HASSAN NOOR</p>	<ul style="list-style-type: none"> • Hassan Noor is 63 years old and has a Higher Diploma in Mechanical Engineering from Mombasa Polytechnic • Has a Mechanical Engineering Technician part III (1987) • Has a Mechanical Engineering Craft part II (1986) • He is a trained Technical teacher from Kenya Technical Teachers College

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- Member



BASHIR HASSAN MURSAL; OGW,

Bashir is 62 years old and has MSc. Project Planning and Management: University of Nairobi,

B. Ed TVET University of Bolton UK,

Diploma in Telecommunications & Final Craft in Building Engineering East African Posts and Telecommunication Training School,

Craft III and final craft building in Plumbing option & Diploma in Technical Education, Kenya Technical Teachers College,

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(i) Board Committees

Name of the Committee	Members
a) Finance, infrastructure and HRM committee	1. Shakir Hussein - Chairman 2. Hassan Noor - member 3. Dr.Abdirahman Ali. - DTVET 4. Joshua Munywoki - Principal 5. Vincent Ohana - Finance
b) Audit/Risk Management committee	1. Arab Mohamed - Chairman 2. Kassim Shakul - DP Admin 3. Dr.Abdirahman Ali - DTVET
c) Education Training and Research committee	1. Hassan Dubat - chairman 2. Mohamed S. Abdi - Member 3. Hassan Noor - Member 4. Halima Sheikh - Member

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I KEY ENTITY INFORMATION AND MANAGEMENT (Continued)

(a) Key Management*(it should be as they appear in the annual financial statements and should be key personnel of the entity involved in Key decision making and running of the entity)*

Name of the Staff	PHOTO	Responsibility
JOSHUA MUNYWOKI KALOLA		PRINCIPAL/SECRETARY TO GOVERNING COUNCIL
ABDIRAHMAN KASSIM SHAKUL		DEPUTY PRINCIPAL, ADMINISTRATION
MS MARGRET WANJIRU		DEPUTY PRINCIPAL, ACADEMICS
MOHAMED SORA		REGISTRAR
GEOFFREY MANONO		EXAMINATIONS OFFICER
JOHN GITHINJI		DEAN OF STUDENTS
VINCENT OHANA		FINANCE OFFICER
ABDIRIZACK SHEIKH		PROCUREMENT OFFICER

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Statement of Corporate Social Responsibility.

In the financial year 2017-2018 the polytechnic has been taking part in corporate social responsibility mainly on the provision of primary health care to the community around.

The Polytechnic set a dispensary within its compound which is well stocked and with qualified health personnel all employed by the Garissa County government, a Clinical Officer a community health nurse and a social worker.

The facility is fully maintained by the polytechnic in regard to general routine maintenance and repairs, furniture and equipment maintenance water and power bills.

The health workers are on duty on full time basis except at night. The management ensures that there is no discrimination to the patients seeking treatment both students and the community at large.

During the financial year 2017-2018, the polytechnic through its governing council sponsored a few needy and talented students, especially in extra curricula activities such as football and volley ball.

The polytechnic offers tailoring skills to the local community whole do not have Primary level academic certificates. The trainees are allowed to use the clothing and textile workshop and are instructed by the technicians.

The polytechnic also provides grounds free of charge to Garissa youth groups whenever they have regional tournaments.

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CHAIRMAN'S STATEMENT

North Eastern National Polytechnic (NENAP) came into being after the elevation of the former North Eastern Technical Training Institute to a Polytechnic status. With the elevation of its status, the current Council of Governors was appointed by the Cabinet Secretary and inaugurated late in 2016 to manage the affairs of the Polytechnic. Our first task as a Council was to review and develop the Polytechnic 2017/2020 strategic plan. We took time to consider the changing world around us and listened to the communities we work with about the needs of the future. 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.

Our core 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. During the year under review, the Polytechnic management has carried out an aggressive popularity campaign in Garissa County and its environs. 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.

In our endeavor to grow the institution, we have continued to collaborate with a number of agencies either public, private or non-governmental. Our desire to achieve and deliver on our mandate has seen us in reaching out to each and every other partner willing to work with us.

Furthermore the Polytechnic has remained a good corporate citizen that meets its obligations both to its staff and students as well as the national obligation. As pioneers in the new Polytechnic, we are in the process of 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.

During the period under review, the Polytechnic registered remarkable development 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.

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The polytechnic continues to register an overall improvement in its performance due to enhanced resources, physical facilities and infrastructure.

I'm happy to report despite the numerous challenges that the institution not only achieved most of its performance target pursuant to the performance contract cycle 13 with the Ministry of Education but also put in measures that ensured the mandate of the Council is achieved.

I would like to thank all our stakeholders especially the parent Ministry, 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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PRINCIPAL/COUNCIL SECRETARY'S REPORT

I take this opportunity to present the polytechnic's Annual report and financial statements for the period ended 30 June 2018 pursuant to Section 83 of the Public Finance Management Act, 2012. This is the first annual report during the implementation of the Polytechnic's Strategic plan 2017-2020. The report focuses on the Polytechnic's thematic Strategic areas 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 institution attained the polytechnic status in November 2016 when the governing council was inaugurated. Earlier the polytechnic operated as a technical training institution but after the status change, the polytechnic mandate expanded exponentially and is now required by law to fulfil numerous regulatory and mandatory regulations. The Polytechnic Governing Council which comprise of seven members and a secretary was appointed by the Cabinet Secretary to serve the polytechnic for a period of 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.

The polytechnic is therefore in the process of establishing the office of the internal auditor which will give way to the operationalization of risk and management committee with a view of enhancing efficiency through adopting the required procedures. The period 2017/2018 is therefore our first time adoption of this reporting system.

In order to enhance information exchange, benchmarking and best practices and capacity building, the Polytechnic signed an MOU with ADESO, a research organization on solutions towards alleviating community based problems. The unit which is situated within the polytechnic compound also supports the polytechnic and students in their research work and numerous informed research methodology guidelines under the auspices of the MOU. In order to deepen collaboration, enhance capacity and incorporate best international best practices, the Polytechnic undertook staff exchange programs in Industrial automation and Automotive engineering in Canada under Global Affairs - CICA partnership. The polytechnic will benefit from this collaboration through acquisition of automotive equipment worth Ksh.52 million by September 2019. The Polytechnic also participated in robotic contests and won accolades in the research and innovation category and also presented position papers at KATTI-TVET fairs at Regional and at National levels.

Other achievements

Image is everything; the Polytechnic carried a research brand marketing and re-branded among other things the logo. During the period, the Polytechnic constructed an entry paved drive way from the gate to the administration block. A bit of beautification and landscaping is on-going within the compound. Publicity threshold tremendously increased after the Polytechnic hosted its first and historic graduation ceremony late in the year.

The above achievements were not without challenges

Trainers are a critical component of the training requirements. 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 2017/2018 budget we anticipated to recruit at least 4 trainers under the council but this number ballooned to 13 due to increase in the number of our programs and students. Such unpredicted personal emoluments were a challenge in our budgeting.

Acquisition of information technology

Acquisition of ICT infrastructure and equipment is compounded by 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.

Inadequate capacity and skills gap

The polytechnic mandate was 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.



Joshua Munywoki
Principal/Secretary to Governing Council

STATEMENT OF RESPONSIBILITIES

Section 83 of the Public Finance Management Act, 2012 requires an Accounting Officer for a National Government owned Entity to prepare a report for each year of the financial year in respect of the entity.

In preparing an end of year report for a National Government Entity, the Accounting Officer shall ensure that the report:

- (a) Contains information on the financial and non-financial performance of the entity; and
- (b) Is in a form that complies with the standards prescribed and published by the Public Sector Accounting Standards Board of Kenya from time to time.

In addition, not later than fifteen days after the end of each quarter, the Accounting Officer shall submit the quarterly report to the Cabinet Secretary responsible for the entity and the National Treasury. The Cabinet Secretary responsible for an entity shall forward a copy of the report to the Cabinet Secretary and Controller of Budget.

In the case of an entity that is a state corporation, the Accounting Officer for the corporation shall submit the quarterly report to the Cabinet Secretary responsible for the corporation who shall, upon approving it, forward a copy to the Cabinet Secretary.

Approval of the Annual financial statements

The *entity's* financial statements have been prepared in accordance with Section 83 of the PFM Act and were approved by the Council on 22/May/2019 and signed on its behalf by:



Principal



Council Chairman

MANAGEMENT DISCUSSION AND ANALYSIS

SECTION A

The entity's operational and financial performance

- 1) Given the negative cash flow for the quarter, this represents the correct, true picture of our financial situation, however, this is not expected to continue up to the financial year as we project to enrol more students in the next years and get capitation from the government to boost our income/ revenue.
- (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

SECTION B

Entity'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. However our books of accounts had not been audited in the last financial year by the auditor general.

SECTION C

Key projects and investment decisions the entity 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. A statement on sustainability is not available.

MANAGEMENT DISCUSSION AND ANALYSIS (Continued)

SECTION D

Major risks facing the entity

Operational risks in the polytechnic

- *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.
- *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.

SECTION E

Material arrears 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 has a normal loan repayment of the bus, which is almost ending.

SECTION F

The entity'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



OFFICE OF THE AUDITOR-GENERAL

REPORT OF THE AUDITOR-GENERAL ON NORTH EASTERN NATIONAL POLYTECHNIC FOR THE YEAR ENDED 30 JUNE 2018

REPORT ON THE FINANCIAL STATEMENTS

Qualified Opinion

I have audited the accompanying financial statements of North Eastern National Polytechnic set out on pages 18 to 40, which comprise the statement of financial position as at 30 June 2018, and the statement of financial performance, statement of changes in net assets, statement of cash flows and statement of comparison of budget and actual amounts for the year then ended, and a summary of significant accounting policies and other explanatory information in accordance with the provisions of Article 229 of the Constitution of Kenya and Section 35 of the Public Audit Act, 2015. I have obtained all the information and explanations which, to the best of my knowledge and belief, were necessary for the purpose of the audit.

In my opinion, 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 North Eastern National Polytechnic as at 30 June 2018, and of its financial performance and its cash flows for the year then ended, in accordance with International Public Sector Accounting Standards (Accrual Basis) and comply with the Public Finance Management Act, 2012 and the Technical and Vocational Education and Training Act, 2013.

Basis for Qualified Opinion

1. Financial Statements

1.1 Late Submission of Financial Statements

During the year under review, the Polytechnic did not submit financial statements to the Auditor-General within statutory deadline of 30 September. The financial statements of the Polytechnic were submitted to the Auditor-General on 26 April 2019, ten (10) months after the closure of the financial year contrary to Section 47(1) and 164(4) of the Public Audit Act, 2015 and Public Finance Management Act, 2012 respectively which stipulates that within three months after the end of each financial year, the accounting officer for an entity shall submit the entity's financial statements to the Auditor-General.

The management of the Polytechnic was therefore in breach of the law.

Report of the Auditor-General on the Financial Statements of North Eastern National Polytechnic for the year ended 30 June 2018

1.2 Omissions on Financial Statements

The financial statements submitted for audit by the Polytechnic were not in the format approved by the Public Sector Accounting Standards Board since no trial balance was availed to support the financial statements balances, contrary to Section 47(2) of the Public Audit Act, 2015 which states that the financial statements shall be in the form and content as prescribed by the Public Sector Accounting Standards Board. No proper explanation was given for not adhering to the Public Sector Accounting Standards Board's format on presentation of financial statements.

2. Cash and Cash Equivalents

Included in the total assets balance of Kshs.619,052,359 disclosed in the statement of financial position and note 7 of the financial statements is cash and cash equivalents balance of Kshs.39,603,524, being Kshs.32,889,880 and Kshs.6,713,644 for main account and development account respectively. However, there was no bank reconciliation statements for the bank accounts. Further, the cash book availed for audit review was system generated and the transactions reflected were both the main account and development account. No proper reason was given for not maintaining two separate cash books for the accounts.

In the circumstances, the accuracy and completeness of cash and cash equivalents figure of Kshs.39,603,524 as at 30 June 2018 could not be ascertained.

3. Unaccounted For Boarding and Equipment Expenses

The statement of financial performance and note 5 to the financial statements reflects general expenses of Kshs.39,050,703 which include Kshs.11,612,236 being Kshs.5,978,085 for development expenses and boarding and Kshs.5,634,151 for equipment expenses. However, a review of the expenditure for the same reflects the following anomalies:

- i. There was no prequalification list of suppliers,
- ii. Copies of quotations sent to various suppliers of goods and services were not availed for audit review.
- iii. There were no inspection and acceptance reports on the goods and services procured to confirm whether they were of the right quality and quantity.
- iv. The procured goods were not taken on charge in the stores ledgers and there were no issue notes to confirm the usage.

In the circumstances, the probity of the expenditure amounting to Kshs.11,612,236 as at 30 June 2018 could not be confirmed.

4. Unaccounted for Activity Expenses

The statement of financial performance and note 5 to the financial statements reflects Kshs.39,050,703 for general expenses which includes Kshs.5,795,709 in respect of activity expenses. However, audit review of the expenditure revealed that an amount of Kshs.3,217,249 was not properly supported as detailed below:

- i. Proforma invoice to confirm activity fees were not availed for audit scrutiny.
- ii. The programs/timetables of the trainings undertaken by the institution were not used to support the expenditure and was not also availed for audit review.
- iii. The mode of transport including bus tickets, air tickets and work tickets used were not availed for audit review.
- iv. The attendance registers for some of the trainings alleged to have been conducted were not availed for audit scrutiny.
- v. A total of Kshs.929,046 was paid to three different suppliers for supply and delivery of sports equipment. However, a review of the expenditure for the same revealed that the goods were directly procured from the suppliers and were not competitively bided. In addition, contract agreements or local purchase orders, delivery notes and inspection and acceptance reports/minutes for the same expenditure were not availed for audit review.

In the circumstances, the probity of the expenditure of Kshs.3,217,249 as at 30 June 2018 could not be ascertained.

5. Unaccounted for Foreign Travel Expenses

Included in the general expenses of Kshs.39,050,703 in the statement of financial performance and note 5 to the financial statements is an amount of Kshs.4,898,149 spent on local tours and travels. However, audit review of the expenditure records revealed that Kshs.1,118,519 spent on foreign travel expenses for three (3) members of staff attending a training in Newfoundland and New Brunswick in Canada between 6th and 18th May 2018 had the following anomalies;

- i. The expenditure was not budgeted for the financial year under review but instead it was charged to local tours and travel. There was no approval of re-allocation from the Board.
- ii. The invitation letter from the college of North Atlantic reflected that the travel costs including economy, international airfare, accommodation, per diems, local transportation, visa application costs, health insurance and all other applicable expenses for the activity were catered for by the college. However, the three staff were paid per diem from the institutions' fund.

- iii. There was no documentary evidence to proof that the three staff obtained clearance from the parent ministry of education before travelling for the training.
- iv. Copy of visas, passports and air tickets were not used to support the expenditure to confirm the alleged travel indeed took place.

In the circumstances, the probity of the expenditure of Kshs.1,118,519 as at 30 June 2018 could not be ascertained.

6. Procurement of Insurance Services

Included in the general expenses of Kshs.39,050,703 in the statement of financial performance and note 5 to the financial statements is an amount of Kshs.681,158 spent on insurance services for the Polytechnic. However, it was noted that the mode of procurement used for acquiring the insurance services such as request for quotations, requisition from user department and other relevant documents were not availed for audit review and was not also used to support the expenditure.

In the circumstances, the probity of the expenditure of Kshs.681,158 as at 30 June 2018 could not be confirmed.

7. Unsupported Expenditure on Repairs and Maintenance

The statement of financial performance and note 6 to the financial statements reflects a balance of Kshs.7,605,823 in respect of repairs and maintenance out of which Kshs.1,480,940 was paid to suppliers for supply and delivery of various goods and services. However, the expenditure was not supported with records such as request for quotations, requisition from user departments and list of unsuccessful bidders.

In the circumstances, the probity of the expenditure of Kshs.1,480,940 as at 30 June 2018 could not be ascertained.

8. Understatement of Fees

Included in the total revenue for the year under review of Kshs.63,330,755 as reflected in the statement of financial performance and note 2 of the financial statements is an amount of Kshs.13,943,255 relating to fees paid by students. However, the total fees collected from the students during the period under review according to the cash book was Kshs.17,902,729 resulting to unexplained variance of Kshs.3,959,474.

In the circumstances, accuracy of the fees balances reported in the financial statements as at 30 June 2018 could not be confirmed.

9. Property, Plant and Equipment

The statement of financial position and note 12 to the financial statement reflects property, plant and equipment with a net book value of Kshs.577,914,218. The property, plant and equipment movement schedule disclosed under note 12 indicates an opening balance of Kshs.589,635,000. However, there was no valuation of the property to support the balance availed for audit review. Further, the land and mechatronics equipment owned by the Polytechnic was not disclosed. An asset

register showing nature, number, type and book value of assets owned by the institution was not maintained.

Consequently, the accuracy of the balance of Kshs.577,914,218 for property, plant and equipment as at 30 June 2018 could not be confirmed.

10. Depreciation

The depreciation and amortization charge of Kshs.4,514,850 on property, plant and equipment disclosed as at 30 June 2018 was not properly supported. The Polytechnic had no depreciation policy in place to provide guidance on depreciation rates to be applied on different asset classes.

In the circumstances, accuracy of the depreciation charge figure of Kshs.4,514,850 as at 30 June 2018 cannot be confirmed.

The audit was conducted in accordance with International Standards of Supreme Audit Institutions (ISSAIs). I am independent of North Eastern National Polytechnic in accordance with ISSAI 30 on Code of Ethics. I have fulfilled other ethical responsibilities in accordance with the ISSAI and in accordance with other ethical requirements applicable to performing audits of financial statements in Kenya. I believe that the audit evidence I have obtained is sufficient and appropriate to provide a basis for my qualified opinion.

Key Audit Matters

Key audit matters are those matters that, in my professional judgment, are of most significance in the audit of the financial statements of the current year under review. Except for the matters described in the Basis for Qualified Opinion section of my report, I confirm that there were no Key Audit Matters to report in the year under review.

Other Matter

1. Budgetary Control and Performance

1.1 Budgetary Process

A review of the budgetary process, control and performance revealed that there was no budget circular to departments setting out the legal framework, instructions on the budget process and budget calendar and a copy of the formally approved budget maintained for the financial year ended 30 June 2018. No proper explanation was provided for not maintaining the relevant documents.

1.2 Budget Analysis

	Budget	Actual	Variance
Revenue	Kshs.	Kshs.	Kshs.
Grants	53,253,427	49,387,500	3,865,927
Fee and Other Income	31,774,805	13,943,255	17,831,550

	Budget	Actual	Variance
Revenue	Kshs.	Kshs.	Kshs.
Total Income	85,028,232	63,330,755	21,697,477
Expenses			
Compensation of Employees	7,538,900	7,546,726	(7,826)
Other Payments	77,489,332	51,171,376	26,317,956
Total Expenditure	85,028,232	58,718,102	26,310,130
Surplus/(Deficit) for the Year		4,612,653	(4,612,653)

From the above budget analysis, the following observations were made:

- i. The basis or source information for setting the budget estimates especially for revenue collection was not provided for audit review.
- ii. The Polytechnic had an annual revenue estimates of Kshs.85,028,232 but the actual revenue realized was Kshs.63,330,755 resulting in a shortfall in revenue of Kshs.21,697,477 representing 26%, an indication of underperformance in collection of fees and other income.
- iii. There was an over expenditure of Kshs.7,826 on the compensation of employees.

No proper explanation was given for the under collection of the revenue and the over expenditure on compensation of employees.

2. Human Resource Management

The statement of financial performance and note 3 to the financial statements reflects a balance of Kshs.7,546,726 on salaries and wages. It was noted that the polytechnic had twenty six (26) permanent employees and eighteen (18) casual workers. However, a review of the records on Human Resource revealed the following anomalies:

- i. Two (2) new staff i.e. a secretary and procurement officer were recruited on permanent and pensionable terms without any advertisement for the posts.
- ii. There was no muster roll for the casual workers maintained.
- iii. The Polytechnic had no human resource policy on engagement and management of casual laborers.

Consequently, there was no compliance of the Human Resource Policies and Procedures Manual for the Public Service in regard to recruitment and other relevant policies.

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 Qualified Opinion section of my report, I confirm that nothing else has come to my attention to cause me to believe that public money has not been applied lawfully and in an effective way.

Basis for Conclusion

The audit was conducted in accordance with ISSAI 4000. The standard requires that I comply with ethical requirements and plan and perform the audit to obtain assurance about whether the activities, financial transactions and information reflected in the financial statements are in compliance, in all material respects, with the authorities that govern them. I believe that the audit evidence I have obtained is sufficient and appropriate to provide a basis for my conclusion.

REPORT ON EFFECTIVENESS OF INTERNAL CONTROLS, RISK MANAGEMENT AND GOVERNANCE

Conclusion

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

Basis for Conclusion

1. Lack of Internal Audit Department and Audit Committee

Section 73 of the Public Finance Management Act, 2012 requires each national government entity to establish an audit committee. Contrary to the Act, the Polytechnic did not establish both internal audit department and audit committee to monitor the entity's governance process, accountability process and control systems and also offer objective advice on issues concerning risk, control, regulatory requirements and governance.

In the circumstances, the Polytechnic was in breach of Section 73 of the Public Finance Management Act, 2012.

2. Lack of Risk Management Policy and Fraud Prevention Mechanisms

Section 165(1)(a) of the Public Finance Management Act, 2012 (National Government) Regulations states that each national government entity shall develop (a) risk management strategies, which include fraud prevention mechanism. Contrary to the

Act, the Polytechnic did not put in place a risk management policy and fraud prevention mechanisms to assist in enhancing its internal controls.

The audit was conducted in accordance with ISSAI 1315 and ISSAI 1330. 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 going concern basis of accounting, unless the management either intends to liquidate the Polytechnic or to cease operations, or no realistic alternative but to do so.

Management is also responsible for the submission of the financial statements to the Auditor-General in accordance with the provisions of Section 47 of the Public Audit Act, 2015.

In addition to the responsibility for the preparation and presentation of the financial statements described above, management is also responsible for ensuring that the activities, financial transactions and information reflected in the financial statements are in compliance with the authorities which govern them, and that public resources are applied in an effective way.

Those charged with governance are responsible for overseeing the financial reporting process, reviewing the effectiveness of how the entity monitors compliance with relevant legislative and regulatory requirements, ensuring that effective processes and systems are in place to address key roles and responsibilities in relation to governance and risk management, and ensuring the adequacy and effectiveness of the control environment.

Auditor-General's Responsibilities for the Audit

The audit objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes my opinion in accordance with the provisions of Section 48 of the Public Audit Act, 2015 and submit the audit report in compliance with Article 229(7) of the Constitution. Reasonable assurance is a high

level of assurance, but is not a guarantee that an audit conducted in accordance with ISSAIs will always detect a material misstatement and weakness when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

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

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

Because of its inherent limitations, internal control may not prevent or detect misstatements and instances of non-compliance. Also, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies and procedures may deteriorate.

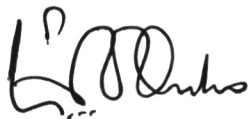
As part of an audit conducted in accordance with ISSAIs, I exercise professional judgement and maintain professional skepticism throughout the audit. I also:

- 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 going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Polytechnic's ability to continue as a going concern. 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 to express an opinion on the financial statements.
- Perform such other procedures as I consider necessary in the circumstances.

I communicate with the management regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that are identified during the audit.

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



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

Nairobi

21 August 2019

North Eastern National Polytechnic
Annual reports and Financial statements 2017/2018



**THE NORTH EASTERN
NATIONAL POLYTECHNIC**

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STATEMENT OF FINANCIAL PERFORMANCE

REVENUE	Notes	2017/2018 Kshs
Revenue from non-exchange transactions		
Grants	<u>1</u>	49,387,500
Revenue from exchange transactions		
Fees paid by Students	<u>2</u>	13,943,255
Other income		-
Total Revenue		63,330,755

EXPENSES	Notes	2017/2018 Kshs
Employee costs	<u>3</u>	7,546,726
Depreciation and Amortisation expenses	<u>4</u>	4,514,850
Repairs and maintenance		7,605,823
General Expenses	<u>5</u>	39,050,703
Finance costs		-
Total expenses		58,718,102
Other gains (losses)		-
Surplus (deficit)for the period		4,612,653

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STATEMENT OF FINANCIAL POSITION

Assets	Notes	2017/2018 Kshs
Cash and Cash equivalents	7	39,603,524
Receivables from exchange transactions	8	556,135
Inventories	9	46,900
Total Current Assets		40,206,559
Non-Current Assets		
Property Plant and Equipment	12	577,914,218
Long-term receivables from Exchange transactions		—
Total Non-current assets		577,914,218
Total Assets		619,052,359

Liabilities		Kshs
Current Liabilities		
Trade and other payables from exchange transactions	10	171,915
Current portion of borrowing		602,225
Deferred income		12,250,000
Total Current Liabilities		13,024,140
Non-Current Liabilities		
Non-Current employee benefit obligation		—
Borrowings	11	1,909,384
Deferred tax liabilities		—
Total Non-current liabilities		1,909,384
Total Liabilities		14,933,768
Net Assets		
Reserves		—
Accumulated Fund		604,118,335
Other Reserves		—
Total Net Assets		619,052,359

The Financial Statements set out on pages 18 to page 40 were signed on behalf of the Council by:



Principal

Name: Joshua Munywoki



Finance Officer

Name: Vincent Ohana



Chairman Governing Council

Name: Mohammed Abdi Sheikh

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STATEMENT OF CHANGES IN NET ASSETS FOR THE YEAR ENDED 30TH JUNE 2018

At July 1,2017	Revaluation Reserve	Retained Earnings	Capital/ Dev Grants (Kshs)
Transfer of excess depreciation on revaluation	-		
Revaluation gain	-		
Deferred Tax on excess depreciation	-		
Total Comprehensive Income	-		4,612,653
Capital Development Grants received during the year	-		8,500,000
Transfer of depreciation/ amortisation from capital fund to retained earnings	-		(4,514,850)
At June 30th, 2018			8,597,803

STATEMENT OF CASH FLOWS

	Notes	Kshs
Cash and equivalents at beginning of the year 1st July 2017		34,321,094
Cash flow from operating activities		
Receipts		
Government grants and subsidies	1	49,063,500
Fees paid by students	2	13,943,255
Payments		
Employee costs	3	7,546,726
General expenses and repairs and maintenance	5 & 6	46,656,526
Net cash flow from operating activities		43,124,597
Cash flow from investing activities		
Purchase of equipment(Mech. W/shop expansion part payment)		(3,521,073)
Proceeds from sale of property		-
(Decrease)/increase in non-current receivables		
Decrease/ (Increase) in investments		-
Net cash flow from investing activities		(3,521,073)
Cash flows from financing activities		
Proceeds from borrowing		-
Repayment of borrowings		-
Net cash flow used in investing activities		-
Net increase/(decrease) in cash and cash equivalents		39,603,524
Cash and cash equivalents at the end of the year. (30th June 2018)		39,603,524

STATEMENT OF BUDGET AND ACTUAL

	Budget	Actual	Variance
Revenue	Kshs	Kshs	Kshs
Grants	53,253,427	49,387,500	3,865,927
Fees and other income	31,774,805	13,943,255	17,831,550
Total Income	85,028,232	63,330,755	21,697,477
Expenses			
Compensation of Employees	7,538,900	7,546,726	(7,826)
Other payments	77,489,332	51,171,376	26,317,956
Total Expenditure	85,028,232	58,718,102	
Surplus/ (Deficit for the period)		4,612,653	(4,612,653)

Explanation of the variance

1. The grant for the 4th quarter of Kshs 12,250,500 had not been received as at 30th June 2018
2. We registered far less students as had been anticipated hence shortfall in our fees collection target.

NOTES TO THE STATEMENTS

Note.1

<u>Grants /Capitation</u>	2017/2018 Kshs
Operational grants	37,687,500
Development grant	8,500,000
Facilitation for Site visits for the mentored TTIs	3,200,000
Total	49,387,500

Note. 2

<u>Rendering of services (Fess collected per vote head)</u>	2017/2018 Kshs
Activity fees	80,260
Admission fees	492,734
Attachment fees	210,120
Boarding fees	1,034,190
Contingencies	95,600
Development expenditure	539,330
Electricity, Water and Conservancy	218,270
Insurance	128,910
Internet fees	251,180
Local tours and travels	53,620
Library fees	206,370
Medical fees	20,340
Personal Emoluments	988,050
Production income	4,526,210
Registration and IDs	117,110
Repairs and maintenance fees	115,051
School based programme expenses	1,347,980
Sale of tender documents	50,000
Bursaries	-
KNEC Exam fees	-
Tuition fees paid	3,319,980
Advanced packages	750
Packages	10,020
Student council	52,280
Caution money	84,900
Total revenue from fees collected per vote head	13,943,255

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Note. 3

Salaries and Wages	2017/2018 Kshs
	7,546,726

Note. 4

Depreciation from the PPE schedule	2017/2018 Khs
Depreciation charge for the year	4,514,850

Note. 5

General Expenses	2017/2018 Kshs
Activity expenses	5,795,709
Attachment expenses	451,700
Boarding and equipment expenses	5,634,151
Contingency expenses	5,333,019
Imprest	106,000
Development expenses	5,978,085
Electricity Water and Conservancy	2,191,654
Insurance	681,158
Internet expenses	533,830
Local tours and travels	4,898,149
Production expenses	2,471,034
Registration expenses	119,250
School based programme expenses	1,957,213
Tuition fees expenses	1,221,932
NHIF	227,750
NSSF	514,994
PAYE	316,840
Student council	-
Admission expenses	552,400
Loan repayment (interest)	65,835
Other expenses	-
Total general expenses	39,050,703

Note.6

Repairs and Maintenance	2017/2018 Kshs
Repair and maintenance vote head expenses	7,605,823

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Note.7

Cash and Cash Equivalents (Bank) as at June 30 th 2018	2017/2018 Kshs
Main account (current account)	32,889,880
Development Account	6,713,644
Total cash and cash equivalents	39,603,524

Note. 8

Receivables from exchange transactions	2017/2018 Kshs
Student receivables	556,135

Note. 9

Inventories	Kshs
Consumable stores	46,900

Note.10

Trade and other payables from exchange transactions	Kshs
Trade payables (suppliers)	171,915

Note. 11

Borrowings	2017/2018 Kshs
Balance at the beginning	967,582
Repayments	365,357
Balance at end of period	602,225

Note.12

Property Plant and Equipment

COST	Buildings	Vehicles	Furniture	Computers	Equipment	Total
	Kshs	Kshs	Kshs	Kshs	Kshs	Kshs
As at 1/7/2017	551,500,000	7,900,000	5,700,000	2,405,000	22,130,000	589,635,000
Additions	-	-	-	-	-	-
Disposals	-	-	-	-	-	-
As at June 2018	551,500,000	7,900,000	5,700,000	2,405,000	22,130,000	589,635,000
Additions	-	-	-	-	-	-
Disposals	-	-	-	-	-	-

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At end of year June 2018	551,500,000	7,900,000	5,700,000	2,405,000	22,130,000	589,635,000
Depreciation	5%	2.5%	5%	7%	5%	
At 1 July 2017	2,500,000	1,100,000	500,000	55,000	2,120,000	6,275,000
Depreciation	2,757,500	197,500	285,000	168,350	1,106,500	4,514,850
At June 30 2018	5,257,500	1,297,500	785,000	223,350	3,226,500	10,789,850
NBV	546,242,500	6,602,500	4,915,000	2,181,650	18,903,500	577,914,218

N/B. The cost of equipment does not include land and mechatronics equipment as at the time of preparing this report, no evaluation had been done.

SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

1. (IPSAS 33 (FIRST TIME ADOPTION))

IPSAS 33 allows an entity to omit comparisons of current balances with prior year balances in the first year of adoption if the previous year's books were prepared in a different format other than the IPSAS Accrual.

Where the value of an asset cannot be accurately determined, IPSAS 33 allows an entity to use a near accurate method of valuing an asset for the first 3 years when a proper valuation is being sought based on proper documentation and accurate figures.

2. (a).Revenue recognition

i) Revenue from non-exchange transactions

Fees, taxes and fines

The entity recognizes revenues from fees, taxes and fines when the event occurs and the asset recognition criteria are met. To the extent that there is a related condition attached that would give rise to a liability to repay the amount, deferred income is recognized instead of revenue. Other non-exchange revenues are recognized when it is probable that the future economic benefits or service potential associated with the asset will flow to the entity and the fair value of the asset can be measured reliably.

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

SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Revenue recognition (Continued)

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.

SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

3. Budget information

The original budget for FY 2017-2018 was approved by the National Assembly on 4th July 2018. Subsequent revisions or additional appropriations were made to the approved budget in accordance with specific approvals from the appropriate authorities. The additional appropriations are added to the original budget by the entity upon receiving the respective approvals in order to conclude the final budget.

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 xxx of these financial statements.

4. Taxes

Current income tax

Current income tax assets and liabilities for the current period are measured at the amount expected to be recovered from or paid to the taxation authorities. The tax rates and tax laws used to compute the amount are those that are enacted or substantively enacted, at the reporting date in the area where the Entity operates and generates taxable income.

Current income tax relating to items recognized directly in net assets is recognized in net assets and not in the statement of financial performance. Management periodically evaluates positions taken in the tax returns with respect to situations in which applicable tax regulations are subject to interpretation and establishes provisions where appropriate.

SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Taxes (Continued)

Deferred tax

Deferred tax is provided using the liability method on temporary differences between the tax bases of assets and liabilities and their carrying amounts for financial reporting purposes at the reporting date.

Deferred tax liabilities are recognized for all taxable temporary differences, except in respect of taxable temporary differences associated with investments in controlled entities, associates and interests in joint ventures, when the timing of the reversal of the temporary differences can be controlled and it is probable that the temporary differences will not reverse in the foreseeable future.

Deferred tax assets are recognized for all deductible temporary differences, the carry forward of unused tax credits and any unused tax losses. Deferred tax assets are recognized to the extent that it is probable that taxable profit will be available against which the deductible temporary differences, and the carry forward of unused tax credits and unused tax losses can be utilized, except in respect of deductible temporary differences associated with investments in controlled entities, associates and interests in joint ventures, deferred tax assets are recognized only to the extent that it is probable that the temporary differences will reverse in the foreseeable future and taxable profit will be available against which the temporary differences can be utilized.

The carrying amount of deferred tax assets is reviewed at each reporting date and reduced to the extent that it is no longer probable that sufficient taxable profit will be available to allow all or part of the deferred tax asset to be utilized. Unrecognized deferred tax assets are re-assessed at each reporting date and are recognized to the extent that it has become probable that future taxable profits will allow the deferred tax asset to be recovered.

Deferred tax assets and liabilities are measured at the tax rates that are expected to apply in the year when the asset is realized or the liability is settled, based on tax rates (and tax laws) that have been enacted or substantively enacted at the reporting date.

Deferred tax relating to items recognized outside surplus or deficit is recognized outside surplus or deficit. Deferred tax items are recognized in correlation to the underlying transaction in net assets.

Deferred tax assets and deferred tax liabilities are offset if a legally enforceable right exists to set off current tax assets against current income tax liabilities and the deferred taxes relate to the same taxable entity and the same taxation authority.

SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Taxes (Continued)

Sales 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.

5. 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 30-year period.

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.

6. 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.

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Where an asset is acquired in a non-exchange transaction for nil or nominal consideration the asset is initially measured at its fair value.

7. Leases

Finance leases are leases that transfer substantially all of the 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.

8. 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.

9. 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.

SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Research and development costs (Continued)

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.

10. Financial instruments

(i) 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.

(ii) 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.

(iii) 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.

(iv) 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:

SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Financial instruments (Continued)

Impairment of financial assets (Continued)

- 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.

11. 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

SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Inventories (Continued)

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

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

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

12. 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.

13. 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.

SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

14. Nature and purpose of reserves

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

15. Changes in accounting policies and estimates

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

16. Employee benefits

Retirement benefit plans

The Entity 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.

17. 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.

18. 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.

SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

19. 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 CEO and senior managers.

20. 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 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.

21. Cash and cash equivalents

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

22. Budget information

The original budget for FY 2017-2018 was approved by the Governing Council on 4th July 2017. 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.

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.

SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Budget information (Continued)

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

23. Comparative figures

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

24. 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, 2018.

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. State all judgements, estimates and assumptions made: e.g

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

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Appendix 1

Break down of Transfers from the State Department for Technical and Vocational Education

Financial Year 2017/18	Bank Statement Date	Amount(Kshs.)
a) Recurrent Expenditure		
i)	6/07/2017	3,200,000
ii)	13/10/2017	12,562,500
iii)	4/12/2017	12,562,500
iv)	25/4/2017	12,562,500
b) Development Expenditure	4/07/2017	6,000,000
i)	8/12/2017	2,500,000
ii) Mentored TTIs	8/12/2017	20,000,000
lii)	6/06/2017	1,082,500

Appendix 2

(a) Project Implementation by North Eastern National Polytechnic.

Project Title	Project No.	Donor	Period	Donor Commitment	Separate Report from Donor(YES/NO)	Consolidated in the Financial Statement (Yes/ NO)
Expansion of Automotive Workshop		G.O.K	2017/18-19	6,000,000	NO	YES
ICT and Furniture		G.O.K	2018	4,753,970	NO	NO

(b) Project Implementation by North Eastern National Polytechnic in the FY 2017/2018

Project	Total Project Cost	Total Expended to date	% completion to date	Budget	Actual	Sources of funds
Automotive Workshop Expansion	6,000,000	3,521,524	59%	-	-	G.O.K

