

REPORT OF THE AUDITOR-GENERAL ON BUGUTA SECONDARY SCHOOL FOR THE YEAR ENDED 30 JUNE, 2021 – TAITA/TAVETA COUNTY

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 the intended purpose.
- C. Report on the 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 Buguta Secondary School – Taita/Taveta County set out on pages 11 to 21, which comprise of the statement of assets and liabilities as at 30 June, 2021, and the statement of receipts and payments, statement of cash flows and statement of budgeted versus 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 Buguta Secondary School – Taita/Taveta County 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 (Cash Basis) and comply with the Public Finance Management Act, 2012 and the Basic Education Act, 2013.

Basis for Qualified Opinion

1.0 Unsupported Accounts Receivables

The statement of financial assets and liabilities reflects accounts receivables balance of Kshs.1,349,009 as disclosed in Note 10 to the financial statements. However, the student listing supporting the balance was not provided for audit.

In the circumstances, the accuracy and completeness of the account's receivables balance of Kshs.1,349,009 could not be confirmed.

2.0 Unsupported Accounts Payables

The statement of financial assets and liabilities reflects accounts payables balance of Kshs.1,980,329 as disclosed in Note 11 to the financial statements. Included in this balance is prepaid fees balance of Kshs.601,119. However, the student listing supporting the prepaid balance was not provided for audit.

In the circumstances, the accuracy and completeness of the prepaid fees in accounts payables balance of Kshs.601,119 could not be confirmed.

The audit was conducted in accordance with International Standards of Supreme Audit Institutions (ISSAIs). I am independent of the Buguta Secondary School 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

1.0 Budgetary Control and Performance

The statement of budgeted versus actual amounts reflects final receipts budget and actual on a comparable basis of Kshs.8,522,360 and Kshs.8,960,953 respectively, resulting to an over-realisation of Kshs.438,593 (or 5%) of the budget. Similarly, the School spent

Kshs.7,776,353 against an approved budget of Kshs.8,522,360 resulting to an underperformance of Kshs.746,007 (or 9%) of the budget.

The underperformance affected the planned activities and may have impacted negatively on service delivery to the students.

2.0 Under Receipts of School Capitation

Review of capitation receipts revealed that the school received less capitation for both tuition and operations activities as shown below.

Component	Capitation received (Kshs)	No of Students	Actual Capitation per Student (Kshs)	Expected Capitation per Student (Kshs)	Under capitation per Student (Kshs)	Total Under Capitation (Kshs)
Tuition	521,483	397	2,408	4,644	(2,236)	(887,791)
Operation	3,643,627	397	13,290	15,400	(2,110)	(837,849)
Total	4,165,110		15,697	20,044	(4,347)	(1,725,640)

The School was underfunded by Kshs.1,725,640, this may cause the school not to deliver the expected services to the students.

REPORT ON LAWFULNESS AND EFFECTIVENESS IN THE 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

1.0 Non-Compliance with the Public Sector Accounting Standards Board Reporting Requirements

Annex 1 on analysis of pending bills and Annex 2 summary of fixed asset register reflect Nil balances. However, the School store ledger, accounts payables listing and assets listing reflected balances of undisclosed amounts in respect of inventories, payables listing.

In the circumstances, the accuracy and completeness of the annual report and financial statements as prepared and presented do not comply with the reporting requirements by the Public Sector Accounting Standards Board.

2.0 Lack of an Annual Procurement and Disposal Plan

Review of the procurement process revealed that the school relied on the itemized budget of works, goods and services in carrying out procurement. However, the School did not prepare a procurement and disposal plan which could be used in determining its needs in managing the procurement process. Further, the goods and services received by the School were not inspected before being taken into charge as the School did not have an Inspection and Acceptance Committee. Management did not provide evidence of how the goods were inspected and accepted for use contrary to Section 53(2) and (5) of the Public Procurement and Assets Disposal Act, 2015.

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

3.0 Failure to Develop a School Improvement Plan

Review of projects revealed that the School did not have a School Improvement Plan. The Plan provided for audit does not meet priorities as laid out under the Ministry of Education Operation Manual for Utilization of Learner Capitation Grant and Other School Funds. The core areas of enhancing curriculum delivery, enhancing learning outcomes in foundational numeracy and literacy, improving school environment and increasing parental involvement are not clearly defined.

In the circumstances, Management was in breach of the provisions of the Operation Manual for Utilization of Learner Capitation Grant and Other School Funds.

4.0 Governance in the Board of Management

Review of the Board of Management members nomination curriculum vitae (CVs) revealed that one member had a diploma while the 10 members had KCSE certificates. This is contrary to Regulation 6(b) of the Basic Education Regulations, 2015 which states that the minimum qualifications of the chairmen and members of Boards of Management shall be in the case of a Secondary School a degree from a university recognized in Kenya, and a KCSE Certificate respectively.

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

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

REPORT ON EFFECTIVENESS OF INTERNAL CONTROLS, RISK MANAGEMENT AND GOVERNANCE

Conclusion

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

Basis for Conclusion

1.0 Failure to Fully Implement the Enterprise Resource Planning (ERP) System

The School received a donation of an ERP system in January, 2020 to improve its financial reporting systems. The system is able to capture the school's financial activities including invoicing and receipting for income, making payments for expenditure and boarding accommodation management. However, implementation of the system had the following limitations: -

- i. There was no evidence of user training as the current users are not fully conversant with the system;
- ii. The payment and supplier's modules had not been put in use by the time of the audit;
- iii. The cash management module is not in use although it is active;
- iv. The extraction of reports such as quarterly reports, student debtors, prepaid fees and arrears could not be generated; and
- v. The assets and budget modules were not being utilized.

In the circumstances, the School has not realised value for money on the implementation of the ERP system.

2.0 Weak Controls in the Management of Inventory and Stock

Review of store ledgers maintained by the school revealed following gaps;

- i. The stock take as at the end of the year was not carried out;
- ii. The stores ledgers were not updated; and
- iii. The School did not maintain Goods Received Notes (GRNs) to ensure that the correct item and quantity has been delivered as per the terms of a contract.

In the circumstances, weak controls exist in the management of inventory and stocks may lead to loss or misappropriation of inventories.

3.0 Failure to Update the Asset Register

Review of the assets listing indicated that the school did not maintain a detailed and comprehensive fixed asset register. The assets listing did not have the date of acquisition, detailed serial and tagging numbers, cost or valuation amount, depreciation rates and amount and the net book values.

In the circumstances, control over the schools may not be assured.

4.0 Lack of a Disaster Management Committee and Emergency Fund

Review of the Board minutes and the School's policies revealed that the School did not have a Disaster Management Committee and a Disaster Management Plan in place. Further, review of the budget revealed that the School has not set aside a budget for an emergency fund.

In the circumstances, Management might not properly mitigate and cushion the school in the event of an emergency situation or major disaster occurring.

5.0 Discrepancies in the School's Student Enrollment Data and the National Education Management Information System (NEMIS)

Review of NEMIS records from the Ministry of Education revealed unreconciled variances between number of students enrolled as per class registers and NEMIS number as show below: -

Month	Number of Students per NEMIS	Number of Students as per Register	Variance
April 2021 Operations	397	404	7
April 2021 Tuition	397	404	7

In the circumstances, the accuracy and completeness of the enrolment numbers at School and NEMIS records could not be confirmed and therefore capitation funding may not be based on accurate records resulting to over or underfunding.

The audit was conducted in accordance with ISSAI 2315 and ISSAI 2330. The standards require that I plan and perform the audit to obtain assurance about whether effective processes and systems of internal controls, risk management and overall governance were operating effectively, in all material respects. I believe that the audit evidence I have obtained is sufficient and appropriate to provide a basis for my conclusion.

Responsibilities of Management and 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 (Cash 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 controls, risk management and overall governance.

In preparing the financial statements, Management is responsible for assessing the School'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 School 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 School'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 controls in order to give an assurance on the effectiveness of internal controls, risk management and overall governance processes and systems in

accordance with the provisions of Section 7(1)(a) of the Public Audit Act, 2015 and submit the audit report in compliance with Article 229(7) of the Constitution. My consideration of the internal controls would not necessarily disclose all matters in the internal 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 controls may not prevent or detect misstatements and instances of non-compliance. Also, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies and procedures may deteriorate.

As part of an audit conducted in accordance with ISSAIs, I exercise professional 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 controls.
- 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 School'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 School 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 School to express an opinion on the financial statements.
- Perform such other procedures as I consider necessary in the circumstances.

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

I also provide Management with a statement that I have complied with relevant ethical requirements regarding independence and 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

12 October, 2023