

# **REPORT OF THE AUDITOR GENERAL ON KAKONENI GIRLS SECONDARY SCHOOL FOR THE YEAR ENDED 30 JUNE, 2021 – KILIFI 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 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**

### **Adverse Opinion**

I have audited the accompanying financial statements of Kakoneni Girls Secondary School - Kilifi County set out on pages 1 to 13, which comprise the statement of financial assets and financial 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, because of the significance of the matters discussed in the Basis for Adverse Opinion section of my report, the financial statements do not present fairly, the financial position of Kakoneni Girls Secondary School - Kilifi 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 Basic Education Act, 2013 and the Public Finance Management Act, 2012.

## **Basis for Adverse Opinion**

### **1. Inaccuracies in the Financial Statements**

The financial statements presented for audit had the following inaccuracies;

- (i) The statement of receipts and payments reflects total receipts of Kshs.17,901,953 and total payments of Kshs.18,500,442 while the statement of cash flows reflects amounts of Kshs.27,135,127 and Kshs.23,383,943 resulting to an unexplained variance of Kshs.9,233,174 and Kshs.4,883,501 respectively. Further, the statement of budgeted versus actual amounts reflects total receipts of Kshs.14,613,074 and total payments of Kshs.9,890,274 resulting to an unreconciled variance of Kshs.3,288,879 and Kshs.8,610,168 respectively. In addition, schedules and ledgers to support the respective components were not provided for audit.
- (ii) The statement of financial assets and financial liabilities reflects accumulated fund balance brought forward of Kshs.29,247,142 instead of Kshs.30,338,966 recorded in the previous audited financial statements thereby resulting to an unexplained variance of Kshs.1,141,823.
- (iii) The statement of receipts and payments reflects payments on operations of Kshs.6,204,971 while Note 6 to the financial statements reflects an amount of Kshs.6,024,971 resulting to an unexplained variance of Kshs.180,000.

In the circumstances, the accuracy and completeness of the balances reflected in the financial statements could not be confirmed.

### **2. Unsupported Payments**

Examination of expenditure records revealed that an amount of Kshs.966,030 was incurred to purchase food. However, supporting documents such as receipts, Local Purchase Orders (LPO) and inspection certificate of goods delivered were not provided for audit.

In the circumstances, the regularity and completeness of the expenditure could not be confirmed.

### **3. Unsupported Cash and Cash Equivalents**

The statement of financial assets and financial liabilities reflects cash and cash equivalents balances of Kshs.14,188,144 which, as disclosed in Note 9 to the financial

statements includes an amount of Kshs.178,011 and Kshs.14,010,133 in respect of cash balance and bank balance, respectively. However, the balances were not supported by Board of Survey reports, cashbooks, bank confirmation certificates and reconciliation statements.

In the circumstances, the accuracy and completeness of cash and cash equivalents balances of Kshs.14,188,144 could not be confirmed.

#### **4. Unsupported Long Outstanding Student Accounts Receivables**

Note 10 to the financial statements reflects accounts receivables balance of Kshs.20,687,082 being outstanding students' debtors. However, detailed schedules to support this amount were not provided for audit. Further, the amounts have been outstanding for more than twelve months and evidence of their recoverability was not provided audit.

In the circumstances, the accuracy, completeness and recoverability of accounts receivables balance of Kshs.20,687,082 could not be confirmed.

The audit was conducted in accordance with International Standards of Supreme Audit Institutions (ISSAIs). I am independent of the Kakoneni Girls 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 adverse opinion.

#### **Key Audit Matters**

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

#### **Other Matter**

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

The statement of budgeted versus actual amounts reflects a final budgeted receipt of Kshs.20,321,070 against actual receipts of Kshs.14,613,074 resulting to a revenue shortfall of Kshs.5,707,996 or 28% of the budget. Similarly, the statement reflects final expenditure budget of Kshs.20,656,410 and actual payments of Kshs.9,890,274 resulting to under expenditure of Kshs.10,766,136 or 52% of the budget.

In the circumstances, the under collection of revenue and underperformance on expenditure may have impacted negatively on service delivery.

REPORT ON LAWFULNESS AND EFFECTIVENESS IN USE OF PUBLIC RESOURCES

#### **Conclusion**

As required by Article 229(6) of the Constitution, because of the significance of the matters discussed in the Basis for Adverse Opinion and Basis for conclusion on Lawfulness and Effectiveness in Use of Public Resources sections of my report, based on the audit procedures performed, I confirm that public resources have not been applied lawfully and in an effective way.

## **Basis for Conclusion**

### **1. Non-Compliance with the Public Sector Accounting Standards Board Reporting Requirements**

The Public Sector Accounting Standards Board (PSASB) Guidelines on Implementation of International Public Sector Accounting Standards (IPSAS) by Secondary Schools in Kenya of August 20, 2021, requires the first financial statements after adoption of IPSAS to be presented for eighteen (18) months from 1 January, 2020 to 30 June, 2021 with comparatives being for twelve (12) months from 1 January, 2019 to 30 December, 2019. Further, a disclosure note ought to have been included in the financial statements that the reason for preparing the financial statements for longer period is due to the adoption of IPSAS for schools and the change from calendar year to government fiscal year. In addition, a disclosure note should be made in the financial statements that the comparative information may not be comparable due to the longer period covered by the current financial period.

However, Management presented the annual report and financial statements covering financial year 2020-2021 with comparative balances for financial year 2019. Therefore, the financial statements have not been prepared for eighteen-months (18) as prescribed by the Public Sector Accounting Standards Board (PSASB). Further, no disclosure was made on the change in the preparation of financial statements from calendar year to government fiscal year or on the lack of comparability due to the longer period covered by the current financial period.

In the circumstances, Management did not comply with the guidelines issued by the Public Sector Accounting Standards Board.

### **2. Lack of a Procurement Plan**

The statement of receipts and payments reflects total expenditure of Kshs.18,500,442 out of which an amount of Kshs.11,063,875 was incurred on exercise books, laboratory equipment's, teaching/learning materials, repairs, maintenance and improvements, acquisition of assets, school bus, other expenses and fee on boarding equipment's and stores. However, Management did not have an approved annual procurement plan. This was contrary to section 53 (2) and (5) of the Public Procurement and Asset Disposal Act, 2015 which requires entities to have in place procurement and asset disposal plans that are based on indicative or approved budgets which shall be integrated with the applicable budget process.

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

### **3. Procurement Irregularities on Infrastructure Projects**

Examination of the expenditure records revealed that the School incurred an amount of Kshs.4,585,496 on construction of twin science laboratories. However, the following noncompliance with the Public Procurement and Assets Disposal Act, 2015 were noted:

- i. The School did not have a list of prequalified suppliers.
- ii. The Tender Opening and Evaluation Committees were not appointed formally by Accounting Officer.
- iii. The School did not provide Tender opening minutes.
- iv. Evaluation criteria had not been set in the tender document and there were no evaluation reports and Professional opinion.

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

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

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

### **Conclusion**

As required by Section 7(1)(a) of the Public Audit Act, 2015, because of the significance of the matters discussed in the Basis for Adverse Opinion and Basis for Conclusion on Effectiveness of Internal Controls, Risk Management and Governance sections of my report, based on the audit procedures performed, I confirm that internal controls, risk management and governance were not effective.

### **Basis for Conclusion**

#### **1. Lack of an Approved Risk Management Policy**

During the year under review, Management had not established a Risk Management Policy. Further, there was no evidence that the School has documented, identified and assessed risks and therefore controls to respond to risks identified have not been developed.

In the circumstances, the effectiveness of internal controls and risk management could not be confirmed.

#### **2. Lack of Approved Business Continuity Plan**

Review of the School's internal controls revealed that there was no approved data backup, recovery and business continuity strategy to enable it continue operating in case of major disruptions and system failure.

In the circumstances, the effectiveness of controls on data backup, recovery and business continuity could not be confirmed.

### **3. Weakness in Governance**

During the year under review, only two (2) Board of Management meetings were held. This was contrary to the fourth schedule of Basic Education Act, 2013 on conduct of business and affairs of the board of management which requires a minimum of three (3) meetings per year. In addition, there was no Board work plan or schedule of activities in the year under review to guide its operations. Further, the finance procurement and general-purpose committee, the academic standards committee and the discipline, ethics and integrity committee have not been established.

In the circumstances, the effectiveness of overall governance could not be confirmed.

### **4. Incomplete Fixed Assets Register**

The fixed assets register provided for audit lacked details such as dates of purchase, the historical costs and the book values of the assets. The register did not disclose additions and disposals of assets and there was no evidence on depreciation of the assets.

In the circumstances, the effectiveness of internal controls on fixed assets could not be confirmed.

The audit was conducted in accordance with ISSAI 2315 and ISSAI 2330. The standard requires that I plan and perform the audit to obtain assurance about whether effective processes and systems of internal control, 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 controls 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 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 overall 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 controls 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**