

REPORT OF THE AUDITOR-GENERAL ON MOI BOYS HIGH SCHOOL KASIGAU 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 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 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 Moi Boys High School Kasigau - Taita/Taveta County set out on pages 9 to 29, which comprise of 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, 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 Moi Boys High School Kasigau - Taita/Taveta County as at 30 June, 2022, 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. Inaccuracies in Financial Statements

Review of the financial statements submitted for audit revealed the following discrepancies and inaccuracies;

1.1 Overstatement of Expenditure

The Statement of receipts and payments reflects Kshs.14,859,201 being total expenditure and as disclosed in Notes 5, 6 and 7 to the financial statements. However, included in these amounts is Kshs.3,042,886 which has been erroneously reported as expenditure resulting into overstatement of expenditure as analyzed below.

Payments	Item	Amount (Kshs.)
Operations	Bank transfers	1,439,000
Boarding and School Funds Payments	Bursaries	1,303,886
	Bank transfers	300,000
Total		3,042,886

1.2 Overstatement of Other Receipts

The statement of receipts and payments reflects Kshs.4,095,389 being other receipts and as reported under Note 4 to the financial statements. Included in these amounts is Kshs.2,873,630 which has been erroneously reported in other receipts resulting into overstatement of other receipts as detailed below:

Item	Amount (Kshs.)
Bursaries	1,003,414
Refund	33,994
Bank transfer	359,994
Refund	37,228
Infrastructure Grants	1,439,000
Total	2,873,630

Further, the School did not provide a trial balance to support the figures in the financial statements. In addition, review of the National Education Management Information System (NEMIS) capitation revealed an amount of Kshs.1,462,627 in respect of capitation grants while the School receipted an amount of Kshs.780,064 resulting to a variance of Kshs.682,563.

In the circumstances, the accuracy and completeness of the above-mentioned amounts could not be confirmed.

2. Unsupported Accounts Receivables and Accounts Payables Balances

The statement of financial assets and financial liabilities reflects accounts receivables and accounts payables balances of Kshs.10,304,453 and Kshs.5,300,720 respectively as disclosed in Notes 10 and 11 respectively. However analysed schedules to support the two balances was not provided for audit.

In the circumstances, the accuracy and completeness of accounts receivables and accounts payables of Kshs.10,304,453 and Kshs.5,300,720 respectively could not be confirmed.

3. Non-Disclosure of School Bus Loan

The statement of financial assets and financial liabilities reflects accounts payables balance of Kshs.5,300,720 as disclosed in Note 11 to the financial statements. However, review of the School records revealed that Management entered into an agreement with a local bank on 7 November, 2019 for a credit facility of Kshs.5,307,000 for the purchase of school bus repayable within fifteen (15) school termly installments of Kshs.488,510 on every January, May and September. The facility was disbursed on 21, January, 2020 however the school has not been prudent in making its loan repayments despite generating some funds from the hire of the bus, resulting into accumulated loan balance of Kshs.5,504,197 inclusive of the unpaid principal and interest. The loan facility has also not been recognized in the financial statements.

In the circumstances, the accuracy and completeness of the accounts payable balance of Kshs.5,300,720 could not be confirmed.

The audit was conducted in accordance with International Standards of Supreme Audit Institutions (ISSAIs). I am independent of the Moi Boys High School Kasigau 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.

REPORT ON LAWFULNESS AND EFFECTIVENESS IN USE OF PUBLIC RESOURCES

Conclusion

As required by Article 229(6) of the Constitution, based on the audit procedures performed, except for the matters described in the Basis for Conclusion on Lawfulness and Effectiveness in Use of Public Resources section of my report, I confirm that, nothing else has come to my attention to cause me to believe that public resources have not been applied lawfully and in an effective way.

Basis for Conclusion

1. Non-Compliance with the 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 20 August, 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 financial statements for longer period is due to the adoption of IPSAS for school 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 only one year for 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.

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 longer period covered by the current financial period.

In the circumstances, Management did not comply with the prescriptions as issued by the Public Sector Accounting Standards Board (PSASB).

2. Irregular Transfer of Funds

The School transferred funds totalling to Kshs.308,200 to Kenya Secondary School Heads Association (KESSHA), a private entity that is not subject to the Public Finance Management Act, 2012. The organization is a welfare organization that draws its membership from School Principals where the funds were paid from Government operation capitation grants received by the School. Further, the Association is not defined in Government Funding and there is no assurance that it has implemented effective,

efficient and transparent financial management and internal control systems to manage the funds transferred by schools.

In the circumstances, the expenditure of Kshs.308,200 transferred to the Association could not be confirmed as a right charge to public funds.

3. Irregular Increase in School Fees

A review of the fees charged by the school revealed that the school charged more fees by Kshs.6,801 for boarders and Kshs.6,000 for days scholars per term above that authorized by the Ministry of Education (MOE).

In the circumstances, Management was in breach of the Ministry's guidelines.

4. Lack of Fixed Assets Register

Annex 2 to the financial statements, summary of fixed assets register reflects nil assets. Review of the School's documents revealed that the school sits on a fifty (50)-acre parcel of land which was donated by the local people. However, the School is yet to acquire the title deed. In addition, the School has partially fenced the parcel which exposes the unfenced portion to abuses such as grabbing and encroachments.

Further, the Management did not maintain an asset register in the prescribed format indicating the description, financier, serial/log book number, acquisition date, location, opening balances, additions or disposals during the year and the closing balances contrary to Regulation 143(1) of the Public Finance Management Regulations, 2015 which requires the Accounting Officer to be responsible for maintaining a register of assets under his or her control or possession as prescribed by the relevant laws.

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, based on the audit procedures performed, I confirm that, nothing has come to my attention to cause me to believe that internal controls, risk management and governance were not effective.

Basis for Conclusion

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 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 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 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 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 controls 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 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