REPORT OF THE AUDITOR-GENERAL ON MOSOP MIXED SECONDARY SCHOOL FOR THE SIX MONTHS PERIOD ENDED 30 JUNE, 2021 - NAKURU 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

Qualified Opinion

I have audited the accompanying financial statements of Mosop Mixed Secondary School - Nakuru County set out on pages 1 to 18, 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 the statement of budgeted versus actual amounts for the six months 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 Mosop Mixed Secondary School - Nakuru County as at 30 June, 2021, and of its financial performance and its cash flows for the year then ended, in accordance with the 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 the Financial Statements

Review of the financial statements reflects errors and misstatements affecting various amounts and balances as detailed below;

i. The statement of cash flows reflects increase in receivables amount of Kshs.22,530 which varies with the increase/(decrease) amount of Kshs.1,408,603 in the statement of financial assets and financial liabilities.

ii. The statement of cash flows reflects increase in payables amount of Kshs.256,834 which varies with the increase of Kshs.868,845 in the statement of financial assets and financial liabilities.

iii. The statement of financial assets and liabilities and as disclosed in Note 12 to the financial statements reflects accounts payable balance of Kshs.868,845 which varies with the balance of Kshs.236,400 in Annex 1 - analysis of pending accounts payable. The resultant difference of Kshs.632,445 was not explained.

iv. Biological assets as disclosed in Note 15 to the financial statements indicate that the School owns one (1) milk production cow valued at Kshs.70,000, nine hundred and sixty-seven (967) trees (3 years old) and cyprus trees valued at Kshs.48,350 which were not supported with a basis of valuation.

v. Note 17 to the financial statements disclose Kshs.Nil inventory balance whereas the School had stationeries and food stuff of undetermined value as at 30 June, 2021.

vi. The annexures to the financial statements include Kshs.Nil summary of fixed assets whereas there was existence of assets such as land, buildings and structures, office equipment, furniture and fittings, ICT equipment, tools and apparatus and textbooks.

In the circumstances, the accuracy, completeness, presentation and disclosure of the financial statements could not be confirmed and do not comply with the requirements of the IPSAS and Public Sector Accounting Standards Board.

2. Variances Between Financial Statements and Supporting Schedules

The following variances between the financial statements and the supporting schedules were noted;

i. The statement of receipts and payments reflects payments for tuition amount of Kshs.476,203 while supporting schedules reflects Kshs.271,222 resulting to an unreconciled difference amounting to Kshs.204,981.

ii. The statement of receipts and payments reflects boarding or school fund payments of Kshs.989,036 while the supporting schedules reflects Kshs.940,567 resulting to an unreconciled difference amounting to Kshs.48,469.

iii. The statement of financial assets and financial liabilities reflects accounts receivables balance of Kshs.1,408,603 while the list of students with fees arrears provided for audit indicated a balance of Kshs.1,362,981 resulting to unexplained variance of Kshs.45,622;

iv. The statement of financial assets and financial liabilities reflects accounts payables balance of Kshs.868,845 while the supporting schedule reflects a balance of Kshs.370,007 resulting to an unreconciled variance of Kshs.498,838

In the circumstances, the accuracy and completeness of payments for tuition amount of Kshs.476,203 and boarding/school fund payments of Kshs.989,036 could not be confirmed.

3. Inaccuracies in the Student Enrolment Data

The statement of receipts and payments reflects capitation grants for tuition and capitation for operations amount of Kshs.277,593 and Kshs.1,684,359, respectively as disclosed in Note 1 and Note 2 to the financial statements. Review of National Education Management Information System (NEMIS) revealed that two hundred and twenty-five (225) students while the school enrolment records indicated a range of between one hundred and eight (108) and two hundred and ten (210) students resulting to overfunding amounting to Kshs.184,754. Further, the School had students who were not registered in NEMIS due to lack of birth certificates or duplicate birth certificate numbers. In addition, students who had attained the age of over eighteen (18) years were removed from NEMIS system.

In the circumstances, the accuracy and completeness of the capitation grants for tuition and capitation for operations amount of Kshs.277,593 and Kshs.1,684,359, respectively could not be confirmed.

4. Inaccuracies in the Cash and Cash Equivalents

The statement of financial assets and financial liabilities reflects cash and cash equivalents balance of Kshs.107,924 as disclosed in Note 8 to the financial statements. However, the balance excluded bank balance of Kshs.2,403 in respect of National Government Constituencies Development Fund account. Further, the statement of financial assets and financial liabilities reflects cash balance of Kshs.61,918 which was not supported by a board of survey report.

In the circumstances, the accuracy, completeness, existence, presentation and disclosure of cash and cash equivalents balance of Kshs.169,842 could not be confirmed.

5. Inaccuracies in the Accounts Receivables

The statement of financial assets and financial liabilities reflects accounts receivables balance of Kshs.1,408,603 which relates to fees arrears as disclosed in Note 11 to the financial statements. However, the fees arrears list provided for audit included overpaid fees of Kshs.249,899 and which ought to have been treated as payables or deferred income. In addition, detailed analysis provided in Note 11 to the financial statements indicates that an amount of Kshs.1,261,590 had remained outstanding for more than two (2) years but there was no evidence on the efforts being made to ensure their full recoverability. Further, the significant accounting policies on accounts receivables as disclosed in Note 5 is silent on the treatment of the students' fees balances which is the major source of income for the school.

In the circumstances, the accuracy and completeness of accounts receivables balance of Kshs.1,408,603 could not be confirmed.

6. Undisclosed Summary of Fixed Assets and Lack of Ownership Documents

Review of list of assets provided for audit indicated fixed assets which includes land, buildings and structures, office equipment, furniture and fittings, ICT equipment, tools and apparatus and textbooks. However, these assets had not been valued and were not disclosed in the summary of fixed asset register in the financial statements. In addition, Management did not maintain an asset register in the format prescribed and the assets were not coded or tagged for ease of identification and tracking of the assets. Further, records provided for audit review indicated that the School had ten (10) acres piece of land comprising of approximately five (5) acres handed over by Mosop Nursery School and another five (5) acres surrendered by a resident in exchange for a portion in another location surrendered to Mosop Primary School. As at the time of audit, in the Month of June, 2023 the title deeds had not been procured and ownership of the two (2) portions of land could not be confirmed.

In the circumstances, the accuracy, completeness, ownership and existence of non-current assets of undetermined value could not be confirmed.

The audit was conducted in accordance with International Standards of Supreme Audit Institutions (ISSAIs). I am independent of the Mosop Mixed 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 judgement, 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 revenue budget of Kshs.4,101,164 against actual receipts of Kshs.3,020,351 resulting to a shortfall of Kshs.1,080,814 or 26% of the budget. Similarly, the statement reflects final expenditure budget of Kshs.12,193,360 against actual expenditure of Kshs.3,170,768 resulting to under-absorption of Kshs.9,022,592 or 74% of the budget.

The under-funding and under-performance affected the School's planned activities and may have impacted negatively on service delivery to the public.

REPORT ON LAWFULNESS AND EFFECTIVENESS IN USE OF PUBLIC RESOURCES

Conclusion

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

Basis for Conclusion

1. Non-Compliance with the Public Sector Accounting Standards Board (PSASB) 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 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 financial year 2020-2021 with no comparative balances. Therefore, the financial statements have not been prepared for eighteen months (18) as prescribed 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 longer period covered by the current financial period.

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

2. Budget Imbalance

The statement of budgeted versus actual amounts reflects a final revenue budget of Kshs.4,101,164 and final expenditure budget of Kshs.12,193,360 resulting to an unexplained difference of Kshs.8,092,196. The budget imbalance is contrary to the provisions of Section 33(c) of the Public Finance Management (National Governments) Regulations, 2015 which states that budget revenue and expenditure appropriation shall be balanced.

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

3. Failure to Transfer Infrastructure Funds

The statement of receipts and payments reflects capitation for operations amount of Kshs.1,684,359 as disclosed in Note 2 to the financial statements. However, the amount included maintenance and improvement funds which were not transferred to the school infrastructure account as required by Ministry of Education Circular Ref. No: MOE.HQS/3/13/3 dated 16 June, 2021. Further, there were no records provided for audit to show the full amount of infrastructure grants or maintenance and improvement funds which should have been transferred.

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

4. Irregular Transfer of Funds

The statement of receipts and payments reflects payments for operations amount of Kshs.1,705,529 as disclosed in Note 6 to the financial statements. However, an amount of Kshs.38,500 paid to the School was transferred to co-curricular funds of the Kenya Secondary School Heads Association (KSSHA) which is a Welfare Organization that draws its membership from School Principals only. This Organization is therefore 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 School may not have received value for money amounting to Kshs.38,500 transferred to KSSHA.

5. Ineffective Management of Text books

During the financial year 2020/2021, the Ministry of Education issued one thousand six hundred and eight (1,608) books. Out of this, eight hundred and eight (848) books were issued to the students resulting to an excess of seven hundred and sixty (760) books in the school store. Further, the following observations were noted in the management of text books;

i. Management had no mechanisms in place to track the movement of books distributed to the students.

ii. The exercise books were being stored in a temporary structure that did not have enough storage for the books. Excess books were placed on the floor and therefore not protected against damages caused by excessive cleaning water, deterioration by dampness, or insects.

iii. No proper records for books were maintained for books donated to other schools. Also, there was no list of unutilized books by the School.

iv. No annual stock take was done at the end of the financial year under review to ascertain the actual books available.

v. The Ministry of Education issued set books that were not being used by the students as they had selected another preferred set book hence all the books issued were still in the store.

In the circumstances, value for money on the issuance of text books could not be confirmed.

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

Lack of a School Improvement Plan

Review of the School's strategic plan and Board minutes revealed that the Management does not have in place a School Improvement Plan that provides a road map for changes that a school needs to improve the school environment and learning outcomes. It describes what a school improvement plan is, discusses why the plan is needed, and explains how to develop the plan, implement it, as well as how to monitor and evaluate the implementation.

In the circumstances, there is a risk of failing to determine and assess needs, and outlining programs that resolve all the issues uncovered.

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 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 control would not necessarily disclose all matters in the internal control that might be materials 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 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 scepticism 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

11 October, 2023