REPORT OF THE AUDITOR-GENERAL ON MUHU SECONDARY SCHOOL FOR THE YEAR ENDED 30 JUNE, 2021 - KIAMBU 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 Muhu Secondary School - Kiambu 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 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 the Muhu Secondary School - Kiambu 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 Basic Education Act, 2013.

Basis for Qualified Opinion

1. Inaccuracies in the Financial Statements

The annual report and financial statements presented for audit had the following inaccuracies:

i. The statement of financial assets and financial liabilities and Note 12 to the financial statements reflects accounts payable balance of Kshs.539,530 which includes trade creditors balance of Kshs.407,030. However, analysis of pending accounts payable shown under Annex 1 reflects a balance of Kshs.343,480 resulting to an unreconciled variance of Kshs.63,550;

ii. The statement of financial assets and financial liabilities reflects fund balance brought forward of Kshs.4,894,143 and Kshs.6,752,838 for 2020/2021 and 2019/2020 financial years respectively. However, Note 13 to the financial statements reflects fund balance brought forward for 2020/2021 and 2019/2020 financial years of Kshs.6,762,620 and Kshs.4,894,143 respectively and

iii. The statement of budgeted versus actual amounts reflects total income under budget utilization difference column amounting to Kshs.686,548. However, re-computation of the statement revealed total income amounting to Kshs.464,133 resulting to an unreconciled variance of Kshs.222,415.

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

2. Misstatement and Unsupported Parents Contribution

The statement of receipts and payments reflects school fund income - parents' contribution amounting to Kshs.2,371,617 as disclosed in Note 3 to the financial statements. However, the revenue schedule reflects an amount of Kshs.2,149,202 resulting to an unreconciled variance of Kshs.222,415. Further, review of the fees structure revealed that the students were to contribute an amount of Kshs.12,000 for the lunch program during the year under review. However, fees register showing the total amount billed to the students and the amount contributed was not provided for review.

In addition, review of the school fund cash book provided for audit revealed that there was lunch fee received in cash from the parents which was against the school policy indicating that all revenue should be paid through the bank. Further, the revenue collected in cash was not banked but spent at source which could be prone to misuse.

In the circumstances, the accuracy and completeness of the parents' contribution - School Fund Account receipts amounting to Kshs.2,371,617 could not be confirmed.

3. Unsupported Accounts Receivables

The statement of financial assets and financial liabilities and Note 11 to the financial statements reflects accounts receivables balance of Kshs.3,897,546, This balance relates to fees arrears from students. Review of the debtors ledger revealed accounts receivable balance of Kshs.3,746,946 for the prior years and current year debtors balance of Kshs.150,600. However, debtors age analysis showing how long the debts have been outstanding were not provided for audit. Further, Management did not explain measures put in place to ensure the debts are collected and debtors policy approved by the board of management was not provided for audit.

In the circumstances, the accuracy, completeness and recoverability of the accounts receivables balance of Kshs.3,897,546 could not be confirmed.

4. Cash and Cash Equivalents

The statement of financial assets and financial liabilities reflects cash and cash equivalents balance of Kshs.3,404,604 as disclosed in Note 9 to the financial statements. However, the following anomalies were noted;

4.1 Unsupported Cash Balances

Included in the cash and cash equivalents balance of Kshs.3,404,604 was cash in hand balances of Kshs.11,364 as disclosed in Note 9 to the financial statements. However, board of survey report as at 30 June, 2021 confirming the cashbook balances for all the bank accounts was not provided for audit.

4.2 Unreconciled Cash and Cash Equivalents

Review of the sampled bank reconciliation statements from the school fund account balance of Kshs.203,546 for the months of February, March, April and June, 2021 revealed direct deposits of Kshs.258,174, Kshs.78,194, Kshs.83,574 and Kshs.39,554 respectively which had not been receipted in to the cash book. However, there was no evidence that the unreceipted deposits were recorded in the cashbook in the subsequent months.

4.3 Unaccounted for Cash Withdrawals

Review of cash book and bank statements revealed cash withdrawals for operations account and school fund account amounting to Kshs.298,500 and Kshs.305,000 respectively. However, memorandum cash book was not maintained for the account. Further, the school did not have an approved cash management policy to manage the use of cash and issue of standing imprests. In addition, there were no formal requests from the Principal for the cash withdrawals and no approved threshold limits were set for the cash withdrawals.

In the circumstances, the accuracy and completeness of the cash and cash equivalents balance of Kshs.3,404,604 could not be confirmed.

5. Unsupported Payment for Activity Fees

The statement of receipts and payments reflects payments for operations amounting to Kshs.2,530,958 as disclosed in Note 6 to the financial statements includes activity expenses of Kshs.128,500. Review of payment vouchers and supporting documents revealed that these were payments made to Kikuyu Sub-County Secondary School heads for activity fees. However, the payments were not supported by invoices and issued receipts. Further, the law approving and determining the rates applied was not provided for audit.

In the circumstances, the accuracy and completeness of the activity expenses of Kshs.128,500 could not be confirmed.

The audit was conducted in accordance with International Standards of Supreme Audit Institutions (ISSAIs). I am independent of the Muhu Secondary School Management in accordance with ISSAI 130 on the 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-Utilization of Capitation for Development

The statement of receipts and payments and as disclosed in Note 2 to the financial statements reflects capitation grants for operations amount of Kshs.4,049,851 which includes an amount of Kshs.1,965,000 for capitation for development. However, review of the infrastructure bank account statement revealed an unutilized balance of Kshs.3,084,116 as at 30 June, 2021. Further, review of the project files revealed that approval from the County Director of Education for implementation of the infrastructure projects was sought on 29 April, 2020 for renovation of administration block. However, no project was undertaken during the year under review hence the funds received were not utilized.

In the circumstances, value for money for capitation for development could not be confirmed.

2. Irregularities in Accounting for Capitation Grants

During the year under review, the school did not acknowledge receipt of capitation for grants for operations and tuition as was directed by the Ministry of Education by providing to the County Director of Education through the Sub-County Director of Education an allocation of funds duly signed by individual students showing their admission numbers and full names as indicated in the admission register and the amount awarded. In addition, the Principal was required to acknowledge funds received two weeks after receipt. However, it was noted that acknowledgement for the capitation for operations disbursement of Kshs.1,769,925 dated 22 April, 2021 was done after the stipulated time on 25 May, 2021.

Further, there was no evidence that official receipts were issued to the Principal Secretary - State Department of Early Learning and Basic Education as the acknowledgment receipts provided did not have the County Directors of Education received stamp. In addition, the School did not acknowledge receipt of Kshs.172,189 for capitation for tuition by a letter to the County Director of Education and there was no evidence that an official receipt was uploaded on the NEMIS platform.

In the circumstances, it was not possible to confirm the actual number of students funded during the year under review and Management was in breach of the guidelines.

3. Lack of School Improvement Plan

During the year under review, the school did not have a school improvement plan as required by the Ministry of Education operations manual for utilization of learner capitation grant and other school funds. This was contrary to the Ministry of Education Operation Manual for Utilization of Learner Capitation Grant and Other School Funds under Section 2.2 School Improvement Planning that requires the School to identify in every 3-year School improvement planning cycle, one priority area in each of the four key areas which include curriculum implementation, foundational literacy and numeracy outcomes, an enabling environment for learning and parental involvement and community engagement for implementation.

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

4. 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 August 20, 2021 requires the first financial statements after adoption of IPSAS to be presented for eighteen (18) months from 01 January, 2020 to 30 June, 2021 with comparatives being for twelve (12) months from 01 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 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 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 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, 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. Weak Controls in Management of Textbooks

Review of the inventory records revealed that the school maintained a receipts and issue register for all the text books received from the Ministry of Education and issued to students. The audit revealed that the School - maintained student card files to record all the books issued and returned by the students which were supposed to be returned at the end of the academic year. However, review of the student card files revealed that students were issued with books in the subsequent year without returning the books for the previous classes. Further, a textbook inventory analysis showing the text books received from the Ministry, text books issued to the students, number of books collected, number of books not returned and balance in stock was not provided for audit.

Further, Management did not explain measures which have been put in place to ensure all the textbooks are recovered and policy put in place for management of textbooks to eliminate loss of textbooks.

In the circumstances, it was not possible to confirm existence of effective internal controls in relation to management of text books.

2. Weak Controls on Assets Management

During the year under review, the school did not maintain an inventory management system. Further, the audit revealed that the School assets including office machines and furniture were not tagged hence it was not possible to identify the assets which could result to loss of the assets.

In the circumstances, it was not possible to confirm existence of effective internal controls systems in management of assets.

3. Irregularities on Board of Management

Review of the board of management files revealed that the board of management qualifications could not be confirmed since academic certificates were not provided for audit.

In addition, the board did not have an annual workplan or schedule of activities and there were no approved rates for allowances payable to the board. Further, the board held only one meeting during the year under review and the Board meeting minutes were not signed. Further, the audit and finance committees did not hold meetings during the year under review.

In the circumstances, the school might not have benefited from advisory and oversighting roles of the board of management.

4. Weak Controls on Cash and Bank Management

Review of the cash and cash equivalents documents for the four bank accounts revealed the following anomalies: -

i. Bank reconciliation statements for tuition account were not prepared for each month as required by the law and bank statement for the month of June was not provided for audit;

ii. The cash book for operations account was not officially balanced, reviewed, and approved by way of signing at the end of the financial period by a senior official;

iii. Bank reconciliation statements for infrastructure account were not prepared for the six months under review and cash book was not prepared for the months of February, March, April and June, 2021. Further, the cash book was not officially balanced, reviewed, and approved by way of signing at the end of the financial period by a senior official and

iv. Management did not prepare a separate cash book for the infrastructure account as required by law that each bank account shall have its own cash book.

In the circumstances, the effectiveness of the controls on management of cash could not be confirmed.

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 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 and as applicable matters related to sustainability of services and using the applicable basis of accounting unless Management is aware of the intention to abolish 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 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 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 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 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