REPORT OF THE AUDITOR-GENERAL ON MVITA BOYS SECONDARY SCHOOL FOR THE YEAR ENDED 30 JUNE, 2021 – MOMBASA 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 Mvita Boys Secondary School – Mombasa County set out on pages 12 to 24, which comprise of the statement of financial assets and financial liabilities financial as at 30 June, 2021 and the statement of receipts and financial payments, statement of cash flows and the statement of budgeted verses 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 Mvita Boys Secondary School – Mombasa 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 do not 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 statement of receipts and expenditure and statement of cash flows together with their disclosure notes reflect variances in five (5) items as shown below.

Item	Note	Statement of Receipts and Payments (Kshs.)	Statement of Cash flows (Kshs.)	Variance (Kshs.)
Capitation Grants for Operations	2	4,519,529	3,086,745	1,432,784
Parents Contribution	3	4,844,347	5,020,417	(176,070)
Payment for Tuition	5	1,465,787	514,763	951,024
Payment for Operation	6	3,713,987	4,158,795	(444,808)
Boarding Payments	7	3,361,219	5,020,417	(1,659,198)

The variances were not reconciled.

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

2. Unconfirmed Capitation Grants for Operation

The statement of receipts and payments and as disclosed in Note 2 to financial statements reflects an amount of Kshs.4,519,529 in respect of capitation grants for operation. However, the bank statements and cashbook confirmed that the School received a total of Kshs.4,302,162 on operations resulting in an unexplained unreconciled variance of Kshs.217,366. Further, the school acknowledged receipt of Kshs.3,230,632 only.

In the circumstances, the accuracy and completeness of capitations grants for operations balance of Kshs.4, 519,529.20 could not be confirmed

3. Unsupported Accounts Receivables

The statement of financial assets and financial liabilities and as disclosed in Note 11 to the financial statements reflects accounts receivables balance of Kshs.5,732,234. This balance includes fees amounts of Kshs.4,366,335 which have been outstanding for over two years. However, the Management does not have a debt collection policy and has not demonstrated any efforts in recovering the long outstanding students' fees arrears. In addition, there was no breakdown of the outstanding students' receivables per student for the whole year.

In the circumstances, the recoverability and accuracy of accounts receivables of Kshs.4,366,335 could not be confirmed.

4. Unsupported Accounts Payables

The statement of financial asset and financial liabilities reflects accounts payables balance of Kshs.3,573,787 as disclosed in Note 12 to the financial statements which includes trade creditors balance of Kshs.2,753,037 and Kshs.820,750 respectively. However, there were no schedules or ledgers, contracts between the suppliers listed and the School to support the balance. Further, the balance includes an amount of Kshs.970,313 being trade creditors for the previous year whose payment had not been done at the time of this audit.

In the circumstances the accuracy and completeness of the accounts payables balance of Kshs.3,573,787 could not be confirmed.

5. Unsupported Cash and Cash Equivalents

The statement of financial assets and financial liabilities and as disclosed in Notes 8 and 9 to financial statements reflects a balance of Kshs.5,464,008 on cash and cash equivalents which includes bank accounts of Kshs.5,462,282 and cash in hand of Kshs.1,726. However, the Management did not prepare and update cash books for bus, infrastructure and gratuity bank accounts and did not provide bank reconciliation statements for the bus and gratuity bank accounts.

In the circumstances, the accuracy and completeness of cash and cash equivalents balance of Kshs.5,464,009 could not be confirmed.

The audit was conducted in accordance with the International Standards of Supreme Audit Institutions (ISSAIs). I am independent of the Mvita Boys Secondary School Management in accordance with ISSAI 130 on Code of Ethics. I have fulfilled other ethical responsibilities in accordance with the ISSAI and in accordance with other ethical requirements applicable to performing audits of financial statements in Kenya. I believe that the audit evidence I have obtained is sufficient and appropriate to provide a basis for my qualified opinion.

Key Audit Matters

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

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-Optimization of the Schools Financial Management System

Management operates a financial management system for management of its financial records which is maintained at an annual maintenance fee of Kshs.40,000. Review of the system showed that the system capabilities included recording of; fee receipts, capitation receipts, payments to suppliers, any other payments, cashbook and ledgers management and preparation of Financial Reports. However, it was observed that the school was using the system for only fee collection despite the other modules being active and usable.

In the circumstances, value for money has not been realised from the investment in the system.

2. Lack of a Procurement Plan

During the year under review, the School did not have a procurement plan. This is contrary to Section 53 (2) and (5) of the Public Procurement and Asset Disposal Act, 2015 and Regulation 40(1) of the Public Procurement and Asset Disposal Regulations, 2020.

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

3. 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 only one year for financial year 2020-2021 with comparative balances for financial year

2019-2020. 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 matter described in the Basis for Conclusion 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 an Imprest and Advances Register

The statement of financial assets and financial liabilities as disclosed in Note 11 to financial statements reflects an amount of Kshs.5,732,234 on accounts receivable with nil amount on staff imprest and salary advances. However, Management issued several amounts as staff imprest and advances during the year but failed to maintain an imprest register or record book on all advances issued to monitor the issuing and receipt of these funds.

In the circumstances, existence of an effective internal controls on imprests and advances 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 controls, risk management and 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 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 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
<u>AUDITOR-GENERAL</u>

Nairobi

12 October, 2023