REPORT OF THE AUDITOR-GENERAL ON PCEA KIKUYU HIGH 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 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 PCEA Kikuyu High School - Kiambu County set out on pages 1 to 22, which comprise of the statement of financial assets and liabilities as at 30 June, 2021, the statement of receipts and payments, statement of cash flows, 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 PCEA Kikuyu High 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 the Basic Education Act, 2013.

Basis for Qualified Opinion

1. Variances Between Financial Statements and Supporting Schedules

The financial statements reflect amounts that differed with the supporting schedules as detailed below;

Particulars	Financial Statements Amount (Kshs.)	Supporting Schedule Amount (Kshs.)	Variance (Kshs.)
Capitation Grant for Tuition	521,790	0	521,790
Capitation Grant Operations	3,273,015	0	3,273,015
School Fund Income - Parents Contribution	12,608,432	9,303,337	3,305,095
School Fund Income - Other Receipts	1,739,670	0	1,739,670
Payment for Tuition	890,695	582,015	308,680
Payments for Operations	2,755,831	0	2,755,831
Boarding and School Fund Payments	11,406,110	0	11,406,110
Accounts Receivables	25,852,418	0	25,852,418

In the circumstances, the accuracy of the financial statements for the year ended 30 June, 2021 could not be confirmed.

2. Inaccuracies in the Financial Statements

The statement of receipts and payments reflects total receipts of Kshs.18,142,907 and payments of Kshs.15,052,636 whereas the statement of cash flows reflects total receipts of Kshs.18,618,459 and total payments of Kshs.18,257,928, resulting to unexplained variance of Kshs.475,552 and Kshs.3,205,292 respectively.

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

3. Inaccuracies in Cash and Cash Equivalents

The statement of financial assets and liabilities reflects cash and cash equivalents balance of Kshs.923,779 which comprised of bank balances of Kshs.881,879 and cash balances of Kshs.41,900 as disclosed in Note 8 and 9 respectively. However, the schedule provided reflected a balance of Kshs.781,425 resulting to an unreconciled variance of Kshs.142,354. In addition, the bank balance is inclusive of stale cheques of Kshs.124,700 which had not been reversed or replaced in the cash book.

In the circumstances, the accuracy of cash and cash equivalents balance of Kshs.923,779 could not be confirmed.

4. Lack of Land Title Deed

Records provided for audit revealed that the School occupies 18 acres of land. However, the ownership is under the Presbyterian Church of East Africa Kikuyu Mission this is contrary to Regulations 143(1) of Public Finance Management (National Government) Regulations, 2015 which prescribes that the Accounting Officer shall be responsible for maintaining a register of assets under his or her control or possession as prescribed by the relevant laws.

In the circumstances, ownership and valuation of land could not be confirmed.

The audit was conducted in accordance with the International Standards of Supreme Audit Institutions (ISSAIs). I am independent of the PCEA Kikuyu High 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.

Other Matter

Budgetary Control and Performance

The statement of budgeted versus actual amounts reflects total revenue budget of Kshs.24,185,849 and actual receipts of Kshs.18,142,907, resulting to a shortfall of Kshs.6,042,942 277 or 26% of the budget. Similarly, the statement reflects total expenditure budget of Kshs.24,186,849 and actual expenditure of Kshs.15,052,636, resulting to an under-absorption of Kshs.9,134,213 or 38% of the budget.

The revenue shortfall and under absorption may have affected School's planned activities and 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 only six (6) months for financial year 2020-2021 with comparative balances for financial year 2019-2020. Therefore, the financial statements for 2020-2021 have not been prepared for eighteen-months (18) as prescribed the Public Sector Accounting Standards Board (PSASB).

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

2. Irregular payment to Kenya Secondary Schools Heads Association (KESSHA)

The statement of receipts and payments reflects payments for operations of Kshs.2,755,831 as disclosed in Note 6 to the financial statements. However, review of records revealed that an amount of Kshs.223,000 was transferred as co-curricular funds to Kenya Secondary School Heads Association (KESSHA), a private entity that is not subject to Public Finance Management Act, 2012 or any other public finance regulations.

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

3. Unauthorised Virements (Reallocation) of Funds

The statement of receipts and payments reflects total receipts of Kshs.18,142,907. However, review of records revealed that an amount of Kshs.600,000 was transferred from the operations to the tuition account and Kshs.642,160 from the school fund account to the operations account without approval by the County Education Board(CEB). This was contrary to the provisions of the Ministry of Education Circular Ref. No: MOE/G1/9/1/44 dated 9 January, 2008 and MOE.HQS/3/13/3 dated 16 June, 2021 which directs that under the operations account, schools may seek authority from the County Education Board to vire savings or surplus funds from one item to another when it is absolutely necessary but no virement from the tuition account will be allowed.

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

4. Non-disclosure of School Bus Acquisition and School Bus Fund Balance

Records provided for audit revealed that parents contributed a total of Kshs.14,337,081 in respect of purchase of a 51-seater semi-luxury bus against the loan advanced by a local bank for the purpose of Kshs.11,528,138 resulting to unutilised balance of Kshs.2,808,943. However, the value of the bus and unspent bank balance have not been disclosed in the financial statements. This is contrary to Section 68(2)(b) of the Public Finance Management Act, 2012 which provides that the Accounting Officer shall ensure that the entity keeps financial and accounting records that comply with this Act.

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

5. Long Outstanding Accounts Payables

The statement of financial assets and liabilities reflects accounts payables balance of Kshs.12,218,714 as disclosed in Note 12 to the financial statements, out of which an amount of Kshs.5,996,915 was in respect to payments due to suppliers for delivered goods and services that have remained unpaid for a period in excess of two years.

In the circumstances, effective management of accounts payables could not be confirmed.

6. Unapproved Expenditure

Management Incurred expenditure on various items amounting to Kshs.1,481,064 without budgetary approvals. This was contrary to regulation 23(2)(g) of public finance Management (National Government) Regulations, 2015.

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 has come to my attention to cause me to believe that internal controls, risk management and overall governance were not effective.

Basis for Conclusion

Long Outstanding Accounts Receivables

The statement of financial assets and liabilities reflects accounts receivables balance of Kshs.25,852,418 as disclosed in Note 11 to the financial statements, out of which Kshs.21,199,181 was in respect of fees arrears that have been outstanding in excess of two (2) years and no explanation was provided by Management on how they intend to enforce collection of the fee arrears. However, student fee arrears aging analysis was not provided by Management for audit review. Further, the balance includes an amount of Kshs.800,520 in respects of students who have been issued with KCSE certificates without clearing fee arrears.

In the circumstances, recoverability of accounts receivables balance of Kshs.25,852,418 could not be confirmed.

Lack of Land Title Deed and Updated Asset Register

Records provided for audit revealed that the School occupies 18 acres of land. However, the ownership is under the Presbyterian Church of East Africa Kikuyu Mission. This is contrary to Regulations 143(1) of Public Finance Management (National Government) Regulations, 2015 which prescribes that the Accounting Officer shall be responsible for maintaining a register of assets under his or her control or possession as prescribed by the relevant laws.

In the circumstances, ownership of the unvalued land could not be confirmed and Management have not safeguarded the School's land and other assets.

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 control 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 control 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 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 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 sustain its services. If I conclude that a material uncertainty exists, I am required to draw attention in the auditor's report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify my opinion. My conclusions are based on the audit evidence obtained up to the date of my audit report. However, future events or conditions may cause the School to cease to continue to sustain its services.

- Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

- Obtain sufficient appropriate audit evidence regarding the financial information and business activities of the School to express an opinion on the financial statements.

- Perform such other procedures as I consider necessary in the circumstances.

I communicate with the Management regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal controls that are identified during the audit.

I also provide Management with a statement that I have complied with relevant ethical requirements regarding independence and to communicate with them all relationships and other matters that may reasonably be thought to bear on my independence and where applicable, related safeguards.

CPA Nancy Gathungu, CBS
AUDITOR-GENERAL

Nairobi

12 October, 2023