

REPORT OF THE AUDITOR-GENERAL ON ST. MONICA'S BUTUNYI GIRLS SECONDARY SCHOOL FOR THE EIGHTEEN (18) MONTHS' PERIOD ENDED 30 JUNE, 2021 – BUSIA 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 St. Monica's Butunyi Girls Secondary School – Busia County set out on pages 13 to 26, which comprise the statement of financial assets and financial liabilities as at 30 June, 2021, and the statement of receipts and payments, statement of cash flows, statement of budgeted versus actual amounts for the eighteen (18) months' period 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 St. Monica's Butunyi Girls Secondary School – Busia County as at 30 June, 2021, and of its financial performance and its cash flows for the eighteen (18) months' period then ended, in accordance with International Public Sector Accounting Standards (Cash Basis) and comply with the Basic Education Act, 2013 and the Public Finance Management Act, 2012.

Basis for Qualified Opinion

1.0. Inadequately Supported Expenditure

The statement of receipts and payments reflects an expenditure of Kshs.1,746,025 under payments for operations which, as disclosed in Note 5 to the financial statements, includes an amount of Kshs.337,356 in respect of maintenance and improvement relating to renovation of two (2) classrooms at the School. Management provided for audit, notification of award, letter of acceptance of the award, contract agreement and statements for payments on account indicating that the tender was awarded to a company at a contract sum of Kshs.336,840. However, procurement documents leading to the award of the contract, including invitation to tender advertisement, bids submitted, tender evaluation report and professional opinion were not provided for audit.

In the circumstances, the accuracy, completeness and propriety of the maintenance and improvement expenditure of Kshs.337,356 could not be confirmed.

2.0. Long Outstanding Accounts Receivables

The statement of financial assets and financial liabilities reflects accounts receivables balance of Kshs.4,783,119 which, as disclosed Note 9 to the financial statements, relates to fees arrears. However, included in the balance is Kshs.3,728,597 that had been outstanding for a period of more than two (2) years. Further, evidence of effort made by Management to recover the arrears was not provided for audit.

In the circumstances, the accuracy and recoverability of the fees arrears of Kshs.4,783,119 could not be confirmed. Also, the School may face difficulties in delivering on its mandate.

3.0. Long Outstanding and Unsupported Accounts Payables

The statement of financial assets and financial liabilities reflects accounts payables balance of Kshs.999,359 which, as disclosed Note 10 to the financial statements, includes an amount of Kshs.508,969 that had been outstanding for a period of more than two (2) years. Further, Annex 1 on analysis of pending accounts payables only analyses pending bills for the current year amounting to Kshs.302,090, while pending payables amounting to Kshs.697,269 are not included in the analysis.

In the circumstances, the accuracy and completeness of the accounts payables balance of Kshs.999,359 could not be confirmed. Further, legal suits may be filed against the School, leading to additional costs to the School in form of legal fees, penalties and interests. Also, contractors or suppliers may withhold services for non-payment.

4.0. Unconfirmed Accuracy of Fixed Assets Balance

The summary of fixed assets register at Annex 2 to the financial statements reflects total assets balance of Kshs.18,116,400. However, the following unsatisfactory matters were noted:

4.1. Failure to Prepare and Maintain a Fixed Assets Register

Management did not prepare an up to date comprehensive assets register indicating the nature, dates of acquisition, costs, unique identification numbers, current locations or users, accumulated depreciation and net book values in support of the balance of Kshs.18,116,400 as at 30 June, 2021.

4.2. Lack of Ownership Documents

The balance of Kshs.18,116,400 includes Kshs.1,200,000, being the value of a parcel of land measuring approximately 9.5 acres belonging to Butunyi Roman Catholic School and on which the School was built. Also built on the parcel of land are a public primary school and a Church which have the title deeds. However, no evidence was provided to show that efforts had been made to have a standalone title deed for the School.

In the circumstances, the accuracy and completeness of the assets balance of Kshs.18,116,400 could not be confirmed.

The audit was conducted in accordance with International Standards of Supreme Audit Institutions (ISSAIs). I am independent of the St. Monica's Butunyi Girls 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.

Other Matter

Budgetary Control and Performance

The statement of budgeted versus actual amounts reflects receipts budget and actual on comparable basis amounts of Kshs.6,409,225 and Kshs.4,142,370 respectively, resulting in an underfunding of Kshs.2,266,855 or 35% of the budget. Similarly, the statement reflects budgeted expenditure and actual on comparable basis amounts of

Kshs.6,409,225 and Kshs.3,115,527 respectively, resulting in an under expenditure of Kshs.3,293,698 or 51% of the budget.

The underfunding and under expenditure affected the School's planned activities and may have adversely affected service delivery to the students, teachers and other stakeholders.

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

1.0. Stalled Project

Audit inspection of the School's buildings revealed a stalled building which started in the year 2008 and was funded by the Parents Teachers Association but was abandoned at the window level. Due to the abandonment, bricks had fallen off and were scattered around the structure. Further, payment records of documents showing the amount already spent on the project were not provided for audit.

In the circumstances, value for money may not have been realized from the expenditure on the project. Also, failure to complete the building might have adversely affected learning in the School.

2.0. Payments Made Without Budgetary Provisions

The statement of budgeted versus actual amounts indicates that the School made payments totalling to Kshs.704,589 under various budget items without a budgetary provision. This was contrary to Section 88(2) of the Basic Education Act, 2013, which states that the annual estimates should make provisions for all the estimated expenditure of the Department.

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

3.0. Lack of an Imprest Register

The Management of the School did not maintain an imprest register detailing the payees, imprest warrant numbers, date of issue, due dates, and dates of surrender. This was contrary to the provisions of Regulation 93(4)(c) of the Public Finance Management (National Government) Regulations, 2015, which states that the Accounting Officer should ensure that the applicant imprest has been recorded in the imprest register including the amount applied for.

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 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

1.0. Lack of Board Charter and Strategic Plan

During the period under review, the School did not have a Board Charter and a Strategic Plan outlining the objective and scope of the School. Although Management indicated that the School was in the process of developing the two documents, no documentary evidence was provided for audit review.

In the circumstances, the School had no means of measuring success, and demonstrating results, value and performance.

2.0. Lack of a Risk Management Policy

During the period under review, the School operated without a Risk Management Policy. Further, no evidence was provided to confirm that the School performed a formal risk assessment for the period under review. Although Management indicated that the School was in the process of developing the policy, no documentary evidence was provided for audit review.

In the circumstances, the effectiveness of risk management in the School could not be confirmed.

3.0. Lack of an Information Technology (IT) and Service Continuity and Disaster Recovery Plan

During the period under review, the School did not have a Data Recovery Strategy and Service Continuity Plan. Further, no offsite back up storage facility existed and the School

did not have an existing IT Officer and IT Strategic Committee which would advise on gaps within the IT system. In addition, the School did not have a single computer.

In the circumstances, the School may suffer permanent loss of data and subsequent loss of public resources in the event a disaster occurs.

4.0. Weakness in the Filing System for Board of Management Committees

Review of documents revealed that the School had formed various School Committees as provided in the Basic Education Act, 2013. However, documents relating to the Committees were filed without folio numbers being indicated. Further, the School Infrastructure Committee's file contained all the procurement documents for all projects undertaken by the School. However, there was no specific file for each project as a result of which getting documents for the various Committee's deliberations and projects was difficult.

In the circumstances, the existence and/ or effectiveness of internal controls over filing of documents 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 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 control, risk management and 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 the sustainability of services and using the applicable basis of accounting unless Management is aware of the intention to terminate the School or 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 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 noncompliance. 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 control.
- 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 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 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 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

09 October, 2023