

REPORT OF THE AUDITOR-GENERAL ON ST. THOMAS AQUINAS MADENDE 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, gazetted 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. Thomas Aquinas Madende Secondary School – Busia County set out on pages 1 to 14, which comprise the financial assets and financial liabilities as at 30 June, 2021, and the statement of receipts and payments, statement of cash flows and statement of budgeted versus actual amounts for the eighteen 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. Thomas Aquinas Madende Secondary School – Busia 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. Inaccuracies in the Financial Statements

Review of financial statements of the School for the period presented for audit revealed the following anomalies: -

- i. The statement of receipts and payments reflects capitation grants for tuition and operations of Kshs.2,386,790 and Kshs.11,894,575 respectively. However, comparison of the National Education Management Information System (NEMIS) data and the School's enrolment registers revealed that the number of students captured in NEMIS and which was used for allocation capitation grants was less than the actual enrolment by twenty (20) and thirty-seven (37) in February, 2021 and in April, 2021 respectively, resulting in underfunding by Kshs.209,179.
- ii. The statement of receipts and payments reflects Kshs.2,386,790 in respect of capitation grants for tuition. However, review of the supporting schedules including NEMIS capitation disbursement extracts revealed allocation of Kshs.983,530, resulting in unexplained and unreconciled variance of Kshs.1,403,260.
- iii. The statement of receipts and payments reflects an amount of Kshs.11,894,575 in respect of capitation grants for operations. However, review of the supporting schedule including NEMIS capitation disbursement extract revealed an allocation of Kshs.4,610,372, resulting in unexplained and unreconciled variance of Kshs.7,284,203.
- iv. The statement of receipts and payments reflects an amount of Kshs.20,756,578 in respect of school fund income - parents' contributions. However, review supporting schedules including the fees collection summary revealed total fee collections of Kshs.8,146,891, resulting in unexplained and unreconciled variance of Kshs.12,609,687. Further, the fees collection was not supported with the bank statements.
- v. The statement of receipts and payments reflects capitation grants for operations of Kshs.11,894,575 which includes amount of Kshs.153,575 in respect of medical and insurance. However, supporting documents including NEMIS receipts schedules and acknowledgments to the Ministry of Education were not provided for review. In addition, review of the school NEMIS data revealed that the Ministry disbursed capitation for the period under review in February and April, 2021 with student NEMIS enrolment of 740 and 757 respectively, translating to capitation of Kshs.1,498,000 in

respect of medical insurance. The resulting variance of Kshs.1,344,425 was not explained or reconciled.

- vi. As disclosed in Note 2 to the financial statements capitation grants for operations of Kshs.11,894,575 were received during the period under review, which includes an amount of Kshs.307,150 in respect of activity. However, supporting documents including NEMIS receipt schedules and acknowledgments to the Ministry of Education were not provided for review. Further, review of the School's NEMIS data revealed that the Ministry disbursed capitation in February and April, 2021 based on student NEMIS enrolment of 740 and 757 respectively, translating to capitation of Kshs.1,123,500 in respect of activity, resulting in unexplained and unreconciled variance of Kshs.816,350.
- vii. As disclosed in Note1 to the financial statements, no amount was disbursed to the school in respect of textbooks and reference materials. Review of the correspondence to Schools from the Ministry of Education on the implementation of Free Day Secondary Education (FDSE) revealed that the capitation grants in respect of textbooks were retained the Ministry of Education for purchase of books which were and supplied to the schools. However, details including the values and cost of the supplied textbooks were not provided for audit review.
- viii. The statement of receipts and payments reflects Kshs.3,496,270 in respect of payments for tuition. However, review of the supporting schedule including payment vouchers revealed Kshs.996,650, resulting in unexplained and unreconciled variance of Kshs.2,499,620.
- ix. As disclosed in Note 6 to the financial statements, expenditure totalling Kshs.8,391,672 was incurred in respect of payments for operations. However, review of the supporting schedule including payment vouchers revealed expenditure of Kshs.4,331,139, resulting in unexplained and unreconciled variance of Kshs.4,060,533.
- x. The statement of receipts and payments and as disclosed in Note 7 to the financial statements reflects Kshs.20,199,005 in respect of payments for boarding and school fund. However, review of the supporting schedule including payment vouchers revealed Kshs.6,933,545, resulting in unexplained and unreconciled variance of Kshs.13,265,460

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

2. Unsupported Cash and Cash Equivalentents

The statement of financial assets and financial liabilities reflects cash and cash equivalentents balance of Kshs.1,249,470 which comprise Kshs.1,204,128 and Kshs.45,342 in respect of bank and cash in hand balances respectively. The bank balance of Kshs.1,204,128 includes bank balances in respect of five (5) bank accounts. However,

the bank account and cash in hand balances were not supported with cash book, bank reconciliation statements and board of cash survey reports respectively.

In the circumstances, the regularity, accuracy and completeness of the bank accounts balance of Kshs.1,249,470 in respect of cash and cash equivalents could not be confirmed.

3. Unsupported Accounts receivables

The statement of financial assets and financial liabilities reflects accounts receivable balance of Kshs.18,508,132 in respect of fees arrears. However, supporting documents including ledger schedules includes fees arrears dating back to the year 2010 which were not supported with students' fee statements. Further, there was no evidence indicating mechanisms put in place to recover these long overdue debts.

In the circumstances, the accuracy, completeness and recoverability and fair statement of accounts receivable balance of Kshs.18,508,132 could not be confirmed.

4. Unsupported Accounts Payables

The statement of financial assets and financial liabilities which, reflects accounts payable balance of Kshs.19,216,174 and as disclosed in Note 12 to the financial statements includes Kshs.19,131,830 and Kshs.84,344 in respect of trade creditors and prepayments respectively. However, supporting documents for trade creditors with a balance of Kshs.19,131,830, including invoices, delivery notes, issues and receipts were not provided for review. Further, the prepaid fees were not supported by students' fee statements. In addition, the balance includes long outstanding accounts payables dating two years back. However, evidence indicating mechanisms or strategies put in place to settle these long outstanding accounts payables were not provided for audit.

In the circumstances, the accuracy and completeness of accounts payable balance of Kshs.19,216,174 could not be confirmed.

5. Unsupported Repairs, Maintenance and Improvements

The statement of receipts and payments reflects payments for operations and boarding and school fund payments of Kshs.8,391,672 and Kshs.20,199,005 respectively. The expenditure includes amounts of Kshs.1,777,980 and Kshs.1,174,200 in respect to repairs, maintenance and improvements totalling Kshs.2,952,180. However, supporting documents including procurement plans, bills of quantities, contract agreements, payment and inspection and acceptance committee reports for the repairs and maintenance works were not provided for audit review in respect of maintenance and repairs work done.

In the circumstances, the accuracy and completeness of the amounts totalling to Kshs.2,952,180 for repairs, maintenance and improvements could not be confirmed.

The audit was conducted in accordance with International Standards of Supreme Audit Institutions (ISSAIs). I am independent of St. Thomas Aquinas Madende 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 final total income budget and actual on comparable basis of Kshs.21,685,747 and Kshs.35,037,943 respectively, resulting in an over-funding of Kshs.13,352,196 or 62% of the budget. Similarly, the statement reflects final budget expenditure and actual on comparable basis of Kshs.21,685,747 and Kshs.32,086,947, resulting in over-absorption of Kshs.10,401,200 or 48% of the budget.

Further, the budget amounts were not supported by approved budget, contrary to Regulation 31(1) of the Public Finance Management (National Government) Regulations, 2015 which states that 'the Accounting Officer shall ensure that the draft estimates relating to her or his department are prepared in conformity with the Constitution, the Act and these Regulations.(2) The Accounting Officer is responsible, in particular for ensuring that all services which can be reasonably foreseen are included in the estimates and that they are within the capacity of her or his national government entity during the financial year and the estimates are submitted to the National Treasury in the manner and format to be issued by the Cabinet Secretary'.

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 matter 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

Non-Compliance with the Public Sector Accounting Standards Board Requirement on Presentation of the Financial Statements

The School submitted the financial statements for audit during the year under review. However, the following anomalies were noted:

- i. The financial statements were presented without the table of contents while the preamble information was presented without customizing to provide information relevant to the School.
- ii. The date the financial statements were approved was not indicated.
- iii. The financial statements did not include annexures such as analysis of pending payables and summary of fixed assets register, contrary to the prescribed reporting template.

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

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 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. Lack of Risk Management Policy

During the period under review, the School Management had not established Risk Management Policy. This was contrary to Regulation 165(1) (a-b) of the Public Finance Management (National Governments) Regulations, 2015 which states that 'the Accounting Officer shall ensure that the national government entity develops risk management strategies, which include fraud prevention mechanism and a system of risk management and internal control that builds robust business operations'.

In the circumstances, Management was in breach of the law and was not able to identify risks and develop mitigating strategies.

2. Lack of Insurance Cover for Property and Other Assets

Review of the financial statements and assets records revealed that the School did not have insurance cover for property and other assets which exposed the school to risk of loss of property in an event of incidents such as fire.

In the circumstances, the School's assets may be exposed to losses without compensation in case of fire, theft or any other unforeseen occurrences.

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 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 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 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

12 October, 2023