

## **REPORT OF THE AUDITOR-GENERAL ON ST. AGATHA NGOLOKI SECONDARY SCHOOL FOR THE YEAR ENDED 30 JUNE, 2021 – TAITA/TAVETA COUNTY**

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### **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**

#### **Adverse Opinion**

I have audited the accompanying financial statements of St. Agatha Ngoloki Secondary School – Taita/Taveta County set out on pages 11 to 20, which comprise of the statement of financial assets and liabilities as at 30 June, 2021, and the statement of receipts and payments, statement of cash flows and the 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, because of the significance of the matters discussed in the Basis for Adverse Opinion section of my report, the financial statements do not present fairly, the financial position of St. Agatha Ngoloki Secondary School – Taita/Taveta 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 Basic Education Act, 2013 and the Public Finance Management Act, 2012.

## Basis for Adverse Opinion

### 1. Failure to Provide a Trial Balance

The financial statements presented for audit were not accompanied with a trial balance.

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

### 2. Inaccuracies in the Financial Statements

- (i) The amounts reflected in the statement of receipts and payments differs with the corresponding amounts reflected in the statement of budgeted versus actual amounts as detailed below;

Item	Statement of Receipts and Payments (Kshs.)	Statement of Budgeted versus Actual Amounts (Kshs.)	Variance (Kshs.)
Capitation Grants for Tuition	230,837	295,167	(64,330)
School Fund Income-Parent's Contributions	5,662,736	3,666,481	1,996,255
Payments for Tuition	247,258	246,550	(708)

Further, the performance difference in the statement of budgeted versus actual amounts for payments for operations is Kshs.6,096 while the recalculated amount is Kshs.302,558 resulting to an unexplained variance of Kshs.296,462.

- (ii) The amounts reflected in the statement of receipts and payments differs with the corresponding amounts reflected in the bank statements as detailed below;

Item	Statement of Receipts and Payments (Kshs.)	Bank Statements Amount (Kshs.)	Variance (Kshs.)
Capitation Grants for Tuition	230,837	295,167	(64,330)
Capitation Grants for Operations	1,850,070	2,478,697	(628,627)

- (iii) The statement of financial assets and liabilities reflects fund balance brought forward of Kshs.1,677,497 as disclosed in Note 13 to the financial statements. However, the

recalculated fund balance brought forward balance is Kshs.3,850,630 resulting to an unexplained variance of Kshs.2,173,133.

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

### **3. Unsupported Statement of Receipts and Payments**

The statement of receipts and payments reflects payments amounting to Kshs.5,417,409 as disclosed in Notes 5, 6 and 7 to the financial statements. This amount is composed of payments for tuition of Kshs.247,258, payments for operations of Kshs.1,689,442 and boarding and school fund payments of Kshs.3,480,709 respectively. However, ledger and schedules to support these amounts were not provided.

Further, the statement of receipts and payments reflects receipts from parents' contributions totalling to Kshs.5,662,736 as disclosed in Note 3 to the financial statements. Review of receipts documents revealed that the school did not maintain a fee register and a listing of students with fees arrears hence it was not possible to confirm the individual fee payments and balances for the students.

In the circumstances, the accuracy, regularity and completeness of payment totalling to Kshs.5,417,409 and parents' contribution of Kshs.5,662,736 could not be confirmed.

### **4. Inaccuracies in Cash and Cash Equivalents**

The statement of financial assets and financial liabilities reflects cash and cash equivalents balance of Kshs.44,640 as disclosed in Notes 8 and 9 to the financial statements. However, the following unsatisfactory issues were observed;

#### **4.1 Overdrawn (Negative) Cashbook Balances**

The statement of financial assets and liabilities reflects cash and cash equivalents balance of Kshs.44,640 as disclosed in Notes 8 and 9. This balance is composed of tuition account of Kshs.122,238, operations account of Kshs.123,054 and an overdrawn school fund account balance of Kshs.256,929. Further, Note 8 to the financial statements, reflects a net cash and cash equivalent balance of negative Kshs.10,738 as at 30 June, 2021. However, offsetting of cash and cash equivalents by a credit balance is contrary to paragraph 48 of the International Public Sector Standards (IPSAS) 1 on presentation of financial statements, which requires that assets and liabilities, and revenue and expenses, shall not be offset unless required or permitted by an IPSAS.

In addition, the cash at hand balance of Kshs.55,378 could not be confirmed as board of survey cash count certificate as at 30 June, 2021 was not provided for audit.

#### **4.2 Unrecorded Direct Banking in the Cashbook**

The bank reconciliation statement for the school fund account reflected an amount of Kshs.268,204 as receipts in the bank statement not in the cashbook as at 30 June, 2021. However, the banking was not supported by the source and the intended purpose.

#### **4.3 Variances Between the Financial Statements and Cashbook Balances**

The cash and cash equivalents balance includes bank balances for three (3) bank accounts amounting to a credit balance of Kshs.12,781. However, bank reconciliation statement and cashbooks provided for audit reflected balances that differed with the respective balances reflected in the Notes to the financial statements as shown below;

<b>Bank account</b>	<b>Cashbook Amount (Kshs.)</b>	<b>Financial Statement Amount (Kshs.)</b>	<b>Variance (Kshs.)</b>
School Fund Account	(258,072)	(256,928)	1,143
Operations Account	123,054	123,953	899

The variances have not been reconciled.

#### **4.4 Variances between the Statement of Cash Flows and Statement of Financial Assets and Liabilities**

The statement of cash flows reflects net increase in cash and cash equivalents balance of Kshs.2,327,134 while the statement of financial assets and liabilities reflects a balance of Kshs.(414,177) resulting in an unexplained variance of Kshs.1,912,956.

Further, the statement of cash flows reflects cash and cash equivalents at the end of the year of Kshs.42,598 while the statement of financial assets and liabilities reflects cash and cash equivalents balance of Kshs.44,641 resulting to an unreconciled variance of Kshs.2,043.

#### **4.5 Weaknesses in the Management of Cash**

The Ministry of Education through Circular Ref. No: MOE.HQS/3/13/3 dated 16 June, 2021 directed that infrastructure grants as well as maintenance and improvement funds be transferred to the school infrastructure account fifteen (15) days upon receipt of the funds in the operations account. The School received capitation grants for operations amounting to Kshs.2,313,53. However, the School did not provide evidence of the total transfers to the infrastructure account apart from a transfer of Kshs.300,000 on 4 March, 2021.

Further, Management withdrew an amount of Kshs.724,000 from the infrastructure account but these funds were not refunded back to this account. No explanation was provided for this anomaly.

In addition, Management transferred an amount of Kshs.180,000 from infrastructure account to the operations account on 22 December, 2020 and received capitation for tuition of Kshs.107,023 on 26 March, 2021. However, these transactions were not recorded in the cashbook.

In the circumstances, the accuracy and completeness of the cash and cash equivalents balance of Kshs.44,640 could not be confirmed.

### **5. Unsupported Accounts Receivables**

The statement of financial assets and liabilities reflects accounts receivables balance of Kshs.5,231,942 as disclosed in Note 11 to the financial statements. However, fees register and listing of students with outstanding fee balances were not provided for audit. Further, aging analysis which reflects a balance of Kshs.2,301,522 that has been outstanding for a long period. This is an indication that no collection was made during the year. Measures to recover the long outstanding balance were not disclosed.

In the circumstances, the accuracy and recoverability of the account's receivables balance of Kshs.5,231,942 could not be confirmed.

## **6. Unsupported Accounts Payable**

The statement of financial assets and liabilities reflects accounts payable balance of Kshs.1,271,951 as disclosed in Note 12 to the financial statements. This balance includes trade creditors of Kshs.576,150 and prepaid fees of Kshs.695,801 whose supporting documents were not provided for audit.

Further, Note 12 to the financial statements reflects trade creditors of Kshs.56,150 while the aging analysis reflects a balance of Kshs.576,150. The resultant variance of Kshs.520,000 was not explained. In addition, analysis of pending accounts payable has not been done.

In the circumstances, the accuracy and completeness of the account's payables balance of Kshs.1,271,951 could not be confirmed.

## **7. Unsupported Fixed Assets**

The School did not maintain a fixed asset register for its assets to record necessary information such as date of acquisition, type of asset, condition and cost. Further, review of Board Minutes revealed that the School occupies thirty (30) acres of land. However, Management did not provide land title deeds for the land.

In the circumstances, the ownership and status of the School's fixed assets could not be confirmed.

The audit was conducted in accordance with International Standards of Supreme Audit Institutions (ISSAIs). I am independent of the St. Agatha Ngoloki Public 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 adverse 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, because of the significance of the matters discussed in the Basis for Adverse Opinion and Basis for Conclusion on Lawfulness and Effectiveness in Use of Public Resources sections of my report, based on the audit procedures performed, I confirm 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) Requirements**

##### **1.1. Non-Compliance with Reporting Template**

The annual report and the financial statements prepared and submitted for audit are not consistent with the reporting format prescribed by the PSASB. The following were noted:

- i. Significant accounting policies precede the financial statements.
- ii. The table of contents has errors on pages, information included in the summary report of performance disagrees with financial statements and the summary report of performance of the School does not include graphical presentation, ratios, tables, and pie charts.
- iii. Teacher student ratio and mean score are missing.
- iv. Statements of receipts and payments, statement of financial assets and financial liabilities and statement of cash flows have not been signed by the Chairperson Board of Management.
- v. The statement of comparison of budget and actual amounts has no heading.

##### **1.2. Non-Compliance with Presentation and Disclosure**

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. 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, did not comply with the guidelines set by PSASB.

## **2. Inadequate Infrastructure**

The School does not have adequate buildings and space to shelter the students which forced Management to turn the modern kitchen and, dining hall into a dormitories and a computer laboratory was turned into a class. In addition, the School does not have a standard playground. This is contrary to Section 2.2.1 of the operational manual for utilization of learner capitation which provides that a school needs to improve the school environment and learning outcomes.

In the circumstances, effective learning and service delivery to the students could not be confirmed.

## **3. Management of Textbooks**

Review of textbook records revealed that the School had seven hundred and eighty-two (782) unused excess books that were in the stores.

In the circumstances, effectiveness in the use of textbooks could not be confirmed.

## **4. Weaknesses in Procurement**

The statement of receipts and payments reflects total payments amounting to Kshs.5,417,409 as disclosed in Notes 5,6 and 7 to the financial statements. However, the following anomalies were observed;

### **4.1. Failure to Prepare an Annual Procurement Plan**

Review of the procurement documents provided for audit revealed that Management did not prepare a procurement plan for the financial year. This is contrary to Section 53 (2) of the Public Procurement and Asset Disposal Act, 2015 which requires that an accounting officer shall prepare an annual procurement plan which is realistic in a format set out in the Regulations within the approved budget prior to commencement of each financial year as part of the annual budget preparation process.

### **4.2. Weakness in Procurement of Goods and Services**

Review of payment vouchers and supporting documentation revealed the following procurement anomalies:

- i. The school did not maintain a list of pre-qualified suppliers as required under Section 57(1) of the Public Procurement and Asset Disposal Act, 2015 which requires the head of the procurement function of a procuring entity to maintain and update lists of registered suppliers, contractors and consultants in the categories of goods, works or services according to its procurement needs.

- ii. In some instances quotations were not sent to different suppliers hence it was not possible to determine if the goods and services were competitively procured. This was contrary to Section 106 (2)(d) of Public Procurement and Asset Disposal Act, 2015 which states that at least three persons shall submit their quotations prior to evaluation.
- iii. The payment vouchers were not supported with professional opinions and evaluation minutes. Consequently, it was not possible to confirm that the goods and services were competitively procured. This was contrary to Section 84 and Section 80 of the Public Procurement and Asset Disposal Act, 2015 which states the head of procurement function of a procuring entity shall, alongside the report to the evaluation committee as secretariat comments, review the tender evaluation report and provide a signed professional opinion to the accounting officer on the procurement or asset disposal proceedings.
- iv. There is no evidence that the goods were inspected after delivery to confirm if what requested is what was delivered. This is contrary to Section 48 (1) and (3) of the Public Procurement and Asset Disposal Act, 2015 which requires an accounting officer of a procuring entity to establish an ad hoc committee known as the inspection and acceptance committee and the committee shall immediately after the delivery of the goods, works or services inspect and where necessary, test the goods received.
- v. Goods received and issued were not supported with counter requisition and issue voucher to confirm the user department. This is contrary to provisions of Regulation 166 of the Public Procurement and Asset Disposal Regulations, 2020 which states that an accounting officer of a procuring entity shall ensure proper management and distribution of inventory, stores and assets by ensuring that they are received and taken on charge.

In the circumstances, value for money on the procurement made could not be confirmed.

## **5. Failure to Provide Approved Budget**

The School did not provide for audit approved budget for the year ended 30 June, 2021. This was contrary to Section 59 (n) of the Basic Education Act which requires the Board of Management to administer and manage the resources of the institution.

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

## **6. Failure to Develop School Improvement Plan**

Management did not develop a School Improvement Plan to be used to measure the School improvement activities, keep the school in focus in achieving the school target, prioritization of School needs, ensuring prudent utilization of resources and to improve accountability. This was contrary to Section 2.2.1 of the operational manual for utilization of learner capitation, Grant and Other School funds which requires a school to develop improvement plan which is a road map for changes that a school needs to improve the school environment and learning outcomes.

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, because of the significance of the matters discussed in the Basis for Adverse Opinion and Basis for Conclusion on Effectiveness of Internal Controls, Risk Management and Governance sections of my report, based on the audit procedures performed, I confirm that internal controls, risk management and governance were not effective.

### **Basis for Conclusion**

#### **Ineffectiveness in Governance**

Review of records relating to Board of Management revealed that the Board did not submit any report on governance. This was contrary to Section 60 of the Basic Education Act, 2013 which requires that every public school or institution of basic education shall submit on an annual basis a report to the Director of Basic Education.

Further, the Board of Management had established various Committees. However, work plans and evidence of Committee's activities including minutes of regular meetings during the year under review were not provided for audit.

In addition, during the year under review, the Board did not develop a calendar outlining its activities for the year and the minutes of the Board were not confirmed by the Chair in the subsequent meeting thus it was not possible to establish if the resolutions passed are implemented by the School Principal. Also the Board did not meet regularly as required by Section 59 of the Basic Education Act 2013.

In the circumstances, effectiveness of oversight and governance of the School 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 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 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 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 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 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**