

REPORT OF THE AUDITOR-GENERAL ON TEREMI BOYS HIGH SCHOOL FOR THE SIX MONTHS' PERIOD ENDED 30 JUNE, 2021 - BUNGOMA COUNTY

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 control, 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 Teremi Boys High School - Bungoma County set out on pages 9 to 28, which comprise the statement of financial assets and financial liabilities as at 30 June, 2021, the statement of receipts and payments, statement of cash flows and statement of comparison of budget versus actual amounts for the six 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, 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 Teremi Boys High School - Bungoma County as at 30 June, 2021 and of its financial performance and its cash flows for the period 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. Inaccuracies in the Financial Statements

The audit of the financial statements revealed the following anomalies: -

1.1 Discrepancies in Students Enrolment Data

Review of National Education Management Information System (NEMIS) report and the School's manual enrolment register for the period under review revealed inconsistencies in respect of the number of students captured in the two registers with the number of students captured in NEMIS being lower than the number in the School's manual register. Further, the variances resulted in underfunding by Kshs.919,330 which was not explained nor reported as accounts receivable as detailed below:

Month	Total Capitation (Kshs.)	Capitation per Student (Kshs.)	Number of Students as per NEMIS	Number of Students per School's Manual Register	Variance Of NEMIS Register and Manual Register	Under Funding (Kshs.)
Operations 2020/2021						
April	6,394,452	2796	2287	2411	(124)	(346,704)
February	7,713,930	3370	2289	2411	(122)	(411,140)
Tuition 2020/2021						
April	1,627,200	711	2287	2411	(124)	(88,164)
February	1,376,261	601	2289	2411	(122)	(73,322)
Total						(919,330)

In the circumstances, the accuracy and completeness of the amounts in respect of capitation grants could not be confirmed.

1.2 Variances Between Financial Statement and Supporting Schedules

The audit revealed variances between the statement of receipts and payments and supporting schedules as detailed below:

		Financial statement	Supporting Schedule Balance	Variance

Details	Notes	Balance (Kshs.)	(Kshs.)	(Kshs.)
Capitation Grant for Tuition	1	2,976,107	3,003,461	27,354
Capitation Grant for Operations	2	18,637,185	14,108,382	4,528,803
Payments for Tuition	5	3,571,011	1,187,965	2,383,046
Payments for Operations	6	19,767,829	16,467,192	3,300,637

In the circumstances, the accuracy and completeness of the amounts in the statement of receipts and payments could not be confirmed.

1.3 School Fund Income - Parents' Contributions

The statement of receipts and payments reflects an amount of Kshs.44,239,592 in respect of school fund income- parents' contributions as disclosed in Note 3 to the financial statements. However, supporting documents including student fee receipts summary reflects an amount of Kshs.36,913,669 resulting to unexplained and unreconciled variance of Kshs.7,325,923. Further, the fees collected was not supported with the bank statements and the schedule provided did not include the names of students and the amounts of fees paid.

The In the circumstances, the accuracy and completeness of an amount of Kshs.44,239,592 in respect of School fund income- parents' contributions could not be confirmed.

1.4 Variance of Balances Between Statement of Receipts and Payments and Statement of Budgeted Versus Actual Amounts

The statement of budgeted versus actual amounts reflects amounts of Kshs.65,784,160 and Kshs.53,081,505 in respect of total income and expenditure on actual comparable basis respectively. However, review of the statement of receipts and payments revealed amounts of Kshs.72,635,347 and Kshs.59,595,250 in respect to total receipts and payments resulting to unexplained and unreconciled variance of Kshs.6,851,187 and Kshs.6,513,745 respectively.

In the circumstances, the accuracy and completeness of the receipts and payments could not be confirmed.

As disclosed in Note 3 to the financial statements, the statements of receipts and payments reflects an amount of Kshs.6,782,464 in respect of school fund income- parents' contributions. However, supporting documents including official receipts and schedules were not provided for audit review.

In the circumstances, the accuracy and completeness of an amount of Kshs.6,782,464 in respect of School fund income- parents' contributions could not be confirmed.

2. Unreconciled Funds for Maintenance and Infrastructure Developments

The statement of receipts and payments reflects capitation grants for operations of amounts of Kshs.18,637,185 which includes an amount of Kshs.8,322,399 in respect of

maintenance and improvement as disclosed in Note 2 to the financial statements. However, review of Note 6 to the financial statement revealed expenditure of an amount of Kshs.1,536,850 in respect of maintenance and improvement and infrastructure account bank account balance of Kshs.12,298 as disclosed in Note 8 to the financial statement resulting to unreconciled variance of Kshs.6,773,251.

In the circumstances, accuracy and completeness of the funds of an amount of Kshs.6,773,251 in respect of maintenance and improvement could not be confirmed.

3. Unsupported Boarding and School Fund Payments

The statements of receipts and payments reflects an amount of Kshs.36,256,410 in respect of boarding and school payments as disclosed in Note 7 to the financial statements. However, supporting documents including ledger schedules, inspection and acceptance reports, invoices, delivery notes, issue and receipt vouchers were not provided for audit review.

In the circumstances, accuracy and completeness of the expenditure of Kshs.36,256,410 in respect of payments for operations could not be confirmed.

4. Unsupported Expenditure on the Construction of the Storage Class Rooms

As disclosed in Note 6 to the financial statements, the statement of receipts and payments reflects amounts of Kshs.19,767,829 in respect of payments for operations which includes Kshs.1,536,850 in respect of maintenance and improvement. However review of the financial records and financial statements including the preamble information on summary report of the school performance for the period revealed that the school constructed storage class rooms. Further, the supporting documents including procurement plans, bills of quantities, contract agreements, payment and inspection and acceptance committee reports in respect of the construction of the storage class rooms was not provided for audit review.

In the circumstances, accuracy and completeness of the total payments of an amount of Kshs.1,536,850 in respect of maintenance and improvement could not be confirmed.

5. Unsupported Personnel Emoluments

The statements of receipts and payments reflects payments for operations and boarding and school payments of amounts of Kshs.19,767,829 and Kshs.36,256,410 respectively as disclosed in Note 6 and 7 to the financial statements, which includes amounts Nil amounts in respect of personnel emolument. However, supporting documents including payrolls and approved staff establishment were not provided for audit review.

In the circumstances, accuracy and completeness of personnel emoluments expenditure could not be confirmed.

6. Unsupported Accounts Receivables

The statements of financial assets and financial liabilities reflects accounts receivable balance of Kshs.128,526,646 as disclosed in Note 11 to the financial statements, which

includes balances of Kshs.125,631,209 in respect of fee arrears. However, the supporting schedule provided did not include ageing analysis of dates the fees arrears were incurred. The finance sub-committee minutes on deliberations on previous year's receivables were not provided for audit review. Further, Note 11 to the financial statements includes receivables in respect of NSSF, NHIF, PAYE, Refer-to-Drawer (RD), Chebutere Sacco and Imprest totalling to Kshs.1,182,678 which were not supported by schedules and details of refund claims. In addition, Note 11 to the financial statements indicates accounts receivables in respect to fees arrears incurred two years ago with no evidence indicating that proper mechanism had been 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.128,526,646 could not be confirmed.

7. Unsupported Accounts Payables

The statements of financial assets and financial liabilities reflects accounts payable balance of Kshs.49,263,828 as disclosed in Note 12 to the financial statements, which includes balances of Kshs.46,721,655 in respect of trade creditors and excess fees respectively. However, trade creditors of Kshs.46,721,655 were not supported with documents including ledger schedule and invoices, delivery notes, issues and receipts vouchers and finance Sub-Committee minutes on accounts payable. Further, Note 12 to the financial statements includes payroll deductions in respect of welfare, union dues, HELB, KUDHEIHA, advance totalling to Kshs.741,500 which were deducted but not remitted and supported with payrolls.

In addition, Note 12 to the financial statements includes accounts payable incurred two years ago and there was no evidence indicating that proper mechanism had been put in place to settle these long outstanding accounts payables.

In the circumstances, the accuracy, completeness and fair statement of accounts payable balance of Kshs.49,263,828 could not be confirmed.

The audit was conducted in accordance with International Standards of Supreme Audit Institutions (ISSAIs). I am independent of the Teremi Boys High School Management 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.

Other Matter

Budgetary Control and Performance

The statement of budget versus actual amounts reflects final total income budget and actual on comparable basis of Kshs.116,040,608 and Kshs.65,784,160 respectively resulting to an underfunding of Kshs.50,256,448 or 43% of the budget. Similarly, the statement reflects final budget expenditure and actual on comparable basis of Kshs.113,671,067 and Kshs.53,081,505 resulting to under-absorption of Kshs.60,489,562 or 53% of the budget.

The underfunding and under-absorption affected the planned activities and may have impacted negatively on service delivery to the public and the Management was in breach of the law.

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, Basis for Conclusion on Lawfulness and Effectiveness in Use of Public Resources section 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 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 the financial statements 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 by the Public Sector Accounting Standards Board.

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

2. Irregular Transfer of Funds from Tuition Account

The statements of financial assets and financial liabilities reflects accounts receivable balance of Kshs.128,526,646 as disclosed in Note 11 to the financial statements, which includes balances of Kshs.500,000, Kshs.1,088,084 and Kshs.124,675 in respect of transfers from tuition account to operations account totalling to Kshs.1,712,759. This is contrary to MOE.HQS/3/13/3 dated 16 June, 2021 which states that under the operations accounts schools may seek authority from the County Education Boards (CEBs) to vire savings or surplus funds from one item to another where it is absolutely necessary but no virement from the tuition account will be allowed.

In the circumstances, Management was in breach of the Ministry of Education directive.

3. Unbalanced Budget

The statement of comparison of budget versus actual amounts for the year ended 30 June, 2022 reflects a final income budget of Kshs.116,040,608 and an expenditure final budget of Kshs.113,671,067 resulting in a variance of Kshs.2,369,541. The budget imbalance is contrary to the provisions of Section 33(c) of the Public Finance Management (National Government) Regulations, 2015 which states that 'budget revenue and expenditure appropriation shall be balanced'.

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, 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

1. Failure to Maintain Fixed Assets Register

Review of the financial records revealed that the School did not maintain fixed assets register indicating date of assets acquisition, type of assets, supplier name, value,

custodian and location in respect of the assets it owns contrary to Regulations 143(1)(2) of the Public Finance Management (National Government) Regulations, 2015 which states 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. The register of land and buildings shall record each parcel of land and each building and the terms on which it is held, with reference to the conveyance, address, area, dates of acquisition, disposal or major change in use, capital expenditure, lease hold terms, maintenance contracts and other pertinent management details.

In the circumstances, Management may not effectively and efficiently manage and control its assets.

2. Lack of Risk Management Policy

Review of the documents and records provided for audit review revealed that School Management has not established Risk Management Policy. This is contrary to Regulation 165(1)(a-b) of the Public Finance Management (National Government) 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.

3. Lack of Approved Information Technology Security Policy

Review of the School Information Technology Systems revealed that the School did not have an approved IT Policy for governance and management of its ICT resources. Further, there was no ICT Steering Committee in place to assist in the development of ICT Policy framework to enable the School to realize long-term ICT strategic goals. Lack of an approved IT Policy may result in an unclear direction regarding maintenance of information security across the organization and safeguarding the School's ICT assets. In addition, without a sound and approved framework, users do not have any rules and procedures to follow in order to minimize risk of errors, fraud and the loss of data confidentiality, integrity and availability.

In the circumstances, the School may be exposed to financial losses or falsification of records in the absence of information and communication Technology policy.

4. 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 equipment.

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

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 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 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