

## **REPORT OF THE AUDITOR-GENERAL ON BUTULA BOYS HIGH SCHOOL FOR THE SIX (6) MONTHS' PERIOD ENDED 30 JUNE, 2021 – BUSIA 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 that the 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 overall 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 Butula Boys High School – Busia County set out on pages 1 to 12, which comprise 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 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 Butula Boys High School - Busia County as at 30 June, 2021 and of its financial performance and its cash flows for the six months' period then ended, in accordance with International Public Sector Accounting Standards (Cash Basis) and do not comply with the Public Finance Management Act, 2012 and the Basic Education Act, 2013.

## Basis for Adverse Opinion

### 1. Understatement of Capitation Grants Receipts

The statement of receipts and payments reflects capitation grants for tuition of Kshs.2,194,267 and capitation grants for operations of Kshs.11,146,902 as disclosed in Notes 1 and 2 of the financial statements respectively, all totalling to Kshs.13,341,169.

Review of the 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 under-funding by Kshs.5,229,959 as detailed in the table below:

Month	Total Capitation (Kshs.)	Capitation per Student (Kshs.)	Number of Students as per NEMIS	Number of Students per School's Manual Register	Expected Capitation (Kshs.)	Variance-Students	Under/(Over) Funding (Kshs.)
April, 2021-Operations	3,836,112	2,796	1,372	1723	4,817,508	351	981,396
February, 2021-Operations	4,627,010	3,370	1,373	1723	5,806,510	350	1,179,500
December, 2020-Operations	4,664,836	3,397	1,373	1723	5,853,031	350	1,188,950
August, 2020-Operation	5,118,150	3,725	1,374	1723	6,418,175	349	(1,300,025)
April, 2021-Tuition	976,178	711.5	1,372	1723	1,225,915	351	249,736
February, 2021-Tuition	825,516	601	1,373	1723	1,035,523	350	210,350
December, 2020-tuition	473,685	345	1,373	1723	594,435	350	120,750
August-2020-Tuition	1,374	1	1,374	1723	1,723	349	349
<b>Total</b>	<b>20,522,861</b>				<b>25,752,820</b>		<b>5,229,959</b>

However, the underfunding of Kshs.5,229,959 was not included in the accounts receivable balance of Kshs.90,143,013 reflected in the statement of financial assets and liabilities.

In the circumstances, the accuracy and completeness of the capitation grants of Kshs.13,341,169 and the accounts receivable balance of Kshs.90,143,013 could not be confirmed.

## **2. Accuracy of Capitation Grants for Tuition**

As disclosed in Note 1 to the financial statements, the statement of receipts and payments reflects an amount of Kshs.2,194,267 in respect of capitation grants for tuition. However, review of the supporting schedule and NEMIS capitation disbursement extract revealed an amount of Kshs.1,801,694, thereby resulting in an unexplained and unreconciled variance of Kshs.392,573.

In the circumstances, the accuracy and completeness of the amount of Kshs.2,194,267 in respect of capitation grants for tuition could not be confirmed.

## **3. Accuracy of Capitation Grants for Operations**

As disclosed in Note 2 to the financial statements, the statement of receipts and payments reflects an amount of Kshs.11,146,902 in respect of capitation grants for operations. However, review of the supporting schedule and NEMIS capitation disbursement extract revealed an amount of Kshs.8,463,122 thereby resulting in an unexplained and unreconciled variance of Kshs.2,683,780.

In the circumstances, the accuracy and completeness of an amount of Kshs.11,146,902 in respect of capitation grants for operations could not be confirmed.

## **4. Unsupported Maintenance and Improvement Expenditure**

As disclosed in Note 6 the financial statements, the statement of receipts and payments reflects payments for operations amount of Kshs.11,710,375 which includes maintenance and improvement expenditure of Kshs.6,033,373 in respect of the construction of an ultra-modern science laboratory. Review of the statement for payment on accounts in respect to the completion certificate revealed that the proposed construction of the two (2) storey science laboratory, classroom and library was contracted at an amount of Kshs.15,713,075.

Further, payments of Kshs.5,231,235 and Kshs.4,322,565, all totalling to Kshs.9,553,800 were made on 12 August, 2020 and 24 September, 2020 respectively and an additional payment of Kshs.950,000 made during the period under review, all totalling to Kshs.10,503,800. However, the total payments were at variance with the reported amount of Kshs.6,033,373, resulting in unexplained and unreconciled variance of Kshs.4,470,427.

In addition, review of the statement for payment on account revealed that amounts of Kshs.652,449 and Kshs.326,225 in respect of 6% withholding VAT and 3% withholding

tax were not included and supported with payment vouchers and acknowledgment notification from Kenya Revenue Authority.

Review of other supporting documents including Ministry of Education approvals and bills of quantities, revealed that the project was complete. However, the contract agreements for the project were not provided for audit.

In the circumstances, the accuracy, validity and completeness of the payments for operations of Kshs.11,710,375 could not be confirmed.

## **5. Unsupported Parents Contributions or Fees - School Fund Income**

As disclosed in Note 3 to the financial statements, the statement of receipts and payments reflects an amount of Kshs.31,267,151 in respect of parents' contributions or fees - school fund income. However, supporting documents including bank statements, student fees collection summary and schedules were not provided for audit.

In the circumstances, the validity, accuracy and completeness of an amount of Kshs.31,267,151 in respect of parents' contributions or fees - school fund income could not be confirmed.

## **6. Unsupported Payments for Tuition**

As disclosed in Note 5 to the financial statements, the statement of receipts and payments reflects an amount of Kshs.4,276,365 in respect payments for tuition. However, supporting documents including, supporting schedules, invoices, delivery notes and receipt and issue vouchers were not provided for audit.

In the circumstances, the validity, accuracy and completeness of the payments for tuition of Kshs.4,276,365 could not be confirmed.

## **7. Unsupported Boarding and School Fund Payments**

As disclosed in Note 7 to the financial statements, the statement of receipts and payments reflects an amount of Kshs.23,817,529 in respect of boarding and school fund payments. However, supporting documents including ledger schedules, inspection and acceptance reports, invoices, delivery notes, issue and receipt vouchers were not provided for audit.

In the circumstances, the validity, accuracy and completeness of the boarding and school payments amounting to Kshs.23,817,529 could not be confirmed.

## **8. Unsupported Personnel Emoluments**

As disclosed in Notes 6 and 7 to the financial statements, the statement of receipts and payments reflects payments for operations and boarding and school fund payments of Kshs.11,710,375 and Kshs.23,817,529 respectively. The expenditure includes a total amount of Kshs.6,146,789 in respect of personnel emoluments. However, review of the payroll for the months of May and June, 2021 revealed gross salaries of Kshs.425,303, Kshs.285,194 and Kshs.75,000 in respect of salaries to non-teaching, support staff and Board of Management teachers respectively, all totalling to Kshs.785,497 per month translating to a total of Kshs.4,712,982 for the six (6) months' period ended 30 June, 2021.

However, the re-casted personnel emoluments of Kshs.4,712,982 was at variance with total personnel emoluments of Kshs.6,146,789, thereby resulting in an unexplained over-expenditure on personnel emoluments of Kshs.1,433,807.

In the circumstances, the accuracy and completeness of the expenditure of Kshs.6,146,789 in respect of personnel emoluments could not be confirmed.

## 9. Unsupported Cash and Cash Equivalents Balance

As disclosed in Notes 8 and 9 to the financial statements, the statement of financial assets and liabilities reflects cash and cash equivalents balance of Kshs.16,342,254 which includes Kshs.16,280,906 and Kshs.61,348 in respect of bank and cash-in-hand balances respectively.

The bank balance of Kshs.16,280,906 includes cash book bank balances of four (4) bank accounts. However, the certificates of bank balances did not tally with the balances reflected in the bank reconciliations statements for two (2) bank accounts as detailed in the table below:

<b>Name of Bank Account</b>	<b>Bank Balance as Per Bank Reconciliation Statement (Kshs.)</b>	<b>Balance as per Bank Certificate (Kshs.)</b>	<b>Variance (Kshs.)</b>
Tuition A/C	448,227	42,099	406,128
Operations A/C	1,236,689	2,951,917	1,715,228

Further, the certificate of bank balance for school fund/boarding account with a balance of Kshs.13,350,613 was not provided for audit.

In addition, review of the Board of Survey report revealed cash-in-hand balances of Kshs.13,968 and Kshs.61,348 in respect of boarding and operations accounts respectively, all totalling to Kshs.75,316. However, this amount differed with the reported balance of Kshs.61,348, resulting in unexplained and unreconciled variance of Kshs.13,968.

In the circumstances, the regularity, accuracy and completeness of the balance of Kshs.16,342,254 in respect of cash and cash equivalents could not be confirmed.

## 10. Unsupported Accounts Receivables Balance

As disclosed in Note 11 to the financial statements, the statement of financial assets and liabilities reflects accounts receivable balance of Kshs.90,143,013 in respect of fees arrears. However, supporting documents including ledger schedules and students fee statements with ageing analysis showing dates of the fees arrears and School finance committee minutes deliberations on accounts receivables were not provided for audit. Further, details in Note 11 to the financial statements indicate accounts receivables of Kshs.68,896,066 incurred two years ago. Evidence of mechanisms in place to recover the long overdue debts was not provided for audit

In the circumstances, the accuracy and completeness of accounts receivable balance of Kshs.90,143,013 and recoverability of the long overdue debts not be confirmed.

### **11. Unsupported Accounts Payables Balance**

As disclosed in Note 12 to the financial statements, the statement of financial assets and financial liabilities reflects accounts payables balance of Kshs.11,843,385 in respect of trade creditors. However, the trade creditors balance of Kshs.11,843,385 was not supported with documents including ledger schedules and invoices, delivery notes, issues and receipts voucher and finance sub-committee minutes on accounts payable.

In the circumstances, the accuracy, completeness and fair statement of accounts payable balance of Kshs.11,843,385 could not be confirmed.

### **12. Non-disclosure of Retention Monies**

As disclosed in Note 12 to the financial statements, the statement of financial assets and financial liabilities reflects accounts payable balance of Kshs.11,843,385 which related to a construction contract whose contract sum was Kshs.15,713,075. However, the completion certificate reflects gross value of works payable of Kshs.12,614,020 which includes retention money of Kshs.1,261,402 which was not disclosed as accounts payable in the financial statements. This resulted in understatement of the balance of Kshs.11,843,385 by an amount of Kshs.1,261,402 for which no explanation or reconciliation was provided for audit.

In the circumstances, the accuracy and completeness of the accounts payable balance of Kshs.11,843,385 could not be confirmed.

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

### **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.59,054,166 and Kshs.44,694,907 respectively,

resulting in an under-funding of Kshs.14,359,259 or 24% of the budget. Similarly, the statement reflects final expenditure budget and actual on comparable basis of Kshs.58,454,166 and Kshs.39,804,269, resulting in under-absorption of Kshs.18,649,896 or 32% of the budget.

Further, the budget amounts presented were not supported by an 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.

The under-funding affected the planned activities of the School and may have impacted negatively on service delivery to the public.

## REPORT ON LAWFULNESS AND EFFECTIVENESS IN USE OF PUBLIC RESOURCES

### Conclusion

As required by Article 229(6) of the Constitution, because of the significance of the matters discussed in the 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. Unapproved Additional Fees Charged

As disclosed in Note 3 to the financial statements, the statement of receipts and payments reflects an amount of Kshs.31,267,151 in respect of parents contribution or fees-school fund account. Further, review of the school fee structure revealed an amount of Kshs.58,554 charged against the Ministry approved fees of Kshs.45,000, resulting in an extra fee charged of Kshs.13,554. In addition, review of preamble information to the financial statements page iv, revealed that the School had students' enrolment of 1,723, resulting in total unapproved fees charged of Kshs.23,353,542. This is contrary to Ministry of Education Circular Number MOE.HQS/3/6/112(1) dated 9 August, 2022 which directed any School that desires to charge amounts above the stipulated fees to make a formal request to the Cabinet Secretary.

In the circumstances, Management was in breach of the guidelines issued by the Ministry of Education.

#### 2. Unbalanced Budget

The statement of budgeted versus actual amounts reflects a final income budget of Kshs.59,054,166 and final expenditure budget of Kshs.58,454,166, resulting in a variance of Kshs.600,000. The budget imbalance is contrary to the provisions of Regulation 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 Conclusion on Effectiveness of Internal Controls, Risk Management and Governance section 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. Lack of Risk Management Policy

Review of the documents and records provided for audit revealed that School Management had not established Risk Management Policy. This was contrary to Regulation 165(1) 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, the effectiveness of the School's risk management could not be confirmed.

#### 2. Lack of Approved Information Technology Security Policy

Review of the School's 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.



### **3. 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.

In the circumstances, the School's 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**