

# **REPORT OF THE AUDITOR-GENERAL ON MISHI MBOKO GIRLS HIGH SCHOOL FOR THE YEAR ENDED 30 JUNE, 2021 – MOMBASA 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 consider 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 the Effectiveness of Internal Controls, Risk Management, and Governance which considers how the entity has instituted checks and balances to guide internal operations. This response 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 aim to address the Auditor-General's statutory roles and responsibilities 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 Auditor-General's report.

## **REPORT ON THE FINANCIAL STATEMENTS**

### **Qualified Opinion**

I have audited the accompanying financial statements of Mishi Mboko Girls High School – Mombasa County set out on pages 11 to 24, which comprise of the statement of 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 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, 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 the Mishi Mboko Girls High School – Mombasa County as at 30 June, 2021, and of its financial performance and cash flows for the year then ended, in accordance with International Public Sector Accounting Standards (Cash Basis) and comply with Public Finance Management Act, 2012 and the Basic Education Act, 2013.

## **Basis for Qualified Opinion**

### **Inaccuracies in the Financial Statements**

The statement of receipts and payments reflects Kshs.2,833,430 in respect of school fund income-parents' contributions while Note 3 on the same component disclosed a balance of Kshs.1,555,600 resulting in an unreconciled variance of Kshs.1,277,830.

Further, the statement of cash flows reflects a balance of Kshs.794,942 as net cash flow from operating activities while the recomputed balance is Kshs.689,182 resulting to an error of Kshs.105,760. As a result of this error, the net increase in cash and cash equivalents balance of Kshs.688,942 was likewise erroneous which in turn affects the cash and cash equivalent at the end of the year of Kshs.690,611.

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

The audit was conducted in accordance with International Standards of Supreme Audit Institutions (ISSAIs). I am independent of the Mishi Mboko Girls 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 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.

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

### **Conclusion**

As required by Article 229(6) of the Constitution, based on the audit procedures performed, except for the matters described in the Basis for Conclusion on Lawfulness and Effectiveness in Use of Public Resources section of my report, I confirm that nothing else has come to my attention to cause me to believe that public resources have not been applied lawfully and in an effective way.

## Basis for Conclusion

### 1. Lack of an Approved Budget and Procurement Plan

The School incurred a total expenditure of Kshs.305,604 on teaching/learning materials, acquisition of assets and lunch programme. However, the management did not have in place an approved annual procurement plan contrary to Section 53 (2 and 5) of the Public Procurement and Asset Disposal Act, 2015 which requires entities to have in place procurement and asset disposal plans that are based on indicative or approved budgets which shall be integrated with the applicable budget process.

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

### 2. Understatement of Capitation Due to Inaccuracy of Student Enrollment Data

Examination of documents provided for audit revealed that there were discrepancies between the data in the National Education Management Information System (NEMIS) and School records relating to the enrolment of students.

The audit noted that the number of the students in the NEMIS and in the school enrolment record were varying and thus occasioned the underfunding of the school by Kshs.308,604 as analyzed below; -

Month	Capitation Per Student (Kshs.)	No. of Students Per NEMIS	No. of Students as Per Register	Understatement of Capitation (Kshs.)
January, 2021 Operation	3,398	83	121	129,107
January, 2021 Tuition	345	83	121	13,110
February, 2021 Operation	3,370	95	121	87,620
April, 2021 Operation	2,796	103	121	50,328
February, 2021 Tuition	601	95	121	15,632
April, 2021 Tuition	711	103	121	12,807
				<b>308,604</b>

Management explained the discrepancy in the student numbers to be due to lack of birth certificates which was a requirement for registration in NEMIS. As a result, the school was underfunded by Kshs.308,604 for the period ending June, 2021.

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 THE 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 else has come to my attention to cause me to believe that internal controls, risk management, and overall governance were not effective.

## **Basis for Conclusion**

### **1. Lack of an Approved Risk Management Policy**

The school management did not have in place an approved risk management policy. Further, there is no evidence that the school has documented, identified and assessed risks and consequently developed controls to respond to risks identified as required.

### **2. Lack of Board of Management and Board Committees**

The school did not have a Board of Management and Board Committees during the year under review. The current Board was appointed into office with effect from June, 2022. The school management did not enjoy the benefits of quality decisions which were to be made by the Board. Further, the Board did not have a work plan or schedule of activities in the year under review to guide its operations.

In the circumstances, decision-making may have been hindered which eventually could affect the smooth operations of the school.

### **3. Lack of an Asset Register**

The school has no fixed asset register which should indicate details such as dates of purchase, the historical costs, and the book values of the assets. Further, the school is constructed on communal land and does have its own title deeds for the land.

In these circumstances, the security over the assets of the school cannot be assured and they are prone to misuse, and theft lost in the absence of an updated fixed assets register.

### **4. Long Outstanding Student Accounts Receivables**

Note 9 to the financial statements reflects an accounts receivables balance of Kshs.1,277,950 as disclosed in the statement of financial assets and liabilities and as disclosed in Note 9 and 10 to the financial statements. The accounts receivables are long outstanding student debtors which have been outstanding for a period of more than twelve months and the Management did not provide any evidence of the recoverability of the amount owed.

In the circumstances, the accuracy and recoverability of the long outstanding student account receivables of Kshs.1,277,950 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 controls 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 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 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 controls would not necessarily disclose all matters in the internal controls 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 time 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 noncompliance. Also, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the School 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**