

## **REPORT OF THE AUDITOR-GENERAL ON MWAMZANDI SECONDARY SCHOOL FOR THE YEAR ENDED 30 JUNE, 2021 - KWALE 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 Mwamzandi Secondary School set out on pages 10 to 21, which comprise of the statement of financial assets and liabilities as at 30 June, 2021, and the statement of receipts and payments and the statement of cash flows for the year then ended, 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 the Mwamzandi Secondary School – Kwale County as at 30 June, 2022, 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 Public Finance Management Act, 2012 and the Basic Education Act, 2013.

## **Basis for Adverse Opinion**

### **1. Presentation and Disclosures of the Financial Statements**

Review of the financial statements revealed the following presentation errors and non-compliance with the Public Sector Accounting Standards Board (PSASB) financial reporting template for public secondary schools;

- i). The financial statements are not approved or signed as required.
- ii). A summary of significant accounting policies and other explanatory information, the progress of follow-up of auditor recommendations section, summary of fixed assets register and information on functions of the School Board, under key school information and management section were not included in the financial statements.
- iii). The arrangement of the financial statements and the disclosure notes is not as per the reporting template.
- iv). The financial statements pagination is inconsistent and incomplete. In addition, several pages do not have headers as required by the reporting template.

In the circumstances, the financial statements presented for audit, do not conform to the Public Sector Accounting Standards Board financial reporting template.

### **2. Inaccuracies in the Financial Statements**

#### **2.1 Unbalanced Statement of Financial Assets and Liabilities**

The statement of financial assets and liabilities reflects net assets balance of Kshs.12,355,648 which is represented by net financial position of Kshs.12,693,478 resulting to an unbalanced statement of financial assets and liabilities by Kshs.337,800.

#### **2.2 Unexplained Variances Between Financial Statements, Notes and Ledgers**

Review of the financial statements revealed unexplained variances between the balances reflected in the financial statements, notes and ledgers as analysed below;

<b>Item</b>	<b>Financial Statements (Kshs.)</b>	<b>Ledger (Kshs.)</b>	<b>Variance (Kshs.)</b>
<b>Statement of Receipts and Payment</b>			
School Fund Income - Parents Contribution	4,498,651	5,989,951	1,491,300
Payment for Operations	1,558,810	1,527,307	31,503
School Fund Income - Parents Contribution	4,417,910	5,775,308	1,357,398

<b>Statement of Financial Assets and Liabilities</b>			
Fund Balances b/fwd	12,399,130	12,181,211	217,919
<b>Note</b>			
Accounts Payable	4,383,603	4,859,680	476,077

### 2.3 Unexplained Variance Between the Statement of Budgeted versus Actual Amounts and the Budget

Review of the financial statements revealed unexplained variances between the budget balances reflected in the statement of budgeted versus actual amounts and budget as analysed below;

	<b>Statement of Budgeted versus Actual Amounts (Kshs.)</b>	<b>Budget (Kshs.)</b>	<b>Variance (Kshs.)</b>
Capitation Grants for Tuition	1,163,230	812,890	350,340
Capitation Grants for Operations	4,785,675	3,302,250	1,483,425
School Fund Income - Parents Contribution	14,582,410	9,571,669	5,010,741
Payment for Tuition	-	812,890	812,890
Payment for Operations	-	3,302,250	3,302,250
School Fund Income - Parents Contribution	21,992,397	9,571,669	12,420,728

Further, review of the statement of budgeted versus actual amounts revealed the following unexplained variances between the actual amounts reflected in the statement and those reflected in the statement of receipts and payments.

<b>Item</b>	<b>Statement of Budgeted Versus Actual Amounts (Kshs.)</b>	<b>Statement of Receipts and Payments (Kshs.)</b>	<b>Variance (Kshs.)</b>
Capitation Grants for Tuition	712,780	189,212	523,568
Capitation Grants for Operations	1,689,325	1,850,064	160,739
School Fund Income - Parents Contribution	4,510,262	4,498,651	11,611
Payment for Tuition	-	128,612	128,612
Payment for Operations	-	1,558,810	1,558,810
School Fund Payments	4,973,946	4,417,910	556,036

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

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

#### **3.1 Board Expenditure**

The statement of receipts and payments and Note 7 to the financial statements reflect boarding and school fund payments totaling to Kshs.4,417,910. Included in this amount is Kshs.653,153 on administration costs which in turn includes Kshs.155,900 on Board members' allowances. However, appointment letters for two (2) Board members and information on qualifications of all the thirteen (13) Board members were not provided for audit review.

Further, review of minutes revealed that the Board met only twice during the year instead of the minimum three times provided for by Section 6(1) of the fourth schedule to the Basic Education Act, 2013. Further, the committees' meetings minutes and attendance registers were not provided for audit review.

#### **3.2 Staff Allowances**

The payments of Kshs.4,417,910 includes an amount of Kshs.653,153 on administration costs which in turn include Kshs.172,200 paid to various members of staff as allowances while attending various meetings and seminars. However, invitations, attendance registers, reports and work tickets or fare tickets were not provided for audit review.

#### **3.3 Food Ration**

Included in the boarding and school fund payments of Kshs.4,417,910 is an amount of Kshs.1,962,630 fees on boarding equipment and stores which in turn includes an amount of Kshs.1,003,145 paid for purchase of food stuffs. However, supporting documents such as approved requisitions, procurement records, inspection and acceptance committee minutes were not provided for audit review. In addition, it was not possible to determine how the food was issued from stores since records showing number of students, food ration and quantity of foods issued were not provided for audit review.

In the circumstances, the accuracy, completeness and validity of boarding and school fund amounting to Kshs.1,003,145 could not be confirmed.

### **4. Cash and Cash Equivalents**

The statement of financial assets and liabilities reflects cash and cash equivalents balance of Kshs.486,643 which as disclosed in Note 8 and Note 9 to the financial statements comprise of Kshs.478,233 and Kshs.8,410 for bank and cash balances respectively. However, bank reconciliation statements for eleven (11) out of the twelve (12) months were not prepared for all the four accounts held by the School. Further, the cash survey report to confirm cash as at 30 June, 2021 was not provided for audit review.

In the circumstances, the accuracy and completeness of cash and cash equivalents balance of Kshs.486,643 could not be confirmed.

## **5. Unsupported Accounts Receivables**

The statement of financial assets and liabilities and Note 11 to the financial statements reflects accounts receivables of Kshs.16,728,685 relating to students' fees arrears. However, the schedule or ledger showing the name, admission number, class, balance brought forward, amount billed and paid during the year was not provided for audit. Further, the arrears include an amount of Kshs.14,832,724 that has been outstanding since 2010. Management has not provided measures it intends to take to ensure effective collection of fees arrears as required by Regulation 64(1) of the Public Finance Management (National Governments) Regulations, 2015.

In the circumstances, the accuracy and completeness of the accounts receivables balance of Kshs.16,728,685 could not be confirmed.

## **6. Accounts Payable**

### **6.1 Unsupported Accounts Payable**

The statement of financial assets and liabilities reflects a balance of Kshs.4,383,603 in respect of accounts payables. However, supporting documents such as invoices, delivery notes, approved requests, quotation, evaluation committee minutes, professional opinion, inspection and acceptance committee reports, and aging analysis showing how long the creditors have been outstanding were not provided for audit. Further, stores ledger showing the receipts of goods purchased and not paid for were not provided.

In addition, disclosure Note 12 to the financial statements reflects accounts payables balance of Kshs.4,859,680 which includes prepaid fees of Kshs.476,077. However, the schedule showing the name, admission number, class and amount prepaid for each student to support the prepaid fees of Kshs.476,077 were not provided for audit review.

### **6.2 Failure to Update Accounts Payable**

Included in Note 12 of the financial statement is accounts payables of Kshs.4,859,680 which includes trade creditors of Kshs.4,383,603. Included in trade creditors balance of Kshs.4,383,603 is Kshs.1,117,540 owed to a contractor for construction of two (2) classrooms at a cost of Kshs.2,000,000. However, payment vouchers provided for audit review revealed that an amount of Kshs.1,136,000 had been paid leaving a balance of only Kshs.864,000. This is an indication of failure to update the trade creditors records.

In the circumstances, the accuracy and completeness of accounts payables balance of Kshs.1,117,540 could not be confirmed.

The audit was conducted in accordance with International Standards of Supreme Audit Institutions (ISSAIs). I am independent of the Mwamzandi 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, Basis for Conclusion on Lawfulness and Effectiveness in Use of Public Resources 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 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) 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 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 2019-2020. 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, Management was in breach of the law.

#### **2. Lack of Fixed Assets Register**

During the year under review the School had assets of unknown value which include land, buildings, furniture, equipment, computers, unknown number of various textbooks and

biological assets. However, a fixed asset register showing description of assets, location, serial number where applicable, asset number, dates of acquisition, disposal and other pertinent details was not provided for audit. Further, valuation of assets had not been conducted.

In the circumstances, safety, location and value of the fixed assets could not be confirmed.

### **3. Lack of Effective Textbook Management**

Review of stores ledger, counter book used to record textbooks issuance and other documents provided for audit revealed that two hundred and eleven (211) textbooks of unknown value received during the year were not recorded in the stores ledger including details to whom the received books were issued to. Further, review of counter book showing details of students to whom textbooks were issued revealed that seventy-five (75) text books issued in the years 2020 and 2021 had not been returned by various student as at the time of the audit in June, 2023. Management has not provided measures taken to ensure the long outstanding books are returned.

In addition, physical verification carried out in June, 2023 at the examination or academic office where textbooks are stored, revealed that the School had several categories of textbooks of unknown value. However, the ledger showing the number of textbooks in the store was not provided for audit review.

In the circumstances, the accuracy, security and location of the assets could not be confirmed.

### **4. Lack of Procurement Plan**

The School did not prepare a procurement plan contrary to Section 45(3)(a) of the Public Procurement and Asset Disposal Act, 2015 which stipulates that all procurement processes shall be within the approved budget of the procuring entity and shall be planned by the procuring entity concerned through an annual procurement plan.

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 Lawfulness and Effectiveness in Use of Public Resources 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**

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

The School did not have an approved risk management policy. Further, no evidence was provided on whether Management has identified, assessed and documented risks and controls developed to respond to the risks identified as required of Regulation 165 of the Public Finance Management (National Government) Regulations, 2015, which stipulates that the Accounting Officer shall ensure that the National Government entity develops risk management strategies, which include fraud prevention mechanism and system of risk management and internal control that builds robust business operations.

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

### **2. Lack of Audit Committee**

The School did not have an audit committee contrary to Section 73(5) of the Public Finance Management Act, 2012 which states that every National Government entity shall establish an internal auditing committee whose composition and functions are to be prescribed by the regulations.

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

### **3. Lack of Secure and Safe Learning Environment**

Physical verification carried out in June, 2023 revealed that the School has only one dormitory with a capacity of one hundred and twenty (120) students which is not enough to accommodate its students. The School also lacked enough and maintained playground and the School's fence consisting of live and barbed wire had several sections either damaged or not covered. Lack of a secure fence may compromise safety and security of students, teachers and Schools' assets.

In the circumstances, the security of the Schools' assets, students and members of staff may be compromised.

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 the 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, and 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**