

REPORT OF THE AUDITOR-GENERAL ON NDIVISI GIRLS HIGH SCHOOL FOR THE EIGHTEEN (18) MONTHS PERIOD ENDED 30 JUNE, 2021 – BUNGOMA COUNTY

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

Qualified Opinion

I have audited the accompanying financial statements of Ndivisi Girls High School – Bungoma County set out on pages 1 to 19, which comprise the statement of financial assets and financial liabilities for the eighteen (18) months period ended 30 June, 2021, and the statement of receipts and payments, statement of cash flows and statement of comparison of budget versus actual amounts for the 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, 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 Ndivisi Girls 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 comply with the Basic Education Act, 2013 and the Public Finance Management Act, 2012.

Basis for Qualified Opinion

1. Unexplained Budget Variances

The statement of budgeted versus actual amounts reflects an under expenditure of Kshs.14,430,311 whereas the recomputed under expenditure is Kshs.15,497,984, resulting in an unexplained variance of Kshs.1,067,673.

In the circumstances, the accuracy and completeness of the statement of budgeted versus actual amounts could not be confirmed.

2. Unsupported Capitation Grants

The statement of receipts and payments reflects Kshs.2,055,871 and Kshs.13,327,911, being capitation grants for tuition and capitation grants for operations as disclosed in Notes 1 and 2 to the financial statements respectively. However, a students' register showing the actual enrolment of students in the school for the period under review was not provided for audit. Thus, it was not possible to confirm whether the correct capitation amount was advanced to the school.

In the circumstances, the accuracy and validity of capitation grants for tuition and capitation grants for operations of Kshs.2,055,871 and Kshs.13,327,911 respectively could not be confirmed.

3. Unsupported Long Outstanding Accounts Payables

The statement of financial assets and financial liabilities reflects accounts payables balance of Kshs.13,027,857 as disclosed in Note 12 to the financial statements. However, the supporting schedule of creditors reflects a balance of Kshs.3,428,534, resulting in an unexplained variance of Kshs.9,599,323. Further, included in the accounts payables balance is trade creditors balance of Kshs.8,030,932 which has been outstanding for two (2) years. In addition, the long outstanding balance were not supported by contract agreements, evaluation reports and minutes, quotations, bills of quantities, purchase orders, delivery notes and inspection and acceptance reports.

In the circumstances, the accuracy, completeness and validity of the accounts payables balance of Kshs.13,027,857 could not be confirmed.

4. Unsupported Long Outstanding Accounts Receivables

The statement of financial assets and financial liabilities reflects accounts receivables balance of Kshs.10,355,924 as disclosed in Note 11 to the financial statements, out of

which student debtors totaled Kshs.10,258,924 which were not supported with detailed age analysis and ledgers nor traceable to the students register. In addition, included in the student debtors balance of Kshs.10,258,924 are fees arrears of Kshs.3,093,629 which were older than two (2) years. Further, prepaid fees of Kshs.393,095 could not be traced to students register.

In the circumstances, the accuracy, completeness and collectability of the student debtors balance of Kshs.10,258,924 could not be confirmed.

5. Unaccounted for Payments for Operations

The statement of receipts and payments reflects payments for operations totalling Kshs.11,811,222 as disclosed in Note 6 to the financial statements, out of which Kshs.1,073,000 is in respect to payments to suppliers for infrastructure projects, goods and services. However, requests for quotations and professional opinions were not provided for audit.

In the circumstances, the propriety of payments for operations of Kshs.1,073,000 could not be confirmed.

6. Inaccuracies Cash and Cash Equivalents Balance

The statement of financial assets and financial liabilities reflects cash and cash equivalents balance of Kshs.612,352 as disclosed in Notes 8 and 9 to the financial statements. However, excluded from the bank balance is Kshs.78,760 held in infrastructure account.

In the circumstances, the accuracy and validity of the cash and cash equivalents balance of Kshs.612,352 could not be confirmed.

7. Lack of Ownership Documents and Valuation for Fixed Assets

Annex 2 for summary of fixed assets register reflects land of undetermined value measuring 6.85 acres donated by Friends Quakers Church. However, the title deed or allotment letter for land occupied by the school was not provided for audit. Further, the school is in possession of assets including land, buildings, furniture and equipment, computers and accessories and bus whose valuation reports were not provided for audit.

In the circumstances, the valuation and ownership of the fixed assets could not be confirmed.

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

Other Matter

Budgetary Control and Performance

The statement of budgeted versus actual amounts reflects a final receipts budget of Kshs.54,257,500 against actual receipts on comparable basis of Kshs.44,963,700, resulting in a revenue shortfall of Kshs.9,293,800 or 17% of the budget.

Similarly, the statement reflects a final expenditure budget of Kshs.54,260,500 against actual expenditure of Kshs.38,762,516, resulting in under expenditure of Kshs.15,497,984 or 29% of the budget.

The revenue shortfall and under expenditure may have had negative impact on service delivery.

REPORT ON LAWFULNESS AND EFFECTIVENESS IN 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. Unsupported Procurement of Boarding and School Fund Payments

The statement of receipts and payments reflects boarding and school fund payments totalling Kshs.24,047,781, out of which an amount of Kshs.703,470 was not supported by requests for quotations and professional opinions.

In the circumstances, the validity and value for money amounting to Kshs.703,470 on boarding and school fund could not be confirmed.

2. Lack of an Updated Fixed Assets Register

Annex 2 for summary of fixed assets register reflects machinery and equipment, ICT equipment, intangible assets, land and buildings whose historical costs, additions and disposals. However, the school did not maintain an updated fixed assets register. This is contrary to Regulation 143 (1) of Public Finance Management (National Government)

Regulations, 2015 which provides 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.

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

3. Lack of an Audit Committee

During the period under review, the school did not have an audit committee. This is contrary to Section 73 (1) (a) and 73(5) of the Public Finance Management Act, 2012 which stipulates that ‘a national government entity shall ensure that it has appropriate arrangements for conducting internal audit and that it too establishes an audit committee.

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, 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 a Risk Management Policy

During the period under review, the school did not have a risk management policy in place. This is contrary to Regulation 165(1) of the Public Finance Management (National Government) Regulations, 2015 which requires that all public institutions develop an institutional risk management policy framework.

In the circumstances, the school may not mitigate the operational, legal and financial risks.

2. Lack of Reliable School Information System

Annex 2 - summary of fixed assets register reflects Kshs. Nil historical costs for machinery and equipment, ICT equipment, intangible assets and land and buildings. However, excluded from the register is Kshs.150,000 in respect of the cost of a Students’ Information System which was procured from a vendor for the purpose of capturing fees

payments. Further, the system is not linked to the bank accounts to enable real time processing of fees paid by students nor does it generate reports on fees arrears and fees prepaid.

In the circumstances, value for money may not be achieved from Kshs.150,000 spent on the students' information system.

3. Lack of Backup for Financial Data

During the period under review, the financial records, ledgers and cash books are maintained in Microsoft Excel. However, the School did not maintain a backup for records and data. Further, the Management had not instituted a disaster recovery plan.

In the circumstances, the safety and reliability of the school's data and information could not be ascertained.

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 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 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 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 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 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 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 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 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

11 October, 2023