REPORT OF THE AUDITOR-GENERAL ON P.C.E.A KARAI SECONDARY SCHOOL FOR THE YEAR ENDED 30 JUNE, 2021 - KIAMBU 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 P.C.E.A Karai Secondary School - Kiambu County set out on pages 1 to 22, 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 the 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 P.C.E.A Karai Secondary School - Kiambu County as at 30 June, 2021, 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 comply with the Public Finance Management Act, 2012 and Basic Education Act, 2013.

Basis for Qualified Opinion

1. Variances in Capitation Grants for Operations

The statement of receipts and payments reflects total receipts amount of Kshs.5,017,393 relating to receipt of capitation grants for operations. However, the amount is at variance with the supporting schedule amount of Kshs.3,591,661 resulting in an unreconciled variance of Kshs.1,425,732.

In the circumstances, the accuracy and completeness of the amount for receipt of capitation grants for operations of Kshs.5,017,393 could not be confirmed.

2. Unsupported Boarding and School Fund Payments

The statement of receipts and payments reflects an amount of Kshs.3,973,544 in respect of boarding and school fund payments. Included in the amount is Kshs.2,395,786, Kshs.813,455, Kshs.18,700, Kshs.105,800, Kshs.226,352, Kshs.115,040, Kshs.162,571 and Kshs.115, 840 in respect of lunch, boarding and equipment, routine maintenance, local travel and transport, administration costs, electricity and water, personal emolument, and school farm respectively as disclosed in Note 7 to the financial statements. However, no expenditure schedules/ledgers were provided. Further, included in these amounts were expenditures totalling to Kshs.346,100.00 being payments for remedial claims. However, there was no written authority to justify these payments.

In addition, from the sampled payment vouchers provided for audit review, was an amount of Kshs.791,100 which was lacking goods received note attached to support these payments. Therefore, it was not possible to ascertain if the goods supplied were actually taken on charge.

In the circumstances, the accuracy of the boarding and school fund payments amount of Kshs.3,973,544 could not be confirmed.

3. Variance in Payments for Operations

The statement of receipts and payments reflects an amount of Kshs.3,113,144.50 relating to payments for operations. However, the amounts differ with the supporting schedule provided amounting to Kshs.10,756,264.40 resulting to an unreconciled variance of Kshs.7,643,119.90. The variance has not been explained or supported.

In the circumstances, the payments for operations amount of Kshs.3,973,544 could not be confirmed.

4. Unsupported Accounts Receivables

The statement of financial position as disclosed in Note 11 to the financial statement reflects a balance of Kshs.5,974,704 in respect of accounts receivables. Included in this figure is an amount of Kshs.4,190,240 being fees arrears for prior periods (over two years). Review of the documents availed for audit revealed that the amounts were not supported by the relevant document.

In the circumstances, the accounts receivables balance of Kshs.4,190,240 as at 30 June, 2022 being could not be confirmed.

5. Unreconciled Cash and Cash Equivalents

The statement of financial assets and liabilities reflects cash and cash equivalents balance of Kshs.2,374,143.37 which includes a cash balance of Kshs.49,659.80 as disclosed in Note 9 to the financial statements. However, Board of Survey report confirming the cashbook balances for all the bank accounts was not provided for audit. Further, Note 8 to the financial statements reflects bank balances of Kshs.2,324,483.57 which includes savings account balance of Kshs.13,466.45 which was not supported by bank statements, cash book and bank reconciliation statements. Also, the School's fund account has a negative cashbook balance of (Kshs.343,287.45) and has been offset against other positive cashbook balances.

In addition, the School Management did not prepare bank reconciliation statements every month for each account and the few bank reconciliation statements prepared were not reviewed by an independent officer from the one handling cash. Bank certificates for all the School Bank Accounts were also not provided.

In the circumstances, the accuracy and completeness of the cash and cash equivalents balance of Kshs.2,371,153.22 could not be confirmed.

6. Unsupported Accounts Payables

The statement of financial assets and financial liabilities reflects Kshs.1,424,927 in respect of accounts payables as disclosed in Note 12 to the financial statements. However, this amount was revised from the initial submitted financial assets and financial liabilities balance of Kshs.2,230,890 resulting to a variance of Kshs.805,965 which was not supported by any journal voucher to explain the difference.

Included in the amount is Kshs.1,168,285, Kshs.805,965 and Kshs.230,250 relating to trade creditors for the previous year, trade creditors for prior periods (over two years) and pre-paid fee respectively which were not supported with aging analysis, copies of invoices and copies of receipts to confirm prepaid fee.

In the circumstances, the completeness and accuracy of the accounts payables balance of Kshs.1,424,927 could not be confirmed.
The audit was conducted in accordance with International Standards of Supreme Audit Institutions (ISSAIs). I am independent of the P.C.E.A Karai Secondary School Management in accordance with ISSAI 130 on the 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

1. Budgetary Control and Performance

The statement of budget versus actual amounts reflects final receipts budget of Kshs.14,615,562 and actual on comparable basis of Kshs.10,125,221 resulting to an under performance of Kshs.4,490,341 equivalent to 30% of the budget. Similarly, the statement reflects final expenditure budget of Kshs.14,588,959 and actual on comparable basis of Kshs.7,959,321 resulting to an under expenditure of Kshs.6,629,638 equivalent to 45% of the budget.

The underfunding and under expenditure affected the planned activities and may have impacted negatively on service delivery by the school.

2. Unapproved Itemized Final Budget

Examination of records show that the School had a final budget of Kshs.14,377,959 whose itemized budget provided was not however approved by the Board of Management and it was not aligned to the financial statements components as outlined in the Public Sector Accounting Standards Board (PSASB) reporting template for schools.

In the circumstances, the comparability of financial statement items could not be confirmed.

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. Non-Compliance with the Public Sector Accounting Standards Board Reporting Requirements

The Public Sector Accounting Standards Board (PSASB) Guidelines on Implementation of International Public Sector Accounting Standards (IPSAS) by Secondary Schools in

Kenya of 20 August 2021, requires the first financial statements after adoption of IPSAS to be presented for eighteen (18) months from 1 January, 2020 to 30 June, 2021 with comparatives being for twelve (12) months from 1 January, 2019 to 30 December, 2019. Further, a disclosure note ought to have been included in the financial statements that the reason for preparing the financial statements for longer period is due to the adoption of IPSAS for schools 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 (18) months as prescribed by the Public Sector Accounting Standards Board.

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 the longer period covered by the current financial period.

In the circumstances, Management was in breach of the Public Sector Accounting Standards Board reporting requirements.

2. Reallocation of Funds Without Approval

The statement of receipts and payments reflects an amount of Kshs.3,113,144.50 in respect of payments of operations as disclosed in Note 6 to the financial statements. The amount includes expenditure on acquisition of assets of Kshs.384,755. Review of sampled payments vouchers under the vote head of infrastructure and maintenance (acquisition of assets) revealed that transactions amounting to Kshs.295,825 were diverted to other vote head items with no authority approving the same. This was contrary to the Ministry of Education Circular Ref. No: MOE/G1/9/1/44 dated 9 January, 2008 and MOE.HQS/3/13/3 dated 16 June, 2021 directs that under the Operations Account, schools may seek authority from the CEBs to vire savings or surplus funds from one item to another, when it is absolutely necessary but no Virement from the Tuition and Infrastructure Account will be allowed.

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

3. Non-Compliance with Law on Public Procurement

Review of the school procurement records revealed the following;

i. During the year under review, it was noted that the school did not have a procurement plan as required by Public Procurement and Asset Disposal Act, 2015. This was contrary to 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.

ii. The statement of receipts and payments as disclosed under Note 6 of the financial statement reflects an amount of Kshs.3,113,144.50 on payment of operations.

Included in this figure is an amount of Kshs.384,755 being acquisition of assets and repairs and maintenance of Kshs.154,470. Review of sampled payment vouchers provided shows that the school paid Kshs.118,150 to different suppliers. However, the method of procurement used could not be confirmed since firms were not in the entity's approved register of suppliers and therefore it was not possible to determine how it was identified, evaluated and awarded to provide goods and services.

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. Weak Internal Controls

The school internal controls which included financial and operations had a number of areas which were noted not to be working as expected to prevent occurrence of error, fraud or general inefficiency. These areas included:

i. Inadequate segregation of responsibilities in the accounting department. Same officer is involved in verification and approval of payments is also the cashier;

ii. Inadequate internal controls in accounting department was observed. Same officer receives receipts from students, enters the transaction in the cashbook and performs bank reconciliation;

iii. The finance department does not follow a finance manual in its operations;

iv. Policies to guide management of liabilities, receivables, inventories and non-current assets have not been prepared; and

v. Absence of business continuity plan including adequate storage of the software data.

In the circumstances, the effectiveness of internal controls in relation to financial management and segregation of duties could not be confirmed.

2. Delays in Transfer of Infrastructure Funds from the Operations Bank Account

The school received capitation grants for operations amounting to Kshs.5,017,393 during the period under review out of which Kshs.1,676,000 was transferred to the infrastructure account. However, it was not possible to establish why the school did not transfer any amounts from capitation grants received in March, April and May totalling Kshs.2,197,610 hence the transfers could not be confirmed. Additionally, the School did not observe the deadline to transfer the funds received in January, 2021 within the fifteen (15) days since receipt of the same**.**

In the circumstances, there was non-compliance to the circulars and guidelines in the management of the operation grants

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 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 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 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 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 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