

REPORT OF THE AUDITOR-GENERAL ON S.A. KOLANYA BOYS HIGH SCHOOL FOR THE SIX (6) MONTHS' PERIOD ENDED 30 JUNE, 2021 – BUSIA 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

Adverse Opinion

I have audited the accompanying financial statements of S.A. Kolanya Boys High School – Busia County set out on pages 15 to 29, 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 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, 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 S.A. Kolanya Boys High School – Busia County as at 30 June, 2021, and of its financial performance and its cash flows for the period then ended, in accordance with the 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. Inaccuracies in the Financial Statements

Review of the financial statements for the School revealed the following inaccuracies:

1.1 Inaccuracies of Students NEMIS Enrolment Data

The statement of receipts and payments reflects capitation grants for tuition of Kshs.1,459,770 and capitation grants for operations of Kshs.11,152,220 as disclosed in Note 1 and Note 2 respectively, both totalling to Kshs.12,611,990. Review of the National Education Management Information System (NEMIS) report and the School’s manual enrolment register revealed that the number of students captured in NEMIS was more than the number recorded in the School’s manual register, resulting in overfunding by Kshs.179,496 as detailed below:

Month	Capitation per Student (Kshs.)	Number of Students per NEMIS	Capitation Received (Kshs.)	Number of Students per Manual Register	Expected Capitation (Kshs.)	Variance in Student Numbers	Over Funding (Kshs.)
February 2021- Operations	3,370	1,120	3,774,400	1,096	3,693,520	24	80,880
April 2021 - Operations	2,796	1,120	3,131,520	1,096	3,064,416	24	67,104
February 2021 Tuition	601	1,120	673,120	1,096	658,696	24	14,424
April 2021 Tuition	712	1,120	797,440	1,096	780,352	24	17,088
Total			8,376,480		8,196,984		179,496

Further, the overfunding of Kshs.179,496 was not included under accounts payable balance of Kshs.8,534,428 reflected in the statement of financial assets and financial liabilities.

In the circumstances, the accuracy and completeness of capitation grants totalling Kshs.12,611,990 and the accounts payable balance of Kshs.8,534,428 could not be confirmed.

1.2 Variances between Financial Statements and Supporting Schedules Balances

Review of the statement of receipts and payments revealed that five (5) items had amounts that were at variance with the supporting schedules provided for audit as detailed below:

Details	Notes	Balances in 2020/2021 Financial Statements (Kshs.)	Balances as per the Supporting Schedules (Kshs.)	Variance (Kshs.)
Capitation Grants for Tuition	1	1,459,770	1,760,490	300,720
Capitation Grants for Operations	2	11,152,220	7,586,451	3,565,769
School Fund Income - Parents Contributions	3	20,237,144	96,398,786	76,161,642
School Fund Income - Other Receipts	4	736,900	383,500	353,400
Maintenance and Improvements	6 & 7	2,924,990	1,256,265	1,668,725

In the circumstances, the accuracy and completeness of the amounts in the statement of receipts and payments could not be confirmed.

2. Inaccuracies in the Statement of Cash Flows

The statement of cash flows reflects cash and cash equivalents balance of Kshs.6,932,885 as disclosed in Note 8 to the financial statements. However, the balance is indicated as net of cash outflows from operating activities of Kshs.527,546, which is also incorrectly presented as net cash flows from financing activities. In addition, the statement of cash flows reflects Kshs. Nil cash and cash equivalents opening balance while the bank reconciliation statements reflected balances totaling to Kshs.1,607,151 with effect from 1 July, 2020. Further, the cash books for the respective accounts were not provided for audit.

In the circumstances, the accuracy and completeness of the cash and cash equivalents balance of Kshs.6,932,885 could not be confirmed.

3. Unsupported Capitation Grants for Operations - Medical Insurance Transfers

As disclosed in Note 2 to the financial statements, the statement of receipts and payments reflects capitation grants for operations totalling to Kshs.11,152,220 which includes an amount of Kshs.2,242,000 in respect of medical and insurance. However, the supporting documents including NEMIS receipts schedules and acknowledgments to the Ministry of Education were not provided for audit.

In the circumstances, the accuracy and completeness of the amount of Kshs.2,242,000 in capitation grants for medical and insurance could not be confirmed.

4. Unsupported Accounts Receivables Balance

As disclosed in Note 10 to the financial statements, the statement of financial assets and financial liabilities reflects accounts receivables balance of Kshs.3,673,323. However, Note 10 to the financial statements reflects a balance of Kshs.41,187,739, resulting to an unexplained and unreconciled variance of Kshs.37,511,415. Further, the supporting schedules were not provided for audit review. In addition, as disclosed in Note 10 to the financial statements, the accounts receivable balance of Kshs.3,673,322 excludes fees arrears of previous year of Kshs.11,112,532 and fees arrears over two years old of Kshs.26,398,884. No evidence was provided of efforts made to recover these overdue fees arrears.

In the circumstances, the accuracy, completeness, and recoverability of accounts receivables balance of Kshs.3,676,323 could not be confirmed.

5. Unsupported Accounts Payables Balance

The statement of financial assets and financial liabilities reflects accounts payables balance of Kshs.8,534,428, which as disclosed in Note 11 to the financial statements excludes Kshs.2,531,862 and Kshs.3,946,147 in respect of trade creditors for prior year and previous years (over two years), all totalling to Kshs.6,478,009. Further, supporting schedules, invoices and goods delivery notes were not provided for audit review.

In the circumstances, the accuracy, completeness and validity of accounts payables balance of Kshs.8,534,428 could not be confirmed.

6. Unsupported Other Receipts –School Fund Account

As disclosed in Note 4 to the financial statements, the statement of receipts and payments reflects of an amount of Kshs.736,900 in respect of school fund account which includes gratuity amount of Kshs.300,000. However, supporting documents including bank statements and schedules for the gratuity amount were not provided for audit.

In the circumstances, the completeness, accuracy and validity of Kshs.300,000 in respect of gratuity could not be confirmed.

7. Unsupported Payments

The statement of receipts and payments reflects amounts of Kshs.2,019,445, Kshs.9,448,148 and Kshs.22,645,987 in respect of payments for tuition, payments for operations and boarding and school fund payments totalling to Kshs.34,113,580. However, supporting documents including supporting schedules and payment vouchers were not provided for audit.

In the circumstances, the accuracy, completeness and validity of payment totalling to Kshs.34,113,580 could not be confirmed.

8. Unsupported Cash and Cash Equivalents Balance

As disclosed in Note 8 to the financial statements, the statement of financial assets and financial liabilities reflects cash and cash equivalents balance of Kshs.6,932,885 relating to bank balances. However, the bank balance was not supported with certificates of bank balances and bank reconciliation statements.

In the circumstances, the accuracy and completeness of the balance of Kshs.6,932,885 in respect of cash and cash equivalents could not be confirmed.

9. Board of Management Allowances

As disclosed in Note 7 to the financial statements, the statement of receipts and payments reflects boarding and school fund payments of Kshs.22,645,987 which includes an amount of Kshs.497,784 in respect of local transport and subsistence allowances paid to Board of Management members. However, the expenditure was not supported by signed Board minutes and attendance registers.

Further, review of the payment schedule to the Board members revealed that the chairman and members were paid Kshs.7,000 and Kshs.5,000 respectively per sitting instead of the approved rates of Kshs.5,000 and Kshs.4,000 respectively, contrary to the Salaries and Remuneration Commission Circular Ref: SRC/ADM/CIR/1/13(122) of 16 April, 2014 on the payment of taskforce allowance and remuneration of commission of inquiry, tribunal, boards and committees appointed by Government. Therefore, the Board members were overpaid sitting allowances amounting to Kshs.64,500 during the period under review.

In the circumstances, the regularity of the rates used could not be confirmed and Management was in breach of the law.

The audit was conducted in accordance with International Standards of Supreme Audit Institutions (ISSAIs). I am independent of the S.A Kolanya 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 revealed casted final income budget and actual on comparable basis of Kshs.57,517,040 and Kshs.30,209,226 respectively, resulting in an under-funding of Kshs.27,307,814 or 47% of the budget. Similarly, casting of the final expenditure budget and actual on comparable basis revealed amounts of Kshs.83,762,910 and Kshs.23,581,549 respectively, resulting in an under-absorption of Kshs.60,181,366 or 72% of the budget.

In addition, the budget amounts presented were not supported by approved budget as required by Regulation 31(1) and (2) of the Public Finance Management (National Government) Regulations, 2015. The section requires the Accounting Officer to ensure that the draft estimates relating to her or his department are prepared in conformity with the Constitution, the Act and these Regulations. The Accounting Officer is responsible, in particular for ensuring that all services which can be reasonably foreseen are included in the estimates.

The under-funding and under-absorption of the budget affected the planned activities and may have impacted negatively on service delivery to the public and the Management was in breach of the law.

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 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. 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 August 20, 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 six months for financial year 2020-2021 with no comparative balances for financial year 2019-2020. Therefore, the financial statements have not been prepared for eighteen-months (18) 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 law.

2. Lack of an Approved Procurement Plan

The School did not provide an approved procurement plan for the period under review for audit. This was contrary to Regulation 40(4) of the Public Finance Management (National Government) Regulations, 2015 which states that 'the consolidated annual procurement plan shall be prepared by the accounting officer of the procuring entity and approved by the Cabinet Secretary, or County Executive Committee Member of Finance responsible for that entity or, where applicable, by the Board of directors or a similar body'.

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 Qualified Opinion 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

Review of the records provided for audit revealed that the School Management had not established a Risk Management Policy. This was contrary to Regulation 165(1) (a-b) 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, Management was in breach of the law and was therefore not in a position to identify risks and develop mitigating strategies.

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 is exposed to financial losses or falsification of records.

3. Lack of Insurance Cover for Property and Other Assets

Review of the financial statements and fixed assets records revealed that the School did not have insurance cover for its property and other fixed assets.

In the circumstances, the School's assets are exposed to losses without compensation in case of fire, theft or any other unforeseen disasters.

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