

REPORT OF THE AUDITOR-GENERAL ON ST. ANNES KISOKO GIRLS HIGH SCHOOL FOR THE YEAR ENDED 30 JUNE, 2021 – BUSIA COUNTY

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 control, 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 St. Annes Kisoko Girls High School - Busia County set out on pages 1 to 18 which comprise of the financial assets and financial liabilities as at 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 six months' 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 St. Annes Kisoko Girls High School 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 the Basic Education Act, 2013.

Basis for Qualified Opinion

1. Inaccuracies in the Capitation Grants for Tuition

As disclosed in Note 1 to the financial statements, the statement of receipts and payments reflects an amount of Kshs.1,252,242 in respect of capitation grants for operations. However, review of the supporting schedule and NEMIS capitation disbursement extract revealed Kshs.1,749,465, resulting to unexplained and unreconciled variance of Kshs.497,223.

In the circumstances, the accuracy and completeness of an amount of Kshs.1,252,242 in respect of capitation grants for tuition could not be confirmed.

2. Inaccuracies in the Capitation Grants for Operations

As disclosed in Note 2 to the financial statements, the statement of receipts and payments reflects an amount of Kshs.9,379,505 in respect of capitation grants for operations. However, review of the supporting schedule and NEMIS capitation disbursement extract revealed an amount of Kshs.8,208,520, resulting to unexplained and unreconciled variance of Kshs.1,170,985.

In the circumstances, the accuracy and completeness of an amount of Kshs.9,379,505 in respect of capitation grants for operations could not be confirmed.

3. Unsupported Expenditure on Maintenance and Improvements

As disclosed in Notes 6 and 7 to the financial statements, the statement of receipts and payments reflects payments for operations and boarding and school payments amounts of Kshs.9,097,740 and Kshs.29,902,782 respectively which include amounts of Kshs.2,555,190 and Kshs.1,413,122 in respect of repairs and maintenance and improvements, all totaling to Kshs.3,968,312. However, review of documents revealed that the school undertook development projects costing Kshs.2,555,187 resulting in an unexplained and an unreconciled variance of Kshs.1,413,125. In addition, supporting details including payment vouchers, bills of quantities, contract agreements, project site meeting minutes, project supervisor reports and statement for payment on accounts certificates were not provided for audit.

In the circumstances, the accuracy and completeness of the expenditure of Kshs.3,968,312 in respect of repairs and maintenance improvements could not be confirmed.

4. Undisbursed Capitation Grants for Operations

As disclosed in Note 2 to the financial statements, the statement of receipts and payments reflects an amount of Kshs.30,257,149 in respect of School fund income- parents'

contributions. However, supporting documents including student fee receipts summary and Review of the Ministry of Education Circular Ref No. MOE.HQS/3/13/3 of 16 June, 2021 on the implementation of Free Day Secondary Education (FDSE) for the year 2021-2022 confirmed capitation grants of Kshs.200 per student in respect of activity as per NEMIS student enrolments. During the year under review, the Ministry disbursed capitation grants to the School for an average of 1,190 students. However, review of the NEMIS capitation acknowledgment records maintained by the School revealed that the amount of Kshs.200 per student was not received by the School resulting to total amounts of Kshs.266,400 in respect of SMASSE which was not disbursed. In the circumstances, the accuracy and completeness of the allocation of capitation grants to the School could not be confirmed.

5. Unsupported School Fund Income- Parents' Contributions

As disclosed in Note 3 to the financial statements, the statement of receipts and payments reflects an amount of Kshs.30,257,149 in respect of School fund income- parents' contributions. However, supporting documents including student fee receipts summary and schedules were not provided for audit.

In the circumstances, the accuracy and completeness of an amount of Kshs.30,257,149 in respect of School fund income- parents' contributions could not be confirmed.

6. Unsupported Payments for Tuition

As disclosed in Note 5 to the financial statements, the statement of receipts and payments an amount of Kshs.1.237,080 in respect payments for tuition. However, supporting documents including, supporting schedules, invoices, delivery notes and issue and receipt vouchers were not provided for audit review.

In the circumstances, the accuracy and completeness of the expenditure of Kshs.1.237,080 in respect of payments for tuition could not be confirmed.

7. Unsupported Payments for Operations

As disclosed in Note 6 to the financial statements, the statement of receipts and payments reflects an amount of Kshs.9,097,740 in respect of payments for operations. However, supporting documents including ledger schedules, inspection and acceptance reports, invoices, delivery notes and issue and receipt vouchers were not provided for audit review.

In the circumstances, the accuracy and completeness of the expenditure of Kshs.9,097,740 in respect of payments for operations could not be confirmed.

8. Unsupported Boarding and School Fund Payments

As disclosed in Note 7 to the financial statements, the statement of receipts and payments reflects an amounts of Kshs.29,902,782 in respect of boarding and school payments. However, supporting documents including ledger schedules, inspection and acceptance reports, invoices, delivery notes and issue and receipt vouchers were not provided for audit review.

In the circumstances, the accuracy and completeness of the expenditure of Kshs.29,902,782 in respect of payments for operations could not be confirmed.

9. Unsupported Repairs and Maintenance Improvements

As disclosed in Notes 6 and 7 to the financial statements, the statement of receipts and payments reflects payments for operations and boarding and school payments amounts of Kshs.9,097,740 and Kshs.29,902,782 respectively which include amounts of Kshs.2,555,190 and Kshs.1,413,122 in respect of repairs and maintenance improvements, all totaling to Kshs.3,968,312. However, supporting documents including, Ministry of Education approvals, bills of quantities, procurement documents, contract agreements and completion of works certificates were not provided for audit review.

In the circumstances, the accuracy and completeness of the expenditure of Kshs.3,968,312 in respect of repairs and maintenance improvements could not be confirmed

10. Unsupported Cash and Cash Equivalents

As disclosed in Notes 8 and 9 to the financial statements, the statement of financial assets and financial liabilities reflects cash and cash equivalents balance of Kshs.857,782 which includes Kshs.836,794 and Kshs.20,988 in respect of bank and cash in hand balances respectively. The bank balance of Kshs.836,794 includes bank balances in five (5) bank accounts. However, one bank account balance and cash in hand were not supported with certificate of bank balances and board of cash survey report respectively. In addition the bank balances were not supported with bank reconciliation statements and bank details nor were bank account numbers presented as required by the approved reporting template.

In the circumstances, the accuracy and completeness of the cash and cash equivalents balance of Kshs.857,782 could not be confirmed.

11. Unsupported Accounts Receivables

As disclosed in Note 11 to the financial statements, the statement of financial assets and financial liabilities reflects accounts receivables balance of Kshs.11,052,357 in respect of fees arrears. However, supporting documents including ledger schedules and students fee statements with ageing analysis were not provided for audit.

In the circumstances, the accuracy, completeness and recoverability of the accounts receivables balance of Kshs.11,052,357 could not be confirmed.

12. Unsupported Accounts Payables

As disclosed in Note 12 to the financial statements, the statement of financial assets and financial liabilities reflects accounts payable balance of Kshs.954,172 which includes Kshs.717,330 and Kshs.236,842 in respect of trade creditors and prepaid fees respectively. However, trade creditors balance of Kshs.717,330 was not supported with ledger schedules, invoices, delivery notes, issues, receipts, school finance committee minutes on trade creditors and students fee statements in respect of prepaid fees.

In the circumstances, the accuracy and completeness the accounts payables balance of Kshs.954,172 could not be confirmed.

The audit was conducted in accordance with International Standards of Supreme Audit Institutions (ISSAIs). I am independent of the St. Annes Kisoko 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 final total income budget and actual on comparable basis of Kshs.75,278,425 and Kshs.40,888,896 respectively, resulting in an under-funding of Kshs.34,389,529 or 46% of the budget. Similarly, the statement reflects final budget expenditure and actual on comparable basis of Kshs.75,278,425 and Kshs.40,237,602, resulting in under-absorption of Kshs.35,040,823 or 47 % of the budget.

The under-funding and under-absorption affected the planned activities and may have impacted negatively on service delivery to the public.

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 matter 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

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. Therefore, the financial statements have not been prepared for eighteen-months (18) as prescribed by the Public Sector Accounting Standards Board.

Further, the financial statements reflect comparative balances in regards to financial statements for 2019/2020 which Management has not explained their basis since this was the first year of audit.

In the circumstances, the financial statements have not been prepared in accordance with the recommended reporting template and guidelines issued by the Public Sector Accounting Standards Board.

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 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

Review of the documents and records provided for audit review revealed that the 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 controls that builds robust business operations.

In the circumstances, Management may not be able 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 may be exposed to financial losses or falsification of records.

3. Lack of Insurance Cover for Property and Other Assets

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

In the circumstances, the School’s assets may be exposed to losses without compensation in case of fire, theft or any other unforeseen calamities.

The audit was conducted in accordance with ISSAI 2315 and ISSAI 2330. The standards require that I plan and perform the audit to obtain assurance about whether effective processes and systems of internal controls, risk management and overall governance were operating effectively, in all material respects. I believe that the audit evidence I have obtained is sufficient and appropriate to provide a basis for my conclusion.

Responsibilities of Management and those Charged with Governance

Management is responsible for the preparation and fair presentation of these financial statements in accordance with International Public Sector Accounting Standards (Cash Basis) and for maintaining effective internal controls as Management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error and for its assessment of the effectiveness of internal controls, risk management and overall governance.

In preparing the financial statements, Management is responsible for assessing the School’s ability to continue to sustain 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 controls in order to give an assurance on the effectiveness of internal controls, risk management and overall governance processes and systems in accordance with the provisions of Section 7(1)(a) of the Public Audit Act, 2015 and submit the audit report in compliance with Article 229(7) of the Constitution. My consideration of the internal controls would not necessarily disclose all matters in the internal controls that might be material weaknesses under the ISSAIs. A material weakness is a condition in which the

design or operation of one or more of the internal controls components does not reduce to a relatively low level the risk that misstatements caused by error or fraud in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions.

Because of its inherent limitations, internal controls may not prevent or detect misstatements and instances of 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 controls.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the Management.
- Conclude on the appropriateness of the Management's use of the applicable basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the School's ability to continue to sustain its services. If I conclude that a material uncertainty exists, I am required to draw attention in the auditor's report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify my opinion. My conclusions are based on the audit evidence obtained up to the date of my audit report. However, future events or conditions may cause the School to cease to continue to sustain its services.
- Evaluate the overall presentation, structure and content of the financial statements, including the disclosures and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.
- Obtain sufficient appropriate audit evidence regarding the financial information and business activities of the School to express an opinion on the financial statements.
- Perform such other procedures as I consider necessary in the circumstances.

I communicate with Management regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal controls 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