

REPORT OF THE AUDITOR-GENERAL ON ST. MATHIAS BUSIA HIGH SCHOOL FOR THE 18 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, gazetted 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 St. Mathias Busia Secondary School – Busia County set out on pages 1 to 18, which comprise 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 statement of budgeted 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 of Qualified Opinion section of my report, the financial statements present fairly in all material

respects, the financial position of St. Mathias Busia High School – Busia 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 Basic Education Act, 2013 and the Public Finance Management Act, 2012.

Basis for Qualified Opinion

1. Inaccuracies in the Financial Statements

The financial statements prepared and presented for audit had the following anomalies: -

1.1 Discrepancies in Students Enrolment Data

The statement of receipts and payments reflects capitation for tuition of Kshs.2,300,458 and capitation for operations of Kshs.15,171,475 respectively, all totalling Kshs.17,471,933 as disclosed in Notes 1 and 2 to the financial statements. Review of the National Education Management Information System (NEMIS) report and school manual enrolment register for the year under review revealed inconsistencies in respect of the number of students captured in the two registers. Further, the variances resulted in over-funding of Kshs.149,096 which was unexplained and unreconciled as detailed below:

| Month | Total Capitation (Kshs.) | Capitation per Student (Kshs.) | Number of Students per NEMIS | Number of Students per School's Manual Register | Variance of NEMIS enrolment and Manual Register | Over-Funding (Kshs.) |
|--------------------------|---------------------------------|---------------------------------------|-------------------------------------|--|--|-----------------------------|
| April 2021-Operations | 2,301,108 | 2,796 | 823 | 802 | 21 | 58,716 |
| February 2021-Operations | 2,766,770 | 3,370 | 821 | 802 | 19 | 64,030 |
| April 2021-Tuition | 585,564 | 711 | 823 | 802 | 21 | 14,931 |
| February 2021-Tuition | 493,626 | 601 | 821 | 802 | 19 | 11,419 |
| Total | | | | | | 149,096 |

In the circumstances, the accuracy and completeness of capitation grants of Kshs.17,471,933 could not be confirmed.

1.2 Variances Between Financial Statement and Supporting Schedules

Review of the statement of receipts and payments revealed that four (4) items had amounts which were at variance with the supporting schedules provided for audit review as detailed below:

| Details | Notes | Balances in 2020/2021 Financial Statements (Kshs.) | Balances in the Supporting Schedules (Kshs.) | Variance (Kshs.) |
|---|--------------|---|---|-----------------------------|
| Capitation Grant for Tuition | 1 | 2,300,458 | 1,079,191 | 1,221,267 |
| Capitation Grant for Operations | 2 | 15,171,475 | 5,667,878 | 10,103,597 |
| School Fund Income – Parents Contribution | 3 | 16,276,965 | 9,085,014 | 7,191,951 |
| Payments for Operations | 6 | 10,060,399 | 4,301,968 | 5,758,431 |

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

1.3 Unsupported Payments for Tuition

The statement of receipts and payments reflects an amount of Kshs.2,291,688 as disclosed in Note 5 to the financial statements in respect of payments for tuition. However, review of the supporting schedule including payment vouchers revealed an amount of Kshs.973,953, resulting to unexplained and unreconciled variance of Kshs.1,317,735. Further, the supporting documents including the invoices and delivery notes provided for audit were not supported with, requisition notes, local purchase orders (LPOs), store ledgers and issue notes.

In the circumstances, the validity, accuracy and completeness of an amount of Kshs.2,291,688 in respect of payments for tuition could not be confirmed.

1.4 Unsupported Boarding and School Fund Payments

The statement of receipts and payments reflects an amount of Kshs.19,579,781 as disclosed in Note 7 to the financial statements in respect of payments for boarding and school fund payments. However, review of the supporting schedule including payment vouchers revealed Kshs.8,544,279 resulting to unexplained and unreconciled variance of Kshs.11,035,503. Further, the supporting documents including the invoices and delivery notes provided for audit were not supported with, requisition notes, local purchase orders (LPOs), store ledgers and issue notes.

In the circumstances, the accuracy and completeness of an amount of Kshs.19,579,781 in respect of payments for boarding and school fund payments could not be confirmed.

1.5 Unexplained Variances Between Statement of Budgeted Versus Actual Amounts

The statement of budgeted versus actual amounts reflects amounts of Kshs.33,748,898 and Kshs.30,824,086 in respect of total income and expenditure during the period under review. However, review of the statement of receipts and payments revealed amounts of Kshs.35,548,898 and Kshs.31,931,868 in respect to total receipts and payments,

resulting to unexplained and unreconciled variance of Kshs.1,800,000 and Kshs.1,107,782 respectively.

Further, final approved revenue budget, actual on comparable basis and budget utilization difference indicated amount of Kshs.53,248,380, Kshs.30,824,086 and under-funding of Kshs.18,882,754 respectively. However, recasting of the figures revealed under-funding of Kshs.22,424,294, resulting in an unexplained variance of Kshs.3,541,540.

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

1.6 Misclassification of Other Receipts

The statement of receipts and payments reflects an amount of Kshs.1,800,000 as disclosed in Note 4 to the financial statements in respect of disbursement from National Government Constituency Development Fund (NGCDF). Further, review of the supporting schedule including bank statement for the NGCDF account revealed that the School received two disbursements of Kshs.800,000 and Kshs.1,000,000 in April and May, 2021, totalling Kshs.1,800,000 for the construction of a laboratory. However, the disbursements from NGCDF projects should be accounted for and reported by the NGCDF office in accordance with NGCDF Act, 2015 and not by the School Management as other income.

In the circumstances, the accuracy and completeness of an amount of Kshs.1,800,000 in respect of school fund income-other receipts could not be confirmed.

2. Unsupported Cash and Cash Equivalents

The statement of financial assets and financial liabilities reflects cash and cash equivalent balance of Kshs.4,413,318 as disclosed in Notes 8 and 9 to the financial statements, which includes Kshs.4,405,722 and Kshs.7,596 in respect of bank and cash in hand balances respectively. The bank balance of Kshs.4,405,722 includes cash book bank balances of seven (7) bank accounts. However, the bank account and cash in hand balances were not supported with cash book, bank reconciliation statements and board of cash survey reports respectively. Further, the cash and cash equivalents included one bank account balance of Kshs.1,015,174 in respect of the NGCDF account whose balance should be accounted for under the NGCDF Act, 2015.

In the circumstances, the regularity, accuracy and completeness of the bank accounts balance of Kshs.4,413,318 in respect of cash and cash equivalents could not be confirmed.

3. Unsupported Accounts Receivables

The statement of financial assets and financial liabilities reflects accounts receivable balance of Kshs.18,636,780 as disclosed in Note 11 to the financial statements in respect of fees arrears. However, supporting documents including ledger schedule and students fee statements with ageing analysis of dates the fees arrears were not provided for audit

review. Further, details in Note 11 to the financial statements indicates accounts receivables incurred two years ago and there is no evidence indicating that proper mechanism had been put in place to recover these long overdue debts.

In the circumstances, the accuracy, completeness and recoverability of accounts receivable balance of Kshs.18,636,780 could not be confirmed.

4. Unsupported Accounts Payable

The statements of financial assets and financial liabilities reflects accounts payable balance of Kshs.7,617,846 as disclosed in Note 12 to the financial statements which includes balances of Kshs.5,970,804 and Kshs.1,647,047 in respect of trade creditors and prepaid fees respectively. However, trade creditors of Kshs.5,970,804 were not supported with documents including ledger schedule and invoices, delivery notes, issues and receipts while prepaid fees were not supported with student fee statements. Further, details in Note 12 to the financial statements indicate accounts payable incurred two years ago and there was no evidence indicating that proper mechanism had been put in place to settle these long outstanding accounts payables

In the circumstances, the accuracy and completeness of accounts payable balance of Kshs.7,617,846 could not be confirmed.

5. Unsupported Repairs, Maintenance & Improvements

The statement of receipts and payments reflects payments for operations and boarding and school fund payments of Kshs.10,060,399 and Kshs.19,579,781 as disclosed in Notes 6 and 7 to the financial statements which includes amounts of Kshs.1,334,740 and Kshs.1,214,230 in respect to repairs and maintenance & improvements totalling Kshs.2,548,970. However, supporting documents including procurement plans, bills of quantities, contract agreements, payment and inspection and acceptance committee reports were not provided for audit review in respect of maintenance and repairs of work done.

In the circumstances, the accuracy and completeness of the amounts totalling Kshs.2,548,970 in respect in respect to repairs, maintenance & improvements could not be confirmed.

6. Unsupported Personnel Emoluments

The statement of receipts and payments reflects amounts of Kshs.3,752,871 and Kshs.1,343,637 as disclosed in Notes 6 and 7 to the financial statements in respect of personnel emoluments, totalling Kshs.5,096,508. However, supporting documents including payrolls and approved staff establishment were not provided for audit review.

In the circumstances, accuracy and completeness of the expenditure of an amount of Kshs.5,096,508 in respect of personnel emoluments could not be confirmed.

The audit was conducted in accordance with International Standards of Supreme Audit Institutions (ISSAIs). I am independent of the St. Mathias Busia 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.55,223,730 and Kshs.33,748,898 respectively resulting in an under-funding of Kshs.21,474,832 or 39% of the budget. Similarly, the statement reflects final budget expenditure and actual on comparable basis of Kshs.53,248,380 and Kshs.30,859,869 resulting in under-absorption of Kshs.22,424,294 or 42% of the budget.

Further, the budget amounts presented was not supported by approved budget as required by Regulation 31(1) of the Public Finance Management (National Government) Regulations, 2015 which requires that an Accounting Officer shall ensure that the draft estimates relating to her or his department are prepared in conformity with the Constitution, the Act and these Regulations.(2) The Accounting Officer is responsible, in particular for ensuring that all services which can be reasonably foreseen are included in the estimates and that they are within the capacity of her or his national government entity during the financial year and the estimates are submitted to the National Treasury in the manner and format to be issued by the Cabinet Secretary'.

The under-funding 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 matters described in the 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 been applied lawfully and in an effective way.

Basis for Conclusion

1. Non-Compliance with the Public Sector Accounting Standards Board (PSASB) Reporting Requirements

The Public Sector Accounting Standards Board (PSASB) Guidelines on Implementation of International Public Sector Accounting Standards (IPSAS) by Secondary Schools in Kenya of 20 August, 2021 requires the first financial statements after adoption of IPSAS to be presented for eighteen (18) months from 1 January, 2020 to 30 June, 2021 with comparatives being for twelve (12) months from 1 January, 2019 to 30 December, 2019. Further, a disclosure note ought to have been included in the financial statements that the reason for preparing for longer period is due to the adoption of IPSAS for school and the change from calendar year to government fiscal year. In addition, a disclosure note should be made in the financial statements that the comparative information may not be comparable due to the longer period covered by the current financial period.

Whereas the Management presented the annual report and financial statements covering 18 months as required for period 2020-2021 which included comparatives for 2019-2020. No disclosure was made on the change in the preparation of financial statements from calendar year to government fiscal year or on the lack of comparability due to longer period covered by the current financial period.

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

2. Unbalanced Budget

The statement of budgeted versus actual amounts for the period reflects a final income budget of Kshs.55,223,730 and an expenditure final budget of Kshs.53,248,380 resulting in a variance of Kshs.1,975,350. The budget imbalance is contrary to the provisions of Section 33(c) of the Public Finance Management (National Government) Regulations, 2015 which states that budget revenue and expenditure appropriation shall be balanced.

In the circumstances, Management did not comply with guidelines given by Public Sector Accounting Standards Board (PSASB).

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 sections of my report, based on

the audit procedures performed, I confirm that nothing else has come to my attention to cause me to believe that internal controls, risk management and governance were not effective.

Basis for Conclusion

1. Lack of Risk Management Policy

Review of the documents and records provided for audit review revealed that School Management has not established Risk Management Policy. This is 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 not able to identify risks and develop mitigating strategies.

2. Lack of Approved Information Technology Security Policy

Review of the School 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 in the absence of information and communication Technology policy.

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 insurance cover for property and other assets.

In the circumstances, the School 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 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 close 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 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 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