

# REPORT OF THE AUDITOR-GENERAL ON ST. PAULS NYANDOCHE IBERE GIRLS SECONDARY SCHOOL FOR THE YEAR ENDED 30 JUNE, 2021 – NYAMIRA COUNTY

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## 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 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

### **Adverse of Opinion**

I have audited the accompanying financial statements of St. Pauls Nyandoche Ibere Girls Secondary School – Nyamira County set out on pages 14 to 26, which comprise of the statement of financial performance as at 30 June, 2021, and the statement of financial position, statement of changes in net assets, statement of cash flows and 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, 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 St. Pauls Nyandoche Ibere Girls Secondary School - Nyamira County as at June 30, 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 the Basic Education Act, 2013.

## **Basis for Adverse Opinion**

### **1. Inaccuracies in the Financial Statements**

Review of the financial statements revealed following errors and inaccuracies;

- i. The statement of receipts and payments and statement of budget versus actual amounts reflects actual expenditure of Kshs.10,085,878 and Kshs.10,748,000 respectively resulting to unreconciled variance of Kshs.662,122.
- ii. The statement of receipts and payments reflects boarding and school fund payments of Kshs.5,621,918 while Note 7 to the financial statement balance of Kshs.7,073,112 resulting to unexplained variance of Kshs.1,451,194.
- iii. The statement of financial position assets and liabilities reflects fund balance brought forward of Kshs.6,268,656 which differs with the recomputed amount of Kshs.8,731,884 in Note 13 to the financial statements resulting to unexplained variance of Ksh.2,463,228.
- iv. The statement of financial asset and liabilities reflects cash and cash equivalent balance of Kshs.1,872,352 which differs with the recomputed amount of Kshs.2,051,206 in Note 13 to the financial statements resulting to unexplained variance of Ksh.178,854.
- v. Significant accounting policies adopted by the school have not been included in the financial statements.
- vi. The trial balance for the year under review was not provided for audit review.

In the circumstances, the accuracy and completeness financial statements could not be confirmed.

### **2. Unsupported Accounts Receivables**

The statement of financial assets and liabilities reflects account receivables balance of Kshs.6,838,319 comprised of fees arrears of Kshs.6,547,143 and other non-fees receivables of Kshs.291,176 as disclosed in Note 11 to the financial statements. However, the balances were not supported by detailed schedules.

In the circumstances, accuracy and completeness of the accounts receivable balance of Kshs.6,838,319 could not be confirmed.

### **3. Inaccuracies in Accounts Payables**

The statement of financial assets and liabilities reflects accounts payables balance of Kshs.1,231,614 comprised of trade creditors of Kshs.1,123,860 and prepaid fees of Kshs.107,754 as disclosed in Note 12 in the financial statements. However, analysis from

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the list of suppliers of goods and services revealed a balance of Kshs.178,585 resulting to an unexplained variance of Kshs.945,275. In addition, analysis of the school's official receipts revealed prepaid fees of Kshs.318,194 resulting to unexplained variance of Kshs.210,440. Further, a ledger of prepaid school fees was not provided for audit.

In the circumstances, accuracy and completeness of accounts payables balance of Kshs.1,231,614 as at 30 June, 2021 could not be confirmed.

#### **4. Unsupported Cash and Cash Equivalents**

The statement of financial asset and liabilities reflects cash and cash equivalents balance of Kshs.1,872,352 comprised of bank balances of Kshs.1,636,490 and cash balances of Kshs.235,862 respectively as disclosed in Note 8 and 9 to the financial statements. However, the bank reconciliation statements and board of survey reports were not provided for audit.

In the circumstances, accuracy and completeness of the cash and cash equivalent balance of Kshs.1,872,352 as at 30 June, 2021 could not be confirmed.

The audit was conducted in accordance with International Standards of Supreme Audit Institutions (ISSAIs). I am independent of the St. Pauls Nyandoche Ibere Girls Secondary 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.

### **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 Conclusion on Lawfulness and Effectiveness in Use of Public Resources sections 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. Lack of Itemised Budget**

During the year under review, the budget presented for audit lacked details and itemization per component which hinders the assessment of financial performance and resource allocation within the organization. This was contrary to IPSAS 24 which provides

guidance on how budgetary information should be presented and disclosed, including the itemization of budgetary amounts.

In the circumstances, the Management did not comply with provisions of accounting standards in budget preparation.

## **2. Irregularities in Human Resource**

Review of employees records revealed that staff employed by the board of management did not have contracts or agreements. Further, analysis of salary payments revealed that four (4) staff members who were being paid below the minimum wage limits. This was contrary to Regulation of Wages Legal notice No. 125 of 2022 which has set the minimum wages for employees.

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

## **3. 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 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.

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. Therefore, the financial statements have not been prepared for eighteen-months (18) as prescribed 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 longer period covered by the current financial period.

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 Adverse 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 overall governance were not effective.

## **Basis for Conclusion**

### **1. Lack of Asset Register**

Annex 2 on summary of fixed assets register reflects a balance of Kshs.43,997,250. However, these balances and those in the summary of fixed asset register were not supported by a fixed assets register.

In the circumstance, the effectiveness of the internal controls on safeguarding the School's assets could not be confirmed.

### **2. Lack of Approved Policies and Plans**

During the year under review, there was no School Improvement Plan that define the planned improvement, growth and to address development challenges and seize opportunities. Further, there was no human resource policy, risk management policy and continuity plan.

In the circumstances, the effectiveness of internal controls and risk management could not be confirmed.

### **3. Ineffective Board of Management**

During the year under review, there was no evidence of Board of Management meetings through invitations, committee minutes and signed attendance registers. It is there for not clear how the functions of audit, finance procurement and general purpose, academic, development, disciplinary and welfare committees were undertaken.

In the circumstances, the effectiveness of overall governance at the School could not be confirmed.

The audit was conducted in accordance with ISSAI 2315 and ISSAI 2330. The standard requires 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 control, 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 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.

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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 scepticism throughout the audit. I also:

- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks and obtain audit evidence that is sufficient and appropriate to provide a basis for my opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations or the override of internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the management.
- Conclude on the appropriateness of the management's use of applicable basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the school's ability to continue as a going concern or 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**