

REPORT OF THE AUDITOR-GENERAL ON CHEBISAAS GIRLS HIGH SCHOOL FOR THE EIGHTEEN (18) MONTHS PERIOD ENDED 30 JUNE, 2021 – NANDI 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 that the 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 Chebisaas Girls High School – Nandi County set out on pages 10 to 22, which comprise of the statement of financial assets and liabilities as at 30 June, 2021, and statement of receipts and payments, statement of cash flows and the statement of budgeted versus actual amounts for the eighteen (18) 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 the Chebisaas Girls High School as at 30 June, 2021 and of its financial performance and its cash flows for the period then ended, in accordance with International Public Sector Accounting Standards (Cash Basis) and comply with the Basic Education Act, 2013 and the Public Finance Management Act, 2012.

Basis for Qualified Opinion

1. Variances Between Financial Statements and Trial Balance

Review of the financial statements and the trial balance revealed various variances as summarized in the table below:

Item	Financial Statements Amount Kshs.	Trial Balance Amount Kshs.	Variance Kshs.
Capitation Grants for Operations	22,619,544	22,608,593	10,951
School Fund Income – Parent’s Contributions	11,336,930	29,333,926	17,996,995
School Fund Income – Other Receipts	28,462,924	11,126,879	17,336,045
Boarding and School Fund Payments	41,440,532	41,728,262	287,731
Cash Balances	2,835,140	2,718,324	116,816
Account’s Receivables	4,869,665	3,719,195	1,150,470

Further, the trial balance reflects total debit balance of Kshs.71,645,070 and total credit balance of Kshs.71,634,120 resulting to unexplained variance of Kshs.10,950.

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

2. Unsupported Boarding and School Fund Payments

The statement of receipts and payments reflects boarding and school fund payments of Kshs.41,440,531 as disclosed in Note 7 to the financial statements. The amount includes an expenditure of Kshs.14,778,039 in respect of fees on boarding equipment and stores. Further, included in the expenditure is an amount of Kshs.4,628,410 which was not supported by the respective ledgers.

In the circumstances, the accuracy and completeness of the boarding and school fund payments amounting to Kshs.4,628,410 could not be confirmed.

3. Accuracy of Cash and Cash Equivalent Balance

The statement of financial assets and liabilities reflects a balance of Kshs.2,858,440 as disclosed in Note 8 to the financial statements, which includes Kshs.116,816 in respect of bank balance for a savings account held in a local bank.

Further, the statement of receipts and payments reflects an amount of Kshs.41,440,531 in respect of boarding and school fund payments as disclosed in Note 7 to the financial statements. The amount includes a balance of Kshs.14,778,039 in respect of fees on boarding equipment and stores which further includes an expenditure of Kshs.5,000,000 relating to savings which was disclosed as transfers to the saving account. However, the transfer differs with the amount of Kshs.116,816 reflected under cash and cash equivalents leading to unreconciled and unexplained variance of Kshs.4,883,184.

In the circumstances, the accuracy and completeness of cash and cash equivalent amount of Kshs.2,858,440 could not be confirmed.

The audit was conducted in accordance with International Standards of Supreme Audit Institutions (ISSAIs). I am independent of the Chebisaas 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.

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 Effective in Use of Public Resources section of my report, I confirm that, nothing else has come to my attention to cause me to believe that public resources have not been applied lawfully and in an effective way.

Basis for Conclusion

1. Irregular Procurement of a Generator

The statement of receipts and payments reflects boarding and school fund payments of Kshs.41,440,531 as disclosed in Note 7 to the financial statements which includes Kshs.14,778,039 in respect of fees on boarding equipment and stores. Included in the expenditure is Kshs.2,035,220 incurred in respect of supply, installation, testing and commissioning of 50KVA prime rated Cummings generator. Records provided for audit revealed that the generator was delivered on 20 January, 2021. However, there was no evidence of competitive procurement and invitation to tender from the interested bidders.

This was contrary to Section 96(1) of the Public Procurement and Asset Disposal Act, 2015 which states that the Accounting Officer of a procuring entity shall take such steps as are reasonable to bring the invitation to tender to the attention of those who may wish to submit tenders. Further, the contract document provided for audit had not been signed by the service provider contrary to provisions of Section 135(4) of the Public Procurement and Assets Disposal Act, 2015.

In the circumstances, Management is in breach of the law and the value for money of the expenditure of Kshs.2,035,220 could not be confirmed.

2. Unapproved Loan Acquisition from Commercial Bank

The statement of receipts and payments reflects boarding and school fund payments amount of Kshs.41,440,532 which includes loan principal repayment of Kshs.4,939,248 as disclosed in Note 7 to the financial statements. Available records revealed that the School Management made a loan application with a Local Commercial Bank and the loan agreement was signed on 25 November, 2016. Further, the loan amount of Kshs.10,000,000 was approved and disbursed to the school on 13 December, 2016. However, no documentary evidence was provided to show that the loan was approved by the Cabinet Secretary. This is contrary to Section 51(2) of Public Finance Management Act, 2012 which states that a National Government entity shall obtain the approval of the Cabinet Secretary for its intended program of borrowing, refinancing and repayment of loans.

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

The audit was conducted in accordance with ISSAI 4000. The standard requires that I comply with ethical requirements and plan and perform the audit to obtain assurance about whether the activities, financial transactions and information reflected in the financial statements are in compliance, in all material respects, with the authorities that govern them. I believe that the audit evidence I have obtained is sufficient and appropriate to provide a basis for my conclusion.

REPORT ON EFFECTIVENESS OF INTERNAL CONTROLS, RISK MANAGEMENT AND GOVERNANCE

Conclusion

As required by Section 7(1)(a) of the Public Audit Act, 2015, based on the audit procedures performed, except for the matter described in the Basis for Conclusion on Effectiveness of Internal Control, Risk Management and Governance section of my report, I confirm that nothing else has come to my attention to cause me to believe that internal controls, risk management and governance were not effective.

Basis for Conclusion

Report of The Auditor-General on Chebisaas Girls High School for the Eighteen (18) Months Period ended 30 June, 2021 – Nandi County

Lack of Risk Management Policy

The School does not have a risk management policy contrary to Regulation 165 of Public Financial Management (National Government) Regulations, 2015 which state 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, the effectiveness of the School's risk management could not be confirmed.

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 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 control, risk management and 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 its 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 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 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 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 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 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 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 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