

REPORT OF THE AUDITOR-GENERAL ON KAMAHINDU SECONDARY SCHOOL FOR THE YEAR ENDED 30 JUNE, 2021 – KIAMBU COUNTY

PREAMBLE

I draw your attention to the contents of my report which is in three parts:

- A. Report on the Financial Statements that considers whether the financial statements are fairly presented in accordance with the applicable financial reporting framework, accounting standards and the relevant laws and regulations that have a direct effect on the financial statements.
- B. Report on Lawfulness and Effectiveness in Use of Public Resources which considers compliance with applicable laws, regulations, policies, gazette notices, circulars, guidelines and manuals and whether public resources are applied in a prudent, efficient, economic, transparent and accountable manner to ensure Government achieves value for money and that such funds are applied for the intended purpose.
- C. Report on the 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 Kamahindu Secondary School – Kiambu County set out on pages 1 to 15, which comprise of the statement of financial assets and financial liabilities as at 30 June, 2021, and the statement of receipts and payments, statement of cash flows and 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, 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 Kamahindu Secondary School – Kiambu 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 the Basic Education Act, 2013 and the Public Finance Management Act, 2012.

Basis for Qualified Opinion

1. Unsupported Boarding and School Fund Expenditure

The statement of receipts and payments reflects school expenses for boarding and school fund payments amount of Kshs.5,395,917 as disclosed in Note 6 to the financial statements. However, payment vouchers amounting to Kshs.660,200 were not supported by receipts, invoices, LPOs, some suppliers not in the prequalified list.

In the circumstances, the regularity and completeness of the expenditure on boarding and school fund payments of Kshs.660,200 could not be confirmed.

2. Inaccuracies in the Statement of Cash Flows

The statement of financial assets and finance liabilities reflects cash and cash equivalents balance of Kshs.180,768 as disclosed in Note 7 and 8 to the financial statements. However, the statement of cash flows reflects a negative cash and cash equivalents balance of Kshs.412,221 resulting in an unexplained variance of Kshs.592,989.

In the circumstances, the accuracy and completeness of the statement of cash flows could not be confirmed.

3. Unreconciled Boarding and Fund Payments

The statement of receipts and payments reflects an amount of Kshs.5,892,855 in respect of boarding and fund payments as disclosed in Note 6 to the financial statements. However, review of ledgers provided for audit reflects an amount of Kshs.5,567,855 resulting in an unexplained variance of Kshs.325,000.

In the circumstances, the accuracy and completeness of the boarding fund payment amounting to Kshs.5,567,855.31 could not be confirmed.

4. Unsupported Accounts Payables

The statement of financial assets and financial liabilities reflects trade payables balance of Kshs.2,406,630 as disclosed in Note 10 to the financial statements. However, advertisement for tenders, tender opening minutes, evaluation reports, professional opinion, inspection and acceptance reports were not provided for audit review. Further, the school did not provide for audit verifications the aging analysis and the payables

settled during the year. The payment plans and payables status reports were also not provided for audit verification.

In the circumstances, the regularity, accuracy and completeness of the accounts payables balance of Kshs.2,406,630 could not be confirmed.

The audit was conducted in accordance with International Standards of Supreme Audit Institutions (ISSAIs). I am independent of the Kamahindu Secondary School Management in accordance with ISSAI 130 on the 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 receipts budget and actual on a comparable basis of Kshs.3,825,000 and Kshs.3,450,978 respectively resulting to an under-funding of Kshs.374,022 or 10% of the budget.

The underfunding affected the planned activities and may have impacted negatively on service delivery to the School.

REPORT ON LAWFULNESS AND EFFECTIVENESS IN THE 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, 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. 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 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 did not comply with guidelines issued by the PSASB.

2. Irregularities in Procurement Process

The statement of receipts and payments reflects payments for operations and boarding and school fund payments amount of Kshs.3,778,295 and Kshs.5,892,855, respectively as disclosed in Note 5 and 6 to the financial statements. Review of payments in respect of procurement revealed that the School had engaged various suppliers for supply of goods and services. However, the following procurement irregularities were noted'

- i. The methods used for procuring goods and services was not documented in any verifiable form. This is contrary to the threshold Matrix as per the Second Schedule of Public Procurement and Asset Disposal Regulations, Regulations, 2020 which prescribes the particular procurement method to be used for goods, works or services depending on the maximum or minimum level of expenditure for the item being procured.
- ii. The School did not provide evidence of advertisement of any of the procurements. This is 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.
- iii. The School did not provide tender and evaluation reports for audit review. This was contrary to Section 80 (4) of the Public Procurement and Asset Disposal Act, 2015 requires the evaluation committee to prepare an evaluation report containing a summary of the evaluation and comparison of tenders and submit the report to the person responsible for procurement for his or her review and recommendation.

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

3. Irregularities in the Construction of Two (2) Classrooms

The Management engaged various contractors for the proposed construction of two classrooms during the financial year 2020/2021 using labour based contract. However, examination of payment vouchers for goods and services revealed that there was no documentary evidence in relation to the evaluation report, project status report, inspection and acceptance minutes were not provided for audit review.

In addition, though the list of registered suppliers and contractors in the category of goods, work and services was provided, the Company was not among the pre-qualified suppliers contrary to Section 57(1) of the Public Procurement and Asset Disposal Act, 2015

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 THE 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 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. Long Outstanding Students Accounts Receivables

The statement of financial assets and financial liabilities and as disclosed in Note 9 to the financial statements reflects accounts receivables balance of Kshs.2,098,774. The balance includes an amount of Kshs.563,100 and Kshs.1,155,574 on fees arrears for the previous year and fees arrears for over two (2) years respectively. However, Management has not demonstrated measures being put in place to collect the long outstanding students fees arrears.

In the circumstances, recoverability of accounts receivables balance of Kshs.2,098,774 could not be confirmed.

2. Weak Internal Controls

The School's internal controls which included financial and operations had a number of areas which were not working as expected to prevent the occurrence of error, fraud or general inefficiency as detailed below:

- i. Inadequate segregation of responsibilities in the accounting department. Same officer is involved in the verification and approval of payments is also the cashier;
- ii. Inadequate internal controls in the accounting department were observed. Same officer receives receipts from students, enters the transaction in the cashbook and performs bank reconciliation;
- iii. The finance department does not follow a finance manual in its operations;
- iv. Policies to guide the management of liabilities, receivables, inventories and non-current assets have not been prepared; and
- v. Absence of business continuity plan including adequate storage of the software data.

In the circumstances, it was not possible to confirm the existence of effective internal controls in relation to financial management and segregation of duties.

3. Lack of Asset Register and Asset Tagging Register

The School does not have a fixed asset register in place hence the existence of the disclosed non-current assets in the financial statements could not be confirmed. In addition, there was no asset tagging register therefore identification of the assets was not possible. In addition, the land on which the school was sitting did not have a title deed.

In the circumstances, the ownership and existence of proper control systems of assets management to prevent theft, security threats, losses, wastage and misuse could not be confirmed.

4. IT Internal Control Weaknesses

During the year under review, the Management did not have in place the following controls to ensure smooth running of the operations: -

- i. Absence of an IT strategy committee and an IT steering committee. This resulted to inadequacy in IT governance, which forms a critical part of the agency's governance structure.
- ii. There are no disaster management and recovery policies in place including fire suppression systems and the agencies operations might not recover from a disaster.

- iii. There is no business continuity plan and the IT continuity plan including an off-site back-up plan; and

The school does not have an accounting software system to manage accounts payable, accounts receivables, ledgers, invoices and company assets, an accounting system will allow the school to track financial transactions and instantly generate various financial reports.

In the circumstances, the possible loss, theft, misuse of assets and business continuity uncertainty of the school may be unavoidable.

5. Irregularities in the Board of Management

Examination of the Board of Management Revealed that the sitting Board of Management Chairman has already served for two (2) terms and is currently on the third term from 2016- 2019, 2019- 2022 and 2022-2025 (current third term). Further, the School Board of Management and Committees did not meet the threshold of meetings to be held in a year as detailed below: -

Name of Board/ Committee	No. of meetings attended during the year
Full Board	3
Audit Committee	1
Finance, procurement and general purposes Committee	1
Academic Committee	1
Development Committee	Nil
Discipline and welfare Committee	1

In the circumstances, the adequacy of the Board of Management in its oversight and governance roles could not be confirmed.

6. Ineffectiveness in Distribution and Management of Textbooks

During the year under review, the School Improvement Plan (SIP) indicating the need assessment of textbooks and reference material needed by the school was not prepared contrary to Section 2.2.1 of the Operation Manual from the Ministry of Education. The School received one thousand nine hundred and sixty-four (1,964) sets of books instead of two thousand one hundred and fifty-four (2,154) as per the number of students. This resulted to a deficit of one hundred and ninety (190) set books. Further, KICD supplied books that were not required by the school.

In addition, the School lacks enough storage for the books received, some books are still in the boxes and stored on the floor. The books are not protected against damage that might be caused by cleaning water and deterioration by dampness.

In the circumstances, the effectiveness of internal controls on distribution of textbooks 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 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 Schools 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 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 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 Institute's 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 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

12 October, 2023