

## **REPORT OF THE AUDITOR-GENERAL ON KAMONDO SECONDARY SCHOOL FOR THE SIX MONTHS PERIOD ENDED 30 JUNE, 2021 – KIAMBU COUNTY**

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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 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 control, risk management and governance systems are properly designed and were working effectively in the financial year under review.

The three parts of the report are aimed at addressing the statutory roles and responsibilities of the Auditor-General as provided by Article 229 of the Constitution, the Public Finance Management Act, 2012 and the Public Audit Act, 2015. The three parts of the report, when read together constitute the report of the Auditor-General.

### **REPORT ON THE FINANCIAL STATEMENTS**

#### **Qualified Opinion**

I have audited the accompanying financial statements of Kamondo Secondary School – Kiambu County set out on pages 12 to 27, 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 the statement of budgeted versus and actual amounts for the six months period then ended, and a summary of significant accounting policies and other explanatory information in accordance with the provisions of Article 229 of the Constitution of Kenya and Section 35 of the Public Audit Act, 2015. I have obtained all the information and explanations which, to the best of my knowledge and belief, were necessary for the purpose of the audit.

In my opinion, except for the effect of the matters described in the Basis for Qualified Opinion section of my report, the financial statements present fairly, in all material

respects, the financial position of the Kamondo 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 Public Finance Management Act, 2012 and Basic Education Act, 2013.

## **Basis for Qualified Opinion**

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

Review of the financial statements of the School for the six months period revealed the following inaccuracies:

- i. The statement of budgeted versus actual amounts reflect fees charged on parents amounting to Kshs.2,174,802 and Kshs.375,607 in respect of lunch programme and uniforms respectively, under the actual on comparable basis column, all totalling to Kshs.2,550,409. However, the statement of receipts and payments reflect school fund income - parents contribution amounting to Kshs.3,052,924 resulting in an unexplained variance of Kshs.502,515.
- ii. The statement of budgeted versus actual amounts reflect total actual on comparable basis amounts of Kshs.391,860, Kshs.3,183,493 and Kshs.2,348,511 in respect of expenditure for tuition, payments for operations and boarding and school fund payments. However, the statement of receipts and payments reflects payments amounting to Kshs.527,685, Kshs.2,740,130 and Kshs.485,049 respectively resulting to an unexplained and an unreconciled variances of Kshs.135,825, Kshs.443,363 and Kshs.1,863,462.
- iii. The statement of budgeted versus actual amounts reflect total payments under actual on comparable basis and budget utilization difference columns amounting to Kshs.5,928,562 and Kshs.1,921,736 respectively. However, the recomputed amounts for actual on comparable basis and budget utilization difference were Kshs.5,923,864 and Kshs.1,926,434 respectively, resulting in an unreconciled variance of Kshs.4,698.
- iv. The statement of financial assets and financial liabilities reflects fund balance brought forward of Kshs.1,123,412 and negative Kshs.161,771 in respect of 2020/2021 and 2019/2020 financial years respectively. However, Note 12 to the financial statements reflects fund balance brought forward of Kshs.4,308,770 and Kshs.1,123,412 in respect of 2020/2021 and 2019/2020 financial years respectively. The resultant variances were not explained or reconciled.
- v. The statement of receipts and payments reflects school fund payments amounting to Kshs.485,049. However, supporting schedule and journals were not provided for review. Further, a disclosure in Note 6 to the financial statements reflect an amount of Kshs.1,868,160 in respect of previous periods creditors paid during the period under review not charged to the school fund payments hence misstating the expenditure by a similar amount.

- vi. The statement of receipts and payments reflects expenditure on operations amounting to Kshs.2,740,130. However, a disclosure in Note 5 to the financial statements reflects an amount of Kshs.329,091 which relates to creditors paid during the year under review not charged to the administration costs hence misstating payments for operations.
- vii. Amounts in the statement of cash flows differs with the statement of receipts and payments as detailed below:

Description	Statement of Cash Flows (Kshs)	Note	Statement of Receipts and Payments (Kshs)	Variance (Kshs)
Capitation grants for operations	3,737,118	2	3,352,586	384,531
School fund income-Parents contribution	3,239,518	3	3,052,924	186,594
Payment for operations	2,154,758	5	2,740,130	585,372
School fund payments	3,111,794	6	485,049	2,626,745

In addition, the statement of cash flows was not supported with schedules for the cash receipts and payments during the period under review.

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

## 2. Unsupported Parents Contribution-School Fund Account Receipts

The statement of receipts and payments reflects school fund income - parents contribution totalling Kshs.3,052,924. As disclosed in Note 3 to the financial statements, the amount includes lunch program and uniform amounting to Kshs.2,677,317 and Kshs.375,607 respectively. However, the school fund account receipts were not supported by a schedule of receipts, receipt books and fees register. Further, Management indicated that an amount of Kshs.1,868,160 relating to creditors paid during the year under review were adjusted to lunch programme receipts of Kshs.4,042,962 hence understating the school fund receipts.

In the circumstances, the accuracy and completeness of the parents contribution-school fund account receipts amounting to Kshs.3,052,924 could not be confirmed.

## 3. Unsupported Accounts Receivables

The statement of financial assets and financial liabilities and Note 10 to the financial statements reflects accounts receivables balance of Kshs.4,243,086. The amount which includes fees arrears from students, salary advances and imprests balances of Kshs.4,187,586, Kshs.35,500 and Kshs.20,000 respectively. However, review of the debtor's ledger revealed a fee balance of Kshs.3,691,271 which had been outstanding for more than two years with some dating back to 2016. Further, debtors listing for

students with school fees arrears and an approved debtors policy by the Board of Management were not provided for audit review.

In the circumstances, the accuracy, completeness and recoverability of the accounts receivables amounting to of Kshs.3,691,271 could not be confirmed.

#### **4. Unsupported Payment for Activity Fees**

The statement of receipts and payments reflects payments for operations amounting to Kshs.2,740,130. As disclosed in Note 5 to the financial statements, the amount includes activity payments of Kshs.263,000. Review of payment vouchers and supporting documents provided for audit revealed that the payments were made to Githunguri Sub County Secondary School Heads Association for activity fees. However, the payments were made without an invoice. Further, laws and policies approving the activity fees the applicable rates were not provided for review.

In the circumstances, the occurrence of the payments for operations expenditure of Kshs.263,000 could not be confirmed.

#### **5. Cash and Cash Equivalents**

##### **5.1. Unreconciled Cash and Cash Equivalents**

The statement of financial assets and liabilities reflects cash and cash equivalents balance of Kshs.404,141. As disclosed in Note 8 to the financial statements, the balance includes cash balance of Kshs.106,349. However, board of survey report confirming the cashbook balances as at 30 June, 2021 for all the bank accounts was not provided for audit review. Further, Note 7 to the financial statements reflects bank balances of Kshs.297,793 which includes savings account balance of Kshs.7,496. However, the balance was not supported by a bank statement, cash book, bank reconciliation statement and a certificate of bank balance.

##### **5.2. Unaccounted for Cash Withdrawals**

The statement of financial assets and financial liabilities reflects cash and cash equivalents balance of Kshs.404,141. Review of cash book and bank statements revealed cash withdrawals amounting to Kshs.445,500 made from operations account during the year under review. However, a memorandum cash book was not maintained to account for the cash withdrawals, and the cash expenditures were not supported by cash sale receipts, invoices and other relevant documents.

In addition,, the school did not have a cash management policy approved by the Board of Management to manage the use of cash and issue of standing imprests. Further, there were no formal requests from the School Principal for the cash withdrawals and no approved threshold limit was set for the cash withdrawals.

In the circumstances, the accuracy and completeness of the cash and cash equivalents balance of Kshs.404,141 could not be confirmed.

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

### **Underfunding of Capitation Grants**

During the six months period under review, the School's approved budgeted revenue from operations capitation grants was Kshs.4,661,806 while that from tuition capitation grants was Kshs.723,415. However, the actual grants received by the School from the Ministry of Education was Kshs.3,352,586 and Kshs.532,712 respectively, resulting in underfunding totalling to Kshs.1,499,923.

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

## **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, 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 (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 August 20, 2021 requires the first financial statements after adoption of IPSAS

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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 six months for financial year 2020-2021 with comparative balances for financial year 2019-2020. Therefore, the financial statements have not been prepared for eighteen-months (18) as prescribed the Public Sector Accounting Standards Board (PSASB).

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 the breach of the financial reporting guidelines.

## **2. Unaccounted for Textbooks**

Review of inventory records revealed that 8,653 textbooks for the eleven (11) subjects across all classes purchased in 2018 were distributed to students as indicated in receipts and issue register maintained at the School. However, a textbooks listing provided for audit review reflected a total of 5,367 textbooks which could not be unaccounted for, representing 62% of the total textbooks acquired by the School. The above state impacts negatively on the Ministry of Education target of 1:1 textbook to student ratio across all subjects. Further, an interview with the Stores Officer revealed that the loss of textbooks was occasioned by theft through burglary and pilferage by students.

Management did demonstrate measures which have been put in place to ensure lost textbooks are recovered and policies on management of textbooks to minimize loss of textbooks. This was contrary to Regulation 139. (1) of the Public Finance Management (National Government) Regulations, 2015 which requires an Accounting Officer of a National Government entity to take full responsibility and ensure that proper control systems exist for assets and that preventative mechanisms are in place to eliminate theft, security threats, losses, wastage, and misuse.

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

## **3. Irregular Payment of Travelling and Subsistence Allowances**

The statement of receipts and payments reflects payments for operations amounting to Kshs.2,740,130 as disclosed in Note 5 to the financial statements which includes local transport and travel allowance amounting to Kshs.217,350. However, review of payment vouchers and supporting documents provided for audit revealed the following anomalies;

- i. There were no imprest registers maintained to record imprest issued, amounts paid and purpose of the imprests.
- ii. Imprest warrants were not attached to the respective surrender vouchers therefore it could not be confirmed if the imprests were applied for, and approved by the authorizing officers.
- iii. The rates used for issue of travelling and subsistence allowances were not approved.
- iv. Attendance registers for workshops, conferences and training activities, and documents showing that the officers travelled and participated in events they were facilitated for, were not provided for review.

In the circumstances, the value for money on the expenditure of Kshs.217,350 on transport and travelling allowance could not be confirmed.

#### **4. Irregular Payment for Security Services**

The statement of receipts and payments reflects payments for operations amounting to Kshs.2,740,130. As disclosed in Note 5 to the financial statements, the amount includes Kshs.732,190 incurred on personnel emoluments, out of which, Ksh.180,000 was paid to a local security firm. However, review of payment vouchers and supporting documents provided for audit revealed that the contract with the firm expired in 2019 and was yet to be renewed. Further, there was no record of a new security firm having been engaged thus, the existing security firm continued to provide the services without a valid contract.

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

#### **5. Weaknesses in Tender Opening Proceedings**

Review of the procurement files revealed that the School did not maintain a tender opening register for tenders advertised during the period under review, as required by Section (8) of the Public Procurement and Asset Disposal Act, 2015 which provided that the Accounting Officer of a procuring entity shall, on request, provide a copy of the tender opening register to a person submitting a tender. Further, the tender opening committee did not sign tender documents, initial each page of the evaluation minutes for tenders opened and evaluated during the period under review as required by the Section (9) of the Public Procurement and Asset Disposal Act, 2015.

In addition, the minutes of tender opening were signed on 21 December 2022 by the chairman and the secretary almost one year after the tender was opened contrary to Section (11) of the Public Procurement and Asset Disposal Act, 2015.

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

#### **6. Unjustified Direct Procurement of Goods and Services**

During the period under review, Management incurred Kshs.1,345,228 in respect of acquisition of assets. Review of project files revealed that a new classroom was constructed at a cost of Kshs.996,000, funded by Ministry of Education, using labour contracting. However, building materials worth Kshs.659,830 and labour services costing of Kshs.216,996 were procured directly instead of using competitive procurement methods. This was contrary to the provisions of Section 103 of the Public Procurement and Asset Disposal Act, 2015 on when direct procurement may be used.

Further, the prior approval of the accounting officer to use the direct procurement method was not provided contrary to Regulation 90(6) of the Public Procurement and Asset Disposal Regulations, 2020 which requires that any direct procurement shall require the prior approval by the accounting officer in writing.

In addition, no progress reports by the sub county works officer were provided to indicate the works were inspected before payments were made. Similarly, inspection and acceptance committee minutes for goods supplied and works undertaken, bills of quantity and project implementation status report were not provided for audit review.

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

## **7. Irregularities in Accounting for Capitation Grants**

During the period under review, the School received capitation grants amounting to Kshs.3,885,298 from the Ministry of Education. However, Management did not acknowledge receipt of the funds by having individual students sign forms that indicate their admission numbers and full names as per admission register and the amount awarded. This was contrary to the Ministry of Education circular dated 8 January 2021 which instructed Principals to acknowledge receipt of funds to County Education offices through the Sub - County Director of Education an allocation of funds duly signed by individual students.

In the circumstances, Management was in breach of the funding guidelines.

## **8. Lack of School Improvement Plan**

During the period under review, the school did not have a school improvement plan as required by the Ministry of Education operations manual for utilization of learner capitation grant and other school funds. This was contrary to the Ministry of Education Operation Manual for Utilization of Learner Capitation Grant and Other School Funds under Section 2.2 School Improvement Planning that requires the school to identify in every 3-year school improvement planning cycle, one priority area in each of the four key areas which include curriculum implementation, foundational literacy and numeracy outcomes, an enabling environment for learning and parental involvement and community engagement for implementation.

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



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 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 overall governance were not effective.

### **Basis for Conclusion**

#### **Weaknesses in Revenue Collection and Management**

Review of system controls relating to School Accounting System for revenue collection and expenditure system revealed that the entire process of revenue collection and receipting and expenditure was assigned to one individual, without approval. The assigned functions and responsibilities did not incorporate controls such as segregation of duties, independent checks, approval and authorization thus exposing the School to loss of revenue, inaccurate and incomplete records in revenue reporting.

In the circumstances, the existence of effectiveness internal controls in revenue 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 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 and as applicable matters related to sustainability of services and using the applicable basis of accounting unless Management is aware of the intention to abolish 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 financial reporting process, reviewing the effectiveness of how the entity 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 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 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 controls.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the Management.
- Conclude on the appropriateness of the Management's use of the applicable basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the School's ability to continue to sustain its services. If I conclude that a material uncertainty exists, I am required to draw attention in the auditor's report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify my opinion. My conclusions are based on the audit evidence obtained up to the date of my audit report. However, future events or conditions may cause the School to cease to continue to sustain its services.
- Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.
- Obtain sufficient appropriate audit evidence regarding the financial information and business activities of the School to express an opinion on the financial statements.
- Perform such other procedures as I consider necessary in the circumstances.

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