

REPORT OF THE AUDITOR-GENERAL ON MWAKICHUCHU SECONDARY SCHOOL FOR THE YEAR ENDED 30 JUNE, 2021 – TAITA/TAVETA 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 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 Mwakichuchu Secondary School – Taita/Taveta set out on pages 11 to 30, which comprise of the statement of financial assets and liabilities as at 30 June, 2021, 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 Mwakichuchu Secondary School – Taita/Taveta 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 the Basic Education Act, 2013.

Basis for Qualified Opinion

1. Inaccuracies in the Financial Statements

Review of the financial statements presented for audit revealed the following unsatisfactory matters;

- i. The statement of financial assets and liabilities reflects fund balance brought forward of Kshs.15,113,346. However, the amount differs with the amount of Kshs.14,785,895 reflected in the corresponding Note 12 to the financial statements by an unexplained variance of Kshs.327,451. Further, the statement reflects an amount of Kshs.14,787,377 in respect of net financial assets which differs with the amount of Kshs.14,441,570 in respect of net financial position by an unexplained and an unreconciled variance of Kshs.345,807.
- ii. The statement of receipts and payments reflects an amount of Kshs.5,888,371 in respect of School Fund Income Parents' Contribution. However, the amount differs with the amount of Kshs.9,442,465 reflected in the corresponding Note 3 to the financial statements by an unexplained variance of Kshs.3,554,194.
- iii. The statement of receipts and payments reflects an amount of Kshs. 7,315,377 in respect of Boarding and School Fund Payments. However, the amount differs with the amount of Kshs.10,921,101 reflected in the corresponding Note 7 to the financial statements by an unexplained variance of Kshs.3,605,724.
- iv. The statement of cash flows reflects an amount of Kshs.1,677,367 in respect of cash and cash equivalents at the end of the year. However, a recomputation of the balance resulted to an amount of Kshs.117,086.95 occasioning an unexplained variance of Kshs.1,560,280.
- v. The statement of budgeted versus actual amounts does not include the actual amounts on comparable basis as per the financial reporting template issued by the Public Sector Accounting Standards Board and is therefore incomplete.

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

2. Unsupported Balances

Review of the financial statements revealed that several balances reflected in the various statements were not supported with sufficient records as detailed below;

2.1. School Fund Income- Parents Contribution

The statement of receipts and payments reflects school fund income- parents contribution of Kshs.5,888,371 as disclosed in Note 3 to the financial statements. However, the amount was not supported by a schedule and source documentation to indicate name of the person or organization from whom the amount was received, invoiced amounts, receipts issued and services rendered.

2.2. Boarding and School Fund Payments

The statement of receipts and payments reflects boarding and school fund payments of Kshs.7,315,377 as disclosed in Note 7 to the financial statements. However, this expenditure was not supported by documentation to indicate the payee, amount paid, goods supplied, works or services rendered. Further, no information was provided to indicate how the suppliers were identified, selected and awarded the supply.

2.3. Cash and Cash Equivalents

The statement of financial assets and liabilities reflects cash and cash equivalents balance of Kshs.1,678,849 which, as disclosed in Note 8 to the financial statements includes an amount of Kshs.1,636,754 in respect of the balance at the School's infrastructure bank account. However, the School did not provide a cash book for the account. Further, the School had a Constituency Development Fund bank account whose balance was not disclosed in the financial statements.

2.4. Accounts Payables

The statement of financial assets and liabilities reflects accounts payable balance of Kshs.3,873,387 which, as disclosed in Note 11 to the financial statements comprised of trade payables balance of Kshs.3,605,724 and prepaid fees balance of Kshs.267,663. However, the details of the accounts payables balance and its supporting documentation were not provided for audit.

2.5. Accounts Receivables

The statement of financial assets and liabilities reflects accounts receivables balance of Kshs.16,981,915 which, as disclosed in Note 10 to the financial statements, comprises of fees arrears. However, no supporting schedule or breakdown of the fees' arrears was provided for audit. Further, a balance of Kshs.13,668,788 has been outstanding for more than a year.

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

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

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.

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

The Public Sector Accounting Standards Board (PSASB) Guidelines on Implementation of International Public Sector Accounting Standards (IPSAS) by Secondary Schools in Kenya of 20 August, 2021 requires the first financial statements after adoption of IPSAS to be presented for eighteen (18) months from 1 January, 2020 to 30 June, 2021 with comparatives being for twelve (12) months from 1 January, 2019 to 30 December, 2019. Further, a disclosure note ought to have been included in the financial statements that the reason for preparing financial statements for a longer period was 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.

However, Management presented the annual report and financial statements for the financial year ended 30 June, 2021 without the comparative balances. Consequently, the financial statements have not been prepared for eighteen (18) months as prescribed by 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 the longer period covered by the current financial period.

In the circumstances, Management did not comply with the financial reporting guidelines issued by the Public Sector Accounting Standards Board.

2. Lack of an Annual Procurement Plan and Disposal Plan

The School did not prepare a procurement plan as required by Section 53 (2) of the Public Procurement and Asset Disposal Act, 2015 which states that an Accounting Officer shall prepare an annual procurement plan which is realistic in a format set out in the Regulations within the approved budget prior to commencement of each financial year as part of the annual budget preparation process. Further, the school did not have in place a disposal plan to enable disposal of obsolete assets.

In addition, the goods and services received by the school were not subjected to an inspection and acceptance committee.

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 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 overall governance were not effective.

1. Lack of Fixed Assets' Register and Land Ownership Documents

Review of the School's records revealed that Management did not maintain a fixed asset register. Further, the school is built on a twenty-one (21) acre parcel of land which was donated by The Anglican Church of Kenya. However, there is no clear demarcation of the school land as there is no fence around the School and the School did not provide a title deed to the land. As a result, the ownership of the land by the School could not be confirmed.

In the circumstances, the school may not effectively and efficiently manage its assets.

2. Failure to Hold Board of Management Meetings

Review of the Board of Management minutes revealed that the school is sponsored by Anglican Church of Kenya (ACK) and had established Board Committees. However, no meeting attendance register, schedule of payment of allowances, minutes and agenda of meetings were provided as evidence to indicate that the Committees held meetings as stipulated by law.

In the circumstances, the School did not benefit from the oversight role of the Committees.

3. Inadequacies in the Management of Textbooks

The School had excess textbooks that were lying in the School's store unutilized. Further, interview with the Principal indicated that although the School had reported the excesses, extra books kept on being supplied with some set books having already been phased out without being utilized.

In the circumstances, proper management of the public resources 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 controls, risk management and overall governance were operating effectively, in all material respects. I believe that the audit evidence I have obtained is sufficient and appropriate to provide a basis for my conclusion.

Responsibilities of Management and those charged with Governance

Management is responsible for the preparation and fair presentation of these financial statements in accordance with International Public Sector Accounting Standards (Cash Basis) and for maintaining effective internal control as Management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error and for its assessment of the effectiveness of internal controls, risk management and overall governance.

In preparing the financial statements, Management is responsible for assessing the School's ability to continue to sustain its services, disclosing, as applicable, matters related to sustainability of services and using the applicable basis of accounting unless Management is aware of the intentions 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 the 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 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 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 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