

REPORT OF THE AUDITOR-GENERAL ON NYAMIRA GIRLS HIGH SCHOOL FOR THE YEAR ENDED 30 JUNE, 2021 – SIAYA 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 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 overall governance systems are properly designed and were working effectively in the financial period under review.

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

REPORT ON THE FINANCIAL STATEMENTS

Adverse Opinion

I have audited the accompanying financial statements of Nyamira Girls' High School – Siaya County set out on pages 1 to 26, 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 budgeted versus actual amounts for the year then ended, and a summary of significant accounting policies and other explanatory information in accordance with the provisions of Article 229 of the Constitution of Kenya and Section 35 of the Public Audit Act, 2015. I have obtained all the information and explanations which, to the best of my knowledge and belief, were necessary for the purpose of the audit.

In my opinion, because of the significance of the matters discussed in the Basis for Adverse Opinion section of my report, the financial statements do not present fairly, the

financial position of Nyamira Girls' High School – Siaya County 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 do not comply with the Public Finance Management Act, 2012 and the Basic Education Act, 2013.

Basis for Adverse Opinion

1. Inaccuracies in the Financial Statements

The financial statements prepared and presented for audit had the following anomalies: -

1.1 Variances between Financial Statements and Supporting Schedules

Review of the statements of receipts and payments revealed four (4) items had amounts which were at variance with the supporting schedules provided for audit review as detailed below:

Details	Notes	Amount in 2020/2021 Financial statement (Kshs.)	Amount in the Supporting Schedules (Kshs.)	Variance (Kshs.)
Capitation grant for Tuition	1	2,092,432	2,666,466	574,034
Capitation grant for Operations	2	10,687,803	15,355,869	4,668,666
School fund Income –Parents contribution	3	34,062,470	35,521,997	1,459,527
Prepaid Fees	12	5,056,886	324,421	4,732,465

In the circumstances, the accuracy and completeness of the amounts in the statements of receipts and payments could not be confirmed.

1.2 Variance in Bank Loan Repayment

As disclosed in Note 7 to the financial statements, the statement of receipts and payments reflects boarding and school fund payments of an amount of Kshs.37,600,884 which includes an amount of Kshs.3,484,188 in respect of bank loan repayments for the loan outstanding balance. However, review of the bank loan agreement reflects termly repayment of an amount of Kshs.2, 772,464 totalling to an amount of Kshs.8,317,392 for

the year which is at variance with the amount of Kshs.3,484,188 resulting to unexplained and unreconciled variance of Kshs,4,833,204.

In the circumstances, regularity, accuracy and completeness of the loan repayment of an amount of Kshs.3,484,188 could not be confirmed.

1.3 Statement of Budgeted Versus Actual Amounts

The statement of budgeted versus actual amounts reflects an amount of Kshs.7,730,776 and Kshs.2,057,500 in respect of final income and expenditure budgets respectively. However, review of the approved budget for the six months period ended 30 June, 2021 provided for audit revealed balanced final income and expenditure budget of an amount of Kshs.66,180,675 resulting to unreconciled variance of amounts of Kshs.58,449,899 and 64,423,175 respectively.

Further, the statement reflects an amount of Kshs.15,573,665 and Kshs.34,623,288 in respect of actual on comparable basis for revenue and expenditure which are at variance with the amounts reflected in the statement of receipts and payments of the amounts of Kshs.46,861,955 and Kshs.48,338,883 resulting to an unexplained and unreconciled variance of Kshs.31,288,290 and Kshs.13,715,595 respectively.

In addition, the statement reflects revenue budget utilization difference amount of Kshs.4,817,383. However, recasting of the statement revealed over collection amounting to Kshs.7,842,889, resulting in an unexplained and an unreconciled variance of Kshs.3,025,506.

In the circumstances, the accuracy and completeness of the statement of budgeted versus actual amounts could not be confirmed.

2. Unsupported Bank Loan

Note 14 to the financial statements on non current liabilities summary reflects bank loan balance of Kshs.17,513,069. Review of loan agreement between the School and a local bank reflects a loan amount of Kshs.34,000,000 acquired on 21 April, 2014 to complete construction of multipurpose hall which was not supported with loan amortization schedule and payments details. Further, the School Management on 20 September, 2017 applied for a loan restructure facilities of an amount of Kshs.10,000,000 which was amalgamated with the existing loan of Kshs.28,162,064 making total loan to Kshs.38,162,064. However, approval from The National Treasury of the borrowing was not sought contrary Section 51(2) of the 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. Further, details on the purpose of the loan and how it was used were not availed for audit. In addition, the statement of receipts and payments reflects expenditure on boarding and school fund of Kshs.37,600,884 which as disclosed in Note 7 to the financial statements include loan principal repayment amount of Kshs.3,484,188.

In the circumstances, the accuracy, completeness and propriety of the bank loan balance of Kshs.17,513,069 could not be confirmed.

3. Unsupported Payments for Tuition

As disclosed in Note 5 to the financial statements, the statement of receipts and payments reflects an amount of Kshs.3,219,228 in respect payments for tuition. However, no supporting documents including ledger schedules were provided for audit review. Further, review of the sampled payment vouchers and invoices provided for audit review were not supported with counter receipts and issue vouchers, store ledger, inspection and acceptance reports and delivery notes.

In the circumstances, the accuracy and completeness of the expenditure of an amount of Kshs.3,219,228 in respect of payments for tuition could not be confirmed.

4. Unsupported Expenditure on Board of Management Teachers Salaries

As disclosed in Note 7 to the financial statements, the statement of receipts and payments reflects payments for school fund and other monies account of amounts of Kshs.37,600,884 which includes amounts of Kshs.3,101,100 in respect of Board of Management (BOM) teachers' salaries. However, the payment was not supported with payrolls and BOM Board minutes approving their appointments.

In the circumstances, the accuracy and completeness of the boarding and school fund amount of Kshs.3,101,100 could not be confirmed.

5. Unsupported Cash and Cash Equivalents Balance

As disclosed in Notes 8 and 9 to the financial statements, the statement of financial assets and financial liabilities reflects cash and cash equivalents balance of Kshs.5,583,296 which includes Kshs.5,141,229 and Kshs.442,067 in respect of bank and cash in hand balances respectively. However, bank reconciliation statements for the bank accounts with balances of Kshs.1,164,861 and Kshs.36,402 were not provided for audit. Further, the cash in hand was not supported with a board of survey report.

In addition,, review of bank statements provided for audit revealed an amount of Kshs.6,035,000 in respect of cash withdrawals from fee collection account which were not supported with petty cash books and payment vouchers.

In the circumstances, the accuracy and completeness of the cash and cash equivalents balance of Kshs.5,583,296 could not be confirmed.

6. Unsupported Accounts Receivables Balance

The statements of financial assets and financial liabilities reflects accounts receivables balance of Kshs.34,860,611 as disclosed in Note 11 to the financial statements which includes balances of Kshs.34,618,611 and Kshs.242,000 in respect of fees arrears and other non – fees receivables respectively. However, supporting documents including ledger schedules and aged analysis of students fee were not provided for audit. Further,

balances amounting to Kshs.20,898,590 have been outstanding for over two years, and no evidence of efforts put in place to recover these long outstanding debts.

In the circumstances, the accuracy, completeness and recoverability of the accounts receivables balance of Kshs.34,860,611 could not be confirmed.

7. Unsupported Accounts Payables Balance

The statements of financial assets and financial liabilities reflects accounts payables balance of Kshs.36,354,610 as disclosed in Note 12 to the financial statements which includes Kshs.31,297,724 and Kshs.5,056,887 in respect of trade creditors and prepayments respectively. However, the creditors balance was not supported with documents including ledger schedule and invoices, delivery notes, issues and receipts while prepaid fees were not supported with student fee statements.

In the circumstances, the accuracy, completeness and fair statement of accounts payables balance of Kshs.31,297,724 could not be confirmed.

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

Key Audit Matters

Key audit matters are those matters that, in my professional judgment, are of most significance in the audit of the financial statements. There were no key audit matters to report in the period under review.

Other Matter

Budgetary Control and Performance

The statement of budgeted versus actual amounts reflects final total income budget and actual on comparable basis of Kshs.7,730,776 and Kshs.15,573,665 respectively resulting to an over-funding of Kshs.4,817,383 or 62% of the budget. Similarly, the statement reflects final budget expenditure and actual on comparable basis of Kshs.2,057,500 and Kshs.34,623,288 resulting to over-absorption of Kshs.32,565,789 or 1583 % of the budget.

The over-funding results in non-adherence to budget preparation guidelines limiting delivery of services to the public and over-expenditure and results to unauthorized expenditure and the Management was in breach of the law.

REPORT ON LAWFULNESS AND EFFECTIVENESS IN USE OF PUBLIC RESOURCES

Conclusion

As required by Article 229(6) of the Constitution, because of the significance of the matters discussed in the Basis for Adverse Opinion, Basis for Conclusion on Lawfulness and Effectiveness in Use of Public Resources section of my report, based on the audit procedures performed, I confirm that public resources have not been applied lawfully and in an effective way.

Basis for Conclusion

1. 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 2019-2020. Therefore, the financial statements have not been prepared for eighteen (18) months as prescribed by 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 the longer period covered by the current financial statements.

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

2. Unapproved Additional Fees Charged

Review of the student fee structure and School Board of Management minutes revealed that the school Management charged extra levies of Kshs.10,000 and Kshs.8,725 per student for multi-purpose hall/dining hall and BOM teachers respectively. However, supporting documents including approvals from the Ministry of Education for the additional fees charged, expenditure returns and BOM teachers payrolls were not provided for audit review contrary to Ministry of Education Circular Number MOE.HQS/3/6/112(1) which directed that any school that desires to charge amounts above the stipulated fees should make a formal request to the cabinet secretary

In the circumstances, Management, was in breach of the Ministry of Education guidelines on charging additional fees.

3. Unsupported Board of Management Allowances

As disclosed in Note 7 to the financial statements, the statements of receipts and payments reflects boarding and school fund payments an amount of Kshs.36,600,885 which includes an amount of Kshs.1,783,682 in respect of local transport and travel. Included in the amount are subsistence allowances paid to Board of Management. However, the expenditure was not supported with signed Board minutes and attendance list.

In the circumstances, the accuracy and completeness of the subsistence allowances paid to Board of Management could not be confirmed.

4. Failure to Maintain Imprests Register

The statement of receipts and payments reflects payments for operations and boarding- and school fund payments of Kshs.7,518,770 and Kshs.37,600,884 which includes amounts of Kshs.1,794,457 and Kshs.2,548,684 in respect of administrative cost respectively totalling to Kshs.4,343,141 . Review of the related payment records revealed payments made through imprests. However, the Management failed to maintain imprest register contrary to Regulation 93 of the Public Finance Management (National Government) Regulations, 2015 which requires that 'before issuing temporary imprests that the applicant has been recorded in the imprest register including the amount applied for and a holder of a temporary imprest shall account or surrender the imprest within 7 working days after returning to duty station'.

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

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

REPORT ON EFFECTIVENESS OF INTERNAL CONTROLS, RISK MANAGEMENT AND GOVERNANCE

Conclusion

As required by Section 7(1)(a) of the Public Audit Act, 2015 because of the significance of the matters discussed in the Basis for Adverse Opinion, Basis for Conclusion on Effectiveness of Internal Controls, Risk Management and Governance sections of my report, based on the audit procedures performed, I confirm that internal controls, risk management and governance were not effective.

Basis for Conclusion

1. Lack of Risk a Management Policy

Review of documents and records provided for audit review revealed that School Management has not established a Risk Management Policy to ensure the 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, Management may not adequately mitigate against risks.

2. Lack of Approved Information Technology Security Policy

Review of the School Information Technology Systems revealed that the School did not have an approved IT Policy for governance and management of its ICT resources. Further, there was no ICT Steering Committee in place to assist in the development of ICT Policy framework to enable the School to realize long-term ICT strategic goals. Lack of an approved IT Policy may result in an unclear direction regarding maintenance of information security across the organization and safeguarding the School’s ICT assets. In addition, without a sound and approved framework, users do not have any rules and procedures to follow in order to minimize risk of errors, fraud and the loss of data confidentiality, integrity and availability.

In the circumstances, the School may be exposed to financial losses and data confidentiality, integrity and availability may be compromised.

3. Failure to Prepare Development of School Improvement Plan

During the year under review, the school Management did not have a school improvement plan for audit review which identifies key area of focus, activities expected outcomes. In the circumstances, the effectiveness of overall governance of the school could not be confirmed.

4. Students NEMIS Enrolment Data

Review of the National Education Management Information System (NEMIS) report against the School’s manual enrolment register for the period under review revealed inconsistencies between the number of students captured in the two registers with the number of students captured in NEMIS being lower than the number in the School’s manual register. The variances resulted in under-funding of the school by Kshs.4,678,238

In the circumstances, effectiveness of controls over management of student enrolment could not be confirmed.

5. Failure to Maintain a Fixed Assets Register

Review of records revealed that the Management did not maintain a fixed asset register of the buildings, motor vehicles, office equipment, furniture and fittings and other assets. This was contrary to Regulation 143(1) of Public Finance Management (National Government) Regulations, 2015 which prescribes that ‘the Accounting Officer shall be

responsible for maintaining a register of assets under his or her control or possession as prescribed by the relevant laws'. Further, Annex 2 to the financial statements reflects two unvalued parcels of land identified as land 1 and land 2 respectively. However, Management did not provide respective title deeds for audit.

In the circumstances, the effectiveness of controls in fixed assets 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 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 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 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

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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 controls 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 School 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 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 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