

REPORT OF THE AUDITOR-GENERAL ON ST. STEPHEN'S ALUOR MIXED PUBLIC SECONDARY 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 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 St. Stephen's Aluor Mixed Public Secondary School – Siaya County set out on pages 10 to 19, which comprise the statement of financial assets and financial liabilities as at 30 June, 2021, and the statement of receipts and payments, statement of cash flows 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 St. Stephen's Aluor Mixed Public Secondary School – Siaya County as at 30 June, 2021, and of its financial performance and its cash flows for the six months' period then ended, in accordance with International Public Sector Accounting Standards (Cash Basis) and comply with the Basic Education Act, 2013 and the Public Finance Management Act, 2012.

Basis for Qualified Opinion

1. Inaccuracies in the Financial Statements

The financial statements reflect various amounts that differed with the supporting schedules/ledgers resulting in unreconciled and unexplained variance as shown in the table below:

Item	Financial Statements Amount (Kshs.)	Supporting Schedule Amount (Kshs.)	Variance (Kshs.)
Payments for Tuition	417,388	-	417,388
Personnel emoluments	1,378,062	410,600	967,462
Admin Cost	375,253	263,270	111,983
Maintenance & improvement	676,200	-	676,200
Electricity and Water	64,733	163,730	(98,997)
Activity Expenses	26,930	59,330	(32,400)
Bank charges	3,980	-	3,980
Lunch program	740,342	179,125	561,217
Bank charges	8,458	-	8,458
Accounts receivable	564,564	-	564,564

Further, no trial balance in support of the financial statements was provided for audit.

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

2. Inaccuracies in the Statement of Receipts and Payments

The statement of receipts and payments reflects total receipts amount of Kshs.4,175,738. However, review of the bank statements revealed receipts totalling to Kshs.5,669,164, resulting in an unexplained and an unreconciled variance of Kshs.1,493,426.

In the circumstances, the accuracy and completeness of the statement of receipts and payments could not be confirmed.

3. Unsupported Accounts Receivables

The statement of financial assets and liabilities reflects accounts receivable balance of Kshs.1,590,503 which, as disclosed in Note 11 to the financial statements, includes fee arrears balance of Kshs.564,564. However, Management did not maintain student debtors' statements as well as debtors' ledger

In the circumstances, the accuracy, completeness and recoverability of the accounts receivables balance of Kshs.1,590,503 could not be confirmed.

4. Unsupported Cash Withdrawals

The statement of receipts and payments reflects total payments amount of Kshs.3,844,844. However, review of the School's Operations and Infrastructure Accounts held at Kenya Commercial Bank Limited (KCB) revealed cash withdrawals amounting to Kshs.2,130,500 whose supporting documents showing works done, services rendered or goods delivered were not provided for audit.

In the circumstances, the propriety of the cash withdrawals amounting to Kshs.2,130,500 could not be confirmed.

The audit was conducted in accordance with International Standards of Supreme Audit Institutions (ISSAIs). I am independent of the St. Stephen's Aluor Public Mixed 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.

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 August 20, 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. Therefore, the financial statements have not been prepared for eighteen-months (18) as prescribed by the Public Sector Accounting Standards Board.

In addition, Management did not include the statement of budgeted amounts versus actual amounts in the annual reports and financial statements while page numbering was not properly done.

In the circumstances, the financial statements have not been prepared in accordance with the recommended reporting template and guidelines issued by the Public Sector Accounting Standards Board.

2. Unauthorized Opening and Operating Bank Accounts

The statement of financial assets and financial liabilities reflects a bank balance of Kshs.333,568 relating to four (4) bank accounts as disclosed in Note 8 to the financial

statements. However, no National Treasury's authorities to open and operate these bank accounts were provided for audit, contrary to Section 28 of the Public Finance Management Act, 2012, and Regulation 82 of the Public Finance Management (National Government) Regulations, 2015, which require The National Treasury to authorize the opening, operating and closing of bank accounts and sub accounts for all Government entities.

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

3. Non-Compliance with Procurement Laws and Regulations

Review of payment vouchers and procurement records revealed that procurement of goods and services had the following anomalies: -

- i. There was no evidence of requisitions submitted to the head of procurement for procurement initiation as spelt out in Regulation 71(1) of the Public Procurement and Asset Disposal Regulations, 2020, which states that 'the head of the user department shall initiate the procurement through a requisition as per the approved procurement plan'.
- ii. There were no invitations to bid from registered suppliers, contrary to Section 57(1) of the Public Procurement and Asset Disposal Act, 2015 on invitation of bids from registered suppliers.
- iii. There was no tender evaluation to deal with eligibility and capability of the bidder, contrary to Section 46 of the Public Procurement and Asset Disposal Act, 2015 on evaluation committee.
- iv. There was no contract execution, contrary to Section 135(1) of Public Procurement and Asset Disposal Act, 2015 which states that 'the existence of a contract shall be confirmed through the signature of a contract document incorporating all agreements between the parties'.
- v. There was no inspection and acceptance of goods, contrary to Section.48(1) of Public Procurement and Asset Disposal Act, 2015 which states that 'the accounting officer of a procuring entity may establish an ad hoc committee known as the inspection and acceptance committee.'
- vi. The School did not conduct its own market survey on prices or results, contrary to Regulation 43(4)(a) of the PPAD Regulations, 2020 which states that 'in making a procurement decision in relation to the market price index in paragraph (2), the procuring entities shall take into consideration their own market survey prices or results'.

- vii. There was no tax invoicing, contrary to Section 42(1) of the Value Added Tax (VAT) Act, 2013, which requires a registered person who makes a taxable supply at the time of supply to furnish the purchaser with the tax invoice containing the prescribed details for the supply.

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 governance were not effective.

Basis for Conclusion

1. Lack of an IT Service Continuity or Disaster Recovery Plan

The review of IT processes and preparedness in case of any unforeseen challenges revealed that the School did not have a data recovery strategy plan and therefore chances of data recovery in case of a calamity or disaster may not be possible. Further, there was no existing offsite back up storage facility. In addition, the School lacked an IT officer and IT strategic committee to steer the School forward on the IT system.

In the circumstances, the effectiveness of the IT resource service continuity and disaster recovery could not be confirmed.

2. Failure to Maintain a Fixed Assets Register

Review of records revealed that 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’.

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 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