

SUMMARY NATIONAL REPORT ON AUDIT OF SIP SCHOOLS –YEAR 2018

Following the annual Audit on the 4000 SIP Schools conducted in the month of March 2019, by Directorate of Schools Audit Services, the comprehensive report thereof is ready and the key highlights are as follows; -

- (i) A total of 3893 schools were audited out of the targeted 4000 SIP schools. The categorization of these schools in terms of compliance levels to financial management regulations and procedures revealed that 2626 (67%) schools were in category A (good performance), 1043 (27%) were in category B (fair performance) while only 224 (6%) were in category C (poor performance). Details on school analysis and categorization per county are shown in **Appendix (I)**.
- (ii) A Total of 107 schools remained unaudited for the period ending 31st December 2018. This state was precipitated mainly by bad weather conditions and insecurity that prevailed at the time of audit which hindered efforts by the audit teams to access the schools.
- (iii) A comparison of the current performance with the 2017 report revealed that the schools had improved compliance with financial management regulations and procedures. There was overall improvement on fiduciary performance with the National average moving from the 40% (baseline), 69% (2017) and finally 79.3% for 2018 audit year (**appendix 2**).
- (iv) It was however; still evident that financial management performance had gaps that needed to be addressed by appropriate interventions in all counties through capacity building on financial management. The Directorate of Schools Audit Services intends to embark on a follow up audit of schools in category C to enable them transition to category A.

REPORT FOR NATIONAL AUDIT OF SCHOOL IMPROVEMENT PROGRAMME (SIP) PILOT SCHOOLS-YEAR 2018

1.0 BACKGROUND/ INFORMATION.

The Government of Kenya represented by the Ministry of Education, State Department of Early Learning and Basic Education entered into an agreement on 4th June 2015 with the Global Partnership for Education (GPE) under the supervision of the World Bank to fund Kenyan Primary Education Development Project (PRIEDE).

The project has four components and sub component 2.4 (Strengthening School Management and Accountability) is the responsibility of the Directorate of Schools Audit Services (DSAS). The Financing Agreement requires that the Accounts of SIP schools be audited on annual basis during the life of the project. The sub component ensures that the DSAS is able to audit the participating schools annually during the project implementation period to improve accountability, transparency and efficiency in the utilization of resources.

As a prerequisite to the funding of the respective schools' improvement plans, the World Bank directed that a baseline audit survey be conducted on all schools under the SIP component of the PRIEDE project and thereafter an annual audit of all SIP funds. The current audit was the second annual audit that started as from March, 2018 and was conducted in the forty-seven (47) Counties in line with terms of reference as set out below.

2.0 TERMS OF REFERENCE

1. To ascertain whether proper governance structures exist for effective management of financial resources;
2. To assess the adequacy of the internal controls in place to safeguard assets of the institution;
3. To confirm compliance with Government laws and Regulations relating to utilization and accountability of financial resources.

3.0 METHODOLOGY

The annual audit of 2018 financial year was carried out through;

1. Examination of financial records
2. Review of stores records
3. Verification of stores/ text books procured
4. Interviewing of stake holders
5. Review of previous audit reports
6. Data capture and analytical reviews

4.0 SCOPE

The exercise involved review of the financial transactions of all the 4,000 primary schools under SIP component of PRIEDE project during the financial year 2018. The records reviewed included previous audit reports, school improvement plans, budgets, receipt books, payment vouchers, cash books, store ledgers, minutes and other internal control records.

5.0 LIMITATION OF SCOPE

The execution of the exercise was affected by the following factors;

- I. **Missing/unavailability of records**-This was attributed to failure by some of the Head teachers to provide the relevant documents during audit and transferred headteachers not availing records during handover.
- II. **Inaccessibility** due to bad road terrain and insecurity in areas such as Narok, Kilifi, Mandera and Garissa.

6.0 AUDIT FINDINGS

6.1 Audit coverage

The audit of 2018 financial year was conducted in 3893 schools out of 4000 primary schools that had been earmarked. The balance of 107 SIP schools were not audited due to the limitation of scope as stated in 5.0 above.

6.2 Planning and implementation

The audit revealed that all schools achieved 100% compliance on SIP implementation. This was a significant increase of 14.3% from the previous score of 85.7% for year 2017.

6.3 Annual Budget

The current audit revealed that 100% of the schools had prepared annual budgets as compared to 81.4 % of 2017. This was in compliance with the Public Financial Management Regulation sec 31 that required preparation of annual estimates of expenditure in conformity with the Constitution; the Act and other relevant regulations. The budget estimate ensured that all services and goods were included in the financial year estimates that are complete and accurate taking into consideration economy and efficiency.

It was noted that 78.1% of the schools had the budgets that were deliberated and approved by the respective Boards of Management. Comparative review of the budgets and the related expenditure revealed that 78.7% of the schools adhered to the budget estimates which was an improvement of 2.6% as compared to year 2017.

The high level of budget compliance was attributed to the following:

- i. Capacity building for school managers on financial management
- ii. Need to conform to donor conditionality
- iii. Compliance with relevant financial law and regulations
- iv. Regular monitoring by ministry officials
- v. Effective oversight by the respective Boards of Management.

The following factors were attributed to schools with low compliance level:-

- i. Lack of requisite skills on financial management by the newly appointed headteachers in SIP schools
- ii. Delays in appointment of Boards of Management

Risks

- over/under expenditure on vote heads
- non-achievement of the planned programs
- non priority projects being implemented
- sanctions due to noncompliance with relevant Acts and regulations

6.4 Revenue Collection Control

The audit revealed that 91.7% of the schools acknowledged receipt of funds as compared to 89% in the year 2017. This was in compliance with the Public Financial Management regulation Sec 64 that required accounting officer to ensure adequate safeguards exists in prompt collection and proper accounting for all revenues. There was issuance of official receipts and proper books of accounts were kept relating to revenue collection and management. The maintenance of receipt books was attributed to:-

- i. Availability of official receipt books
- ii. Experience of the Head teachers
- iii. Fiduciary training

Failure to acknowledge receipt of funds by some schools was attributed to;

- i. Newly promoted Head teachers who lacked training on financial management
- ii. Inadequate oversight

Risks

- Misuse / misappropriation of funds
- Compromised delivery of curriculum
- Theft of funds may occur

6.5 Procurement

From the audit of 2018, 94.7% schools had constituted the various relevant committees in line with the Public Procurement and Assets Disposal Act, 2015 Sec 44. The committees comprised of SIMSC, tender opening, evaluation, inspection and acceptance and asset disposal committee. However, some schools did not constitute the adhoc committees which was attributed to some head teachers not being conversant with the public Procurement Act, 2015

For the schools that had constituted any of the procurement committees, it was observed that 80.2% had procured goods and services in accordance to the deliberations of the committees. This was attributed to capacity building of head teachers and committee members on procurement of goods, works and services.

Risks

- Acquisition of sub-standard goods, works or services
- Uneconomical use of budgetary resources
- Failure to achieve programme objectives and intended impact

6.6 Expenditure Recording and eligibility

6.6.1 Expenditure Records

92% of the schools raised Payment Vouchers on expenditure and paid as per the requirement. This was attributed to;

- i. Most head teachers having undergone relevant trainings on financial management.
- ii. The use of Financial Management handbook that were distributed to the schools

However, for schools that were not properly raising payment vouchers, it was attributed to:

- i. Lack of continuous training on financial management more so for newly appointed head teachers.
- ii. Lack of continuous monitoring by ministry oversight bodies
- iii. Failure to write the books of accounts on daily basis

The eligibility level achieved was attributed to;

- i. Most of the head teachers having undergone relevant trainings on financial management
- ii. Effective oversight by some board of management
- iii. Effective oversight by some other oversight bodies e.g. the County SIP committee and Bank Missions

On the other side, the non-compliance cited in some schools was due to;

- i. Negligence on part of the head teacher to maintain expenditure records
- ii. Lack of relevant training on newly appointed head teachers
- iii. Lack of effective oversight
- iv. Poor coordination of handing/taking over of headship in schools.

Risks

- Loss of funds due to lack of controls
- In accurate expenditure reports
- Delayed funding pending audit reviews and clearance
- Misuse of funds

6.7 Maintenance of Cashbook

From the analysis of audit data, it was noted that 88.2% of schools maintained cashbooks for the respective accounts. In effect 11.8% were still unable to maintain cash books which was attributed to:

- i. Lack of skills on financial records keeping
- ii. In some cases, the cashbooks were in the custody of former head teachers hence effect on continuity on posting of transactions

Risks

- Inaccurate financial reports to inform any strategic interventions for smooth execution of planned activities
- Poor decision making by management

6.8 Bank Statements

The audit revealed that 100% of the schools maintained files of bank statements for the respective bank accounts being operated.

There was improvement in preparation of bank reconciliation statements reaffirmed by the review on the level of compliance to monthly extractions of Bank reconciliation statement which stood at 49.1%. This was an improvement from 45% in the year 2017. This was attributed to:

- i. Fiduciary training that sensitized head teachers on need for bank reconciliation statements
- ii. Regular monitoring by county officials

Risks

Misappropriation of school funds

The low rate of compliance could lead to inaccurate financial reports arising from un-reconciled bank balances,

6.9 Stores Records

The audit revealed that:

- i. 65.9% of the schools maintained consumable stores ledgers(S1) with a 56.3% compliance level.
- ii. 50.7% of the schools maintained the permanent and expendable stores ledgers(S2) with a 42% compliance level
- iii. 68% of the schools maintained the textbook ledgers with a 60.3% compliance level.

It was however noted that the level of compliance in updating S1 and S2 stores ledgers by the schools was at 56.3% and 42% respectively which need to be improved. This was attributed to:

- i) Lack of standard stores ledgers in some schools
- ii) Inadequate skills on stores record keeping
- iii) Failure to formally delegate the responsibility to the members of staff i.e. deputy head teacher or senior teacher.

Risks

- Loss of stores
- Stock out costs due lack of relevant records to inform replenishment of stores
- Overstocking

6.11 Financial Reporting

The audit revealed that 79.3% had prepared books of accounts which had been subjected to audit, a slight increase of 4.3% that was recorded in the previous audit. This situation was attributed to:-

- i) Capacity building of head teachers and BOM on financial management
- ii) Dissemination and distribution of financial management manuals
- iii) Regular audits by Directorate of Schools Audit Services

The 20.7% of schools whose books of accounts have not been audited may lead to the following risks:

- Recurrence of fraud and/or errors
- Financial malpractices

- Poor / delayed decision making by the management

6.12 Fiduciary Performance Ranking

From the data analysis of 3893 schools audited, it was noted that 2626 schools scored between 70% to 100%, 1043 schools scored between 40% to 69% while 224 schools scored between 0% to 39%.

The three years' trend analysis, from the baseline year (2016) to the 2018 annual audit is as per table below:

COLOUR	No. OF SCHOOLS 2016	%	No. OF SCHOOLS 2017	%	No. OF SCHOOLS 2018	%
GREEN (Those that scored over 70% in the Audit benchmarks)	287	7%	2210	58%	2626	67%
YELLOW (Those that scored between 40-69.9% in the Audit benchmarks)	1897	48%	1282	33%	1043	27%
RED (Those that scored below 40% in the Audit benchmarks)	1811	45%	340	9%	224	6%
TOTAL	3995		3832		3893	

7.0 CONCLUSION

The audit revealed that there was improved financial management performance in most of the key areas such as planning, budgeting, revenue recording, expenditure control, maintenance of payment vouchers, cash book and financial reporting. However, performance in areas such as stores management and bank reconciliation needed improvement. Most of the schools (3669) had performed above 40% while only 224 schools performed below 40%.

8.0 RECOMMENDATIONS

- i) The Ministry to undertake capacity building on financial management for newly appointed head teachers and BOM members
- ii) The Ministry should consider recruitment of qualified accounts personnel for cluster of primary schools to assist in maintenance of financial records.
- iii) Follow up audit to be conducted in school scoring below 40% on fiduciary performance
- iv) The Ministry to enhance monitoring on utilization of funds in schools.
- v) There should be well coordinated handing/taking over of headship in schools to minimise cases of missing records

DIRECTOR SCHOOL AUDIT SERVICES

**MATRIX ON KEY FINDINGS AND RELATED RECOMMENDATIONS FROM THE BASELINE AUDIT SURVEY
ON THE 4000 PRIEDE PRIMARY SCHOOLS**

S/NO.	AUDIT AREA	FINDING	RECOMMENDATIONS	ACTORS	TIMEFRAME	COST (KSH.)
1.	Planning and Implementation	<ul style="list-style-type: none"> All schools achieved 100% compliance on SIP implementation 	<ul style="list-style-type: none"> The school management to continue with the same trend 	<ul style="list-style-type: none"> School Management 	Continuous	NIL
2.	Annual Budgets	<ul style="list-style-type: none"> All of the schools had prepared annual budgets However, 21.9% of the budgets prepared were neither deliberated nor approved by their respective Board of Management. 	<ul style="list-style-type: none"> All budgets prepared should be approved by the BOM 	<ul style="list-style-type: none"> School Management 	Continuous	NIL
3.	Revenue collection control	<ul style="list-style-type: none"> 8.3% of the schools audited did not acknowledge receipt of funds 	<ul style="list-style-type: none"> Proper accounting of all monies sent should be done by issuance of an official receipt 	<ul style="list-style-type: none"> School Management 	Continuous	Nil
4.	Procurement	<ul style="list-style-type: none"> 5.3% of the schools had not constituted the various relevant committees. Of the schools with relevant committee, 19.8% of these schools procured goods and services in contravention to the deliberations of the 	<ul style="list-style-type: none"> Relevant adhoc committee should be constituted on need basis in the schools. All schools should adhere to the deliberations of adhoc committee in line with the Public Procurement and Assets Disposal Act, 2015. 	<ul style="list-style-type: none"> School Management 	Continuous	NIL

S/NO.	AUDIT AREA	FINDING	RECOMMENDATIONS	ACTORS	TIMEFRAME	COST (KSH.)
		committees				
5.	Expenditure controls, Recording and eligibility	<ul style="list-style-type: none"> 8% of the schools did not properly raise appropriate PV with sufficient supporting documents 	<ul style="list-style-type: none"> Appropriate PV with sufficient supporting documents should be maintained. Continuous training of head teachers on financial management Continuous monitoring by ministry oversight bodies 	<ul style="list-style-type: none"> PS/ DG/ DSAS/ CDE PRIEDE 	JUNE 2020	61 M
6.	Maintenance of cash books	<ul style="list-style-type: none"> 11.8% of the schools did not maintain cash books 	<ul style="list-style-type: none"> All schools should maintain cash books. Continuous training of head teachers on financial management Continuous monitoring by ministry oversight bodies 	<ul style="list-style-type: none"> PS/ DG/ DSAS/ CDE PRIEDE Head Teacher 	Continuous	NIL
7.	Management of Bank Accounts and Preparation of Bank Reconciliation Statements	<ul style="list-style-type: none"> All schools maintained records of bank statements for the respective bank accounts being operated. 50.9% of the schools had challenges in preparation of 	<ul style="list-style-type: none"> All schools should maintain Bank Reconciliation Statements. Continuous training of head teachers on financial management 	<ul style="list-style-type: none"> PS/ DG/ DSAS/ CDE PRIEDE Head Teacher 	Continuous	NIL

S/NO.	AUDIT AREA	FINDING	RECOMMENDATIONS	ACTORS	TIMEFRAME	COST (KSH.)
		Bank Reconciliation Statements	<ul style="list-style-type: none"> Continuous monitoring by ministry oversight bodies 			
8.	Maintenance stores records	<ul style="list-style-type: none"> 34.1%, 49.3% and 32% of the schools did not maintain S1, S2 and Textbook Ledgers respectively. Of the school that maintained relevant ledgers, 43.7%, 58% and 39.7% of the schools were not able to fully record and update accurately the S1, S2 and textbook ledger. 	<ul style="list-style-type: none"> All schools should maintain appropriate stores and textbook ledgers. The ledgers need to be correctly recorded and regularly updated. Continuous training of head teachers on financial management Continuous monitoring by ministry oversight bodies 	<ul style="list-style-type: none"> PS/ DG/ DSAS/ CDE PRIEDE Head Teacher 	Continuous	NIL
9.	Maintenance of Financial records	<ul style="list-style-type: none"> 20.7% of the schools had not prepared books of accounts which had to be subjected to audit. 	<ul style="list-style-type: none"> All schools should prepare books of accounts and present them for audit purposes. 	<ul style="list-style-type: none"> School Management DSAS CDE 	June 2020	35 M

S/NO.	AUDIT AREA	FINDING	RECOMMENDATIONS	ACTORS	TIMEFRAME	COST (KSH.)
10.	Fiduciary Performance Ranking	<ul style="list-style-type: none"> • Marked improvement on fiduciary management compliance 	<ul style="list-style-type: none"> • Strengthen governance structures in the management of funds 	<ul style="list-style-type: none"> • PS/ • DG/ DSAS/ CDE • PRIEDE Head Teacher 	June 2020	50 M