



# REPORT ON REVIEW OF FINANCIAL STATEMENTS FOR PUBLIC SECONDARY SCHOOLS, FY2020-2021

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**2023**





## MESSAGE FROM THE CEO

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The financial reporting template for Public Secondary Schools was issued vide a National Treasury Circular number AG./4/16/2 dated 30th June 2021. The template was for application by all Public Secondary Schools in Kenya with effect from the financial year ended 30th June 2021 and subsequent periods. The financial reporting template is prepared under the IPSAS Cash basis of accounting supplemented with information on debtors and creditors. PSASB issued a guideline in August 2021 to facilitate implementation of the financial reporting template.

Prior to the issuance, the PSASB collaborated with the Directorate of Schools Audit and sensitized the School Auditors on the requirements of the financial reporting template. This was done so as to ensure that the Auditors would in turn disseminate the knowledge to the School Principals and Bursars.

The Board is mandated by the PFM Act Section 194(4) to monitor adherence to the set standards by all state organs and public entities. It is in line with this mandate that we embarked on an exercise of reviewing the first set of financial reports that were prepared after the issue of the template. This exercise would inform the areas of improvement needed by the schools as well as areas of review for the templates.

I am pleased to present to you the findings of the review together with the recommendations the Board intends to undertake. These findings are geared to inform the subsequent cycles of financial preparations by indicating areas of improvements and recommendations thereof.



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# EXECUTIVE SUMMARY

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The Public Sector Accounting Standards Board (PSASB) is established and constituted in accordance with sections 192 and 193 of the PFM Act, 2012. The Act mandates the Board to provide frameworks and set generally accepted standards for the development and management of accounting and financial systems by all State organs and public Entities in Kenya. The Board is also required to monitor the adherence to the Standards in the public sector.

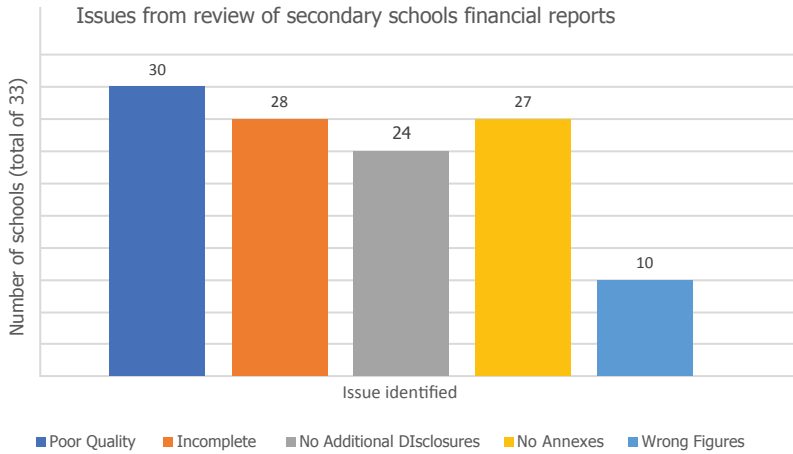
Considering the above, the Board conducted a review on the Annual report and financial statements prepared by Public Secondary schools in Kenya for the financial year 2020/2021. This was the first year that the public secondary schools prepared financial statements for the period ended 30th June 2021 and, in the format, prescribed by PSASB. It was also the first time they prepared accounts based on the government fiscal year as opposed to the calendar year.

The Board has continued to collaborate with the Directorate of Schools Audit in the Ministry of Education right from the development of the template and reporting guidelines as well as in reaching out and sensitizing the schools on the new reporting requirements. Furtherance to this collaboration, PSASB obtained financial statements that had been submitted to the Schools Directorate for the financial period ended 30th June 2021. A total of thirty-three (33) financial reports cutting across three clusters of schools for use in the review process by the Board. These clusters are national schools, extra county schools and county schools. These reviews were subjected to review through a checklist prepared by the Directorate of Accounting Standards at PSASB.

The top five findings from the review include:

1. Poor quality of financial reports in terms of layout, visual appearance, and content.
2. Incomplete information in the reports, both non-financial and financial information.
3. Failure to present other important disclosures in the financial reports as outlined by IPSAS cash based standard and the PSASB prescribed template.
4. Failure to present annexes as required by the template. This information will form key ingredients to the full migration to IPSAS Accrual by the public secondary schools.
5. Presentation of wrong figures and use of wrong formulas in the financial statements.

Below is a summary of the findings presented in a chart based on the prevalence of the issues identified from the thirty-three schools sampled.



Majority of the schools prepared financial reports which did not meet the standards as set by PSASB.

A positive thing to note from the review is that there is standardisation of information that is coming out from schools and therefore comparability and understandability of financial information from schools will become easier for the public.

The Board is committed to ensuring that all public entities funded by Government report as is required to enhance accountability in public finance as is enshrined in the Constitution. The entities that are reporting on cash basis will be required to transition to accrual reporting over time and public schools will not be left behind.





## 1 BACKGROUND

The Public Sector Accounting Standards Board (PSASB) is established under sections 192 of the Public Finance Management (PFM) Act 2012. The Board is mandated to provide frameworks and set generally accepted accounting standards for the development and management of accounting and financial systems and internal audit procedures by state organs and public entities as spelt out under Section 194 of the PFM Act. The Board has been operationalized as a Semi-Autonomous Government Agency under the National Treasury.

PFM Act Section 194 (1) (d) requires PSASB to prescribe formats for financial statements and reporting by all state organs and public entities. In furtherance of this mandate, PSASB issued a financial reporting template through a National Treasury Circular dated 30th June 2021 for use by all Public Secondary Schools in Kenya. The template was to be applied for financial reporting for the fiscal year 2020/2021 beginning 1st July 2020 to 30th June 2021 and the subsequent years. Subsequently, PSASB issued a revised reporting template for the public secondary schools for implementation for the period ended 30th June 2022.

PFM Act Section 194 (4) requires PSASB to monitor adherence to the set standards by all state organs and public entities. This is done through, among other interventions, reviewing the financial statements prepared based on the template issued by the PSASB. As part of its principal activities, the Board undertook a review of Financial Statements prepared by Secondary Schools and submitted to the Directorate of Schools Audit under the Ministry of Education.

## 2 OBJECTIVES OF THE REVIEW

- 1) To assess the uptake of the reporting template by various secondary schools.
- 2) To identify the challenging sections of the reporting template for the preparers.
- 3) To identify any training needs for the preparers on the specific areas of the template where they face challenges.
- 4) To inform the need for amendments to the reporting templates arising.
- 5) To inform the need for issuance of additional reporting guidelines on any areas that the preparers need to be guided on more.

## 3 METHODOLOGY

The Board through the Directorate of Schools Audit obtained thirty-three financial reports sampled across the Country from the various clusters of public secondary schools in Kenya. The clustering was as below:

Serial No	Cluster	No. of Schools FS
1.	National Secondary Schools	3
2.	Extra County Secondary Schools	10
3.	County Secondary Schools	20

The financial statements were reviewed against a checklist which comprised of the various sections of the reporting template detailing the minimum expectations of the information that the annual reports and financial statements should contain.

## 4 FINDINGS OF THE REVIEW

### a) Positive findings

- i. There is standardisation of information that is coming out from schools and therefore comparability and understandability of financial statements is becoming easier.
- ii. Increased disclosure of asset and liabilities and therefore easier to assess the financial position of the schools.
- iii. There has been increased sensitisation of stakeholders including Ministry of Education, Schools auditors, the school bursars and the office of the auditor general on reporting by schools. This has generated a national debate that will push transparency and accountability in schools.

### b) Non-Financial Information Section

- i. Visual Appearance of the reports was not as per the template issued by PSASB e.g., in some instances there were no page numbers, or the page numbers were handwritten, no table of contents, no headers, and the documents were not bound.
- ii. Failure to indicate key school information and management including contact information, information on school bankers and school location.
- iii. An incomplete summary report of performance of the schools. Some failed to provide the academic and financial performance over time as was required by the template.
- iv. Failure to approve the financial reports by the school's management as per the requirements of the template.

### c) Financial Information Section.

#### i. Statement of Receipts and payments.

It was noted that some schools did not record or disclose information on receipts and payments fully in their financial statements. Some expenditure items that are expected to have been incurred in a school set up was omitted e.g payment of employees.



## **ii. Statement of financial assets and financial liabilities.**

There were instances where the schools reported a negative cash balance without indicating whether it was a bank overdraft and classifying it correctly. In addition, the fund balances included in the financial statements was incorrect and not supported in the notes to the financial statements. This indicates that the fund balances brought forward may have been used as balancing figures for the statement to be in balance.

## **iii. Statement of cashflows.**

We noted that most schools struggled with the preparation of the cashflow statement using the direct method. In some cases cash and cash equivalents balances did not tie with the cash and bank balances included in the statement of financial assets and liabilities.

## **iv. Statement of budgeted versus actual amounts.**

The following were some of the findings under the statement of budgeted vs actual amounts:

- In some financial statements, this statement was incomplete or had not been included at all.
- Failure to indicate adjustments and percentages of budget utilisation differences.
- Failure to make comments on significant underutilization an overutilization (below 90% of utilization) and any overutilization above 100%.
- Failure to disclose whether there were any changes to the budget original allocations and the factors that necessitated such changes.

## **v. Significant accounting policies, notes, and other disclosures**

These were some of the key findings under accounting policies and notes to the financial statements:

- In some financial statements, accounting policies had not been included despite some guidance being provided in the template and guidelines.
- Failure to populate the notes, some preparers were only concerned with main components of financial statements. This means that figures disclosed in the primary financial statements were not supported by way of notes as is required by the accounting standards.
- Details of bank account balances not presented.
- Ageing analysis for both receivables and payables was not included as part of disclosure requirements.
- Other disclosures were missing including disclosures on inventory/stock, biological assets, borrowings, and non-current liabilities as required by the encouraged disclosures section of the IPSAS cash standard.

## vi. Other findings

- Some Schools presented the Trial balance as the financial statements. It was noted that this could have stemmed out of the need to meet the reporting deadlines or failure to understand the financial reporting template.
- Some schools failed to present total figures in their financial statements. On further scrutiny, it was noted that these figures were not balancing and that could have been the reason for not adding them up.
- Some financial statements were signed earlier than the approved date.
- Use of wrong formats and wrong formulas thus the figures on the face of the financial statements failed to tie to the notes to the financial statements.

## vii. Annexes

There was rampant failure by the schools to include annexes on fixed assets register and students' fees arrears.

## d) Emerging Issues

- i. Valuation of assets for purposes of the accuracy of the figures disclosed. Currently, the figures are not included in the balance sheet but are just being disclosed. The National Treasury released the national policy on assets and liabilities management which addresses the issues relating to assets including valuation.
- ii. Difficulty in preparation of the Statement of financial assets and liabilities, Cashflow statement and Statement of Budgeted Versus Actual Amounts.

# 5 RECOMMENDATIONS

Serial No.	Finding	Recommendation
1.	Schools are lagging in the quality of financial statements prepared	<p>PSASB will:</p> <ul style="list-style-type: none"><li>• Alongside National Treasury, offer a targeted training for this cluster of entities as well as continue to regularly sensitize the entities of changes to the reporting templates</li><li>• Encourage peer to peer engagements where those ahead in the cluster can assist those lagging behind.</li></ul> <p>The sensitisations have commenced with PSASB offering a virtual training for National Schools bursars. PSASB is also planning to conduct a physical sensitisation forum for public schools in Kajiado County.</p>

Serial No.	Finding	Recommendation
2.	Use of wrong figures and formats thus statements not balancing and including statements not included in the template e.g. trial balance.	<ul style="list-style-type: none"> <li>• Constantly communicate the changes in re-reporting standards and formats to users and preparers.</li> <li>• Continuous training and capacity building.</li> <li>• Explore preparation of a model financial statement using data from the schools.</li> </ul>
3.	Presentation of incomplete financial statements.	<ul style="list-style-type: none"> <li>• Continuous training on the templates.</li> <li>• Sensitization on year end closing procedures on having a dedicated team to prepare the financial reports from the schools.</li> </ul>
4.	Failure to include the encouraged disclosures in readiness for transition to accrual reporting.	<ul style="list-style-type: none"> <li>• Advocate on the need to include the voluntary disclosures with an aim of making work easier for schools upon migration to accrual.</li> <li>• Sensitise on the need and importance of including such information that is relevant to various classes of users of the financial statements.</li> </ul>
5.	Failure to include annexes as required by the template e.g. fees arrears, fixed assets.	<ul style="list-style-type: none"> <li>• Appraise schools on the need to begin generating such information that is very useful in management of the institutions.</li> <li>• Work closely with the OAG and the internal auditors to ensure schools are able to generate the information.</li> </ul>
6.	Lack of ease in reaching the schools.	<ul style="list-style-type: none"> <li>• Continue collaborating with the Directorate of Schools Audit with the aim of reaching wide population of schools.</li> <li>• Creation and continues update of a database for schools which we have now began with the national schools</li> </ul>

		<ul style="list-style-type: none"> <li>• Consider training the bursars of national schools in a more elaborate manner in order for them to assist in cascading the training to other levels of the schools.</li> <li>• Enlist stakeholders to fund the roll out of these templates to schools and to fund monitoring compliance for the same.</li> </ul>
7.	Lack of ease in reaching the schools.	<ul style="list-style-type: none"> <li>• Identify leading entities in terms of the quality of financial statements prepared and make them trainers for the entities lagging so as to reach a wider range of schools faster.</li> </ul>

## 6 WAY FORWARD

There is need to engage more with the preparers of schools' financial reports to offer them support and ensure continuous improvement in the quality of the reports that they prepare.

Owing to the substantial number of schools and the fact that they are spread out all over the country, it is important that there be a strategy as to how to handle schools. It is on this premise that the Board decided to start with the cluster of National Public Secondary Schools. These schools can be trained to be as centers of excellence where other schools can learn from.



## 7 APPENDICES

### 7.1 Review Checklist

ENTITY:				
<b>A</b>	<b>PRESENTATION &amp; COVER PAGE</b>	Yes	No	N/A
1	Is the document bound to secure the pages?			
2	Is the cover page capture all the details as per the template? Such as Name of school, type of report annual/quarterly and the accounting basis.			
3	Is the table of contents updated and aligned?			
<b>B</b>	<b>KEY INFORMATION</b>			
1	Is the Key Entity information included in the FS? - Bankers, Auditors, Registration date, Population of teachers and pupils, Address and Contacts, Board Members.			
2	Is the summary report of the schools performance presented and signed by the Principal?			
3	Is the statement of the school management responsibility presented and signed by all parties?			
<b>C</b>	<b>STATEMENT OF RECEIPTS AND PAYMENTS</b>			
1	Is the period/year end clearly indicated on the R&P?			
2	Is the R&P presented in such a way that the key headings are identifiable, i.e. receipts and payments?			
3	Are all line items in the R&P supported by way of notes?			
4	Are the receipts from capitation and the School Fund clearly reported separately?			
5	Has the Statement been approved and the date indicated?			
<b>D</b>	<b>STATEMENT OF FINANCIAL ASSETS AND FINANCIAL LIABILITIES</b>			
1	Is the statement period indicated?			
2	Are all line items supported by way of notes?			
3	Are the cash and cash equivalent indicated equal to the cash and cash equivalent as per the cashflow statement?			
4	Is the statement figures balancing?			

<b>E STATEMENT OF CASH FLOWS</b>			
1	Does the statement of cash flows indicate the correct financial period?		
2	Are notes to key items in the CF included where applicable?		
3	Are items classified correctly as operating, investing and financing activities?		
4	Do the amounts in the notes cross referenced agree to the CF amounts?		
5	Is the cashflow balancing and does the cash & cash equivalents agree to the amounts in the Statement of Assets and Liabilities?		
<b>F STATEMENT OF COMPARISON OF BUDGET AND ACTUAL AMOUNTS</b>			
1	Is the statement presented in the Financial Statements?		
2	Is the statement accurately casted?		
3	Are the actual figures agreeing to the statement of receipts and payments?		
4	Are material variances between budget and actual amounts explained ?		
<b>G ACCOUNTING POLICIES</b>			
1	Is there a statement of compliance with the relevant financial reporting framework?		
2	Is the statement on PSASB issue of standards applicable indicated?		
3	Are all accounting policies relevant to the entity?		
4	Can such accounting policies be traced back to the relevant balances and transactions in the Financial Statements?		
5	Are significant judgments and sources of estimation uncertainty included in the Financial Statements?		
<b>E NOTES</b>			
1	Are the notes chronologically presented?		
2	Are the notes casting and agreeing to the main Statements?		

3	Are the notes titles and numbering matching with the main statements' titles and numbering?			
4	Cash and bank balances are specifically indicated where they are being held ie. break down of commercial banks.			
5	Are all the annexes presented?			

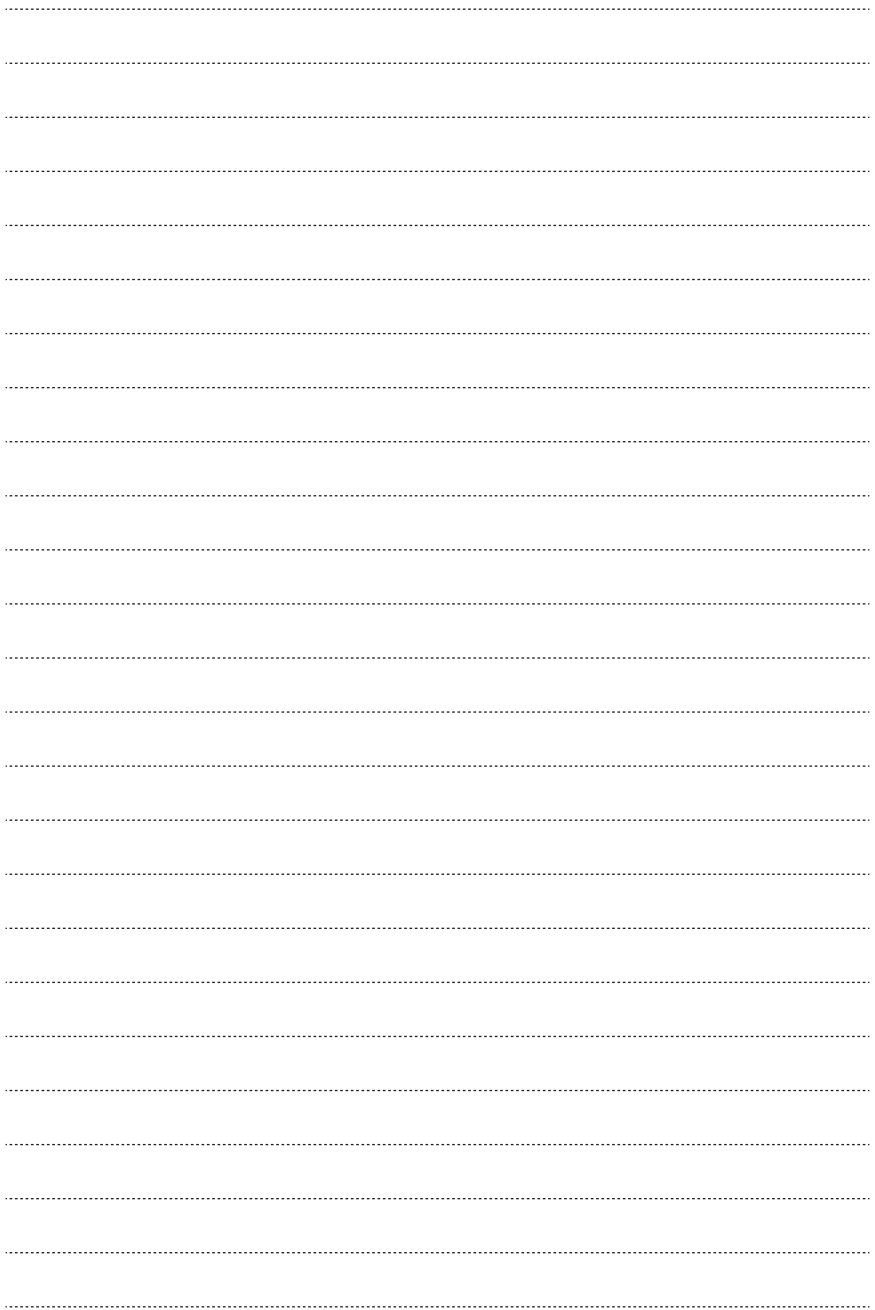
## 7.2 List of schools reviewed.

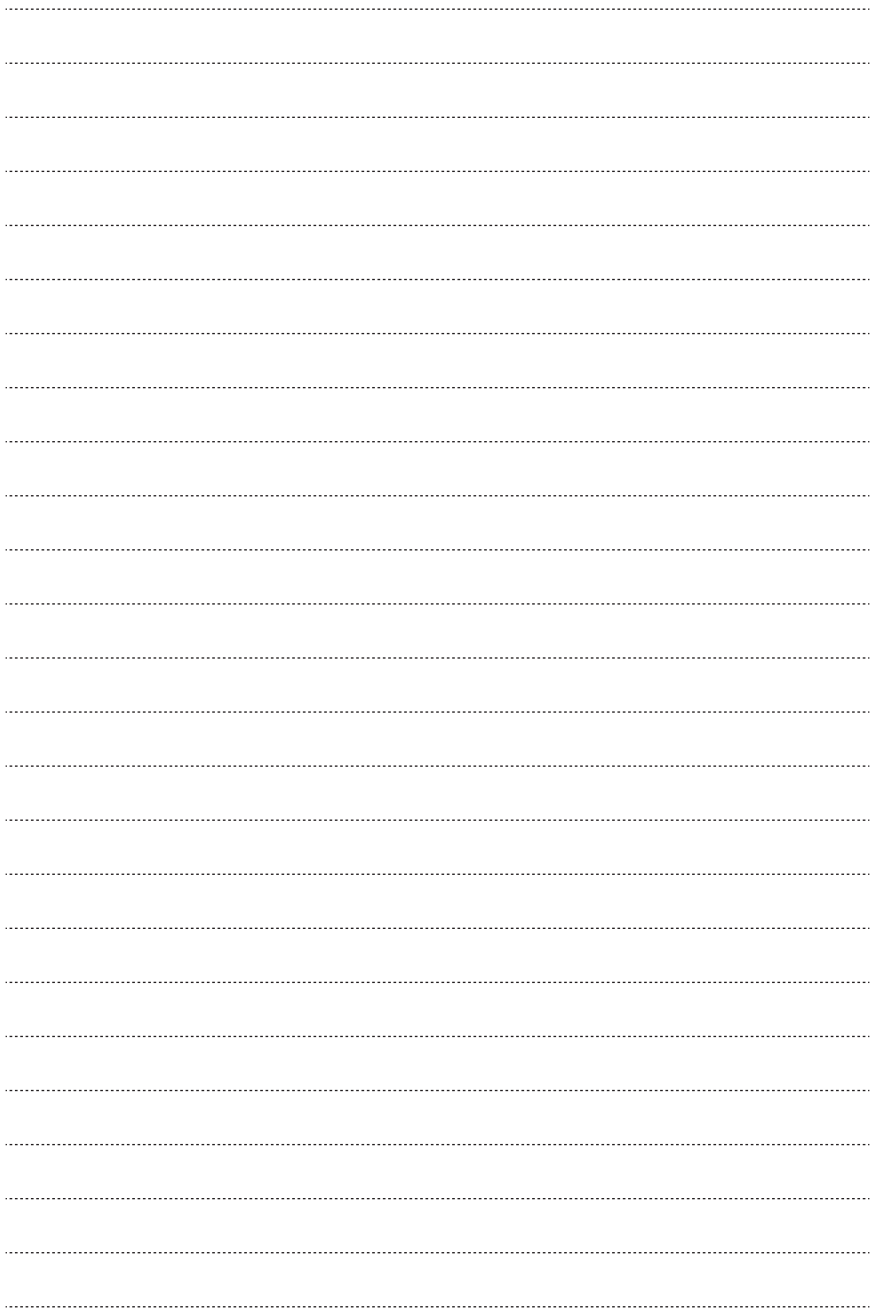
Serial No.	Name of School	County
<b>National Schools</b>		
1	Lugulu Girls High	Bungoma
2	Isiolo Girls High	Isiolo
3	Garba Tula High	Isiolo
<b>Extra Counties</b>		
1	Olkejuado High	Kajiado
2	Oloitikitok Boys High	Kajiado
3	Nyarona Girls	Migori
4	Nyabiswa Girls	Migori
5	Bware Secondary	Migori
6	Tranganya Boys High	Migori
7	Moi Suba Girls	Migori
8	Ikerege Mixed	Migori
9	St. Joseph Rapogi	Migori
10	Isibania Boys High	Migori
<b>County Schools</b>		
1	Linjoka Mixed Day	Meru
2	Akuune Mixed Day	Meru
3	Matiandui Sec	Meru
4	Thimbili Mixed	Meru
5	Awendo Secondary	Migori
6	Nyaduong Secondary	Migori
7	Gituntu Secondary	Tharaka Nithi
8	Kieriani High	Tharaka Nithi



9	Mbayo Secondary	Meru
10	Kieiya Day	Meru
11	Machungulu Mixed	Meru
12	Ntuene Secondary	Meru
13	Ikawa Secondary	Tharaka Nithi
14	Our Lady of Mercy Girls	Tharaka Nithi
15	Olmapitet Mannae Secondary	Kajiado
16	Catholic Diocese Ngong Township Secondary	Kajiado
17	Collin Davies Secondary	Kajiado
18	Enkii Boys	Kajiado
19	Ilkisonko Secondary	Kajiado
20	Merueshi Maasai Secondary	Kajiado









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