

# **REPORT OF THE AUDITOR-GENERAL ON NATIONAL DROUGHT MANAGEMENT AUTHORITY FOR THE YEAR ENDED 30 JUNE, 2019**

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## **REPORT ON THE FINANCIAL STATEMENTS**

### **Qualified Opinion**

I have audited the accompanying financial statements of National Drought Management Authority set out on pages 2 to 29, which comprise the statement of financial position as at 30 June, 2019, and the statement of financial performance, statement of changes in net assets, statement of cash flows and the statement of comparison of budget and 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 National Drought Management Authority as at 30 June, 2019, and of its financial performance and its cash flows for the year then ended, in accordance with International Public Sector Accounting Standards (Accrual Basis) and comply with the Public Finance Management Act, 2012 and the National Drought Management Authority Act, 2016.

### **Basis for Qualified Opinion**

#### **1. Unconfirmed Property, Plant and Equipment Balance**

##### **1.1 Motor Vehicles Without Logbooks**

The statement of financial position reflects property, plant and equipment totalling Kshs.309,392,813 as at 30 June, 2019. The balance includes the cost of motor vehicles worth Kshs.109,611,588. However, the list of motor vehicles presented for audit included fifty four (54) vehicles without ownership documents. No satisfactory explanation was provided by Management for the failure to obtain the documents from the relevant authorities.

In view of the anomaly, it was not possible to confirm whether the fifty four (54) motor vehicles were owned by the Authority as at 30 June, 2019.

##### **1.2 Unsupported Revaluation Balance**

As reported in the previous year, the property, plant and equipment balance totalling Kshs.309,392,813 includes assets that were revalued by the Authority in the financial year 2016/2017 from their book value of Kshs.637,151,088 at the beginning of the year to Kshs.361,849,239,239 as at 30 June, 2017. However, the revaluation report did not include a certificate issued by the firm or person that revalued the assets. In addition, the method used to revalue the assets was not disclosed and as a result, there was no confirmation whether the method conformed to International Public Accounting Standards

and, therefore, whether the balances arrived at after the reevaluation could be used for accounting purposes. In view of the missing disclosures, the validity of the valuation report could not be confirmed.

Consequently, the completeness, accuracy and validity of the property, plant and equipment balance totalling Kshs.309,392,813 as at 30 June, 2019 could not be confirmed.

### **3. Unsupported Grants and Subsidies**

The statement of financial performance reflects grants and subsidy payments totalling Kshs.3,966,478,404 disbursed to the Authority's offices in various Counties. However, payment vouchers to support Kshs.160,184,174 of the disbursements were not provided for audit. The missing records are highlighted in Appendix I to this report.

In the circumstance, the occurrence, accuracy and validity of the grants and subsidies expenditure totalling Kshs.160,184,174 included in the aggregate balance totalling Kshs.3,966,478,404 reflected in the statement of financial performance could not be confirmed.

The audit was conducted in accordance with International Standards of Supreme Audit Institutions (ISSAIs). I am independent of the National Drought Management Authority 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 THE USE OF PUBLIC RESOURCES**

### **Conclusion**

As required by Article 229(6) of the Constitution, based on the procedures performed, I confirm that, except for the matter highlighted in the Lawfulness and Effectiveness in Use of Public Resources section of my report, nothing else has come to my attention to cause me to believe that public money has not been applied lawfully and in an effective way.

## **Basis for Conclusion**

### **Lack of Policy Guidelines on Temporary Employees**

The statement of financial performance reflects employee costs totalling Kshs.584,839,901 for the year ended 30 June, 2019. Included in the balance are payments totalling Kshs.7,300,645 made to temporary/casual employees. However, the Authority's Human Resource Policy and Procedures Manual does not provide guidelines on wages for such employees. As a result, earnings by the employees range from Kshs.45,000 to Kshs.100,000 per month.

In view of the foregoing, the regularity of the expenditure totalling Kshs.7,300,645 spent on wages for casual employees could not be confirmed.

The audit was conducted in accordance with ISSAI 4000. The standard requires that I comply with ethical requirements and plan and perform the audit so as 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 procedures performed, except for the matter 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.

## **Basis for Conclusion**

### **Failure to Hold Audit Committee Meetings**

Examination of records for the Authority's Audit Committee indicated that the Committee did not hold any meetings during the year under review. The latest meeting held by the Committee was on 14 December, 2017. The Authority was therefore in breach of the Board's Charter and the governance requirements set in the Mwongozo Code of Governance for State Corporations. In addition, oversight over the Authority's financial affairs was inadequate.

The audit was conducted in accordance with ISSAI 2315 and ISSAI 2330. The standard requires that I plan and perform the review so as to obtain assurance about whether effective processes and systems of internal control, risk management and governance was maintained 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 (Accrual 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 control.

In preparing the financial statements, Management is responsible for assessing the ability of the Authority 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 dissolve the Authority 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 money is applied in an effective manner.

Those charged with governance are responsible for overseeing the financial reporting process, reviewing the effectiveness of how the entity 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 review 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 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. The nature, timing and extent of the compliance work is limited compared to that designed to express an opinion with reasonable assurance on the financial statements.

Further, in planning and performing the audit of the financial statements and review of compliance, I consider internal control in order to give an assurance on the effectiveness of internal controls, risk management and 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 control 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 control may not prevent or detect misstatements and instances of noncompliance. 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 control.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances and for the purpose of giving an assurance on the effectiveness of the Authority's internal control.
- 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 Authority'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 Authority to cease 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 Authority 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 control 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.



**Nancy Gathungu**  
**AUDITOR-GENERAL**

**Nairobi**

**18 August, 2021**

## **Appendix**

### **Unsupported Grants and Subsidies**

<b>Activity</b>	<b>(a) Financial Statements Balance (Kshs.)</b>	<b>(b) Ledger Balance Supported With Payment Vouchers (Kshs.)</b>	<b>(a)-(b) Balance Not Supported With Payment Tested (Kshs.)</b>
Community Development KRDP (GoK)	29,737,700	0	29,737,700
Community Development HSNP (GoK)	2,098,520,689	2,023,808,728	74,711,961
EDE DRMC (GoK)	85,846,459	45,944,583	39,901,876
Expenses on UNDP (Donor Revenue)	708,730	122,130	586,600
Expenses on WFP	34,677,186	19,431,149	15,246,037
Community Development HSNP (Donor AIA)	1,111,007,545	1,111,007,545	0
Expenses on EDE DRMC – AIA	605,980,096	605,980,096	0
<b>Total</b>	<b>3,966,478,405</b>	<b>3,806,294,231</b>	<b>160,184,174</b>