

REPORT OF THE AUDITOR-GENERAL ON REGIONAL CENTRE ON GROUNDWATER RESOURCES EDUCATION, TRAINING AND RESEARCH IN EASTERN AFRICA FOR THE YEAR ENDED 30 JUNE 2017

REPORT ON THE FINANCIAL STATEMENTS

Adverse Opinion

I have audited the accompanying financial statements of Regional Centre on Groundwater Resources Education, Training and Research in Eastern Africa set out on pages 6 to 15, which comprise the statement of assets and liabilities as at 30 June 2017, and the statement of receipts and payments, statement of cash flows and statement of comparative 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. 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 Regional Centre on Groundwater Resources Education, Training and Research in Eastern Africa as at 30 June 2017, and of its financial performance and its cash flows for the year then ended, in accordance with International Public Sector Accounting Standards (Cash Basis) and do not comply with the State Corporations Act, Cap 446 of the Laws of Kenya.

In addition, as required by Article 229(6) of the Constitution, based on the procedures performed, I confirm that public money has not been applied lawfully and in an effective way.

Basis for Adverse Opinion

1. Presentation and Disclosure

The financial statements have not been prepared to comply with standards and the guidelines and reporting template provided by the Public Sector Accounting Standards Board. The financial statements have been prepared using the cash method instead of accrual basis. Key information is missing including board members and key staff, the report of the Director, the corporate governance statement, management discussion and analysis report, corporate social responsibility statement, report of the board, statement of directors' responsibilities, the heading and period is not reflected on each and every page of the report, there is no disclosure on the adoption or otherwise of new and revised standards and related party disclosure. Further, a trial balance was not provided for audit review.

In view of the foregoing, it has not been possible to confirm the accuracy and completeness of the financial statements for the year ended as at 30 June 2017.

2. Cash and Cash Equivalents

The statement of assets reflects a cash and cash equivalents balance of Kshs.5,337,132 as at 30 June 2017. However, reconciling items in the bank reconciliation statements for some months lacked vital details like cheque numbers making it difficult to identify the transactions in the cash book and the bank statements and confirm the accuracy of the reconciliations. Further, details of the reconciling items not yet cleared were not included in the subsequent reconciliation statements hence audit could not establish whether they indeed cleared or not.

In the circumstances, it has not been possible to confirm the accuracy and completeness of the cash and cash equivalents balance of Kshs.5,337,132 as at 30 June 2017.

3. Purchase of Non-current Assets

The Centre purchased assets amounting to Kshs.2,595,900. However, the assets were not capitalized but were wrongly expensed instead of being capitalized. In consequence, the safety, custody and accuracy of non-current assets balance could not be confirmed as at 30 June 2017.

4. Compensation of Employees

During the year under review, Kshs.1,334,389 was spent on compensation of employees. However, the personnel costs are reported net of PAYE and therefore the final employee costs are understated. Consequently, it has not been possible to confirm compensation of employees cost of Kshs.1,334,389 as at 30 June 2017.

5. Unsupported Board Expenses

The expenditure on Board expenses has been erroneously posted to the use of goods and services account instead of the board expenses account. The Centre has nine board members. The board chair person has been receiving monthly honoraria at a rate of Kshs.80,000 per month since February 2016 when the Centre was started to date. The Centre has also been paying sitting allowances to board members for sittings. To date board members' expenses formed a major part of the expenditure on use of goods and services Kshs.2,676,817 since the Centre has not recruited staff. The Centre had only an acting CEO and accountant who were both deployed from the State Department for Water and Sanitation. Also, no explanation has been provided for not having the Centre operationalized.

Under the circumstance, the Centre did not realize value for money of the board expenses of Kshs.2,676,817 as at 30 June 2017.

The audit was conducted in accordance with International Standards of Supreme Audit Institutions (ISSAIs). I am independent of Regional Centre on Groundwater

Resources Education, Training and Research in Eastern Africa in accordance with ISSAI 30 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 the audit evidence 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 judgement, are of most significance in the audit of the financial statements. Except for the matters discussed in the Basis for Adverse Opinion and Other Matter sections of my report, I confirm that, there were no other Key Audit Matters to communicate in my report.

Other Matter

1. Failure to Budget for the Centre

It was observed that the Centre received funds from the Government entities in form of transfers and made payment for activities related to the Centre. However, the funds were not provided in the approved budget. As a result, the Centre operated with excess vote.

2. Internal Control and Operating Environment

2.1 General Environment

The Centre has not yet put in place or developed a code of conduct for employees, appropriate governance structures like an up to date organizational chart, neither has a strategic plan, operational plan and a risk management policy been developed; or policies and procedures to guide key financial processes and controls.

2.2 Internal Audit Arrangements

There was no evidence of internal audit work in form of reports, work plans or risk assessments for the Center. Further, no evidence of audit committee appointments, proceedings or reports were provided for review.

2.3 IT Internal Controls

The Centre is yet to put in place an IT strategic committee, security policy, disaster recovery plan and user management standards and procedures.

In consequence, the internal control and operating environment could not enhance integrity of financial information for effective governance.

Responsibilities of Management and Those Charged with Governance for the Financial Statements

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 such 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.

In preparing the financial statements, management is responsible for assessing the Centre's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the management either intends to liquidate the Centre or to cease operations, or have no realistic alternative but to do so.

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.

Those charged with governance are responsible for overseeing the Centre's financial reporting process.

Auditor-General's Responsibilities for the Audit of the Financial Statements

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.

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 Centre'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 going concern 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 Centre's ability to continue as a going concern. 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 Centre to cease to continue as a going concern.
- 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 Centre 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 to communicate with them all relationships and other matters that may reasonably be thought to bear on my independence, and where applicable, related safeguards.



FCPA Edward R. O. Ouko, CBS
AUDITOR-GENERAL

Nairobi

7 September, 2021