

REPORT OF THE AUDITOR-GENERAL ON KENYA CULTURAL CENTRE FOR THE YEAR ENDED 30 JUNE 2017

REPORT ON THE FINANCIAL STATEMENTS

Qualified Opinion

I have audited the accompanying financial statements of Kenya Cultural Centre set out on pages 1 to 37, which comprise the statement of financial position as at 30 June 2017, and the statement of financial performance, statement of changes in equity, statement of cash flows and 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 that I believe was 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 Kenya Cultural Centre 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 (Accrual Basis) and comply with the Kenya Cultural Centre Act, Cap 218 of 1951 of the Laws of Kenya.

In addition, as required by Article 229(6) of the Constitution, except for the matters described in the Basis of Qualified Opinion section of my report, based on the procedures performed, I confirm that nothing has come to my attention to cause me to believe that public money has been applied lawfully and in an effective way.

Basis for Qualified Opinion

1. Going Concern and Service Sustainability

Examination of the financial statements of the Kenya Cultural Centre revealed that the organization's current liabilities of Kshs.74,100,991 exceeded the current assets of Kshs.5,549,463 by Kshs.68,551,528 as at 30 June 2017. As a result, the Centre was operating with a negative working capital and was thus technically insolvent.

In the circumstances, the operations of the Centre are dependent on continued support from the Government and its creditors.

2. Fixed Assets

2.1 Incomplete Fixed Asset Register

The Centre did not maintain a proper fixed assets register for property, plant and equipment with necessary details such as; description of the asset, location, serial number, date purchased, source, cost price, additions, depreciation and disposals as required. Documents availed for audit indicated that only an inventory listing of assets in the various offices was maintained.

In the absence of a proper fixed assets register, it has not been possible to confirm the accuracy of the property, plant and equipment balance of Kshs.353,867,505 reflected in the statement of financial position as at 30 June 2017.

2.2 Understated Value of Land

The statement of financial position reflect Kshs.120,000,000 in respect of land and buildings as at 30 June 2017. However, this figure excludes a plot Ref. L.R. No. 209/14477 measuring approximately 0.8737 hectares with an estimated value of Kshs.500 million which was allocated to the Centre by the National Land Commission through letter Ref. No. 114075/182 dated 19 May 2016 for a term of 99 years.

In the circumstances, the carrying value of land reflected in the statement of financial position as at 30 June 2017 is understated by the unvalued plot estimated at Kshs.500 million.

Prior Years Unresolved Issues

3. Unaccounted for Government Grants

As previously reported, an amount of Kshs.91,954,999 was indicated as having been transferred by the Parent Ministry but only Kshs.56,702,023 was recorded at the Kenya Cultural Centre's statement of financial performance for the year ended 30 June 2016. The resultant difference of Kshs.35,252,976 had not been accounted for by 30 June 2017.

4. Long Outstanding Trade and Other Payables

As previously reported, the financial statements as at 30 June 2017 still reflect under trade and other payables a balance of Kshs.63,184,432 in respect of land rates due to the defunct Nairobi City Council. This balance has been outstanding for a long time.

Consequently, the accuracy of the trade and other payables balance of Kshs.65,496,402 as at 30 June 2017 could not be confirmed.

5. Misappropriation of Funds

As previously reported, an amount of Kshs.1,320,196 said to have been misappropriated by an officer was under unclear circumstances converted into a loan. A review of the matter in the year under review disclosed that the funds had not been recovered and the issue was still in court awaiting determination.

The audit was conducted in accordance with International Standards of Supreme Audit Institutions (ISSAIs). I am independent of Kenya Cultural Centre 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 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 judgement, were of most significance in the audit of the financial statements.

Except for the matter described in the Basis for Qualified Opinion section or Material Uncertainty Related to Going Concern paragraph, I have determined that there are no key audit matters to communicate in my report.

Other Matter

1.0 Budget and Budgetary Performance

1.1 Revenue

The Kenya Cultural Centre had budgeted for receipts totalling Kshs.140,344,716 but received only Kshs.82,847,965 as follows:

Revenue Head	Budget Kshs.	Actual Kshs.	Excess/(Shortfall) Kshs.	Excess/(Shortfall) %
Government Grants	68,000,000	34,000,000	(34,000,000)	(50)
AIA	20,000,000	20,192,993	192,993	100

Donations	12,500,000	12,500,000	-	-
Fund Raising & Income Generating Activities	39,844,716	16,154,972	(23,689,744)	(59)
TOTAL	140,344,716	82,847,965	(57,496,751)	(41)

The failure to receive Kshs.57,496,751 or 41% of the budget implies that the Centre's goals and objectives could not be achieved as planned.

1.2 Expenditure

Actual expenditure amounted to Kshs.85,604,538 against the approved budget of Kshs.140,344,716 occasioning an under expenditure of Kshs.57,279,682 or 41% as follows:

Expenditure Head	Budget Kshs.	Actual Kshs.	Over/(Under) Kshs.	Over/(Under) %
Personnel Salaries & Emoluments	21,834,716	14,646,880	(7,187,836)	(33)
Operational Costs	37,400,000	36,661,495	(738,505)	(2)
Governing Council Expenses	10,810,000	10,308,357	(501,643)	(5)
Insurance Expenses	5,500,000	2,414,164	(546,332)	(56)
Capital Expenditure	64,800,000	19,034,138	(45,765,862)	(71)
Total Expenditure	140,344,716	83,065,034	(57,279,682)	(41)

The resultant under expenditure Kshs.57,279,682 or 41% was attributed to failure to receive Kshs.34,000,000 or 50% of the approved Government grants and failure to raise Kshs.23,689,744 or 59% of the budgeted revenue from fund raising and income generating activities.

Under the circumstances, the Centre's goals and objectives were not achieved as planned.

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 (Accrual 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's 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 Corporation'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.

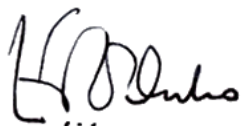
As part of an audit in accordance with ISSAIs, I exercise professional judgement and maintain professional skepticism throughout the audit. I also:

- 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 or 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 Centre 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 Corporation’s 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

12 March 2018