

REPORT OF THE AUDITOR-GENERAL ON KENYA CULTURAL CENTRE FOR THE YEAR ENDED 30 JUNE 2018

REPORT ON THE FINANCIAL STATEMENTS

Qualified Opinion

I have audited the accompanying financial statements of Kenya Cultural Centre set out on page 1 to 30, which comprise the statement of financial position as at 30 June 2018, and the statement of financial performance, statement of changes in net assets, 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 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 Kenya Cultural Centre as at 30 June 2018, 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.

Basis for Qualified Opinion

1. Going Concern and Service Sustainability

As previously reported, examination of the statement of financial position as at 30 June 2018 disclosed that the current liabilities of Kshs.70,852,090 exceeded the current assets of Kshs.19,607,470 by Kshs.51,244,620. 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 financial support from the Government and its creditors.

2. Transfers from the State Department of Culture and Heritage

2.1 Unreconciled Differences

The Centre's statement of financial performance for the year ended 30 June 2018 reflects an amount of Kshs.52,500,000 as grants from the State Department of Culture and Heritage. However, this amount differs from the Kshs.40,000,000 reflected in the audited financial statements of the State Department as transfers to the Centre for the same year. The source and mode of transmission of the excess receipts amounting to Kshs.12,500,000 has not been clarified.

2.2 Unaccounted for Government Grants

Similarly, and 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 has up to date not been accounted for.

In the circumstances, the accuracy and completeness of the transfers from the state department and grants received by the Centre could not be ascertained.

3. Understated Value of Land

As previously reported, the statement of financial position reflects Kshs.332,622,559 in respect of land and buildings as at 30 June 2018. However, this figure excludes a plot Ref: L.R. No. 209/14477 measuring approximately 0.8737 hectares with undetermined value 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 view of the foregoing, the carrying value of land and buildings of Kshs.332,622,559 reflected in the statement of financial position as at 30 June 2018 is understated.

4. Long Outstanding Land Rates

As previously reported, the statement of financial position as at 30 June 2018 reflects trade and other payables balance of Kshs.63,589,520 (Kshs.63,184,432 in 2017) in respect of land rates due to the County Government of Nairobi the bulk of which has been outstanding for a long time. No explanation was given for the management's failure to settle the issue with the County Government.

In consequence, the Centre risks penalties and interest charges on the long outstanding land rates.

5. Unsupported Board of Directors Payments

The statement of financial performance for the year ended 30 June 2018 reflects an amount of Kshs.4,761,789 in respect to remuneration of the board of directors. However, supporting documents such as minutes for the Board meetings and attendance registers were not availed for audit verification.

Consequently, it has not been possible to confirm the accuracy and validity of Kshs.4,761,789 payments to the board of directors.

6. Procurements through Imprests

Examination of payment records for the year under review showed that an amount of Kshs.1,517,220 was paid as imprests to staff members for refurbishment of buildings as detailed out in Appendix I. It was not clear why the works were paid for through imprests instead of subjecting the same to a competitive procurement

process in accordance with the provisions of the Public Procurement and Assets Disposal Act, 2015.

7. Trade and Other Receivables

The statement of financial position as at 30 June 2018 reflects a balance of Kshs.3,020,504 in respect of trade and other receivables. However, this balance excludes receivables amounting to Kshs.6,496,710 written off as bad debts in the year ended 30 June 2017. The management did not provide details of the bad debts written off and approvals from the Board of Directors and the National Treasury for the same.

In the circumstances, the validity of Kshs.6,496,710 bad debts write off and the accuracy of trade and other receivables balance of Kshs.3,020,504 could not be confirmed.

8. Trade and Other Payables

The statement of financial position as at 30 June, 2018 reflects a balance of Kshs.63,589,520 as trade and other payables which excludes payables amounting to Kshs.2,842,249 written back in 2016/2017. The details of the payables which was said to be unverifiable and approvals for write back from the Board were not provided for audit verification.

In the circumstances, it has not been possible to confirm the validity of Kshs.2,842,249 payables write off as well as the accuracy and completeness of trade and other payables balance of Kshs.63,589,520 as at 30 June 2018.

9. Prior Years Unresolved Issues - Loss 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 audit disclosed that the amount has now been treated as a bad debt written off under note 16 to the financial statements. However, no approval for write-off from the Governing Council was availed for audit verification.

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 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.

Other Matter

Budget and Budgetary Performance

1. Revenue

The Kenya Cultural Centre had budgeted for receipts totalling Kshs.141,500,000 but received only Kshs.102,157,861 resulting to a shortfall of Kshs.39,342,139 or 28% as follows:

Revenue Head	Budget Kshs.	Actual Kshs.	Excess/(Shortfall) Kshs.	Variance %
Government Grants	90,000,000	52,500,000	(37,500,000)	42
Rendering of services	51,500,000	49,657,861	(1,842,139)	4
Total	141,500,000	102,157,861	(39,342,139)	28

The failure to receive Kshs.39,342,139 or 28% of the budget revenue implies that that some budgeted activities were not achieved as planned.

2. Expenditure

The Centre had budgeted to spend a total of Kshs.141,500,000 but actual expenditure amounted to Kshs.90,234,015 occasioning an under expenditure of Kshs.51,265,985 or 36% as follows:

Expenditure Head	Budget Kshs.	Actual Kshs.	Over/(Under) Kshs.	Variance %
Compensation of employees	32,102,000	19,086,764	(13,015,236)	41
Goods and services	2,200,000	2,227,762	27,762	1
Finance costs	200,000	137,511	(62,489)	31
Other payments	106,998,000	68,781,978	(38,216,022)	36
Total	141,500,000	90,234,015	(51,265,985)	36

The resultant under expenditure Kshs.51,265,985 or 36% of the budget was attributed to non-release of Kshs.37,500,000 or 42% of the approved Government grants and failure to raise Kshs.1,842,139 or 4% from internal sources.

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

REPORT ON LAWFULNESS AND EFFECTIVENESS IN USE OF PUBLIC MONEY

Conclusion

As required by Article 229(6) of the Constitution, based on the procedures performed, except for the matters described in the Basis of Qualified Opinion section of my report, I confirm that public money has been applied lawfully and in an effective way.

Basis for conclusion

The audit was conducted in accordance with ISSAI 4000. The standard requires that I comply with ethical requirements and plan and perform the audit 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 INTERNAL CONTROLS EFFECTIVENESS, GOVERNANCE AND RISK MANAGEMENT SYSTEMS

Conclusion

As required by Section 7 (1) (a) of the Public Audit Act, 2015, based on the procedures performed, except for the matters described in the Basis for Conclusion on Effectiveness of Internal Controls, Risk Management and Governance section of my report, I confirm that, nothing has come to my attention to cause me to believe that internal controls, risk management and overall governance were not effective.

Basis for conclusion

1. Internal Control Weaknesses

A review of internal controls in place revealed weaknesses likely to expose the Centre to financial risks. Several instances were noted where the person preparing vouchers ended up approving the payments. It was also noted that the entity did not have an internal audit function as required by Section 71(1a) of the Public Finance Management Act, 2012 and had also not formulated risk management policies.

2. Lack of Human Resource Department

An audit of the human resource operations revealed that the Centre does not have a department to deal with personnel issues while majority of the employees were observed to be on a six-month contract.

The audit was conducted in accordance with ISSAI 1315 and ISSAI 1330. The standards require that I plan and perform the audit to obtain assurance about whether effective processes and systems of internal control, risk management and governance were operating effectively, 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, risk management and governance.

In preparing the financial statements, management is responsible for assessing the Centre's ability to sustain services, disclosing, as applicable, matters related to sustainability of services and using the applicable basis of accounting unless the National Government 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.

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 resources are applied in an effective manner.

Those charged with governance are responsible for overseeing the Centre's 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 and that public resources are applied in an effective way, 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.

Further, in planning and performing the audit of the financial statements and audit 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 non-compliance. 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 Centre's 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.

- 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 as a going concern or 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 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
16 May 2019

Appendix I

IMPRESTS FOR REPAIR AND MAINTENANCE

P.V NO.	DATE	PAYEE	IMPREST WARRANT NO.	DESCRIPTION	AMOUNT Kshs.
55	02/08/2017	Samuel Muli	2698094	Repair of KNT/KCC perimeter wall	171,500
84	21/08/2017	Grace Wanja	2698099	Refurbishment of KCC Admin offices	1,160,720
129	09/04/2017	Samuel Muli		Replacement of KNT/KCC admin office doors	35,000
93	22/08/2017	Peninah Wanjiku	2698100	Repair of musical set for Jesus Christ superstar event	150,000
Total					1,517,220