

REPORT OF THE AUDITOR GENERAL ON KENYA NATIONAL LIBRARY SERVICE FOR THE YEAR ENDED 30 JUNE 2017

REPORT ON THE FINANCIAL STATEMENTS

Qualified Opinion

I have audited the accompanying financial statements of Kenya National Library Service (KNLS) set out on pages 1 to 38, which comprise the statement of financial position as at 30 June 2017, and statement financial performance, statement of cash flows, statement of changes in net assets 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 significance of the matters discussed in the Basis of Qualified Opinion paragraph, the financial statements do present fairly, the financial position of Kenya National Library Service 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 Public Finance Management Act, 2012.

In addition, as required by Article 229(6) of the Constitution, except for the matters described in the Basis for Qualified Opinion and Other Matter sections of my report, based on the procedures carried out, I confirm that 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 of Qualified Opinion

1. Property, Plant and Equipment

As previously reported, the value of property, plant and equipment figure of Kshs.1,278,390,069 in 2016/2017 excludes Kshs.12,500,000 in respect of estimated value of thirty-five (35) parcels of land with partial or no ownership documents as observed during the audit of records availed for audit review.

In the circumstances, it has not been possible to confirm the accuracy, custody, and security of the property, plant and equipment balance of Kshs.1,278,390,069 as at 30 June 2017.

2. Overpayment of Retirement Benefits

As previously reported, thirteen (13) KNLS retired staff who were members of Retirement Benefit Scheme were overpaid by Kshs.4,291,802. As at 30 June 2017 an amount of Kshs.1,770,862 had been recovered leaving a balance of Kshs.2,520,940.

A review on the position in 2017 revealed that on 3 April 2017 the Staff Retirement Benefit Scheme appointed auditor - M/s Mitoko and Company Limited for unclear reasons recommended write-off of Kshs.3,866,384 in three instalments starting from the audited accounts of year 2016. No analysis has been provided to show how the write-off figure of Kshs.3,866,384 was arrived at. Further, no reasons were provided for the write-off recommendation.

3.0 Depreciation of Library Books

Paragraph 17 of the International Public Sector Accounting Standards (IPSAS) No.17 recognizes books as assets that are subject to depreciation. However, KNLS depreciation policy on books is still in draft form and has not been approved and adopted for implementation by the board.

During the year under review, KNLS purchased 8,132 books worth Kshs.5,643,679 and also received 59,144 books donated by Book Aid International (BIA) valued at Kshs.48,262,812. However, the books were not aggregated and depreciated in line with IPSAS 17.

In the circumstances, the net book value or fair value of the total assets stated at Kshs.53,926,421 as at 30 June 2017 could not be ascertained.

4.0 Delayed Completion of the Proposed National Library and Headquarters for Kenya National Library Service

Kenya National Library Service on 2 March 2012 awarded a contract to M/s K.G. Patel Sons Limited - Building & Civil Engineering Contractors for the construction of the Proposed National Library and Headquarters at a contract sum of Kshs.2,055,200,200. However, the contract sum of Kshs.2,055,200,200 was exclusive of undetermined consultants fees. Construction commenced in April 2012 and was set to be completed in a period of 208 weeks or by January 2016.

Audit inspection carried out in February 2018 revealed that the Project had not been completed and handed over due to various extension of time period awarded on contractor's request. The period was extended by additional sixty-five (65) weeks to 3 July 2017. Additional extension of 72 weeks was also made from 3 July 2017 to 19 November 2018. Since the commencement of the project in April 2012 there had been a 127.88%-time lapse. Further as noted by the Board in their meeting dated 29 June 2017, cost for some of the project works had notably escalated due to delays resulting to price increase, technological changes rendering the proposed ones almost obsolete for appropriate benchmarking thus the need to install high level of technology. At the point of production of tender document, the Audio Visual component was valued at Kshs.11 Million but at the time of appraisal, the cost was estimated at Kshs.73,940,904.

Initial contract sum of the Project was Kshs.2,055,200,200 but the appraised sum was recorded at Kshs.2,409,876,499 and thus registering an increase of Kshs.354,676,299 or 17.26% but revised Bill of Quantities have not been availed for audit review. Further, the continued extensions of time have led to payment of avoidable interests and penalties of Kshs.18,907,162.

It is not clear why these major changes to the Atrium Roof, Alterations at exhibition area on ground floor, relocations and technological changes were not foreseen by the consultants mainly the Architect, Structural Engineer and Quantity Surveyor.

In the circumstances, it has not been possible to confirm that expenditure occasioned by several extension of time totalling Kshs.354,676,299 was a proper charge against public resources. It has also not been explained as to why the consultants' fees were not quantified and included in the main contract. The continued delay in completing the project is also likely to lead to further escalation of costs.

5. Outstanding Audit Fees

The statement of financial performance for the year ended 30 June 2017 reflect unpaid audit fees for three years totalling Kshs.1,980,000. The amount is in respect of audit services provided by the Office of the Auditor General. It is not clear why the client has not cleared the outstanding audit fees.

The audit was conducted in accordance with International Standards of Supreme Audit Institutions (ISSAIs). I am independent of Kenya National Library Service management 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, are of most significance in the audit of the financial statements. Except for the matters described in the Basis for Qualified 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

1.0 Budget and Budgetary Performance

1.1. Revenue

KNLS had budgeted for revenue totalling Kshs.776,779,835 against the actual amount of Kshs.783,161,217 resulting to an excess of Kshs.6,381,382 or 0.8% as tabulated below:

Revenue Head	Budget Kshs.	Actual Kshs.	Excess/(shortfall) Kshs.	Excess/(shortfall) %
Government grants- Recurrent	603,000,000	603,000,000	0	0
Education and book Supplies	11,780,000	11,780,000	0	0
Education and book Supplies FY 2014/15	12,400,000	12,400,000	0	0
Inter account Transfer	69,732,938	69,547,316	(185,622)	(0.3)
Roll over Donations	6,055,076	6,055,076	0	0
Public contributions and donations	4,440,525	9,771,905	5,331,380	120
Appropriation in Aid	57,794,916	59,030,540	1,235,624	2.1
Insurance Compensation	11,576,380	11,576,380	0	0
Total	776,779,835	783,161,217	6,381,382	0.8

The excess revenue was mainly attributed to public contributions and donations where Kshs.4,440,525 was budgeted for but Kshs.9,771,905 was received resulting to Kshs.5,331,380 or 120% over the budget.

1.2 Expenditure

i) Recurrent

Overall, Kenya National Library Services underspent it's recurrent budget by Kshs.8,482,412 or 1.1% as shown below:

Expenditure	Budget Kshs.	Actual Kshs.	Over/(Under) Kshs.	Over/(under) %
Compensation of Employees	605,419,133	604,071,339	(1,347,794)	0.2
Travel Costs	8,484,451	8,586,118	101,667	1.2
General Expenses	120,554,599	103,680,720	(16,873,879)	(14)

Utilities	13,855,881	14,897,401	1,041,520	8
Repairs and maintenance	14,280,149	19,088,751	4,808,602	34
Board expenses	14,000,000	17,787,472	3,787,472	27
Total	776,594,213	768,111,801	(8,482,412)	(1.1)

The under expenditure occurred mainly under general expenses by Kshs.16,873,879 or 14% while the over expenditure was mainly on repairs and maintenance by Kshs.4,808,602 or 34% and board expenses by Kshs.3,787,472 or 27%.

ii) Development

The development budget was underspent by Kshs.59,718,131 or 12% as shown below:

Expenditure	Budget Kshs.	Actual Kshs.	Over/(Under) Kshs.	Over/(under) %
National Library of Kenya	404,440,883	356,094,131	(48,346,752)	12
Refurbishment of Libraries	6,381,093	2,065,831	(4,315,262)	68
Support to Community based Libraries	13,616,838	13,176,868	(439,970)	3
Other development expenditure	14,000,000	7,383,853	(6,616,147)	47
Retention monies	1,365,741	1,365,741	0	0
Inter account Transfers	69,547,316	69,547,316	0	0
Total	509,351,871	449,633,740	(59,718,131)	(12)

The under expenditure mainly occurred under construction of the Kenya National Library and Headquarters by Kshs.48,346,752 or 12%, refurbishment of libraries by Kshs.4,315,262 or 68% and other development expenditures by Kshs.6,616,147 or 47%.

The failure to spend Kshs.59,718,131 or 12% of the budgeted expenditure on projects has negatively delayed the completion of the respective projects. The failure to refund Kshs.69,732,938 transferred from development to cater for recurrent expenditure also impacted negatively on development projects.

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

The management is responsible for the preparation and fair representation of these financial statements in accordance with International Public Sector Accounting Standards (Accrual Basis) and for such internal control such as management

determines is necessary to enable the preparations 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 KNLS's ability to continue to sustain services, disclosing, as applicable, matters related to sustainability of services and using the going concern basis of accounting unless the management either intends to liquidate the KNLS or to cease operations, or have no realistic alternative but to do so.

Management is also responsible for the submission of the financial statement to the Auditor-General in accordance with the provision of Section 47 of the Public Audit Act, 2015.

Those charged with governance are responsible for overseeing the KNLS 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 of Kenya. 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 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, but not for the purpose of expressing an opinion on the effectiveness of the KNLS'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 KNLS'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 KNLS 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 of the KNLS's activities 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

10 July 2018