

REPORT OF THE AUDITOR-GENERAL ON KENYA NATIONAL LIBRARY SERVICE FOR THE YEAR ENDED 30 JUNE 2018

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 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 National Library Service as at 30 June, 2018, and 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 National Library Service Board Act, Cap 225 of 1965.

Basis for Qualified Opinion

1. Deficit from Operations

The Kenya National Library Service (KNLS) recorded a deficit of Kshs.89,513,759 for the year ended 30 June 2018. Similarly, the statement of financial position as at 30 June 2018 reflects an accumulated fund balance of Kshs.1,471,461,059 against a balance of Kshs.1,534,966,244 as at 30 June 2017 representing a decrease of Kshs.63,505,185.

KNLS has attributed this negative trend to additional expenditure incurred on establishment, equipping and operationalization of new libraries across the country as well as internet connectivity to all the 62 branches without enhanced budget support from the National Treasury.

In consequence, KNLS long term service sustainability depends on Government and creditors support.

2. Failure to Provide for Depreciation on Library Books

During the year under review, KNLS purchased 29 books at a cost of Kshs.50,000 and also received a donation of 61,588 books valued at Kshs.61,049,896 from Book Aid International (BAI) bringing the stock of books as at 30 June 2018 to 1,640,379 with a total valuation of Kshs.887,917,390.

Similarly, as previously reported, KNLS did not subject the books (assets) to depreciation charge in line with the requirements of IPSAS 17 as the policy on depreciation of books was said to be in draft form and had not been approved and adopted for implementation by the board.

In the circumstances, it has not been possible to confirm the accuracy of Kshs.887,917,390 balance in respect of books stock reflected in the statement of financial position as at 30 June 2018.

3. Lack of Insurance Cover for Books

The statement of financial position as at 30 June 2018 reflects a balance of Kshs.887,917,390 in respect of Library books. However, KNLS does not have an insurance cover for its stock of library books. As a result, the Kenya National Library Service is exposed to loss without compensation in case of loss of books through, theft, fire outbreak or any other natural calamity.

4. Fully Depreciated Assets

The statement of financial position as at 30 June 2018 reflects a balance of Kshs.3,310,815,724 in respect of property, plant and equipment which excludes fully depreciated fixed assets but which were still in use with an original cost of Kshs.123,223,318. Although the management indicated that revaluation of fixed assets had been carried out during the year under audit it was not clear why the revalued amounts had not been shown in the financial statements.

Consequently, the accuracy and valuation of the property, plant and equipment balance of Kshs.3,310,815,724 as at 30 June 2018 could not be ascertained.

5. Land without Ownership Documents

As previously reported, included in the Property Plant and Equipment balance of Kshs.3,310,815,724 as at 30 June 2018 is an amount of Kshs.430,250,000 in respect of land. However, the value of land excludes amounts for thirty-five (35) parcels of land of unknown value with partial or no ownership documents. Although the management has provided correspondences with the Ministry of Lands and Physical Planning – Department of Physical Planning indicating progress made towards valuation and obtaining the title documents, however, the amount for property, plant and equipment is understated by the value of the omitted parcels of land. In addition, in the absence of title documents, the security of the said parcels of land is not guaranteed.

Under the circumstances, the completeness and valuation of land disclosed in the financial statements as at 30 June 2018 could not be confirmed.

6. Delayed Completion of the Proposed National Library and Headquarters

As previously reported, the construction of the proposed National Library and Headquarters was awarded to M/s K.G. Patel Sons Limited - Building & Civil Engineering Contractors on 2 March 2012 at a contract sum of Kshs.2,055,200,200 and was set to be completed by April 2016 (revised in 2017/2018 to 20 March, 2020).

Audit inspection carried out in March, 2019 revealed that one wing had been completed and handed over to the management and substantial progress had been made on the second wing but the third wing was still at the foundation stage with the total amount certified of Kshs.2,070,618,858 representing 86% of the appraised project cost. This was in spite of the fact that the initial contract period had been exceeded by about 3 years.

The Board in its meeting dated 29 June, 2017 noted that cost for some of the project works had escalated due to delayed completion resulting to price increases and that emerging new technologies had rendered some of the proposed service installations obsolete leading to further cost escalations.

On 30 May 2017 a project financial appraisal No.3 was performed by the M/s Procots Ltd Consultants, who revised the final cost of the project to a sum of Kshs.2,409,876,499.91.

The management should ensure that the project is completed with no further extension of time and variations which have increased cost of works by Kshs.354,676,299.91 or 17.26% on the initial contract sum of Kshs.2,055,200,200 in addition to Kshs.64,804,597 interest and penalties paid to consultants on delayed payments.

In consequence, the Service risks further projects costs and penalties/interests.

The audit was conducted in accordance with International Standards of Supreme Audit Institutions (ISSAIs). I am independent of Kenya National Library Service 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 Matter

Key audit matters are those matters that, in my professional judgment, are of most significance in the audit of the financial statements. I have determined that there are no key audit matters to communicate in my report.

Emphasis of Matter

Budget and Budgetary Performance

1. Recurrent Revenue

The Library had budgeted for recurrent revenue totalling Kshs.751,630,768 but actual realized amounted to Kshs.744,464,187 resulting to a shortfall of Kshs.7,166,581 or 1% as tabulated below:

Revenue	Budget Kshs.	Actual Kshs.	Excess/(Shortfall) Kshs.	Variance %
Government Grants -Recurrent	605,231,084	605,231,084	-	0
Government Grants-Inter-Account Refund (CBA 2012)	66,547,316	66,547,316	-	0
Education & Book Supply	0	0	-	
Roll Over Donations	7,594,572	7,594,572	-	0
Public Contribution & Donations	8,758,996	8,823,217	64,221	1
Appropriation In Aid (AIA)	63,498,800	56,267,998	(7,230,802)	11
Total	751,630,768	744,464,187	(7,166,581)	1

The shortfall was mainly on receipts from AIA which had a budget of Kshs.63,498,800 but only Kshs.56,267,998 was realized which was attributed to a decline in the number of customers that patronized the library network due to the electioneering period.

1.1 Recurrent Expenditure

The Library had budgeted for recurrent expenditure totalling Kshs.682,083,452 but a total of Kshs.712,257,414 was spent occasioning a Kshs.30,173,962 or 4% over-expenditure as follows:

Expenditure	Budget Kshs.	Actual Kshs.	Over/(Under) Kshs.	Variance %
Compensation of Employees	527,915,112	529,442,429	1,527,317	0
Travel Costs	6,276,000	11,691,701	5,415,701	86
General Expenses	99,911,207	106,335,413	6,424,206	6
Utilities	14,450,000	17,606,548	3,156,548	22
Repair Maintenance	14,487,926	25,101,099	10,613,173	73
Boards Expenses	19,043,207	22,080,224	3,037,017	16
Total	682,083,452	712,257,414	30,173,962	4

The over-expenditure of Kshs.30,173,962 under the recurrent vote was not approved by the Board and National Treasury and was therefore an excess vote.

2 Development Expenditure

Kenya National Library Service had budgeted for development expenditure totalling Kshs.549,454,159 but actual amount spent during the year under audit amounted to Kshs.393,531,221 occasioning an under-expenditure of Kshs.155,922,938 or 28% as follows:

Expenditure	Budget Kshs.	Actual Kshs.	Over/(Under) Kshs.	Variance %
National Library & KNLS Headquarters	502,022,450	372,837,690	(129,184,760)	26
Refurbishment of Buildings	8,261,095	4,946,364	(3,314,731)	40
Asset Revaluation	4,016,865	4,159,945	143,080	4
Support to Community Based Libraries	2,800,000	3,609,072	809,072	29
Other Capital Expenditure	32,353,749	7,978,150	(24,375,599)	75
Total	549,454,159	393,531,221	155,922,938	28

The Under-expenditure was mainly attributed to the National Library of Kenya/KNLS Headquarters construction project which had a budget of Kshs.502,022,450 but actual amount paid totalled Kshs.372,837,690. The management has explained that this was occasioned by slow progress in implementation of the project by the contractors due to time consuming process of importation of materials for finishes works.

Prior Years Unresolved Issues

Outstanding Audit Fees

As previously reported, the statement of financial performance for the year ended 30 June 2017 reflect unpaid audit fees in respect of audit services provided by the Office of the Auditor-General for a period of three years totalling Kshs.1,980,000.

A review of the matter in the year under audit showed that an amount of Kshs.700,000 was paid while an additional provision of Kshs.660,000 was made for audit fees for the year bringing the outstanding balance as at 30 June 2018 to Kshs.1,940,000. It is not clear why the client has not cleared the outstanding audit fees.

REPORT ON LAWFULNESS AND EFFECTIVENESS IN USE OF PUBLIC RESOURCES

Conclusion

As required by Article 229(6) of the Constitution, based on the audit procedures performed, I confirm that, nothing has come to my attention to cause me to believe that public resources have not 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 audit procedures performed, 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

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 KNLS's ability to sustain services, disclosing, as applicable, matters related to sustainability of services and using the applicable basis of accounting unless the management either intends to liquidate the National Library Service 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 way.

Those charged with governance are responsible for overseeing the KNLS'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 audit 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 KNLS'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 KNLS'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 KNLS 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 KNLS 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

27 May 2019