

# **REPORT OF THE AUDITOR-GENERAL ON KENYA NATIONAL LIBRARY SERVICE FOR THE YEAR ENDED 30 JUNE, 2019**

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## **REPORT ON THE FINANCIAL STATEMENTS**

### **Qualified Opinion**

I have audited the accompanying financial statements of Kenya National Library Service set out on pages 1 to 41, which comprise the statement of financial position as at 30 June, 2019, and the statement of financial performance, statement of changes in net assets, statement of cash flows and the 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, 2019, 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 and the Public Finance Management Act, 2012.

### **Basis for Qualified Opinion**

#### **1.0 Deficit from Operations**

The Kenya National Library Service (KNLS) reported a deficit of Kshs.112,284,051 (2018: Kshs.89,513,757) thereby decreasing the accumulated fund balance by Kshs.81,058,291 from Kshs.1,471,461,059 as at 30 June, 2018 to Kshs.1,390,402,768 as at 30 June,2019. If strategies are not put in place to reverse the trend, the Corporation is likely to face financial challenges in the near future.

#### **2.0 Failure to Provide for Depreciation on Library Books**

The statement of financial position reflects books stock amounting to Kshs.986,433,844 which, as disclosed in Note 28 to the financial statements, comprised of an opening balance of Kshs.887,917,390, books purchases at a cost of Kshs.970,391 and donations of books valued at Kshs.113,319,496. In addition, the reported books valuation of Kshs.986,433,844 was net of Kshs.15,830,176 described as withdrawn books representing the value of books weeded from the system, stolen and lost books as well as books donated to needy institutions. However, as previously reported, the policy on recognition and depreciation of books was said to be in draft form and had not been approved and adopted for implementation as required under Paragraph 18 of IPSAS 17-Property, Plant and Equipment.

In the circumstances, it was not possible to confirm the accuracy of Kshs.986,433,844 reflected in the statement of financial position in respect of books stock.

### **3.0 Land and Buildings Without Ownership Documents**

Included in the reported property plant and equipment balance of Kshs.7,290,011,187 are amounts of Kshs.3,250,508,500 and Kshs.1,587,016,307 for land and buildings respectively. However, as previously reported, the value of land excludes Kshs.38,411,507 being the value of parcels of land without ownership documents. Further, the buildings balance of Kshs.1,587,016,307 excluded an amount of Kshs.203,601,300 that related to buildings without ownership documents.

Under the circumstances, the completeness and accuracy of the reported balance for property, plant and equipment could not be confirmed.

### **4.0 Long Outstanding Receivables**

The statement of financial position reflects amounts of Kshs.5,194,955 and Kshs.5,454,920 relating to receivables from exchange transactions and receivables from non-exchange transactions respectively. As disclosed in Note 22 and Note 23 to the financial statements, the receivables from exchange transactions balance included Kshs.5,760,191 that had been outstanding for over ninety (90) days and was net of a provision for doubtful debts amounting to Kshs.2,015,650. Similarly, the reported balance for receivables from non-exchange transactions included Kshs.6,159,590 which was over ninety (90) days old while the provision for doubtful debts amounted to Kshs.2,475,825. However, Management did not demonstrate any effort to recover these debts.

In the circumstances, the validity and full recoverability of the reported balances for receivables from exchange transactions and receivables from non-exchange transactions could not be confirmed.

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 130 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 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.

### **Other Matter**

#### **1.0 Budget Control and Performance**

The Library Service had a total revenue budget of Kshs.1,193,340,921. However, actual revenue amounted to Kshs.1,162,530,010 resulting to a shortfall of Kshs.30,810,911.

Similarly, the Library Service spent Kshs.865,947,091 against an expenditure budget of Kshs.1,193,340,921 resulting in an under absorption of Kshs.327,393,830 or 27%. No explanation has been provided for the material variances. Further, the underfunding and underperformance affected the planned activities and may have impacted negatively on service delivery to the public.

## **2.0 Unresolved Prior Year Audit Matters**

Various prior year audit issues remained unresolved as at 30 June, 2019. Management has not provided reasons for the delay in resolving the prior year audit issues.

## **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, except for the matters described in the Basis for Conclusion on Lawfulness and Effectiveness in Use of Public Resources section of my report, I confirm that, nothing else 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**

#### **1.0 Delayed Completion of the Proposed National Library and Headquarters**

As previously reported, the construction of the proposed National Library and Headquarters was awarded to a building and civil engineering contractor on 2 March, 2012 at a contract sum of Kshs.2,055,200,200 with a completion date of April, 2016.

On 30 May, 2017, the cost of the Project was revised to Kshs.2,409,876,500 due to delayed completion thereby increasing the contract sum by Kshs.354,676,300 or 17.3%. The completion date was also revised to 20 March, 2020. Audit inspection of the Project in February, 2020 revealed that substantial progress had been made on two wings of the building. However, the third and final wing was still under construction while the total certified works amounted to Kshs.2,218,685,791 representing 92% of the revised Project cost.

Delayed completion of the contractual works is likely to lead to further escalation of the total cost of the Project.

#### **2.0 Motor Vehicle Taken by the Parent Ministry**

The Ministry of Sports, Culture and National Heritage in 2014 requested the Library Service to provide a vehicle to the Ministry due to the prevailing shortage of vehicles at the time. The Service complied and provided vehicle registration number KBN 082E.

However, the terms and conditions for the vehicle transfer were not documented and as at the time of the audit, in February 2020, the vehicle had not been returned to KNLS.

In the circumstances the existence and condition of the vehicle could not be confirmed. In addition, the Library Service may not have obtained value for money from the purchase of the vehicle.

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 EFFECTIVENESS OF INTERNAL CONTROLS, RISK MANAGEMENT AND GOVERNANCE

### **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 2315 and ISSAI 2330. 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 overall 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 Service's ability to sustain services, disclosing, as applicable, matters related to sustainability of services and using the applicable basis of accounting unless the Management is aware of intention to liquidate the Kenya National Library Service or to cease operations.

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 Service'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 Service'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 Service 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.



**Nancy Gathungu**  
**AUDITOR-GENERAL**

**Nairobi.**

**09 July, 2021**