## REPORT OF THE AUDITOR-GENERAL ON KENYATTA INTERNATIONAL CONVENTION CENTRE FOR THE YEAR ENDED 30 JUNE 2017

REPORT ON THE FINANCIAL STATEMENTS

### Qualified Opinion

I have audited the accompanying financial statements of Kenyatta International Convention Centre set out on pages 1 to 23, which comprise the statement of financial position as at 30 June 2017, and the statement of comprehensive income, statement of changes in equity and reserves, 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 Kenyatta International Convention Centre as at 30 June 2017, and of its financial performance and its cash flows for the year then ended, in accordance with International Financial Reporting Standards and comply with the Tourism Act, No.28 of 2011.

In addition, as required by Article 229(6) of the Constitution, except for the matters described in the Basis for Qualified Opinion section of my report, based on the procedures performed, 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 for Qualified Opinion

### 1. Property, Plant and Equipment

### 1.1. Land

As previously reported, the property, plant and equipment balance of Kshs.3,997,900,000 as at 30 June 2017 includes the value of land estimated at Kshs.1billion disclosed under Note 14 but excludes land commonly referred to as COMESA parking area and Court yard on which the first Kenya President's monument stands. Further, the land on which Garden Square Restaurant stands is under dispute between the Corporation and the Nairobi City County. However, a letter from the Chief-of-Staff and Head of Public Service to the Cabinet Secretary, Ministry of Lands, Housing and Urban Development clarified that the land in dispute has since been gazzetted as a national monument and a part of the Corporation. In addition, the Cabinet Secretary was directed to urgently issue ownership documents to the Corporation. The above notwithstanding, the management has not availed any proof that such title documents have been acquired. It has also been noted that the land on which the Kenyatta

International Convention Centre building stands is not registered in the name of the Corporation although its value is included in the financial statements.

### 1.2. Valuation of Assets

The statement of financial position reflects a figure of Kshs.3,997,900,000 under property, plant and equipment as at 30 June 2017. However, it is noted that the last valuation for assets was conducted in 2006, over eleven (11) years ago thereby contravening the International Public Sector Accounting Standard No.17 which stipulates that property, plant and equipment should be revalued after every five years.

### 1.3. Motor vehicles not Registered in the Name of the Corporation

During the year under review the Corporation bought three motor vehicles for Kshs.20,875,000. However, a scrutiny of the log books showed that the three vehicles were registered in the name of Kenyatta International Conference Centre Management Limited and not in the name of the Corporation. Although it was explained that the problem arose as a result of Personal Identification Number (PIN) mix up at the Kenya Revenue Authority, the issue has not been resolved with a view of having the log books issued in the name of Kenyatta International Convention Centre.

### 1.4. Lack of Assets Register

The Corporation did not maintain asset register in place hence control over the assets could not be adequately achieved.

In the foregoing, it has not been possible to confirm that property, plant and equipment balance of Kshs.3,997,900,000 as at 30 June 2017 is fairly stated.

## 2. Trade and Other Receivables

### 2.1. Long outstanding debts

As similarly reported in the previous years, trade and other receivables balance of Kshs.847,810,000 as at 30 June 2017 includes an amount of Kshs.696,789,911 which has been outstanding for over one year, the bulk of which is owed by various Government Ministries and Departments. In particular, the National Assembly owes Kshs.47,311,344 and which has been outstanding for considerably long period of time. In addition, Kshs.60,6464,813 of the debtors were for defunct Government Ministries/Departments and an inquiry and comparison with financial statements of reported debtors showed that the said debts were not recognized as payables or pending bills in those institutions. Apparently, the management efforts to recover these debts have not been fruitful.

### 2.2. Failure to Honour Tenancy Agreement

Available information indicate that the Corporation's 18th floor was occupied by the Private Secretary to the third President for the period 1 July 2013 to 1 July 2016 accruing a total debt of Kshs.36,096,972 though no lease agreement was availed for audit review. The likelihood that the debts will be recovered remain doubtful.

### 3. Flawed Procurement Process - World Trade Organization (WTO) Conference

As previously reported, during the 10th WTO Ministerial conference held at the Kenyatta International Convention Centre, the Corporation made tender awards for goods and services and works to various firms. A review of the procurement process however revealed that the procurement process was executed in total disregard of the Public Procurement and Disposal Act, 2005 and Public Procurement and Disposal regulations, 2006 as enumerated hereunder: -

(i) Key procurement records including minutes of tender committee meetings that deliberated on some of the procurements, contract documents and local purchase orders/local service orders were not provided for audit verification. No supervision reports and completion certificates were provided for the completed works which were carried out to ascertain whether the works were carried out as per the specifications.

(ii) The tender committee was not procedurally constituted in compliance with the second schedule of the Public Procurement and Disposal Regulations, 2006 and in most cases was not involved in the procurement process for projects which were directly procured. The Corporation made several procurements for goods and services worth Kshs.70,823,765 without going through competitive bidding as required by the public procurement laws and regulations. Further, there was no evidence of any report submitted to Public Procurement Oversight Authority for direct procurements contrary to section 62(3) of Public Procurement and Disposal Regulations, 2006 which stipulates that any direct procurement of value exceeding Kshs.500,000 has to be reported to the Authority within 14 days after notification of award.

(iii) Of the seventeen (17) projects that were implemented during the period, only five (5) projects had invitation for bids to participate in tenders through restricted tendering method. Of these five, only two were considered by the tender committee. Available information indicated that the awards for fifteen (15) tenders was done singly by the then Chief Executive Officer through single sourcing while making references to non-existent bids for tenders by fictitious companies in total disregard of the tender committee. The awards to the fifteen (15) different companies was done on diverse dates between 13 July 2015 and 30 September 2015 for a total sum of Kshs.1,432,333,345.

(iv) Available information further revealed that six (6) of the above tenders were cancelled due to delay in release of funds. In some instances, award letters were terminated but the signed contracts were not terminated hence exposing the Corporation to litigations and resultant costs. Only five of the fifteen companies, had signed contracts which amounted to Kshs.894,976,341.

(v) Further examination of records revealed that a local company, had signed a contract worth Kshs.64,976,341 even though it had not been issued with an award letter for a tender. Another company undertook some partial works and submitted a claim of Kshs.9,946,420 despite the fact that there was no letter of award of tender, no signed contract and the company was not registered with the Registrar of Companies.

(vi) The Board of Directors was also directly involved in the flawed procurement process whereby they participated in the revision of cost of the design, supply and installation of computerized conference management system tender. Although the Board had constituted an ad-hoc committee to oversee the implementation of the WTO projects, no report was prepared for consideration by the full board despite the many meetings held. Thus the committee may not have carried out its oversight role as expected given the haphazard manner in which the projects were initiated, implemented or not implemented at all.

(vii) The Corporation has so far received claims amounting to Kshs.701,031,000 from various suppliers for the works which have not been paid due to the lack of or inadequate documentation.

From the foregoing, the Corporation was clearly in breach of the Public Procurement and Disposal Act 2005 and Regulations, 2006 and may not have received value for money from WTO projects through the flawed procurement process. In addition, supporting documents availed for audit revealed that vendors amounting to Kshs.55,784,840 relating to WTO projects were not provided for in the financial statements yet the Centre is yet to resolve issues relating to WTO expenditure.

The audit was conducted in accordance with International Standards of Supreme Audit Institutions (ISSAIs). I am independent of Kenyatta International Convention 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 judgment, were of most significance in the audit of the financial statements. Except for the matters described in the Basis for Qualified Opinion section of my report, there were no Other Key Audit Matters to report in the year under review.

**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 Financial Reporting Standards 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 Corporation's ability to continue sustaining services, disclosing, as applicable, matters related to sustainability of services and using the applicable basis of accounting unless the management either intends to have the Corporation 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.

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 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 and for the purpose of giving an assurance on the effectiveness of the Corporation'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 Corporation's ability to continue 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 Corporation 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 of the entities or business 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**

**11 July 2018**