

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

REPORT ON THE FINANCIAL STATEMENTS

Qualified Opinion

I have audited the accompanying financial statements of National Museums of Kenya set out on pages 32 to 84, which comprise the statement of financial position as at 30 June 2017, and the statement of financial performance, statement of cash flows and statement of comparative 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, the financial position of National Museums of Kenya 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 Public Finance Management Act, 2012.

In addition, as required by Article 229(6) of the Constitution, except for the matters described in the Qualified Opinion and Other Matter sections of my report, I confirm that nothing has come to my attention to cause me believe that public money has not been applied lawfully and in an effective way.

Basis of Qualified Opinion

1. Property, Plant and Equipment

The statement of financial position reflects property, plant and equipment balance of Kshs.2,936,723,973 as at 30 June 2017 out of which Kshs.1,575,127,445 is in respect of value of one hundred and fifty (150) parcels of land spread across the country. As previously reported, only forty-three (43) parcels have title deeds while the remaining 107 parcels had either partial or no ownership documents at all as follows:

No. of parcels of Land	Status
56	Gazetted heritage sites reserved for Museums but have no ownership documents
23	Surveyed but have not been registered in the name of National Museums of Kenya
12	Land without documents but in use by the National Museums
10	Not surveyed but have letters of allotment

6	Proposed sites for Museums development but not gazetted
107	With partial or no ownership documents

In the absence of proper ownership documents, the security of the 107 parcels could not be guaranteed considering that many parcels had been encroached upon by outsiders, some have disputes and others grabbed by private developers.

In view of the foregoing, the accuracy, valuation, ownership and completeness of the plant, property and equipment of Kshs.2,936,723,973 disclosed in the financial statements could not be confirmed.

2. Going Concern /Sustainability of Services

As stated in previous years, the financial statements of National Museums of Kenya continue to reflect deficits in the year under review. The statement of financial performance for the year ended 30 June 2017, reflects a deficit of Kshs.101,646,479 while the statement of changes in net assets reflects a negative balance of Kshs.331,966,875 in respect of revenue reserves. The statement of financial position further reflects a negative working capital of Kshs.98,191,635.

In the circumstances, the National Museums of Kenya operated a negative working capital during the year under review and the financial statements have been prepared on assumption of continuing support from the Government and creditors.

3. Cash and Cash Equivalents

3.1 Difference between the Financial Statements and Bank Reconciliation Statements

The statement of financial position as at 30 June, 2017 reflects an amount of Kshs.121,992,723 in respect of cash and cash equivalents. However, the bank reconciliation statements for Fort Jesus Museum and Standard Chartered Bank (SCB) Kisumu indicates balances of Kshs.1,684,607 and Kshs.248,560 respectively, while the financial statements under Note 11(a) reflects Kshs.37,440,801 for the Fort Jesus Museum and Kshs.241,835 for SCB Kisumu, resulting into unreconciled cumulative difference of Kshs.35,762,918 between the two sets of records.

In the circumstances, the accuracy of the cash and cash equivalents balance of Kshs.121,992,723 reflected in the statement of financial position as at 30 June 2017 cannot be confirmed.

3.2 Unreconciled Bank Balances

Note 16 to the financial statements as at 30 June 2017 indicates that various banks were overdrawn by a total of Kshs.29,392,242. However, examination of certificates of bank balances did not reflect any evidence of overdrawn accounts. In addition, the figures shown in the bank reconciliation statements and certificate of bank balances in respect of the accounts differed as shown below:

Account Name	Account No.	Amount in Financial Statement Kshs.	Reconciled Cashbook Balances Kshs.	Balances as per Bank Certificate Kshs.
-	0108035107900	(18,869,582)	6,125,602.55	10,168,625
Commercial	0108035436500	-	-	-
IPR Project	0102044700000	-	-	-
Development HQs	1106829379	(8,767,648)	5,188,075.54	5,123,975.54
Salaries	0108033746400	(1,755,012)	(1,755,012)	2,177,556.10
Total		(29,392,242)	9,558,666.09	17,470,156.64

In the absence of documentation to confirm the existence of the bank overdraft balance of Kshs.29,392,242, the accuracy of the current liabilities total balance of Kshs.257,992,604 could not be confirmed.

4. Outstanding Rent Income

The statement of financial performance as at 30 June 2017 includes an amount of Kshs.290,158,388 in respect of other incomes. Included in the balance is rent income of Kshs.38,936,309 as disclosed in Note 5 to the financial statements. Records examined indicated that a number of commercial and staff tenants in various rental houses had outstanding rent arrears of Kshs.6,583,186 with some dating back to 2013/2014 financial year. As at the time of audit in March 2018, amounts totalling Kshs.3,946,224 had been recovered leaving a balance of Kshs.2,636,962 outstanding.

No action appears to have been taken against the rent defaulters.

5. Deferred Development Grant

The statement of financial position as at 30 June 2017 reflects a balance of Kshs.322,432,242 referred to as deferred development grants out of which Kshs.257,236,076 relates to government development grants received in earlier years for development projects, but instead expended on recurrent expenditures. Although management had earlier written a letter dated 20 October, 2014 to the then Principal Secretary Ministry of Sports, Culture and the Arts seeking for a post-facto authority to regularize the deferred grants, no action appears to have been taken on the matter.

In consequence, propriety of the deferred development grants balance of Kshs.322,432,242 cannot be ascertained as at 30 June 2017.

6. Outstanding Imprests

Note 12 to the financial statements for the year ended 30 June 2017 reflect receivables from exchange transactions balance of Kshs.35,858,026. Included in this balance was a figure of Kshs.22,034,994 in respect of outstanding imprests which had not been surrendered by the due dates. No reasons have been given as to why the unsurrendered imprests have not been recovered in full from the current staff salaries or demanded from employees who had left the National Museums of Kenya.

Under the circumstance, the recoverability of the outstanding imprests of Kshs.22,034,994 is doubtful.

7. Unremitted Statutory Deductions

The trade and other payables from exchange transactions balance of Kshs.228,600,362 includes an amount of Kshs.125,753,207 in respect of other payables as at 30 June 2017. These further includes Kshs.81,186,718 in respect of unremitted statutory deduction as itemized below:

Statutory Deductions	2016/2017 Kshs.	2015/2016 Kshs.	Remarks
P.A.Y.E	7,800,470	8,781,961	Decreased by Kshs.981,491 or 1%
Pension	62,507,535	62,507,535	No movement from prior year
V.A.T (6%)	10,878,713	12,293,904	Decreased by Kshs.1,415,191 or 12%
	81,186,718	83,583,400	Total Decrease = Kshs.2,396,682 or only 3%

The management was therefore in breach of Part IV (1) of the Kenya Revenue Authority Act which requires employers to remit deductions on or before the 9th day of the month following pay-roll month or attract penalties at a rate of 20% for late payment and interest at 2% per month.

As a result, it is evident that management has not made effort to remit the statutory deductions especially to the Pension Fund.

8. Project Deposits

Analyses of projects bank account statements as at 30 June 2017 2016/2017 reflect balances as follows:

Bank Account	Account No.	Bank Balances Kshs.
Seed for Life	01080-351078-02	1,182,916
Project General	01080-351078-00	7,098,453
Dollar Account	87080351079-00	5,208,932
IPR Dollar account	87020447000-00	1,071,366
IPR Project	01020447000-00	1,413,752
CNHR Project account	01020447000-02	865,223
Masinde Product University	108044700000	1,287,063
Natural Product Industry	108035107901	29,003
IPR Predict Program account	102044700004	504,965
Total		18,661,673

However, Note 18 to the financial statements indicates total project deposit balance of Kshs.19,096,078 while the certificate of bank balances reflects total balance of Kshs.18,661,673. The difference of Kshs.434,405 between the two sets of records has neither been reconciled nor explained.

9. Construction of Fort Jesus Sea Wall Protection - Mombasa

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Fort Jesus, Mombasa, was originally designated a National Park in 1958. The protected area included the Fort itself and a 100-meter strip around it. Today it falls under the National Museums and Heritage Act, 2006 and has been declared a conservation area and a world heritage site:

9.1 Consultancy Services for Design and Estimates

The National Museums of Kenya on 5 August 2016 entered into a contract with M/s Coperk Consultants Limited for provision of Consultancy Services for Design and Estimates for a section of Sea Wall protection for Fort Jesus at a contract sum of Kshs.16,414,913 inclusive of tax. This particular contract ended on 24 November 2016 and the full amount of contract was paid. However, the completion date was not indicated in the contract document.

Addendum 1 - Impact, Environmental and Social Impact Assessment

In expanding the consultancy's scope of work, on 7 December 2016, NMK signed an addendum to earlier contract with M/s Coperk Consultants Limited to carry out Heritage Impact Assessment and Environmental and Social Impact Assessment at a contract sum of Kshs.3,500,000. The contract entailed payment of 70% of the contract sum, which is equivalent of Kshs.2,450,000 payable upon, "Consultant successfully conducting the stakeholders meeting" and the balance of Kshs.1,050,000 payable after the Consultant has obtained all the necessary approvals required for the implementation of the project.

Although full contract sum was paid, evidence of meetings held, minutes, venue and attendance list of stakeholders was not availed for audit review.

Addendum II - Supervision of the Proposed Section of the Sea Wall Protection Construction

Further, on 24 May 2017, the National Museums of Kenya signed another consultancy with M/s Coperk Consultants Limited through negotiation for full supervision of the Sea Wall construction at a contract sum of Kshs.25,500,000. However, the contract document did not specify the completion date. As at 30 December 2017, the consultant had been paid Kshs.17,671,500 in respect of the supervision contract. However, the supervision payments were not supported with quantified details of supervision conducted.

In view of the foregoing, out of the total consultancy contracts valued at Kshs.45 million, including the addendums entered with the firm, Kshs.36,914,912 (equivalent to 82%) had by 30th December been paid while the construction of the sea wall was at 23% level of completion. It is doubtful that the remaining Kshs.8,085,088 or 18% of the contract sum will be sufficient to supervise the remaining 77% of the project."

9.2 Construction of Sea Wall Protection for Fort Jesus World Heritage Site - Mombasa - Tender No: NMK/FJ/115/2016

The National Museums of Kenya on 24 May 2017, entered into a contract agreement with M/s Yangguang Property Design and Manufacturing Limited at the contract sum of Kshs.497,641,850 for construction of the proposed section of Sea Wall Protection for Fort Jesus World Heritage site Mombasa. The contract period originally was to run for six (6) months, but due to financial challenges and the dynamics of the project, it was agreed that the contract period be extended to twelve Months (12) beginning 12 June 2017 to 20 June 2018.

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Payments Made

As at the time of audit in February 2018 the contractor had been paid Kshs.103,238,436 based on certified work done. However, NMK had not provided the firm commitment promised to avail Kshs.360,000,000 within the agreed contract period of twelve (12) months despite the contractor having fulfilled all the primary requirements on conditions of the contract as follows:

Inspection of the project revealed that the contractor had mobilized both personnel and equipment required by the conditions of the contract and had also obtained the NEMA license, County and stakeholder approvals.

Current status

During the site visit on 13 April 2018, it was observed that only 23% of the works had been certified against the expected 77% with major works like construction of wall to minimize the flow of sea tides partially done and other works not started with only one month remaining to the set completion date.

Documents verified indicated that the total costs for the project amounted to Kshs.543,056,763 including consultancy and supervisory services against a budgetary provision of Kshs.300,000,000. Only Kshs.150,000,000 had been released for the project as at 30 June 2017. It was therefore not clear how the project was to be financed under such budgetary constraints.

During the site visit, the contractor complained of delay in approval of certificates submitted to M/s Coperk Consultants Limited the project supervisor. The delayed approval of certificates for work done had impacted negatively on timelines set and is likely to lead to extension of time and escalation of costs.

Since the sea wall was being constructed on the ocean using materials (cofferdams) with designed life span, there was a risk of the temporary sea barriers already constructed being washed away by high tides on the expiry of intended period due to lack of maintenance and reinforcement. Being special marine works, and considering works were on the ocean, full funding of the project was required since the temporary cofferdam already constructed were designed for a six months' life span.

Thus without adequate funding, all the work done and payments made to both the consultant and to the contractor totalling to Kshs.139,238,436 would go to waste.

In view of the foregoing, further funding delays will lead to loss of public funds and further, propriety and value for money on the expenditure incurred cannot be confirmed.

10. Proposed Renovation of Ndemi Flats - Kilimani

National Museums of Kenya purchased staff houses built in a plot measuring 0.5 hectares LR No. 2/36/18 on Ndemi Road in Kilimani in 1998 through mortgage scheme with the Housing Finance Corporation of Kenya. On the plot stands 20 apartments and one bungalow chargeable at the rate of Kshs.40,000 per month for the apartments and Kshs.50,000 per month for the bungalow.

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The management had allowed its staff and former members of staff to occupy the houses since the year 2000 but was not able to charge the houses at market rates.

On 31 March 2016, the management gave notices to all staff occupying the houses to vacate and allow for renovations that would attract market rates that are in line with the neighborhood and also allow the institution to treat the premises as commercial units with the expected high returns in future.

However, the documents verified and physical inspection of the premises on 5 April 2018, revealed that since the houses were vacated in June 2016, almost two years had lapsed but the houses had not been renovated.

Under the circumstances, the opportunity costs lost in implementing such decision translates to Kshs.850,000 per month or Kshs.10,200,000 per year, which could have been avoided had the management carried out the renovation works on time.

11. Delayed Completion and Hand-Over of Mashujaa Square Project at Uhuru Gardens

As previously reported, the construction of Mashujaa Square Uhuru Gardens awarded at a contract sum of Kshs.74,855,472 with a completion date of 31 December 2013 had not been completed and handed over despite total expenditure of Kshs.196,655,446 on the project as at 30 June 2016 inclusive of interest claims by the contractor and project manager. Although the Project manager was over paid in respect of interest claims by Kshs.37,228,832, information available indicate that the Project Manager has refused to vacate the site claiming more interest.

In the circumstance, it is not clear when and if the Project will be completed and handed over for public use.

12. Security of National Heritage Assets

As previously reported, the state of affairs of the following historical sites if not urgently addressed, will impact negatively on irreplaceable National Heritage in the following manner:

a.	Vasco da Gama Pillar - Malindi	The Pillar faces extinction due to effects of high sea tides and parts of the walls bordering the sea have been washed away.
b.	Portuguese Chapel - Malindi	The Chapel was renovated by a neighboring private developer but has no ownership documents
c.	Malindi Ethnographic Museum	Part of the land surrounding is under occupation by illegal inhabitants who are now laying claim on the land.
d.	Lamu Museum	The National Museum land has been encroached on by private developers and the local community.
e.	Shimoni Museum	The station is neglected and the historical building is dilapidated while the grave sites are exposed to high tides. Part of the land has been encroached on and a permanent wall erected by the department of Fisheries. The site has not been allocated funds to independently fund its recurrent activities.

f.	Jumba La Mtwana Museum - Mtwapa	The ruins are fast disintegrating with some of the walls crumbling to the ground after having minimal restorative efforts. The side bordering the ocean is fast being washed away by the high tides. There are also encroachments of the ruins by private individuals. Our inspection of the station on 18 April 2018 showed that the historical asset is under threat of extinction.
g.	Meru Museums	The building is crumbling down due to poor maintenance and invasion by ants that have destroyed most of the wood works. No effort appears to have been made to restore the historical building.
h.	Njuri Ncheke Building-Meru	The building is deteriorating fast and is in imminent danger of collapse under the weight of its roof. No efforts appear to have been made to forestall the threat of losing the heritage asset.
i.	Kenyatta Houses Lodwar	The Museum is not properly secured with a perimeter fence for the purpose of demarcating the Museum property and other parcels in the neighborhood. The National as well as the County Government have put up permanent premises on the land without any documentation or lawful authority. There is also invasion by private developers who have put up permanent buildings.

No indication has been given by the management in terms of commitment by the Board in resolving of the matters raised in previous year audit report.

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

Other Matter

1.0 Budget and Budgetary Performance

1.1 Receipts

The National Museums of Kenya (NMK) had budgeted for receipts totalling Kshs.1,559,442,240 but actual receipts amounted to Kshs.1,522,417,539 resulting in a shortfall of Kshs.37,024,701 or 2% as itemized below:

Revenue head	Budget Kshs.	Actual Kshs.	Excess/(Shortfall) Kshs.	Excess/(Shortfall) %
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Recurrent Government grant	870,000,000	870,000,000	0	0
Development Government grant	300,000,000	150,000,000	(150,000,000)	(50)
Internal revenue	280,000,000	290,158,388	10,158,388	4
Project revenue	109,442,240	212,259,151	102,816,911	94
Total	1,559,442,240	1,522,417,539	(37,024,701)	2

However, there were over collections of project revenue by Kshs.102,816,911 or 94% and internal revenue by Kshs.10,158,388 which have not been explained by way of notes to the financial statements as required.

1.2 Expenditure

National Museums of Kenya had budgeted for expenditure totalling Kshs.1,425,000,000 but actual expenditure amounted to Kshs.1,486,283,317 resulting to an over expenditure of Kshs.61,283,317 or 4% as itemized below:

Expenditure Item	Budget Kshs.	Actual Kshs.	Over/(Under) Kshs.	Over/(Under) %
Employee costs	870,000,000	1,010,504,571	140,504,571	16
Depreciation	25,000,000	25,781,585	781,585	3
Repairs and maintenance	20,000,000	17,520,631	(2,479,369)	(12)
Remuneration of Board of Directors	10,000,000	14,117,466	4,117,466	41
General Expenses	500,000,000	418,359,064	(81,640,936)	(16)
Total	1,425,000,000	1,486,283,317	61,283,317	4

NMK overspent mainly in employees costs by Kshs.140,504,571 or 16% and in remuneration of board of directors by Kshs.4,117,466 or 41%. Under expenditures of Kshs.81,640,936 or 16% and Kshs.2,479,369 or 12% occurred in respect of general expenses and on repairs and maintenance. However, no explanatory notes were provided for the over expenditures of over or under 10% as required.

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 Key Audit Matters to communicate in my report.

Responsibility 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 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 Museum'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 become aware of the intention to cease operations of the National Museum of Kenya.

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 Museum'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 Museum'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 Museum'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 Museum 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 Museum'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 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

03 July 2018