

REPORT OF THE AUDITOR-GENERAL ON NATIONAL MUSEUMS OF KENYA FOR THE YEAR ENDED 30 JUNE, 2019

REPORT ON THE FINANCIAL STATEMENTS

Qualified Opinion

I have audited the accompanying financial statements of the National Museums of Kenya set out on pages 25 to 63, which comprise the statement of financial position as at 30 June, 2019, and 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 effects 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 the National Museums of Kenya as at 30 June, 2019, and of its financial performance and its cash flows for the year then ended, in accordance with Public Sector Accounting Standards (Accrual) Basis and comply with the National Museums and Heritage Act, 2006 and the Public Finance Management Act, 2012.

Basis for Qualified Opinion

1.0 Long Outstanding Reconciling Items - Cash and Cash Equivalent

The statement of financial position reflects cash and cash equivalent balance of Kshs.114,181,240. Review of the monthly bank reconciliation statements revealed that the salaries account reflected unexplained bank debits amounting to Kshs.573,170 which had not been recorded in the cashbook and have been outstanding since 1999. Also, the Fund-Holding Account contained an erroneous payment of Kshs.12,000,000 made in December, 2016. The Management recovered Kshs.11,312,000 leaving a balance of Kshs.1,688,000 outstanding as at 30 June, 2019. Further, the Development Account reflected an amount of Kshs.838,475 out of which Kshs.196,750 has been a reconciling item since February, 2017.

In the circumstances, the accuracy, completeness and fair statement of the cash and cash equivalents balance of Kshs.114,181,240 as at 30 June, 2019 could not be confirmed.

2.0 Lack of Ownership Documents and Valuation of Property, Plant and Equipment

The statement of financial position and as disclosed in Note 14 to the financial statements reflects property, plant and equipment balance of Kshs.3,386,491,026. Included in this balance is Kshs.1,575,127,445 is in respect of net book value of one hundred and fifty

(150) parcels of land spread across the Country. Review of the ownership records revealed one hundred and seven (107) parcels either had partial ownership documents while others did not have any ownership documents. Further, the National Museums of Kenya did not maintain a complete fixed asset register. The fixed assets register was supported by schedules that does not indicate information such as acquisition cost, acquisition date, payment details, assets revalued and the new values.

In addition, the property, plant and equipment balance excluded the carrying amount for parcels of land allocated to the Museums by the National and County Governments at no consideration which had not been valued for inclusion as at 30 June, 2019. The balance also excluded heritage assets such as the historic buildings being used for office accommodation, monuments and ruins.

In the circumstance, the accuracy, completeness, ownership and value of plant, property and equipment balance of Kshs.3,386,491,026 could not be ascertained.

3.0 Long Outstanding Salary advance

The statement of financial position and as disclosed in Note 12(b) to the financial statements reflects receivable from non-exchange transaction balance of Kshs.307,579,528. Included in this balance, is staff debtors balance of Kshs.17,579,528. Review of records provided for audit revealed that an amount of Kshs.167,719.44 reported under staff debtors was held by staff who have since resigned, been terminated or deceased. Management did not make provisions for these doubtful debts.

Consequently, the accuracy, completeness and recoverability of the long outstanding debts could not be confirmed

4.0 Unauthorized Reallocation Projects Receipts

The Museum received grants from foreign institutions amounting to Kshs.250,449,815.60. Included in the project balances are negative balances amounting to Kshs.68,211,523.87 which reduced the reported balances for projects by Kshs.68,211,523.87. The negative balances were as a result of reallocation of funds between projects. Management did not provide for audit documents and explanations for the reallocation.

Consequently, the accuracy and completeness of the project balances of Kshs.68,211,532.87 and the validity of the reallocations could not be ascertained.

5.0 Unsupported Trade and Other Payables

The statement of financial position as at 30 June, 2018 reflected a balance of Kshs.238,303,687 in respect of trade and other payables. Included in this amount were unexplained and unreconciled payables amounting to Kshs.38,321,129.

In the circumstances, the accuracy and completeness of the trade and other payables amount of Kshs.38,321,129 as at 30 June, 2018 could not be confirmed.

The audit was conducted in accordance with International Standards of Supreme Audit Institutions (ISSAIs). I am independent of the National Museums of Kenya 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 audit 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. There were no key audit matters to report in the year under review.

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 effect of the matters described in the Basis for Conclusion on Lawfulness and Effectiveness in use of Public Resources sections of my report, 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

1.0 Construction of Fort Jesus Sea Wall Protection – Mombasa

1.1 Contract Variation

The Museum entered into a contract 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 on 5 August, 2016. The contract ended on 24 November, 2016 and the full amount of the contract was paid. However, the completion date was not indicated in the contract document. The Museum Management signed an addendum to the contract for heritage Impact assessment, environmental and social impact assessment at a contract sum of Kshs.3,500,000. This was later revised to a contract sum of Kshs.25,500,000.

Review of the project progress revealed that a total of Kshs.49,613,412 had been paid in respect of the design, impact assessment and supervision against an overall reported progress of 65% while the contract period had expired on 20 June, 2018. Although the Management had indicated that the contract period had been extended up to 30 June, 2019 at no extra cost to facilitate completion of the project, no evidence was made available to support the extension and cost implications.

Further, a review of the project supervision contract cost in the year under review revealed a variation of the initial contract sum of Kshs.25,500,000 by Kshs.8,625,000 or 33.8%. This was contrary to Section 139 of the Public Procurement and Asset Disposal Act, 2015.

Consequently, the Museum Management were in breach of law and value for money has not been realised on the expenditure of Kshs.49,613,412 in respect of the design, estimates and supervision for a section of Sea Wall Protection for Fort Jesus and for heritage Impact assessment, environmental and social impact assessment.

1.2 Restoration/Rehabilitation of the Reclaimed Land

Review of the contract revealed that restoration/rehabilitation and beautification of the reclaimed land of approximately two (2) acres was not included in the original contract. The Museum Management requested for assistance in preparation of Bill of Quantities for restoration of Ocean Area next to the sea wall from Chief Quantity Surveyor, State Department for Public Works not been acted on at the time of the audit.

Consequently, the Museum Management were in breach of law and value for money has not been realised on the expenditure of Kshs.49,613,412 in respect of the design, estimates and supervision for a section of Sea Wall Protection for Fort Jesus and for heritage Impact assessment, environmental and social impact assessment.

2.0 Boundary Wall, Gates, Gate House and Parking

Management entered into a contract for the construction of the boundary wall, gates, gatehouse and parks at a contract sum of Kshs.16,194,846. Management entered into another contract for construction of phase two of a boundary wall at Institution's Headquarters at a contract sum of Kshs.16,252,805 inclusive of VAT. The contract was set to expire within twenty-one (21) weeks upon commencement of the work. However, the contract period lapsed and as at 30 June, 2019, the works had not been completed and no explanation provided for the delay.

Further, National Museums of Kenya signed an addendum to the earlier contract at a contract sum of Kshs.4,034,856.42 inclusive of VAT. Although this was reported to have resulted from change of the designs of the boundary wall, Management did not provide the Bills of Quantities in support of the variation for audit.

In the circumstances, it was not possible to confirm whether the Museum received value for money on the additional variation of Kshs.4,034,856.42.

3.0 Electric Hybrid Fence around Ololua Forest Block in Karen

The Museums Management entered into contract to carry out environmental impact assessment for the proposed erection of an Eco-friendly Hybrid Perimeter Fence around Ololua Forest Block in Karen at a contract sum of Kshs.4,639,420 inclusive of tax on 29 November, 2018. However, examination of payment vouchers revealed that

Management paid Kshs.6,607,171.50. The excess payment of Kshs.1,967,751 was not explained.

In the circumstance, the regularity of the procurement and the payment of the extra amount could not be ascertained.

4.0 Construction of the Post Graduate Training and Resource Centre for the IPR

The Museums Management entered into a contract for the construction of Post Graduate Training and Resource Centre in the financial year 2013/2014. The contract was in two phases and phase one and two entailed completion of ground floor and finishes on ground floor and first floor respectively. However, it was not possible to confirm the final contract price of Kshs.11,328,109.60 since the original contract and the bill of quantities were not availed for audit.

Consequently, the validity of the expenditure of Kshs.11,328,109 as at 30 June 2019 could not be confirmed in absence of bills of quantities, contract and procurement documents.

5.0 Direct Procurement

Review of procurement records for the year ended 30 June, 2018 revealed that goods and services worth Kshs.11,770,217 were procured through direct procurement method. The procurements did not meet the threshold set in Section 103 of the Public Procurement and Asset Disposal Act, 2015 on instances when direct procurement can be used.

Consequently, Management was in breach of law.

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 governance was

maintained 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 the Museums' ability to continue to sustain services, disclosing, as applicable, matters related to sustainability of services and using the applicable basis of accounting unless Management is aware of the intention to terminate the Museums 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 manner.

Those charged with governance are responsible for overseeing the Museums' financial reporting process, reviewing the effectiveness of how Management 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 review 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 the Museums' policies and procedures may deteriorate.

As part of an audit conducted in accordance with ISSAIs, I exercise professional judgment 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 applicable 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 Museums' 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 Museums 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 and business activities of the Museums 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.



CPA Nancy Gathungu, CBS
AUDITOR-GENERAL

Nairobi

11 January, 2022