

REPORT OF THE AUDITOR-GENERAL ON THE KENYA CULTURAL CENTRE FOR THE YEAR ENDED 30 JUNE, 2020

REPORT ON THE FINANCIAL STATEMENTS

Qualified Opinion

I have audited the accompanying financial statements of Kenya Cultural Centre set out on page 1 to 27, which comprise the statement of financial position as at 30 June, 2020, 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 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 Kenya Cultural Centre as at 30 June, 2020 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 the Kenya Cultural Centre Act and the Public Finance Management Act, 2012.

Basis for Qualified Opinion

1. Property, Plant and Equipment

The statement of financial position reflects Kshs.366,234,169 in respect of property, plant and equipment. However, as previously reported, the balance excludes an undetermined value of a parcel of land allocated to the Centre by the National Land Commission in May, 2016 for a term of ninety-nine (99) years.

In addition, as disclosed at Note 17 to the financial statements, the reported property, plant and equipment balance included Kshs.333,482,559 and Kshs.1,741,713 in respect of land and motor vehicles respectively. However, ownership documents for the land and the vehicles were not provided for audit.

In the circumstances, it could not be confirmed that the property, plant and equipment balance of Kshs.366,234,169 as at 30 June, 2020 was fairly stated.

2. Untaxed Allowances

The statement of financial performance reflects employee costs of Kshs.22,015,905 which as disclosed at Note 6 to the financial statements, included personnel costs of Kshs.20,940,305 of which Kshs.892,801 related to secondment allowance paid to various

officers seconded from the Ministry of Sports, Culture and Heritage. However, Pay As You Earn tax was not deducted from the allowances payable and remitted to Kenya Revenue Authority (KRA) as required under the rules made under Section 130 of the Income Tax Act.

3. Financial Performance and Sustainability of Services

The Centre had current liabilities of Kshs.72,268,396 which exceeded the current assets balance of Kshs.17,249,196 resulting into a negative working capital of Kshs.55,019,200. Further, as reflected in the statement of financial performance, the Centre reported a net deficit of Kshs.9,705,195.

The Centre may therefore, not be able to meet its short-term financial obligations as they fall due, casting doubt on the sustainability of services without the support of the government and creditors.

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

Other Matter

1. Budgetary Control and Performance

As reflected in the statement of comparison of budget and actual amounts, the Centre's budgeted receipts totalled to Kshs.85,200,000 but actual receipts amounted to Kshs.73,254,311 resulting into a shortfall of Kshs.11,945,690 or 14%. Similarly, the Centre's budgeted expenditure totalled to Kshs.92,200,000 against actual expenditure of Kshs.82,959,505 resulting into under expenditure of Kshs.9,240,495 or 10%.

The revenue shortfall implies that goals and objectives of the Centre were not achieved as planned.

2. Unresolved Prior Year Audit Matters

As disclosed under the progress on follow up of auditor recommendations section of the financial statements, some of the prior year audit issues remained unresolved as at 30 June, 2020. Management has not provided satisfactory reasons for the delay in resolving the issues.

REPORT ON LAWFULNESS AND EFFECTIVENESS IN USE OF PUBLIC RESOURCES

Conclusion

As required by Article 229(6) of the Constitution, based on the 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. Irregular Sitting Allowances

Section 10 of the State Corporations Act provides that sitting allowances are payable to the Chairman and members of the Board, other than the Chief Executive. However, during the year under review, some staff members were paid sitting allowances amounting to Kshs.268,000 while attending Governing Council meetings.

In the circumstances, the regularity of the payments could not be confirmed.

2. Implementation of e-Procurement

Executive Order No.2 of 2018 - procurement of public goods, works and services by public entities - directed all public procuring entities to maintain and continuously update and publicize complete information of all tenders awarded. However, no evidence was provided that the Centre had complied with the directives.

In the circumstances, accountability and transparency in the procurement of goods and services at the Centre could not be confirmed.

3. Procurement of Partitioning Works

The Centre incurred Kshs.353,600 and Kshs.377,920 on partitioning works of technicians' office and human resource office respectively, and Kshs.518,125 on supply of office furniture all totaling to Kshs.1,249,645. However, the procurements were not awarded to the lowest bidders as required under Section 106(3) of Public Procurement and Asset Disposal Act, 2015.

In the circumstances, it was not possible to confirm whether the Centre got value for money from the payments.

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, except for the matters described in the Basis for Conclusion on Effectiveness of Internal Controls, Risk Management and Governance section of my report, I confirm that, nothing else has come to my attention to cause me to believe that internal controls, risk management and governance were not effective.

Basis for Conclusion

1. Lack of a Risk Management Policy

As previously reported, the Centre had not developed a risk management policy. In absence of a formal approved risk management framework, ability to identify risks and definition of strategy to eliminate or minimize the impact of the risks could be compromised.

2. Disaster Recovery Strategy

As previously reported, the Centre did not have a disaster recovery strategy and had not stored backups in a secure off-site location. A disaster recovery plan would enhance the Centre's ability to provide basic services as quickly as possible in case of data loss which would otherwise adversely affect service delivery.

3. Composition of the Governing Council and Related Expenses

Section 1.1 of The Code of Governance for State Corporations (Mwongozo) provides that the Board membership of all State Corporations shall be between seven (7) and nine (9). However, the Centre's Governing Council had a membership of thirteen (13). In addition, Section 1.5 of the Code provides that a tenure of a Board Member shall not exceed a cumulative term of six (6) years or two (2) terms of three (3) years each. However, a member of the Governing Council was appointed for a third term.

It was also observed that, during the year under review, the Centre incurred Kshs.15,036,160 relating to Governing Council expenses against a budget of Kshs.13,740,000 representing over-expenditure of Kshs.1,296,160 or 9%. The Directors remuneration also increased by Kshs.4,103,416 or 38% of the prior year's balance of Kshs.10,932,744.

In the circumstances, it could not be confirmed that good governance principles had been observed.

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 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 the Governing Council

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 Centre's ability to sustain services, disclosing, as applicable, matters related to sustainability of services and using the going concern basis of accounting unless Management is aware of the intention to terminate the Centre 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.

The Governing Council is responsible for overseeing the Centre's financial reporting process, reviewing the effectiveness of how the Centre 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 Centre'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 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 Centre's ability to sustain 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 Centre to cease to sustain 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 Centre 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

28 March, 2022