

REPORT OF THE AUDITOR-GENERAL ON NATIONAL MUSEUMS OF KENYA FOR THE YEAR ENDED 30 JUNE, 2020

REPORT ON THE FINANCIAL STATEMENTS

Qualified Opinion

I have audited the accompanying financial statements of the National Museums of Kenya set out on pages 39 to 75, which comprise of the statement of financial performance for the year ended 30 June, 2020, the statement of financial position, the statement of changes in net assets, the statement of cash flows, the statement of comparison of budget and actual amounts, the notes to the financial statements 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 matter 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, 2020, and 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. Fraudulent Payment - Non-Recognition of Revenue

As disclosed in Notes 3(a) and 5 to the financial statements, the statement of financial performance reflects revenue from non-exchange transactions amounting to Kshs.1,890,979,358 which constitutes development grants from the State Department for Sports, Culture and Heritage amounting to Kshs.41,000,000. However, examination of records revealed that the National Museums received an amount of Kshs.10,000,000 through its bank account held at Standard Chartered Bank but the money was not receipted or reported in the financial statements. The State Department had disbursed the amount and requested the National Museums to pay on their behalf for media communication. The amount was paid to a local company but no records were availed to show how the company was procured and the services offered. It has not been explained why the State Department for Sports, Culture and Heritage could not pay its creditors directly instead of seeking to pay through the National Museums and why Management made the payment without any supporting documents.

In the circumstances, the validity of the payment amounting to Kshs.10,000,000 could not be ascertained

2. Revaluation of Property, Plant and Equipment

As disclosed in Note 14 to the financial statements, the statement of financial position reflects property, plant and equipment balance of Kshs.3,522,281,770 which includes land with a book value of Kshs.1,575,127,445 which has not been valued since 1990s. However, as previously reported, the National Museum of Kenya has one hundred and fifty (150) parcels of land spread across the country, out of which only forty-three (43) parcels had title deeds. The remaining 107 parcels have no ownership documents.

Further, the property plant and equipment net book value of Kshs.3,522,281,770 includes heritage assets whose value could not be verified due to lack of fixed assets register. The National Museums has not disclosed the heritage assets that have future economic benefits or service potential other than their heritage value, and those heritage assets whose future economic benefit or service potential is limited to their heritage characteristics. In addition, the National Museums has not disclosed other heritage assets matters such as the measurement basis, method used, gross carrying amount and accumulated depreciation at the end of the period.

In addition, included in property, plant and equipment balance of Kshs.3,522,281,770 is Work-In-Progress balance of Kshs.709,465,851 as at 30 June, 2020. However, examination of records show that the construction works had been completed and the site handed over to National Museums Kenya vide certificate of completion No. NMK/FJ/15/2016 as at 30 June, 2020. However, the total cost of the Sea Wall was still included in the work in progress.

Consequently, it has not been possible to confirm whether property, plant and equipment balance of Kshs.3,522,281,770 as at 30 June, 2020 is fairly stated.

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 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

Prior Year Unresolved Issues

In the audit report of the previous year, several issues were raised under the Report on Financial Statements, Report on Lawfulness and Effectiveness in Use of Public Resources, and Report on Effectiveness of Internal Controls, Risk Management and Governance. However, the Management has not resolved the issues or given any explanation for failure to adhere to the provisions of the Public Sector Accounting Standards Board templates and The National Treasury's Circular Ref: AG.4/16/3 Vol.1(9) dated 24 June, 2020.

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 of conclusion on Lawfulness and Effectiveness in Use of Public Resources section in 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. Delayed Completion of Phase III Construction Works

During the year under review, Management awarded a contract to a construction firm for construction of phase three of a boundary wall at its Headquarters at a contract sum of Kshs.16,579,210 inclusive of VAT. The contract was set to expire within sixteen (16) weeks upon commencement of the work. However, the contract period had lapsed and the project was not complete as at 30 June, 2020.

Consequently, value for money on this project may not have been obtained.

2. Delayed Construction of Ablution Block at the Institute of Primate Research

The National Museums of Kenya awarded a contract for the construction of an ablution block at the Institute of Primate Research in Karen at a contract cost of Kshs.4,310,000. According to the contract documents, the contract was to take a period of 12 weeks from 8 July, 2019 to 7 October, 2019. Included in property, plant and equipment net book value of Kshs.709,465,851 is Kshs.2,044.178 being the second certificate payment made to the firm. However, in a letter dated 7 October, 2019, the contractor requested for an extension period of 8 weeks citing extra works done on an alternative access route to enable heavy vehicles passage with materials to the site.

Review of the progress on 20 January, 2020 revealed that the project was largely incomplete while the total amount of work certified as at 30 June, 2020 was Kshs.5,001,150 exceeding the contract sum by Kshs.691,150 for which no authorization document was provided for audit review.

Consequently, value for money on the expenditure Kshs.2,044,178 could not be established.

3. Proposed Construction of Vasco Da Gama Pillar Sea Wall

During the year under review, the National Museums of Kenya entered into contract with a local firm to carry out environmental and social impact assessment on the proposed construction of Vasco Da Gama Pillar sea wall at a contract sum of Kshs.3,420,000 inclusive of tax for a contract period of one (1) month. Management made an advance payment of Kshs.1,710,000 to the firm. However, the authenticity of the advance could not be ascertained due to the fact that National Museums of Kenya did not advertise for the services nor make use of any prequalified suppliers contrary to the Public Procurement and asset Disposal Act, 2015.

In the circumstances, Management is in breach of the 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, except for the matter described in the Basis for 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. Loss of Revenue

As previously reported, on July, 2017, the National Museums of Kenya evicted all the tenants from their building, Ndemi flats, to enable for repairs works to be undertaken. At the time of the eviction, the monthly rental income was estimated at Kshs.850,000. However, the building has remained vacant for over four (4) years resulting to a loss estimated loss of Kshs.40,800,000 as at 30 June, 2020. The building continues to deteriorate through wear and tear due to natural weathering and disuse. It has not been

explained why Management evicted the tenants without undertaking planning adequately for the commencement of the repair works.

In the circumstances, the existence of effective assets management policy to safeguard and manage public resources cannot be established

2. Long Outstanding Receivables from Exchange Transactions

As disclosed in Note 12(a) to the financial statements, the statement of financial position reflects receivables from exchange transactions amounting to Kshs.20,065,402 which includes trade receivables of Kshs.8,391,777 out of which Kshs.7,303,397 have been outstanding for long time with some dating back to 2013/2014 financial year. No provision appears to have been made for the doubtful debts

Consequently, the recoverability of the receivables from exchange transactions of Kshs.7,303,397 as at 30 June, 2020 could not be confirmed.

3. Trade and Other Payables

As disclosed in Note 15 to the financial statements the statement of financial position reflects a balance of Kshs.130,482,003 in respect of trade and other payables which includes outstanding bills amounting Kshs.33,335,805 with some dating far back to 2010. No explanation was given why the bills were not cleared during the year to which they relate. Further, the balance includes an amount of Kshs.34,439,410 which was explained as retention fee for contractors for projects dating back to 2012.

In the circumstances, the National Museums risk litigation and payment of penalties and interests for overdue accounts should any of the creditors resort to court to enforce repayment.

4. Fixed Asset Register

As disclosed in Note 14 to the financial statements, property, plant and equipment balance of Kshs.3,522,281,770 includes an amount of Kshs.3,384,291,303 being the opening net book value of the fixed assets. However, Management did not provide an asset register disclosing the items description, location, serial number, date purchased, source, cost price, additions, depreciations and disposal to enable their verification. Further, schedules to support the opening balances were not availed for audit verification.

Further, the Enterprise Resource Planning used for inventory management could not generate customized reports with contents like assets acquired, acquisition cost and acquisition date, assets disposal and value disposed, assets revalued and the revaluation amount to support the assets balances. The system depreciates the fixed asset from date of purchase which is contrary to the Policy as disclosed in the financial statements where newly acquired assets are not depreciated in the year of purchase.

Consequently, the existence of an effective assets management system capable of safeguarding and the assets cannot be established.

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 Board of Directors

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 National Museums' ability to continue to sustain its 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 liquidate the National 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 following the authorities which govern them, and that public resources are applied in an effective way.

The Board of Directors responsible for overseeing the National 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 if and 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 controls 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 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 National 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 National 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 National 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

04 April, 2022

