

REPORT OF THE AUDITOR-GENERAL ON NATIONAL MUSEUMS OF KENYA FOR THE YEAR ENDED 30 JUNE, 2021

PREAMBLE

I draw your attention to the contents of my report which is in three parts:

- A. Report on the Financial Statements that considers whether the financial statements are fairly presented in accordance with the applicable financial reporting framework, accounting standards and the relevant laws and regulations that have a direct effect on the financial statements.
- B. Report on Lawfulness and Effectiveness in Use of Public Resources which considers compliance with applicable laws, regulations, policies, gazette notices, circulars, guidelines and manuals and whether public resources are applied in a prudent, efficient, economic, transparent and accountable manner to ensure Government achieves value for money and that such funds are applied for intended purpose.
- C. Report on Effectiveness of Internal Controls, Risk Management and Governance which considers how the entity has instituted checks and balances to guide internal operations. This responds to the effectiveness of the governance structure, the risk management environment, and the internal controls developed and implemented by those charged with governance for orderly, efficient and effective operations of the entity.

An unmodified opinion does not necessarily mean that an entity has complied with all relevant laws and regulations, and that its internal controls, risk management and governance systems are properly designed and were working effectively in the financial year under review.

The three parts of the report are aimed at addressing the statutory roles and responsibilities of the Auditor-General as provided by Article 229 of the Constitution, the Public Finance Management Act, 2012 and the Public Audit Act, 2015. The three parts of the report, when read together constitute the report of the Auditor-General.

REPORT ON THE FINANCIAL STATEMENTS

Qualified Opinion

I have audited the accompanying financial statements of National Museums of Kenya set out on pages 60 to 97, which comprise the statement of financial position as at 30 June, 2021, the statement of financial performance, statement of changes in net assets, statement of cash flows, statement of comparison of budget and actual amounts, 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 the National Museums of Kenya as at 30 June, 2021, 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 National Museums and Heritage Act, 2006 and the Public Finance Management Act, 2012.

Basis for Qualified Opinion

1. Understated Property Plant and Equipment

The Statement of financial position reflects Kshs.3,685,937,571 in respect of property, plant and equipment which, as disclosed in Note 14 to the financial statements, includes land with a book value of Kshs.1,575,127,445 which has not been valued since 1990. 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 and the remaining 107 parcels have no ownership documents.

Further, the property, plant and equipment net book value of Kshs.3,685,937,571 includes heritage assets whose value could not be verified due to lack of a fixed assets register. The National Museums has not disclosed the heritage assets that have future economic benefits or service potential other than their current heritage value, and those heritage assets whose future economic benefit or service potential is limited to their heritage characteristics.

In addition, no disclosure has been made on other heritage assets such as the measurement basis, method used, gross carrying amount and accumulated depreciation at the end of the year.

In the circumstances, the accuracy and completeness of Property, Plant and Equipment of Kshs.3,685,937,571 as at 30 June, 2021 could not be confirmed.

2. Long outstanding Trade and Other Payables

The Statement of financial position reflects trade and other payables from exchange transactions totalling to Kshs.276,849,681 as disclosed in Note 15 to the financial statements. Review of the documents and schedules provided for audit reflected an amount of Kshs.61,639,784 in respect to outstanding bills, some dating as far back as the financial year 2006/2007. No explanation was given as to why the bills were not cleared during the year under review despite the corporation reporting a cash and cash equivalent of Kshs.88,507,231, as at 30 June, 2021.

In the circumstances, the existence of the trade payables balance of Kshs.61,639,784 and the Management's obligation on the liabilities could not be ascertained.

3. Uncertainty Related to Sustainability of Services

The statement of financial position reflects current liabilities of Kshs.276,849,681 against current assets of Kshs.137,675,568 resulting to a negative working capital of Kshs.139,174,113. Further, the Corporation recorded a deficit of Kshs.434,664,345 which depleted revenue reserves from 12,940,522 to negative 421,723,823 as reflected in the statement of changes in net assets. This precarious financial position has not been disclosed in the financial statements.

The Corporation is therefore not in a position to meet its current financial obligations as they fall due and largely depends on creditors and Governments grants to meet its day to day operations.

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

Budgetary Control and Performance

The statement of comparison of budget and actual amounts reflects final budget and actual on comparable basis of Kshs.1,336,810,000 and Kshs.1,884,173,816 respectively, resulting to an over expenditure of Kshs.547,363,816 or 41% of the budget.

The National Treasury/Board approval was not provided to justify the over-expenditure.

Prior Year Audit Matters

In the audit report of the previous year, a number of issues were raised under the report on financial statements. However, Management has not resolved the issues nor disclosed all the prior year matters as required by the reporting templates.

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 matter described in the Basis for Conclusion on Lawfulness and Effectiveness in Use of Public Resources, 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. Stalled Fort Jesus UNESCO World Heritage Site, Mombasa County

The contract was awarded to a local Company at a contract sum of Kshs.226,022,710. The project commenced on 3 September, 2020 with a completion date of 3 March, 2021 which was then revised twice to 3 June, 2021 (39 weeks) 15 September, 2021 (53 weeks). It was noted that both of these periods had already elapsed, and still the works are yet to be completed. Further, the company was paid a total of Kshs.108,365,552 by the end of the period under review.

Audit verification in the month of February, 2022 indicated that the following works were outstanding;

- i. A football pitch; the public works officer informed the team that there was presidential directive to have an ablution block built on the pitch. Excavations had been done but the ablution block had not been built.
- ii. Lower garden retaining wall (centre portion)
- iii. Lower garden ramp (slab and balustrades)
- iv. Play structures installation (sand, picket fence and play structure set up)
- v. Irrigation fittings and pump installation
- vi. Ablution block plumbing fittings installation
- vii. Ablution block internal doors supply and installation
- viii. Lower garden landscaping (grassing and ground covers)
- ix. Lower garden storm water drainage
- x. Supply of garden waste receptacle.
- xi. Installation of garden lights and CCTV
- xii. Pump house and water tank plinth
- xiii. Concrete wall at the ends of the sea wall to lower gardens

The contractor was not on site and had not been on the ground since December, 2021.

In the circumstances, the delay in completion of the project may result in cost escalation and the public may not get value for money of Kshs.108,365,552 already paid.

2. Poor Construction of the Proposed Vasco Da Gama Seawall and Concrete Repairs

The project commenced on 25 May, 2020 and was supposed to be completed on 10 May, 2021 at a contract sum of Kshs.59,349,235. Although the contractor had finished the works and handed over the project to National Museum of Kenya, audit verification during the month of February revealed that the pavement on the eastern wall had cracked and part of the ground had sank, casting doubt whether that side had been filled with gunny bags or selected boulders as proposed in the Bills of Quantities. In addition, the central walk way pavement concrete had cracked.

In addition, as per the Bills of Quantities, 40 feet containers and furniture of Kshs.500,000 and Kshs.200,000 respectively, initially acquired for the resident engineer's use were to revert to the employer. However, it was established that the container and furniture had not been handed over to the National Museums as indicated in the Bill of Quantities.

Consequently, the poor workmanship could be indicative of a lack of supervision and disregard to the desired value for money to the public.

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 overall 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 Museum's ability 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 abolish 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 in compliance with the authorities which govern them, and that public resources are applied in an effective way.

The Board of Directors is responsible for overseeing the National Museums' financial reporting process, reviewing the effectiveness of how the National Museum 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 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 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 National Museums' 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 Museum's ability to continue 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 National Museums to cease 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

26 July, 2022