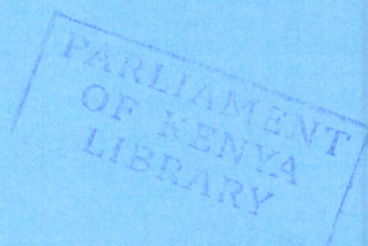


REPUBLIC OF KENYA



OFFICE OF THE AUDITOR-GENERAL

REPORT



OF

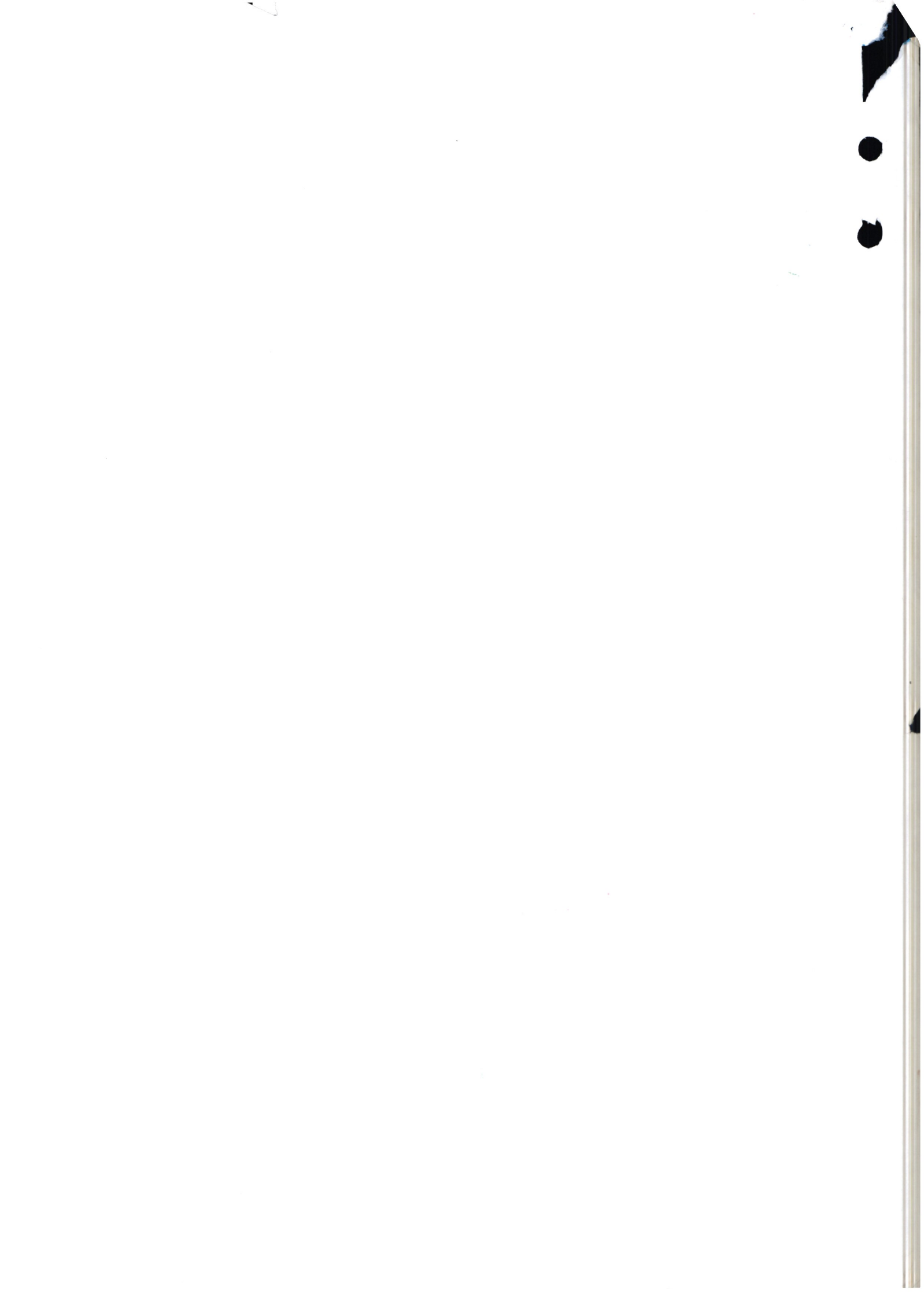
THE AUDITOR-GENERAL

ON

THE FINANCIAL STATEMENTS OF
NATIONAL MUSEUMS OF KENYA

THE NATIONAL ASSEMBLY PAPERS LAID	
DATE: 26 JUN 2019	DAY: wed
TABLED BY:	L.O.M
CLERK-AT THE-TABLE:	M. Maiti

FOR THE YEAR ENDED
30 JUNE 2018



NATIONAL MUSEUMS OF KENYA



26/6/2019.



NATIONAL MUSEUMS OF KENYA

WHERE HERITAGE LIVES ON

NATIONAL MUSEUMS OF KENYA

ANNUAL REPORT AND FINANCIAL STATEMENTS

FOR THE FINANCIAL YEAR ENDED
JUNE 30, 2018

Prepared in accordance with the Accrual Basis of Accounting Method under the International Public Sector Accounting Standards (IPSAS)

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NATIONAL MUSEUMS OF KENYA
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For the year ended June 30, 2018

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I. KEY ENTITY INFORMATION AND MANAGEMENT

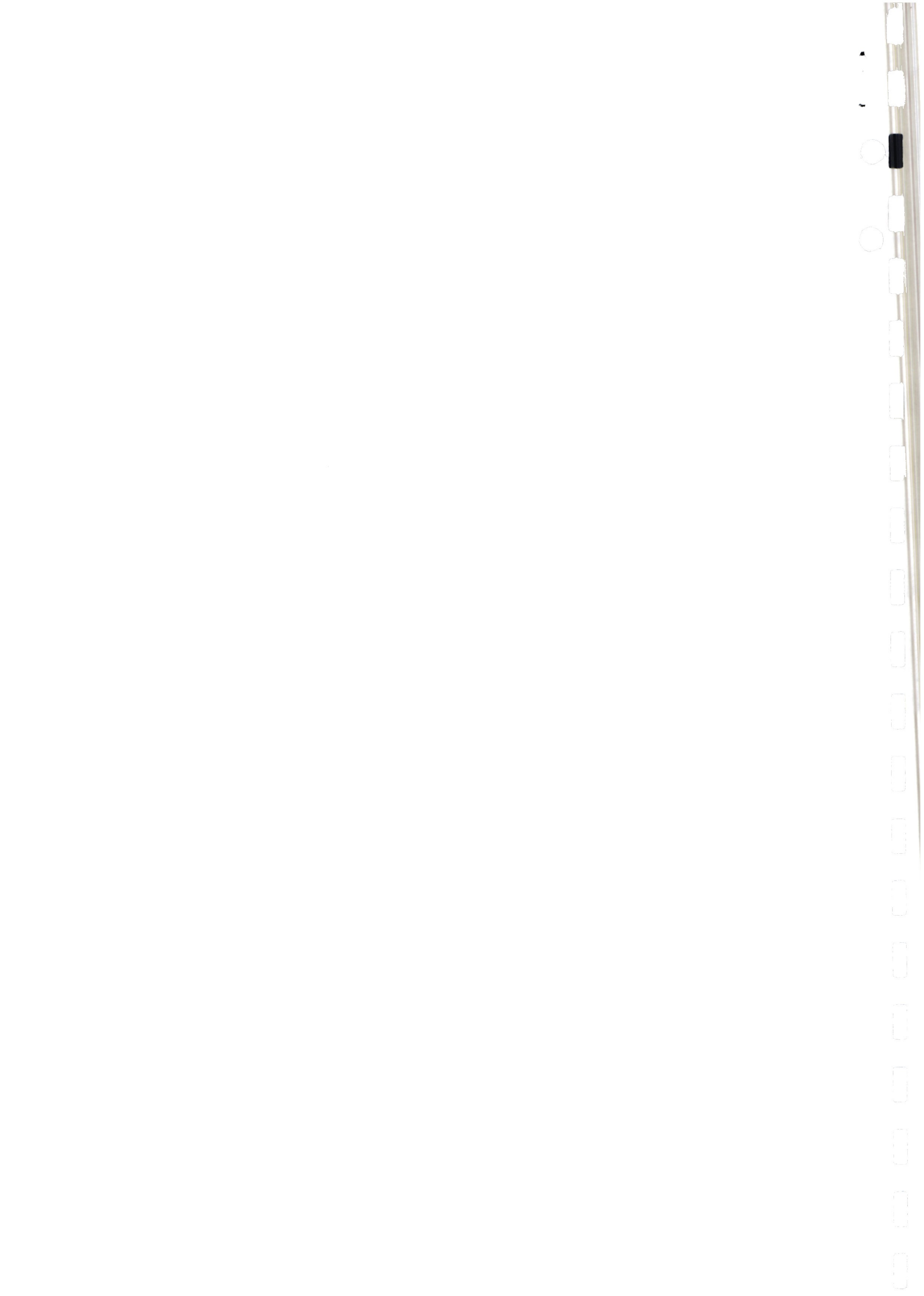
(a) Background information

The National Museums of Kenya is a State Corporation established by an Act of Parliament, National Museums and Heritage Act (CAP 216) domiciled and incorporated in Kenya. The establishment, functions and powers of the body corporate are stipulated in the Act.

(b) Principal Activities

The principal activities of National Museums of Kenya are:

- i. Identification and documentation of national and world heritage sites, national heritage monuments including collections therein, taxonomy of plants and animals of national importance, hotspots- ecosystems, historical and ethnographical materials of national importance, archaeological and paleontological objects, ethno-biology (indigenous and traditional knowledge) of national importance and intangible heritage of national importance
- ii. Repository of reference collections of plants and animals of national, regional and international importance including DNA reference library, living collections of plants and animals, collections within national monuments, historical and ethnographical reference collections and those of national importance, archaeological and paleontological things, ethno-biology (indigenous and traditional knowledge)-Intangible Heritage of national importance
- iii. Protect and conserve heritage sites of national and world importance, national monuments including collections therein, historical and ethnographical collections of national importance, archaeological and paleontological things, indigenous and traditional knowledge, plants and animals of national importance
- iv. Transmit knowledge on taxonomy of plants and animals of national importance, hotspots- ecosystems, heritage site national and world heritage, national monuments including collections therein, historical and ethnographical collections of national importance, archaeological and paleontological things, ethno-biology (indigenous and traditional knowledge) of national importance through publications, public programmes and national exhibitions
- v. Research on taxonomy of plants and animals of national importance, hotspots-ecosystems, heritage sites national and world heritage, national monuments including collections therein, historical and ethnographical of national importance, archaeological and paleontological things, ethno-biology (indigenous and traditional knowledge) of national importance, behavioural sciences, swahili language and connection to ancient and historical
- vi. International obligations: scientific authority and focal point for biological conventions (e.g. CITES, RAMSAR, Convention on Migratory species, CBD-specific thematic areas, IPBES). Management Authority – e.g. UNESCO World Heritage Convention, 1972 and heritage management development services



NATIONAL MUSEUMS OF KENYA
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Our Mission

To promote conservation and sustainable utilization of national heritage through generation, documentation and dissemination of research and collection management knowledge, information and innovations.

Our Vision

To be a global leader in heritage research and management.

(c) Key Management

The entity's day-to-day management is under the following key organs:

- a. Director General's Office (Chief Executive Officer)
- b. Directorate of Museums, Sites and Monuments (DMSM)
- c. Directorate of National Repository and Research (DNRR)
- d. Directorate of Administration and Human Research (DAHIR)
- e. Institute of Primate Research (IPR)

(d) Fiduciary Management

The key management personnel who held office during the financial year ended 30th June 2018 and who had direct fiduciary responsibilities were:

No.	Designation	Name
1.	Director General	Dr. Mzalendo N. Kibunjia (CEO)
2.	Director DMSM	Dr. Purity W. Kiura
3.	Director DNRR	Prof. Mary Gikungu
4.	Director IPR	Dr. Hastings Ozwara
5.	Director Admin & HR	Mr. Stanvas O. Ongalo

(e) Fiduciary Oversight Arrangements

Board Committees

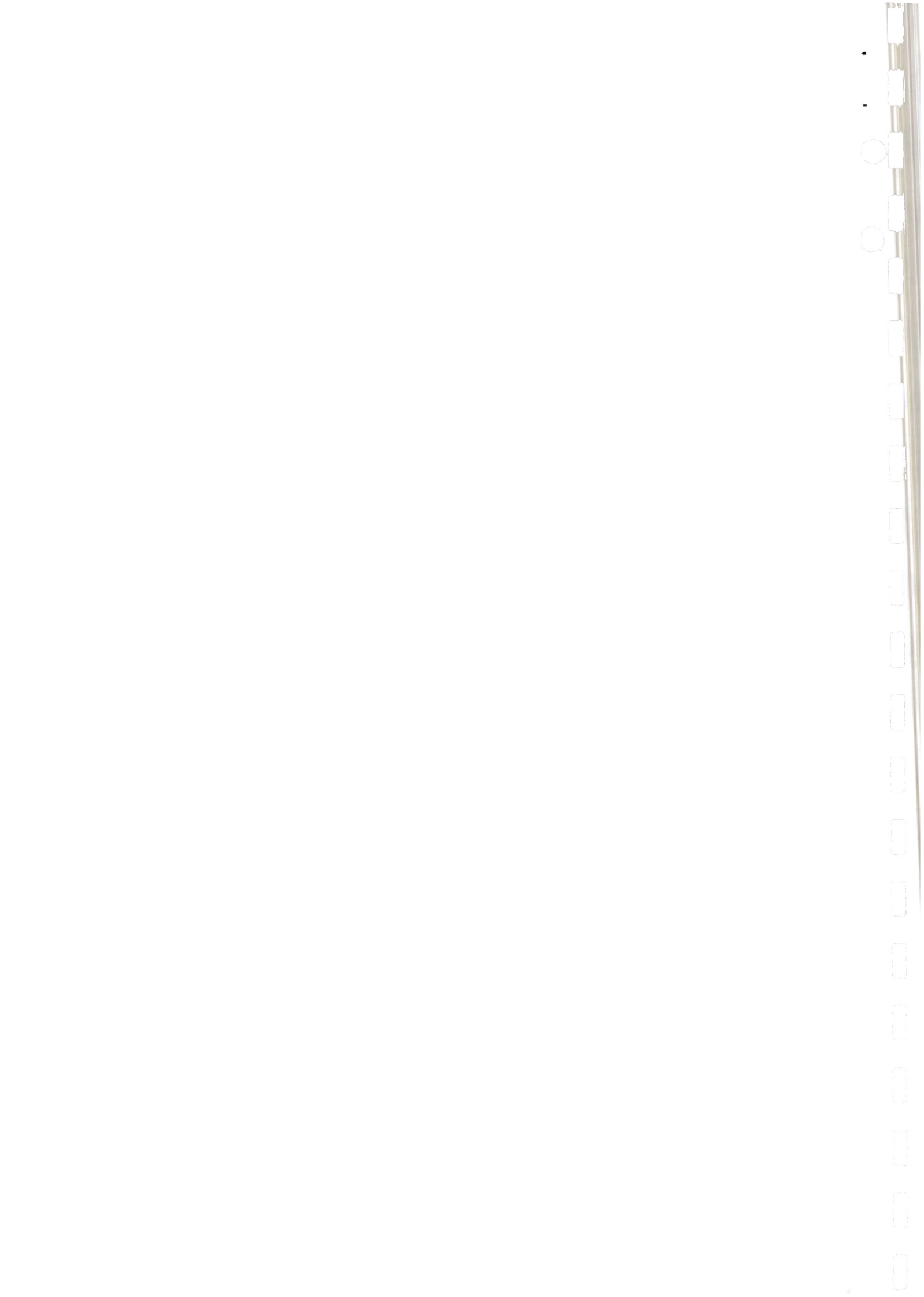
The Board has three standing committees, which meet regularly under the terms of reference set by the Board. In addition there are two adhoc committees; one for conducting interviews of senior staff and the other is on Rules and Regulations of the Heritage Act.

i. Audit Committee

This committee reviews the integrity of financial statements and financial performance, compliance with accounting standards and maintaining of oversight on internal control systems. The Director General, Director Administration and Human Resources and Financial Controller may attend meetings of the committee on invitation.

ii. Finance and Establishment committee

This committee is responsible for Monitoring and appraising the performance of senior management, review of all human resources policies, finances, budget and institutional (physical and infrastructural development)



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iii. Research Committee

This committee deliberates on all matters pertaining to Research policy and Management.

iv. Ad hoc Committees

There is an Adhoc committee, which is the interview panel. This committee deals with interviews of the senior staff being recruited.

(f) Entity Headquarters

National Museums of Kenya Headquarters
Museums Hill Road
P.O. Box 40658-00100
Nairobi, KENYA

(g) Entity Contacts

Telephone: (254) 3742161/4
E-mail: .info@museums.or.ke
Website: www.museums.or.ke

(h) Entity Bankers

- i. Kenya Commercial Bank
Sarit Centre, Westlands Branch
P.O. Box 14959
Nairobi, Kenya

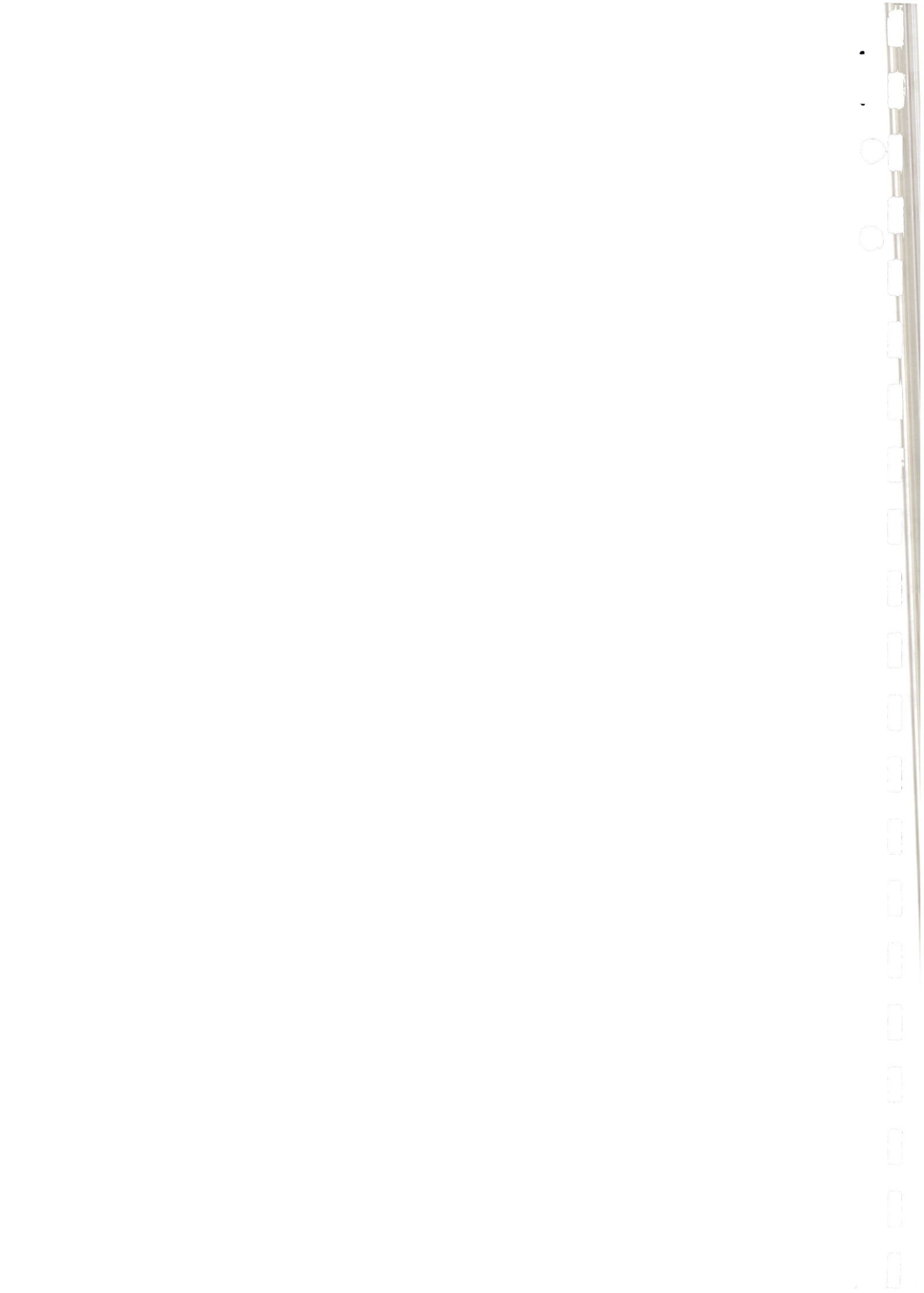
- ii. Standard Chartered Bank of Kenya
Westlands Branch
P.O. Box 14438
Nairobi, Kenya.

(i) Independent Auditors

Auditor General
Kenya National Audit Office
Anniversary Towers, University Way
P.O. Box 30084
GOP 00100
Nairobi, Kenya

(j) Principal Legal Adviser

The Attorney General
State Law Office
Harambee Avenue
P.O. Box 40112
City Square 00200
Nairobi, Kenya



II. THE BOARD OF DIRECTORS



Chairperson Board of Directors

Dr. Paula Kahumbu, Chairperson of National Museums of Kenya Board of Directors, born on 25th June, 1966, holds a PhD degree in Ecology and Evolutionary Science from Princeton University. Dr. Kahumbu holds national and international positions on boards and foundations and runs a successful wildlife conservation organisations.

Resigned on June 2018.



Secretary to the Board

Dr. Mzalendo Nyaga Kibunjia, EBS, born on 13th January 1962, holds a Ph.D. and MA in Anthropology from Rutgers, The State University, New Jersey, USA and a BA in Archaeology & History from the University of Nairobi, Kenya.

He is an Executive Director and has rich experience in heritage, anthropology, language and was and external examiner in various Universities.



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III. MANAGEMENT TEAM



Dr Mzalendo Nyaga Kibunjia, EBS holds a Ph.D. and MA in Anthropology from Rutgers, The State University, New Jersey, USA and a BA in Archaeology & History from the University of Nairobi, Kenya.

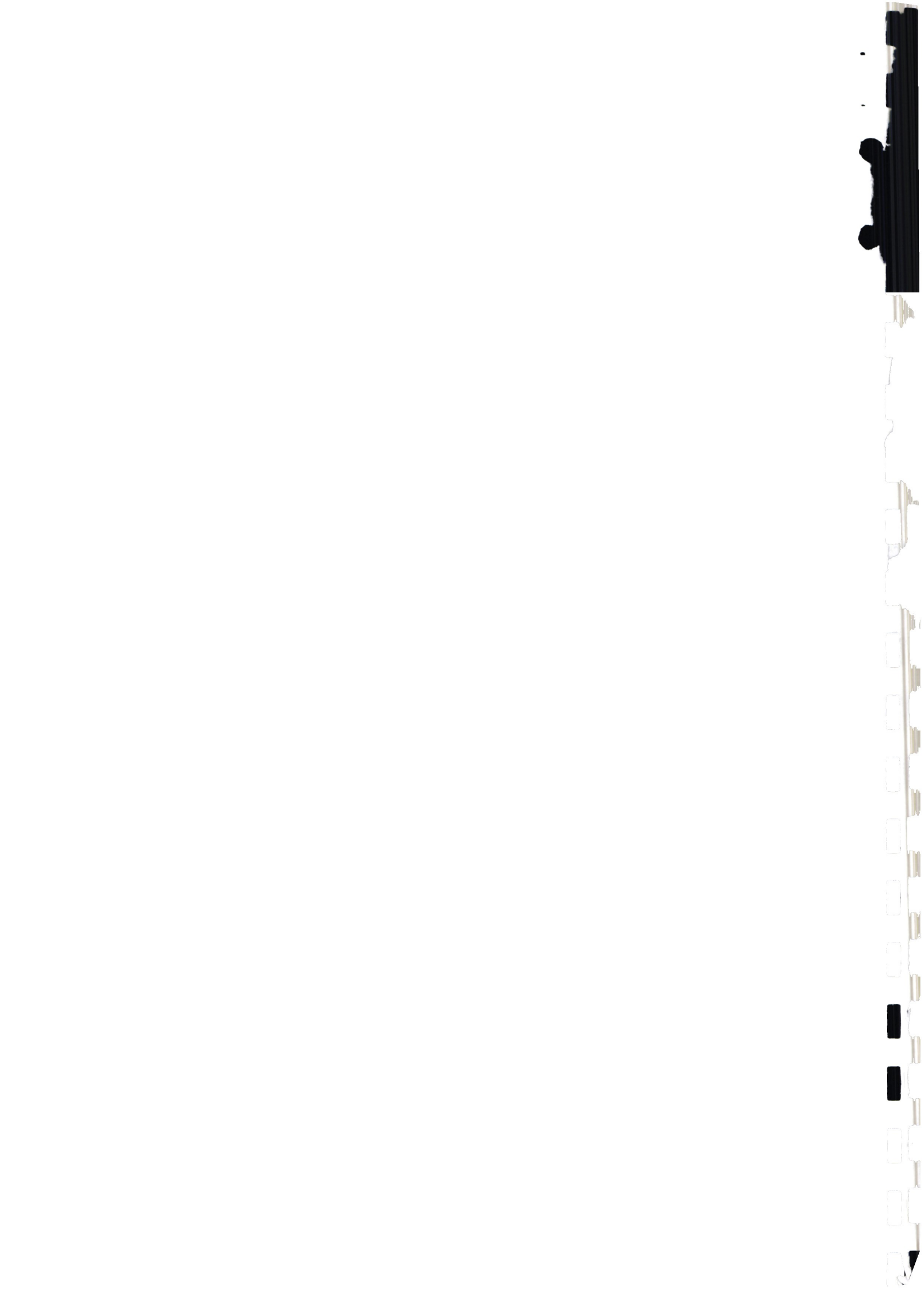
He has rich experience in heritage, anthropology and language.

A member Institute of Directors (IOD). Currently, Chief Executive Officer and Director General. Responsible for the operational running of the organization to ensure that the mission is achieved and efficacy of the organization is optimized. The Director General chairs and supervises the Directors Executive Team (D.E.T)



Mr. Stanvas Opija Ongalo holds a Masters' degree in Business Administration from Moi university, Bachelor degree in Government Administration, a Higher National Diploma in Human Resource Management and a Senior Management Certificate in Human Resource and Management.

Currently, Director Administration and Human Resource responsible for human capital, planning, recruitment, development, performance management, reward and wellness. Also responsible for harmonious employee relations, management of all organizations' logistics, fleet and facilities.



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Prof. Mary Gikungu holds a PhD in Natural Science and Mathematics (University of Bonn, Germany), M.Sc. in Conservation Biology (University of Nairobi) and Bsc in Botany and Zoology (University of Nairobi). She has published over 40 papers in peer-reviewed journals.

Currently, Director, National Repository and Research. She is a renowned Bee Specialist and a Conservation Biologist with wide experience in ecosystem services, climate change, environmental health and food security.

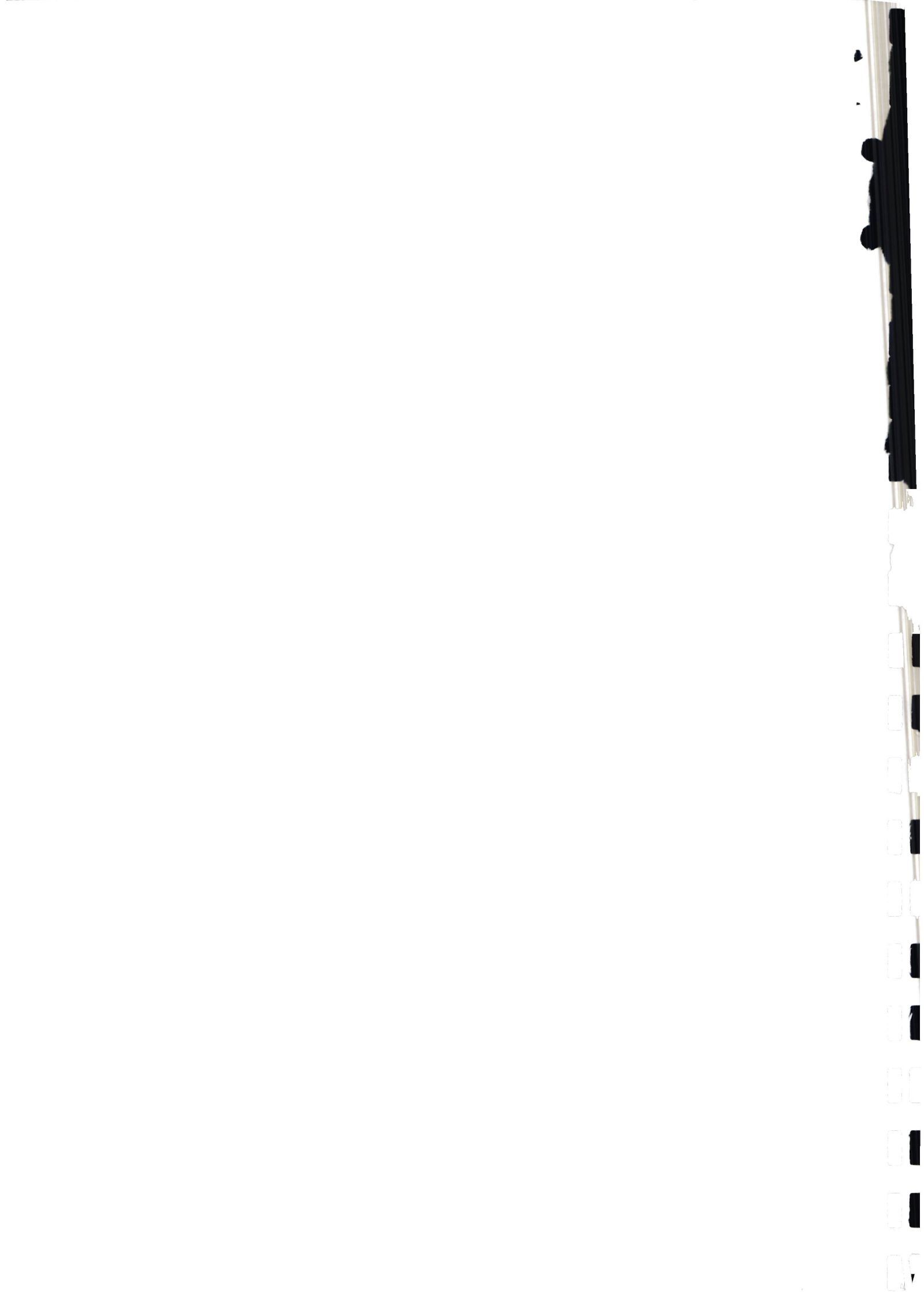
She is a Lead Author (LA) in Intergovernmental Platform on Biodiversity and Ecosystem Services (IPBES), member of Platform for Agricultural Research (PAR) –under FAO and a Mentor in African Women in Agricultural Research and Development (AWARD). In addition, she has been a Council Member of Kibabii University.



Dr. Purity Kiura holds a PhD in Anthropology from Rutgers University, New Jersey, MA in Anthropology and a BSc in Anthropology from Rutgers University, New Jersey.

Director of Antiquities Sites and Monuments.

Responsible for management of all Antiquities Sites and Monuments.



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Dr. Hastings Ozwara holds PhD in Malaria, at Leiden University, Netherlands, MSc in Parasitology, University of Nairobi and BSc in Zoology, University of Nairobi,

Director of Institute of Primate Research

Responsible for the operational running of the institute



Ms. Metrine Wakhungu is an advocate of the High Court of Kenya and member of the Law Society of Kenya admitted to the Kenyan bar in 2004. She holds a Master of Laws Degree (LL.M), (specialty in Law Governance and Democracy) and Bachelor of Laws Degree (LL.B), both from the University of Nairobi.

She also holds a post graduate diploma in Law from the Kenya School of Law and a Diploma in Human Resources Management from the Kenya Institute of Management. She is the legal advisor to the NMK Board of Directors and management and responsible for Board secretariat services. She advises on legal and statutory compliance requirements as well as on good corporate governance practices.



Mr. Geoffrey Namachanja is a graduate of Business Management (Finance Option) and holds a Bachelor of Business Management (Accounting option) from Moi University, Certified Public Accountant of Kenya and a member of Institute of Certified Public Accountants of Kenya. Certified Trainer of Trainers by Centre for Parliamentary Studies and Training (CPST).

The Financial Controller is responsible for the organizations' finances and financial reporting. In-charge of planning, sourcing and management of financial resources to achieve corporate objectives.



IV. DIRECTOR GENERAL'S STATEMENT

The National Museums of Kenya (NMK), established in 1910 is a State Corporation governed by an Act of Parliament, the National Museums and Heritage Act No. 6 of 2006 with the broad mandate to conserve and manage national heritage and serves as the National Repository of things of scientific, cultural, technological and human interest. It holds our Collective National Memory spanning over millions of years.

2017/2018 was a year of mixed fortunes. It was an election year with an extended electioneering period that greatly affected the activities of the institution. National Museums of Kenya (NMK) relies solely on internally generated funds to cater for its recurrent operations and maintenance activities. Despite being an electioneering period, the institution continued with a recovery trend compared to preceding years. Internally generated funds increased to Kes. 310 Million compared to Kes. 290 Million received during the previous year.

Although our visitor numbers suffered in the year as a result of the electioneering period, as the financial year was coming to a close, we noticed an increase of visitor numbers, from 96,000 in the previous year to 156,000 during the year under review, that is a sure sign that the institution is on its road to recovery.

On a positive note, the Government of Kenya through the National Treasury enhanced our Personnel and Emolument (P&E) to cater for the shortfall that we have been operating in for the last seven years. In the same year, we have also been able to rehabilitate a number of Sites and Monuments through external partnerships. . These includes the rehabilitation of Rabai Cultural Landscape and Museum, which is the cradle of Christian religion and education in East Africa funded by Embassy of the Federal Republic of Germany in Kenya through a grant of Kes. 5.7 Million.

Our research portfolio also grew in leaps and bounds and through this, the institution was able to raise Kes. 13 Million compared to Kes. 4.5 Million during the previous year from levying administrative fees on such projects. We have also made a number of discoveries of which are reported in the NMK Annual Publication Report.



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Moreover, the National Museums of Kenya advanced its mandate on heritage management through participating in international obligations through Multilateral Agreements and Conventions. We are very much delighted to welcome the incorporation of Thimlich Ohinga archaeological site into UNESCO World Heritage list. It becomes the 7th World Heritage site in Kenya.



Dr. Mzalendo N. Kibunja, PhD, EBS.

Director General

Date: 11th March 2018



V. CORPORATE GOVERNANCE STATEMENT

Corporate governance is the process by which institutions are directed, controlled and held to account.

BOARD OF DIRECTORS

National Museums of Kenya Board of Directors is responsible for overall management and is accountable to the Minister in charge of the Ministry of Sports, Culture and the Arts for ensuring that the institution complies with the law and the highest standards of best practice in corporate governance and ethics. The Directors are committed to the need to conduct the operations of the institution with integrity, in accordance with generally accepted corporate practice, and endorse the internationally developed principles of corporate governance. All the Board members are non-executive including the Chairman of the Board except the Director General who is the chief executive officer. The Cabinet Secretary in charge of Sports, Culture and the Arts appoints the Directors for a period of three years in accordance with the constitution.

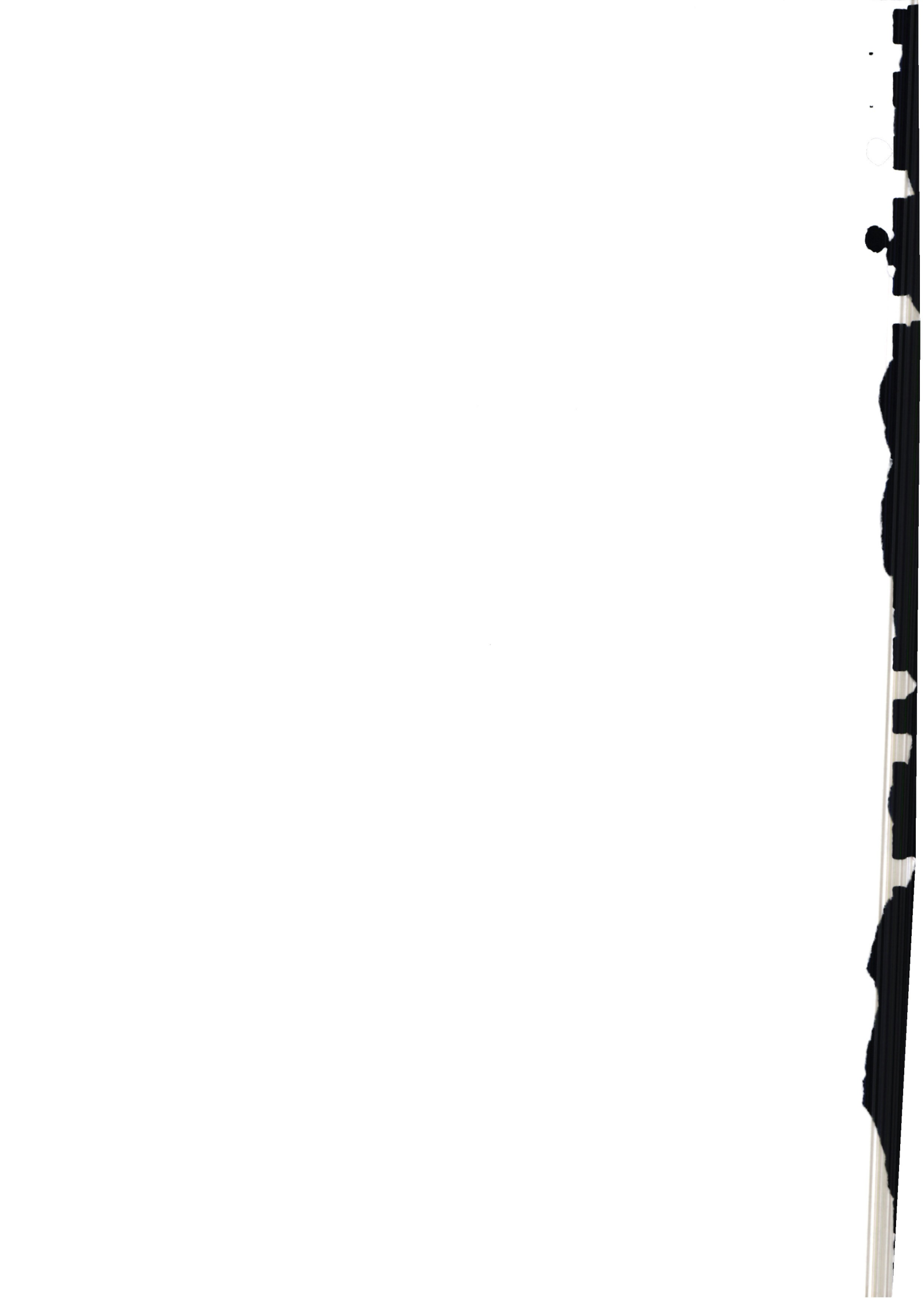
BOARD MEETINGS

The Board meets at least four times a year. The Directors are given appropriate and timely information so that they can maintain full and effective control over strategic, financial, operational and compliance issues. The Board has delegated the day-to-day operations to the Director General who is the Chief executive officer. The Board nonetheless retains responsibility for establishing and maintaining the institutions internal controls in financial, operational and compliance issues as well as implementing strategies for the long-term success of the institution.

BOARD COMMITTEES

The Board has three standing committees, which meet regularly under the terms of reference set by the Board. In addition, there are two ad hoc committees; one for conducting interviews of senior staff and the other on Rules and Regulations of the Heritage Act. These committees are constituted as follows:

The Audit Committee



The Audit & Risk Management Committee forms a key element in the governance process by providing an independent expert assessment of the activities of top management, the quality of risk management, financial reporting, financial management and internal audit, to the board of directors.

The Finance and Establishment committee

The Committee is the prime mechanism through which the Board of Directors of National Museums of Kenya (NMK) ensures that the institution's decisions, policies and practice in relation to Finance, HR, procurement, infrastructural development and all processes are in full compliance with relevant policies, and statutory requirements, regulations, Mwongozo Code of Governance as well as the Board Charter.

Research Committee

The Research Committee of the Board generally deliberates all matters pertaining to research policy and management.

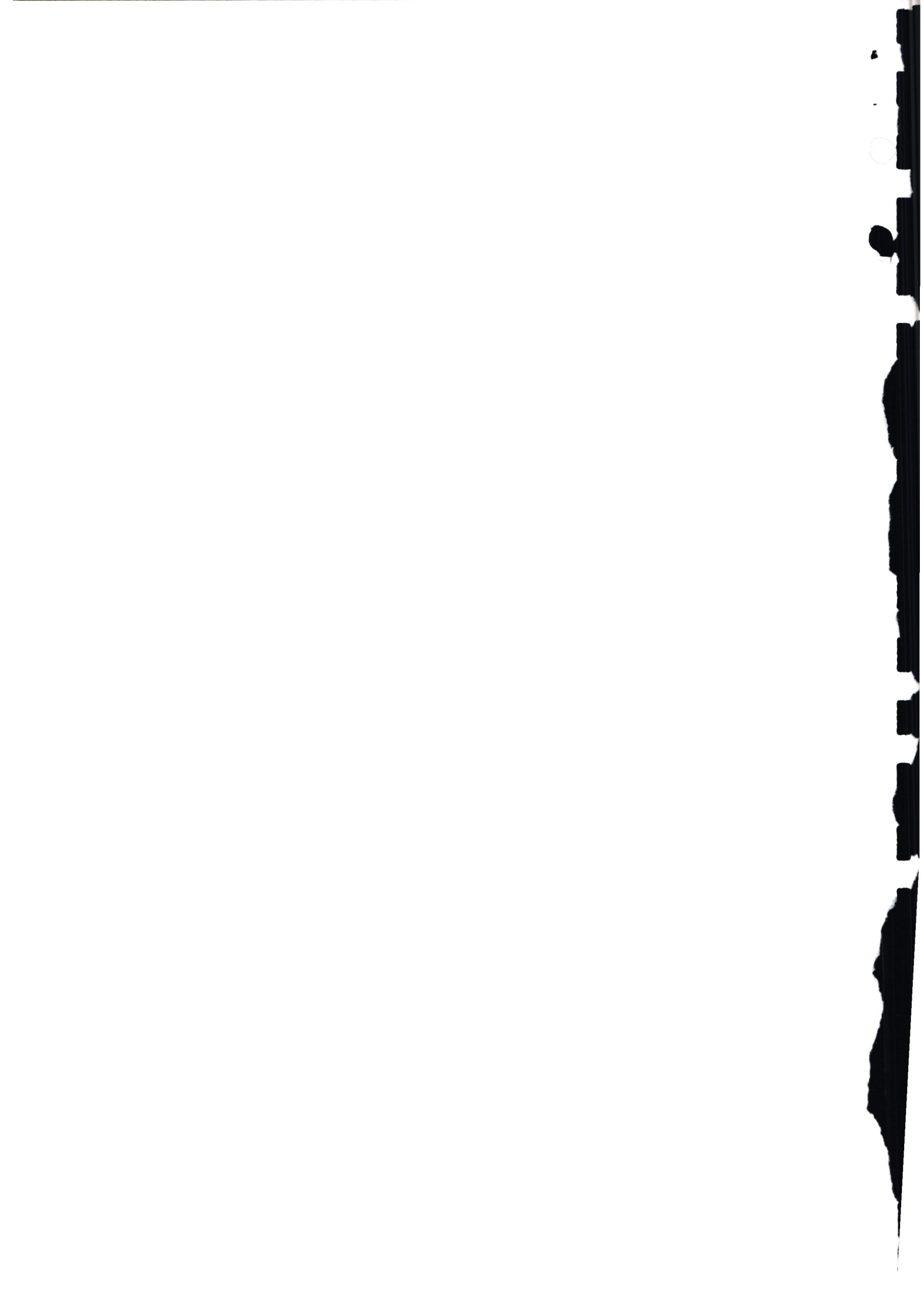
ADHOC COMMITTEE (as and when formed)

Adhoc committees may be formed for different tasks as determined by the Board for example conducting of interviews for senior staff.

All board committees make recommendations to the full Board of Directors for consideration.

INTERNAL CONTROLS

These are processes for assuring achievement of the organization's objectives in operational effectiveness and efficiency, reliable financial reporting, and compliance with laws, regulations and policies. This involves everything that controls the risks of the organization and relates to authorization and approval of transactions, segregation of duties, supervision and monitoring of the activities, proper record keeping, ICT controls, valuation, custody and physical safeguards of the assets of the organization. It is the means by which the organization's resources are directed, monitored, and measured. It plays an important role in detecting and preventing fraud and protecting the organization's resources, both physical (e.g., machinery and property) and intangible (e.g., reputation or intellectual property such as trademarks).



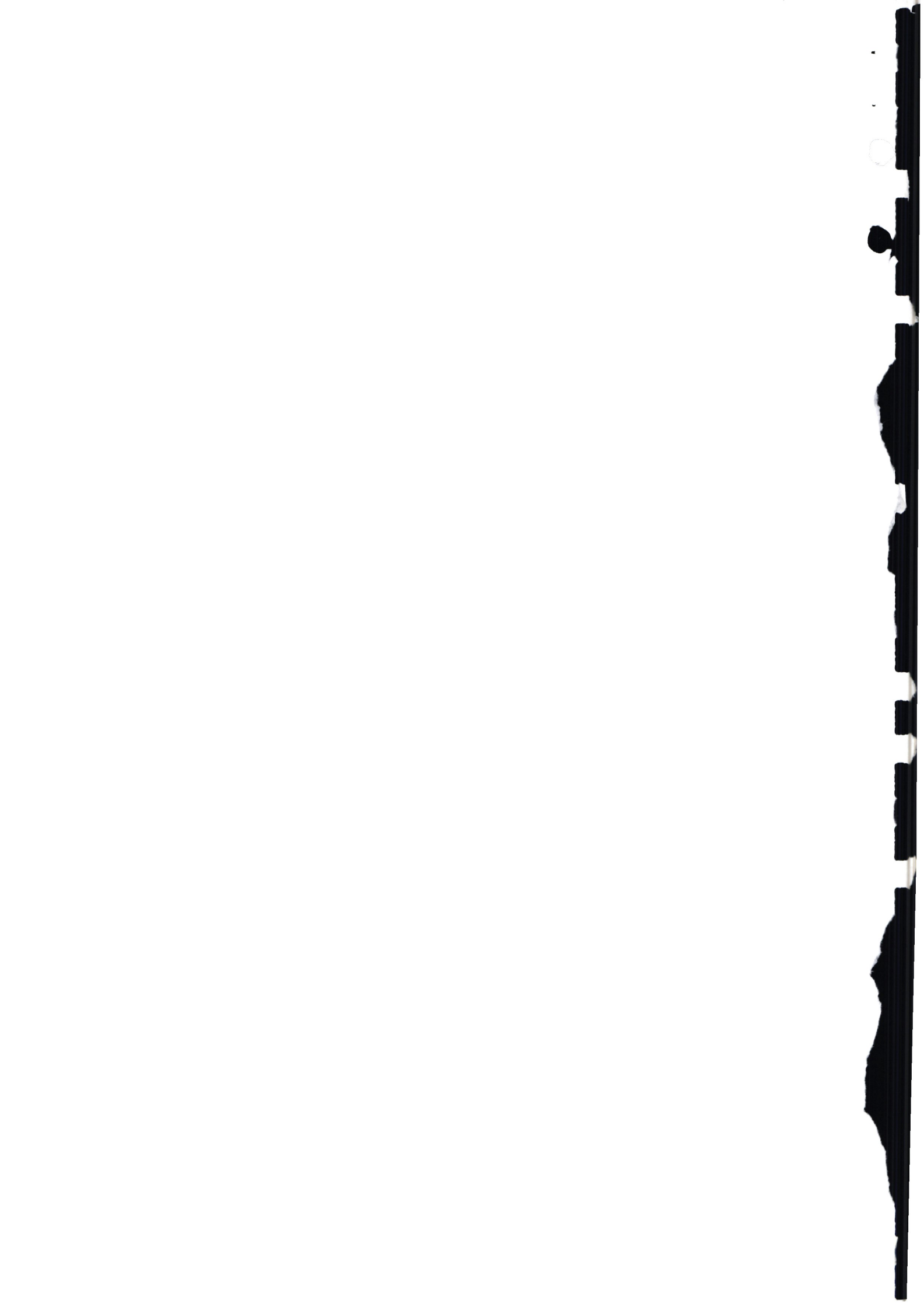
At the organizational level, internal control objectives relate to the reliability of financial reporting, timely feedback on the achievement of operational or strategic goals, and compliance with laws and regulations. At the specific transaction level, internal control refers to the actions taken to achieve a specific objective (e.g., how to ensure the organization's payments to third parties are for valid services rendered.) Internal control procedures reduce process variation, leading to more outcomes that are predictable. The effectiveness of the internal controls depends on;

The Management

The responsibility of ensuring that the internal controls are in place and are duly adhered to rests with the management. The Chief Executive Officer (the top manager) has the overall responsibility of designing and implementing an effective internal control system and setting the "tone at the top" that affects integrity and ethics and other factors of a positive control environment. He fulfills this duty by providing leadership and direction to senior managers and reviews the way they are controlling the resources of the organization. Senior managers, in turn, assign responsibilities for establishment of more specific internal control policies and procedures to personnel responsible for the various departmental functions.

Board of Directors

Management is accountable to the Board of Directors, who provides governance, guidance and oversight. Effective Board members are objective, capable and inquisitive. They also have knowledge of the entity's activities and environment, and commit the time necessary to fulfil their Board responsibilities. Management cannot at any one point in time override controls and ignore or stifle communications from subordinates, enabling a dishonest management which intentionally misrepresents results to cover its tracks. Existence of a strong active Board particularly when coupled with effective upward communications channels and capable financial, legal and internal audit functions is often best able to identify and correct such a problem.



CUSTOMER SERVICE CHARTER

The Service Charter puts in place service standards that guide the National Museums of Kenya management and staff, in provision of high services to its clients. This is keeping in line with existing laws, rules, regulations, norms, professional ethics and mostly important-customer expectations. The service Charter thus identifies areas in which the NMK operates, defines the responsibilities of the management and staff, describes the rights of clients and identifies key quality control indicators that will enable delivery of high quality services by NMK to all stakeholders/clients and the general public at large.

DIRECTORS' ALLOWANCES AND LOANS

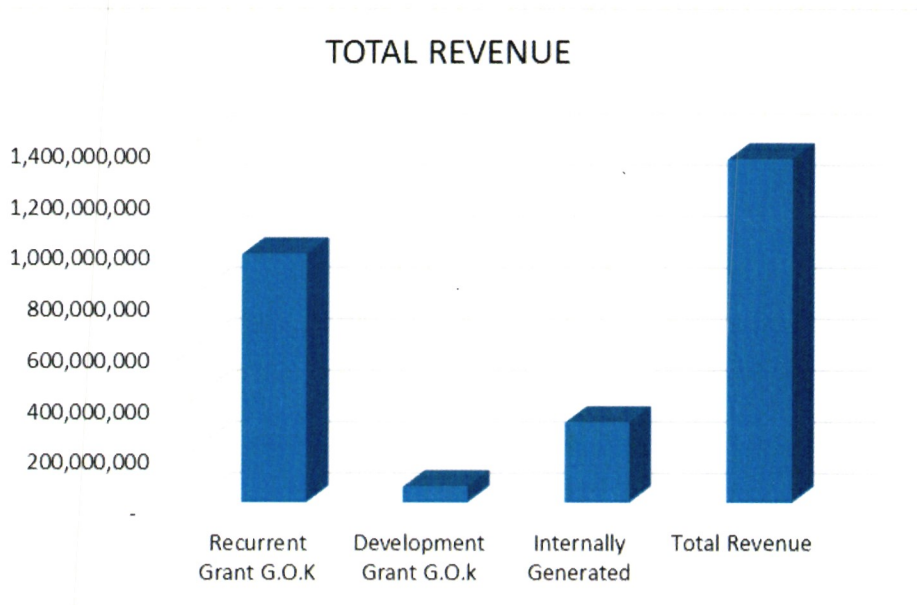
The aggregate amount paid to Directors allowances for services rendered during 2017/2018 financial year are disclosed in the notes to the financial statements. There were no Directors loans at any time during the year.



VI. MANAGEMENT DISCUSSION AND ANALYSIS

The Entity's Operational and Financial Performance

The National Museums of Kenya internally generated revenue for twelve months stood at Kshs 309,725,428 Government of Kenya personnel and development grants at Kshs 965,900,000 and Kshs 59,993,500 respectively. The Management noted that the organization heavily relies on revenue from non-exchange transactions, which caters for its personnel emoluments as indicated in the charts below.



TRENDS IN REVENUE GENERATION

Demand for efficient revenue collection

NMK has witnessed an increase in revenue collection points comprising of gate, rentals, laboratory, hire of its facilities and others. This necessitates a paradigm shift in the focus on effective and efficient revenue collection methods to improve service delivery to the public as we maximise on revenue collection. NMK still explores how to install and operationalize the Enterprise Resource Planning System.



Electronic Fund Transfer

As the world has become a small village with ICT and our country Kenya embracing it, NMK has no choice but to cope up. NMK has also embraced EFT's, mobile money as a mode of settlement of payment.

CHALLENGES AND OPPORTUNITIES

Physical infrastructure and Equipment

The physical infrastructure is old and dilapidated and available resources by the organization are not sufficient for repair and maintenance. The availability and functionality of laboratory equipment and infrastructure is critical in research. It is important that funds be allocated to replace the equipment and improve the infrastructure to avoid disruptions in service delivery.

Title Deeds

NMK is charged with the responsibility of Heritage management in the country. In the process the various governments have continued to allocate NMK parcel of land for preservation of historic sites. The acquisition of title deed for these allotments has been a great challenge to the organisation. Hence the value of its assets in the financial statements does not reflect true state of affairs.

Automation of an Enterprise Resource Planning System

The National Museums of Kenya having several revenue stations across the country still operates manually. This makes it difficult to ascertain the total receipts and expenditure at any given period. This may lead to loss of revenues through pilferages at the various collection points hence posing a challenge for management to put or improve on their internal controls timely.

Marketing

The organization having been in existence over a century, it still faces the challenges of positioning itself in the industry. This is attributed to available meagre resources for operations and maintenance.



CORPORATE CITIZENSHIP

Reading and writing culture

The National Museums of Kenya Resource Centre in partnership with Writers Guild Kenya and John Silver held a three day workshop on print making, where 20 children between ages 4 and 13 were taught on how to write and read effectively. In addition, about 16 participants were trained on printmaking. The function culminated with a graduation ceremony at the resource centre grace by the Director Administration and Human Resource, Manager Resource Centre, Chief Executive Officer, Writers Guild and the grandaunts families.

Maulid day celebrations at Gede Museum November 2017

The month of Rabi' ul- Awwal of the Islamic calendar is well known in the entire Muslim world as Shahr al- Mawlid (the Month of Birth) of the Prophet Muhammad S.A.W. The precise date of his birth is disputed among the historians but 12th of Rabi' ul- Awwal is acknowledged by Muslim scholars to be the date of his birth.

Gede National monument in collaboration with the Imam of Gede Mosque marked the day by having maulid celebration at the ruins of the great mosque to commemorate the birth of Prophet Muhammad S.A.W. The procession (Zefe) started at the Museum to various tombs by reciting Quaran and Dua culminating with Asr prayer at the historical site.

International Museum Day Celebration

NMK gives free entry to the museum during the International Museum Day celebration. To be a good corporate citizen, we must first be good neighbors. Through Elimu Asilia NKM librarians and researchers including IT experts work with local communities to collect, prepare, preserve (digital), share, exchange and disseminate indigenous knowledge on culture, environment, health and history for the memory of our nation for sustainability and eco-social development.



VII. CORPORATE SOCIAL RESPONSIBILITY STATEMENT

National Museums of Kenya is a responsible corporate citizen. The department of Resource Centre attended the 6th edition of the Rusinga Cultural Festival held in December 2017, which was made more interesting and easy to understand by the inclusion of the Abasuba Pictorial History exhibition prepared by the National Museums of Kenya through Elimu Asilia project. The exhibition told the history of the journey of the Abasuba community from Uganda to Kenya, while the community celebrated the unique culture of the Abasuba people which they want to revitalize.

The festival set the Island alight for Christmas Holidays and provided a platform for the Abasuba people to reunite and re-tell their story by enacting different traditional performances, which included wrestling, tug of war, dances, boat racing, Miss Suba 2017 and a number of Suba delicious Cuisine. During the festival community reiterated the need to preserve their unique culture, particularly the Suba language that the people spoke with abandon during the festival is listed in UNESCO's red book of endangered languages.



Rusinga Cultural Festival Elimu Asilia Suba Exhibition

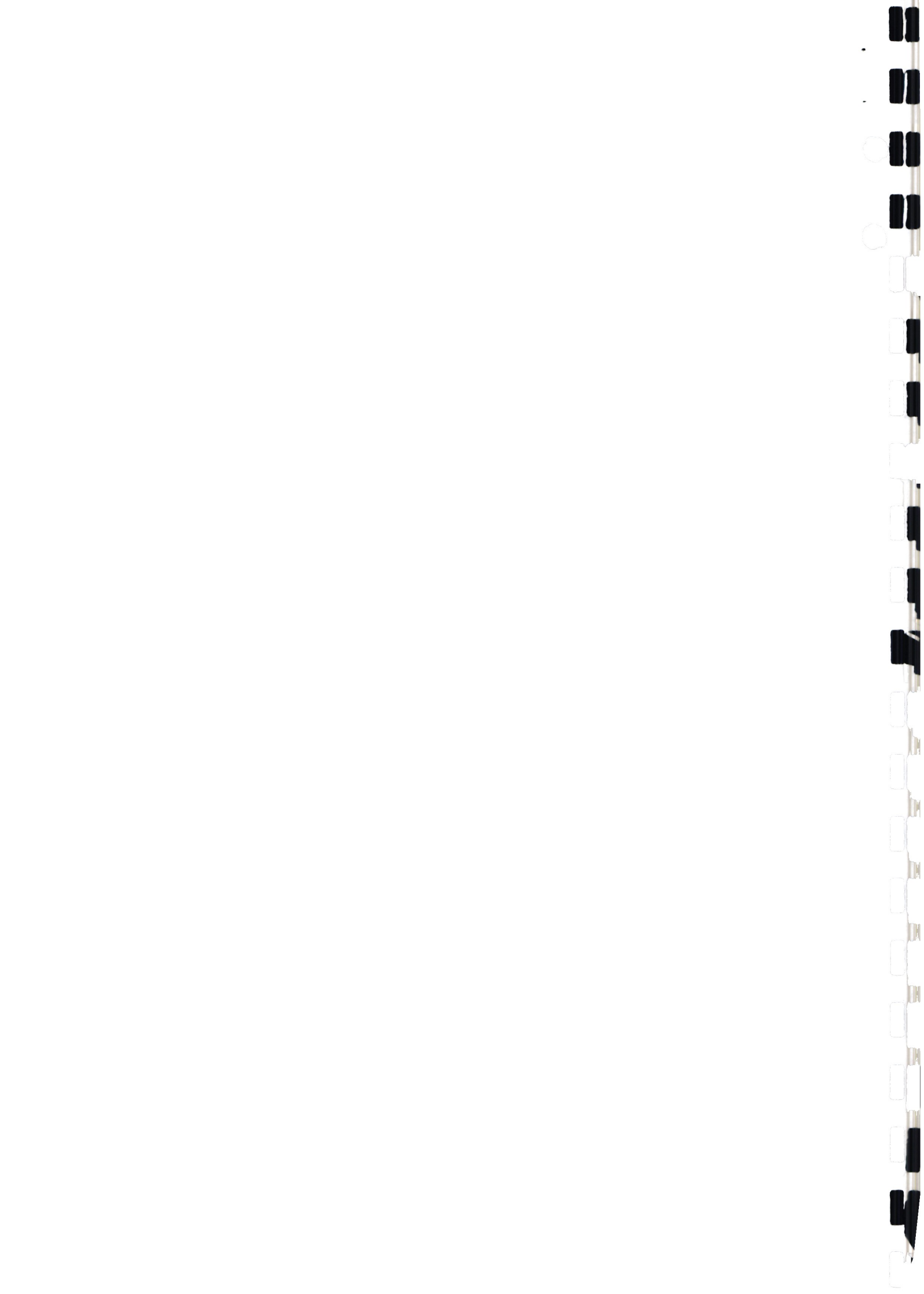




Tug of war for women



Boat racing at Litare Beach as part of the Rusinga Cultural Festival 2017



World Environment Day

The Institute of Primate Research in collaboration with the Ooloolua Forest Community Association marked the World Environment Day on 5th June 2018 in style. The major activity for the day was tree planting at Nkaimurunya Primary School. The occasion was graced by Ngong' administration, the neighbouring community representatives and the above mentioned school at large.





VIII. REPORT OF THE DIRECTORS

The Directors submit their report together with the audited financial statements for the year ended June 30, 2018, which show the state of the Organizations affairs.

Results

The results of the Organizations for the year ended June 30, 2018 are set out on page 26 to 30

Board of Directors

The members of the Board of Directors who served during the year are shown on page 6

Auditors

The Auditor General is responsible for the statutory audit of the organization in accordance with Article 229 of the Constitution of Kenya and the Public Audit Act 2015, which empowers the Auditor General to nominate other auditors to carry out the audit on his behalf.

By Order of the Board



IX.STATEMENT OF DIRECTORS' RESPONSIBILITIES

Section 81 of the Public Finance Management Act, 2012 and section 23 of the National Museums and Heritage Act of 2006, requires the Directors to prepare financial statements, which give a true and fair view of the state of affairs of the National Museums of Kenya at the end of the financial year/period and the operating results of the Organization for that year/period. The Directors are also required to ensure that the Organization keeps proper accounting records which disclose with reasonable accuracy the financial position of the organization. The Directors are also responsible for safeguarding the assets of the National Museums of Kenya.

The Directors are responsible for the preparation and presentation of the organization's financial statements, which give a true and fair view of the state of affairs of the organization for and as at the end of the financial year ended on June 30, 2018.

This responsibility includes:

- i. Maintaining adequate financial management arrangements and ensuring that these continue to be effective throughout the reporting period;
- ii. Maintaining proper accounting records, which disclose with reasonable accuracy at any time the financial position of the entity;
- iii. Designing, implementing and maintaining internal controls relevant to the preparation and fair presentation of the financial statements, and ensuring that they are free from material misstatements, whether due to error or fraud;
- iv. Safeguarding the assets of the organization;
- v. Selecting and applying appropriate accounting policies; and
- vi. Making accounting estimates that are reasonable in the circumstances.

The Directors accept responsibility for the organizations financial statements, which have been prepared using appropriate accounting policies supported by reasonable and prudent judgements and estimates, in conformity with International Public Sector Accounting Standards (IPSAS), and in the manner required by the PFM Act and the State Corporations Act. The Directors are of the opinion that the organization's financial statements give a true and fair view of the state of organization's transactions during the financial year ended June 30, 2018 and of the organization's



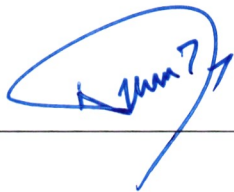
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For the year ended June 30, 2018

financial position as at that date. The Directors further confirm the completeness of the accounting records maintained for the organization, which have been relied upon in the preparation of the organization financial statements as well as the adequacy of the systems of internal financial control.

Nothing has come to the attention of the Directors to indicate that the organization will not remain a going concern for at least the next twelve months from the date of this statement.

APPROVAL OF THE FINANCIAL STATEMENTS

The Organization's financial statements were approved by the Board on 11th March 2019 and signed on its behalf by:



A handwritten signature in blue ink, appearing to read 'Munira', is written over a horizontal line.

Director General



REPUBLIC OF KENYA

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NAIROBI

OFFICE OF THE AUDITOR-GENERAL REPORT OF THE AUDITOR-GENERAL ON NATIONAL MUSEUMS OF KENYA FOR THE YEAR ENDED 30 JUNE 2018

REPORT ON THE FINANCIAL STATEMENTS

Qualified Opinion

I have audited the accompanying financial statements on National Museums of Kenya set out on pages 26 to 82, which comprise the statement of financial position as at 30 June 2018, 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 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 2018, 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 No. 6 of 2006.

Basis for Qualified Opinion

1. Cash and Cash Equivalents

1.1 Un-Reconciled Differences in Fort Jesus Project Account

The statement of financial position as at 30 June 2018 reflects an amount of Kshs.124,896,704 in respect of cash and cash equivalents. Included in this balance is Kshs.18,184,197 for Fort Jesus project account. It was however noted that, the bank reconciliation statements for the Fort Jesus Project account indicates a balances of Kshs.983,628 resulting into unreconciled difference of Kshs.17,200,568 between the two sets of records.

1.2 Long Outstanding Reconciling Items

A review of bank reconciliations statements for 30 June 2018 revealed long outstanding unexplained reconciling items relating to stale cheques of Kshs.450,549, direct bank debits of Kshs.2,519,390 and unbanked amounts of Kshs.519,375 respectively. The management indicates that out of the Kshs.519,375 unbanked, Kshs.261,653 were funds misappropriated by staff. However, the management did not demonstrate any efforts to recover the lost funds.

Report of the Auditor-General on National Museums of Kenya Financial Statements for the year ended 30 June 2018

In the circumstances, it has not been possible to confirm the accuracy of the cash and cash equivalents balance of Kshs.124,896,704 reflected in the statement of financial position as at 30 June 2018.

2. Transfers from the State Department of Culture and Heritage

The statement of financial performance for the year ended 30 June 2018 reflects Kshs.1,025,893,500 as grants received from the State Department of Culture and Heritage while the audited financial statements of the State Department reflects a total Kshs.1,008,396,750 as having been transferred to the National Museums in the same year. The resultant difference of Kshs.17,496,750 was not explained or reconciled.

Consequently, it has not been possible to confirm the source and the purpose of the extra funding of Kshs.17,496,750 as at 30 June 2018.

3. Property, Plant Equipment

The statement of financial position as at 30 June 2018 reflects Property, Plant and Equipment balance of Kshs.3,094,520,320 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 had title deeds while the remaining 107 parcels had either partial or no ownership documents at all as follows:

S/No.	Land Status	No. of parcels
1	Gazette heritage sites reserved for Museums but have no ownership documents	56
2	Surveyed but have not been registered in the name of National Museums of Kenya	23
3	Land without documents but in use by National Museums of Kenya	12
4	Not surveyed but have letters of allotment	10
5	Proposed sites for Museums development but not gazetted	6
	Total	107

Further, the property, plant and equipment balance excludes the carrying amount for parcels of land allocated to the Museums by the National and County Governments at no consideration which have not been valued for inclusion.

In the circumstances, it has not been possible to confirm ownership, accuracy, security, valuation of the 107 parcels and the property, plant and equipment balance of Kshs.3,094,520,320 as at 30 June 2018.

4. Loss of Revenue Due to Delayed Renovation of Ndemi Flats – Kilimani

As previously reported, 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 from the Housing Finance Corporation of Kenya. On the plot stands 20 apartments and one bungalow previously rented out to staff members from the year 2000 at a monthly rent rate of Kshs.40,000 and Kshs.50,000 for the apartments and bungalow respectively.

4.1 Loss of Rental income

On 31 March 2016, the management gave notice to all the staff members occupying the houses to vacate to allow for renovation of the premises and subsequent rent out at commercial market rates. Following this notice, all the houses were vacated by June 2016 but as at the time of the audit in January 2019, these premises were yet to be renovated due to what was explained as lack of the required funds. It was not clear why the vacate notice was given before securing the funds for renovation of the premises.

Consequently, the National Museum has been losing rental income of Kshs.850,000 per month and a total of Kshs.26,350,000 had been lost from 1 July 2016 when the houses were vacated upto January 2019.

4.2 Loss of Ownership Documents

Title documents for Ndemi Flats on plot LR No.2/36/18 measuring 0.5 Ha were in 1997 used to secure a mortgage amounting to Kshs.90 million from the Housing Finance Company of Kenya Limited (HFCK). Upon completion of the mortgage, HFCK returned the title documents to NMK which were later reported lost.

The management thereafter on 3 September 2014, engaged M/s Nyamweya Mamboleo Advocates to prepare documents for title replacement at a cost of Kshs.79,668. However, as at the time of the audit in January 2019, the ownership documents had not been replaced despite obtaining certified conveyance documents confirming that NMK is the registered proprietor of L.R. NO.2/36/18.

In view of the foregoing, it has not been possible to confirm the security and ownership of the Ndemi Flats parcel of land No L.R 2/36/18 measuring 0.5 Ha purchased at a cost of Kshs.90 million.

5. Going Concern/Sustainability of Services

As similarly reported in the previous years, the statement of financial position for the year ended 30 June 2018 continued to reflect a negative working capital of Kshs.79,479,341 while the statement of changes in net assets for the same period reflects a negative balance of Kshs.302,592,425 in respect of revenue reserves.

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

6.0 Construction of Fort Jesus Sea Wall Protection – Mombasa

6.1 Delayed Completion of Fort Jesus Sea Wall

As previously reported, National Museums of Kenya on 24 May 2017, entered into a contract agreement with M/s Yangguang Property Design and Manufacturing Limited at a 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.

Current status

During the site visit on 4 March 2019, it was observed that only 65% of the works had been certified while the contract period of 12 months had expired on 20 June 2018 with major works like construction of the wall to minimize the flow of sea tides partially done and other works not started.

Documents verified indicated that the total costs for the project amounted to Kshs.543,106,763 including consultancy and supervisory services against a budgetary provision of Kshs.300,000,000. As at the time of inspection on 4 March 2019 a total of Kshs.325,380,759.80 had been paid to both the supervisor and to the contractor. No evidence has been presented to show that the delayed project will be completed with no cost implications.

Restoration/Rehabilitation of the Reclaimed Land

Restoration/rehabilitation and beautification of the reclaimed land of approximately two (2) acres was not included in the original contract. This being a tourist and world heritage site, the reclaimed land would remain an ugly site if backfilling is not done to restore and beautify the land.

Failure to restore/rehabilitate the reclaimed land by backfilling and compacting would amount to wastage of Kshs.543,106,763 spent on the sea wall project.

6.2 Consultancy Services for Design and Estimates

As previously reported, 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. 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.

Addendum 1 - Impact, Environmental and Social Impact Assessment

As previously reported, on 7 December 2016, NMK signed an addendum to the 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.

Addendum II - Supervision of the Sea Wall Protection Construction

As previously reported, the National Museums of Kenya signed another consultancy contract with M/s Coperk Consultants Limited on 24 May 2017 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.

A review of the matter in December 2018, disclosed that a total of Kshs.49,613,412 had been paid to M/s Coperk Consultants Limited 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 no cost implications.

In view of the foregoing, the propriety and value for money in the expenditure on the sea wall project and consultant payments could not be confirmed.

7. Trade and Other Payables from Exchange Transactions

7.1 Pending Bills

The statement of financial position as at 30 June 2018 reflects a balance of Kshs.238,303,687 in respect of trade and other payables. Included in this amount are payables worth Kshs.38,321,129 which were not analysed or supported with schedules as shown below:

Item	Kshs.
Payments received in advance	78,000
Provision for Royalties	1,056,356
PAYE	7,112,560
Contra Account	30,074,213
Total	38,321,129

In the circumstances, it has not been possible to confirm the accuracy and validity of the trade and other payables totaling Kshs.38,321,129 as at 30 June 2018.

7.2 Unremitted Statutory Deductions.

Trade and other payables balance of Kshs.238,303,687 also includes an amount of Kshs.90,091,030 in respect of unremitted statutory deductions as itemized below:

Statutory Deductions	Amount Kshs.
PAYE	7,112,560
Pension	69,019,668
VAT (6%)	13,958,802
Total	90,091,030

The management was 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.

In consequence, NMK risks being charged penalties and interest for late remittance at a rate of 20% and 2% per month respectively for the period amount remains outstanding.

8. Inaccurate Project Deposits

Project deposits are funds received from various donors and used to carry out research activities by NMK scientists. Analysis of project deposits provided at Note 18 to the financial statements disclosed a balance of Kshs.108,601,088 which differs from our analysis of various project cashbooks balance of Kshs.65,097,575 as shown below:

Bank Account	Account No.	Bank Balances Kshs.
Natural Products Industry HQs	108035107901	8,439,534
IPR Predict	102044700004	1,492,802
CNHR Project A/C	01020-447000-02	586,203
Dollar IPR	87020-447000-00	7,763,813
Seed for life	01080-351078-02	13,590,307
IPR MMUST	108044700000	8,363
IPR Project	01020-447000-00	13,867,547
Dollar HQs	87080-351079-00	1,942,723
Project HQs	01080-351078-00	17,406,283
		65,097,575

The resultant difference of Kshs.43,503,513 has not been explained or reconciled.

9. Receivables

9.1 Long Outstanding Rent Income

The statement of financial performance as at 30 June 2018 reflect an amount of Kshs.12,645,128 as receivables from exchange transactions. Included in this figure is Kshs.8,182,682 relating to staff rent arrears that have been outstanding for a long time with some dating back to 2013/2014 financial year.

The management did not demonstrate any efforts towards recovery of the rent arrears.

10. Deferred Development Grants

As previously reported, note 17 in the financial statements reflected a balance of Kshs.322,432,079 referred to as brought forward deferred development grants. Included in this amount is Kshs.277,532,795 that relate to government development grants received in earlier years for development projects, but instead expended on recurrent expenditures i.e. salaries. A review of the matter in the year ended 30 June 2018 revealed that deferred development grants reduced to Kshs.198,512,759 resulting to unexplained movement of Kshs.79,020,036.

The Management had earlier written a letter dated 20 October 2014 to the then Principal Secretary, Ministry of Sports, Culture and the Arts seeking for post-facto authority to regularize the deferred grants but no action appears to have been taken

on the matter. A review of the matter during the year under audit showed that the position had not changed.

Consequently, the propriety and accuracy of the deferred development grants balance of Kshs.198,512,759 as at 30 June 2018 could not be confirmed.

11. Direct Procurement

Examination of National Museums of Kenya records for the year ended 30 June 2018 revealed that goods and services worth Kshs.11,770,217 were bought through direct procurement method contrary to Section 103 subsection 2(a) of the Public Procurement and Disposal Act, 2015.

In the circumstances, it has not been possible to confirm if expenditure totalling Kshs.11,770,217 was a proper charge to public funds as the related goods and services were not procured competitively.

12.0 Unresolved Prior Year Matters

12.1 Unreconciled Bank Balances

As reported in 2016/2017, 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 certificates of bank balances in respect of the accounts differed.

A review of the matter in the year under audit, revealed that these accounts reflected positive balances of Kshs.3,864,619, Kshs17,073,477 and Kshs.2,667,722 respectively. However, no reconciliations were provided as evidence of the movement from the negative to the positive balances.

12.2 Delayed Completion and Handover of Mashujaa Square Project at Uhuru Gardens

As previously reported, the construction of Mashujaa Square Project at 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 the project manager. Although the project manager was overpaid in respect of interest claims by Kshs.37,228,832, information available indicate that the project manager had refused to vacate the site claiming more interest. A review of the matter as at 30 June 2018, established that the project had not been completed and handed over to NMK.

12.3 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
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 Museums land has been encroached by private developers and the local community
e)	Shimoni Museum	The station has been neglected and the historical building is dilapidated while the grave sites are at the risk of being washed into the 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 integrating with some of the walls crumbling to the ground after having minimal restoration. 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 that the historical asset is under threat of extinction
g)	Meru Museums	The building is crumbling down due to poor maintenance and invasion of 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 within 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 Museums is not properly secured with a perimeter fence for the purpose of demarcating the Museum property and other parcels in the neighborhood. National as well 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

The audit was conducted in accordance with International Standards of Supreme Audit Institutions (ISSAIs). I am independent of the National Museums of Kenya 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 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. I have determined that there are no Key Audit Matters to report in the year under review.

Other Matters

1.0 Budget and Budgetary Performance

1.1 Receipts

The National Museums of Kenya had budgeted for receipts totalling to Kshs.2,049,822,000 but actual receipts amounted to Kshs.1,540,709,306 resulting to a shortfall of Kshs.485,461,416 or 23.7% as itemized below:

Revenue head	Budget Kshs.	Actual Kshs.	Excess/(shortfall) Kshs.	Variance %
Recurrent -GOK Grants	847,938,000	965,900,000	117,965,000	13.9
Development Grants-GOK	400,000,000	59,993,500	(340,006,500)	-85.0
Internal Revenue	573,687,000	309,725,428	(263,961,572)	46.0
Project Revenue	228,197,000	288,738,656	541,656	0.2
Total	2,049,822,000	1,540,709,306	(485,461,416)	23.7

The revenue shortfall of Kshs.485,461,416 was largely attributed to shortfall in internal revenue and budget cuts by the National Treasury.

1.2 Expenditure

National Museums of Kenya had budgeted for expenditure totaling to Kshs.1,664,380,000 but the actual expenditure amounted to Kshs.1,477,353,953 resulting to an under expenditure of Kshs.187,026,047 or 11.2% as itemized below:

Expenditure	Budget Kshs.	Actual Kshs.	(Over)/Under Kshs.	Variance %
Employee costs	1,207,235,000	1,062,019,830	145,215,170	12
Depreciation	38,548,000	33,136,356	5,411,644	14
Repairs Maintenance	28,710,000	19,300,950	9,409,050	4
Remuneration to Board of Directors	10,741,000	1,825,883	8,915,117	83
General expenses	379,146,000	361,070,934	18,075,066	5
Total	1,664,380,000	1,477,353,953	187,026,047	11

The failure to spend Kshs.187,026,047 of the budgeted expenditure implies that the organization goals and objectives were not achieved as planned.

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, 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.

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 INTERNAL CONTROLS EFFECTIVENESS, GOVERNANCE AND RISK MANAGEMENT SYSTEMS

Conclusion

As required by Section 7(1)(a) of the Public Audit Act, 2015, based on the 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.

The audit was conducted in accordance with ISSAI 1315 and ISSAI 1330. 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 ability to sustain services, disclosing, as applicable, matters related to sustainability of services and using the applicable basis of accounting unless the management either intends to liquidate the entity or to cease operations, or have no realistic alternative but to do so.

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 financial reporting process, reviewing the effectiveness of how the entity 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:

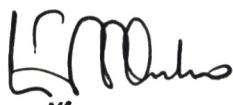
- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to

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 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 Entities' ability to continue as a going concern or 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 as a going concern or 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 Organization 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.



FCPA Edward R. O. Ouko, CBS
AUDITOR-GENERAL

Nairobi

22 May 2019

NATIONAL MUSEUMS OF KENYA
Annual Reports and Financial Statements
For the year ended June 30, 2018

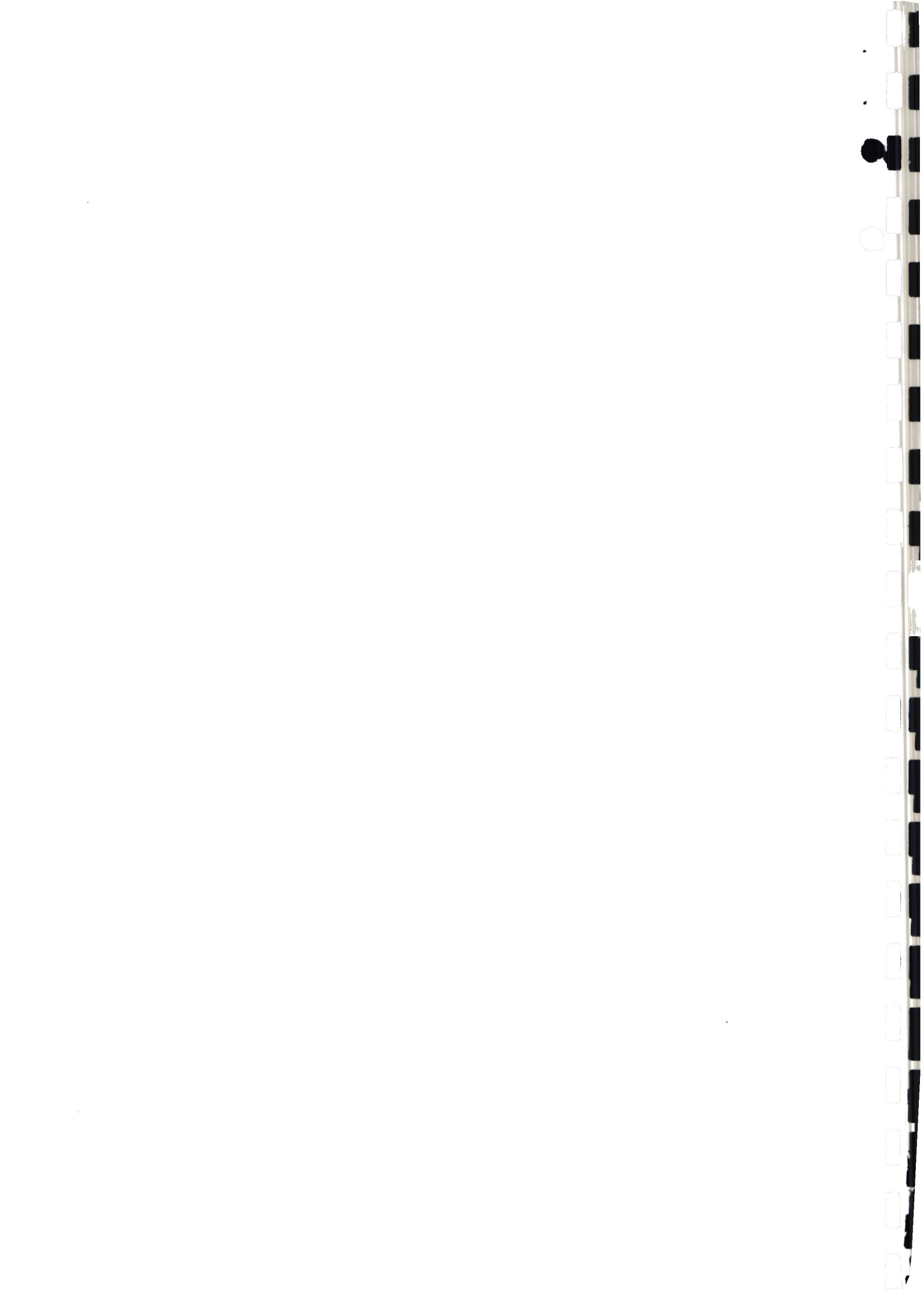
XI. STATEMENT OF FINANCIAL PERFORMANCE
FOR THE YEAR ENDED JUNE 2018

	Note	2017-2018 KSH	2016-2017 KSH
Revenue from non-exchange transactions			
Transfers from governments-			
Recurrent	3(a)	965,900,000	870,000,000
Development	17(b)	2,364,319	12,219,299
Project income	4	228,738,656	212,259,151
Total revenue from non-exchange transactions		1,197,002,975	1,094,478,450
Revenue from exchange transactions			
Other incomes	5	309,725,428	290,158,388
Total revenue from exchange transactions		309,725,428	290,158,388
Total revenue		1,506,728,403	1,384,636,838
EXPENSES			
Employee costs	6	1,062,019,830	1,010,504,571
Depreciation	7	33,136,356	25,781,585
Repairs and maintenance	8	19,300,950	17,520,631
Remuneration to Board of Directors	9	1,825,883	14,117,466
General expenses	10	361,070,934	418,359,064
Total expenses		1,477,353,953	1,486,283,317
Surplus/(Deficit) for the year		29,374,450	(101,646,479)

Signed By:


Director General


Financial Controller



NATIONAL MUSEUMS OF KENYA
Annual Reports and Financial Statements
For the year ended June 30, 2018

XII. STATEMENT OF FINANCIAL POSITION

FOR THE YEAR ENDED JUNE 2018

Note

2017-2018

2016-2017

KSH

KSH

Assets

Current assets

Cash and cash equivalents	11	124,896,704	121,992,723
Receivables from exchange transactions	12(a)	12,645,128	13,823,032
Receivables from non-exchange transactions	12(b)	19,711,695	22,034,994
Inventories	13	1,570,819	1,950,220
		<u>158,824,346</u>	<u>159,800,969</u>

Non-current assets

Property, plant and equipment	14	3,094,520,320	2,936,723,973
Total assets		<u>3,253,344,666</u>	<u>3,096,524,942</u>

Liabilities

Current liabilities

Trade and other payables from exchange Transactions	15	238,303,687	228,600,362
Bank overdraft	16	-	29,392,242
Total current liabilities		<u>238,303,687</u>	<u>257,992,604</u>

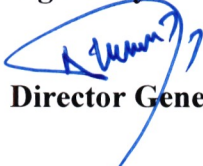
Non-current liabilities

Deferred Development Grant	17	198,512,759	322,432,079
Project Deposits	18	108,601,088	19,096,078
Total non-current liabilities		<u>307,113,847</u>	<u>341,528,157</u>
Total liabilities		<u>545,417,534</u>	<u>599,520,761</u>

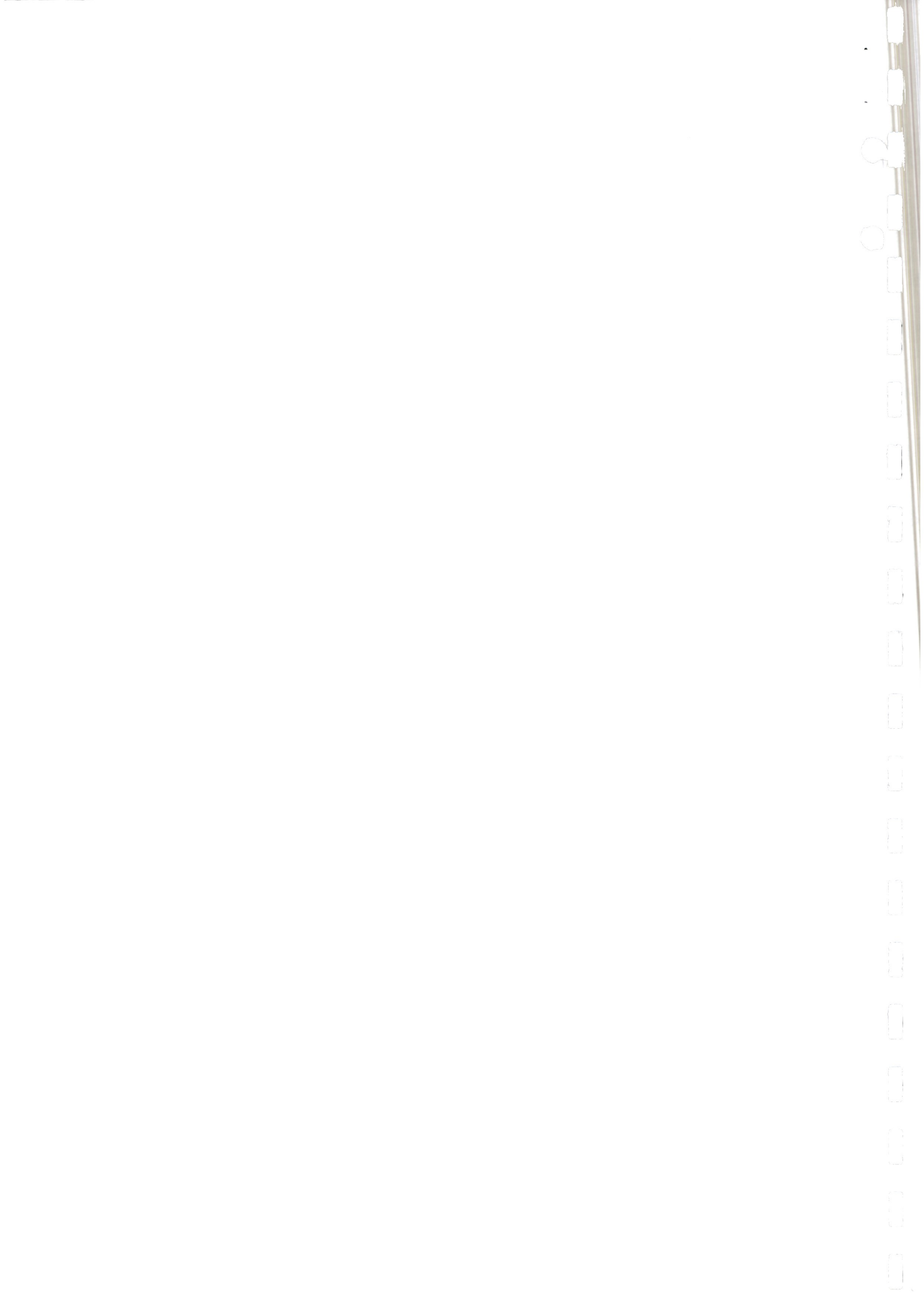
Net assets

Reserves		2,678,552,682	2,598,650,660
Accumulated surplus		29,374,450	(101,646,479)
Total assets and liabilities		<u>2,707,927,132</u>	<u>2,497,004,181</u>

Signed By:


Director General


Financial Controller



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XIII. STATEMENT OF CHANGES IN NET ASSETS
FOR THE YEAR ENDED JUNE 30, 2018

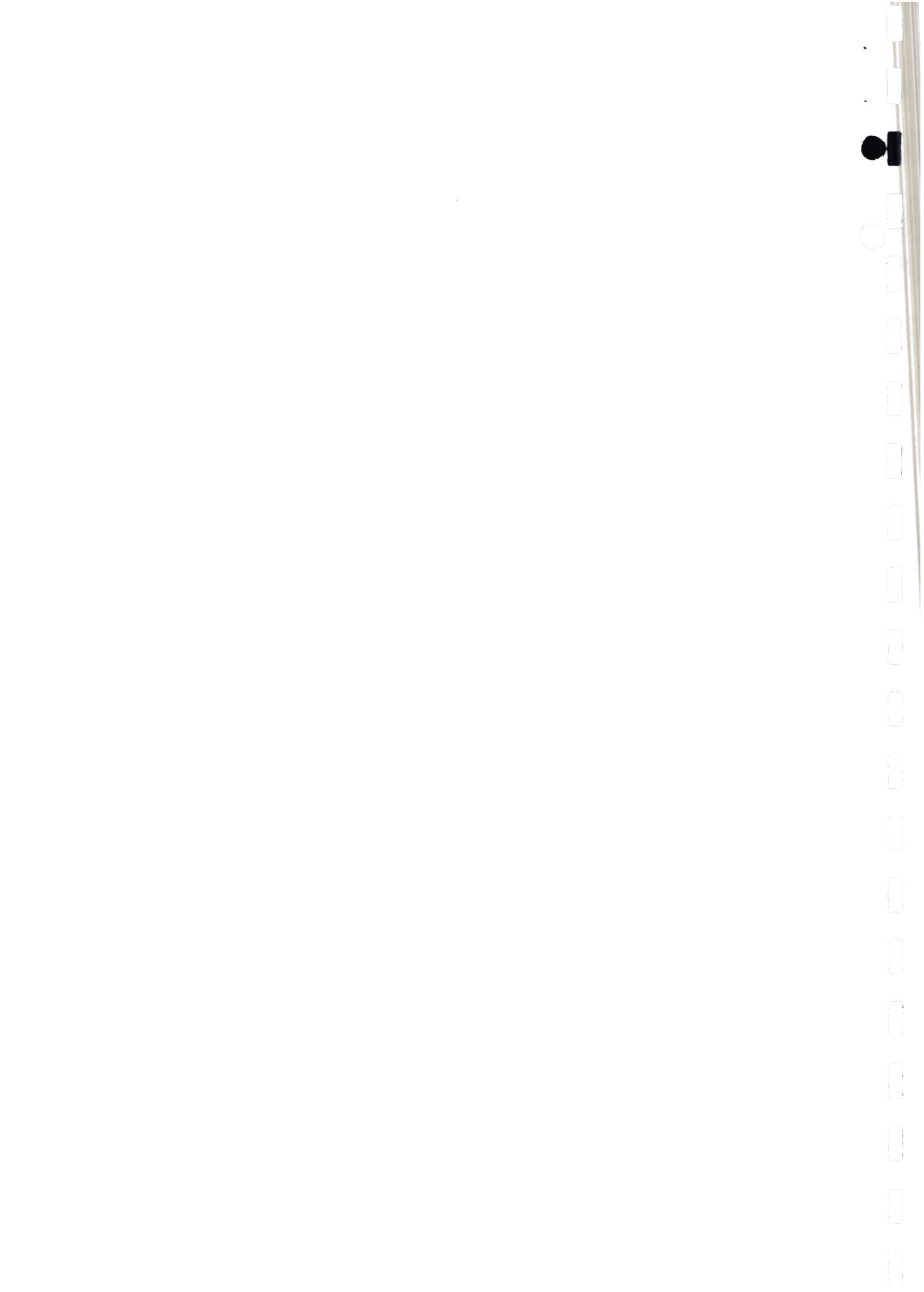
	Capital Reserve KSH	Revenue Reserves KSH	Revaluation Reserve KSH	Total Kshs.
Balance at 1st July 2016	2,759,961,671	(230,320,396)	14,635,150	2,544,276,425
Capitalized government grant (17b)	72,584,698	-	-	72,584,698
Prior Year End adjustment (22)	(18,210,463)			(18,210,463)
Total comprehensive income for the year	-	(101,646,479)	-	(101,646,479)
Balance as at 30th June 2017	2,814,335,906	(331,966,875)	14,635,150	2,497,004,181
Balance as at 1st July 2017	2,814,335,906	(331,966,875)	14,635,150	2,497,004,181
Capitalized government grant (17b)	181,548,501	-	-	181,548,501
Total comprehensive income for the year	-	29,374,450	-	29,374,450
Balance as at 30th June 2018	2,995,884,407	(302,592,425)	14,635,150	2,707,927,132



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XIV. STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED JUNE 30, 2018

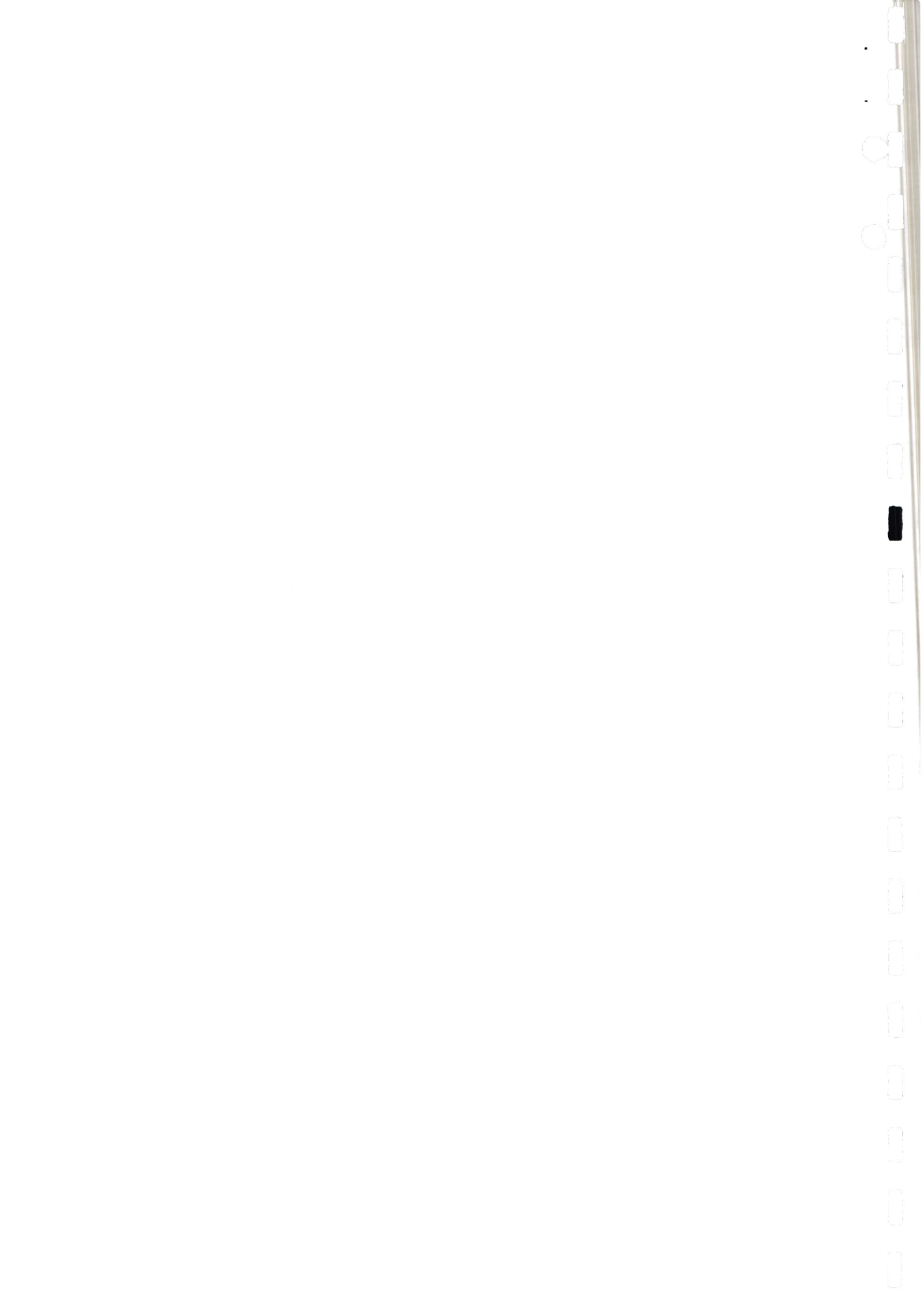
	Notes	2017-2018 Kshs	2016-2017 Kshs
Cash flow from operating activities			
Net income from Museum operations		29,374,450	(101,646,479)
Before interest earned	Note 5	(9,248)	(21,763)
Adjustments for the year			
Depreciation	Note 7	33,136,356	25,781,585
Operating Income before working capital changes		62,501,558	(75,886,657)
Increase/decrease in receivables		3,501,203	(710,354)
Increase/decrease in inventories		379,401	370,050
increase/decrease in payables		9,703,325	35,784,540
Development expenditure	Note 17(b)	(2,364,319)	(12,219,299)
Net cash from operating activities		73,721,168	(52,661,721)
Cash flow from investing activities			
Interest received	Note 5	9,248	21,763
Purchase of property, plant & equipment	Note 14	(190,932,703)	(111,237,169)
Net cash from investing Activities		(190,923,455)	(111,215,406)
Cash flow from financing activities			
Development grant from GOK	Note 17 (a)	59,993,500	150,000,000
Project deposits		89,505,010	(26,202,448)
Net cash generated from financing activities		149,498,510	123,797,552
Net (decrease)/increase in cash and cash equivalents		32,296,223	(40,079,575)
Cash and cash equivalent as at 30th June 2017		92,600,481	132,680,056
Cash and cash equivalent as at 30th June 2018		124,896,704	92,600,481



**XV. STATEMENT OF COMPARISON OF BUDGET AND ACTUAL AMOUNTS
FOR THE YEAR ENDED JUNE 2018**

	Original budget	2017-2018 Kshs	Adjustments 2017-2018 Kshs	Final budget 2017-2018 Kshs	Actual on comparable basis 2017-2018 Kshs	Performance difference 2017-2018 Kshs	Percent
Revenue							
Government grants and subsidies							
Recurrent grant	870,000,000	(22,062,000)	847,938,000	965,900,000	117,965,000	13.9%	
Development Grant	280,000,000	120,000,000	400,000,000	59,993,500	(340,006,500)	(85.0%)	
Other incomes:							
Internally Revenue	280,000,000	293,687,000	573,687,000	309,725,428	(263,961,572)	66%	
Project Revenue	-	228,197,000	228,197,000	228,738,656	541,656	0.2%	
Total income	1,430,000,000	619,822,000	2,049,822,000	1,540,709,306	(485,461,416)		
Expenses							
Employees Costs	870,000,000	337,235,000	1,207,235,000	1,062,019,830	145,215,170	12 %	
Depreciation	23,000,000	15,548,000	38,548,000	33,136,356	5,411,644	14%	
Repairs & Maintenance	20,000,000	8,710,000	28,710,000	19,300,950	9,409,050	32.8%	
Remuneration to Board of Directors	15,000,000	(4,259,000)	10,741,000	1,825,883	8,915,117	87.8%	
General Expenses	249,553,488	129,592,512	379,146,000	361,070,934	18,075,066	4.8%	
Total expenditure	1,177,553,488	486,826,512	1,664,380,000	1,477,353,953	187,026,047		
Surplus for the period	252,446,512	132,995,488	385,442,000	63,355,353			

NB: Notes to variance explanations are set out on page 50



XV. NOTES TO THE FINANCIAL STATEMENTS

1. General Information

National Museums of Kenya is established by and derives its authority and accountability from National Museums and Heritage Act. The entity is wholly owned by the Government of Kenya and is domiciled in Kenya. The entity's principal activity is establishment of national museums and the identification, protection, conservation and transmission of the cultural and natural heritage of Kenya

2. Statement of Compliance and Basis of Preparation

The financial statements have been prepared on a historical cost basis except for the measurement at re-valued amounts of certain items of property, plant and equipment, financial instruments at fair value and actuarially determined liabilities at their present value. The preparation of financial statements in conformity with International Public Sector Accounting Standards (IPSAS) allows the use of estimates and assumptions. It also requires management to exercise judgement in the process of applying the Organization's accounting policies. The areas involving a higher degree of judgement or complexity, or where assumptions and estimates are significant to the financial statements, are disclosed in Note 4

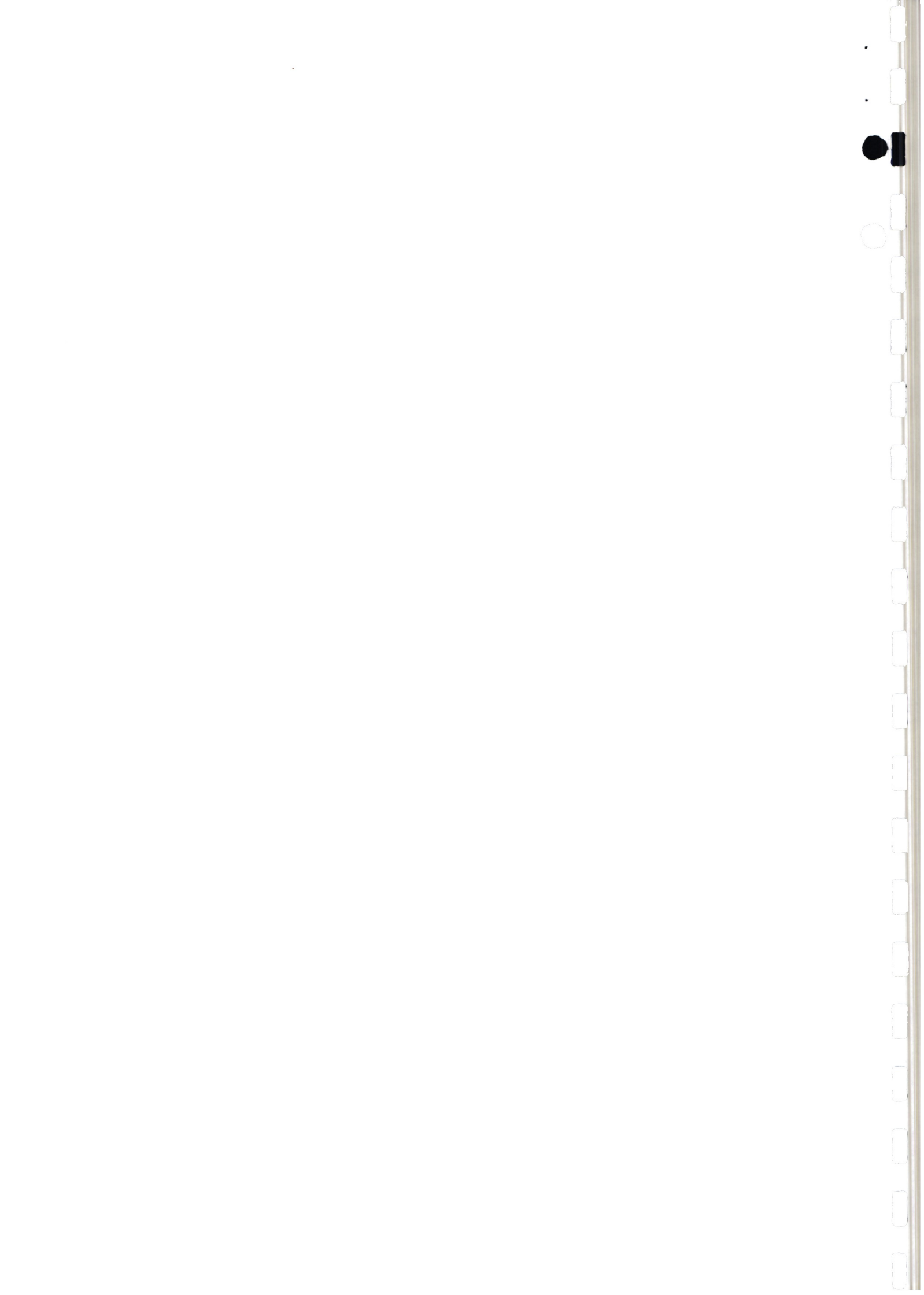
The financial statements have been prepared and presented in Kenya Shillings, which is the functional and reporting currency of the National Museums of Kenya . The cash flow statement is prepared using indirect method.

The financial statements have been prepared in accordance with the PFM Act, the State Corporations Act and International Public Sector Accounting Standards (IPSAS). The accounting policies adopted have been consistently applied to all the years presented.

Adoption of new and revised standards

i. Relevant new standards and amendments to published standards effective for the year ended 30 June 2018

Standard	Effective date and impact:
IPSAS 39: Employee Benefits	Applicable: 1st January 2018 The objective to issue IPSAS 39 was to create convergence to changes in IAS 19 Employee benefits. The IPSASB needed to create convergence of IPSAS 25 to the amendments done to IAS 19. The main objective is to ensure accurate information relating to pension liabilities arising from the defined benefit scheme by doing away with the corridor approach.



ii. New and amended standards and interpretations in issue but not yet effective in the year ended 30 June 2017

Standard	Effective date and impact:
IPSAS 40: Public Sector Combinations	Applicable: 1st January 2019: The standard covers public sector combinations arising from exchange transactions in which case they are treated similarly with IFRS 3 (applicable to acquisitions only) Business combinations and combinations arising from non exchange transactions which are covered purely under Public Sector combinations as amalgamations.

ii. Early adoption of standards

The entity did not early – adopt any new or amended standards in year 2018.

Summary of significant accounting policies

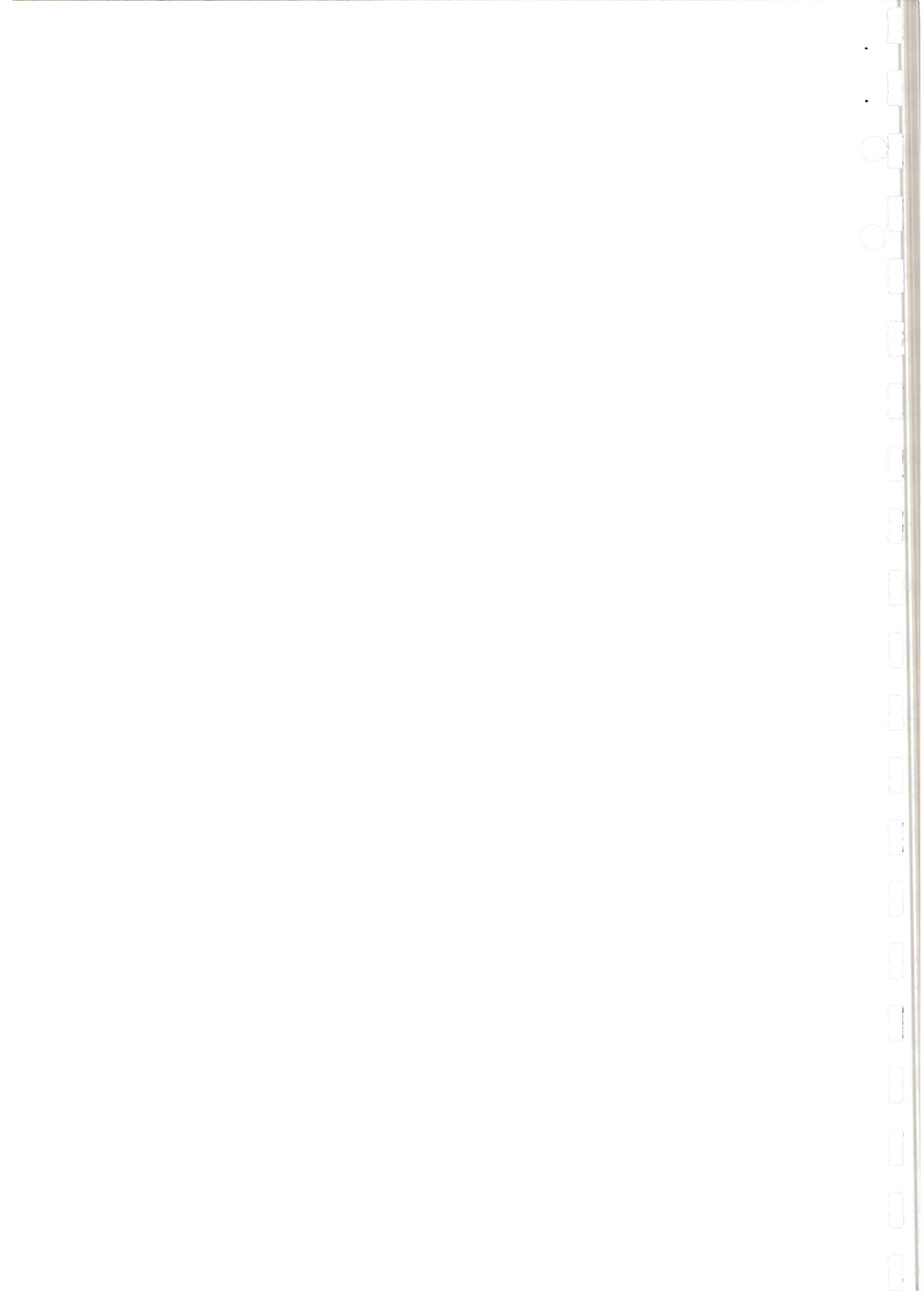
- a) Revenue Recognition**
- b) Revenue from non-exchange transactions**

Transfers from government entities

Revenues from non-exchange transactions with other government entities are measured at fair value and recognized on obtaining control of the asset (cash, goods, services and property) if the transfer is free from conditions and it is probable that the economic benefits or service potential related to the asset will flow to the entity and can be measured reliably.

Government Grants

- i. Recurrent government grant credited to the Statement of Financial Performance based on the payment made by the government of Kenya.
- ii. Development grant is credited to the Statement of Financial Performance based on the amount spent. The unspent amount is deferred until spent.



Project income

These are funds earmarked for specific projects mostly dealing with Research in particular areas. The projects funds are credited to a deposit Account when received and only transfer the amount spent each month to income. In this case income and expenditure are always the same. The balance remains in the respective deposit account.

c) Taxation

The National Museums of Kenya is exempted from income tax. VAT and excise duty are exempted on case by case on application to the National Treasury and Kenya Revenue Authority.

d) Revenue from exchange transactions

Rendering of services

The entity recognizes revenue from rendering of services to the public through gate admissions.

Sale of goods

Revenue from the sale of goods is recognized when the significant risks and rewards of ownership have been transferred to the buyer, usually on delivery of the goods and when the amount of revenue can be measured reliably.

Interest income

Interest income is accrued using the negotiated rate.

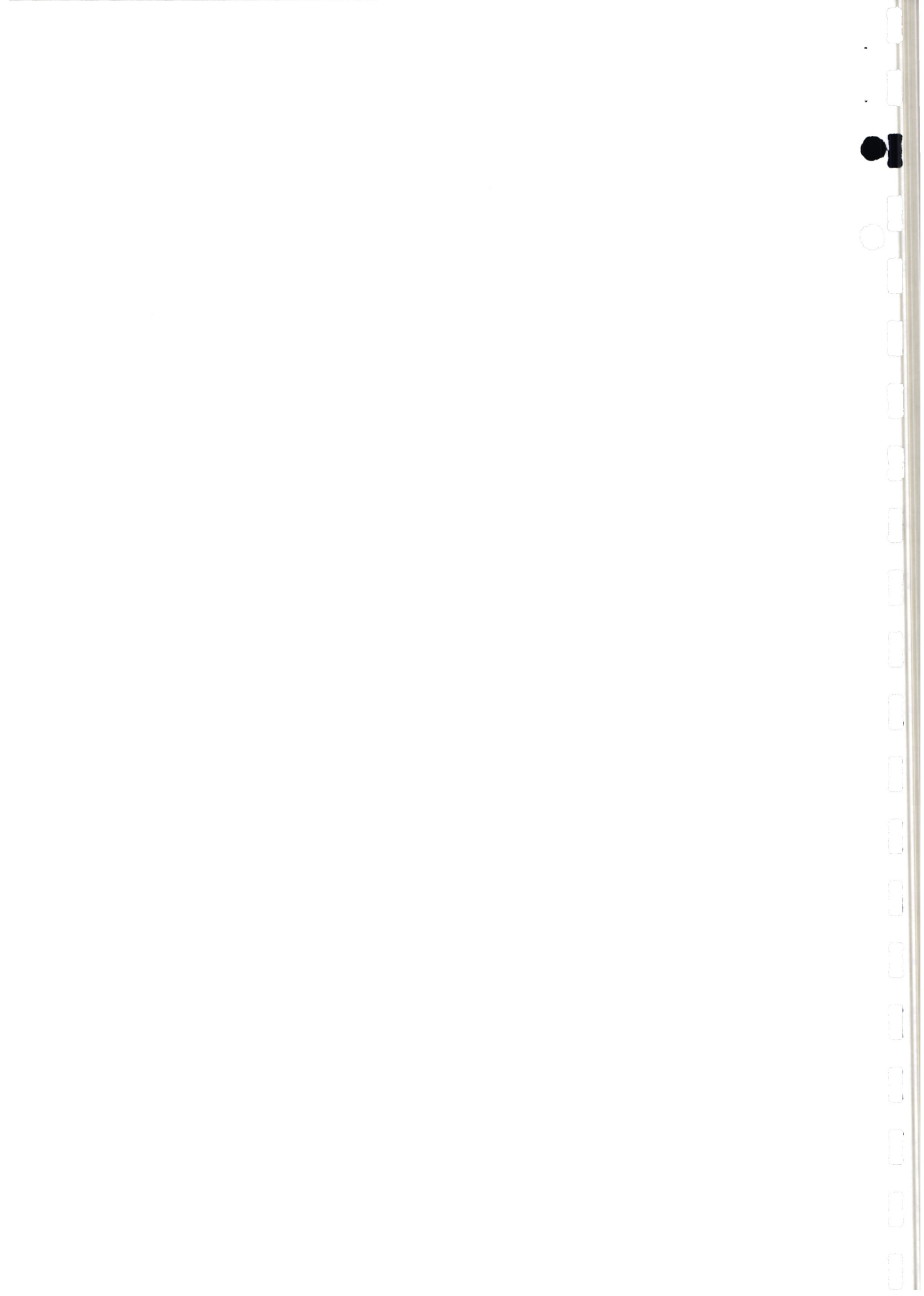
Rental income

Rental income arising from operating leases on investment properties is accounted for upon realization.

e) Property, Plant and Equipment

Property, Plant and Equipment is stated at historical cost less accumulated depreciation. The assets are not depreciated in the year of purchase. Depreciation is calculated on the reducing balance basis to write down the cost of each asset to its residual value over its estimated useful life using the following rates:

- Motor Vehicles 25%
- Equipment and furniture 12.5%
- Computers 25%
- Buildings 1%



f) Exhibits and Collections

As a policy, no value has been placed on exhibits, study collection and fixtures. Museum Exhibits have no commercial value, and the study collection is priceless.

g) Purchase of Animals

Purchase of primates is expensed in the financial performance statement at the time of purchase.

h) Financial Instruments

(i) Financial Assets

Initial recognition and measurement

Financial assets within the scope of IPSAS 29 Financial Instruments: Recognition and Measurement are classified as financial assets at fair value through surplus or deficit and receivables, held-to-maturity investments or available-for-sale financial assets, as appropriate. The organization determines the classification of its financial assets at initial recognition.

Purchases or sales of financial assets that require delivery of assets within a time frame established by regulation or convention in the marketplace (regular way trades) are recognized on the trade date, i.e., the date that the organization commits to purchase or sell the asset.

The National Museums of Kenya financial assets include: cash and short-term deposits; trade and other receivables.

Derecognition

The organization derecognizes a financial asset or, where applicable, a part of a financial asset or part of a group of similar financial assets when; The rights to receive cash flows from the asset have expired or is waived, the organization has transferred its rights to receive cash flows from the asset or has assumed an obligation to pay the received cash flows in full without material delay to a third party; and either: (a) the organization has transferred substantially all the risks and rewards of the asset; or (b) the organization has neither transferred nor retained substantially all the risks and rewards of the asset, but has transferred control of the asset.



(ii) Financial liabilities

Initial recognition and measurement

Financial liabilities within the scope of IPSAS 29 are classified as financial liabilities at fair value through surplus or deficit as appropriate. The National Museums of Kenya determines the classification of its financial liabilities at initial recognition.

All financial liabilities are recognized initially at fair value and, in the case of borrowings, plus directly attributable transaction costs.

The organization's financial liabilities include trade and other payables, bank overdrafts, financial guarantee contracts.

i) Employee Benefits

(i) Short term

NMK has employees who carries out day to day operations and are entitled to salaries and allowance. The organization recognises these salaries and allowances as expenses which are charged to financial performance statement.

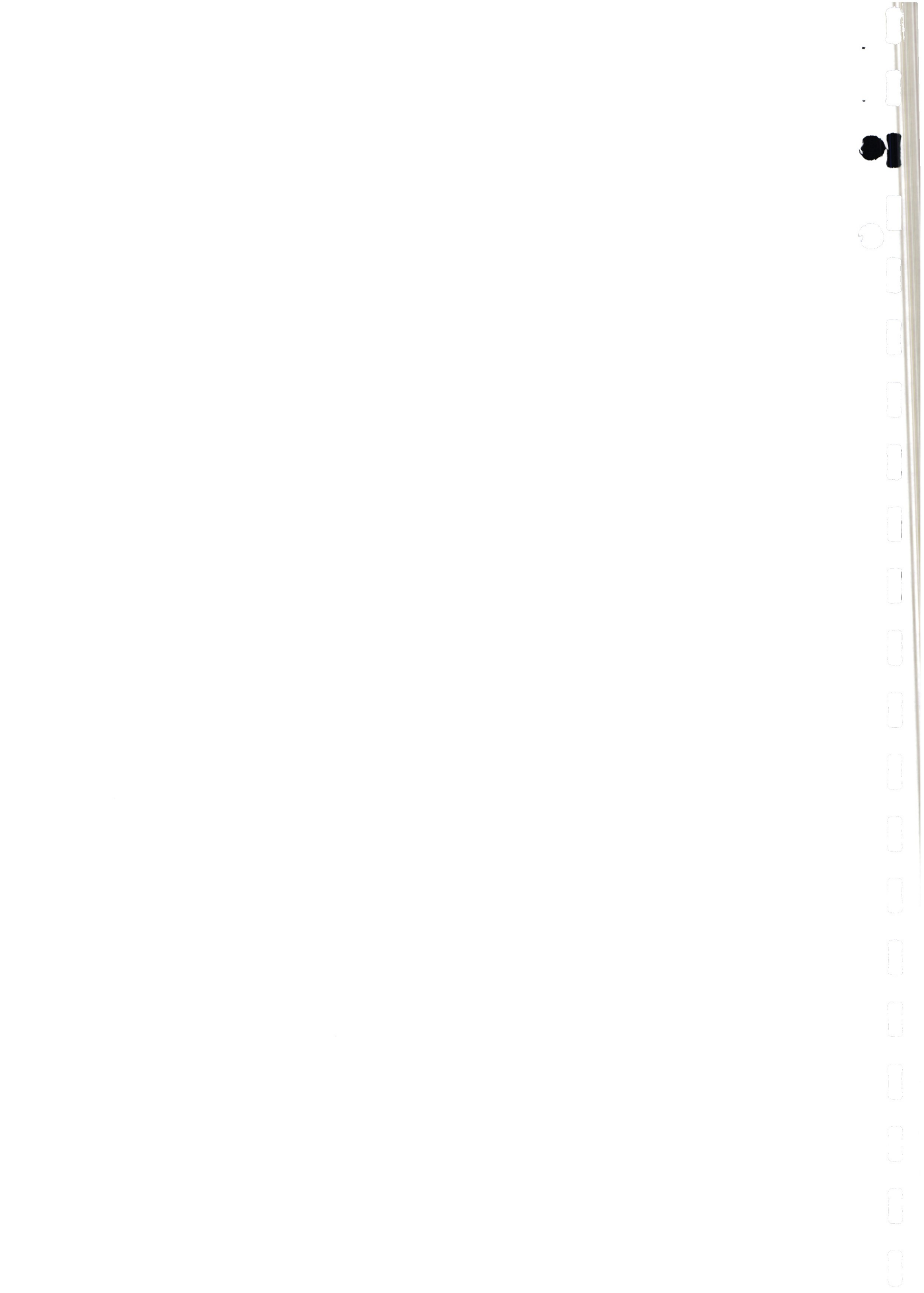
(ii) Retirement Benefits

NMK operates a defined contribution staff Retirement Benefit Scheme for its employees. The Scheme is administered by Insurance Company of East Africa and is funded by contribution from both NMK and the employees. It also pays gratuity to staff on contract. NMK's contribution is charged to the financial performance statement in the year to which they relate. NMK also contributes to a statutory defined scheme; the National Social Security Fund (NSSF) contributions are determined by local statute and are currently vary according to basic salary per employee per month.

j) Nature and Purpose of Reserves

(a) Capital Reserve

The organization creates and maintains reserves in terms of specific requirements. National Museums of Kenya has capital reserves and revaluation reserves. Reserves are monies budgeted, collected and set aside for replacement or deferred maintenance to the capital improvements. Boards establish reserve accounts for the future replacement or deferred maintenance of the common areas.



Reserve funds enable the organization to maintain the common areas with a reduced risk of special assessments and minimize the impact of financial challenges. The fund establishes and preserves reserves for a strong financial position to meet future expenditures and reduce the potential for reduction in property values.

(b) Revenue Reserve

A reserve which is created out of the revenue profit is called revenue reserve. Revenue profit is earned in the normal course of the business. Revenue reserve refers to the undistributed revenue profit. It is created for strengthening the financial position, replacing depreciable assets, redeeming liabilities and conducting research and development functions.

(c) Revaluation Reserve

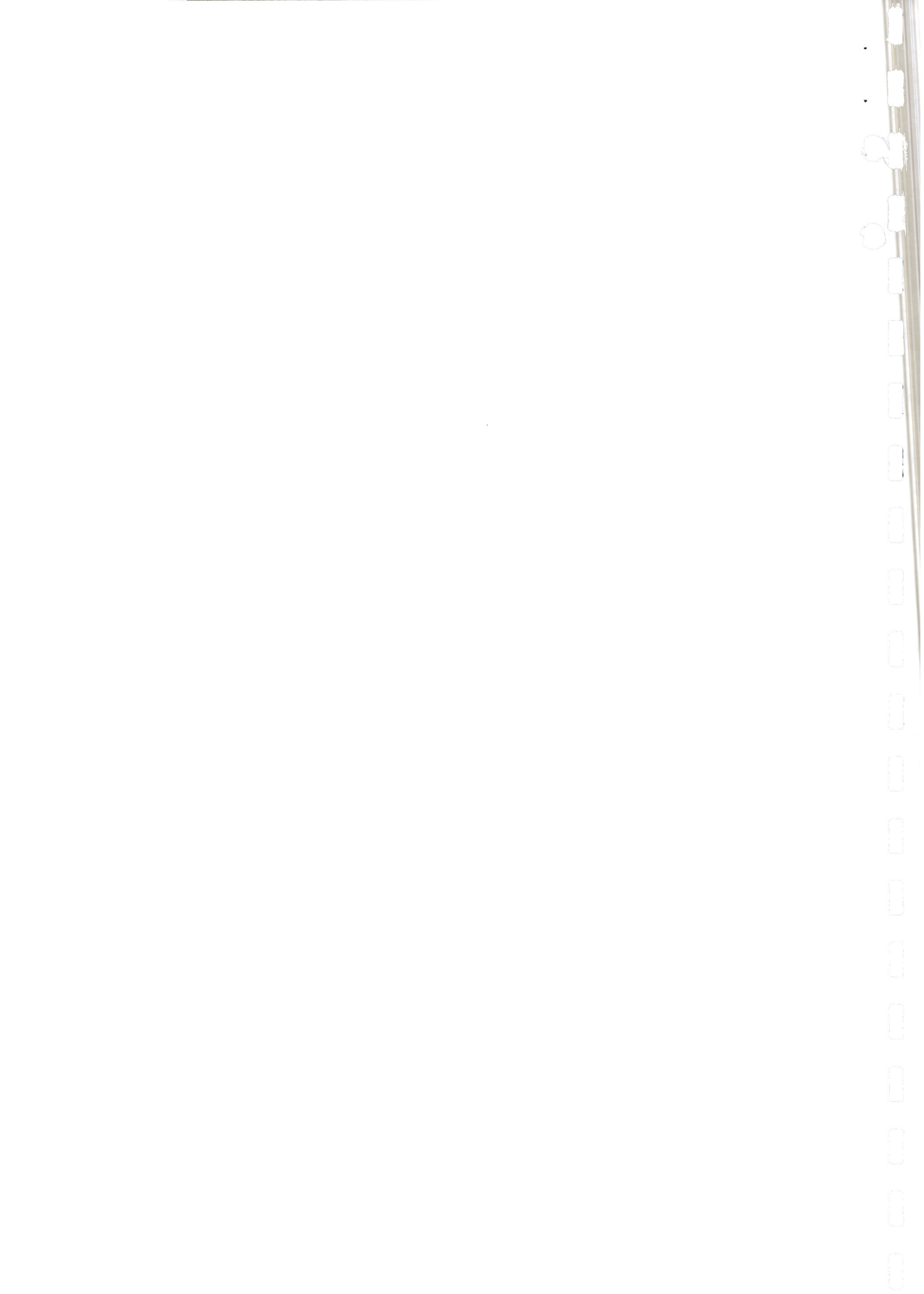
A revaluation reserve is an increase in the value of fixed assets. Asset revaluation reserve is an accounting concept and represents a reassessment of the value of a capital asset as at a particular date. The reserve is considered a category of the equity of the entity. An asset is originally recorded in the accounts at its cost and depreciated periodically over its estimated useful life as a measure of the amount of the assets value consumed in that period. In practice, the actual useful life of an asset can be miscalculated or an event can cause a change to the useful life. Consequently, assets occasionally need to be revalued in order to reflect a more close approximation to their "worth" in the accounts. When the asset is revalued, the offsetting entry (in a double entry accounting system) would be either made to the profit or loss accounts or to the equity of the entity.

k) Branches

The regional stations reports are incorporated in these financial statements.

l) Translation of Foreign Currency

Translations in foreign currencies during the year are converted into Kenya Shillings at rates ruling at the transaction dates. Assets and liabilities which are expressed in foreign currency are translated into "Kenya Shillings at rates ruling at the date in the financial position statement. The resulting difference from the conversion and translation are dealt with in the financial performance statement in year which they arise.



m) Research and Development

Research and Development expenses are expensed through Financial Performance statement in the year are incurred.

n) Budget Information

The annual budget for the period 2017/2018 was prepared on the accrual basis, that is, all planned costs and income are presented in a single statement to determine the needs of the entity. As a result of the adoption of the accrual basis for budgeting purposes, there are no basis, timing or entity differences that would require reconciliation between the actual comparable amounts and the amounts presented as a separate additional financial statement in the statement of comparison of budget and actual amounts.

o) Related Parties

The National Museums of Kenya regards a related party as a person or an entity with the ability to exert control individually or jointly, or to exercise significant influence over the organization, or vice versa. Members of key management are regarded as related parties and comprise the Directors Executive Team.

p) Comparative figures

Where necessary comparative figures for the previous financial year have been amended or reconfigured to conform to the required changes in presentation.

q) Provisions

Provisions are recognized when the organization has a present obligation (legal or constructive) as a result of a past event, it is probable that an outflow of resources embodying economic benefits or service potential will be required to settle the obligation and a reliable estimate can be made of the amount of the obligation.

The expense relating to any provision is presented in the statement of financial performance net of any reimbursement.

r) Cash and cash equivalents

Cash and cash equivalents comprise cash on hand and cash at bank, short-term deposits on call and highly liquid investments with an original maturity of three months or less, which are readily

2

convertible to known amounts of cash and are subject to insignificant risk of changes in value. Bank account balances include amounts held at various commercial banks at the end of the financial year. For the purposes of these financial statements, cash and cash equivalents also include short term cash imprests and advances to authorised officers which were not surrendered or accounted for at the end of the financial year.

s) Inventories

Inventory is measured at the lower of cost and net realizable value.

t) Significant Judgments and Sources of Estimation Uncertainty

The preparation of the Entity's financial statements in conformity with IPSAS requires management to make judgments, estimates and assumptions that affect the reported amounts of revenues, expenses, assets and liabilities, and the disclosure of contingent liabilities, at the end of the reporting period. However, uncertainty about these assumptions and estimates could result in outcomes that require a material adjustment to the carrying amount of the asset or liability affected in future periods.

Estimates and assumptions

The key assumptions concerning the future and other key sources of estimation uncertainty at the reporting date, that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year, are described below. The Entity based its assumptions and estimates on parameters available when the consolidated financial statements were prepared. However, existing circumstances and assumptions about future developments may change due to market changes or circumstances arising beyond the control of the Entity. Such changes are reflected in the assumptions when they occur. IPSAS 1.140

Useful lives and residual values

The useful lives and residual values of assets are assessed using the following indicators to inform potential future use and value from disposal:

- The condition of the asset based on the assessment of experts employed by the Entity
- The nature of the asset, its susceptibility and adaptability to changes in technology and processes



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- The nature of the processes in which the asset is deployed
- Availability of funding to replace the asset
- Changes in the market in relation to the asset

u) Subsequent events

There have been no events subsequent to the financial year end with a significant impact on the financial statements for the year ended June 30, 2018.

3(a) Transfers from other governments

Description	2017-2018	2016-2017
	KShs	KShs
Unconditional grants		
Operational grant -Recurrent	965,900,000	870,000,000
-Development	59,993,500	150,000,000
	1,025,893,500	1,020,000,000

3(b) Transfers from Ministries, Departments and Agencies

Name of the Entity sending the grant	Amount recognized to Statement of Comprehensive Income KShs	Amount deferred under deferred income KShs	Amount recognised in capital fund.	Total grant income during the year	2016-2017
			KShs	KShs	KShs
Ministry of Sports	965,900,000	-	59,993,500	1,025,893,500	1,020,000,000
Total	965,900,000	-	59,993,500	1,025,893,500	1,020,000,000

4. PROJECT INCOME

	KSHS	KSHS
	2017-2018	2016-2017
Project Income HQ	101,788,805	138,985,883
Project Admin income (12.5% overhead)	13,091,400	4,514,261
Project income IPR	113,858,451	68,759,007
Total	228,738,656	212,259,151



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	KSHS	KSHS
	2017-2018	2016-2017
5. OTHER INCOMES		
Admission fee	200,029,169	212,384,574
Rental income	45,632,746	38,936,309
Interest earned	9,248	21,763
Sale of publications and artifacts	10,245,413	10,036,687
Sale of soft drinks	1,395,560	1,096,377
Sale of casts	13,236,721	2,816,243
Sundry income	39,176,571	24,866,435
Total	309,725,428	290,158,388
6. EMPLOYEE COSTS		
Salaries	898,633,133	836,087,095
Gratuity and pensions	98,925,573	96,755,292
Medical	45,099,785	54,988,846
Training	9,669,897	14,424,477
Staff welfare and uniforms	9,691,442	8,248,861
Total	1,062,019,830	1,010,504,571
7. DEPRECIATION EXPENSE		
Property , plant and equipment(note 14)	33,136,356	25,781,585
Total	33,136,356	25,781,585
8. REPAIRS AND MAINTENANCE		
Vehicle expenses- Maintenance/spares	8,633,540	7,039,896
Equipment repairs and maintenance	6,929,968	4,640,848
Maintenance of buildings	1,169,204	2,096,242
Maintenance of monuments	2,373,473	2,501,010
Cage maintenance	2,730	1,242,635
Cage construction	192,035	-
Total	19,300,950	17,520,631
9. BOARD OF DIRECTORS EXPENSES		
Lunch/phone expenses	89,500	820,460
Insurance	-	74,922
Sitting allowance	455,000	4,245,000
Accommodation/per diem	436,800	4,997,600
Air fare	136,863	1,510,729
Board meeting Exp.	560,000	586,164
Mileage	-	967,924
Honoraria for Chairman	147,720	914,667
Total	1,825,883	14,117,466



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	KSHS	KSHS
10. GENERAL EXPENSES	2017-2018	2016-2017
Administrative costs	19,829,720	28,647,805
Transport and travel expenses	132,045,127	148,943,210
Contracted professional services	10,854,449	18,086,525
Office and other expenses	96,703,317	120,116,764
Advertising and publicity	8,543,805	7,971,605
Telephone and postage	11,329,265	9,936,771
Electricity and water	25,212,913	27,266,357
Purchases and other direct inputs	56,552,338	57,390,027
Total	361,070,934	418,359,064

11. CASH AND CASH EQUIVALENTS

Description	2017 -2018	2016 -2017
Current accounts	122,350,867	120,238,872
Others(cash at hand)	2,545,837	1,753,851
Total	124,896,704	121,992,723

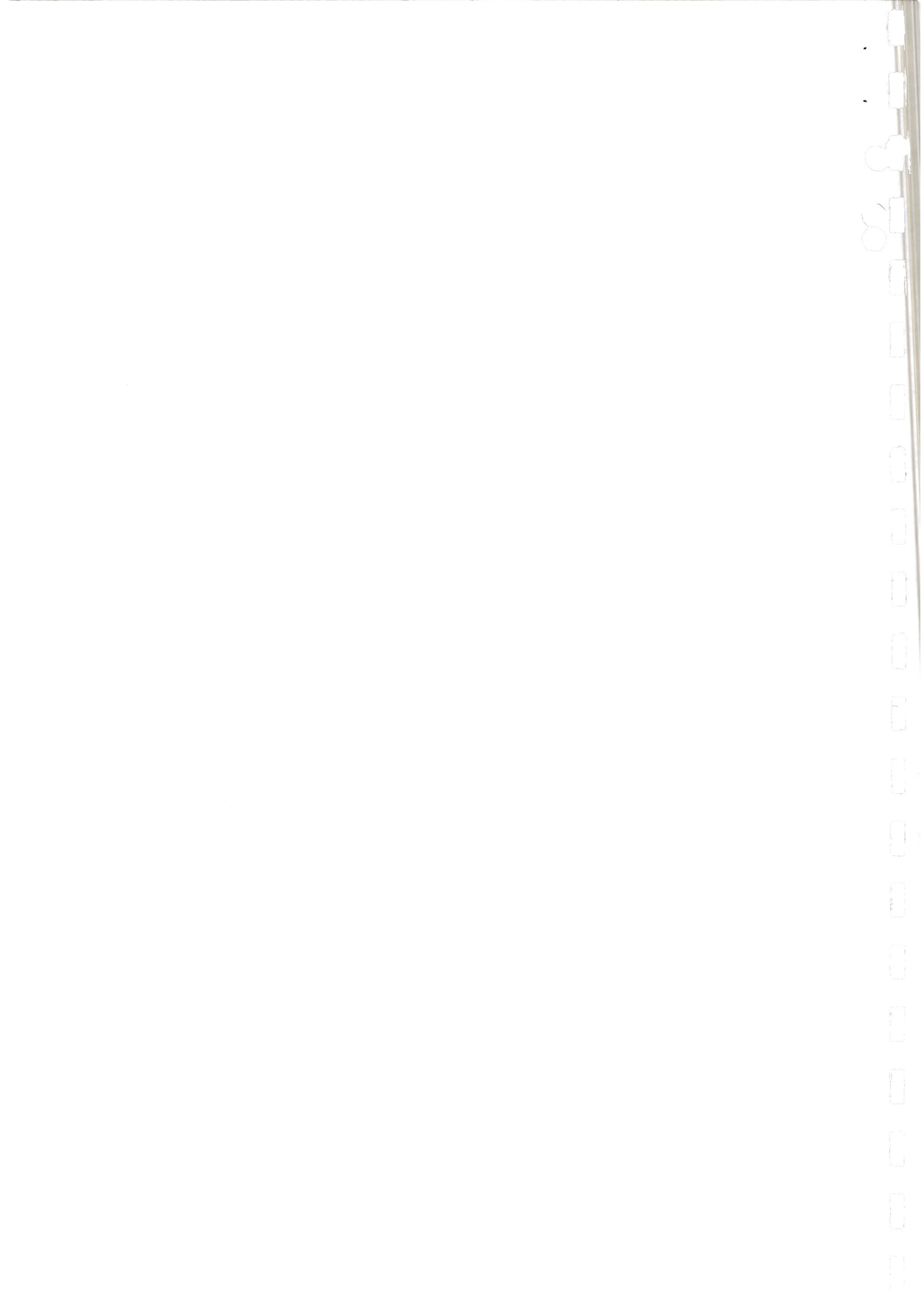
Bank Overdraft(note 16)	-	(29,392,242)
Total	124,896,704	92,600,481



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11(a). Detail Analysis of the cash and cash equivalents

		2017-2018	2016-2017
Financial institution	Account number	Shs	Shs
a) Current Account			
Nairobi Museum, SCB Westland	0108035107801	128,992	262,694
Seed for life, SCB Westland	0108035107802	13,590,307	1,182,916
Commercial, SCB Westland	0108035436500	986,367	1,261,500
Salaries, SCB Westland	0108033746400	2,667,722	-
Fund A/C, SCB Westland	0108034593700	2,141,740	53,326,066
Project HQs, SCB Westland	0108035107800	17,406,283	7,098,453
Lodwar, KCB Lodwar	1107592267	3,458	141,217
Karen Blixen Savings, SCB Karen	0152092944700	2,082,194	1,274,705
Dollar HQs, SCB Westland	8708035107900	1,942,723	5,208,923
Karen Blixen Recurrent, SCB Karen	0102044888600	1,408,819	1,241,691
Natural Products Industry HQs, SCB Chiromo	0108035107901	8,439,534	29,003
Recurrent IPR, SCB Karen	0102044700001	2,203,693	371,525
Dollar IPR, SCB Karen	8702044700000	7,763,813	1,071,366
IPR Project, SCB Karen	0102044700000	13,867,547	1,413,752
CNHR Project A/C, SCB Karen	0102044700002	586,203	865,223
IPR MMUST, SCB Karen	0108044700000	8,363	1,287,063
IPR Predict, SCB Karen	0102044700003	1,492,802	504,965
Fort Jesus, KCB Treasury SQ. Mombasa	1106548876	100,443	1,432,464
Fort Jesus Project	1106548809	18,184,197	37,440,801
Gede Ruins- KCB Malindi	1108000584	9,727	57,880
Lamu ,KCB Lamu	1104778173	961,861	246,405
Lamu Projects, KCB Lamu	1104778505	98,593	7,957
Lamu Fort, KCB Lamu	1104778343	12,276	12,276
Meru, SCB Meru	0102063108500	86,830	214,216
Kapenguria, KCB Kapenguria	1106216474	381,117	362,134
Baringo, KCB Kabarnet	1103642324	4,115	94,876
Kisumu, SCB Kisumu	0102055059500	263,822	241,835
Narok, KCB Narok	1107720796	58,231	2,460,277
Nakuru Hyrax, SCB Nakuru	0152054858500	994,883	1,006,158
Kitale, SCB Kitale	0102036056900	106,967	120,531
Recurrent HQs, SCB Westlands	0108035107900	3,864,619	-
Development HQs,KCB Sarit	1106829379	17,073,477	-
IPR GCC ,SCB Karen	0102044700003	3,429,149	-
TOTAL		122,350,867	120,238,872



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11 (b) Others (Cash in Hand)

	30 JUN 2018	30 JUN 2017
11 (b) Others (Cash in Hand)		
Headquarters	981,746	912,785
IPR	19,400	31,300
Lamu Museum	5,100	12,250
Fort Jesus Museum	293,889	86,750
Gede museum	63,860	27,440
Karen Blixen Museum	944,280	126,873
Kisumu Museum	32,030	255,725
Thimlich Ohinga	2,500	11,450
Meru Museum	1,000	43,660
Kitale Museum	45,332	65,180
Olorge saille	-	-
Nairobi Gallery	7,900	3,500
Nairobi Museums	-	19,730
Uhuru Gardens	108,300	37,000
Maralal	-	600
Rabai	23,150	-
Malindi	11,550	12,600
Mnarani	1500	14,550
Kariandusi	-	-
Hyrax		74,650
Kabarnet	200	2,100
Koobi For a	-	358
Kapenguria	4,100	15,350
TOTAL	2,545,837	1,753,851

12. (a) CURRENT RECEIVABLES

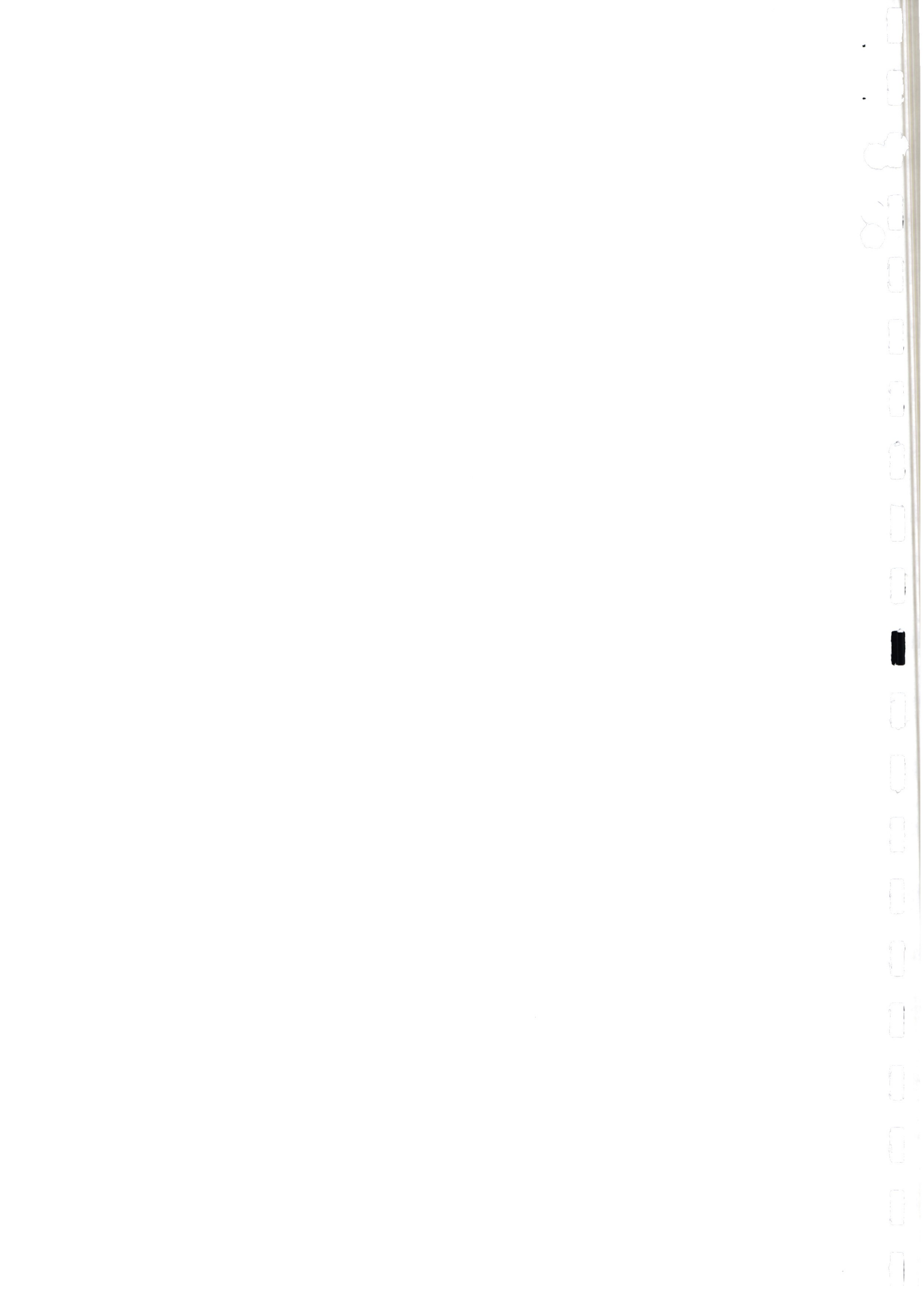
Description	KSHS	KSHS
	2017-2018	2016-2017
Trade Receivables	8,182,682	6,583,186
Prepayments	2,955,078	5,732,478
Deposits	1,507,368	1,507,368
Total	12,645,128	13,823,032

12 (b) CURRENT RECEIVABLES

Description		
Staff Debtors	19,711,695	22,034,994
Total	19,711,695	22,034,994

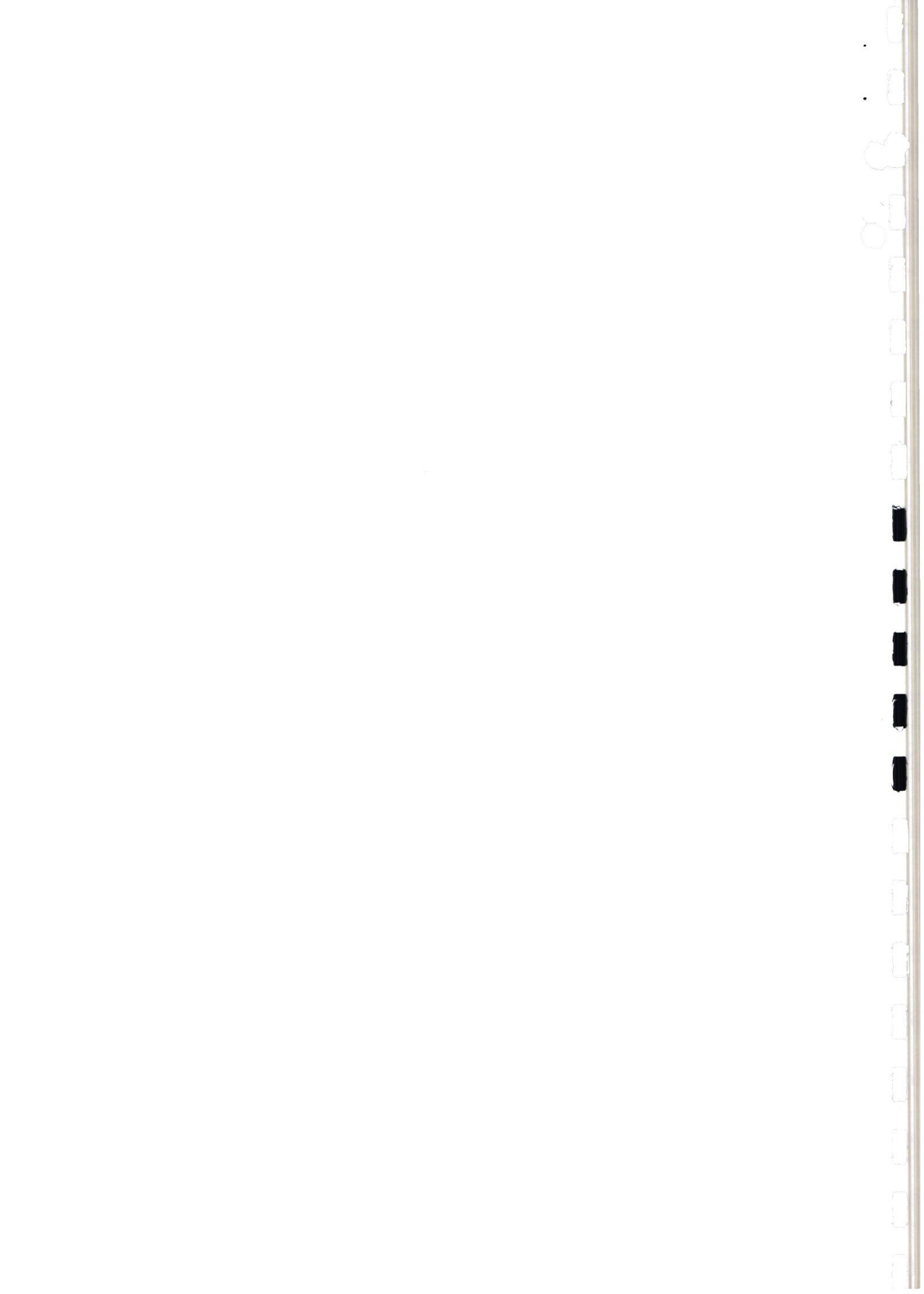
13. INVENTORIES

Description		
Publications	1,288,890	1,388,941
Crafts	230,462	479,580
Soft drinks	51,467	81,699
Total	1,570,819	1,950,220



14 WORK IN PROGRESS, PROPERTY, PLANT AND EQUIPMENT

	PROPERTY		PLANT AND EQUIPMENT							TOTAL
	LAND	BUILDINGS	WORK IN PROGRESS	FURNITURE	COMPUTERS	VEHICLES	KSHS	KSHS		
	KSHS	KSHS		KSHS	KSHS	KSHS			KSHS	
<u>COST/VALUATION</u>										
As at 1st July, 2016	1,575,127,445	948,312,297	368,284,783	220,420,696	71,036,290	96,771,187				3,279,952,698
Additions during the year	-	-	72,584,698	9,340,505	7,823,996	21,487,970				111,237,169
Completed works during the year	-	234,773,284	(234,773,284)	-	-	-				-
Adjustment	-	-	(18,210,463)	-	-	-				(18,210,463)
As at 30th June 2017	1,575,127,445	1,183,085,581	187,885,734	229,761,201	78,860,286	118,259,157				3,372,979,404
<u>DEPRECIATION</u>										
As at 1st July 2016	-	123,674,473	-	157,844,747	55,733,208	73,221,418				410,473,846
Charge for the Year	-	8,246,378	-	7,821,994	3,825,771	5,887,442				25,781,585
As at 30th June, 2017	-	131,920,851	-	165,666,741	59,558,979	79,108,860				436,255,431
<u>COST/VALUATION</u>										
As at 1st July, 2017	1,575,127,445	1,183,085,581	187,885,734	229,761,201	78,860,286	118,259,157				3,372,979,404
Additions during the year	-	-	181,548,501	7,438,025	1,946,177	-				190,932,703
Completed works during the year	-	-	-	-	-	-				-
As at 30th June 2018	1,575,127,445	1,183,085,581	369,434,235	237,199,226	80,806,463	118,259,157				3,563,912,107
<u>DEPRECIATION</u>										
As at 1st July 2017	-	131,920,851	-	165,666,741	59,558,979	79,108,860				436,255,431
Charge for the Year	-	10,511,647	-	8,011,808	4,825,327	9,787,574				33,136,356
As at 30th June, 2018	-	142,432,498	-	173,678,549	64,384,306	88,896,434				469,391,787
<u>NET BOOK VALUES</u>										
As at 30th June, 2018	1,575,127,445	1,040,653,083	369,434,235	63,520,677	16,422,157	29,362,723				3,094,520,320
<u>NET BOOK VALUES</u>										
As at 30th June, 2017	1,575,127,445	1,051,164,730	187,885,734	64,094,460	19,301,307	39,150,297				2,936,723,973



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15. TRADE AND OTHER PAYABLES FROM EXCHANGE TRANSACTIONS

	2017-2018	2016-2017
	KSH	KSH
Trade payables	105,583,046	101,779,155
Payments received in advance	1,068,000	1,068,000
Third party payments	91,081	-
Other payables	131,561,560	125,753,207
Total	238,303,687	228,600,362

Third party payments relate to deductions made and have not yet been submitted as at June, 2018.

16. BANK OVERDRAFT

		2017-2018	2016-2017
ACCOUNT	ACCOUNT NO.	KSHS.	KSHS.
Recurrent HQs, SCB Westland	0108035107900	-	18,869,582
Commercial, SCB Westland	0108035436500	-	-
IPR Project, SCB Karen	0102044700000	-	-
Development HQs, KCB Sarit	1106829379	-	8,767,648
Salaries, SCB Westland	0108033746400	-	1,755,012
TOTAL		-	29,392,242

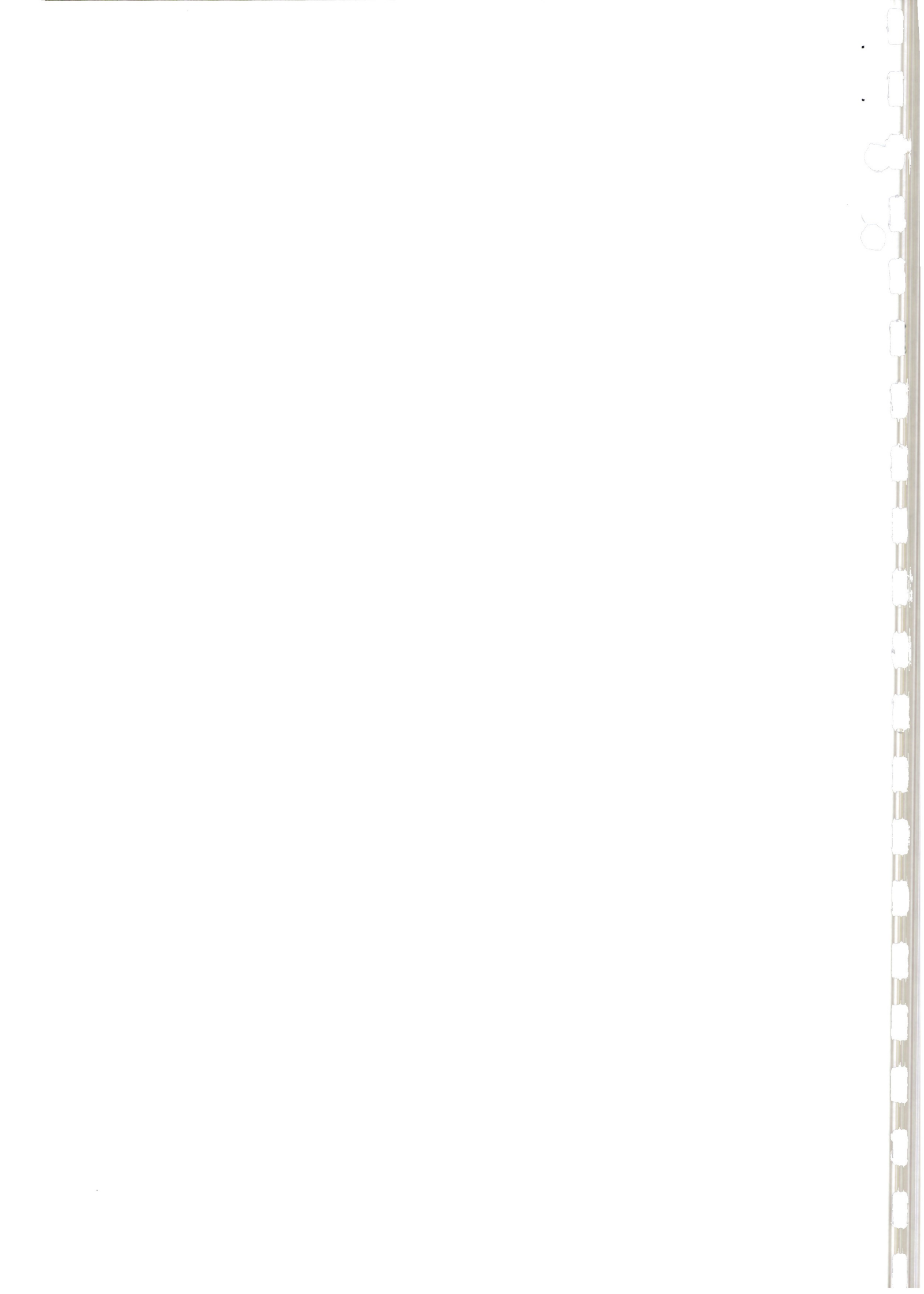
17. DEFERRED GOVERNMENT GRANT

	2017-2018	2016-2017
	KSHS.	KSHS.
Balance b/f	322,432,079	257,236,076
G.o.K Development Grant received	59,993,500	150,000,000
Less amount spent (17b)	(183,912,820)	(84,803,997)
Total	198,512,759	322,432,079

17b Capital expenditure	181,548,501	72,584,698
Revenue expenditure	2,364,319	12,219,299

Total

183,912,820



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18 PROJECT DEPOSITS	2017-2018	2016-2017
	KSHS.	KSHS.
Opening balance	19,096,078	45,298,526
Add receipts during the year	318,243,666	186,056,703
Total Deposits	337,339,744	231,355,229
Less expenditure (4)	228,738,656	212,259,151
Balance c/f	108,601,088	19,096,078

Project revenue is funds from various donors used for research activities carried out by NMK Scientists.

19. RELATED PARTY DISCLOSURES

These financial statements include the financial statements of the organization

(a) Related party transactions		2017-2018	2016-2017
Transfers from Ministry of Sports, Culture and the Arts	Recurrent	965,900,000	870,000,000
	Development	59,993,500	150,000,000
Total		1,025,893,500	1,020,000,000

(b) Key management personnel

The key management personnel, as defined by IPSAS 20 Related Party Disclosures, are the members of Director's Executive Team. The total remuneration of members of Director's Executive Team, on a full-time basis, receiving remuneration from the Organization is:

	2017-2018	2016-2017
Key Management remuneration	27,254,422	29,055,312
Total	27,254,422	29,055,312



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20. COMMITMENTS AND CONTINGENCIES

Capital commitments

The organization in this financial year has no capital commitments

Operating lease rentals

The National Museums of Kenya has no operating lease rentals for the financial year 2017/2018

21. FINANCIAL RISK MANAGEMENT POLICIES

The National Museums of Kenya's financial risk management objectives and policies are detailed below:

Significant accounting policies

Details of the significant accounting policies and methods adopted, including the criteria for recognition, the basis of measurement and the basis on which income and expenses are recognised, in respect of each class of financial asset and financial liability are disclosed in note 1 to the financial statements.

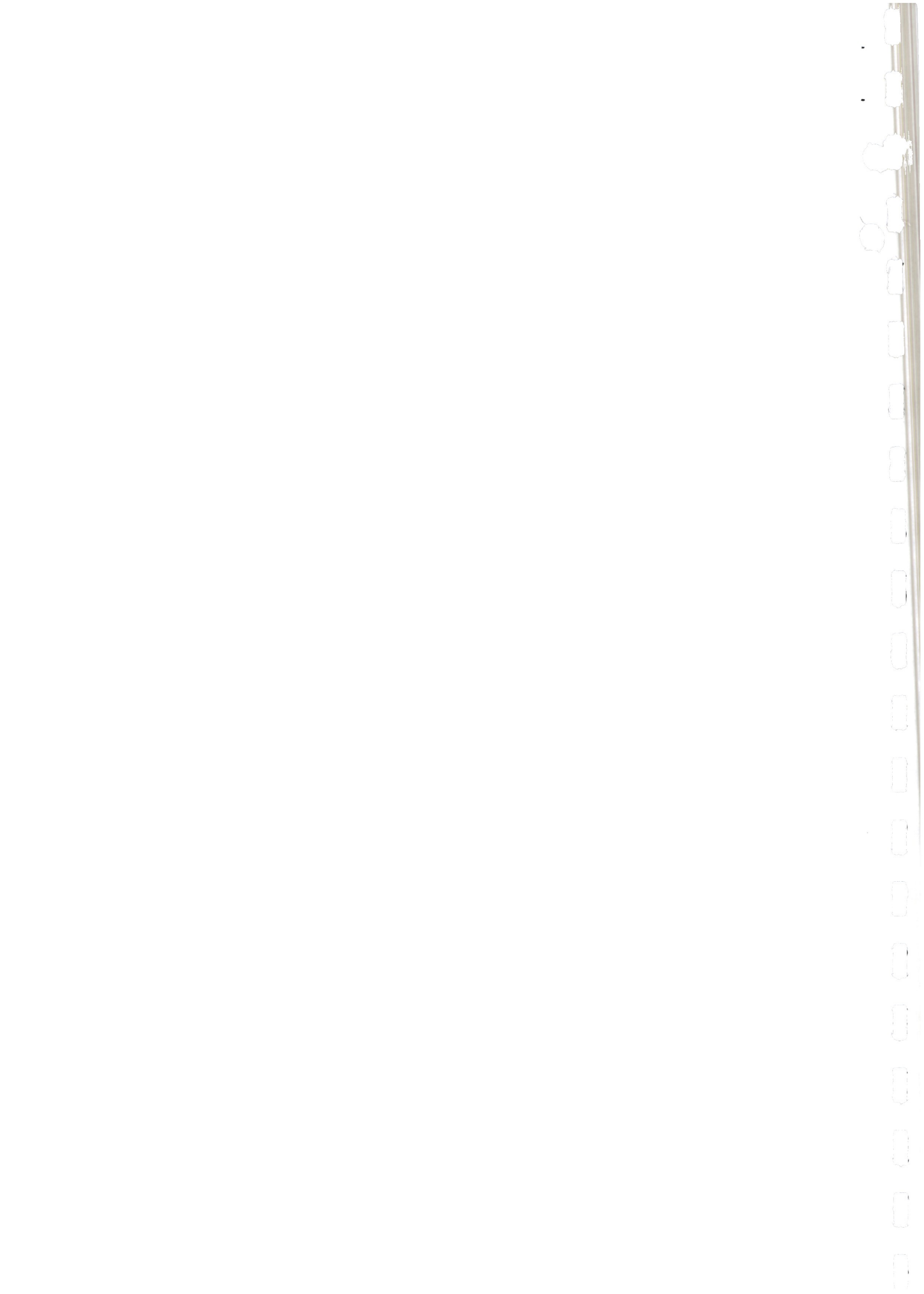
Financial risk management objectives

The organizations activities expose it to a variety of financial risks including credit risk, liquidity risks, interest rate and the effects of changes in foreign currency rates. The National Museums of Kenya's overall risk management programme focuses on unpredictability of changes in the operating environment and seeks to minimise the potential adverse effect of such risks on its performance by setting acceptable levels of risk.

Interest rate risk

The interest rate risk exposure arises mainly from interest rate movements on the company's cash balances.

At 30 June 2018, if the interest rates on the bank balances had decreased/increased by 5 percentage points with all other variables held constant, the impact on surplus for the year would have been Shs.6,117,543 (2017: Sh.4,542,332) higher/lower.



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There has been no change to the company's exposure to interest rate or the manner in which it manages and measures the risk.

Credit risk management

The organization's credit risk is primarily attributable to its other receivables and bank balances.

The amounts of receivables presented in the statement of financial position, estimated by the organization's management based on prior experience and their assessment of the current economic environment.

The credit risk on receivables is limited because the organization does not rely on them.

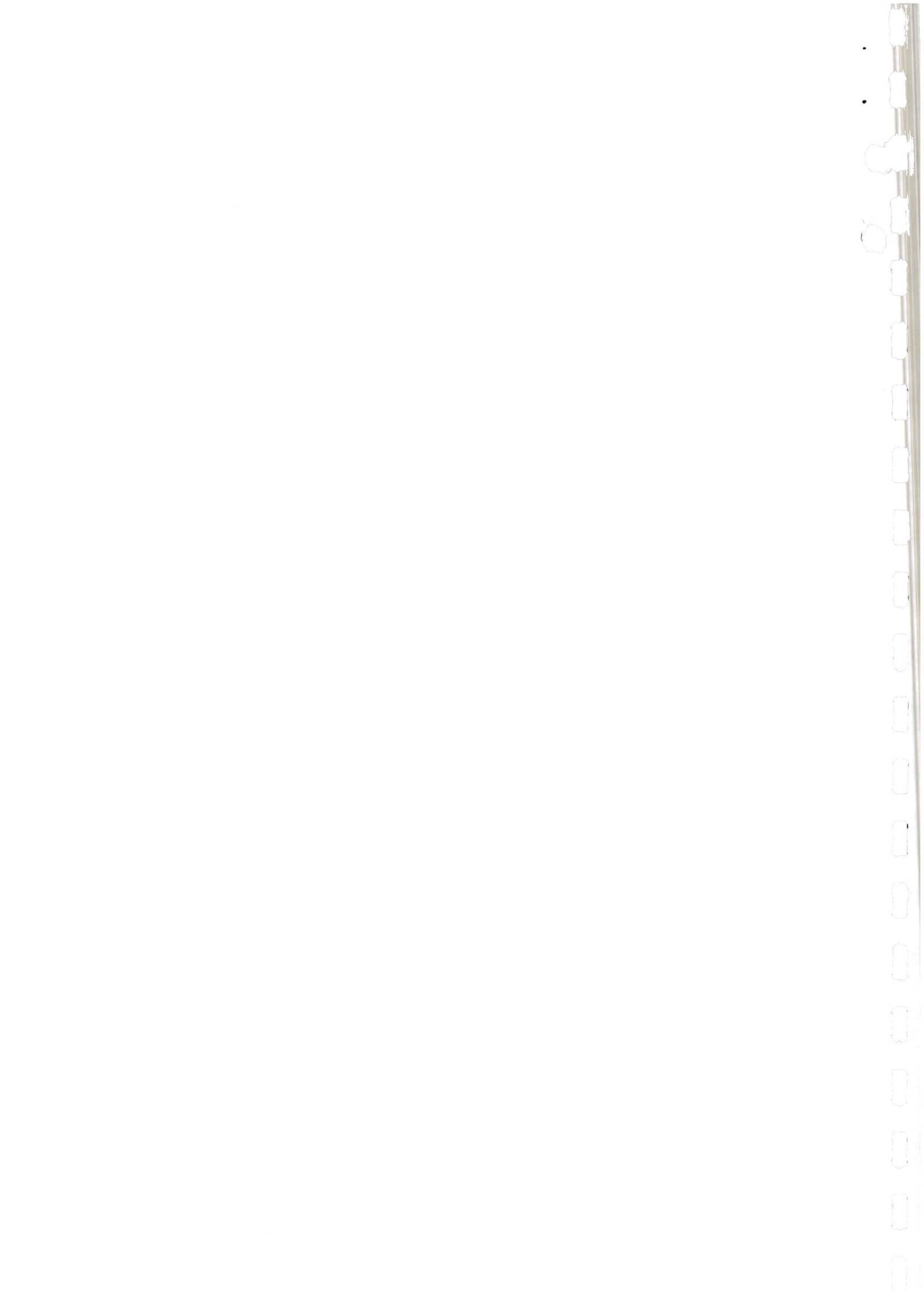
The credit risk on liquid funds with financial institutions is also low, because the counter parties are banks with high credit-ratings.

The amount that best represents the organization's maximum exposure to credit risk as at 30 June 2018 is made up as follows:

	Fully Performing	Past Due	Total
	Shs	Shs	Shs
Bank Balances	122,350,867	-	122,350,867
Trade Receivables	8,182,682	-	8,182,682
Staff Debtors	19,711,695		19,711,695
Total	150,245,242		150,245,244

The amount that best represents the Centre's maximum exposure to credit risk as at 30 June 2017 is made up as follows:

	Fully Performing	Past Due	Total
	Shs	Shs	Shs
Bank Balances	120,238,872	-	120,238,872



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Trade Receivables	-	-	-
Staff Debtors	22,034,994		22,034,994
Total	142,273,866		142,273,866

Liquidity Risk Management

Ultimate responsibility for liquidity risk management rests with the Management, who have built an appropriate liquidity risk management framework. The organization manages liquidity risk by maintaining enough required funds for its operations through continuous monitoring of forecast and actual cash flows

The table below shows the maturity analysis of the financial liabilities that affect liquidity:

As at 30 June 2018

	Less than 1 Year Shs	Over 1 Year Shs	Impaired Shs	Total Shs
Payables	21,456,091			21,456,091
Payables		216,847,596		216,847,596
Total	21,365,010	216,847,596		238,303,687

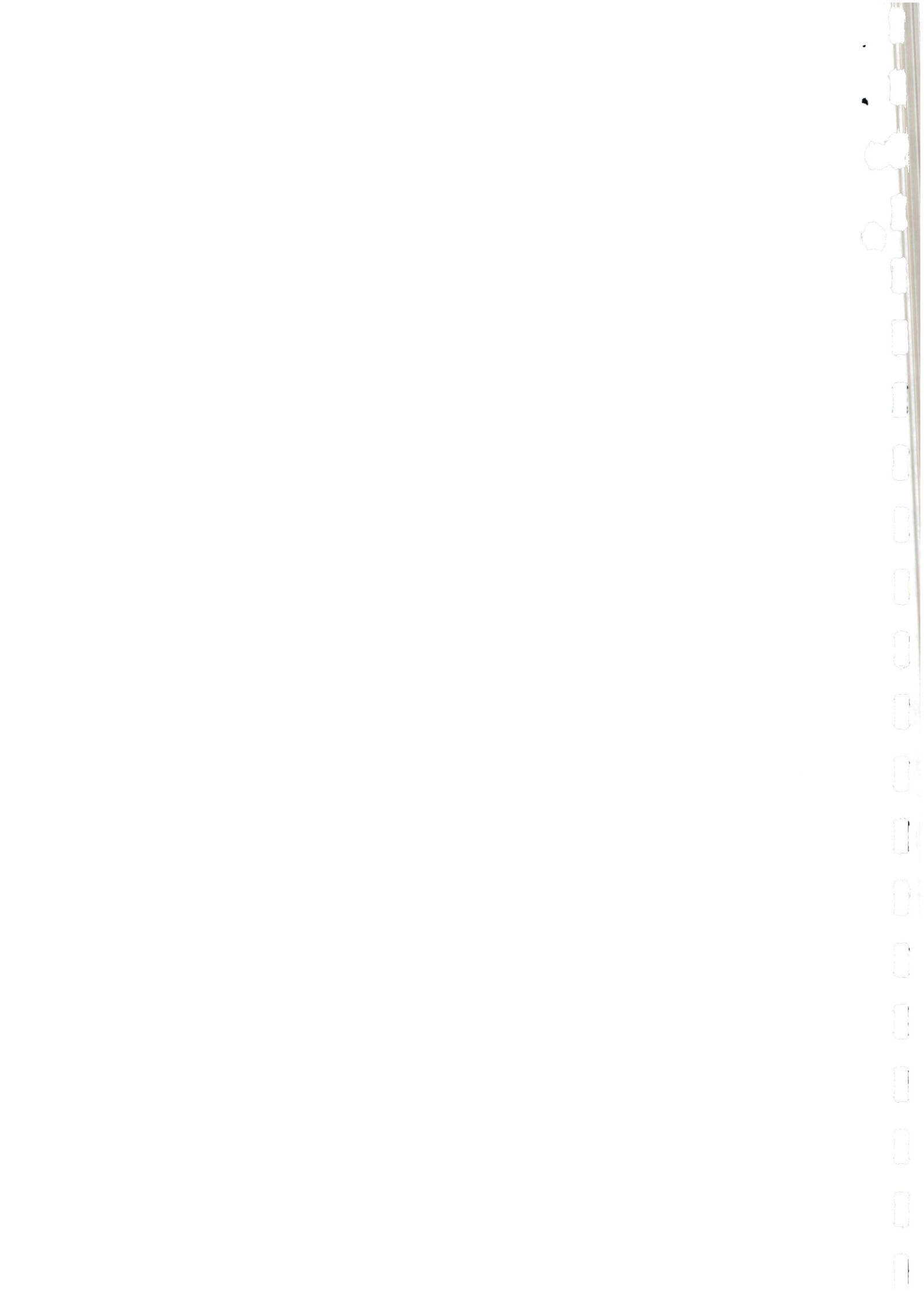
As at 30 June 2017

	Less than 1 Year Shs	Over 1 Year Shs	Impaired Shs	Total Shs
Payables	-	65,588,725		65,588,725
Payables	163,011,637	-	-	163,011,637
Total	163,011,337	65,588,725	-	228,600,362

Exchange risk

The National Museums of Kenya holds some of its bank balances in foreign currency. The fluctuations in currency exchange rates result in changes in the value of the monetary assets denominated in foreign currency hence expose the Centre to the risk of incurring exchange losses. The monetary assets held in foreign currency are closely monitored to ensure that they are not materially affected by adverse foreign currency fluctuations. There are no other foreign currencies denominated financial assets or liabilities.

At year .end, the foreign currency bank account had the following balance:



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	AMOUNT	AMOUNT
	In foreign Currency \$	KShs.
At 30 June 2018		
US dollar bank account HQs	18,890.08	1,942,723
Us dollar bank account IPR	75,981.66	7,763,813
At 30 June 2017		
US dollar bank account HQs	50,225.03	5,208,923
US dollar bank account IPR	10,484.14	1,071,366

As at 30 June 2018, an increase/decrease of 10% in the Dollar exchange rates to the Kenya Shilling would have resulted in an increase/decrease in the deficit for the year of Kshs. 970,654 (2017 Kshs.628,029).

11. The financial statements reflect material difference between the budget and actual amounts. Thus development grant deficit of Kshs.340,006,500 was as a result of budget cuts. During the year the organisation was allocated Kshs.70 million but only received Kshs.59,993,500.

The internal revenue decreased as a result of political situation in the country.

There was a saving in Employees cost as a result of increments awarded by Salaries and Remuneration Commission, depreciation was due to over provision and on repair and maintenance as Management tried to rationalize operating and administrative expenses to manageable level as advised by The National Treasury.

In relation to Board Expenses, there was a saving since there was no full board during the year.

2. Changes from original budget are a consequence of government variations through supplementary budgets and at the same time budgetary cuts during normal budgetary process for both the recurrent and development grants. Subsequently, a number of other factors that affect our internal revenue generation also results to alterations in budget to enable the organization to continue with its operations with minimal interruptions.

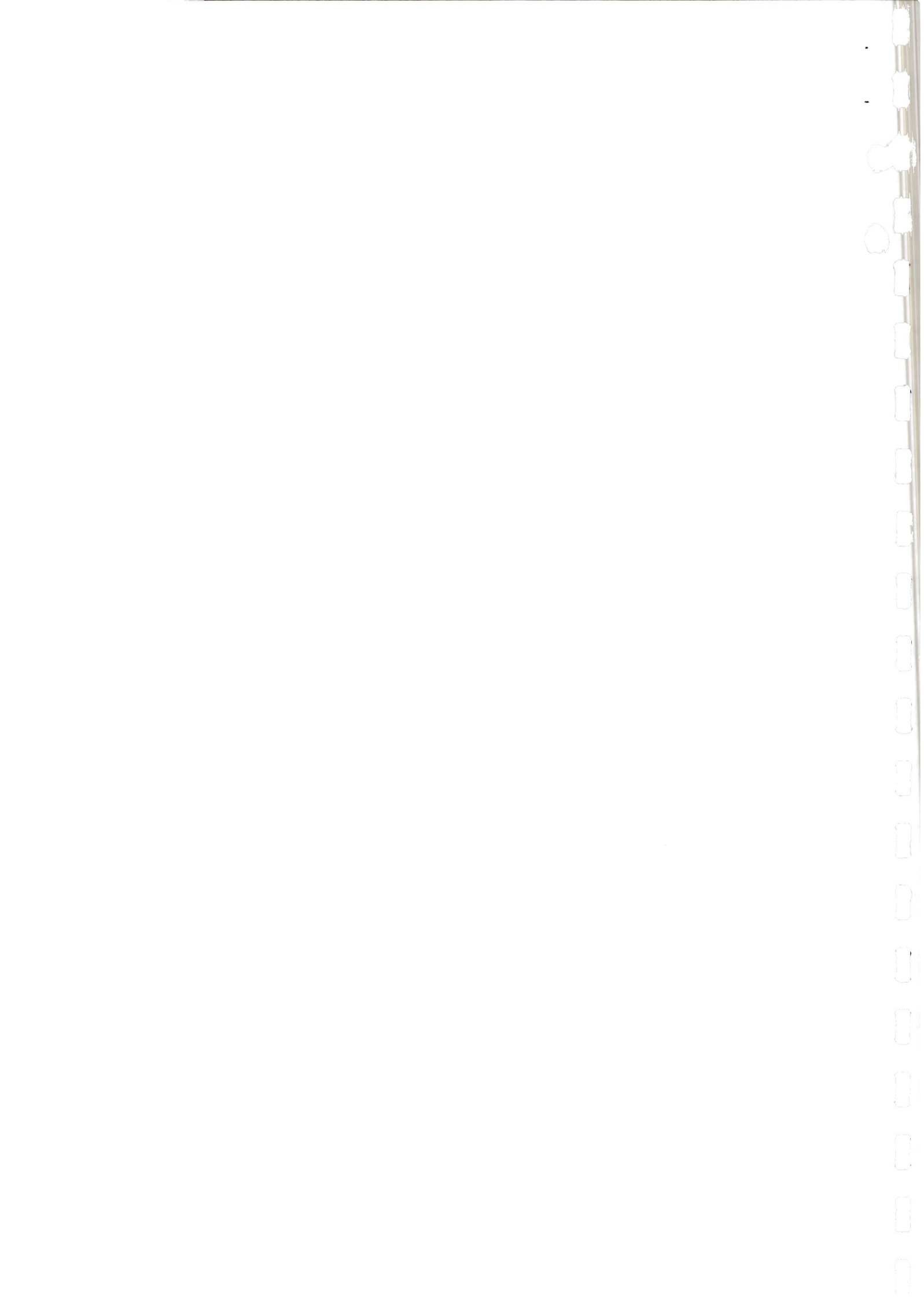


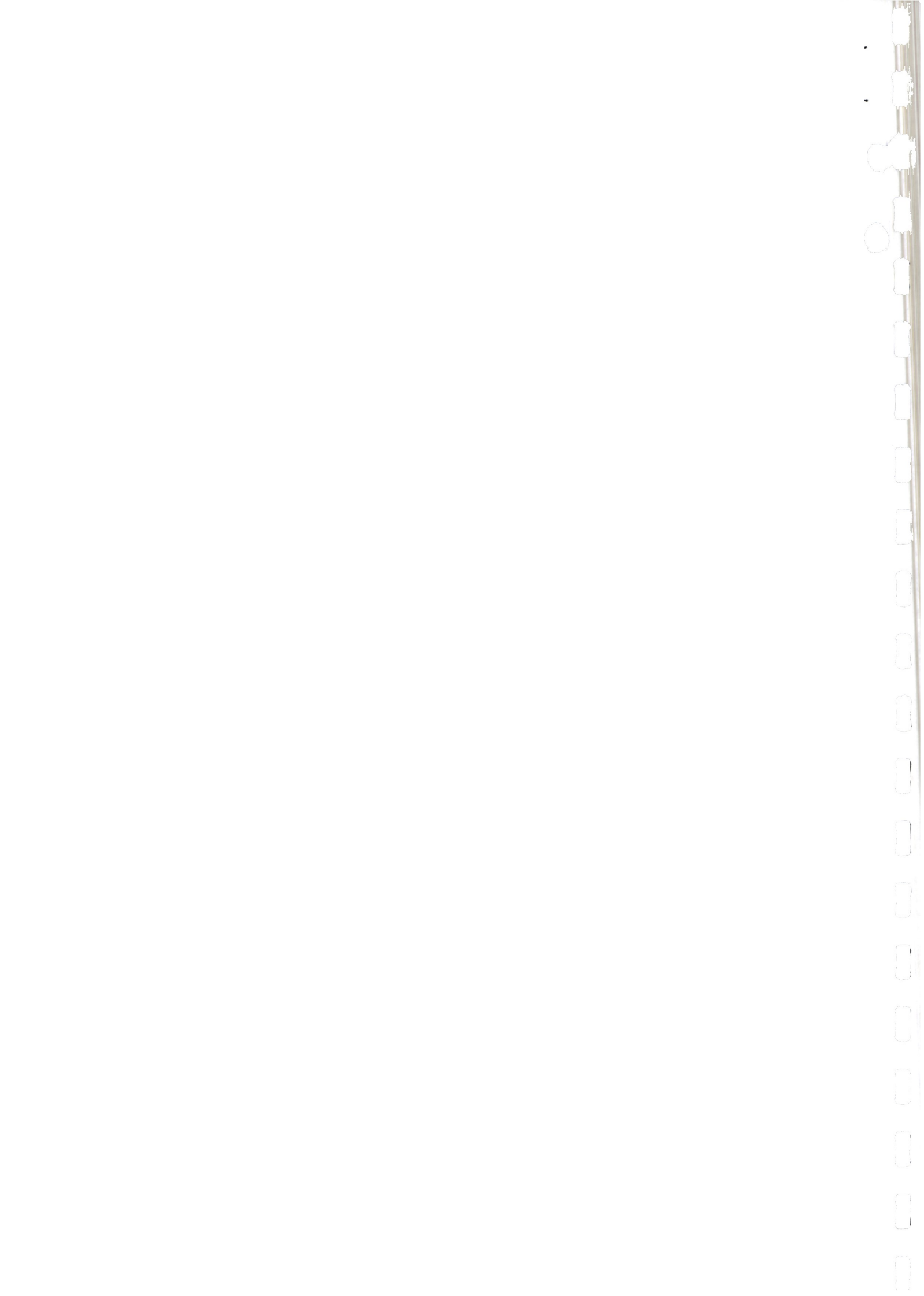
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XVI. PROGRESS ON FOLLOW UP OF AUDITOR RECOMMENDATIONS

The following is the summary of issues raised by the external auditor, and management comments that were provided to the auditor for 2016/2017 Financial Year. The nominated focal persons resolved the various issues as shown below with the associated time frame within which we expect the issues to be resolved.

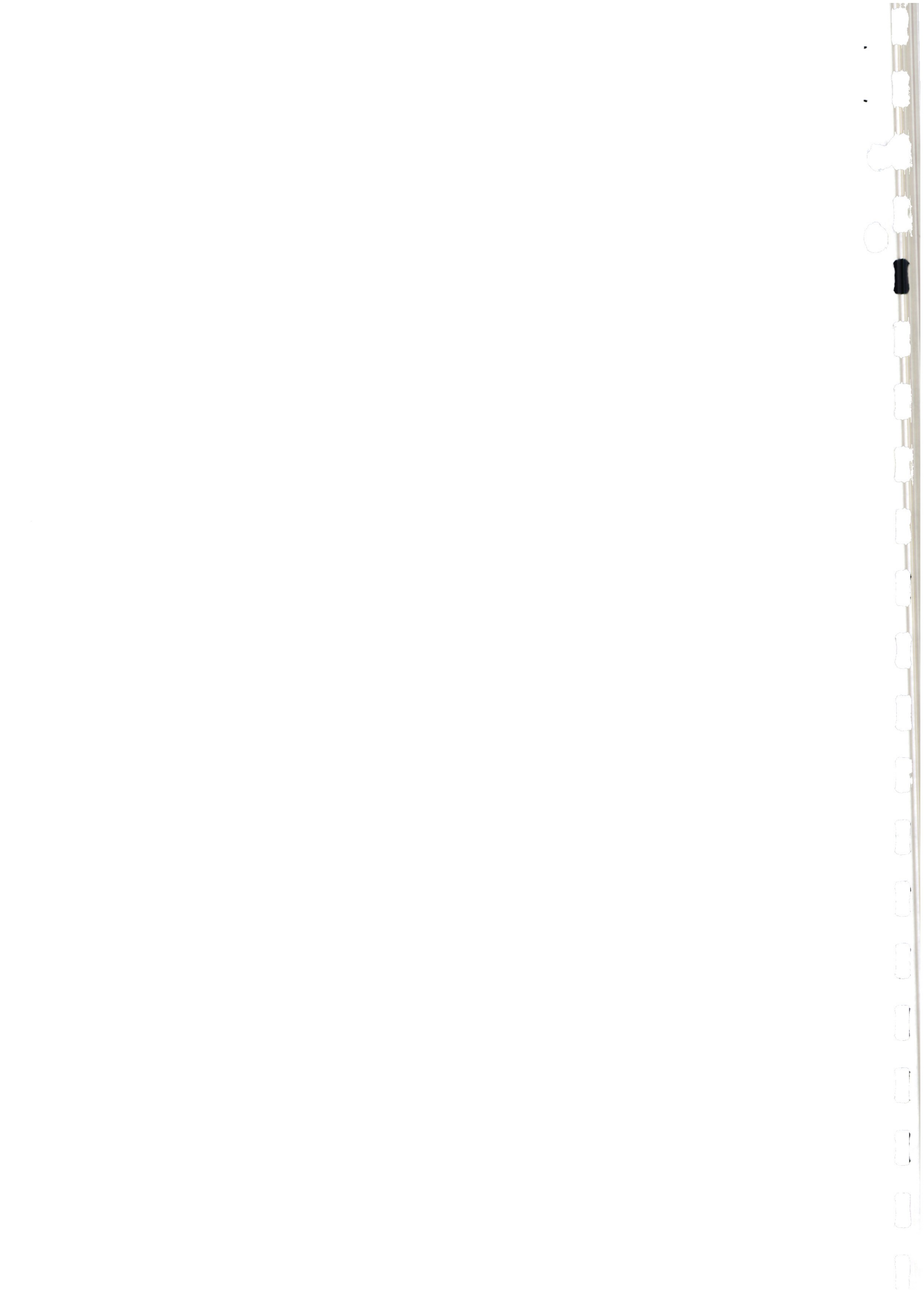
Reference No. on the external audit Report	Issue / Observations from Auditor	Management comments	Focal Point person to resolve the issue (Name and designation)	Status: (Resolved / Not Resolved)	Timeframe: (Put a date when you expect the issue to be resolved)
2016/2017 1.0	PROPERTY, PLANT AND EQUIPMENT The statement of financial position reflects property, plant and equipment balance of Kshs. 2,936, 723, 973 as at 30 th 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:	It is true that the Property, Plant and Equipment balance of Kshs. 2, 936, 723, 973 as at 30th June 2017 included an amount of Kshs.1, 575, 127, 445 relating to value of one hundred fifty (150) parcels of land spread all over the country out of which only forty three (43) had valid title deeds. So far, NMK has managed to acquire 43 title deeds while others are in the process of being surveyed as funds become available. The Management put aside some funds to obtain a few title deeds in 2016/2017 financial year. However, Management	Director General and Directors of NMK directorates.	Not yet resolved	Current Financial Year.





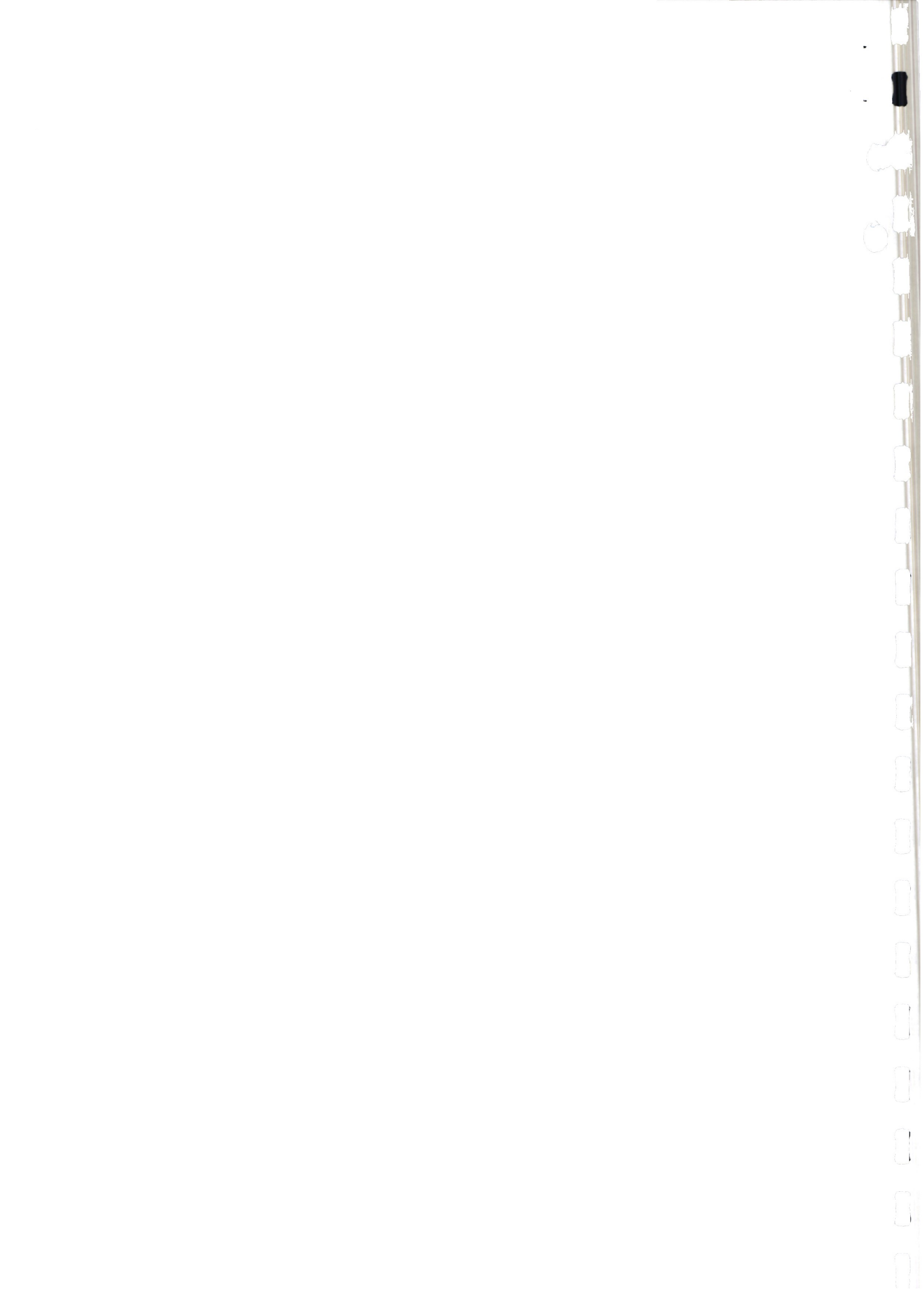
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<p>In the absence of proper ownership documents, the security of the 107 parcels could not be guaranteed considering that many parcels had been encroached upon by outsiders, some have disputes and others grabbed by private developers.</p> <p>In view 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</p>	<p>Going Concern / Sustainability of Services</p> <p>As stated in previous years, the financial statements of National Museum 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</p>	<p>It is true that a deficit of Kshs. 101, 646, 479 was realized in the year ending 30th June 2017 which brought the cumulative revenue reserve balance to a negative of Kshs 331, 966, 875 and a negative working capital of Kshs. 98, 191, 635 as at 30th June 2017. This was as a result of continued budgets cuts by the government during previous years.</p> <p>The auditors' observation reflects the true position of NMK. The management has since managed to secure budgetary allocation to fully service its payroll so</p>	<p>Director General and Directors of NMK directorates.</p>	<p>Not yet resolved</p>	<p>Current Financial Year.</p>
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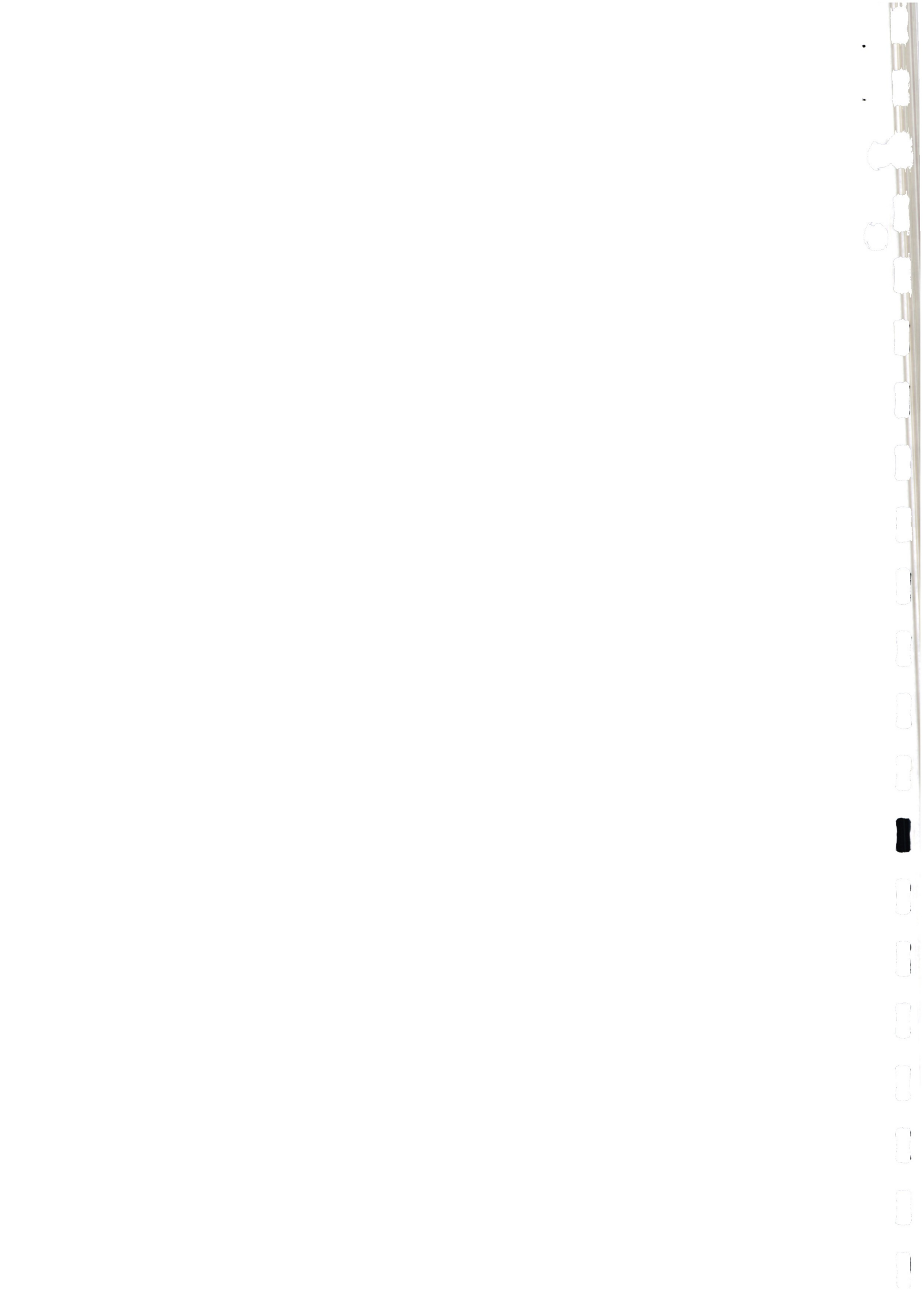
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<p>Museums of Kenya operated a negative working capital during the year under review and the financial statements have been prepared on assumption of continuing support from the government and creditors.</p>	<p>Cash and Cash Equivalents</p> <p>Difference between the Financial Statements and Bank Reconciliation statements</p>	<p>that the internally generated revenue can be fully utilised for operation and maintenance. Management hope to see improved cumulative revenue reserves in future as it continues to work on other revenue streams and manage its operational costs.</p>		
<p>3.0</p>	<p>3.1</p> <p>The statement of financial position as at 30 June, 2017 reflect 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.</p>	<p>The observation is true and NMK management is working on reconciling the difference between the accounting system ledger and cashbook during this financial year 2017/2018. The difference of Kshs. 6,725 for SCB Kisumu is cash on transit which is reflected as cash at hand as at 30th June 2017 in the Financial Statement.</p>	<p>Director General and Financial Controller</p>	<p>Not yet resolved</p> <p>Current Financial Year.</p>



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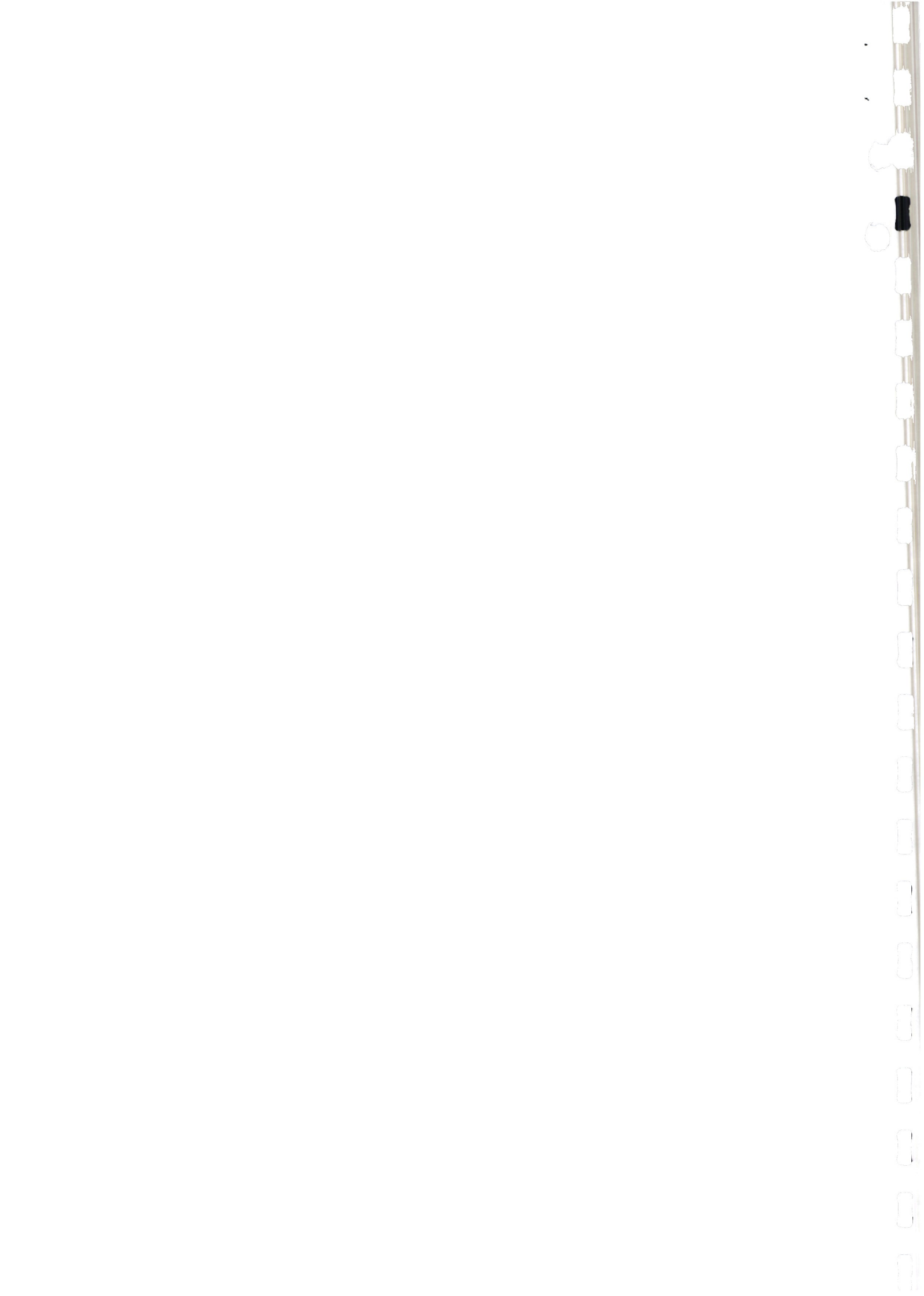
<p>In the circumstances, the accuracy of the cash and cash equivalents balance of Kshs. 121, 992, 723 reflected in the statement of financial position as at 30 June 2017 cannot be confirmed.</p>	<p>The observation is true and NMK Management is working on reconciling the difference between the accounting system ledger balances, cashbooks and bank balances as mentioned during this financial year 2017/2018 on the affected bank account balances.</p>	<p>Director General and Financial Controller</p>	<p>Not yet resolved</p>	<p>Current Financial Year.</p>																				
<p>3.2 Unreconciled Bank Balances</p> <p>Note 16 to the financial statements as at 30 June 2017 indicates that various banks 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:</p>																								
<table border="1"> <thead> <tr> <th>Account Name</th> <th>Account no.</th> <th>Amount in Financial statement Kshs.</th> <th>Reconciled Cash book Balances Kshs.</th> <th>Balances as per Bank Certificate Kshs</th> </tr> </thead> <tbody> <tr> <td>Current</td> <td>0108</td> <td>(18,8</td> <td>6,125</td> <td>10,16</td> </tr> <tr> <td></td> <td>0351</td> <td>69,58</td> <td>,602.</td> <td>8,625</td> </tr> <tr> <td></td> <td>0790</td> <td>2)</td> <td>55</td> <td></td> </tr> </tbody> </table>	Account Name	Account no.	Amount in Financial statement Kshs.	Reconciled Cash book Balances Kshs.	Balances as per Bank Certificate Kshs	Current	0108	(18,8	6,125	10,16		0351	69,58	,602.	8,625		0790	2)	55					
Account Name	Account no.	Amount in Financial statement Kshs.	Reconciled Cash book Balances Kshs.	Balances as per Bank Certificate Kshs																				
Current	0108	(18,8	6,125	10,16																				
	0351	69,58	,602.	8,625																				
	0790	2)	55																					



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	0					
Com	0108	-	-	-	-	-
merci	0354					
al	3650					
	0					
IPR	0102	-	-	-	-	-
Proje	0447					
ct	0000					
	0					
Deve	1106	(8,76	5,188	5,123		
lop	8293	7,648	,075.	,975.		
ent	79)	54	54		
HQs						
Salar	0108	(1,75	(1,75	2,177		
ies	0337	5,012	5,012	,556.		
	4640))	10		
	0					
Total		(29,3	9,558	17,47		
		92,24	,666.	0,156		
		2)	09	.10		

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.



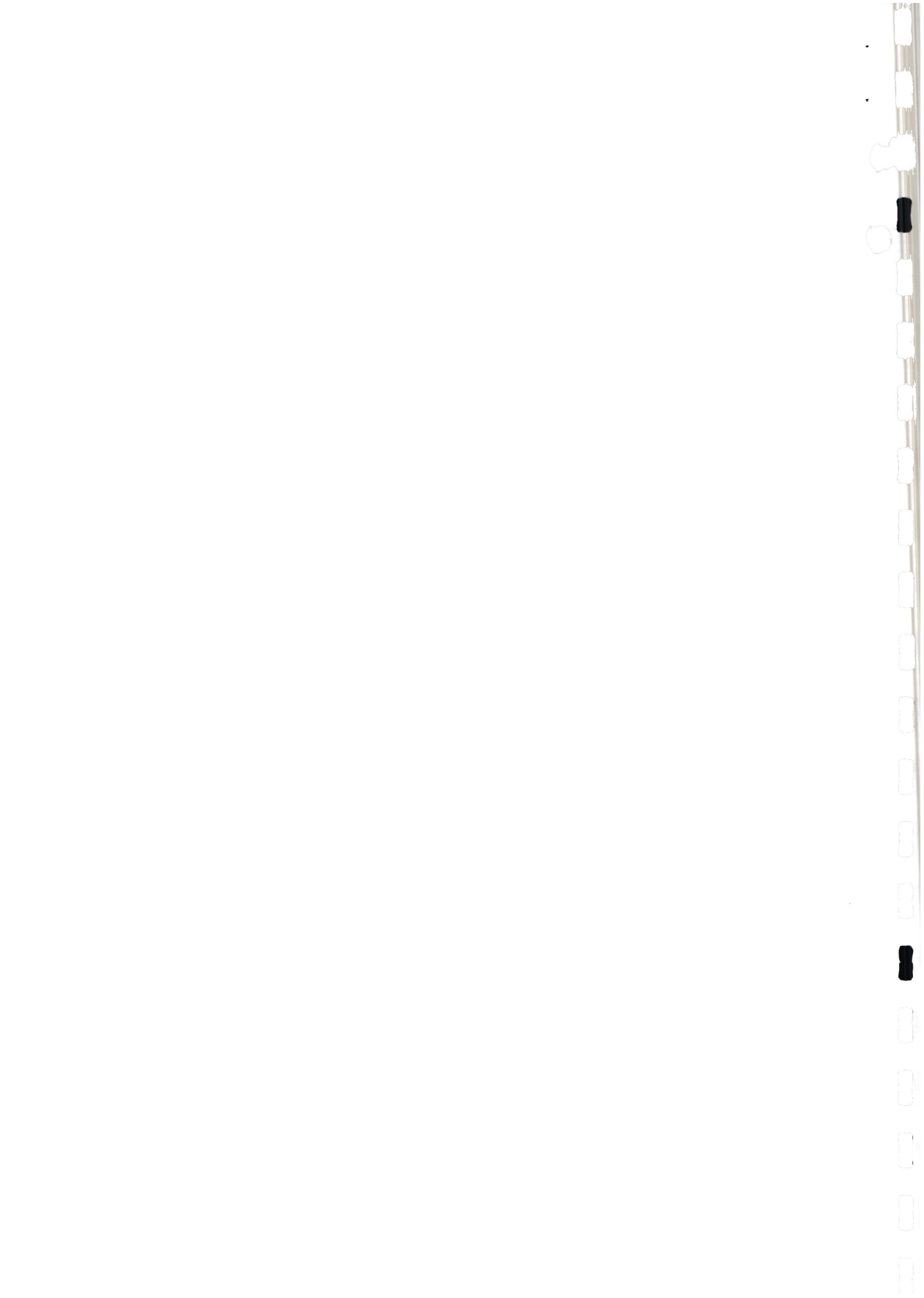
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<p>4.0</p>	<p>Outstanding Rent Income</p> <p>The statement of financial performance as at 30 June 2017 includes an amount of Kshs.290, 158, 388 in respect of other incomes. Included in the balance is rent income of Kshs. 38, 936, 309 as disclosed in note 5 to the financial statements. Records examined indicated that a number of 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.</p> <p>No action appears to have been taken against the rent defaulters</p>	<p>It is true that the NMK Management has instituted recovery of the outstanding amounts from staff who occupied the NMK premises and we confirm that there is good progress made so far as per your observation. We would like to confirm our commitment that we will ensure the outstanding balance is fully recovered during the 2017/2018 financial year.</p>	<p>Director General and Financial Controller</p>	<p>Not yet resolved</p>	<p>Current Financial Year.</p>
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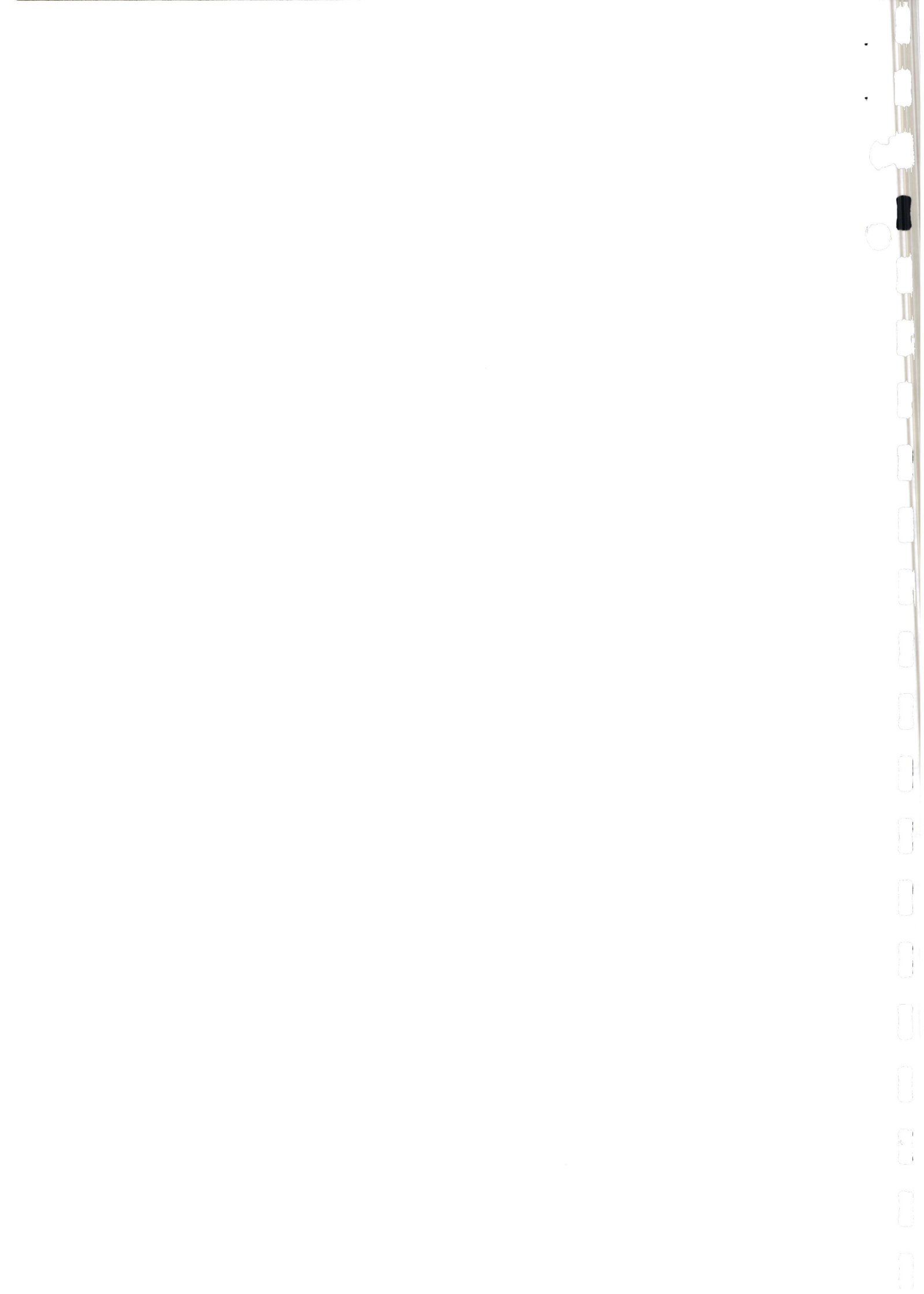
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<p>5.0</p>	<p>Deferred Development Grant</p> <p>The statement of financial position as at 30 June 2017 reflects a balance of Kshs. 322, 432, 242 referred to as deferred development grants out of which Kshs. 257, 236, 076 relates to government development 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 post- facto authority to regularise the deferred grants, no action appears to have been taken on the matter.</p> <p>In consequence, propriety of the deferred development grants balance of Kshs. 322, 432, 242 cannot be ascertained as at 30 June 2017.</p>	<p>The auditors' observation is true. The NMK Management sought for authority to regularize the matter with The National Treasury through the Ministry of Sports, Culture and the Arts but have not received any response. Therefore NMK Management will continue to pursue it as it explores other avenues to resolve it.</p>	<p>Director General and Financial Controller</p>	<p>Not yet resolved</p>	<p>Current Financial Year.</p>
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<p>6.0</p>	<p>Outstanding Imprests</p> <p>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 due dates. No reason has been given as to why the unsundered imprests have not been recovered in full from the current staff salaries or demanded from employees who had left the National Museums of Kenya.</p>	<p>The NMK Management agree to the auditors' observation at the time of audit. However, at the same time recoveries on payroll were on going for those still on payroll and as at now imprests for previous financial year almost fully accounted for except for those staff who had left National Museums of Kenya.</p>	<p>Director General and Financial Controller</p>	<p>Not yet resolved</p>	<p>Current Financial Year.</p>
<p>7.0</p>	<p>Unremitted Statutory Deductions</p> <p>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. This further includes Kshs. 81, 186, 713 in respect of unremitted statutory</p>	<p>It is true that statutory and trade payables payments amounting to Kshs81,186,718 and Kshs101,779,155 respectively was not remitted by 30th June, 2017. However, all current statutory deductions except VAT, Pension and trade payables for previous years were paid in July,</p>	<p>Director General and Financial Controller</p>	<p>Not yet resolved</p>	<p>Current Financial Year.</p>



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deductions as itemised below:				Remarks	Director General and Financial Controller	Not yet resolved	Current financial year.
Statutory deductions	2016/2017 Kshs.	2015/2016 Kshs.	Remarks				
PAYE	7,800,470	8,781,961	Decreased by Kshs. 981,491 or 1%	The Auditors observation of NMK not paying PAYE by 30 th June 2017 is true. However, NMK management complied to part IV (1) of the Kenya Revenue Authority Act which requires employers to remit deductions on or before the 9 th day of the month following payroll month or attract penalties at a rate of 20% for late payment and interest at 2% per month.	Director General and Financial Controller	Not yet resolved	Current financial year.
Pension	62,507,535	62,507,535	No movement from prior year	Due to financial challenges, the NMK Management confirms that it is true as there were no movement in the payment of the outstanding pension. The NMK Management is trying to explore ways of settling pending pension deductions through budget funding from the Government of Kenya in the next financial year.	Director General and Directors of NMK Directorates	Not yet resolved	Current financial year.
V.A.T (6%)	10,878,713	12,293,904	Decreased by Kshs. 1,415,191 or 12%	The Auditors observation of NMK slight decrease in remittance of the 6% withheld VAT by 30 th June 2017 is true. However, NMK management has started to reconcile and pay up to ensure compliance as per set guidelines.	Director General and Financial Controller	Not yet resolved	Current financial year
Total	81,186,718	83,583,400	Total decrease = Kshs. 2,396,682 or only 3%				



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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 payroll 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.

8.0

Project Deposits

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

Bank account	Account No.	Bank Balances Kshs.
Seed for Life	01080351 07802	1,182,916
Project General	01080351 07800	7,098,453
Dollar Account	87080351 07900	5,208,932

It is true that the two set of records have unreconciled difference of Ksh.434, 405 and NMK Management will work on it during this financial year 2017/2018 to reconcile the figures.

Director General
and Financial
Controller

Not yet resolved

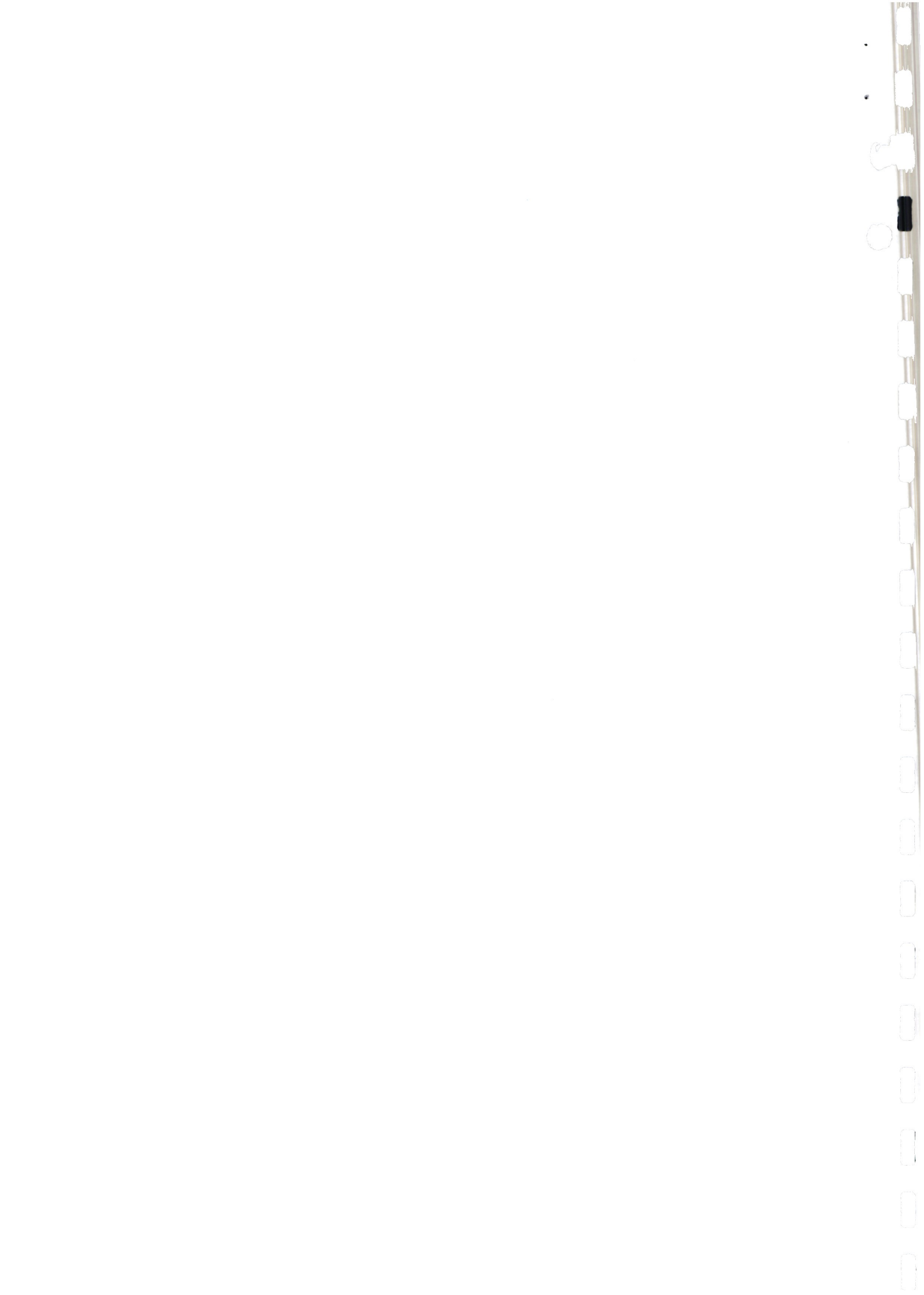
Current Financial
Year.



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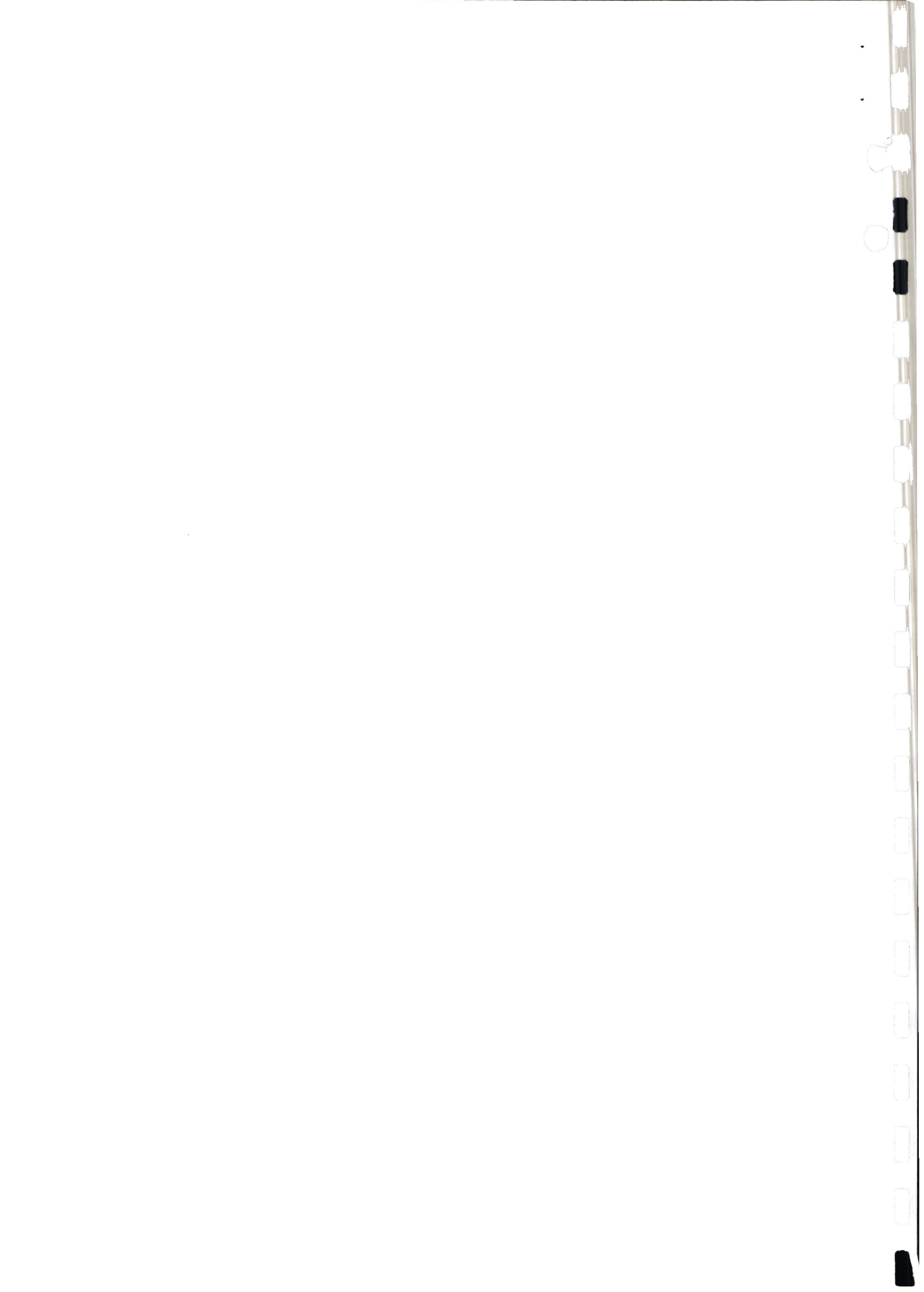
IPR Dollar Account	87020447 00000	1,071,366
IPR Project	01020447 00000	1,413,752
CNHR Project Account	01020447 00002	865,223
IPR- Masinde Muliro University	01080447 00000	1,287,063
Natural Product Industry	01080351 07901	29,003
IPR Predict Program Account	01020447 00004	504,965
Total		18,661,673

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 Kshss.434, 405 between the two sets of records has neither been reconciled nor explained.



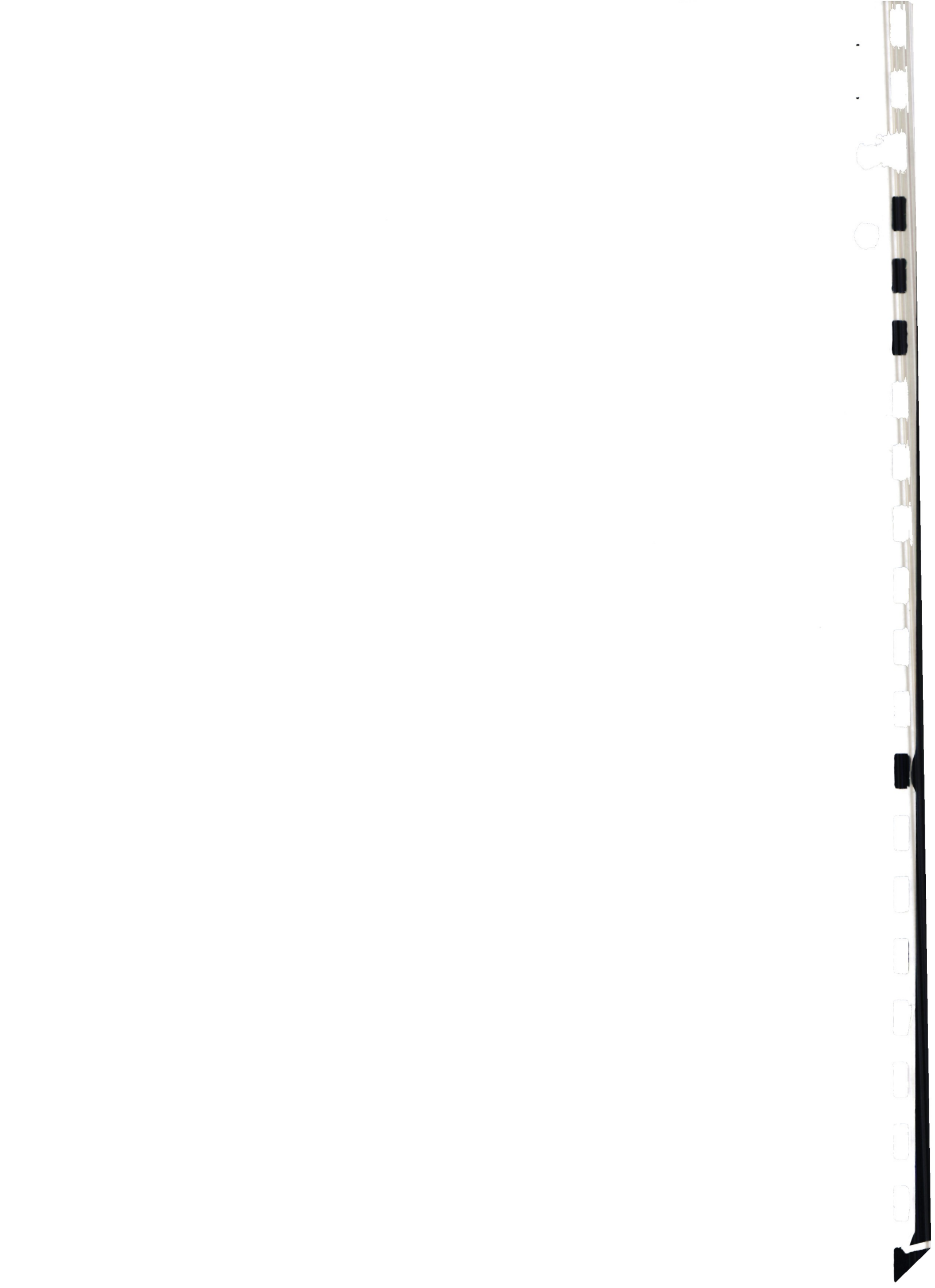
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<p>9.0</p>	<p>Construction of Fort Jesus Sea Wall Protection – Mombasa</p> <p>Fort Jesus, Mombasa, was originally designated a National Park in 1958. The protected area included the Fort itself and a 100-meter strip around it. Today it falls under the National Museums and Heritage Act, 2006 and has been declared a conservation area and a world heritage site.</p>		<p>Director General and Financial Controller</p>	<p>Not yet resolved</p> <p>Current Financial Year.</p>
<p>9.1</p>	<p>Consultancy Services for Design and Estimates</p> <p>The National Museums of Kenya on 5 August 2016 entered into a contract with M/s Copek 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, 912.50 inclusive of tax. This particular contract ended on 24 November 2016 and the full amount contract was paid. However, the completion date was not indicated in the contract document.</p>	<p>The contract documents, minutes ,venue and attendance list of stake holders are available for review.</p>	<p>Director General and Financial Controller</p>	<p>Not yet resolved</p> <p>Current Financial Year.</p>



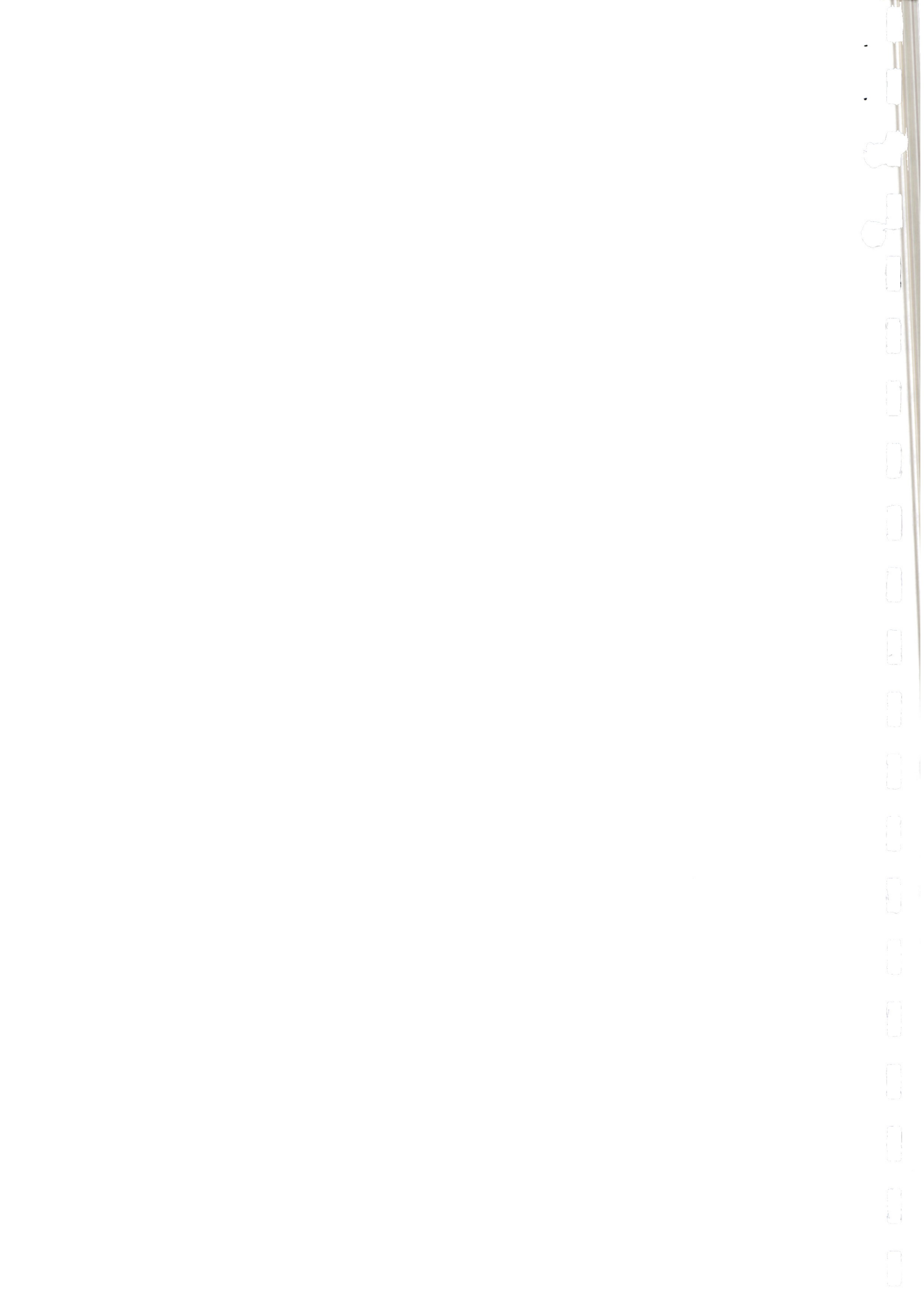
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	<p>Addendum 1 - Impact, Environmental and Social Impact Assessment</p> <p>In expanding the consultancy's scope of work, on 7 December 2016, NMK signed an addendum to earlier contract with M/s Coperk Consultants Limited to carry out Heritage Impact 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.</p> <p>Although full contract sum was paid, evidence of meetings held, minutes, venue and attendance list of stakeholders was not availed for audit review.</p>		<p>Director General and Financial Controller</p>	<p>Not yet resolved</p>	<p>Current Financial Year.</p>
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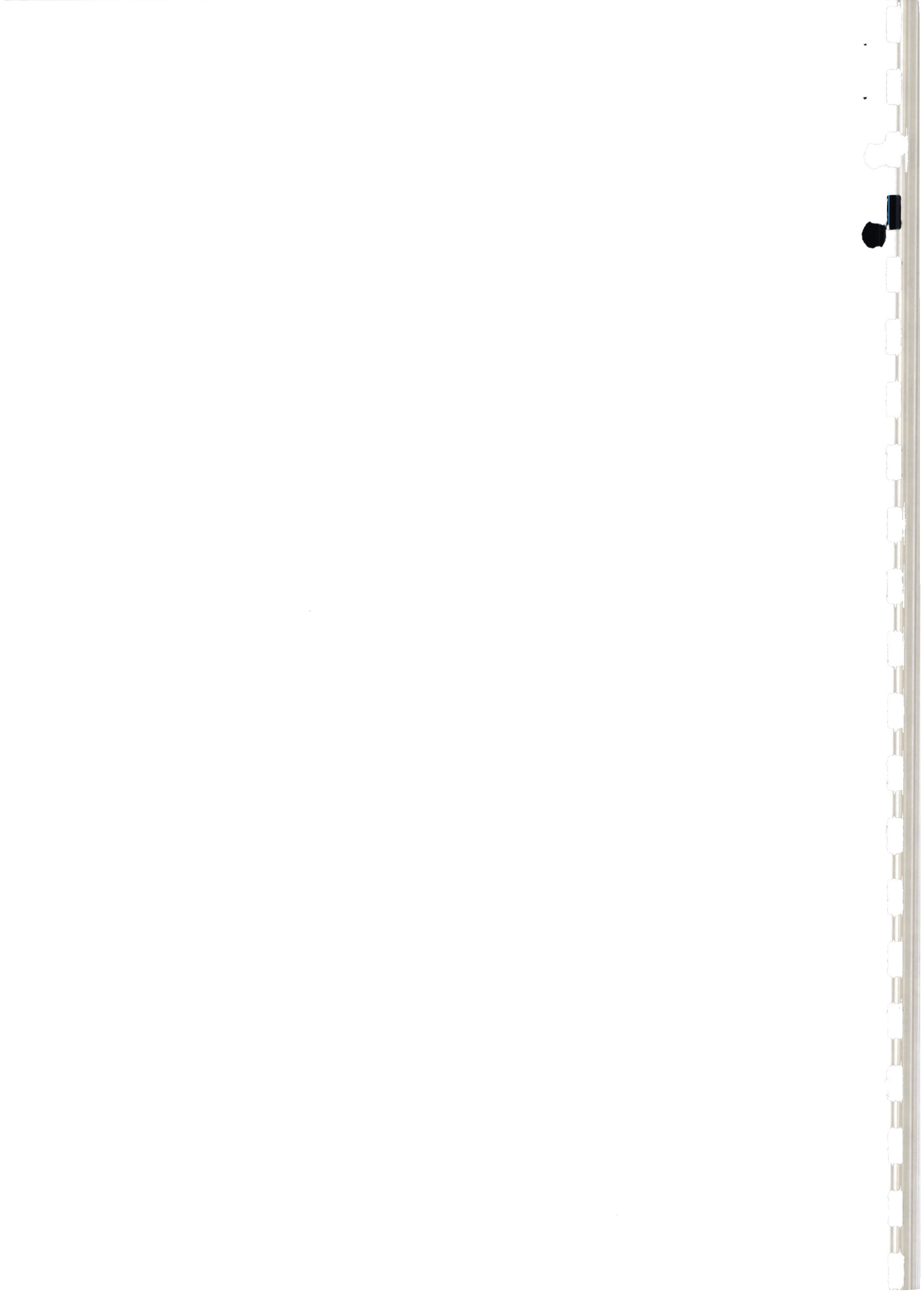
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	<p>Addendum II - Supervision of the Proposed Section of the Sea Wall Protection Construction</p> <p>Further, on 24 May 2017, the National Museums of Kenya signed another consultancy with M/s Coperk Consultants Limited through negotiation for full 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 bills of quantities supervision conducted.</p> <p>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. Is 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.</p>		<p>Director General and Financial Controller</p>	<p>Not yet resolved</p>	<p>Current Financial Year</p>
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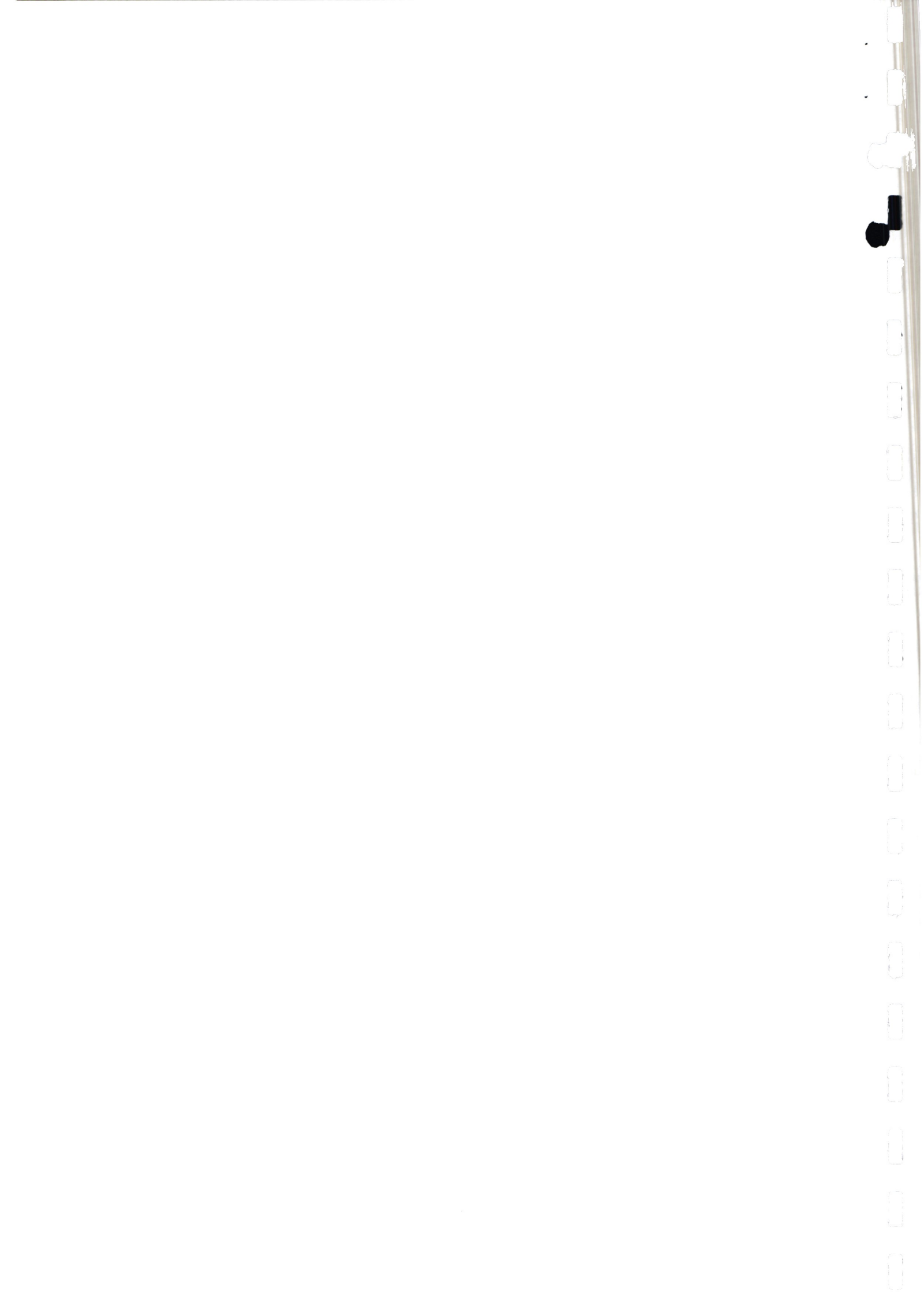
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<p>9.2</p>	<p>Construction of Sea Wall Protection for Fort Jesus World Heritage Site- Mombasa - Tender NO: NMK/FJ/115/2016</p> <p>The National Museums of Kenya on 24 May 2017, entered into a contract agreement with M/s Yangguang Property Design and Manufacturing Limited at the contract sum of Kshs.497, 641, 850 for construction of the proposed section of Sea Wall Protection construction 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.</p> <p>Payments Made</p> <p>As at the time of audit in February 2018 the contractor had already 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</p>	<p>The Management appreciates the auditors' observations. However, this was not anticipated during the year under review as the Management made a special request to the government in form of a rescue package after budget approvals. This resulted to NMK to enter into a contract with Coperk Consultants Limited for provision of Consultancy Services for Design and Estimates for a section of Sea Wall protection for Fort Jesus on 5 August 2016 and 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 construction for Fort Jesus World Heritage site Mombasa. In addition the delay is necessitated by budgetary cuts affecting NMK to fully honour certificate as they fall due but has appealed to the National Treasury for consideration.</p>	<p>Director General and Financial Controller</p>	<p>Not yet resolved</p>	<p>Current Financial Year.</p>
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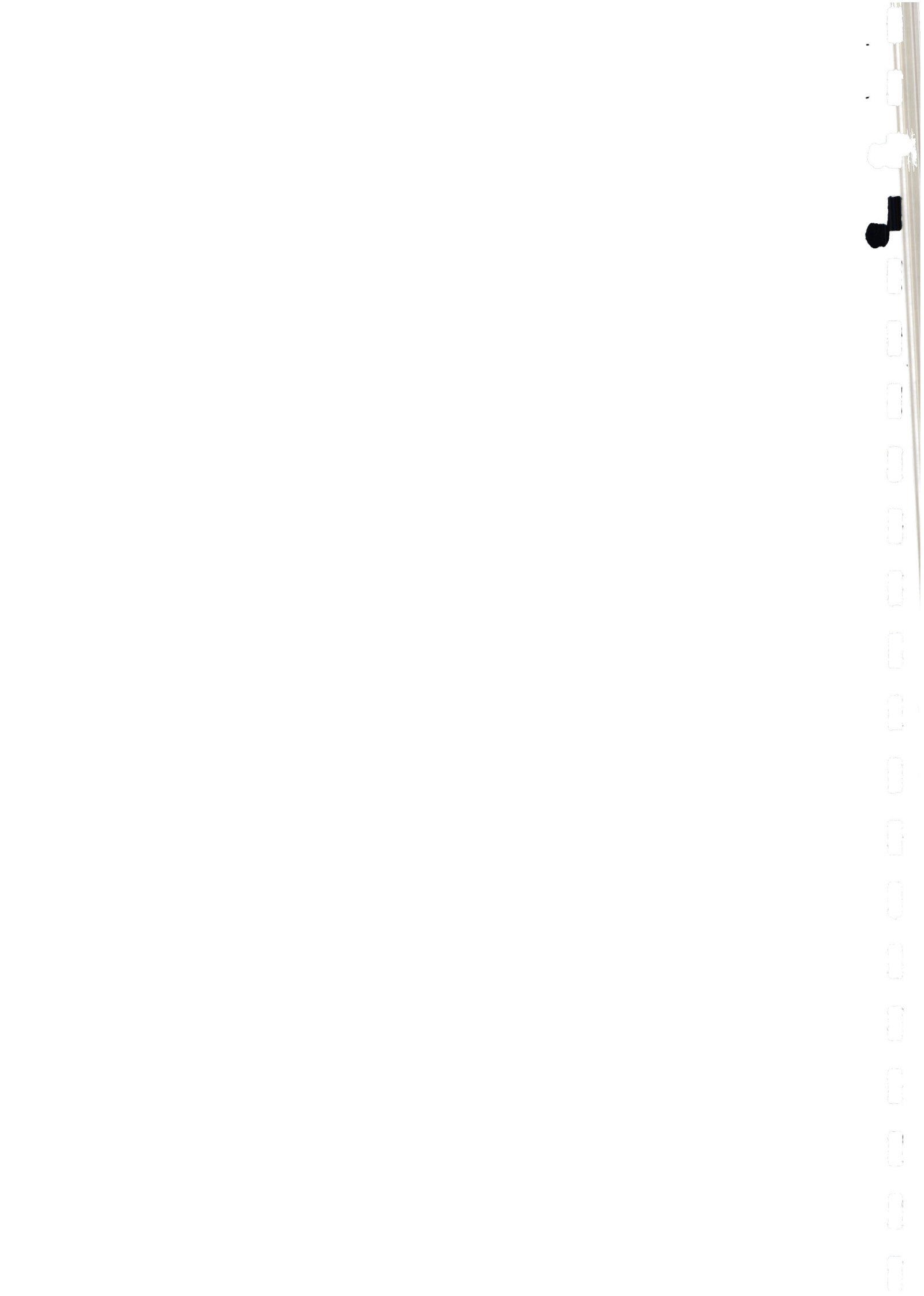
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	<p>twelve (12) months despite the contractor having fulfilled all the primary requirements on conditions of contract as follows:</p> <p>Inspection of the project revealed that the contractor had mobilised both the personnel and equipment required by the conditions of the contract and had also obtained the NEMA license, County and stakeholder approvals.</p> <p>Current status</p> <p>During the site visit on 13 April 2018 it was observed that only 23% of the works has been certified against the expected 77% with major works like construction of wall to minimize the flow of sea tides partially done and others not started with only one month remaining to the set completion date.</p> <p>Documents verified indicates that the total costs for the project was Kshs.543,056,762.50 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</p>				
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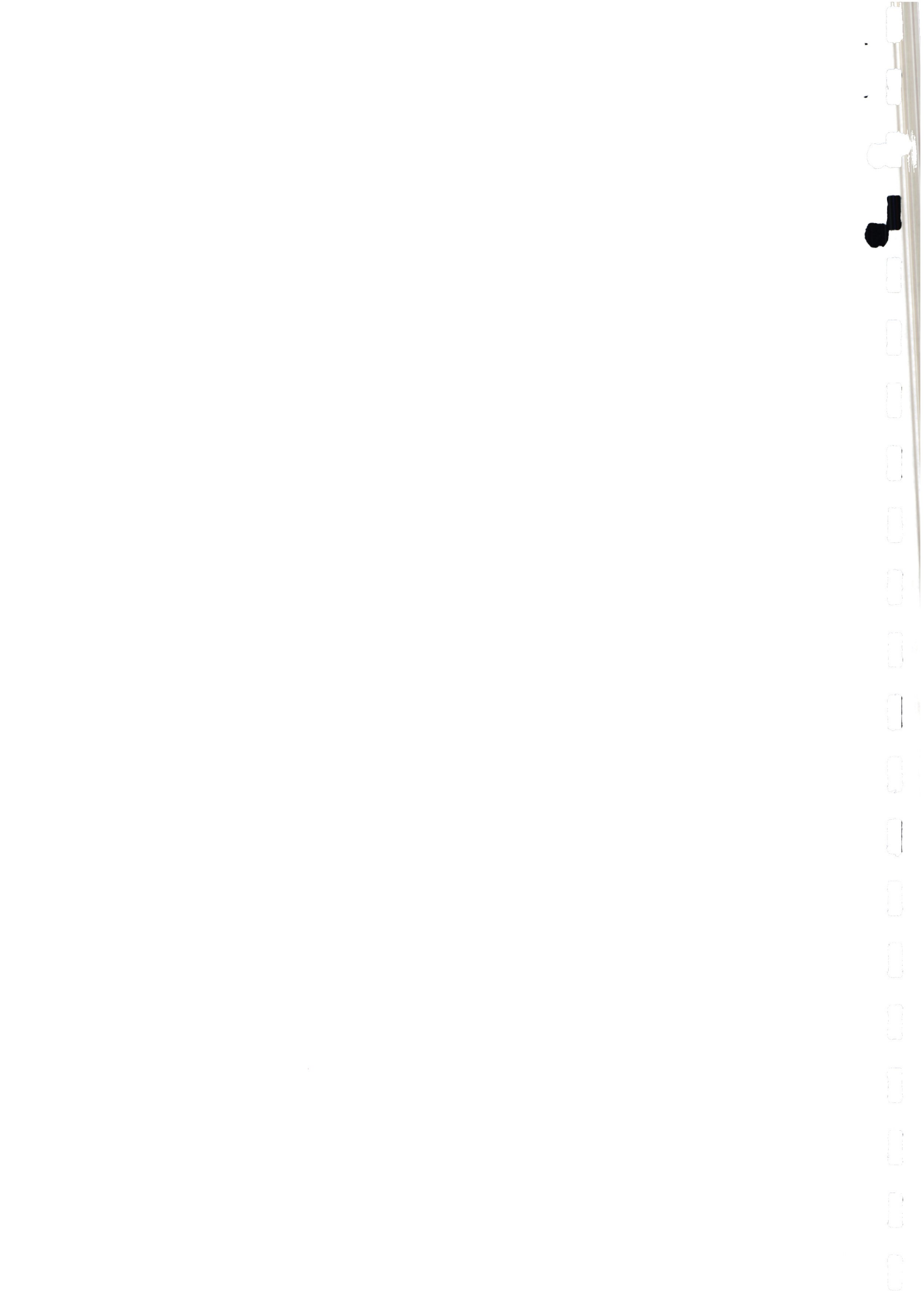
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	<p>therefore not clear how the project was to be financed under such budgetary constraints.</p> <p>During the site visit, the contractor complained of delay in approval of certificates submitted to M/s Coperk Consultants Limited the project supervisor. 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.</p> <p>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.</p> <p>Thus without adequate funding, all the work done and payments made to both the consultant and to the contractor</p>				
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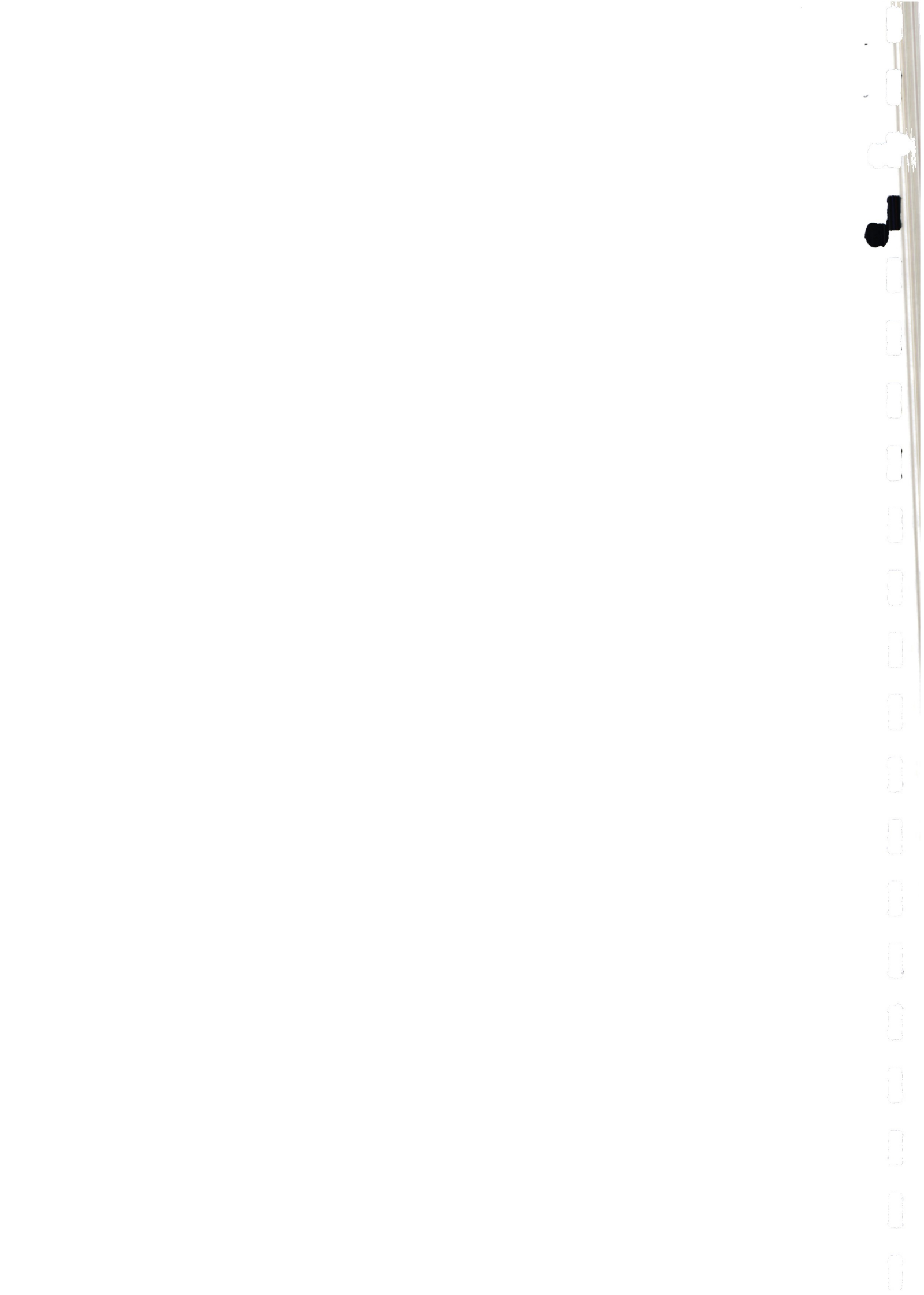
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<p>10.0</p>	<p>totalling to Kshs.139. 238, 436 would go to waste.</p> <p>In view of the foregoing, further funding delays will lead to loss of public funds and further, propriety and value for money on the expenditure incurred cannot be confirmed.</p>				
<p>Proposed Renovation of Ndemi Flats – Kilimani</p> <p>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 units 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.</p> <p>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.</p>			<p>Board of Directors and Director General</p>	<p>Not yet resolved</p>	<p>Current Financial Year.</p>



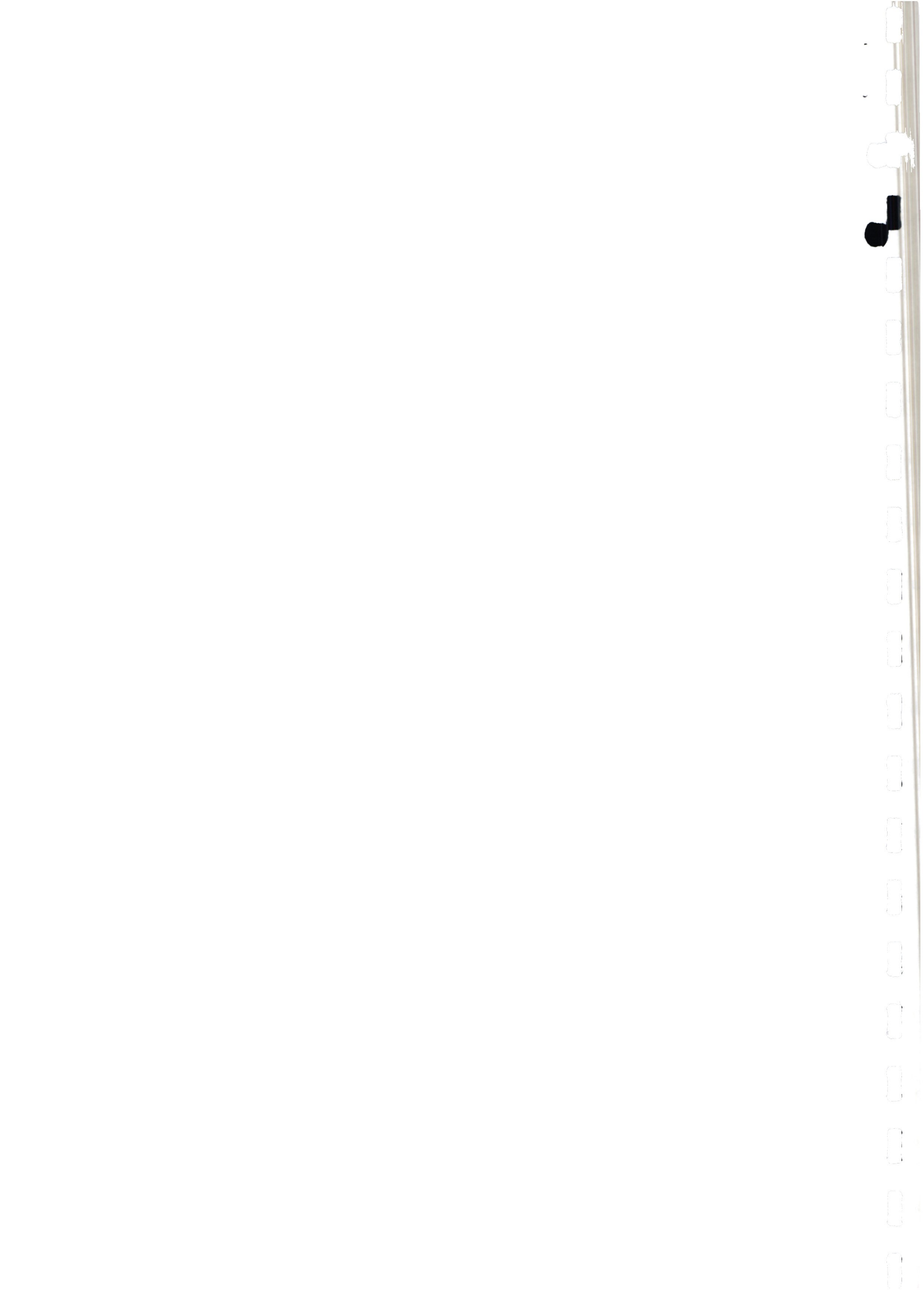
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	<p>On 31 March 2016, the management gave notices to all staff occupying the houses to vacate and allow for renovations that would attract market rates that are in line with the neighborhood and also allow the institution to treat the premises as commercial units with the expected high returns in future.</p> <p>However, the documents verified and a 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.</p> <p>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.</p>				
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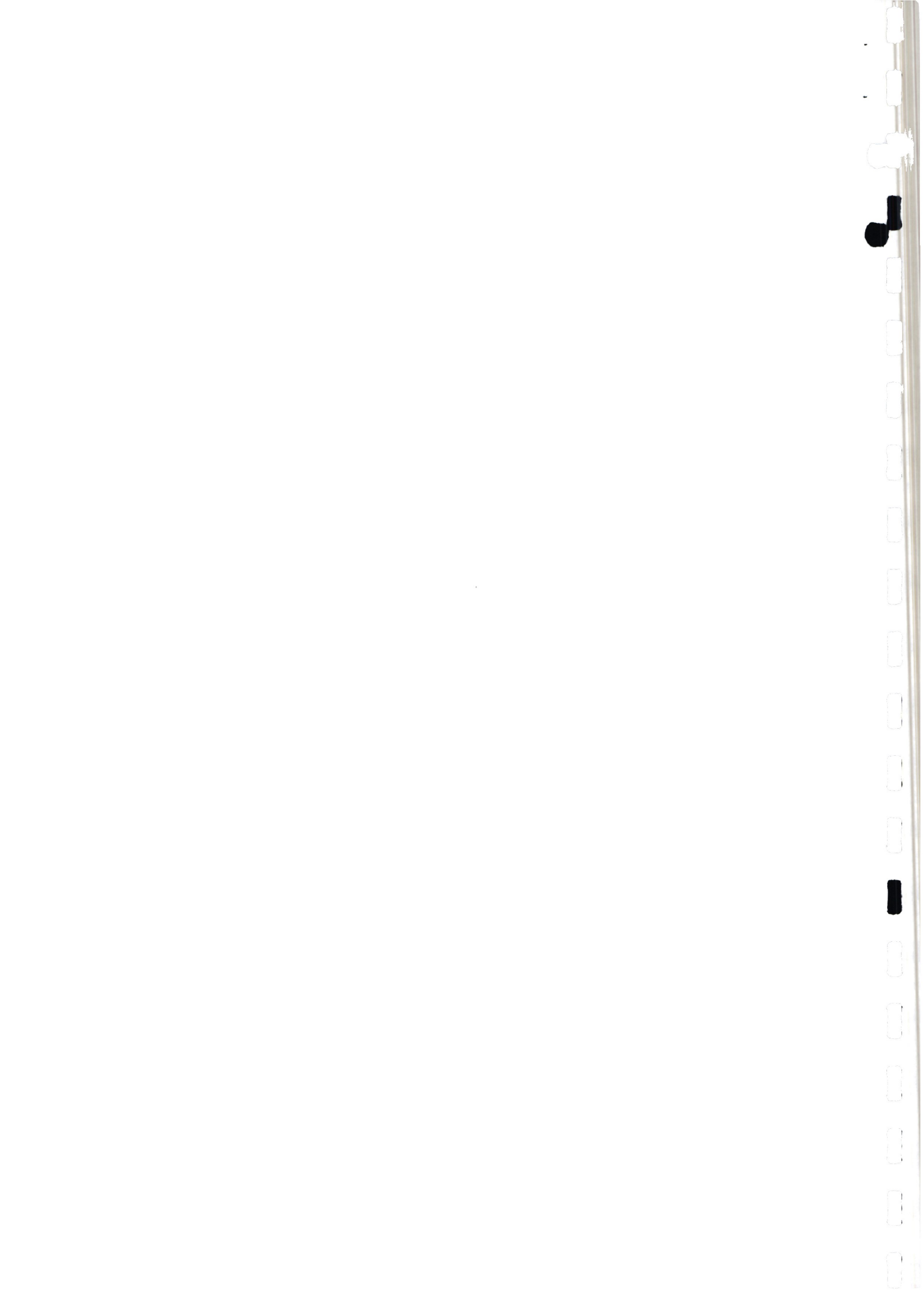
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<p>11.0</p>	<p>Delayed Completion and Hand Over of Mashujaa Square Project at Uhuru Gardens</p> <p>As previously reported the construction of Mashujaa Square Uhuru Gardens awarded at a contract sum of Kshs.74, 855, 472 with a completion date of 31 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.</p> <p>In the circumstances, it is not clear when and if the project will be completed and handed over for public use</p>	<p>It is true that the construction of Mashujaa Square project at Uhuru Garden at a contract sum of Kshs.74, 855,472 at the time of the audit had not been handed over despite the total expenditure of Kshs.196, 655,446 having been paid to the contractor and project manager. The NMK management has initiated negotiations to have the project be handed over so that it be opened to the public.</p>	<p>Director General, Director Antiques, Sites and Monuments and Financial Controller</p>	<p>Not yet resolved</p>	<p>Current Financial Year.</p>
<p>12.0</p>	<p>Security of National Heritage Assets</p> <p>As previously reported, the state of affairs of the following historical sites if not urgently addressed, will impact negatively on irreplaceable National</p>	<p>The management appreciates the observation made by your office regarding the state of the various heritage sites and monuments in relation to their</p>	<p>Director General, Director Antiques Sites and Monuments and</p>	<p>Not yet resolved</p>	<p>Current Financial Year</p>



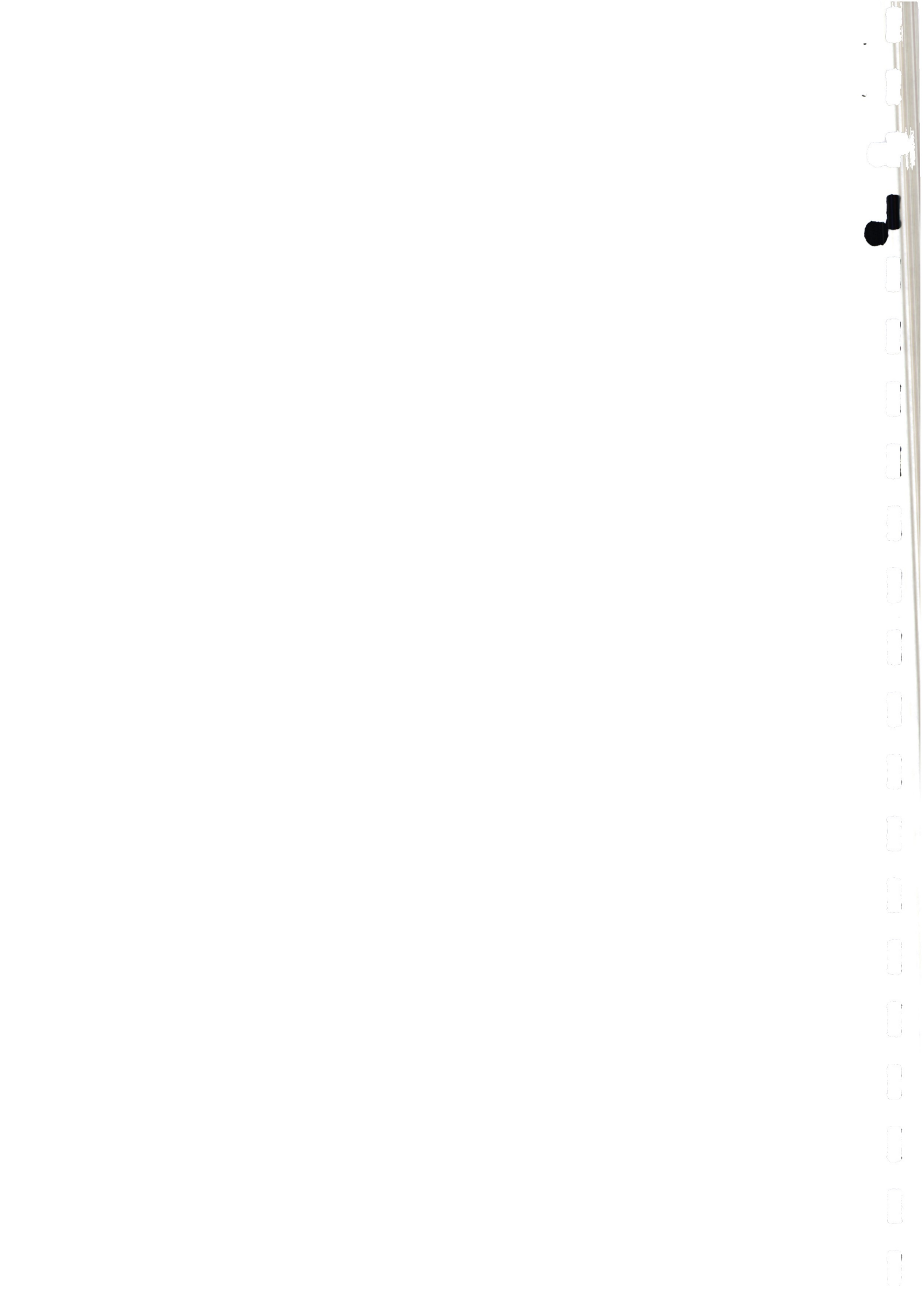
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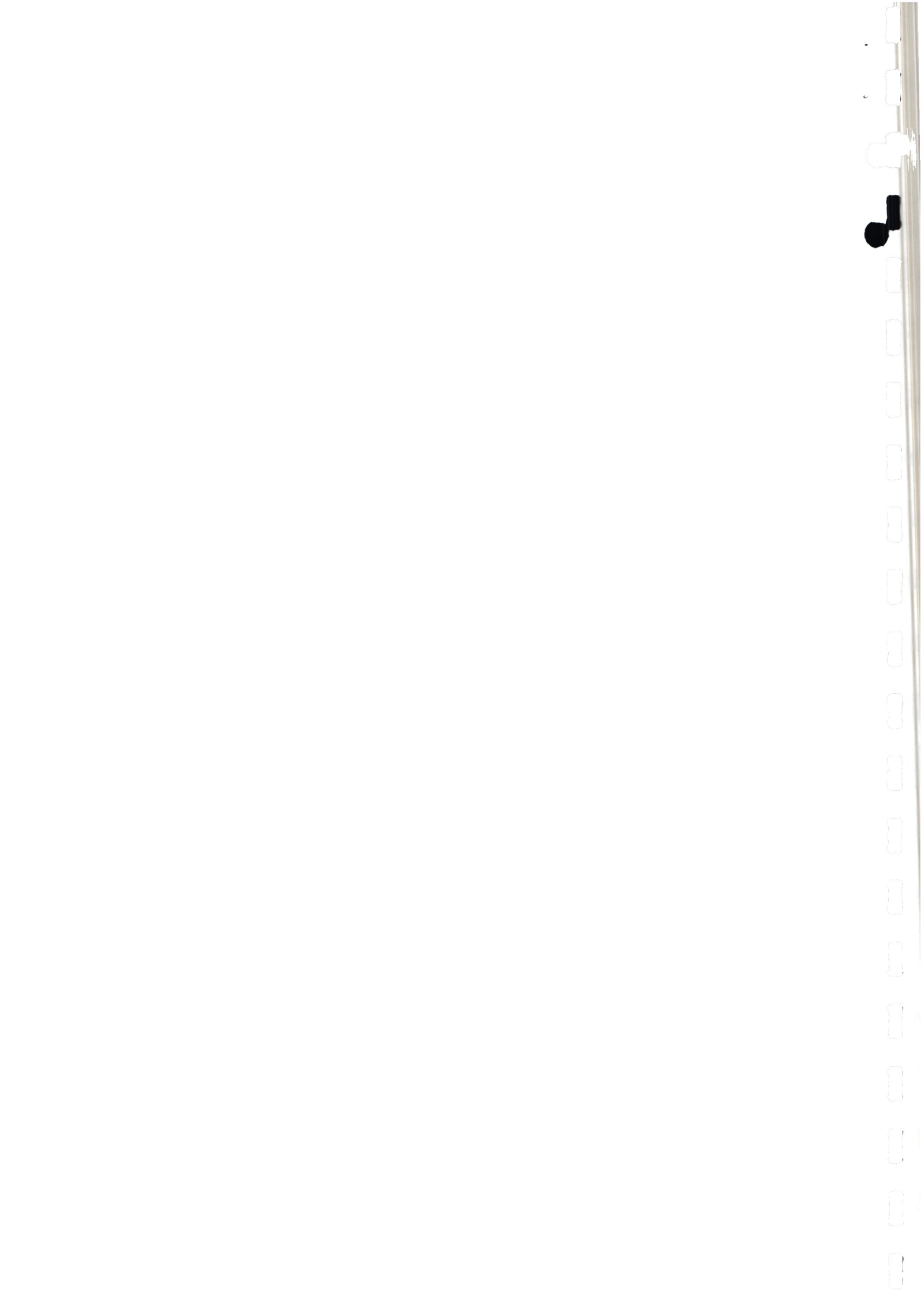
Heritage in the following manner:		restoration.	Financial Controller
a.	Vasco da Gama Pillar – Malindi The Pillar faces extinction due to effects of high sea tides and parts of the walls bordering the sea have been washed away.		
b.	Portuguese Chapel – Malindi The Chapel was renovated by a neighboring 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 by private developers and the local community.		
e.	Shimon The station is		



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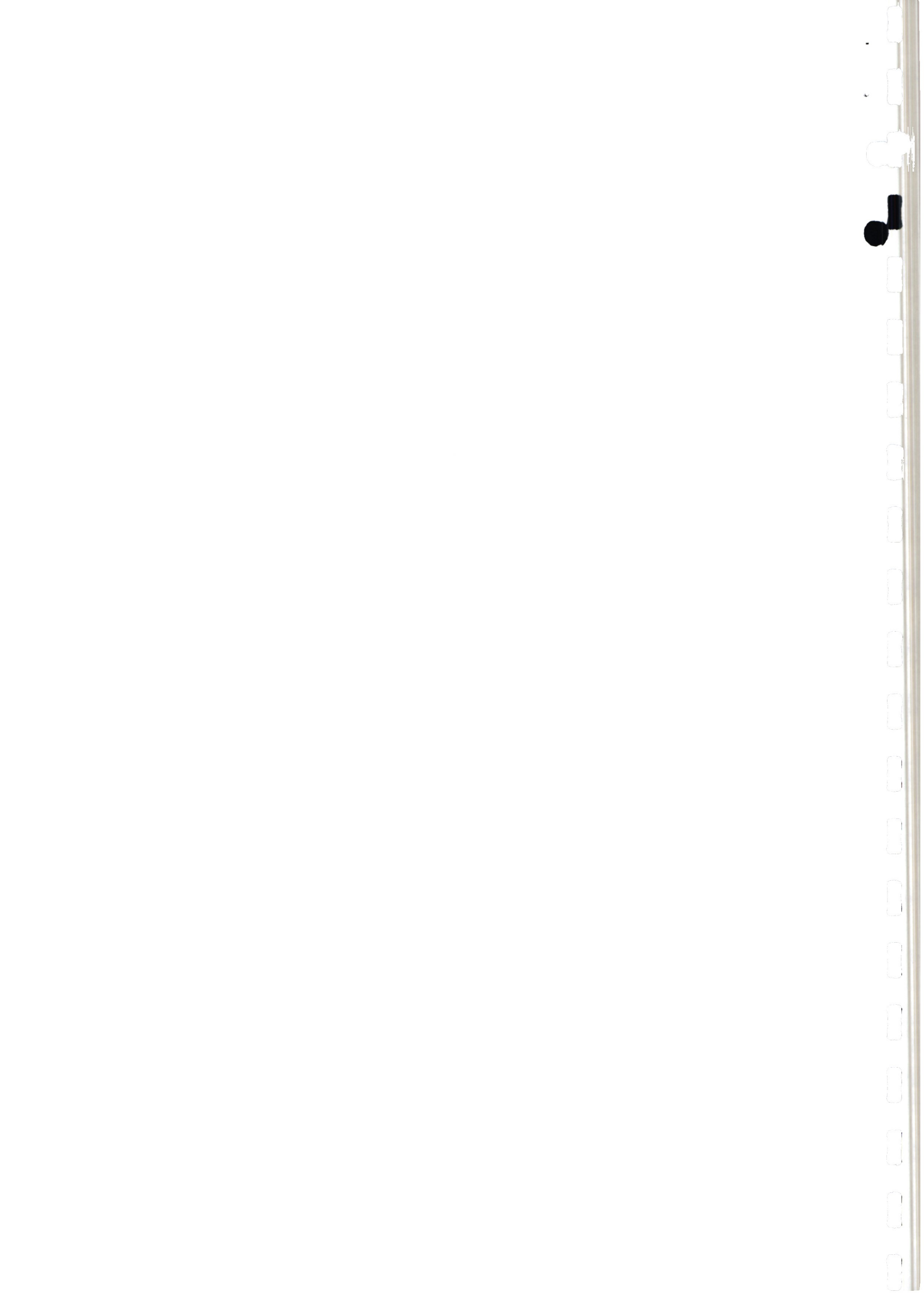
	<p>Museum</p>	<p>neglected and the historical building is dilapidated while the grave sites are at the risk of being washed into the ocean by the high tides. Part of the land has been encroached on and a permanent wall erected by the department of Fisheries. The site has not been allocated funds to independently fund its recurrent activities.</p>			
f.	<p>Jumba La Mtwana Museum - Mtwapa</p>	<p>The ruins are fast disintegrating with some of the walls crumbling to the ground after having minimal restorative. The side bordering the ocean is fast being washed</p>			





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<p>the weight of its roof. No efforts appear to have been made to forestall the threat of losing the heritage asset.</p>	<p>The Museum is not properly secured with a perimeter fence for the purpose of demarcating the Museum property and other parcels in the neighborhood. 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.</p>				
<p>i</p>	<p>Kenyatta Houses Lodwar</p>				



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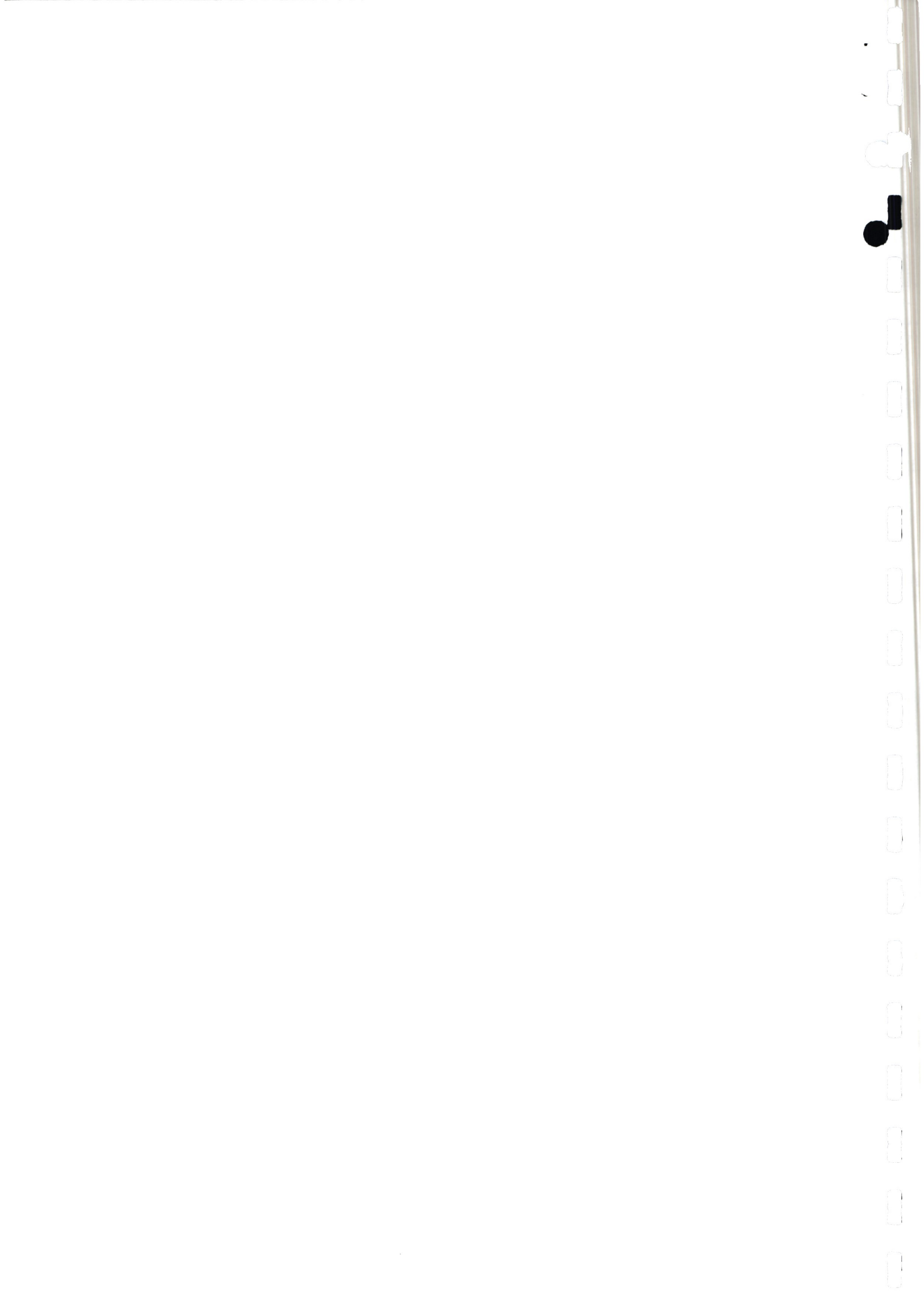
	<p>No indication has been given by the management in terms of commitment by the board in view of the matters raised in previous year audit report.</p> <p>The audit was conducted in accordance with International Standards of Supreme Audit Institutions (ISSAIs). I am independent of National Museums of 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.</p>		<p>Director General and Financial Controller</p>	<p>Not yet resolved</p>	<p>Current Financial Year</p>
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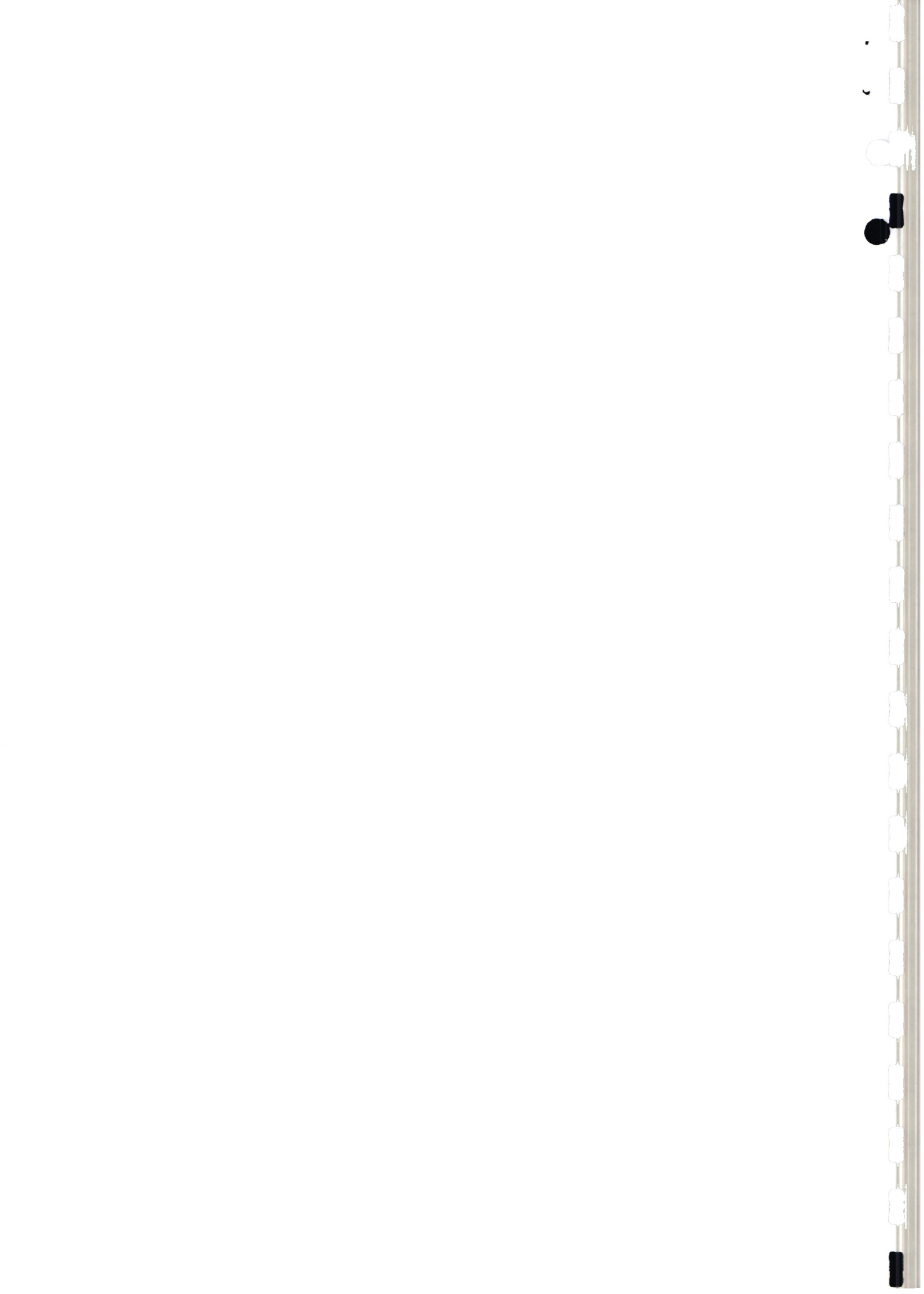


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Other Matter						Director General and Financial Controller	Not yet resolved	Current financial year.																	
<p>1.0: Budget and Budgetary Performance 1.1 Receipts The National Museums of Kenya had budgeted for receipts totalling Kshs. 1, 559, 442, 240 but actual receipts amounted to Kshs. 1, 522, 417, 539 resulting in a shortfall of Kshs. 37, 024, 701 or 2% as itemised below:</p>	<table border="1"> <thead> <tr> <th>Revenue Head</th> <th>Budget Kshs</th> <th>Actual Kshs</th> <th>Excess/shortfalls Kshs</th> <th>Excess/shortfalls (%)</th> </tr> </thead> <tbody> <tr> <td>Recurrent GOK grants</td> <td>870,000</td> <td>870,000</td> <td>0</td> <td>0</td> </tr> <tr> <td>Development GOK grants</td> <td>300,000</td> <td>150,000</td> <td>(150,000)</td> <td>(50)</td> </tr> <tr> <td>Internal</td> <td>280,000</td> <td>290,158,388</td> <td>10,158,388</td> <td>4</td> </tr> </tbody> </table>	Revenue Head	Budget Kshs	Actual Kshs	Excess/shortfalls Kshs	Excess/shortfalls (%)	Recurrent GOK grants	870,000	870,000	0	0	Development GOK grants	300,000	150,000	(150,000)	(50)	Internal	280,000	290,158,388	10,158,388	4	<p>It is true that National Museums of Kenya budgeted revenue totaled Kshs.1,559,442,240 while the actual receipts amounted to Kshs.1,522,417,539 resulting into under collection of Kshs.37,024,701 or 2% shortfall. This was caused by The National Treasury austerity measures that reduced the development grant by 75%.</p> <p>The reasons for over collection in respect of Internal and project revenue at Kshs.10,158,388 and Kshs.102,816,911 respectively was due to increase in numbers of visitors, admissions in use of NMK facilities and donor funded research projects.</p>	Director General and Financial Controller	Not yet resolved	Current financial year.
Revenue Head	Budget Kshs	Actual Kshs	Excess/shortfalls Kshs	Excess/shortfalls (%)																					
Recurrent GOK grants	870,000	870,000	0	0																					
Development GOK grants	300,000	150,000	(150,000)	(50)																					
Internal	280,000	290,158,388	10,158,388	4																					

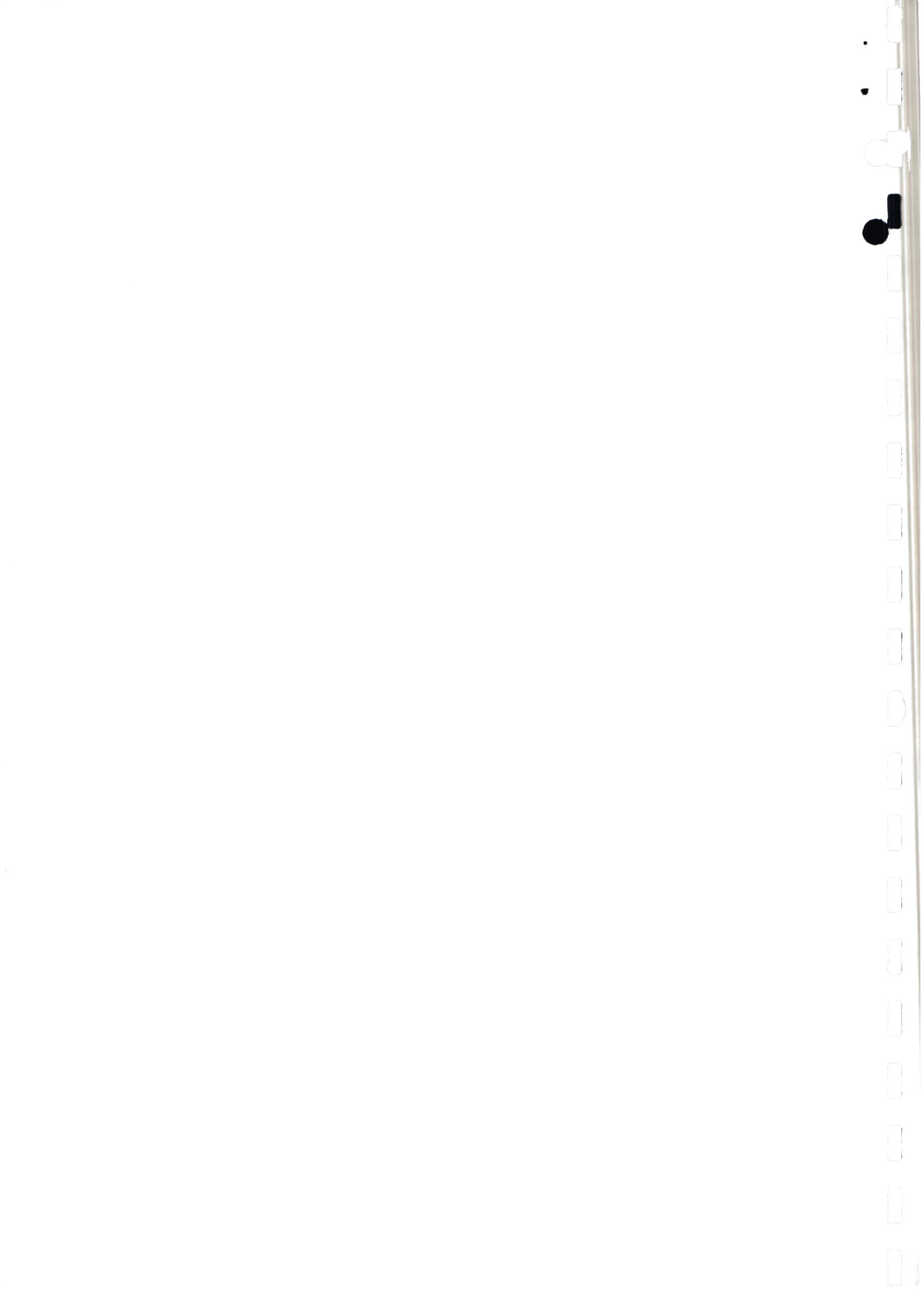






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	<p>in remuneration of board of directors by Kshs.4, 117,466 or 41%. Under expenditures also occurred of Kshs.81, 640,936 or 16% and Kshs.2, 479,369 or 12% in respect of general expenses and on repairs and maintenance. However, no explanatory notes were provided for the over expenditures of over or under 10% as required.</p>				
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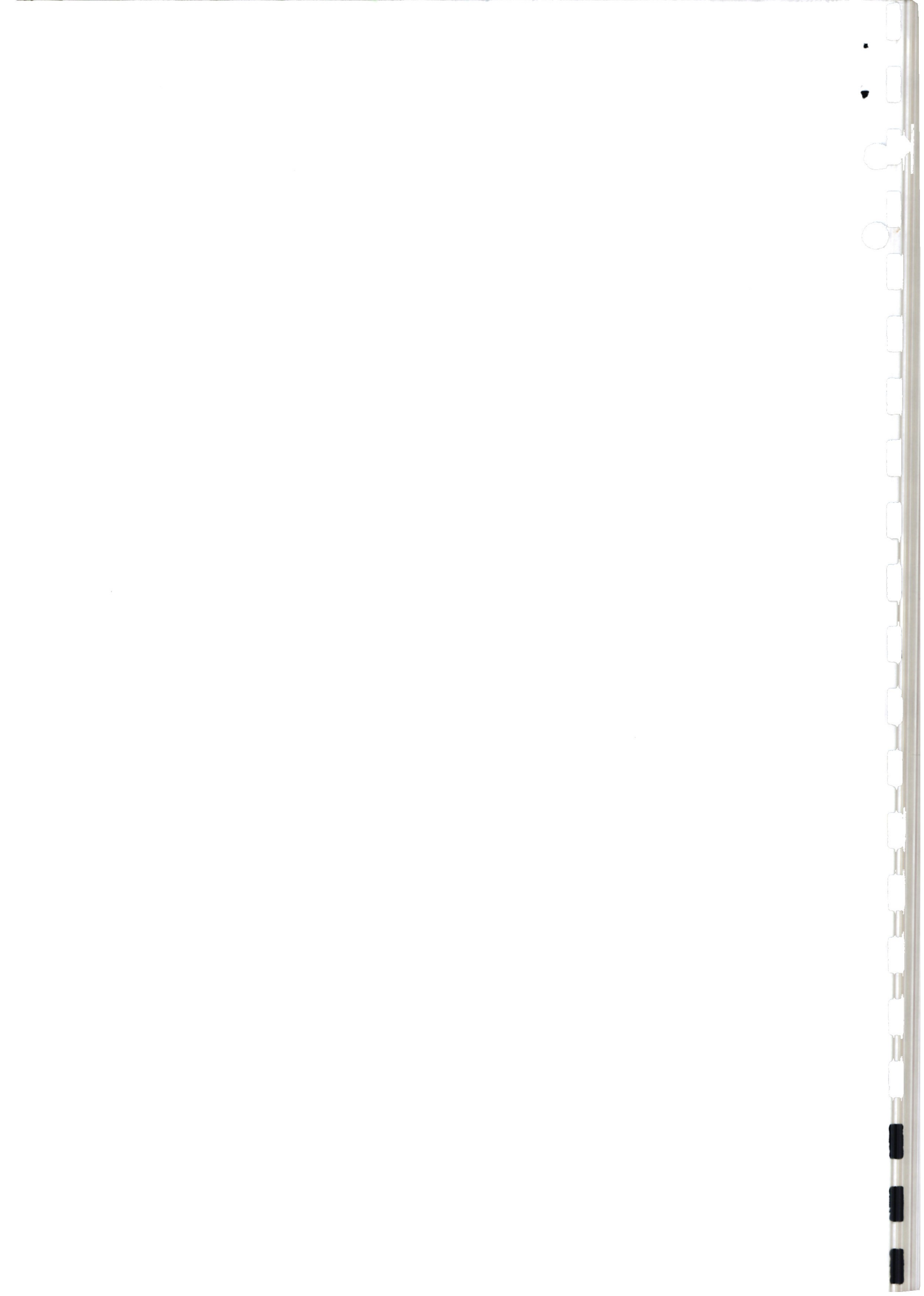
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XVIII. Appendix 1: RECORDING OF TRANSFERS FROM OTHER GOVERNMENT ENTITIES

Name of the MDA/Donor Transferring the Funds	Date Received	Nature: Recurrent/ Development	Total Amount - KES	Statement of Financial Performance	Where Recorded/ Recognized					Total Transfers During the Year
					Capital fund	Deferred Income	Receivables	Others - Must be Specific		
Ministry of Sports, Culture and the Arts	9.8.2017	Recurrent	217,500,000	217,500,000	-	-	-	-	217,500,000	
Ministry of Sports, Culture and the Arts	3.11.2017	Recurrent	217,500,000	217,500,000	-	-	-	-	217,500,000	
Ministry of Sports, Culture and the Arts	9.2.2018	Recurrent	217,500,000	217,500,000	-	-	-	-	217,500,000	
Ministry of Sports, Culture and the Arts	20.4.2018	Recurrent	217,500,000	217,500,000	-	-	-	-	217,500,000	
Ministry of Sports, Culture and the Arts	22.6.2018	Recurrent	95,900,000	95,900,000	-	-	-	-	95,900,000	
Ministry of Sports, Culture and the Arts	20.12.2017	Development	35,000,000	-	35,000,000	-	-	-	35,000,000	
Ministry of Sports, Culture and the Arts	15.3.2018	Development	17,500,000	-	17,500,000	-	-	-	17,500,000	
Ministry of Sports, Culture and the Arts	16.5.2018	Development	7,493,500	-	7,493,500	-	-	-	7,493,500	
Total			1,025,893,500	965,900,00	59,993,500				1,025,893,500	



Director General



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XVIII. Appendix 2: INTER-ENTITY TRANSFERS

ENTITY NAME:			
Break down of Transfers from the State Department of Sports, Culture and the Arts			
FY 17/18			
a.	Recurrent Grants		
		<u>Bank Statement Date</u>	<u>Amount (KShs)</u>
	Ministry of Sports, Culture and the Arts	9.8.2017	217,500,000
	Ministry of Sports, Culture and the Arts	3.11.2017	217,500,000
	Ministry of Sports, Culture and the Arts	9.2.2018	217,500,000
	Ministry of Sports, Culture and the Arts	20.4.2018	217,500,000
	Ministry of Sports, Culture and the Arts	22.6.2018	95,900,000
	Total		965,900,000
b.	Development Grants		
		<u>Bank Statement Date</u>	<u>Amount (KShs)</u>
	Ministry of Sports, Culture and the Arts	20.12.2017	35,000,000
		15.3.2018	17,500,000
		16.5.2018	7,493,500
	Total		59,993,500

The above amounts have been communicated to and reconciled with the parent Ministry

Financial Controller
National Museums of Kenya



Sign

Date: 11th March, 2019

Head of Accounting Unit
Ministry of Sports, Culture and the Arts



Sign

Date: 11th March, 2019

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