

# **REPORT OF THE AUDITOR-GENERAL ON KENYA SAFARI LODGES AND HOTELS LIMITED FOR THE YEAR ENDED 30 JUNE 2017**

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## **REPORT ON THE FINANCIAL STATEMENTS**

### **Qualified Opinion**

I have audited the accompanying financial statements of Kenya Safari Lodges and Hotels Limited set out on pages 15 to 36, which comprise the statement of financial position as at 30 June 2017, and the statement of profit and loss and other comprehensive income, statement of changes in equity and statement of cash flows 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 Kenya Safari Lodges and Hotels Limited as at 30 June 2017, and of its financial performance and its cash flows for the year then ended, in accordance with International Financial Reporting Standards and comply with the Kenyan Companies Act, 2015.

In addition, as required by Article 229(6) of the Constitution, based on the procedures performed, I confirm that other than the issues highlighted in the basis for qualified opinion section of my report, nothing has come to my attention to cause me to believe that public money has not been applied lawfully and in an effective way.

### **Basis for Qualified Opinion**

#### **1.0 Going Concern**

The statement of financial position as at 30 June 2017 reflects current liabilities balance of Kshs.539,411,000 which exceeded current assets balance of Kshs.150,676,000 by Kshs.388,735,000. Further, the company realized a loss of Kshs.73,937,000(2015/2016 – loss of Kshs.87,097,000), resulting to accumulated loss of Kshs.417,710,000 as at 30 June 2017. In addition, the statement of profit and loss and other comprehensive income for the year ended 30 June 2017 shows total income of Kshs.173,134,000 against a budget of Kshs.420,000,000, representing 41.2% performance level or under-collection of Kshs.246,866,000 (58.8%). The management has not provided satisfactory explanation as to why the revenue targets could not be achieved. Further, as previously reported, the company converted the Tourism Finance Corporation, formerly Kenya Tourist Development Corporation (KTDC) loan of Kshs.75,554,000 into equity in the year 2013/2014 and waived the interest accrued thereon. However, despite the conversion of the debt to equity, the working capital position and financial performance has not improved.

Consequently, the company may not be in a position to meet its financial obligations as and when they fall due and its continued existence as a going concern depends on continued support from the Government, bankers and creditors.

## **2.0 Presentation of the Financial Statements**

The financial statements for the year ended 30 June 2017 presented for audit revealed the following anomalies:

### **2.1 Information on Board of Directors**

The public Sector Accounting Standards Boards requires the inclusion of the Company Secretary in the list of Board of Directors. However, in the list provided, the company secretary name was omitted. Further, the dates of birth of all the listed directors were not provided as required by the Public Sector Accounting Standards Board prescribed annual reporting template.

### **2.2 Statement of Comparison of Budget and Actual Amounts**

The financial statements do not include a statement of comparison of budget and actual amounts as required by the Public Sector Accounting Standards Board.

In the circumstance, the financial statements have not been prepared in accordance with the requirements of the Public Sector Accounting Standards Board.

## **3.0 Inaccuracy in the Financial Statements**

The financial statements for the year ended 30 June 2017 availed for audit review had the following inaccuracies brought forward from the year 2015/2016. A review of the matter in the current year reveals that management has not made adjustments to correct the inaccuracies as follows:

- 3.1** The statement of changes in equity has a transfer to depreciation figure of Kshs.24,186,000, which is different from note 13 figure of Kshs.24,179,000, resulting to a variance of Kshs. 7,000 which has not been explained nor reconciled.
- 3.2** The statement of cash flows reflects cash and cash equivalents balance of Kshs.21,078,000. However, this balance varies from the re-casted figure of Kshs.17,036,000 resulting to casting error of Kshs.4,042,000.
- 3.3** Note 12 to the financial statements on taxation refers to a loss of Kshs. 87,222,000 while the statement of profit and loss and other comprehensive income for the year ended 30 June 2016 reflects a loss of Kshs.87,097,000 resulting to a variance of Kshs.125,000 and which has not been explained nor reconciled. The same note refers to accumulated loss of Kshs.344,409,000, which is different from

Kshs.344,284,000 shown in the statement of changes in equity for the year ended 30 June 2016. The difference of Kshs.125,000 between the two balances has neither been explained nor reconciled.

- 3.4** The financial statements for the year ended 30 June 2017 availed for audit review had the following inaccuracies arising from the figures in the financial statements not agreeing with the supporting schedule figure as summarized below:

<b>Item</b>	<b>Financial statement figure Amount (Kshs)</b>	<b>Supporting schedule figure Amount (Kshs)</b>	<b>Variance Amount (Kshs)</b>
Turnover	220,421,000	220,420,000	1000
Cost of sales	52,896,000	52,897,000	(1000)
Operating costs	45,642,000	45,641,000	1000
Staff costs	148,261,000	148,262,000	(1000)
<b>Total</b>	<b>467,220,000</b>	<b>467,220,000</b>	<b>0</b>

In the circumstances, the fair presentation of the financial statements for the year ended 30 June 2017 did not comply with the requirements of the International Financial Reporting Standards.

#### **4.0 Property Plant and Equipment**

##### **4.1 Fully Depreciated Assets**

The statement of financial position as at 30 June 2017 reflects a balance of 704,029,000 and nil balance in respect to property, plant and equipment and intangible assets respectively which include fully depreciated assets with a total cost of Kshs.81,136,000 as disclosed under Note 13 to the financial statements. Although some of the assets are in use, the economic value of these assets has not been accounted for in these financial statements as they are carried at nil value contrary to International Financial Reporting Standards/International Accounting Standard No. 16 which states that revaluations should be carried out regularly, so that the carrying amount of an asset does not differ materially from its fair value at the balance sheet date. As a result, it has not been possible to ascertain that the property, plant and equipment balance of Kshs.704,029,000 as at 30 June 2017 is fairly stated.

##### **4.2 Fixed Asset Register**

As reported previously, the fixed assets register maintained by the Company does not have asset codes and quantities nor tagging of the fixed assets. As such, fair and objective presentation of the financial statements in line with the requirements of International Public Sector Accounting Standard Number 1 may not be achieved.

#### **5.0 Trade and Other Receivables**

## **5.1 Long Outstanding Trade and Other Receivables**

The statement of financial position as at 30 June 2017 reflects trade and other receivable balance of kshs 124,794,000 out of which trade receivables amounting to kshs.89,720,298 had been outstanding for more than one year.

In the circumstance, it has not been possible to ascertain the recoverability of trade and other receivables balance of Kshs.89,720,298 and that the trade and other receivables balance of Kshs.124,794,000 is fairly stated.

## **5.2 Other Debtors and Prepayments**

Note 15 to the financial statements for the year ended 30 June 2017 reflects trade and other receivables balance of Kshs.124,794,000 out of which an amount of Kshs.21,207,000 relates to other debtors and prepayments. However, other receivable balance of Kshs.237,152 with a credit balance was offset contrary to IAS 1 Section 32 that states that assets and liabilities, and revenue and expenses, shall not be offset unless required or permitted by the International Financial Reporting Standards.

Consequently, the accuracy and completeness of other debtors and prepayments balance of Kshs.124,794,000 could not be confirmed.

## **6.0 Cash and Cash Equivalents**

### **6.1 Cash Investments**

Note 20 to the financial statements for the year ended 30 June 2017 reflects cash and cash equivalent balance of Kshs.20,635,000 out of which an amount of Kshs.18,786,000 was held as cash investments - fixed deposit in a bank. However, the fixed deposits certificate and the bank reconciliation statement were not availed for audit review.

In the circumstances, the propriety and completeness of the cash investments-fixed deposit balance of Kshs.18,786,000 could not be confirmed.

### **6.2 Cash in Hand**

Note 20 to the financial statements for the year ended 30 June 2017 reflects cash and cash equivalent balance of Kshs.20,635,000 out of which an amount of Kshs.942,000 was held as cash in hand. However, the Board of survey certificates were not availed for audit review.

Consequently, the accuracy and completeness of the cash in hand balance of Kshs.942,000 could not be confirmed.

## **7.0 Trade and Other Payables**

As reported previously, trade and other payables balance of Kshs.500,670,000 shown in the statement of financial position as at 30 June 2017 includes long outstanding amounts payable to various statutory bodies in respect of payroll deductions, Value Added Tax

and other levies amounting to Kshs.357,362,000. The management is in breach of the law. Further, no provision for the penalties arising out of non-remittance of these statutory deductions seem to have been included in these financial statements.

Consequently, it was not possible to ascertain the accuracy and validity of the trade and other payables balance of Kshs.500,670,000.

## **8.0 Share Capital**

As reported in the previous year, the share capital of the company was increased from Kshs.9,319,000 to Kshs.100,954,000 through creation of Kshs.4,581,784.99 ordinary shares of Kshs.20 each. The additional shares were issued through a rights issue to existing shareholders at 08 November, 2013 at a price of Kshs.20 per share. However, no evidence was availed for audit verification in support of how the share valuation was determined.

In addition, the net assets of the company as at 30 June 2013 amounted to Kshs.667,399,000 while the issued shares at the same date were 465,940, resulting in an approximate value of Kshs.1,432 per share clearly showing that the rights issue price of Ksh.20 per share was way below their value.

Consequently, the accuracy, and validity of the share capital value of Kshs.100,954,000 shown in the statement of financial position as at 30 June 2017 could not be confirmed.

## **9.0. Audit Fees**

As previously reported, included in the other payables balance of Kshs.25,717,000 as at 30 June 2017 is Kshs.1,566,000 relating to audit fees which has been outstanding for over one year contrary to Section 41 of the Public Audit Act, 2015 which provides that funds of the Auditor-General shall consist of audit fees charged at rates prescribed by the Auditor-General. Consequently, the Company is in breach of the Law.

## **10.0 Borrowing Long Term**

Note 18 to the financial statements for the year ended 30 June 2017 reflects borrowing long term balance of Kshs.12,172,000 which relates to loan given by Tourist Fund Corporation. However, the bank statements, certificate of balance in respect to the loan were not availed for audit review. Further, the current portion of the loan is not shown under the current liabilities.

Consequently, the accuracy and completeness of Tourist Fund Corporation loan balance of Kshs.12,172,000 could not be confirmed.

## **11. Legal Fees**

Note 7 to the financial statements for the year ended 30 June 2017 reflects legal fees balance of Kshs.306,000. However, no approval from the Attorney General as required

by the Circular No. AG/CONF/6/E/247 VOLII which requires State Corporations to get approval and authority from Attorney General before incurring expenditure on legal fees. Consequently, the propriety and completeness of legal fees balance of Kshs.306,000 as at 30 June 2017 could not be confirmed.

## 12. Service Gratuity

As previously reported, the statement of financial position as at 30 June 2016 reflects service gratuity balance of Kshs.51,381,000. However, given opening balance of Kshs.59,346,000, additional gratuity of Kshs.4,175,000 as disclosed in note 18 to the financial statements and Kshs.269,000 paid out during the year under review, the closing balance should have been Kshs.63,252,000. The variance of Kshs.11,871,000 between the reported balance of Kshs.51,381,000 and the re-computed balance has not been explained nor reconciled. A review of the matter in the current year reveals that the management has not taken any action to resolve the matter.

Consequently, the accuracy and completeness of service gratuity balance of Kshs.72,920,000 as at 30 June 2017 could not be confirmed.

The audit was conducted in accordance with International Standards of Supreme Audit Institutions (ISSAIs). I am independent of Kenya Safari Lodges and Hotels Limited 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.

## 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. Except for the matters described in the Basis for Qualified Opinion section of my report, I have determined that there are no Key Audit Matters to communicate in my report.

## Other Matter

### 1. Budgetary Control and Performance

#### Expenditure Budget

The recurrent budget for the year was Kshs.330,943,000 against actual expenditure of Kshs.261,696,000 or 79%, resulting in net under expenditure of Kshs.69,247,000 or 21% as detailed below:

Item	Budget (Kshs'000)	Actual Expenditure (Kshs'000)	Over Expenditure (Kshs'000)	Under Expenditure (Kshs'000)	%

Salaries & Wages	108,032	96,039		11,993	<b>11.1</b>
Staff Expenses	49,146	41,876		7,270	<b>14.8</b>
Staff Travel	8,742	10,347	1,605		<b>18.3</b>
Repairs & Renewals	18,763	6,574		12,189	<b>64.9</b>
Operating Costs	76,586	45,642		30,944	<b>40.4</b>
Office Expenses	7,686	5,057		2,629	<b>34.2</b>
Administration Expenses	21,815	31,215	9,400		<b>43</b>
Directors fees/Expenses	1,757	3,321	1,564		<b>89</b>
Advertising & Promotion	4,986	376		4,610	<b>92.4</b>
Property & upkeep	11,550	4,551		6,999	<b>60.6</b>
Depreciation & Amortization	19,714	13,678		6,036	<b>30.6</b>
Interest & Other Charges	2,166	3,020	854		<b>39.4</b>
<b>Total</b>	<b>330,943</b>	<b>261,696</b>	<b>13,423</b>	<b>82,670</b>	<b>20.9</b>

The overall under expenditure of Kshs.69,247,000 or 21% is an indication that the company did not implement activities planned for the year ended 30 June 2017. Although the management attributes the under expenditure to low business, the under expenditure for advertising and promotion was 92.4 percent implying that the management did not do enough advertising and promotion of its business. Further, the hotel has an over expenditure of 89% on directors' fees and expenses and 43% on administration expenses.

### **Responsibilities of Management and Those Charged with Governance for the Financial Statements**

Management is responsible for the preparation and fair presentation of these financial statements in accordance with International Financial Reporting Standards and for such 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.

In preparing the financial statements, management is responsible for assessing the Kenya Safari Lodges and Hotels Limited's ability to continue as a going concern/ sustain services, disclosing, as applicable, matters related to going concern and using the applicable basis of accounting unless the management either intends to liquidate the Kenya Safari Lodges and Hotels Limited 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.

Those charged with governance are responsible for overseeing Kenya Safari Lodges and Hotels Limited's financial reporting process.

### **Auditor-General's Responsibilities for the Audit of the Financial Statements**

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.

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.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances and for the purpose of giving an assurance on the effectiveness of the Kenya Safari Lodges and Hotels Limited's 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 Kenya Safari Lodges and Hotels Limited's 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 Kenya Safari Lodges and Hotels Limited's to cease as a going concern or to continue to sustain its services.

- Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.
- Obtain sufficient appropriate audit evidence regarding the financial information and business activities of the Kenya Safari Lodges and Hotels Limited to express an opinion on the financial statements.
- Perform such other procedures as I consider necessary in the circumstances.

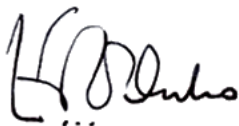
I communicate with the management regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that are identified during the audit.

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.

#### REPORT ON OTHER LEGAL AND REGULATORY REQUIREMENTS

As required by Kenyan Companies Act, 2015, I report based on my audit, that:

- i. 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;
- ii. In my opinion, adequate accounting records have been kept by the Kenya Safari Lodges and Hotels Limited, so far as appears from the examination of those records; and,
- iii. The Kenya Safari Lodges and Hotels Limited's financial statements are in agreement with the accounting records and returns.



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

**Nairobi**

**29 May 2018**