

REPORT OF THE AUDITOR-GENERAL ON BOMAS OF KENYA FOR THE YEAR ENDED 30 JUNE 2017

REPORT ON THE FINANCIAL STATEMENTS

Qualified Opinion

I have audited the accompanying financial statements of Bomas of Kenya Limited set out on pages 1 to 22, which comprise the statement of financial position as at 30 June 2017, and the statement of profit or loss and other comprehensive income, statement of changes in equity, 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 Bomas of Kenya 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.

In addition, as required by Article 229(6) of the Constitution, except for the matters described in the Qualified Opinion section of my report, based on the procedures performed, I confirm that nothing else 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. Trade and other Receivables

As similarly reported in previous years, trade and other receivables balance of Kshs.19,280,200 as at 30 June 2017 is net of Kshs.5,844,308 which has been outstanding for over 11 years and which is fully provided for. However, in spite of the Public Investments Committee having recommended to the Board to regularize the debts, the matter is yet to be resolved.

Consequently, it has not been possible to confirm that trade and other receivables balance of Kshs.19,280,200 as at 30 June 2017 is fairly stated.

2. Valuation of Assets

The statement of financial position reflects a balance Kshs.2,148,869,544 under property, plant and equipment as at 30 June 2017. However, and as similarly reported in the previous year, the last revaluation for the assets was conducted in 1996. Consequently, the Company has not revalued its assets in the last 21 (twenty one) years to take cognizance of the drastic change in value of its assets contrary to the International Accounting Standard No.16 which stipulates that property, plant and equipment should be revalued after every five years.

Further, the Company does not possess ownership documents for the land on which it operates. Although the original title, L.R. No.12066 (I.R. No.26510) was released by Tourism Finance Corporation to the Ministry of Tourism on 28 September 2017, the Ministry has not yet forwarded the title to Bomas of Kenya Limited. This has hindered execution of planned activities such as boundary realignment and valuation of land.

Consequently, it has not been possible to ascertain the accuracy and ownership of the property, plant and equipment balance of Kshs.2,148,869,544 as at 30 June 2017.

3. Unpaid Compensation for Compulsory Land Acquisition

Kenya Urban Roads Authority compulsorily acquired 0.8055 hectares (2 acres) on L.R.No.12066 vide gazette notice No.11155 of 8 August 2013 for the purpose of rehabilitating and upgrading the section of Langata Road lying between the Kenya Wildlife Service (KWS) head office and Bomas of Kenya. The Company was to be paid Kshs.85 million as compensation for the acquisition based on valuation done by a local valuation company. However, available records indicate that the compensation has not been paid yet..

No plausible explanation has been provided for the failure to compensate the Company for the land it surrendered for public use several years ago.

The audit was conducted in accordance with International Standards of Supreme Audit Institutions (ISSAIs). I am independent of Bomas of Kenya 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.

Emphasis of Matter

Delinking from Tourism Finance Corporation

As previously reported in 2015/2016 and as indicated under Note 18 to the financial statements, the Company is fully (100%) owned by Tourism Finance Corporation (formerly Kenya Tourist Development Corporation) through some 254,000 shares of Kshs.20 each with a book value of Kshs.5,080,000.

Available records indicate that, the process to delink the Company from Tourism Finance Corporation so that it may become an independent parastatal was mooted in 1992 to enable the Company institute proper management and investment policies that would turn it to a self-sustaining organization. Following the request by the management of the Bomas of Kenya, the Board of the then Kenya Tourist Development Corporation in its meeting of 17 June 1992 resolved to delink the company from the Corporation.

In 1994, the Public Investment Committee and the Parliamentary Account Committee, with Treasury's agreement, recommended the commencement of the delinking process. In 2002, the Office of the Attorney-General had in their legal interpretation and in reference to the State Corporation Act Cap 446, also concluded that one Government parastatal cannot own another. However, in spite of these interventions, very minimal

progress appears to have been made on the delinking process. As a result, the Company continues to face operational and legal challenges in meeting its obligations through the Tourism Finance Corporation.

Key Audit Matters

Key audit matters are those matters that, in my professional judgement, were of most significance in the audit of the financial statements. Except for the matters described in the Basis for Qualified Opinion and Emphasis of matter sections of my report, there were no other Key Audit Matters to report in the year under review.

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 Company's ability to continue sustaining services, disclosing, as applicable, matters related to sustainability of services and using the applicable basis of accounting unless the management has knowledge of any intention to liquidate the Company or cease its operations.

Management is also responsible for 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 the Company'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 of Kenya. 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 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 judgement and maintain professional skepticism throughout the audit. I also:

- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for my opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- 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 Company'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 Company's ability to continue to sustain its services. If I conclude that a material uncertainty exists, I am required to draw attention in the auditor's report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify my opinion. My conclusions are based on the audit evidence obtained up to the date of my audit report. However, future events or conditions may cause the Company to cease to continue to sustain its services.
- Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.
- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities 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 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 MATTERS PRESCRIBED BY THE KENYAN COMPANIES ACT, 2015

As required by the Companies Act, 2015 I report based on the 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 Company, so far as appears from the examination of those records;
- (iii) The Company's statement of financial position and statement of profit or loss and other comprehensive income are in agreement with the accounting records; and
- (iv) In my opinion, the information given in the report of the directors is consistent with the financial statements.



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

Nairobi

13 July 2018