

# REPORT OF THE AUDITOR-GENERAL ON BOMAS OF KENYA LIMITED FOR THE YEAR ENDED 30 JUNE, 2019

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## 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 32, which comprise the statement of financial position as at 30 June, 2019, 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, 2019, 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 Kenya Companies Act, 2015.

### Basis for Qualified Opinion

#### 1. Unconfirmed Balances

##### 1.1 Unreconciled Sales and Other Income

Notes 6(a) and 9 to the financial statement reflects sales and other income totalling Kshs.137,184,282. The balance includes credit and cash sales totalling Kshs.119,752,375 and Kshs.11,277,901 respectively. However, a recast of revenue receipts for the year revealed cash collections totalling Kshs.14,149,043, but the banking slips provided for audit were for Kshs.3,327,220 only and therefore revenues totalling Kshs.10,821,823 were not accounted for. As a result, the accuracy and completeness of the sales and other income balance totalling Kshs.137,184,282 reflected in the financial statements could not be confirmed.

##### 1.2 Trade and Other Receivables

###### i) Receivables from Unsupported Ushanga Kenya

The trade and other receivables balance totalling Kshs.72,652,794 disclosed in Note 13(a) to the financial statements includes a sum of Kshs.12,864,831 due from Ushanga Kenya Initiative that promotes traditional bead-making among women in pastoralist communities. Available records indicated that the debts owed by the Initiative as at 30 June, 2018 amounted to Kshs.3,766,026 and

increased by Kshs.9,098,805 in the year under review. However, supporting schedules for the new debts totalling Kshs.9,098,805 were not presented for audit.

Other records indicated that the Ministry of Tourism and Wildlife had in June, 2018 requested the Initiative's Coordinator to reimburse the Bomas of Kenya Limited Kshs.14,315,363 spent to operationalize the Initiative. The reimbursement had neither been made as at 30 June, 2019 nor indication given whether the debt was still due for payment. Therefore, the total debts owed to Bomas of Kenya Limited by the Initiative as at 30 June, 2018 may have amounted to Kshs.14,315,363 and not Kshs.3,766,026 as reported in the financial statements for the year then ended.

In view of these issues, the accuracy and completeness of the trade and other receivables balance totalling Kshs.72,652,794 reflected in the statement of financial position as at 30 June, 2019 has not been confirmed.

## **ii) Receivables from Little Theatre Club Mombasa**

As previously reported, a local firm was hired in 2017 to carry out works at Little Theatre Club Mombasa at a contract sum of Kshs.48,739,204. Available records indicated that the certificate of practical completion was issued to the firm on 10 September, 2018 and the completed works handed over to the Company on 28 June, 2019.

However, the Project Status Report as at 30 June, 2019 was not presented for audit verification and as a result, it was not possible to confirm that the expenditure totalling Kshs.36,708,770 reported in the financial statements in relation to the contract is fairly stated.

## **1.3 Valuation of Assets**

The statement of financial position reflects property, plant and equipment balance totalling Kshs.2,399,215,724 as at 30 June, 2019. However, contrary to the International Accounting Standard No.16, and as reported in the previous year, the last revaluation for the assets of the Company was conducted in 1996. Consequently, the Company had not revalued its assets for twenty-three (23) years and consequently, it was not possible to confirm the accuracy of the value of the property, plant and equipment balance totalling Kshs.2,399,215,724 as at 30 June, 2019.

## **2. Long Outstanding Balances**

### **2.1 Trade and Other Receivables**

Trade and other receivables balance totalling Kshs.72,652,794 as at 30 June, 2019, includes long outstanding debtors totalling Kshs.5,844,308 and trade debtors totalling Kshs.24,091,248.

As previously reported, debtors totalling Kshs.5,844,308 have remained outstanding for a long period of time in spite of recommendations made by the Public Investment Committee that the debtors be paid. As a result, the recoverability of the debts is doubtful.

## **2.2 Unpaid Compensation for Compulsory Acquisition of Company Land**

As reported in the previous year, the Kenya Urban Roads Authority compulsorily acquired 0.8055 hectares (2 acres) of land from the Company in 2013 for the purpose of rehabilitating and upgrading the section of Langata Road between the Kenya Wildlife Service (KWS) Head Office and the Company's main premises in Nairobi. The Company was to be paid Kshs.85 million as compensation for the acquisition following a valuation of the land by a professional firm. However, available records indicated that the compensation had not been paid by the close of the year under review on 30 June, 2019.

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

### **Emphasis of Matter**

#### **Delayed Delinking of the Company from the Tourism Finance Corporation**

As previously reported in 2017/2018, and as indicated in Note 15 to the financial statements, the Company is wholly owned by the Tourism Finance Corporation through 254,000 shares of Kshs.20 each with a book value of Kshs.5,080,000.

Available records indicate that, the proposal to delink the Company from Tourism Finance Corporation was authorized by the Corporation's Board in 1992. The Company was, once delinked, expected to have proper management and investment policies that would turn it into a self-sustaining entity.

In 1994, the Public Investment Committee and the Parliamentary Accounts Committee, with the National Treasury's agreement, recommended that the delinking process begin in earnest but no material change occurred for several years thereafter. In 2002, the Attorney-General in his legal interpretation made in reference to the State Corporation Act Cap 446, and concluded that one Government parastatal cannot own another as was the case in this instance.

In spite of these interventions, very minimal progress has been made on the matter. As a result, the Company continues to face operational and legal challenges in meeting its obligations through the Tourism Finance Corporation.

My Opinion is not qualified in respect to this matter.

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 130 on Code of Ethics. I have fulfilled other ethical responsibilities in accordance with the ISSAI and in accordance with other ethical requirements applicable to performing audits of financial statements in Kenya. I believe that the audit evidence I have obtained is sufficient and appropriate to provide a basis for my qualified opinion.

### **Key Audit Matters**

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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 were no key audit matters to report in the year under review.

## REPORT ON LAWFULNESS AND EFFECTIVENESS IN USE OF PUBLIC RESOURCES

### Conclusion

As required by Article 229(6) of the Constitution, based on the procedure 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.

### Basis for Conclusion

#### Unsatisfactory Implementation of Enterprise Resource Planning System

An Enterprise Resource Planning (ERP) information system integrates various software applications to manage designated activities in some or all Departments and functions of an organization. Available records indicate that the Company procured an Enterprise Resource Planning (ERP) system in 2017 at a cost of Kshs.1,985,990. According to the user requirements issued for the contract, various modules were to be included in the system:

Although available records indicated that implementation of the system was ongoing, Management did not provide the following information for audit verification:

- i) Status report on the implementation of the system.
- ii) Documentation on the system.
- iii) Inspection and acceptance certificates to confirm whether user requirements were met.
- iv) Users and user access rights on the system and confirmation that rights granted were in line with the user responsibilities.
- v) Evidence of training provided to the users.

In addition, Management did not provide an explanation on the slow pace of implementing the system.

In the absence of sufficient evidence, it was not possible to confirm that the system procured met the user requirements and whether Company will attain obtain value for money on the expenditure and achieve the objectives set for the system.

The audit was conducted in accordance with ISSAI 4000. The standard requires that I comply with ethical requirements and plan and perform the audit to obtain assurance about whether the activities, financial transactions and information reflected in the financial statements are in compliance, in all material respects, with the authorities that

govern them. I believe that the audit evidence I have obtained is sufficient and appropriate to provide a basis for my conclusion.

## REPORT ON EFFECTIVENESS OF INTERNAL CONTROLS, RISK MANAGEMENT AND GOVERNANCE

### **Conclusion**

As required by Section 7(1)(a) of the Public Audit Act, 2015, except for matters discussed on report on effectiveness of internal controls, risk management and governance section of my report based on the audit procedures performed, I confirm that nothing else, has come to my attention to cause me to believe that internal controls, risk management and governance were not effective.

### **Basis for Conclusion**

#### **1. Irregular Payment of Leave Allowance**

Section 4.7.1 and 4.7.2 of the Company's Human Resource Policies and Regulations manual states that leave allowance equivalent to one month's basic salary shall be payable to employees once in each year provided that an employee proceeds for more than half (1/2) of the leave entitlement. However, a review of January, 2019 payroll revealed that one employee was paid leave allowance amounting to Kshs.68,467 instead of the basic salary of Kshs.30,976. Similarly, three employees were paid leave allowance more than once during the financial year ended 30 June, 2019 totaling Kshs.179,101.

The payments therefore contravened the Company's regulations and were, as a result, irregular.

#### **2. Information and Communication Technology Control Environment**

Audit review of the Information Technology (IT) function of the Company further revealed that Management had not established controls on use of information technology. These include governance as well as physical and logical access controls. In addition, there were no documented policies on program change management and on service continuity in the event of unexpected system failures. As a result, there was risk of disruption of operations on occurrence of such events.

The audit was conducted in accordance with ISSAI 2315 and ISSAI 2330. The standards require that I plan and perform the audit to obtain assurance about whether effective processes and systems of internal control, risk management and governance were operating effectively, in all material respects. I believe that the audit evidence I have obtained is sufficient and appropriate to provide a basis for my conclusion.

## REPORT ON OTHER LEGAL AND REGULATORY REQUIREMENTS

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; and,
- (iii) The financial statements are in agreement with the accounting records and returns.

### **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 Financial Reporting 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.

In preparing the financial statements, Management is responsible for assessing the Company's ability to continue as a going concern, disclosing, as applicable, matters related to sustainability of services and using the applicable basis of accounting unless Management is aware of the intention to liquidate the Company or cease operations.

Management is also responsible for the submission of the financial statements to the Auditor-General in accordance with the provisions of Section 47 of the Public Audit Act, 2015.

In addition to the responsibility for the preparation and presentation of the financial statements described above, Management is also responsible for ensuring that the activities, financial transactions and information reflected in the financial statements are in compliance with the authorities which govern them, and that public money is 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 with limited assurance as to 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 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. The nature, timing and extent of the compliance work is limited compared to that designed to express an opinion with reasonable assurance on the financial statements.

Further, in planning and performing the audit of the financial statements and review 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 policies and procedures may deteriorate.

As part of an audit conducted in accordance with ISSAIs, I exercise professional judgement and maintain professional skepticism throughout the audit. I also:

- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for my opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the Management.
- Conclude on the appropriateness of the Management's use of the 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 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 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 and business activities of the Company 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.



**Nancy Gathungu**  
**AUDITOR-GENERAL**

**Nairobi**

**23 July, 2021**