

# REPORT OF THE AUDITOR-GENERAL ON TOURISM FINANCE CORPORATION FOR THE YEAR ENDED 30 JUNE 2018

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## REPORT ON THE FINANCIAL STATEMENTS

### Qualified Opinion

I have audited the accompanying financial statements of Tourism Finance Corporation set out on pages 1 to 54 which comprise the statement of financial position as at 30 June 2018, and the statement of 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 Tourism Finance Corporation as at 30 June 2018, and of its financial performance and its cash flows for the year then ended, in accordance with International Financial Reporting Standards (Accrual Basis) and comply with the Tourism Act, No.28 of 2011.

### Basis for Qualified Opinion

#### 1. Property, Plant and Equipment (PPE)

The depreciation schedule availed for audit review indicates that the net book value for motor vehicles is zero having been fully depreciated. However, physical inspection and enquiries indicate that the motor vehicles whose registration numbers are: KBL 882G (Volkswagen Jetta), KBB 582G (Nissan X-trail), KBN 992E (Toyota Prado) and KBN 993E (Toyota Prado) are still in use and thus the entity still derives economic benefits. These motor vehicles therefore ought to be revalued so as to ascertain their fair value.

In the circumstances, it has not been possible to confirm that property, plant and equipment balance of Kshs.12,378,645 as at 30 June 2018 is fairly stated.

#### 2. Investments

##### (a) Differing Values in Share Certificates and Financial Statements

Share certificates availed for audit scrutiny for the various investments held by TFC had differences amounting to Kshs.126,225,803 compared to the amounts reflected in the financial statements as analyzed below;

	<b>Financial Statements Kshs</b>	<b>Value as per the Share Certificates Kshs</b>	<b>Difference  Kshs</b>
<b>Subsidiary</b>			

Kenya Safari Lodges	116,061,176	83,237,100	32,824,076
Kabarnet Hotel Ltd	5,432,120	4,910,000	522,120
Golf Hotel Ltd	4,000,000	4,827,480	(827,480)
Mountain Lodges Ltd	2,893,520	6,101,160	(3,207,640)
Kenya Hotel Properties Ltd	114,189,360	117,603,012	(3,413,652)
African Tours and Hotels	4,691,900	5,469,360	(777,460)
International Hotel Ltd	135,939,167	34,516,942	101,422,225
The Ark Ltd	549,340	823,976	( 274,636)
Buffalo Springs Hotel	1,000,000	1,041,750	(41,750)
<b>Total</b>			<b>126,225,803</b>

### **b) Valuation of Shares**

The current value of the shares held in the Subsidiaries and Associates is based on historical values and thus does not reflect the current net value of the shares. The Corporation has never carried out a revaluation of the shares since time of acquisition.

In view of the above, it has not been possible to confirm the accuracy of the investments balance of Kshs.397,742,463 as at 30 June 2018.

### **3. Investment Properties**

The investment properties balance of Kshs.3,143,630,670 as at 30 June 2018 includes capital work in progress amounting to Kshs.43,630,670 comprising of Kshs.21,997,694 which had been carried forward since the year 2011 and Kshs.21,632,976 additions for the year 2016/2017. Further, the capital work in progress brought forward balance of Kshs.21,997,694 includes a 10% deposit of Kshs.3,500,000 paid on 3 February 2012 for Marina project land valued at Kshs.35,000,000. However, and as reported in the previous years the project is yet to take off, the land purchase deal appears to have stalled and the contract has already lapsed and may never crystallize.

Consequently, it has not been possible to determine the carrying value of investments balance of Kshs.3,143,630,670 as at 30 June 2018.

The audit was conducted in accordance with International Standards of Supreme Audit Institutions (ISSAIs). I am independent of Tourism Finance Corporation 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, I have determined that there are no other Key Audit Matters to communicate in my report.

## **Other Matter**

### **1. Capital Work in Progress**

The Corporation entered into a contract with C.M Construction East Africa Limited for the proposed external repainting works and fire escape staircase in Utalii House at a contract sum of Kshs.21,922,810.

The work was to start on 26 January 2017 with an expected end date of 31 May 2017. By December 2017, the repainting works were complete pending rectification of defects identified during an inspection exercise.

As at the time of audit in October 2018, the contractor had not yet addressed the defects as advised.

Similarly, as at December 2017, the fire escape staircase work was at 45% completion level. The works on the north wing side of the building had however not started. By the time of audit in October 2018, the works were still pending and the contractor had already been paid a total of Kshs.18,098,959.

Consequently, it has not been possible to establish whether the payment was commensurate with the work done.

## **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, except for the matter described in the Basis for Qualified Opinion section of my report, I confirm that, nothing has come to my attention to cause me to believe that public money has 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 EFFECTIVENESS OF INTERNAL CONTROLS, RISK MANAGEMENT AND GOVERNANCE**

## **Conclusion**

As required by Section 7(1)(a) of the Public Audit Act, 2015, based on the procedures performed, except for the matter described in the Conclusion on Effectiveness of Internal Controls section of my report, 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 were operating effectively, in all material respects. I believe that the audit evidence I have obtained is sufficient and appropriate to provide a basis for my conclusion.

## **Responsibilities of Management and 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 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 Corporation's ability to continue as a going concern and using the applicable basis of accounting unless the management either intends to liquidate the Corporation 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 money is applied in an effective manner.

Those charged with governance are responsible for overseeing the Corporation's 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 Corporation's 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 Corporation's ability to continue as a going concern. 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 Corporation 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 Corporation 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**

**16 May 2019**