REPORT OF THE AUDITOR-GENERAL ON GOLF HOTEL LIMITED FOR THE YEAR ENDED 30 JUNE, 2020

REPORT ON THE FINANCIAL STATEMENTS

Qualified Opinion

I have audited the accompanying financial statements of Golf Hotel Limited set out on pages 1 to 38, which comprise the statement of financial position as at 30 June, 2020, 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 the Golf Hotel Limited as at 30 June, 2020, 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 Companies Act, 2015 and the Public Finance Management Act, 2012.

Basis for Qualified Opinion

1. Unsupported Intangible Assets

The statement of financial position reflects intangible assets of Kshs.4,617,546 as disclosed in Note 19(a). However, the Note reflects no assets schedule or class of the intangible assets to support the balance.

Consequently, the accuracy and completeness of the intangible assets balance of Kshs.4,617,546 could not be confirmed.

2. Incorrect Inventories Balance

The inventories balance of Kshs.720,724 reflected in the statement of financial position as at 30 June, 2020 and as disclosed in Note 21 does not agree with the re-casted balance of Kshs.750,724 resulting to an unexplained variance of Kshs.30,000.

Consequently, the accuracy and completeness of the inventories balance of Kshs.720,724 could not be confirmed.

3. Erroneous Statement of Cash Flows

The statement of cash flows for the year ended 30 June, 2020 reflects cash generated from operations of Kshs.8,032,578, and as disclosed in note 32(a) to the financial statements. However a recalculation of the decrease in trade and other payables in Note 28 gives a difference of Kshs.3,011,806 and not Kshs.2,711,806 resulting to unexplained variance of Kshs.300,000.

Consequently, the accuracy and completeness of the statement of cash flows for the year ended 30 June, 2020 could not be confirmed.

4. Variance in Selling and Distribution Costs

The statement of profit or loss and other comprehensive income reflects selling and distribution costs of Kshs.1,499,284 which varies with Kshs.1,496,515 reflected in Note 13 to the financial statements, resulting to un-reconciled variance of Kshs.2,769.

Consequently, the accuracy and completeness of the selling and distribution costs of Kshs.1,499,284 could not be confirmed.

5. Variance in Borrowings

Included in the statement of financial position is Kshs.16,960,797 for two loans from Kenya Tourist Development Corporation. Review of the underlying records for the two loans revealed that the first loan had a balance of Kshs.14,046,846 as per the letter reference No.TDC/4/135 of 11th October, 2011 while the second loan had a balance of Kshs.3,330,677 bringing total borrowings to Kshs.17,377,523 resulting to an explained variance of Kshs.416,726. Further, the re-casted borrowings balance of Kshs.16,960,797 in Note 27 totals to Kshs.16,960,477 resulting to an unexplained difference of Kshs.320.

In the absence of a reconciliation between the two sets of records, the accuracy and completeness of the borrowings balance of Kshs.16,960,797 reflected in the statement of financial position could not be confirmed..

The audit was conducted in accordance with the International Standards of Supreme Audit Institutions (ISSAIs). I am independent of the Golf Hotel Limited Management in accordance with ISSAI 130 on the 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. There were no key audit matters to report in the year under review.

Other Matter

1. Budgetary Control and Performance

The summary statement of comparison of budget and actual amount reflects final receipts budget and actual on comparable basis of Kshs.171,843,920 and Kshs.98,480,408 respectively resulting to an under-funding of Kshs.73,363,512 or 43 % of the budget. Similarly, the Fund spent Kshs.85,665,597 against an approved budget of Kshs.101,337,157 resulting to an under-expenditure of Kshs.15,671,560 or 15% of the budget. The underfunding and underperformance affected the planned activities and may have impacted negatively on service delivery to the stakeholders.

1.1 Unresolved Prior Year Matters

In the audit report of the previous year, several issues were raised under the Report *on* Financial Statements*,* Report on Lawfulness and Effectiveness in Use of Public Resources, and Report on Effectiveness of Internal Controls, Risk Management and Governance. However, the Management has not resolved the issues or given any explanation for failure to adhere to the provisions of the Public Sector Accounting Standards Board templates and The National Treasury's Circular Ref: No. AG.4/16/3 Vol.1(9) dated 24 June, 2020.

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 matters described in the Conclusion on Lawfulness and Effectiveness in Use of Public Resources section of my report, 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 Conclusion

Over expenditure on Directors Emoluments

As disclosed in Note 12 to the financial statements, expenditure on the director's emoluments for the year ended 30 June, 2020 amounted to Kshs.2,269,888. Although the Hotel had budgeted to spend Kshs.1,998,000 on the director's emoluments, the actual expenditure was Kshs.2,269,888 thereby leading to an authorized over expenditure of Kshs.271,888 (14%) on the budget item.

Consequently, the regularity of the over expenditure of Kshs.271,888 could not be confirmed.

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, I confirm that nothing has come to my attention to cause me to believe that internal controls, risk management, and governance were not effective.

Basis for Conclusion

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 overall 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 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 Hotel, so far as appears from the examination of those records;

(iii) The Hotel's financial statements 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.

Responsibilities of Management and the Board of Directors

Management is responsible for the preparation and fair presentation of these financial statements in accordance with International Financial Reporting Standards 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 Hotel's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the applicable basis of accounting unless Management is aware of the intention to liquidate the Hotel or to 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.

The Board of Directors is responsible for overseeing the Hotel's financial reporting process, reviewing the effectiveness of how the Management 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 are 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 overall 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 time 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 scepticism 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 applicable 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 Hotel'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 Hotel to cease to continue as a going concern.
- 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 Hotel 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.

CPA Nancy Gathungu, CBS
AUDITOR-GENERAL

Nairobi

11 February, 2022