REPUBLIC OF KENYA

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OFFICE OF THE AUDITOR-GENERAL

Enhancing Accountability

REPORT

OF

THE AUDITOR-GENERAL

ON

KENYA SAFARI LODGES AND HOTELS LIMITED

FOR THE YEAR ENDED 30 JUNE, 2025

REPUBLIC OF KENYA

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REPORT OF THE AUDITOR-GENERAL ON KENYA SAFARI LODGES AND HOTELS LIMITED FOR THE YEAR ENDED 30 JUNE, 2025

PREAMBLE

I draw your attention to the contents of my report which is in three parts:

A. Report on Financial Statements that considers whether the financial statements are fairly presented in accordance with the applicable financial reporting framework, accounting standards and the relevant laws and regulations that have a direct effect on the financial statements;

B. Report on Lawfulness and Effectiveness in the Use of Public Resources which considers compliance with applicable laws, regulations, policies, gazette notices, circulars, guidelines and manuals and whether public resources are applied in a prudent, efficient, economic, transparent and accountable manner to ensure the Government achieves value for money and that such funds are applied for the intended purpose; and,

C. Report on Effectiveness of Internal Controls, Risk Management and Governance which considers how the entity has instituted checks and balances to guide internal operations. This responds to the effectiveness of the governance structure, risk management environment and internal controls, developed and implemented by those charged with governance for orderly, efficient and effective operations of the entity.

A Qualified Opinion is issued when the Auditor-General concludes that, except for material misstatements noted, the financial statements are fairly presented in accordance with the applicable financial reporting framework. The Report on Financial Statements should be read together with the Report on Lawfulness and Effectiveness in the Use of Public Resources, and the Report on Effectiveness of Internal Controls, Risk Management and Governance.

The three parts of the report are aimed at addressing the statutory roles and responsibilities of the Auditor-General as provided by Article 229 of the Constitution, the Public Finance Management Act, 2012, and the Public Audit Act, 2015. The three parts of the report when read together constitute the report of the Auditor-General.

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 1 to 32, which comprise of the statement of financial position as at 30 June, 2025 and the statement of profit/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 Kenya Safari Lodges and Hotels Limited as at 30 June, 2025 and of its financial performance and its cash flows for the year then ended, in accordance with International Financial Reporting Standards (IFRS) and comply with the Kenya Companies Act, 2015 the State Corporations Act, 1986 (Revised 2023) and the Public Finance Management Act, 2012.

Basis for Qualified Opinion

1. Unsupported Trade and Other Receivables and Payables

The statement of financial position reflects trade and other receivables and trade and other payables balances as disclosed in Notes 19 and 24 to the financial statements of Kshs.267,597,000 and Kshs.903,739,000 respectively. However, the balances were not aged at as required.

In the circumstances, the accuracy, completeness and valuation of trade and other receivables and payables of Kshs. 267,597,000 and Kshs.903,739,000 respectively could not be confirmed.

2. Failure to Revalue Fully Depreciated Motor Vehicles

The statement of financial position and Note 16 to the financial statements reflects property, plant and equipment balance of Kshs.1,720,367,000. The balance is net of accumulated depreciation amount of Kshs.748,155,000 out of which Kshs.14,621,000 relates to fully depreciated motor vehicles. Review of assets records revealed that the Company operates six (6) fully depreciated motor vehicles across the business units. However, the management has not revalued the motor vehicles for reporting purpose.

In the circumstances, valuation and fair statement of the property, plant and equipment could not be confirmed.

3. Unsupported Transfers in Works-in-Progress

Note 16 to the financial statements reflects transfers of works-in-progress balance of Kshs.3,200,000 during the year. However, the transfers were not supported by detailed listing of ledger of works-in-progress and the specific class of asset to which the amount was transferred.

In the circumstances, the accuracy and completeness of the property, plant and equipment balance of Kshs.3,200,000 could not be confirmed.

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

Emphasis of Matter

1. Material Uncertainty Related to Going Concern

The financial statements and Note 33 to the financial statements indicate that the Company is facing liquidity risk due to its negative working capital of Kshs.580,151,000 or a current ratio of 0.36 resulting from its total current liabilities of Kshs.914,004,000 exceeding its total current assets of Kshs.333,853,000 as at 30 June, 2025. The negative working capital and current ratio of less than one (1) is an indication that the Company may not meet its obligations as and when they fall due. In addition, the Company had accumulated losses totalling Kshs.535,849,000 as at 30 June 2025 (2024 – Kshs.566,146,000).

Further, as previously reported, the Company in 2013/2014 financial year successfully negotiated for conversion into equity of a loan totalling Kshs.75,554,000 received from the Tourism Finance Corporation. The interest accrued thereon was waived. Note 35 to the financial statements reveals shareholder loan granted by Kenya Development Corporation. Repayment terms of the loan is 36 months with nil interest rate. The loan was obtained to settle staff liabilities, purchase of generator and air conditioners for Mombasa Beach Hotel.

Management and Directors have disclosed that this unsatisfactory situation is being addressed through review of strategic plan with focus on all business units and negotiations and out of court settlement with the creditors. However, despite these actions, the working capital position of the Company and its overall financial performance has continued to decline except for the two most recent years with a cumulative profit after tax of Kshs.61,494,000.

These conditions indicate the existence of a material uncertainty that casts doubt on the Company's ability to meet its financial obligations as they fall due, and to continue as a going concern.

In the circumstances, the Company's existence as a going concern is dependent upon continued support from its shareholders, bankers and creditors.

2. Budgetary Control and Performance

The statement of comparison of budget and actual amounts reflects final sales budget of Kshs.589,970,000 and actual on comparable basis of Kshs.512,345,000, resulting in shortfall in sales revenue of Kshs.77,625,000 or 13% of the budget. Similarly, the statement reflects final development revenue budget of Kshs.81,010,000 and actual on comparable basis of Kshs.31,419,000 resulting in under absorption of Kshs.49,591,000 or 61% of the budget.

The revenue shortfall and under expenditure affected the planned activities and may have impacted negatively on service delivery to the public.

My opinion is not modified in respect to this matter

3. Forfeiture of Cash Receipts on Sale of Shares

As previously reported, the share capital of the Company was increased from Kshs.9,319,000 to Kshs.100,954,000 by rights issue of 5,047,724 ordinary shares of Kshs.20 each in October 2013. The shares were offered to existing shareholders at Kshs.20 per share based on par value. However, the net assets of the Company as at 30 June 2013 amounted to Kshs.667,399,000 and therefore the net assets value of each share was Kshs.145.65. As a result, the rights issue price of Kshs.20 per share was undervalued by Kshs.125.65 and resulted in loss to the Company of significant cash receipts that may otherwise have helped in reversing the Company's unfavorable cash position.

In the circumstances, Management action on rights issue was not prudent and did not improve the financial position of the Hotel.

4. High Operating Costs

The statement of profit or loss and other comprehensive income reflects total income of Kshs.475,322,000 as a summation of turnover and other income, against total operating expenses of Kshs.479,080,000 as a summation of expenses and cost of sales, resulting to an operating cost of ratio of 101%, thus exceeding the strategic plan recommended target of 62%. Further, as at the time of audit in November 2025, the set strategic objectives set to be achieved had not been implemented.

In the circumstances, the strategic plan on key result areas and strategic direction may not be on course to be achieved.

My opinion is not modified in respect of these matters.

Key Audit Matters

Key audit matters are those matters that, in my professional judgement, are of most significance in the audit of the financial statements. These matters were addressed in the context of the audit of the financial statements as a whole and in forming my opinion thereon. I do not provide a separate opinion on these matters. For each matter below, a description of how the audit addressed the matter is provided in that context.

No.	Key Audit Matter	How the Key Audit Matter was Addressed
1	**Shareholding of the Kenya Safari Lodges and Hotels Limited** The statement of financial position and Note 20 to the financial statements reflects Kshs.100,954,000 as the share capital made up of 5,047,724 shares of Kshs.20 each. However, the Corporate Governance Statement discloses 4,996,724 shares as being held by the shareholders. Kenya Development Corporation holds	**Audit Procedures** Obtained and reviewed the current CR 12 of the company to confirm the shareholding **Outcome** Scrutiny of CR 12 referenced OS-MDF26VX9 dated 5 August, 2025 revealed that Mountain Lodges Limited, Kenya Development Corporation Limited and Kenya

	4,110,855 shares, Mountain Lodges Ltd holds 884,853 shares and Kenya Wildlife Service holds 1,016 shares as at 30 June 2025. The matter is significant because of the inconsistent disclosure of the company's shareholding in the financial statements.	National Parks held 884,853; 4,161,855 and 1,016 shares respectively, contrary to the 884,853; 4,110,855 and 1,016 disclosed in the financial statements
2	**Directorship of the Kenya Safari Lodges and Hotels Limited** The Board of Directors section of the report has disclosed the chairman and seven board members excluding the Acting General Manager as the Directors as at 30 June 2025. However, three Directors are not listed in CR 12 referenced OS-MDF26VX9 dated 5 August, 2025 as Directors of the Company. In addition, two former Directors are listed as directors of the company despite their terms having ended on 5 December 2023 and 31 March 2016 respectively. Further, one person is listed as a director, but no appointment letter was provided for audit verification.	**Audit Procedures** Obtained and reviewed the current CR 12 of the company to confirm the identities of the company's directors **Outcome** CR 12 referenced OS-MDF26VX9 dated 5 August, 2025 is not encumbered despite the existing inconsistencies in the directorships of the company

I have fulfilled the responsibilities described in the Auditor's Responsibilities for the Audit section of the report, including in relation to these matters. Accordingly, the audit included the performance of procedures designed to respond to the assessment of the risks of material misstatement of the financial statements. The results of the audit procedures, including the procedures performed to address the matters above, provide the basis for my audit opinion on the accompanying financial statements.

Other Matter

Unresolved Prior Year Matters

In the prior year's audit report, 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. Review of the status during audit of the Company in 2024/2025 revealed that the following thirteen (13) issues remained unresolved:

No.	Financial Year	Audit Issue
1	2023/2024	Inaccurate statement of profit/loss and other comprehensive income
2	2023/2024	Inaccurate trade and other receivables balance
3	2023/2024	Inaccurate inventories balance
4	2023/2024	Unsupported IPF loan
5	2023/2024	Understatement of cash and cash equivalents
6	2023/2024	Long outstanding trade debtors
7	2023/2024	Material uncertainty related to going concern
8	2023/2024	High operating costs
9	2023/2024	Forfeiture of cash receipts on sale of shares
10	2023/2024	Unsupported contract extension on provision of staff transport service
11	2023/2024	Lack of contract on maintenance of sun accounting system
12	2023/2024	Lack of contract for supply of fuel, gas and water
13	2023/2024	Unsupported expenditure on insurance

Other Information

The Directors are responsible for the Other Information set out on page vi to xxv which comprise of Key Entity Information and Management, The Board of Directors, Key Management Team, Chairman's Statement, Report of the Chief Executive Officer, Statement of Performance Against Predetermined Objectives, Corporate Governance Statement, Management Discussion and Analysis, Environmental and Sustainability Reporting, Report of the Directors, and Statement of Directors Responsibilities. The Other Information does not include the financial statements and my audit report thereon.

In connection with my audit on the Company's financial statements, my responsibility is to read the Other Information and in doing so, consider whether the Other Information is materially inconsistent with the financial statements or my knowledge obtained in the audit or otherwise appears to be materially misstated. If based on the work I have performed, I conclude that there is a material misstatement of this Other Information, I am required to report that fact. I have nothing to report in this regard.

My opinion on the financial statements does not cover the Other Information and accordingly, I do not express an audit opinion or any form of assurance conclusion thereon.

REPORT ON LAWFULNESS AND EFFECTIVENESS IN THE USE OF PUBLIC RESOURCES

Conclusion

As required by Article 229(6) of the Constitution, based on the audit procedures performed, except for the effect of the matters described in the Basis for Conclusion on Lawfulness and Effectiveness in the 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 resources have not been applied lawfully and in an effective way.

Basis for Conclusion

1. Lack of Gender Balance in the Board Composition

Review of the Hotel's board membership revealed that out of the nine (9) board members, seven (7) or 80% were of the male gender contrary to Article 27 (8) of the Constitution of Kenya which requires that not more than two-thirds of the members of elective or appointive bodies to be of the same gender.

In the circumstances, Management was in breach of the law.

2. Failure to Provide Imprest Register

Management did not provide imprest register maintained for the period July 2024 through April 2025 despite several requests . This is contrary to Section 9(1)(e) of the Public Audit Act, 2015 which states that the Auditor-General has unrestricted access to all books, records, returns, reports and any property or premises used or held by state organs or public entities.

In the circumstance, Management was in breach of the law.

3. Failure to Remit Statutory Payroll Deductions

The statement of profit or loss and other comprehensive income and Note 9 to the financial statements reflects staff costs of Kshs.209,089,000. Included in this amount is Kshs.6,933,662 and Kshs.7,719,984 deducted from the employees' salaries in respect of National Social Security Fund and Pay As You Earn respectively during the financial year and was yet to be remitted as at the time of the audit in November 2025.

In the circumstance, Management was in breach of the law.

4. Long Outstanding Value Added Tax (VAT) Payables

The statement of financial position reflects trade and other payables balance of Kshs.903,739,000 which as disclosed under Note 24 to the financial statements includes other payables including VAT and catering levy of Kshs.709,693,000. Included in this balance is VAT liabilities of Kshs.335,760,469 which have been outstanding for more than 30 days contrary to Section 44(1) of the Value Added Tax, 2013 which mandates every registered person to submit a VAT return not later than the twentieth day after the end of that period to which it relates.

In the circumstance, Management was in breach of the law.

The audit was conducted in accordance with ISSAI 3000 and ISSAI 4000. The standards require 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 comply 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 audit 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 controls, 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

Conclusion

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. The information given in the Directors' report on pages xxiv is consistent with the financial statements; and

Basis for Conclusion

The Companies Act, 2015 requires that I report on the legal or regulatory requirements, or on performance information disclosed. These matters require expressing a separate opinion as to the Company's compliance with laws and regulations. I believe that the audit evidence I have obtained is sufficient and appropriate to provide a basis for my conclusion.

Responsibilities of Management and Board of Directors

Management is responsible for the preparation and fair presentation of these financial statements in accordance with International Financial Reporting Standards (IFRS) and for maintaining effective internal controls 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 controls, risk management and governance.

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 going concern and using the going concern basis of accounting unless Management is aware of the intention 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 comply with the authorities which govern them and that public resources are applied in an effective way.

The Board of Directors are responsible for overseeing the Company's financial reporting process, reviewing the effectiveness of how 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

My responsibility is to conduct an audit of the financial statements in accordance with Article 229(4) of the Constitution, Section 35 of the Public Audit Act, 2015 and the International Standards of Supreme Audit Institutions (ISSAIs). The standards require that, in conducting the audit, I obtain reasonable assurance about whether the financial statements as a whole are free from material misstatements, whether due to fraud or error and to issue an auditor's report that includes my opinion in accordance with Section 48 of the Public Audit Act, 2015. 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.

In conducting the audit, Article 229(6) of the Constitution also requires that I express a conclusion on whether or not in all material respects, the activities, financial transactions and information reflected in the financial statements are in compliance with the authorities that govern them and that public resources are applied in an effective way. In addition, I consider the entity's control environment 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.

Further, I am required to submit the audit report in accordance with Article 229(7) of the Constitution.

Detailed description of my responsibilities for the audit is located at the Office of the Auditor-General's website at: https://www.oagkenya.go.ke/auditor-generals-responsibilities-for-audit/. This description forms part of my auditor's report.

FCPA Nancy Gathungu, CBS
AUDITOR-GENERAL

Nairobi

09 December, 2025