REPUBLIC OF KENYA

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OFFICE OF THE AUDITOR-GENERAL

Enhancing Accountability

REPORT

OF

THE AUDITOR-GENERAL

ON

SUNSET HOTEL LIMITED

FOR THE YEAR ENDED 30 JUNE, 2025

REPUBLIC OF KENYA

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REPORT OF THE AUDITOR-GENERAL ON SUNSET HOTEL 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 the 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 the Lawfulness and Effectiveness in 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 the 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 Sunset Hotel Limited set out on pages 1 to 40, 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 effects 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 Sunset Hotel 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 and comply with the Companies Act, 2015 and the Public Finance Management Act, 2012.

Basis for Qualified Opinion

1. Long Outstanding Trade and Other Receivables

The statement of financial position reflects a balance of Kshs.31,780,886 in respect of trade and other receivables, which as disclosed in Note 16(a) to the financial statements is net of provisions for bad and doubtful receivables of Kshs.5,811,589. However, included in the balance are gross debts amounting to Kshs.29,215,855, which have been outstanding for over 120 days and Management have not shown effort made in its recoverability.

In the circumstances, recoverability of trade and other receivables balance of Kshs.29,215,855 could not be confirmed.

2. Long Outstanding Trade and Other Payables

The statement of financial position and as disclosed on Note 22 to the financial statements reflects a balance of Kshs.22,594,394 in respect of trade and other payables which includes statutory deductions amounting to Kshs.13,039,833 relating to; Value Added Tax Kshs.5,079,616, Pay as You Earn Kshs.246,106, N.H.I.F Kshs.41,139, Housing levy Kshs.44,884, N.S.S.F Arrears Kshs.2,731,809, Catering Levy Kshs.160,279 and outstanding audit fee of Kshs.4,736,000. However, these outstanding statutory deductions have remained unpaid from previous years. Further, Management have not provided an ageing analysis to show how long the payables have been outstanding and the plans in place to settle the amount due.

In the circumstances, the obligation to clear these outstanding payables could not be confirmed and the Hotel risks incurring nugatory expenditure on accrued interest and penalties from non-remitted statutory deductions.

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

Emphasis of Matter

Budgetary Control and Performance

The statement of comparison of budget and actual amounts reflects final revenue budget and actual on a comparable basis of Kshs.142,217,337 and Kshs.79,493,115 respectively resulting to under - funding of Kshs.62,724,222 or 44.1% of the budget.

Similarly, the Hotel expended Kshs.21,666,956 on cost of sales and Kshs.51,381,314 on operating expenses totalling to Kshs.73,048,270 against an approved budget of Kshs.142,217,377 resulting to an under-expenditure of Kshs.69,169,107 or 48.64% of the budget.

The performance indicates that Management does not consider previous year performance when setting future budget expectations as they seem to be unrealistic.

My opinion is not modified in respect of this matter.

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. 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

Unresolved Prior Year Matters

In the prior years' audit reports, several issues were raised under the Report on Financial Statements, Lawfulness and Effectiveness in Use of Public Resources, and Effectiveness of Internal Controls, Risk Management and Governance, respectively. Review of the status during audit of the Sunset Hotel Limited in 2024/2025 revealed that the following matters remained unresolved.

No	Financial Year	Audit Issue
1	2023/2024	Long Outstanding Trade and Other Receivables
2	2023/2024	Unsupported Long Outstanding Loans
3	2023/2024	Unsupported Share Capital
4	2023/2024	Material Uncertainty Relating to Going Concern
5	2023/2024	Budgetary Control and Performance
6	2023/2024	Long Outstanding Audit Fees
7	2023/2024	Failure to Remit Statutory Deductions

Other Information

The Directors and Management are responsible for the Other Information set out on pages iii to xxvi, which comprise of Key Company Information, The Board of Directors, Management Team, Chairman's Statement, Report of the General Manager, Statement of Performance Against Predetermined Objectives, Corporate Governance

Statement, Management Discussions and Analysis, Environmental and Sustainability Reporting, Report of Directors and the 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 consolidated 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 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 matter described in the Basis for Conclusion on the 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 resources have not been applied lawfully and in an effective way.

Lack of a Substantive General Manager

During the year under review, it was noted that the Hotel has been under an acting General Manager who has been drawing acting allowance since May 2020. It was not established why the Board is yet to fill the position six (6) years down the line and paid acting allowance since May 2020 contrary to Section C (14)(1) the Human Resource Policies and Procedures Manual.

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

Basis for Conclusion

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 THE 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, except for the effect of the matter described in the Basis for Conclusion on the Effectiveness of Internal Controls, Risk Management and Governance section of my report, 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. Failure to Tag Acquired Assets

The statement of financial position reflects a balance of Kshs.463,796,085 in respect of property plant and equipment and as disclosed in Note 14 to the financial statement includes an addition of Kshs.15,541,092 made up buildings, furniture and fittings and computers. However, a verification of the physical assets in the month of September 2025 established that some of the assets which includes kitchen fryer, the kitchen freezer, the fan, Kyocera printer and ETR machine were yet to be tagged as required. Management has not explained the delay in tagging of the assets.

In the circumstances, the ownership, presentation and disclosure of the assets could not be confirmed.

2. Failure to Establish Board Committees and Ineffective Audit committee

Review of the board expenses records revealed that the board held a total of eleven (11) meetings comprising of five (5) full board meetings, five (5) special meetings and one (1) audit committee meeting. However, the Board had not established any other committee apart from the audit committee contrary to chapter 1.7 of Mwongozo Code of Governance, 2015 for the State Corporations, which provides for establishment of at least four (4) sub-committees for easy of governance.

Further it was noted that the audit committee held one (1) meeting during the year and this compromised risk management and governance which is critical in ensuring a strong internal control system.

In the circumstances, effectiveness of the governance structure could not be confirmed.
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, 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 xxv to xxvi is consistent with the financial statements; and

iii. The auditable part of the directors' remuneration report on pages 1 to 17 has been properly prepared in accordance with the Companies Act, 2015.

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 the 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 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 is 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

31 October, 2025