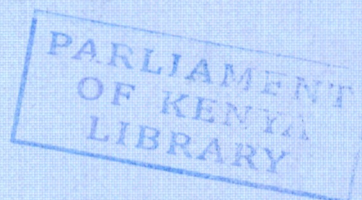


REPUBLIC OF KENYA



KENYA NATIONAL AUDIT OFFICE



REPORT

OF

THE AUDITOR-GENERAL

ON

THE FINANCIAL STATEMENTS OF
KABARNET HOTEL LIMITED

FOR THE YEAR ENDED
30 JUNE 2013

REPUBLIC OF KENYA



KENYA NATIONAL AUDIT OFFICE

REPORT

OF

THE AUDITOR-GENERAL

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**THE FINANCIAL STATEMENTS OF
KABARNET HOTEL LIMITED**

**FOR THE YEAR ENDED
30 JUNE 2013**

KABARNET HOTEL LIMITED.



REPORT AND FINANCIAL STATEMENTS

FOR

THE YEAR ENDED 30TH JUNE 2013

KABARNET HOTEL LIMITED.

FINANCIAL STATEMENTS

FOR THE YEAR ENDED 30th JUNE 2013

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KABARNET HOTEL LIMITED.

COMPANY INFORMATION

REGISTERED OFFICE & PRINCIPAL PLACE OF BUSINESS.

Kabarnet Hotel Limited Kabarnet Town
Utalii House – Uhuru Highway P. O. Box 109,
P.O. Box 42013 – 00100 KABARNET.
NAIROBI.

PRINCIPAL BANKERS

Kenya Commercial Bank Limited – Kabarnet Branch.

COMPANY SECRETARY

Mr. Carry Francis Odhiambo
Utalii House – Uhuru Highway
P.O. Box 42013 – 00100
NAIROBI.

AUDITORS

Auditor General
Kenya National Audit Office
Anniversary Towers – University Way
P O B ox 30084 – 00100
NAIROBI

KABARNET HOTEL LIMITED.

REPORT OF THE DIRECTORS

The Directors submit their Report together with the Financial Statements for the Year Ended 30th June 2013

PRINCIPAL ACTIVITY

The principal Activity of the Company is to operate the hotel providing accommodation and catering services to customers.

RESULTS

The results for the year are to be read in conjunction with the accounting policies and notes that form part of these financial statements are set out from pages 6 to 26.

DIVIDEND

The Directors do not recommend payment of dividend.

LIST OF DIRECTORS

Mr. Al-Hajj Yussuf M.K. Murigu- Chairman & Director KTDC (Up to 20th July 2012)

Mrs. Marianne Jordan - Managing Director KTDC

Mr. Abdilalim Saleh - Director KTDC (Up to 20th July 2012)

Mr. Dickson Yatich- Director

RESERVES

The Directors propose to carry forward the balance of accumulated losses amounting Kshs. (60,332,671)

AUDITORS

The Auditors-General continue in Office in accordance with section 14(3) of the State Corporation Act Cap 446.

COMPANY SECRETARY

BY ORDER OF THE BOARD

KABARNET HOTEL LIMITED.

STATEMENT OF DIRECTORS' RESPONSIBILITY

The Companies Act Cap 486 requires the Directors to prepare financial statements for each financial year that give true and fair view of state of affairs of the company at the end of the financial year and of the state of the company for that year. It also requires the directors to ensure that the company keeps proper accounting, records that disclose, with reasonable accuracy, the financial position of the Company. They are also responsible for safeguarding the assets of the company.

The Directors accept responsibility for the annual financial statements, which have been prepared using appropriate accounting policies supported by reasonable estimates, in conformity with International Financial Reporting Standards and the requirements of the Kenyan Companies Act. The directors are of the opinion that the financial statements give a true and fair view of the state of the financial affairs of the group and of the company and of the group's profit or loss in accordance with International Financial Reporting Standards.

The Directors further accept responsibility for the maintenance of accounting records that may be relied upon in the preparation of financial statements, as well as designing, implementing and maintaining internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement.

Nothing has come to the attention of the Directors to indicate that the Company will not remain a going concern for at least twelve months from the date of this statement.

MRS MARRIANNE JORDAN
DIRECTOR

SIGNATURE *M. Marianne Jordan* 27/9/12

DICKSON YATICH
DIRECTOR

SIGNATURE..... *Dickson Yatich*.....

REPUBLIC OF KENYA

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E-Mail: oag@oagkenya.go.ke
Website: www.kenao.go.ke



P.O. Box 30084-00100
NAIROBI

KENYA NATIONAL AUDIT OFFICE

REPORT OF THE AUDITOR-GENERAL ON KABARNET HOTEL LIMITED FOR THE YEAR ENDED 30 JUNE 2013

REPORT ON THE FINANCIAL STATEMENTS

I have audited the accompanying financial statements of Kabarnet Hotel Limited set out on pages 6 to 20, which comprise the statement of financial position as at 30 June, 2013, and the statement of comprehensive income, statement of changes in equity and statement of cash flows 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 14 of the Public Audit Act, 2003. 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.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with International Financial Reporting Standards 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.

The management is also responsible for the submission of the financial statements to the Auditor-General in accordance with the provisions of Section 13 of the Public Audit Act, 2003.

Auditor-General's Responsibility

My responsibility is to express an opinion on these financial statements based on the audit and report in accordance with the provisions of Section 15(2) of the Public Audit Act, 2003 and submit the audit report in compliance with Article 229(7) of the Constitution of Kenya. The audit was conducted in accordance with International Standards on Auditing. Those standards require compliance with ethical requirements and that the audit be planned and performed to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgement, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are

appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Hotel's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by the management, as well as evaluating the overall presentation of the financial statements.

I believe that the audit evidence obtained is sufficient and appropriate to provide a basis for my qualified audit opinion.

Basis for Qualified Opinion

1.0 Going Concern

During the year under review, the Hotel made a loss of Kshs.4,405,088 (2012: Kshs.5,529,817 loss) resulting in accumulated losses of Kshs.60,332,671 as at 30 June 2013. The current liabilities of Kshs.41,908,270 as at 30 June 2013 exceeded the current assets of Kshs.7,113,300 by Kshs.34,794,970 (2012: 32,158,069). Further, the Hotel has been unable to settle long outstanding liabilities, including a long term loan of Kshs.18,358,944, advances of Kshs.32,337,732 due to Kenya Tourism Development Corporation, statutory liabilities of Kshs.6,600,716 and other trade creditors amounting to Kshs.2,353,356.

The Hotel is therefore technically insolvent and may not be able to meet its current obligations as and when they fall due and its continued operation as a going concern is dependent on the support of the Parent Corporation, creditors and bankers.

2.0 Property, Plant & Equipment

- (i) The property, plant and equipment net book value decreased from Kshs.68,582,446 as at 30 June 2012 to Kshs.64,814,259 as at 30 June 2013. However, the Hotel did not maintain a fixed assets register and therefore non-current asset balance of Kshs.64,814,259 as at 30 June 2013 could not be confirmed.
- (ii) As observed in the previous year, a part of the hotel that got burnt in a fire incident in 2002 had not been repaired as at 30 June 2013 and continues to deteriorate due to weather expose over the years. It has however not been clarified how the loss as a result of the fire was treated in the books of account.
- (iii) In addition, excluded from the property, plant and equipment revalued balance of Kshs.64,814,259 is a hotel motor vehicle registration no.KTR 625 Volkswagen (Kombi) valued at Kshs.430,074 which was not physically verified and, therefore its physical location could not be ascertained. Further, the revalued amount also included a fully depreciated motor vehicle KYU 313 which was registered on 30 December 1987 costing Kshs.120,000 with book value of Kshs.50,625. The

vehicle has been grounded for more than eight (8) years. Evidently, the Hotel is not benefiting from the vehicle and it is not clear why it has not been disposed.

- (iv) The Hotel has not taken insurance cover for its buildings, motor vehicles, furniture and office equipment (especially the computers) to ensure continuity of operations in the event of any uncertain adverse event which could impair its operations.

In the circumstances, it has not been possible to ascertain existence, completeness and accuracy of the balance of the property, plant and equipment of Kshs.64,814,259 as at 30 June 2013.

3.0 Trade and Other Receivables

Included in trade and other receivables balance of kshs.4,909,590 as at 30 June 2013 is sundry debtors amounting to Kshs.849,458 and long outstanding debts totalling Kshs.4,602,970 which were not supported by analysis. Further, no provision for bad and doubtful debts was made in the financial statements.

Under the circumstances, the accuracy and recoverability of the trade and other receivables balance of Kshs.4,909,590 as at 30 June 2013 could therefore not be confirmed.

4.0 Trade and Other Payables

- (i) The trade and other payables balance of Kshs.9,570,538 as at 30 June 2013 include statutory dues totaling Kshs.6,600,716 out of which Kshs.6,375,522 relate to 2011/2012 and previous years. The statutory dues in addition include VAT payable of Kshs.4,093,382 out of which Kshs.3,771,405 relate to 2011/2012 and previous years. The creditors further include secretarial fees of Kshs.72,000 payable to KTDC and audit fees of Kshs.144,000 payable to Auditor-General and which have continued to accumulate. No reason has been provided for non-remittance of those statutory dues or non clearance of the accumulating dues.
- (ii) According to Note Number.8 to the accounts, the creditors and other payables reflect figure of Kshs.9,678,702 while the statement of financial position as at 30 June 2013 shows a figure of Kshs.9,570,538. The resultant difference of Kshs.108,164 has not been explained nor reconciled.
- (iii) The creditors balance further include staff payables figure of Kshs.169,530 and advance payment of Kshs.215,600 whose analyses were not provided for audit review.

Consequently, the accuracy of the creditors balance of Kshs.9,570,538 as at 30 June 2013 could not be confirmed.

Qualified Opinion

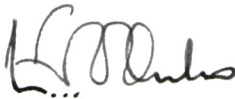
In my opinion, except for the effect of the matters described in the Basis for Qualified Opinion paragraph, the financial statements present fairly, in all material respects, the financial position of the Hotel as at 30 June 2013, and of its financial performance and its cash flows for the year then ended, in accordance with International Financial Reporting Standards and comply with the Companies Act, Cap.486 of the Laws of Kenya.

REPORT ON OTHER LEGAL AND REGULATORY REQUIREMENTS

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; and
- ii. In my opinion, proper books of account have been kept by the Company, so far as appears from my examination of those books; and,
- iii. The Company's statement of financial position and statement of comprehensive income are in agreement with the books of account.

As required by Article 229(6) of the Constitution of Kenya, I confirm that Public funds have been applied lawfully and effectively in this hotel.



Edward R. O. Ouko, CBS
AUDITOR-GENERAL

Nairobi

16 July, 2014

KABARNET HOTEL LIMITED.

STATEMENT OF FINANCIAL POSITION AS AT 30TH JUNE 2013

	NOTE	2013 <u>Ksh.</u>	2012 <u>Ksh.</u>
Non-Current Assets			
Property, Plant & Equipment	1	64,814,259	66,582,446
		<u>64,814,259</u>	<u>66,582,446</u>
Current assets			
Inventories	6	108,167	66,007
Trade & other Receivables	7	4,909,590	5,587,926
Cash & Bank balances	9	<u>2,095,543</u>	339,208
		7,113,300	5,993,141
Current Liabilities			
Trade & other payables	8	9,570,538	9,867,991
K. T. D. C Advances	2	<u>32,337,732</u>	<u>28,283,219</u>
		41,908,270	38,151,210
Net Current Assets		<u>(34,794,970)</u>	<u>(32,158,069)</u>
NET ASSETS		<u>30,019,289</u>	<u>34,424,377</u>
FINANCED BY:			
Share Capital	2	5,000,000	5,000,000
Revaluation Reserve	2	66,793,016	66,793,016
Revenue Reserves	5	<u>(60,332,671)</u>	<u>(55,927,583)</u>
		<u>11,460,345</u>	<u>15,863,433</u>
Non-Current Liabilities			
Long term loan K.T.D.C	4	18,358,944	18,358,944
Unallocated shares – H. Kiplagat	2	<u>200,000</u>	<u>200,000</u>
		<u>18,558,944</u>	<u>18,558,944</u>
TOTAL EQUITY & LIABILITIES		<u>30,019,289</u>	<u>34,424,377</u>

The Financial Statements were approved by Board of Directors on 26th September 2013 and were signed on behalf by:-

MRS MARRIANNE JORDAN
DIRECTOR

SIGNATURE *M. Marianne Jordan* DATE..... 27/9/13

DICKSON YATICH
DIRECTOR

SIGNATURE..... *D. Yatich* DATE..... 26/9/2013



KABARNET HOTEL LIMITED.

INCOME STATEMENT FOR THE YEAR ENDED 30TH JUNE 2013

REVENUE	NOTES	2013 KSHS	2012 KSHS
Sales	10	9,183,503	6,459,280
Cost of sales	11	(2,815,571)	(2,338,300)
Gross profit		6,367,932	4,120,980
EXPENDITURE			
Provision and accrued expenses		-	-
Salaries and wages	12	4,004,598	3,459,308
Staff Expenses	13	1,812,042	1,423,719
Staff travel	14	141,385	199,350
Property up keep expenses	15	377,399	303,785
Repair and renewal	16	456,158	412,108
Operating costs	17	1,589,862	1,357,071
Office Expense	18	154,789	114,611
Bank charges	19(a)	17,705	26,342
Audit fees	19(b)	48,000	48,000
Advertising promotion	20	79,750	43,549
General Charges	21	74,965-	
		-	67,630
Central Services- Stationery	22(a)	18,000	18,000
Central Services –Board expenses	22(b)	15,260	70,000
Depreciation	1(a)	1,983,107	2,107,324
Valuation Fees	2	-	-
Interest and other expense	23	-	-
Total Expenditure		10,773,020	9,650,797
NET PROFIT/(LOSS)		<u>(4,405,088)</u>	<u>(5,529,817)</u>

KABARNET HOTEL LIMITED.

STATEMENT OF CHANGES IN EQUITY FOR YEAR ENDING 30TH JUNE 2013

	Share capital (Kshs.)	Revenue Reserve (Kshs)	Revaluation Reserve (Kshs)	Shareholders' Equity (Kshs)
At 1 st July 2011	5,000,000	(50,397,766)	66,793,250	21,395,250
Deficit for the year	-	(5,529,817)	-	(5,529,817)
At 30 th June 2012	-	(55,927,583)	66,793,016	15,865,433
At 1 st July 2012	5,000,000	(55,927,583)	66,793,016	15,863,433
Deficit for the year	-	(4,405,088)	-	(4,399,094)
At 30 th June 2013	5,000,000	(60,332,671)	66,793,016	11,464,342

KABARNET HOTEL LIMITED.

STATEMENT OF CASH FLOW FOR THE YEAR ENDED 30TH JUNE 2013

	2013	2012
	<u>KSH</u>	<u>KSH</u>
Cash From Operating Activities		
Net profit/loss for the year	(4,405,088)	(5,529,817)
ADJUSTMENTS:		
Loan interest for 2007/2008	-	-
Adjustment (see Note 5)	-	-
Interest Expense for Current Year	-	-
Loss on motor vehicle revaluation	-	-
Prior year adjustments	-	-
Depreciation	1,983,107	2,107,324
Operating profit/loss before working capital changes	(2,421,981)	(3,422,493)
(Increase) decrease in stock	(42,160)	7,722
(Increase) decrease in debtors	678,336	(612,095)
Increase (decrease) in creditors	(297,453)	382,815
Increase/(decrease) in K.T.D.C	4,054,513	3,970,063
Net cash inflow (outflow) from operating Activities		
Net cash flow generated from operations	1,971,255	326,012
Cash flow from Investing activities		
Purchase of fixed assets	(214,920)	(47,995)
Cash flow from financing activities		
Increase (Decrease)in KTDC Loans	-	-

KABARNET HOTEL LIMITED.

Interest expense for current year	-	
Net Cash flow (outflow) from Financing Activities	(214,920)	(47,995)
Net increase (Decrease) in cash and cash equivalents	1,756,335	278,071
Cash and cash equivalent at the beginning	339,208	6,191
Cash & cash equivalent at the end of the year	2,095,543	339,208

KABARNET HOTEL LIMITED.

FINANCIAL STATEMENTS FOR THE YEAR ENDED 30TH JUNE 2013

NOTES ON THE FINANCIAL STATEMENTS

1. Summary of significant accounting policies

The principal accounting policies adopted in the preparation of these financial statements are set out below:

i. Accounting Convention

Accounts have been prepared in accordance with the historical cost convention.

ii. Turnover

The turnover represents the amount receivable for services provided net of government taxes and levies.

iii. No depreciation is charged on land

The company's policy regarding depreciation is to write off the following rates:

Buildings	2.5% per annum
Motor vehicles	25% per annum
Equipment	12.5% per annum
Furniture & fittings	12.5% per annum
Computers & Accessories	33.5% per annum

In case of a revalued asset, no depreciation is charged during the year of revaluation and on the revaluation surplus. Full year depreciation is therefore provided during the next year and all other subsequent years.

iv. Stocks

Stocks are valued at the lower cost or net realizable values less further costs expected to be incurred.

v. Foreign currency

KABARNET HOTEL LIMITED.

Foreign currency transactions during the year were converted at the exchange rates at the date of transactions and any gains or losses were taken to the profit and loss account.

vi. **Corporation Tax**

Corporation tax has been provided for since the company incurred a loss.

vii. **Statement of Retained profit and loss**

	2013 Ksh	2012 Kshs
Balance b/f	(55,927,583)	(50,397,766)
Add loan interest Adjustment	-	-
Adjustments /creditors/petty cash		
Profit/loss of the year	(4,405,088)	(5,529,817)
Retained profit /loss c/f	(60,332,671)	(55,927,583)