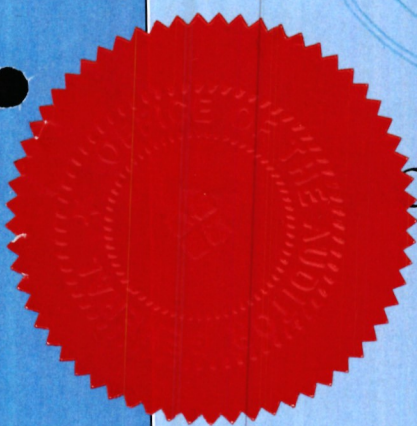


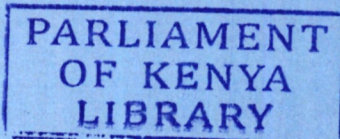
REPUBLIC OF KENYA



*Paper laid  
by leader of  
Majority Party  
Tuesday 31/7/2018  
AK*



OFFICE OF THE AUDITOR-GENERAL



**REPORT**

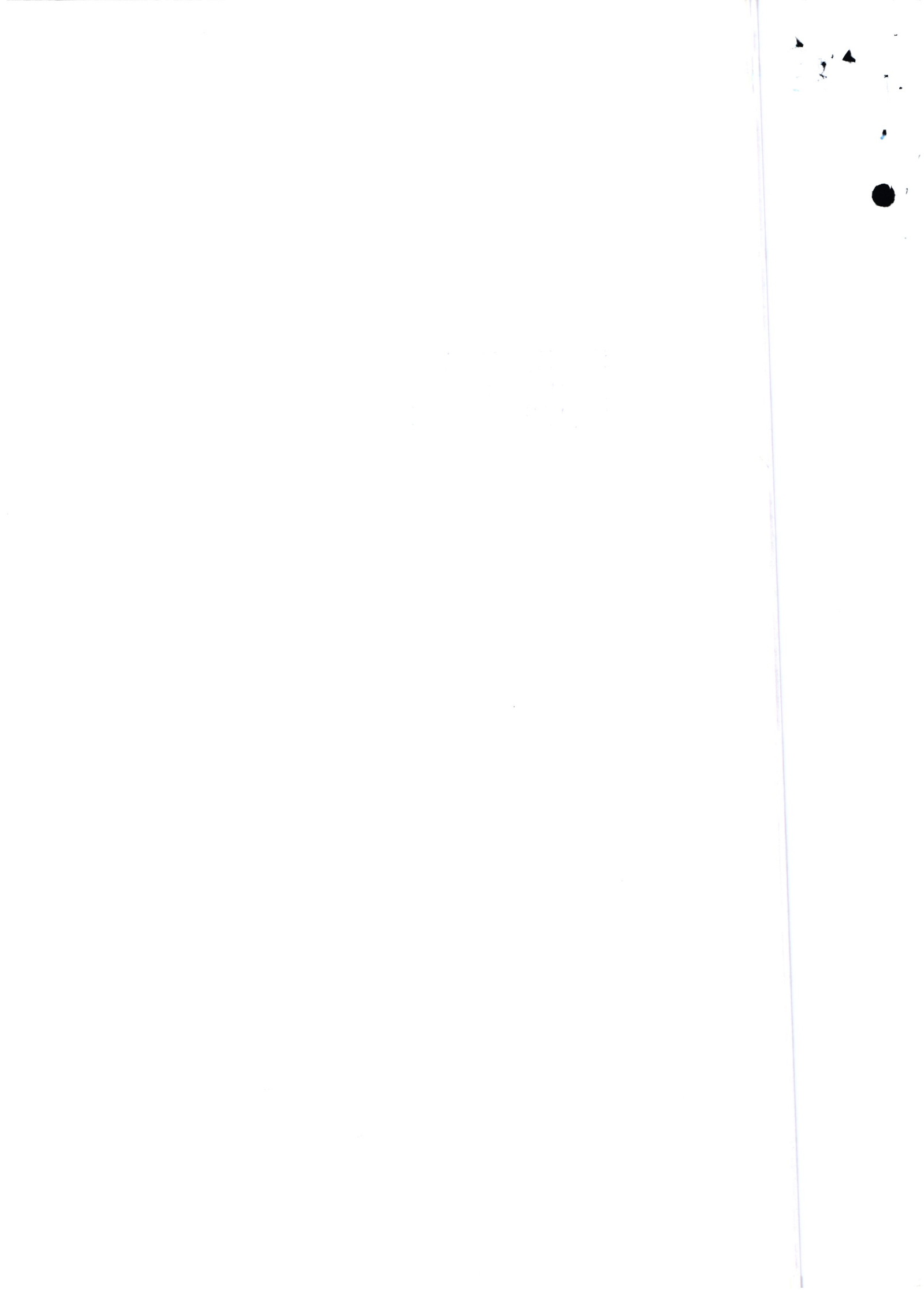
**OF**

**THE AUDITOR-GENERAL**

**ON**

**THE FINANCIAL STATEMENTS OF  
GOLF HOTEL LIMITED**

**FOR THE YEAR  
ENDED 30 JUNE 2017**





# **GOLF HOTEL LIMITED**

---

## **REPORT AND FINANCIAL STATEMENTS FOR THE FINANCIAL YEAR ENDED JUNE 30, 2017**

**Prepared in accordance with the Accrual Basis of Accounting Method under  
the International Financial Reporting Standards (IFRS)**

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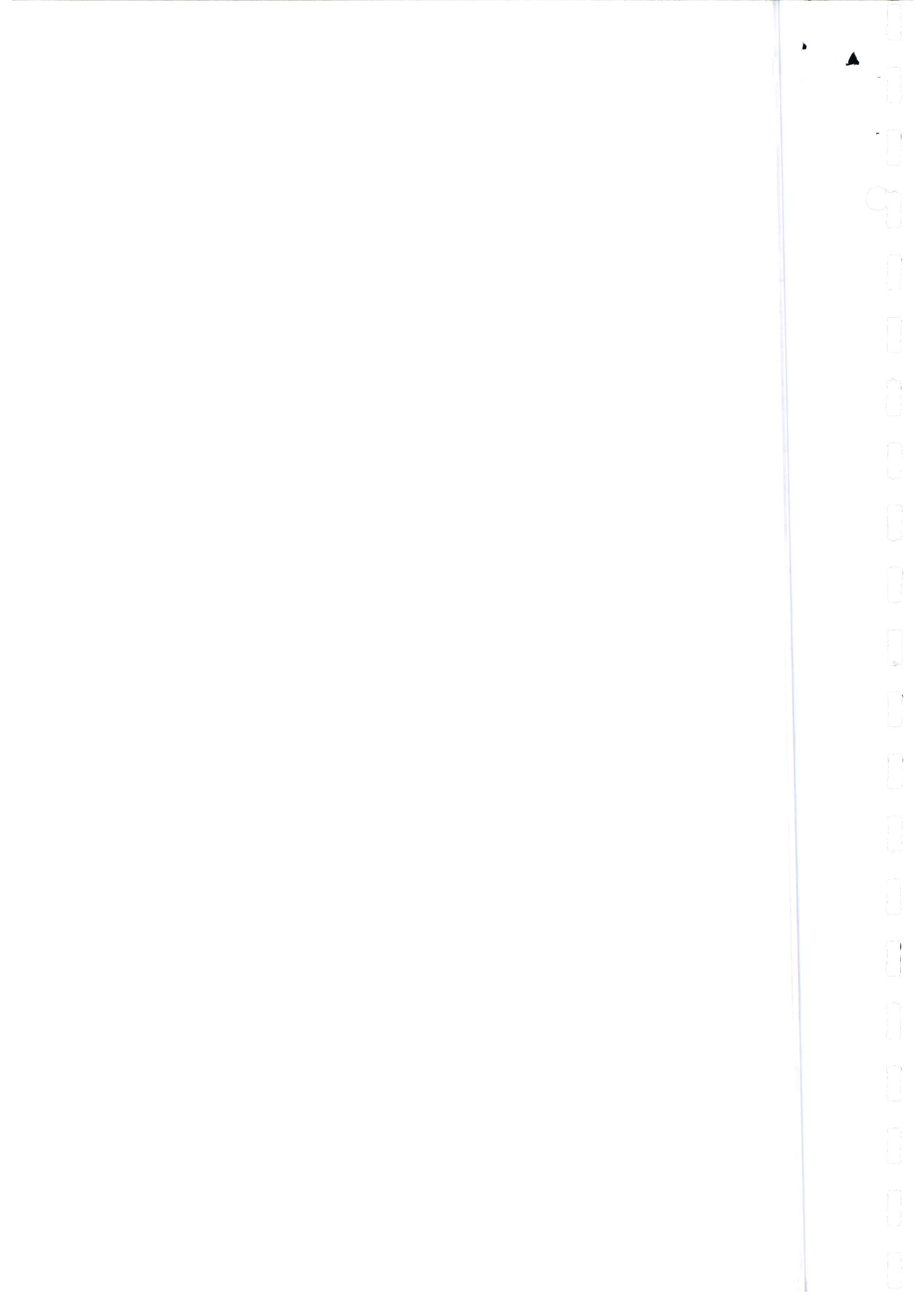


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## **KEY ENTITY INFORMATION**

### **Background information**

Golf Hotel Limited was established on 20 December 1979 and is governed by the Companies Act 2015 and is a subsidiary of Tourism Finance Corporation (TFC); a parastatal in the Ministry of East African Affairs, Commerce and Tourism. It's a limited liability company with 80% shareholding to Tourism Finance Corporation and 20% shareholding by the County Government of Kakamega. The shareholders through the directors are responsible for the general policy and strategic direction of the Hotel.

### **Principal Activities**

The principal activity of the Hotel is to provide accommodation and conference facility services.

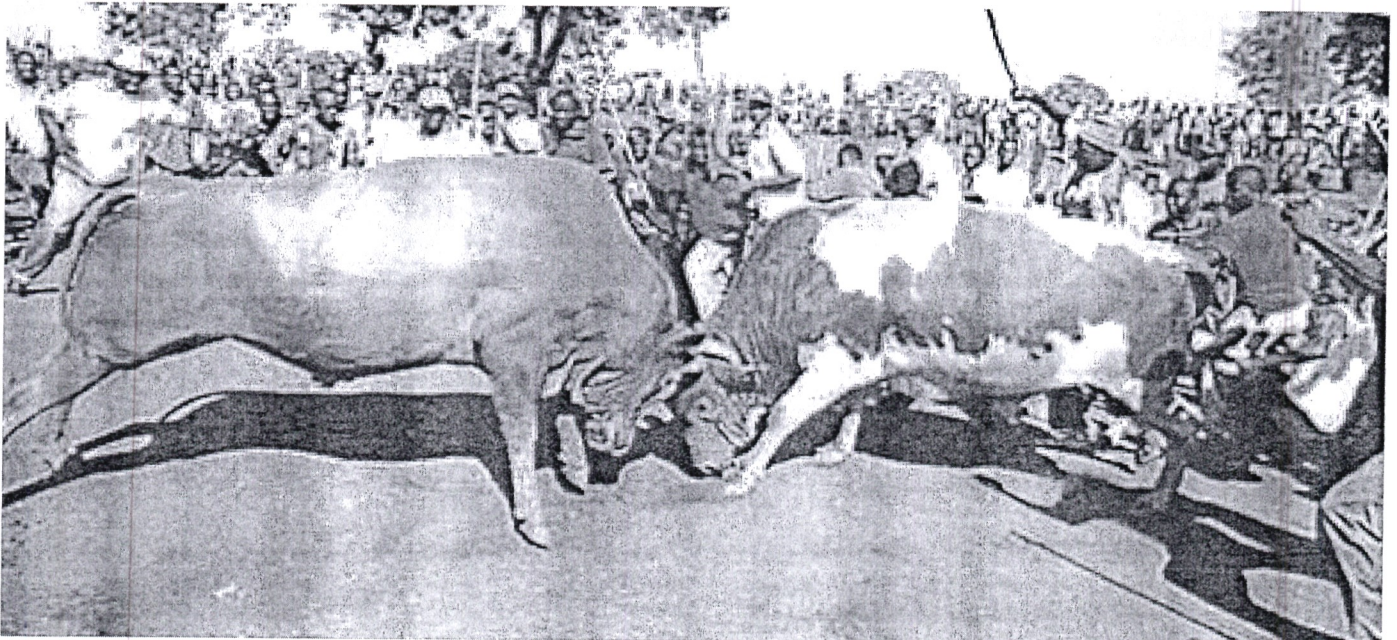
### **Directors**

The Directors who served the entity during the year were as follows:

- |    |                           |   |
|----|---------------------------|---|
| 1. | Mr. Paul Kurgat           | - Board Chairman – Golf Hotel Kakamega    |
| 2. | Mr. Wycliffe Oparanya     | - Governor Kakamega County                |
| 3. | Mr. Franklin Ndi          | - Board Member Golf Hotel Kakamega        |
| 4. | Mr. Jonah Orumoi          | - Managing Director TFC                   |
| 5. | Mrs. Fatuma Hirsi Mohamed | - Principal Secretary Ministry of Tourism |

### **Corporate Secretary**

Tourism Finance Corporation  
P.O. Box 42013-00100  
Nairobi



**Golf Hotel Limited**  
**Reports and Financial Statements**  
**For the year ended 30 June, 2017**

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**Registered Office**

Khasakhala Road  
Milimani Area  
P.O. Box 118-50100  
Kakamega, KENYA

**Corporate Headquarters**

Utalii House  
Uhuru Highway  
P.O. Box 42013-00100  
Nairobi, KENYA

**Corporate Contacts**

Telephone: (254) 02 3224175  
E-mail: [info@ktdc.co.ke](mailto:info@ktdc.co.ke)  
Website: [www.ktdc.co.ke](http://www.ktdc.co.ke)

Or:

Telephone: (254) 056 2030150/1  
E-mail: [info@golfhotelkakamega.com](mailto:info@golfhotelkakamega.com)  
Website: [www.golfhotelkakamega.com](http://www.golfhotelkakamega.com)

**Corporate Bankers**

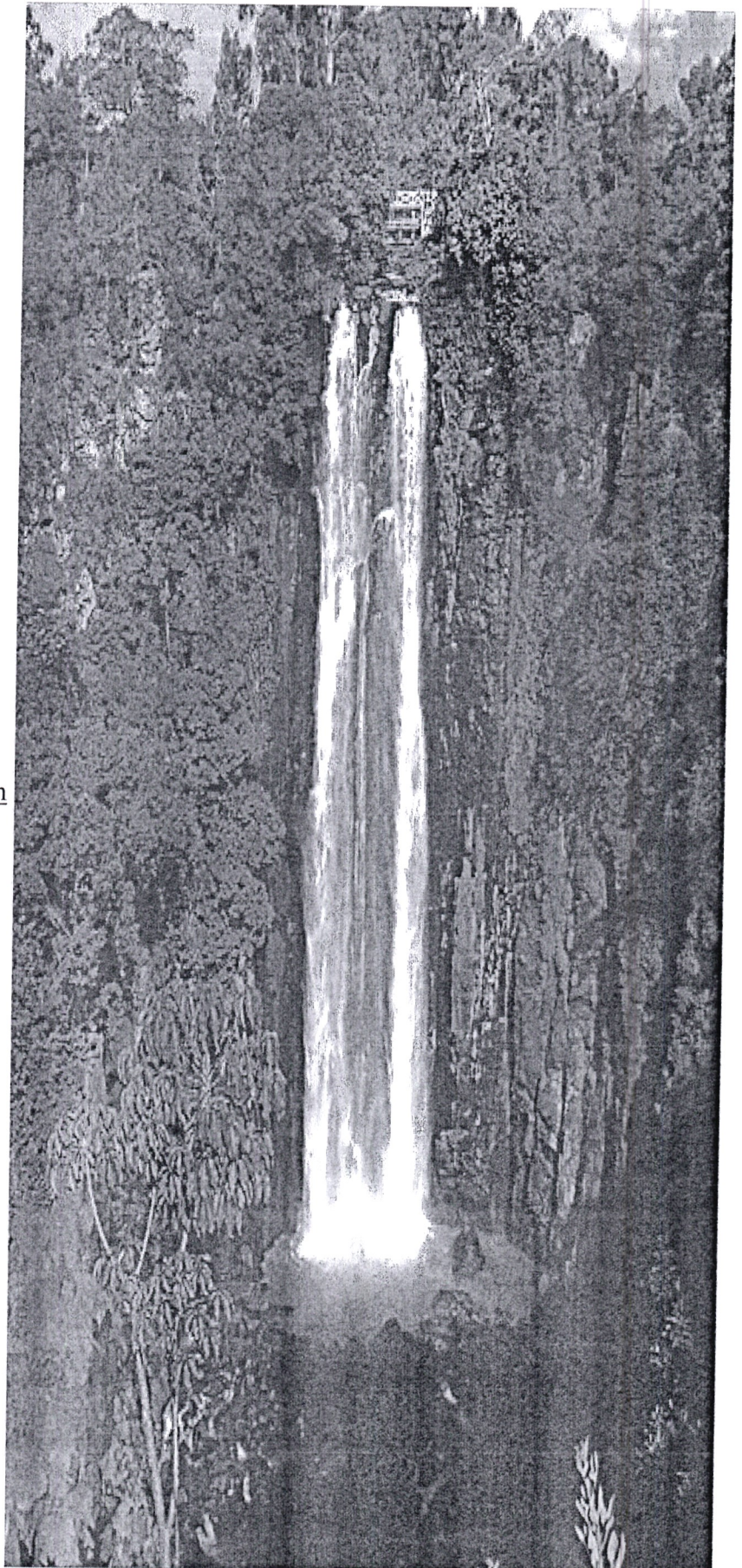
Kenya Commercial Bank  
P.O Box 152-50100  
Kakamega, KENYA

**Independent Auditors**




Auditor General  
Kenya National Audit Office  
Anniversary Towers, University Way  
P.O. Box 30084  
GPO 00100  
Nairobi, Kenya

**Principal Legal Advisers**



Office of the Attorney General  
Sheria House  
P.O. Box 40112  
GPO 00100  
Nairobi, Kenya

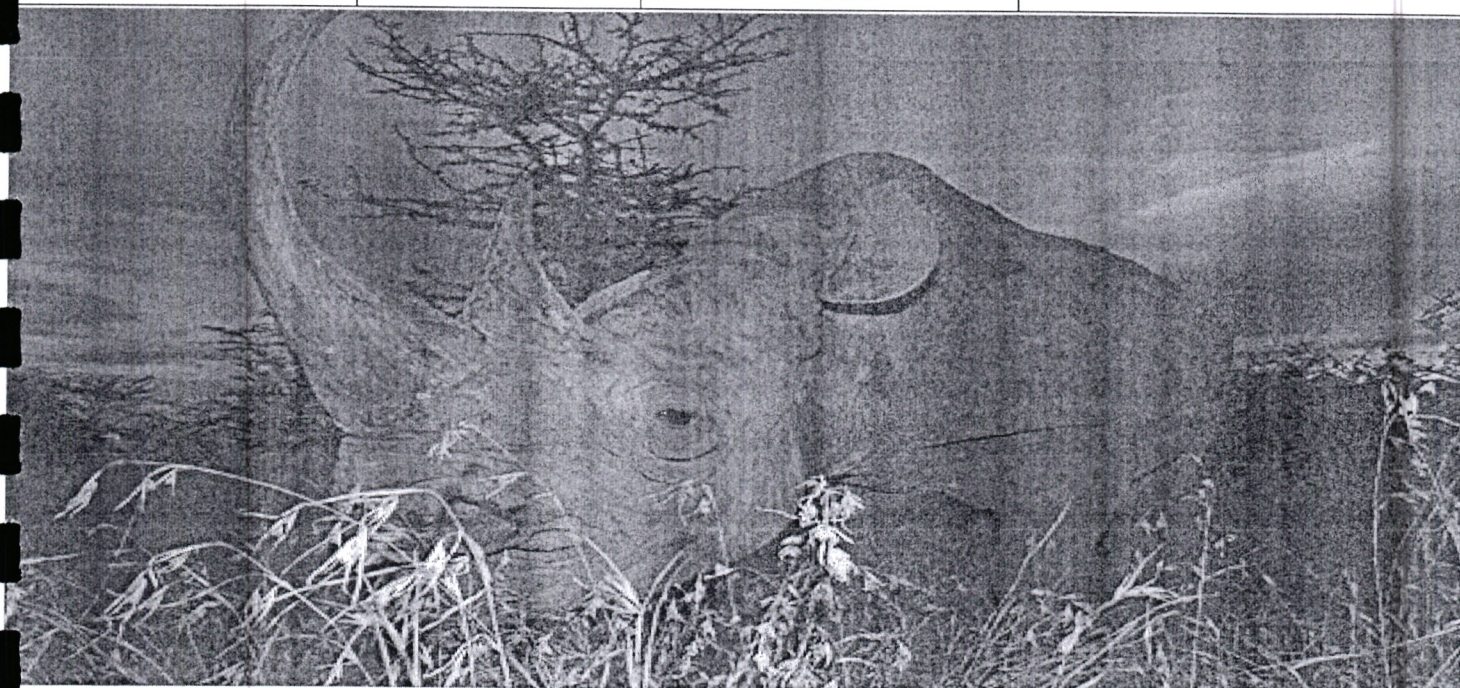


**THE BOARD OF DIRECTORS**

NAME	PHOTO	KEY PROFESSIONAL/ ACADEMIC QUALIFICATIONS	WORK EXPERIENCE
<p><b>1. JONAH ORUMOI MANAGING DIRECTOR TFC</b></p>		<p>Mr Orumoi holds a Master of Science in Finance and Investment (Merit) from Queen Mary University of London, UK and is FACCA qualified. He is a graduate of BA (Hon) in Accounting &amp; Finance of the East London University, UK</p>	<p>Mr Jonah Orumoi is the Managing Director of Tourism Finance Corporation born on 20 October 1978. He was previously the Head of Finance &amp; ICT at the Kenya Tourism Board. He has previously worked as Finance &amp; Leasing Contracts Manager/ acting Head of Procurement at G4S and as a Senior Principal Finance Officer, Thurrock Council, UK.</p>
<p><b>2. WYCLIFFE OPARANYA GOVERNER KAKAMEGA COUNTY</b></p>		<p>PhD (Economics) at the University of Dar- es- Salaam, Tanzania. an MBA (Finance) from the University of Nairobi Wycliffe Oparanya holds a Bachelor of Commerce (Accounting option) and He is a Certified Public Accountant and a member of the Certified Public Accountants of Kenya (ICPAK) as well as numerous other professional bodies. Hon.</p>	<p>He was the Minister of State for Planning, National Development and Vision 2030 in government of President Mwai Kibaki. As the former Member of Parliament for Butere constituency, his area of jurisdiction had one of the best Constituency Development Fund record in the country. Oparanya has 23 years' experience in local and international Finance Management, Audit and Business Consultancy.</p>
<p><b>3. PAUL KURGAT CHAIRMAN GOLF HOTEL</b></p>		<p>Mr. Kurgat holds a Master of Philosophy in Tourism Management and a Bachelor's Degree in Hospitality and Events Management both from Moi University and is also a graduate of the Kenya Utalii College.</p>	<p>Mr. Kurgat is the Board Chairman of Golf Hotel Kakamega born 09 May 1969. He is also the current Director of Saiwa Holiday Resorts &amp; Restaurants. He has served in senior positions in several hospitality institutions and brings on the Board over twenty-one (21) years' experience in the Tourism and Hospitality industry.</p>









<p><b>4. FRANKLIN NDII BORD MEMBER</b></p>		<p>Mr Ndiiri holds a Master of Business from the University of Free State, is a Certified Public Accountant and a member of the Institute of Certified Public Accountants of Kenya.</p>	<p>Mr. Ndiiri is a career accountant with over 41 years' experience in Financial Management and Administration born on 25 May 1952. He has worked in various organizations; the most recent being Kenya Utalii College where he was the Financial Controller from 1984 to 2004. He is currently the Managing Director of African Dew Tours and Travel Ltd.</p>
<p><b>5. FATUMA HIRSI MOHAMED (MRS.) CBS PS. MINISTRY OF TOURISM</b></p>		<p>She holds a Master of Business Administration (MBA) in strategy and marketing, a BA (Hon) in languages and postgraduate diploma in Public Relations. She is currently pursuing a PhD in Communications Studies. Mrs Mohamed is a Fellow and lifetime achiever of the Public Relations Society of Kenya. She is multilingual and speaks: English, French, Kiswahili, Somali and basic Arabic.</p>	<p>Mrs Fatuma Hirsi Mohamed, the Principal Secretary of the Ministry of Tourism born on 17 August 1963 has 30 years integrated strategic management working experience in various sectors including telecom, media, banking and international civil service working for the United Nations. In her current role, she has been instrumental in the turnaround of the Tourism sector and facilitated strategic direction to enable growth and recovery of the sector.</p>





**Golf Hotel Limited**  
**Reports and Financial Statements**  
**For the year ended 30 June, 2017**

**MANAGEMENT TEAM**

NAME	PHOTO	KEY PROFESSIONAL/ACADEMIC QUALIFICATIONS	AREA OF RESPONSIBILITY
1. REUBEN ARGUT		MBA (Marketing)-Thesis waiting, BSc. Hospitality Management, Dip. Hotel Management & Dip. Sc. Educ. Born on 15 May 1965	GENERAL MANAGER
2. HELLEN CHILLA		MBA, BA-Econ & Sociology Dip. Front Office Born 28 June 1977	ASSISTANT MANAGER
3. MARRION MAKANI		B-com. HRM, Dip. HRM Born On 20 June 1985	HUMAN RESOURCE OFFICER
4. JESCIAH NEKESA		MBA, Dip. Procurement Born 29 June 1970	PROCUREMENT OFFICER
5. BENJAMIN MUANGE		Certificate Food Production(Utalii) Born 04 March 1973	EXECUTIVE CHEF
6. RISPER CHICHOLE		B-com. Finance, CPA (K), Dip. Accounting Born September 1975	ACCOUNTANT



## CHAIRMAN'S STATEMENT



On behalf of my fellow Board Members, the Management and myself, I am pleased to present the Annual Report of the Golf Hotel Limited. This report reflects the financial statements of the company for the year ended 30 June 2017 and demonstrates our commitment to the provision of world class hospitality services and comfort during the year 2017.

The Tourism Sector has in the last two years experienced a spell of poor performance largely occasioned by security concerns and economic downturn in some key tourist markets. However, from findings of the Economic Reports from the Kenya National Bureau of Statistics the sector started indicating positive response in performance as it was the most improved sector growing by 12.1 per cent in the first quarter of 2016. According to the World Travel & Tourism Council "Economic Impact 2017 Kenya" report, the Tourism and Travel sector's direct contribution to GDP was \$2.5bn (3.7%), in 2016, and is forecast to grow to 6% in 2017.


Conference Tourism which forms the largest part of the Hotel Revenue has seen a drop during this period as most Tourist and NGOs, both foreign and domestic have put most of their plans on hold and some cutting short their programs as a result of the atmosphere surrounding the Kenyan General Election. The current food prices in Kenya have also increased tremendously in the last five years. The same has affected the Cost of Production

in the industry and also overall operational cost.

Despite the aforementioned circumstances, I am pleased to report that the company managed to record a 3% growth in turnover to Kshs 141.3 million from Kshs 137.2 million during 2016. The profit before tax declined by 15.9% to Kshs 20.07 million from Kshs 23.8 million during 2016. This was most affected by low returns from investment in fixed deposit with commercial banks that was ceased in the year under review and low sales turnover emanating from uncertainties that engulfed most investors due to assumptions made of the outcomes of the General Elections.

However, the management is working on a long-term marketing strategic plan that will not only open up greater horizons for the hotel in terms of market growth but also lead to a substantive increase in the income generated from a wide range of revenue centres. On the basis of the results presented, the Board is recommending to the Annual General Meeting for a dividend of Kshs 10 per share for 2017 amounting to Kshs 2.5 million.

On behalf of the Board, I would like to thank the Company's Management and Staff for their diligence and dedication during the year 2017. I would also like to acknowledge, with appreciation, the invaluable support I received from my colleagues on the Board which has helped steer the hotels business activities and strategies successfully throughout 2017.

  
**Paul Kurgat**  
**Chairman of the Board**



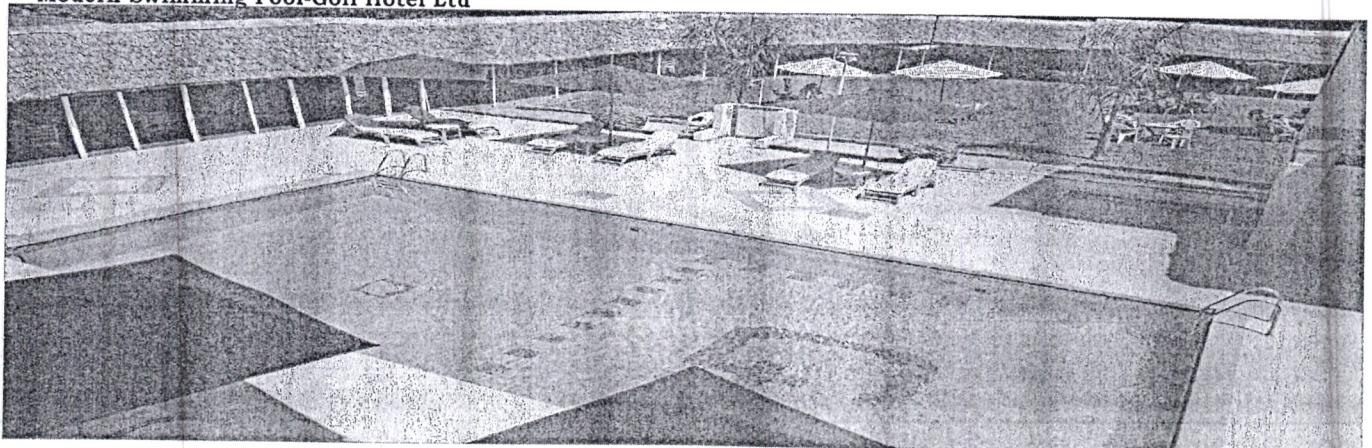
## REPORT OF THE CHIEF EXECUTIVE OFFICER



This has been an extraordinary year for Golf Hotel Ltd that has culminated to diligent work and implementation of adroit strategy geared towards a turnaround of the facility. Fueled by our vision to deliver world class hospitality services and comfort, we are taking a leadership role in transforming the hotel industry in the western circuit and beyond. On behalf of Management of Golf Hotel Limited, I am pleased to present to you the Annual Report and Financial Statements of the company for the year ended 30 June 2017.

Our set current turnaround Strategic objectives include rebranding, drawing and implementing a comprehensive marketing plan, staff empowerment and growth of profitability by 15% every year. The strategic goals/projects are spread in 3 phases. Most of the projects under the intermediate phase were executed in the last financial year 2017. We are embarking on the medium-term projects/goals in this financial year 2018 and the long-term projects are still in the planning stage. The ongoing medium term projects include refurbishment of our existing guest rooms, refurbishment of our conference halls, construction of additional executive rooms, Construction of a health club and a Garden Choma Ranch facility.

**Modern Swimming Pool-Golf Hotel Ltd**



This is projected to impact on our current profitability level by at least a 25% growth from return on investment in the year 2018 and also to enable the company to increase its market share in the future. A semi-annual report on the company's performance covering the turnaround strategy implementation period December 2016 to May 2017 indicated a 102% increase in profit before tax compared to the same period in 2016 recording net Ksh.11, 730,281 against Ksh.5, 810,267 for the same period last year. With the support of this Board, a professional management team and empowered staff, the Hotel is expected to achieve at least, a 4-star rating, with 5-star levels of service delivery within a span of 5 years.

On behalf of management and staff of Golf Hotel Ltd, I wish to convey our sincere appreciation to the Board of directors for their committed support during the year ended 30 June 2017. I also wish to express my gratitude to the shareholders, customers, various regulatory authorities and other stakeholders for their continued support in the years gone by. We, at Golf Hotel, look forward to this continued support during the year 2018.

  
**Reuben Argut**  
**General Manager**



## **CORPORATE GOVERNANCE STATEMENT**

Corporate Governance comprises the rules, practices and processes by which the company is operated and controlled. It is a fundamental part of the culture and practices by which an organization fulfil its goals and objectives in a manner that adds value and benefits all its stakeholders. The Board and Management of Golf Hotel Ltd is responsible for the Hotel's Governance. Both the Board and Management of the Hotel are committed to the highest levels of Corporate Governance, which it considers critical in achieving the Hotel's mandate. Accordingly, the Hotel therefore fosters a culture that values and rewards the highest ethical standards and personal and corporate integrity.

### **The Role of the Board**

The Board's mandate is to define the Hotel's strategies, objectives and values and ensures that its procedures and practices ensures effective control over strategic, financial, operational and compliance issues.

The Board is committed to ensuring that good Corporate Governance are obeyed throughout the company. Except for direction and guidance on general policy, the Board delegates authority of its day-to-day activities to the Management through the Chief Executive Officer. The Board nonetheless is responsible for the overall stewardship of the Hotel and assumes responsibility for effective direction and control.

### **Board Composition**

The Corporation's Board is made up of five (5) members comprising of three directors representing Tourism Finance Corporation, one Directors representing Kakamega County and one director representing the Principal Secretary; Ministry of Tourism. The composition of the Board is as outlined in the Companies Act and the Company's Articles of Association.

The Directors who held office during the year under review to the date of this report are listed under the Board of Directors section in this report.

The Corporation Secretary who as the custodian of corporate governance within the institution, works closely with the Board and the Hotels Management. In this regard, the Corporation Secretary facilitates all Directors to have full and timely access to all relevant information, ensures that the correct board procedures are followed, convenes meetings and advises the Board on all Corporate Governance matters and prevailing statutory requirements.

### **Board Meetings**

The Board schedule of meetings is prepared annually in advance. The Board holds its regular meetings at least once every three (3) months and special meetings may be called when necessary.

### **Committees of the Board**

Given the small number of the members of the board of the Hotel, the board reconstitutes itself to the relevant committees when the need for the committee arises. The main committees which sat during the year of reporting was the Human Resources Committee undertaking a revision on the Hotels HR policies, Performance Management, Training needs, staff recruitment, discipline and staff welfare.

## **BOARD ACCOUNTABILITY**

### **Conflict of Interest**

The Board Members are required to make disclosures of any transaction in which they have interest and which would constitute a conflict of interest and abstain from voting when such matters are being considered.

### **Board of Management Emoluments**

The Board of Management are entitled to a sitting and other allowances (where applicable) for every meeting attended, within the set Government guidelines. The aggregate amount of emoluments paid to the Board Members during the financial year for services rendered are disclosed in the accounts.

Wamuyu Kariuki  
Company Secretary

**Kakamega Forest**



## **CORPORATE SOCIAL RESPONSIBILITY STATEMENT**

For Golf Hotel, Corporate Social Responsibility (CSR), Environmental Conservation and Sustainability means corporate culture, a culture which holds the Company's responsibility not only for making profit, but also for the conditions under which profits are made. Finding a balance between financial successes, social responsibility and protecting the environment is a fundamental approach that lies at the heart of Golf Hotel corporate culture and is reflected in our corporate values. Sustainability is a key pillar of our company strategy and has always played a fundamental role within our business. We continue to strive to combine a powerful business sense and a strong sense of social responsibility towards our stakeholders which has over decades of existence been created, managed and sustained through long-term relationships, marked by mutual respect and trust. Reflecting on our success over the years, from a CSR, Environmental and Sustainability perspective, our material concerns have not changed significantly, but our guiding principles and approach has continued to evolve in an ethical manner through various partnerships so as to widen our footprint with an increased emphasis on quality, value addition and visible measures of impact and success within the ecosystem and communities in which we operate.

## **COMMUNITY ENGAGEMENT AND EDUCATIONAL SUSTAINABILITY**

Our Sustainable approach towards sourcing and production helps us to create value for a wide group of stakeholders from farmers to community groups to customers. Golf Hotel continues to give priority to the local communities and farmers living around our areas of operation so as to ensure economic independence. The Hotels deco includes artefacts and handicrafts from various local community groups and the Company continues to hire local performers to entertain guests through dance, song, musical and theatrical displays. This enhances guest experience by exposing them to the diverse range of local cultures and ethnic groups whilst economically empowering the local people. Research indicates that being read to as a child is one of the strongest predictors of later academic success and reading for pleasure helps to develop children's language, literacy, critical thinking and communication, social and emotional skills. The hotel is largely engaged in supporting education especially for the physically challenged children in our communities.



Daisy special school Kakamega

Approved School Kakamega

## **CHARITABLE DONATIONS**

Golf and its staff support a broad range of charitable causes and community initiatives. These take many forms: cash, supply of foodstuffs or clothing, hosting of community events or provision of employee-time in the form of visits to orphanages, hospital, homes for the physically or mentally challenged and other disadvantaged groups. During the year the hotel made charitable donations to Schools for special and needy children, physically challenged members of the society and supported the local prison with food and linen donations amounting to Kshs. 32,836.03 net of value added tax



**Golf Hotel Limited**  
**Reports and Financial Statements**  
**For the year ended 30 June, 2017**



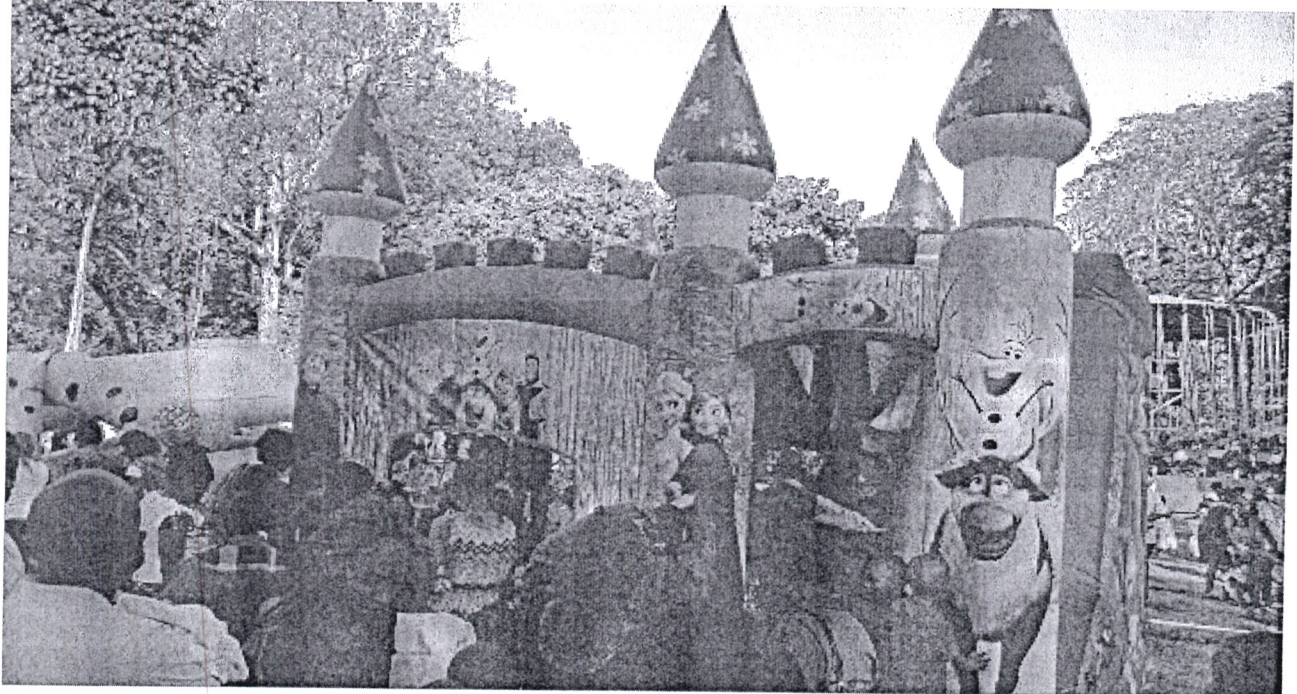
**Womulalu Special School Vihiga**

**ENVIROMENTAL PERFORMANCE**

Golf Hotel has remained sensitive towards improving and preserving the environment in which it operates. Responsible management of natural resources in our operations has been a part of our business since the construction of our hotel. As the Company grows over the years, developments and operations have and continue to be guided by an eco-policy focusing on concrete actions and projects related to climate change, water and energy conservation, air pollution, as well as facilitating the transfer of knowledge on environmental responsibility to our guests, communities and various stakeholders.

The Company has investments in Solar and other forms of renewable energy over the years, this has helped contribute to the global efforts in relation to climate change. We have continued with our energy and water conservation efforts across all our user departments. This has mainly been achieved through: the installation of solar water heating systems and the hotel also has a borehole that supplies water to the entire hotel thus saving on the water from the county government supply.

**Children's Fun day sponsored by Golf Hotel**





## **REPORT OF THE DIRECTORS**

The Directors submit their report together with the audited financial statements for the year ended June 30, 2017 which show the state of the Hotel's affairs.

### **Principal activities**

The principal activity of the Hotel is to provide accommodation and conference facility services.

### **Results**

The results of the entity for the year ended June 30, 2017 are set out on pages 15-43

### **Dividends**

Subject to the approval of the shareholders, the Directors recommends the payment of a first and final dividend for the year of Kshs.10 per ordinary share, amounting to Kshs.2.5 million, subject to withholding tax where applicable. The total dividend for the year, therefore, is Kshs. 2,500,000 (Kshs.10) per ordinary share. If approved, the dividend will be paid on or before December 31, 2017 to shareholders registered in the books of the entity at the close of business on June 30, 2017.

### **Directors**

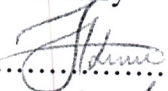
The members of the Board of Directors who served during the year are shown on page 1.

### **Auditors**

The Auditor General is responsible for the statutory audit of the Hotel in accordance with Article 229 of the Constitution of Kenya and the Public Audit Act 2015.

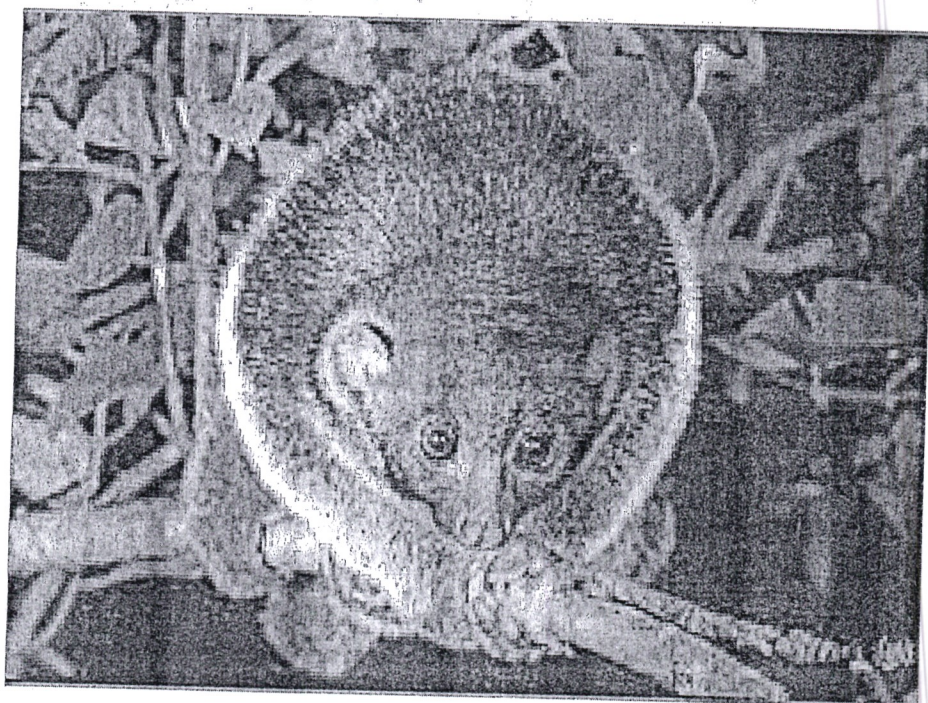
By Order of the Board

John Saitoti Karia  
Company Secretary

Sign.....

Date.....14/12/2017

ICPSK No.....2714



**STATEMENT OF DIRECTORS' RESPONSIBILITIES**

Section 81 of the Public Finance Management Act, 2012 and section 14 of the State Corporations Act, require the Board to prepare financial statements in respect of Golf Hotel Limited, which give a true and fair view of the state of affairs of the Hotel at the end of the financial year/period and the operating results of the Hotel for that year/period. The Companies Act 2015 requires the directors to ensure that the Hotel keeps proper accounting records which disclose with reasonable accuracy the financial position of the Hotel. The Directors are also responsible for safeguarding the assets of the Hotel.

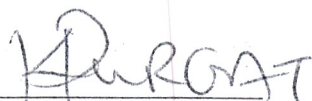
The Directors are responsible for the preparation and presentation of the Hotel's financial statements, which give a true and fair view of the state of affairs of the Hotel for and as at the end of the financial year ended on June 30, 2017. This responsibility includes: (i) maintaining adequate financial management policies and ensuring that these continue to be effective throughout the reporting period; (ii) maintaining proper accounting records, which disclose with reasonable accuracy at any time the financial position of the entity; (iii) designing, implementing and maintaining internal controls relevant to the preparation and fair presentation of the financial statements, and ensuring that they are free from material misstatements, whether due to error or fraud; (iv) safeguarding the assets of the Hotel; (v) selecting and applying appropriate accounting policies; and (vi) making accounting estimates that are reasonable in the circumstances.


The Board of Directors accept responsibility for the Hotel's financial statements, which have been prepared using appropriate accounting policies supported by reasonable and prudent judgements and estimates, in conformity with International Financial Reporting Standards (IFRS), and in the manner required by the PFM Act and the State Corporations Act. The Directors confirm that the Hotel's financial statements give a true and fair view of the state of Hotel's transactions during the financial year ended June 30, 2017, and of the Hotel's financial position as at that date. The Directors further confirm the completeness of the accounting records maintained for the Hotel, which have been relied upon in the preparation of the Hotel's financial statements as well as the adequacy of the systems of internal financial control.

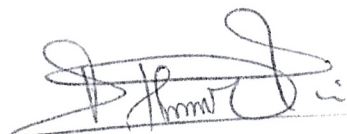
Nothing has come to the attention of the Directors to indicate that the Hotel will not remain a going concern for at least the next twelve months from the date of this statement.

**Approval of the financial statements**

Golf Hotel's financial statements were approved by the Board on 14/12 2017 and signed on its behalf by:

  
\_\_\_\_\_  
Director

  
\_\_\_\_\_  
Director

  
\_\_\_\_\_  
Director

# REPUBLIC OF KENYA

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Fax: +254-20-311482  
E-mail: oag@oagkenya.go.ke  
Website: www.kenao.go.ke



P.O. Box 30084-00100  
NAIROBI

## OFFICE OF THE AUDITOR-GENERAL

### REPORT OF THE AUDITOR-GENERAL ON GOLF HOTEL LIMITED FOR THE YEAR ENDED 30 JUNE 2017

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#### REPORT ON THE FINANCIAL STATEMENTS

#### Qualified Opinion

I have audited the accompanying financial statements of Golf Hotel Limited set out on pages 1 to 32, which comprise the statement of financial position as at 30 June 2017, and the statement of comprehensive income, statement of changes in equity, statement of cash flows and comparison of budget and actual amount 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 Golf Hotel Limited as at 30 June 2017, and of its performance and its cash flows for the year then ended, in accordance with International Financial Reporting Standards and comply with the Companies Act, 2015 of the Laws of Kenya.

In addition, as required by Article 229(6) of the Constitution, based on the audit procedures performed, except for the matters described in the Basis of Qualified Opinion and Other Matter sections 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.

#### Basis for Qualified Opinion

##### 1. Property, Plant and Equipment

##### 1.1. Acquisition of Motor Vehicle

The statement of financial position reflects a balance of Kshs.102,182,374 in respect of property, plant and equipment, which includes an amount of Kshs.4,796,223 under the motor vehicles and motor circles. It was observed that the Hotel bought a motor vehicle valued at atKshs.5,695,000 ( details are; FM 2016 Ford Ranger DC XLT 3.2D 4WD registration number KCL 063P) from CMC Motors Group. However, Note 13(a) to the financial statements, under additions to motor vehicles reflects an amount of Kshs.5,004,286 leaving unexplained variance of Kshs.690,714.

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*Report of the Auditor-General on the Financial Statements of Golf Hotel Limited for the year ended 30 June 2017*

In addition, it was noted that the vehicle has a capacity of 3200 cc which exceeds the approved rating of 2900 cc by 300cc. Further, the vehicle was branded with logos of three hotels whereas it was purchased by Golf Hotel Kakamega and not a joint venture with the other two hotels.

### 1.2. Building and Civil Works - Construction of Executive Hotel Rooms

Included in the property plant and equipment balance of Kshs.102,182,374 under building and civil works figure of Kshs.60,446,925 is an amount of Kshs.962,724 paid to a local contractor as labour charge for construction of hotel executive rooms after completing foundation, walling and suspended floor. The Hotel was to provide all the materials for the construction as per the agreement. The actual amount spent on materials was not established as the management did not provide the documentary evidence to support the cost of materials purchased and delivered. However, from the physical verification done on the building, it was noted that the project was abandoned and the portion that had been done is weakening as a result of leaking on the suspended floor. Further, the management did not provide bills of quantity for the works as required.

### 1.3. Work-in-Progress

During the year under review, the Hotel commenced a number of projects with an estimated cost of Kshs.5,100,000 and incurred Kshs.4,927,275 as detailed below: -

Project	Approved Budget (Revised) Kshs.	Payment 2016/2017 Kshs.	Remarks
Executive Lounge	500,000	475,269	On-going/ no detailed drawings/bills of quantity provided
Open Kitchen Plan (Equipment)	1,500,000	1,903,584	Off budget/ no detailed drawings/bills of quantity were provided. equipment paid for in advance but only delivered in November 2017
Cold-Room Refurbishment	1,600,000	825,000	On-going/ part of the equipment were paid for but not delivered
Modern Buffet Counter	0	1,200,000	On-going/ the equipment were paid for in advance but had not been delivered
Laundry Block / Executive Rooms	1,500,000	523,423	Change in specifications/ cost of the project not clear
<b>Total</b>	<b>5,100,000</b>	<b>4,927,276</b>	

However, it was noted that the management did not prepare proper bills of quantity, procurement plan and drawings for the projects. The works stalled due to inadequate funding and frequent changes to project design during the implementation phase.

Consequently, the propriety, validity and completeness of the total amount of Kshs.4,927,276 incurred on the projects could not be confirmed.

## **2. Short Term Deposit**

During the previous year ended 30 June 2016, the management had invested Kshs.30,000,000 in the interest earning fixed deposit account with Kenya Commercial Bank. It was noted that the deposits earned the Hotel a total of Kshs.3,498,821 and Kshs.555,083 (1 July 2016 to 14 August 2016) as interest. After expiry of the contract at 14 August 2016, the Hotel management transferred Kshs.31,652,959 from the fixed deposit account to Golf Hotel Ltd Foreign Currency (KCB current account) which does not earn any interest. The management failed to take immediate action to notify the Board of the expiry of the contract period so that immediate action could be taken to invest the amount appropriately to earn the Hotel some interest. It was until almost 13 months later that the Board was informed and in their meeting held on 8 September 2017 resolved that the remaining amount be invested in short term security bonds.

Consequently, the Hotel did not earn interest on the funds for better part of the year ended 30 June 2017.

## **3. Irregular Charge on Golf Hotel Limited**

During the year under audit review, the Hotel incurred costs to the tune of Kshs.467,400 on behalf of Kabarnet Hotel and Mt. Elgon Lodge. These costs are recognized as debts and listed among trade receivables. However, there was no formal communication between the Hotel and Tourism Finance Corporation (TFC), neither was there any budgetary provision for such expenditure and no reason was provided as to why the debts could not be settled as at 30 June 2017.

In the circumstances, the correct position of the trade and other receivables balance could not be confirmed.

### **3.1 Trade and Other Payables**

As previously reported, the long outstanding amount of Kshs.7,385,000 being central charges incurred between 2005/2006 and 2011/2012 financial years in respect of director's fees, management fees and secretarial service charges, levies charged for services centrally offered by the Tourism Finance Corporation (TFC). The amount remained unsettled and it is not yet confirmed payable. As per Minute No. BM/01/11/2017, the Hotel and TFC had agreed that there was no concrete basis for the charges and therefore, further consultation was required before final agreement was reached.

In the circumstance, the correct position of the trade and other payables for the year ended 30 June 2017 could not be confirmed.

### **3.2 Non-remittance of Staff Gratuity to Britam Life Assurance Company (Kenya) Limited**

Whereas the Hotel has signed a deposit administration contract with a local insurance company to manage staff gratuity on its behalf, the management of the hotel has not remitted a total of Kshs.1,370,003 to the administrator. Analysis of the financial statements revealed that Kshs.1,370,003 was provided for to cover staff gratuity but was not transferred to the deposit administration account as provided for in the agreement.

#### 4. Irregular Commutation of Leave for Cash

The administrative cost figure of Kshs.78,973,510 includes an amount of Kshs.47,825,358 which in turn includes Kshs.3,523,923 out of which Kshs.1,142,773 was payment to a former manager being commutation of leave for cash. The manager had accumulated his leave to a total of 112 days as confirmed from the leave register. However, the payment was authorized by the manager himself after he had tendered his resignation without Board approval as required. Consequently, the propriety of the payment could not be confirmed.

The audit was conducted in accordance with International Standards of Supreme Audit Institutions (ISSAIs). I am independent of Golf Hotel Limited 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 requirements applicable to performing audits of financial statements in Kenya. I believe that the 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 matter described in the Basis for Qualified Opinion and Other Matter sections, I have determined that there are no key audit matters to communicate in my report.

#### Other Matter

##### 1. Failure to Adhere to Budget Preparation Guidelines

During the year under review, the Board initiated implementation of numerous capital projects as follows:

Budget Item	Revised	Original
Renovation of Cold Room	1,600,000	-
Acquisition of New Motor Vehicle	6,000,000	2,500,000
Open Kitchen Plan	1,500,000	-
Renovation of Swimming Pool	3,000,000	-
Furniture and Fittings	-	1,500,000
Kitchen Equipment	1,112,000	1,445,000
Computer Accessories	-	1,905,000
Machinery (Lawn mower)	-	490,000
Building	6,000,000	6,100,000
Rooms Equipment	-	5,272,000
<b>Total</b>	<b>19,212,000</b>	<b>19,212,000</b>

The above projects were implemented without any feasibility study having been carried out and except for the motor vehicle, the rest of the projects were implemented concurrently leaving them incomplete as at 30 June 2017 and which were classified as work in progress.

The same were not clearly captured in the strategic plan which had since lapsed. The status clearly indicated that the board was implementing concurrent projects that had stalled.

The revision of the capital budget does not appear to have been procedurally done since no disclosure had been made in the financial statements or notes provided to support the changes.

## **2. Non-resident General Manager**

The Hotel currently has a non-resident General Manager who was appointed vide an offer letter dated 29th October, 2016. He is expected to be making day to day decisions concerning the operations of the Hotel. However, he additionally manages two other Government owned hotels, Kabarnet Hotel in Baringo County and Mount Elgon Lodges in Trans-Nzoia County. This arrangement where Golf Hotel pays full salary to an officer who focuses his attention and apportions his time to two other hotels located several kilometers away may negatively affect the Hotel's performance.

## **3. Transfer of Share Holding**

The hotel has a share capital of fifty thousand (50,000) ordinary shares held by the defunct Kakamega Municipal Council but has not been formally transferred to the County Government of Kakamega as part of assets and liabilities taken over as per the Transition Authority Regulations during the transition period. Although, there is representation of the County Government of Kakamega in the board, there is need to formalize the transfer of shares.

### **Responsibilities of Management and Those Charged with Governance for the Financial Statements**

Management is responsible for the preparation and fair presentation of these financial statements in accordance with International Public Sector Accounting 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 Hotel's ability to continue as a going concern/sustain services, disclosing, as applicable, matters related to sustainability of services.

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.

Those charged with governance are responsible for overseeing the Hotel's financial reporting process.

### **Auditor-General's Responsibilities for the Audit of the Financial Statements**

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.

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.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances and for the purpose of giving an assurance on the effectiveness of the Hotel's 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 Hotel's ability to sustain its services. 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 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 Hotel to express an opinion on the financial statements.
- Perform such other procedures as I consider necessary in the circumstances.

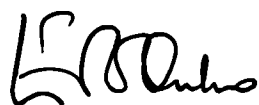
I communicate with the management regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that are identified during the audit.

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.

#### REPORT ON LEGAL AND OTHER REGULATORY REQUIREMENT

As required by the Companies Act, 2015 I report based on the 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 statement of financial position and statement of comprehensive income 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.



**FCPA Edward R. O. Ouko, CBS**  
**AUDITOR-GENERAL**

**Nairobi**

**28 June 2018**

**Golf Hotel Limited**  
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**STATEMENT OF COMPREHENSIVE INCOME FOR THE PERIOD ENDED 30 JUNE 2017**

Note	2016/2017 Kshs	2015/2016 Kshs
<b>REVENUES</b>		
Sales Income	2a) 140,669,704	133,520,717
Disposal Income	2b) 111,610	-
Other Income	3 -	215,000
<b>TOTAL REVENUES</b>	<b>140,781,314</b>	<b>133,735,717</b>
<b>COST OF SALES</b>		
	4 31,839,577	31,408,524
<b>GROSS PROFIT</b>	<b>108,941,737</b>	<b>102,327,193</b>
<b>OPERATING EXPENSES</b>		
Administration Costs	5(a) 78,973,510	71,248,182
Selling and Distribution Costs	6 1,714,563	3,042,980
Depreciation of property, plant and equipment	13(a) 7,872,482	6,806,914
<b>TOTAL OPERATING EXPENSES</b>	<b>88,560,555</b>	<b>81,098,076</b>
<b>OPERATING PROFIT</b>	<b>20,381,182</b>	<b>21,229,117</b>
Finance Income	8 555,083	3,498,821
Finance Costs	9 (857,964)	(887,148)
<b>PROFIT BEFORE TAXATION</b>	<b>20,078,301</b>	<b>23,840,790</b>
<b>INCOME TAX EXPENSE</b>	<b>10 6,626,014</b>	<b>6,874,477</b>
<b>PROFIT AFTER TAXATION</b>	<b>13,452,287</b>	<b>16,966,313</b>
Earnings per share – basic and diluted	11 53.81	67.87
Dividend per share	12 10	10

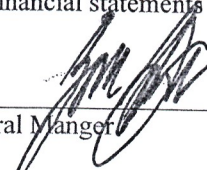


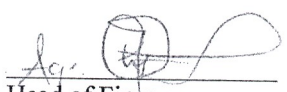
**Golf Hotel Limited**  
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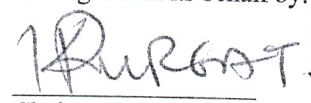
**STATEMENT OF FINANCIAL POSITION AS AT 30 JUNE 2017**

Note		2016/2017 Kshs	2015/2016 Kshs
<b>ASSETS</b>			
<b>Non-Current Assets</b>			
	Property, plant and equipment	13(a) 102,182,374	93,986,136
	Deferred Tax Asset	13(b) 720,309	-
	<b>Total Non-Current Assets</b>	<b>102,902,683</b>	<b>93,986,136</b>
<b>Current Assets</b>			
	Inventories	14 1,053,854	1,094,676
	Trade and other receivables	15(a) 26,657,679	31,736,758
	Short-term deposits	16 -	30,000,000
	Bank and cash balances	25(c) 21,761,772	5,807,891
	<b>Total Current Assets</b>	<b>49,473,305</b>	<b>68,639,325</b>
	<b>NET ASSETS</b>	<b>152,375,988</b>	<b>162,625,461</b>
<b>EQUITY AND LIABILITIES</b>			
<b>Capital and Reserves</b>			
	Ordinary share capital	18 5,000,000	5,000,000
	Revaluation reserve	19 41,000,155	41,000,155
	Retained earnings	20 49,213,746	42,577,719
	<b>Capital and Reserves</b>	<b>95,213,901</b>	<b>88,577,874</b>
<b>Non-Current Liabilities</b>			
	Borrowings	21 21,497,241	23,146,857
	<b>Total Non-Current Liabilities</b>	<b>21,497,241</b>	<b>23,146,857</b>
<b>Current Liabilities</b>			
	Trade and other payables	22 22,349,914	25,285,481
	Retirement benefit obligations	23(a) 5,669,957	16,290,454
	Leave Provisions	23(b) 4,362,424	3,659,205
	Taxation	10 782,552	1,665,590
	Dividends payable	24(b) 2,500,000	4,000,000
	<b>Total Current Liabilities</b>	<b>35,664,846</b>	<b>50,900,730</b>
	<b>TOTAL EQUITY AND LIABILITIES</b>	<b>152,375,988</b>	<b>162,625,461</b>

The financial statements were approved by the Board on 14/12/2017 and signed on its behalf by:

  
 General Manager  
 Name: \_\_\_\_\_

  
 Head of Finance  
 Name: Leena Njugadiro  
 ICPAK M/NO: 14454

  
 Chairman of Board  
 Name: \_\_\_\_\_

*Golf Hotel Limited*  
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**STATEMENT OF CHANGES IN EQUITY FOR THE PERIOD ENDED 30 JUNE 2017**

	Ordinary share capital(250000 Shares@20)	Revaluation reserve	Fair value adjustment reserve	Retained earnings	Proposed dividends	Total
	Kshs	Kshs	Kshs	Kshs	Kshs	Kshs
<b>At July 1, 2015</b>	<b>5,000,000</b>	<b>41,000,155</b>	-	<b>27,611,406</b>	-	<b>73,611,561</b>
Transfer of excess depreciation	-	-	-	-	-	-
Deferred tax on excess depreciation	-	-	-	-	-	-
Fair value adjustment on quoted investments	-	-	-	-	-	-
Total comprehensive income	-	-	-	16,966,313	-	16,966,313
Dividends paid – 2015	-	-	-	-	-	-
Interim dividends paid – 2016	-	-	-	-	-	-
Proposed final dividends	-	-	-	(2,000,000)	-	(2,000,000)
<b>At June 30, 2016</b>	<b>5,000,000</b>	<b>41,000,155</b>	-	<b>42,577,719</b>	-	<b>88,577,874</b>
<b>At July 1, 2016</b>	<b>5,000,000</b>	<b>41,000,155</b>	-	<b>42,577,719</b>	-	<b>88,577,874</b>
Prior year adjustments – Gratuity Provision	-	-	-	(4,316,260)	-	(4,316,260)
Transfer of excess depreciation	-	-	-	-	-	-
Total comprehensive income	-	-	-	13,452,287	-	13,452,287
Dividends paid – 2016	-	-	-	-	-	-
Interim dividends paid – 2017	-	-	-	-	-	-
Proposed final dividends	-	-	-	(2,500,000)	-	(2,500,000)
<b>At June 30, 2017</b>	<b>5,000,000</b>	<b>41,000,155</b>	-	<b>49,213,746</b>	-	<b>95,213,901</b>

***Golf Hotel Limited***  
**Reports and Financial Statements**  
**For the year ended 30 June, 2017**

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**STATEMENT OF CASH FLOWS AS AT 30 JUNE 2017**

Note	2016/2017	2015/2016
	Kshs	Kshs
<b>OPERATING ACTIVITIES</b>		
Cash generated from/(used in) operations	25(a) 32,192,032	34,870,869
Taxation paid	10(c) (8,229,361)	(9,916,451)
<b>Net cash generated from/(used in) operating activities</b>	<b>23,962,671</b>	<b>24,954,418</b>
<b>INVESTING ACTIVITIES</b>		
Purchase of property, plant and equipment	13(a) (16,068,720)	(19,967,100)
<b>Net cash generated from/(used in) investing activities</b>	<b>(16,068,720)</b>	<b>(19,967,100)</b>
<b>FINANCING ACTIVITIES</b>		
Repayment of borrowings	25(b) (1,649,616)	(1,649,616)
Dividends Paid	24(a) (4,000,000)	-
Gratuity Paid	23(a) (16,290,454)	-
<b>Net cash generated from/(used in) financing activities</b>	<b>(21,940,070)</b>	<b>(1,649,616)</b>
<b>INCREASE /DECREASE IN CASH AND CASH EQUIVALENTS</b>	<b>(14,046,119)</b>	<b>3,337,702</b>
<b>CASH AND CASH EQUIVALENTS AT BEGINNING OF YEAR</b>	25(c) 35,807,891	32,470,189
<b>CASH AND CASH EQUIVALENTS AT END OF THE YEAR</b>	25(c) 21,761,772	35,807,891



**Golf Hotel Limited**  
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**STATEMENT OF COMPARISON OF BUDGET AND ACTUAL AMOUNTS FOR THE PERIOD ENDED 30 JUNE 2017**

	Original budget		Adjustments		Final budget		Actual		Performance difference		Percentage Change	
	2016-2017	Kshs	2016-2017	Kshs	2016-2017	Kshs	2016-2017	Kshs	2016-2017	Kshs	2016-2017	Kshs
<b>Revenue</b>												
Sales	148,583,501		-		148,583,501		140,669,704	(7,913,797)	-5%			
Other income	-		-		-		111,610	111,610	-			
<b>Total revenues</b>	<b>148,583,501</b>		<b>-</b>		<b>148,583,501</b>		<b>140,781,314</b>	<b>(7,802,187)</b>	<b>-5%</b>			
Cost of sales	(37,551,933)		-		(37,551,933)		(31,839,577)	5,712,356	15%			
<b>Gross profit</b>	<b>111,031,568</b>		<b>-</b>		<b>111,031,568</b>		<b>108,941,737</b>	<b>(2,089,831)</b>	<b>-2%</b>			
<b>Expenses</b>												
Administration costs	(82,283,981)		-		(82,283,981)		(78,973,510)	3,310,471	4%			
Selling and distribution costs	(1,673,071)		-		(1,673,071)		(1,714,563)	(41,492)	-2%			
Depreciation of PPE	(7,380,412)		-		(7,380,412)		(7,872,482)	(492,070)	-7%			
<b>Total Operating Expenses</b>	<b>(91,337,464)</b>		<b>-</b>		<b>(91,337,464)</b>		<b>(88,560,555)</b>	<b>2,776,909</b>	<b>3%</b>			
Operating profit/(loss)	19,694,104		-		19,694,104		20,381,182	687,078	3%			
Finance Income	-		-		-		555,083	555,083	-			
Finance Costs	(857,964)		-		(857,964)		(857,964)	-	-			
<b>Profit/(Loss) before taxation</b>	<b>18,386,140</b>		<b>-</b>		<b>18,386,140</b>		<b>20,078,301</b>	<b>1,242,161</b>	<b>7%</b>			
<b>Income tax expense/(credit)</b>	<b>(5,650,842)</b>		<b>-</b>		<b>(5,650,842)</b>		<b>(6,626,014)</b>	<b>(975,172)</b>	<b>-17%</b>			
<b>Profit/Loss after taxation</b>	<b>13,185,298</b>		<b>-</b>		<b>13,185,298</b>		<b>13,452,287</b>	<b>266,989</b>	<b>2%</b>			

(a) The hotel experienced a Drop in Seminars sales whi is largely attributed to economic state and political env

(b) A Drop in aggregate sales subsequently affected the Gross profit target. Total Expenses was within budget

## SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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

### 1. a) Statement of compliance and basis of preparation

The financial statements have been prepared on a historical cost basis except for the measurement at re-valued amounts of certain items of property, plant and equipment, marketable securities and financial instruments at fair value, impaired assets at their estimated recoverable amounts and actuarially determined liabilities at their present value. The preparation of financial statements in conformity with International Financial Reporting Standards (IFRS) allows the use of estimates and assumptions. It also requires management to exercise judgement in the process of applying the Hotel's accounting policies.

The financial statements have been prepared and presented in Kenya Shillings, which is the functional and reporting currency of the Hotel.

The financial statements have been prepared in accordance with the PFM Act, the State Corporations Act, and International Financial Reporting Standards (IFRS). The accounting policies adopted have been consistently applied to all the years presented.

### b) Changes in accounting policy and disclosures

#### i) Relevant new standards and amendments to published standards effective for the year ended 30 June 2017

A number of new standards and amendments to standards and interpretations are effective for annual periods beginning after 1 July 2016, and have not been applied in preparing these financial statement. None of these is expected to have a significant effect on the financial statements of the Hotel.

Standard/Amendment to a standard	Effective date	Impact
IFRS 14 <i>Regulatory Deferral Accounts (issued in January 2014)</i>	1 <sup>st</sup> Jan 2016	The new standard, effective for annual accounting periods beginning on or after 1 January 2016, defines a regulatory deferral account balance and allows entities to continue to apply their existing policy for regulatory deferral account balances, but requires certain disclosures. <i>Not applied in preparing these financial statement</i>
Amendments to IFRS 11 titled <i>Accounting for Acquisitions of Interests in Joint Operations (issued in May 2014)</i>	1 <sup>st</sup> Jan 2016	The amendments, require an acquirer of an interest in a joint operation in which the activity constitutes a business (as defined in IFRS 3) to apply all of the business combinations accounting principles and disclosure in IFRS 3 and other IFRSs, except for those principles that conflict with the guidance in IFRS 11. The amendments apply both to the initial acquisition of an interest in a joint operation, and the acquisition of an additional interest in a joint operation (in the latter case, previously held interests are not remeasured). <i>Not applied in preparing these financial statement</i>

**Golf Hotel Limited**  
**Reports and Financial Statements**  
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Amendments to IAS 16 and IAS 38 titled <i>Clarification of Acceptable Methods of Depreciation and Amortisation (issued in May 2014)</i>	1 <sup>st</sup> Jan 2016	The amendments add guidance and clarify that (i) the use of revenue-based methods to calculate the depreciation of an asset is not appropriate because revenue generated by an activity that includes the use of an asset generally reflects factors other than the consumption of the economic benefits embodied in the asset, and (ii) revenue is generally presumed to be an inappropriate basis for measuring the consumption of the economic benefits embodied in an intangible asset; however, this presumption can be rebutted in certain limited circumstances. <i>Not applied in preparing these financial statement</i>
Amendments to IAS 16 and IAS 41 titled <i>Agriculture: Bearer Plants (issued in June 2014)</i>	1 <sup>st</sup> Jan 2016	The amendments, define bearer plants – ie living plants which are used solely to grow produce over several periods and usually scrapped at the end of their productive lives (eg grape vines, rubber trees, oil palms) - and include them within IAS 16's scope while the produce growing on bearer plants remains within the scope of IAS 41. <i>Not applied in preparing these financial statement</i>
Amendments to IAS 27 titled <i>Equity Method in Separate Financial Statements (issued in August 2014)</i>	1 <sup>st</sup> Jan 2016	The amendments reinstate the equity method option allowing entities to use the equity method to account for investments in subsidiaries, joint ventures and associates in their separate financial statements. <i>Not applied in preparing these financial statement</i>
Amendment to IAS 19 ( <i>Annual Improvements to IFRSs 2012–2014 Cycle , issued in September 2014</i> )	1 <sup>st</sup> Jan 2016	The amendment, clarifies that the high quality corporate bonds used in estimating the discount rate for post-employment benefits should be denominated in the same currency as the benefits to be paid. <i>Not applied in preparing these financial statement</i>
Amendment to IFRS 5 ( <i>Annual Improvements to IFRSs 2012–2014 Cycle , issued in September 2014</i> )	1 <sup>st</sup> Jan 2016	The amendment adds specific guidance when an entity reclassifies an asset (or a disposal group) from held for sale to held for distribution to owners, or vice versa, and for cases where held-for-distribution accounting is discontinued. <i>Not applied in preparing these financial statement</i>
Amendment to IFRS 7 ( <i>Annual Improvements to IFRSs 2012–2014 Cycle , issued in September 2014</i> )	1 <sup>st</sup> Jan 2016	The amendment, applicable to annual periods beginning on or after 1 January 2016, adds guidance to clarify whether a servicing contract is continuing involvement in a transferred asset. <i>Not applied in preparing these financial statement</i>
Amendments to IFRS 10, IFRS 12 and IAS 28 titled <i>Investment Entities: Applying the Consolidation Exception (issued in December 2014)</i>	1 <sup>st</sup> Jan 2016	The amendments clarify the application of the consolidation exception for investment entities and their subsidiaries. <i>Not applied in preparing these financial statement</i>
Amendments to IAS 1 titled <i>Disclosure Initiative (issued in December 2014)</i>	1 <sup>st</sup> Jan 2016	The amendments, clarify guidance on materiality and aggregation, the presentation of subtotals, the structure of financial statements and the disclosure of accounting policies. <i>The amendments was considered to be a clarification only and did not affect the hotels accounting policies or accounting estimates.</i>
<i>Recognition of Deferred Tax Assets for Unrealised</i>	1 <sup>st</sup> Jan 2017	The amendments clarify that: Unrealised losses on debt instruments measured at fair value and measured at cost for tax purposes give rise to a deductible temporary difference

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<i>Losses (Amendments to IAS 12)</i>		<p>regardless of whether the debt instrument's holder expects to recover the carrying amount of the debt instrument by sale or by use.</p> <p>The carrying amount of an asset does not limit the estimation of probable future taxable profits.</p> <p>Estimates for future taxable profits exclude tax deductions resulting from the reversal of deductible temporary differences.</p> <p>An entity assesses a deferred tax asset in combination with other deferred tax assets. Where tax law restricts the utilisation of tax losses, an entity would assess a deferred tax asset in combination with other deferred tax assets of the same type. <i>Not applied in preparing these financial statement</i></p>
<i>Disclosure Initiative (Amendments to IAS 7: Statement of Cash flows)</i>	1 <sup>st</sup> Jan 2017	<p>The amendments' objective is that entities shall provide disclosures that enable users of financial statements to evaluate changes in liabilities arising from financing activities. To achieve this objective, the IASB requires that the following changes in liabilities arising from financing activities are disclosed (to the extent necessary): (i) changes from financing cash flows; (ii) changes arising from obtaining or losing control of subsidiaries or other businesses; (iii) the effect of changes in foreign exchange rates; (iv) changes in fair values; and (v) other changes</p> <p><i>Not applied in preparing these financial statement</i></p>
<i>Annual Improvements to IFRS Standards 2014–2016 Cycle – Amendments to IFRS 12 Disclosure of interests in other entities</i>	1 <sup>st</sup> Jan 2017	<p>Clarified the scope of the standard by specifying that the disclosure requirements in the standard, except for those in paragraphs B10–B16, apply to an entity's interests listed in paragraph 5 that are classified as held for sale, as held for distribution or as discontinued operations in accordance with <u>IFRS 5 Non-current Assets Held for Sale and Discontinued Operations</u>.</p> <p><i>Not applied in preparing these financial statement</i></p>

**ii) New and amended standards and interpretations in issue but not yet effective in the year ended 30 June 2017**

<b>Standard</b>	<b>Effective Date</b>	<b>Impact</b>
<i>FRS 15 Revenue from Contracts with Customers (issued in May 2014)</i>	1 Jan 2018	<p>The new standard, replaces IAS 11, IAS 18 and their interpretations (SIC-31 and IFRIC 13, 15 and 18). It establishes a single and comprehensive framework for revenue recognition to apply consistently across transactions, industries and capital markets, with a core principle (based on a five-step model to be applied to all contracts with customers), enhanced disclosures, and new or improved guidance.</p>
<i>IFRS 9 Financial Instruments (issued in July 2014)</i>	1 Jan 2018	<p>This standard will replace IAS 39 (and all the previous versions of IFRS 9). It contains requirements for the classification and measurement of financial assets and financial liabilities, impairment, hedge accounting and derecognition:</p> <p>IFRS 9 requires all recognised financial assets to be subsequently measured at amortised cost or fair value (through profit or loss or through other comprehensive income), depending on their classification by reference to the business model within which they are held and their contractual cash flow characteristics.</p> <p>For financial liabilities, the most significant effect of IFRS 9 relates to cases where the fair value option is taken: the amount of change in fair value of a financial liability designated as at fair value through profit or loss that is attributable to changes in the credit risk of that liability is recognised in other comprehensive income (rather than in profit or loss), unless this creates an accounting mismatch</p>

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Standard	Effective Date	Impact
		<p>For the impairment of financial assets, IFRS 9 introduces an “expected credit loss” model based on the concept of providing for expected losses at inception of a contract; it will no longer be necessary for there to be objective evidence of impairment before a credit loss is recognised.</p> <p>For hedge accounting, IFRS 9 introduces a substantial overhaul allowing financial statements to better reflect how risk management activities are undertaken when hedging financial and nonfinancial risk exposures.</p> <p>The derecognition provisions are carried over almost unchanged from IAS 39.</p>
IFRS 16: <i>Leases</i> (issued in January 2016)	1 Jan 2019	The new standard introduces a new lessee accounting model, and will require a lessee to recognise assets and liabilities for all leases with a term of more than 12 months, unless the underlying asset is of low value. A lessee will be required to recognise a right-of-use asset representing its right to use the underlying leased asset and a lease liability representing its obligation to make lease payments.

The Directors do not plan to apply any of the above until they become effective. Based on their assessment of the potential impact of application of the above, they do not expect that there will be a significant impact on the company's financial statements.

**iii) Early adoption of standards**

The entity did not early – adopt any new or amended standards in year 2017.



## **SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)**

### **c) Revenue recognition**

Revenue is recognised to the extent that it is probable that future economic benefits will flow to the Hotel and the revenue can be reliably measured. Revenue is recognised at the fair value of consideration received or expected to be received in the ordinary course of the Hotel's activities, net of value-added tax (VAT), Service charge and catering levy, where applicable, and when specific criteria have been met for each of the Hotel's activities as described below.

- i) **Revenue from the sale of goods and services** is recognised in the year in which the Hotel delivers products/services to the customer, the customer has accepted the products/services and collectability of the related receivables is reasonably assured.
- ii) **Finance income** comprises interest receivable from bank deposits and is recognised in profit or loss on a time proportion basis using the effective interest rate method.
- iii) **Other income** is recognised as it accrues.

### **d) Budget information**

The annual budget is prepared on the accrual basis, that is, all planned costs and income are presented in a single statement to determine the needs of the Hotel. The comparison between the budget amounts and the actual performance are presented as a separate additional financial statement in the statement of comparison of budget and actual amounts.

### **e) Property, plant and equipment**

All categories of property, plant and equipment are initially recorded at cost less accumulated depreciation and impairment losses. Certain categories of property, plant and equipment are subsequently carried at re-valued amounts, being their fair value at the date of re-valuation less any subsequent accumulated depreciation and impairment losses. Where re-measurement at re-valued amounts is desired, all items in an asset category are re-valued through periodic valuations carried out by independent external valuer's.

Increases in the carrying amounts of assets arising from re-valuation are credited to other comprehensive income. Decreases that offset previous increases in the carrying amount of the same asset are charged against the revaluation reserve account; all other decreases are charged to profit or loss in the income statement.

Gains and losses on disposal of items of property, plant and equipment are determined by comparing the proceeds from the disposal with the net carrying amount of the items, and are recognised in profit or loss in the income statement.

## **SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)**

### **f) Depreciation and impairment of property, plant and equipment**

Depreciation on property, plant and equipment is recognised in the income statement on a straight-line basis to write down the cost of each asset or the re-valued amount to its residual value over its estimated useful life. The annual rates in use are:

Buildings and civil works	2.5%
Plant and machinery	12.5%
Motor vehicles, including motor cycles	25%
Computers and related equipment	30%
Office equipment, furniture and fittings	12.5%
Land	Over 99year lease period

Depreciation charge is recognised both in the year of asset purchase and in the year of asset disposal on a time proportion basis.

Items of property, plant and equipment are reviewed annually for impairment. Where the carrying amount of an asset is assessed as greater than its estimated recoverable amount, an impairment loss is recognised so that the asset is written down immediately to its estimated recoverable amount.

### **g) Intangible assets**

Intangible assets are initially recognized at cost. The cost of intangible assets is their fair value at the date of the transaction. Following initial recognition, intangible assets are carried at cost less any accumulated amortization and accumulated impairment losses. Intangible assets comprise purchased computer software licences, which are capitalised on the basis of costs incurred to acquire and bring to use the specific software. These costs are amortised over the estimated useful life of the intangible assets from the year that they are available for use, usually over three years.

### **h) Amortisation and impairment of intangible assets**

Amortisation is calculated on the straight-line basis over the estimated useful life of computer software of three years. All computer software is reviewed annually for impairment. Where the carrying amount of an intangible asset is assessed as greater than its estimated recoverable amount, an impairment loss is recognised so that the asset is written down immediately to its estimated recoverable amount.

### **i) Inventories**

Inventories are stated at the lower of cost and net realisable value. Cost is determined on First in First out. Net realizable value is estimate of the selling price in the ordinary course of business less selling expenses.

**SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)**

**j) Trade and other receivables**

Trade and other receivables are recognised at fair values less allowances for any uncollectible amounts. These are assessed for impairment on a continuing basis. An estimate is made of doubtful receivables based on a review of all outstanding amounts at the year end. Bad debts are written off after all efforts at recovery have been exhausted.

**k) Taxation**

**i) Current tax**

Current income tax assets and liabilities for the current and prior periods are measured at the amount expected to be recovered from or paid to the tax authorities. The tax rates and tax laws used to compute the amount are those that are enacted or substantially enacted as at the reporting date. Current income tax relating to items recognised directly in equity is recognised in equity and not in the income statement.

**ii) Deferred Tax**

Deferred income tax is provided using the liability method on temporary differences at the reporting date between the tax bases of assets and liabilities and their carrying amounts for financial reporting purposes.

**l) Cash and cash equivalents**

Cash and cash equivalents comprise cash on hand and cash at bank, short-term deposits on call and highly liquid investments with an original maturity of three months or less, which are readily convertible to known amounts of cash and are subject to insignificant risk of changes in value. Bank account balances include amounts held at various commercial banks at the end of the financial year. For the purposes of these financial statements, cash and cash equivalents also include short term cash imprests and operating floats.

**m) Borrowings**

Interest bearing loans and overdrafts are initially recorded at fair value being received, net of issue costs associated with the borrowing. Subsequently, these are measured at amortised cost using the effective interest rate method. Amortised cost is calculated by taking into account any issue cost and any discount or premium on settlement. Finance charges, including premiums payable of settlement or redemption are accounted for on accrual basis and are added to the carrying amount of the instrument to the extent that they are not settled in the period in which they arise.

**n) Trade and other payables**

Trade and other payables are non-interest bearing and are carried at amortised cost, which is measured at the fair value of contractual value of the consideration to be paid in future in respect of goods and services supplied, whether billed to the Hotel or not, less any payments made to the suppliers.

## **SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)**

### **o) Retirement benefit obligations**

The entity operates a defined contribution scheme for all full-time employees from July 1, 2011. The scheme is administered by an independent pension provider; the company contributes 5% and the employee 5%. The employer's contribution is recognised as an expense in the Income Statement. The company also contributes to the statutory National Social Security Fund (NSSF). This is a defined contribution scheme registered under the National Social Security Act. The company contributes 6% and the employee 6% of the pensionable wage. The company's obligation under the scheme is limited to specific contributions legislated from time to time and is currently subject to an upper limit of Kshs. 2,160 per employee per month for employees earning above Kshs. 18,000.

### **p) Provision for gratuity, leave and retirement benefits**

Employees' entitlements to gratuity are recognised as they accrue to the employees. A provision is made for the estimated liability for annual gratuity at the reporting date. Currently management staff are entitled to a one month's salary for every year worked for management staff as gratuity payable to them. Gratuity accrued for union staff was transferred during this year to a pension scheme (BRITAM) following the collective bargaining agreement that covers all non-management staff which stated; in the lead to the implementation of the new NSSF act, gratuity will be terminated. The accrued gratuity shall be sent to a pension scheme on terms agreed between the works committee and the employer. The total liability for employee's accrued annual leave and compensatory off days as at the end of the financial year is recognised as an accrual with the respective movement in the balances passing through the statement of comprehensive income accordingly.

### **q) Exchange rate differences**

The accounting records are maintained in the functional currency of the primary economic environment in which the Hotel operates, Kenya Shillings. Transactions in foreign currencies during the year/period are translated into the functional currency using the exchange rates prevailing at the dates of the transactions or valuation where items are re-measured. Any foreign exchange gains and losses resulting from the settlement of such Transactions and from the translation at year-end exchange rates of monetary assets and liabilities denominated in foreign currencies are recognised in profit or loss.

### **r) Comparative figures**

Where necessary comparative figures for the previous financial year have been amended or reconfigured to conform to the required changes in presentation.

### **s) Subsequent events**

There have been no events subsequent to the financial year end with a significant impact on the financial statements for the year ended June 30, 2017.

### **t) Going Concern**

The financial statements were prepared on a going concern basis. The going concern basis assumes that the company will continue in operation for the foreseeable future and will be able to realize its assets and discharge its liabilities and commitments in the normal course of business

## **SUMMARY OF ACCOUNTING ESTIMATES AND JUDGEMENTS IN APPLYING THE ACCOUNTING POLICIES**

In the process of applying the company's accounting policies, the directors make some judgements and estimates. Such estimates and judgements are based on historical experience among other factors that are deemed reasonable under the prevailing circumstances. The judgements are evaluated each financial year to ensure that they remain reasonable under the circumstances and based on available information.

The preparation of financial statements requires management to make judgements, estimates and assumptions that affect the reported amounts of revenues, expenses, assets and liabilities and disclosure of contingent liabilities when reporting. The judgements made in the process of applying the company's accounting policies that have the most significant effect on the amounts reported in the financial statements include:

### **u) Property, Plant and equipment**

The company's management makes estimates in determining the depreciation rates for PPE. The rates used are as set out in accounting policies note 4.

### **v) Revaluation of PPE**

The company carries Land and buildings of PPE at fair value, with changes in fair value being recognised in the comprehensive income and revaluation reserves respectively.

### **w) Receivables**

Estimates and judgements are made when determining the recoverable amount of receivables. Trade and other receivables are recognised at fair values less allowances for any uncollectible amounts. These are assessed for impairment on a continuing basis. An estimate is made of doubtful receivables based on a review of all outstanding amounts at the year end.

### **x) Contingent liabilities**

In the course of day to day running of the company's affairs, the company is exposed to contingent liabilities including public liability and legal cases. The status of these exposures are evaluated by the management from time to time to ascertain the likelihood of the liabilities crystalizing. Provisions are subsequently made in the financial statements where an obligation has been established. Judgements are required in determining the amount of financial obligation on the company.



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**NOTES TO THE FINANCIAL STATEMENTS**

	<b>2016/2017</b>	<b>2015/2016</b>
	<b>Kshs</b>	<b>Kshs</b>
<b>2. a) SALES INCOME</b>		
Gross sales of goods	175,837,131	166,900,896
Less: Service Charge on gross sales	(9,846,879)	(9,346,450)
Less: Catering Levy on gross sales	(2,813,394)	(2,670,414)
Less: Value added tax on gross sales	(22,507,154)	(21,363,315)
Net Sales	<u>140,669,704</u>	<u>133,520,717</u>
	=====	=====
Sales are reported net of 16% VAT, 7% Service charge & 2% Catering levy. The gross sales above therefore include all the relevant taxes/charges.		
<b>b) DISPOSAL INCOME</b>		
Disposal of old Hotel Linen	111,610	-
	<u>111,610</u>	<u>-</u>
	=====	=====
<b>3 OTHER INCOME</b>		
Sale of tender documents	-	215,000
	<u>-</u>	<u>215,000</u>
	=====	=====
<b>4 COST OF SALES</b>		
Food	24,059,107	23,851,496
Beverage	7,702,523	7,455,791
Tobacco	77,947	101,238
	<u>31,839,577</u>	<u>31,408,524</u>
	=====	=====
<b>5 (a) ADMINISTRATION COSTS</b>		
Staff costs (note 5b)	47,825,358	41,629,011
Directors' emoluments	1,653,813	967,645
Electricity and water	6,953,963	7,202,383
Communication services and supplies ( <i>Tel. &amp; postage</i> )	196,418	218,719
Transportation, travelling and subsistence ( <i>Travel expenses</i> <i>Transport allowance, Staff transport &amp; Leave travel</i> )	3,166,009	3,074,284
Printing, stationery and photocopying	2,085,481	1,860,984
Staff training expenses	271,589	126,400
Insurance costs	514,428	467,220
Bank charges and commissions ( <i>Bank charges &amp;</i> <i>Commission on Visa cards</i> )	883,926	878,236
Office and general supplies ( <i>Office Miscellaneous</i> )	36,690	33,920

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**NOTES TO THE FINANCIAL STATEMENTS (Continued)**

	2016/2017	2015/2016
	Kshs	Kshs
Auditors' remuneration	150,000	150,000
Consultancy fees	172,414	-
Legal Fees	70,000	59,700
Repairs and maintenance ( <i>Garden &amp; grounds, Building maintenance &amp; Repairs &amp; renewals</i> )	3,997,450	4,463,358
Provision for bad and doubtful debts	406,392	387,048
Other operating expenses ( <i>Fuel &amp; gas, Cleaning, Toilet requisites, Vehicle operating, Licenses, Laundry, KRB, Guest supplies, Rent &amp; rates, Delivery, Tents &amp; PA, Donations, Flowers &amp; deco &amp; Security</i> )	10,589,578	9,729,274
	<u>78,973,510</u>	<u>71,248,182</u>
	=====	=====
<b>5(b) STAFF COSTS</b>		
Salaries and allowances of permanent employees ( <i>Salaries, Housing, Medical &amp; Entertainment allowance</i> )	37,262,971	34,542,305
Wages of temporary employees ( <i>Casual wages</i> )	2,043,762	2,408,867
Compulsory national health insurance schemes	1,035,000	741,920
Compulsory national social security schemes	1,049,312	537,359
Other pension contributions	381,690	818,800
Leave pay and gratuity provisions	3,523,923	221,525
Staff welfare ( <i>Meals &amp; welfare</i> )	2,528,700	2,358,235
	<u>47,825,358</u>	<u>41,629,011</u>
	=====	=====
<b>The average number of employees at the end of the year was:</b>		
Permanent employees – Management	16	16
Permanent employees – Unionisable	49	45
Temporary and contract employees	16	14
	<u>81</u>	<u>75</u>
	=====	=====
Female employees – 34 (42%)		
Male Employees – 47 (58%)		
<b>6 SELLING AND DISTRIBUTION COSTS</b>		
Marketing and promotional ( <i>Marketing &amp; Advertising</i> )	1,714,563	3,042,980
Sales commissions ( <i>Agents commission</i> )	-	-
	<u>1,714,563</u>	<u>3,042,980</u>
	=====	=====
<b>7 OPERATING PROFIT/(LOSS)</b>		
The operating profit is arrived at after charging;		
Staff costs (note 5b)	47,825,358	41,629,011
Depreciation of property, plant and equipment	7,872,481	6,806,914
Provision for bad and doubtful debts	406,392	387,048
Directors' emoluments	1,653,813	967,645
Auditors' remuneration - current year fees	150,000	150,000
Other Operating Expenses (note 5a)	30,652,511	31,157,458
Against the Gross Profit for the period under review		

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**NOTES TO THE FINANCIAL STATEMENTS (Continued)**

	2016/2017	2015/2016
	Kshs	Kshs
Loss on disposal of property, plant and equipment	-	-
Interest receivable	-	(1,389,575)
<b>8 FINANCE INCOME</b>		
Interest income on short-term bank deposits (accrued)	-	1,389,575
Interest income on short-term bank deposits (received)	555,083	2,109,246
	<u>555,083</u>	<u>3,498,821</u>
	=====	=====
<b>9 FINANCE COSTS (INTEREST ON LOAN)</b>		
Interest expense on loans	857,964	887,148
	<u>857,964</u>	<u>887,148</u>
	=====	=====
The loan was obtained from TFC to clear previous years' tax arrears owed to KRA in 2011.		
<b>10 INCOME TAX EXPENSE/ (CREDIT)</b>		
<b>(a) Current taxation</b>		
Current taxation based on the adjusted profit for the year at 30%	7,346,323	6,874,477
Deferred Tax	(720,309)	-
	<u>6,626,014</u>	<u>6,874,477</u>
	=====	=====
<b>(b) Reconciliation of tax expense/ (credit) to the Expected tax based on accounting profit</b>		
Profit before taxation	20,078,301	23,840,790
	-----	-----
Tax at the applicable tax rate of 30% (2016 30%)	6,023,490	7,152,237
Tax effects of expenses not deductible for tax purposes		
<i>(Donations 32,836.03*30%)</i>	9,851	6,684
<i>(Increase in Leave Provision 1,845,992*30%)</i>	553,798	(284,444)
<i>(Fines and Penalties 20,000*30%)</i>	6,000	-
<i>(Excess Depreciation 2,510,615*30%)</i>	753,185	-
Tax Charge	7,346,323	6,874,477
Instalment tax paid	(6,563,771)	(5,208,887)
Tax due at the end of the year	782,552	1,665,590
	=====	=====
<b>(c) Taxation paid during the year</b>		
Current year instalment tax	6,563,771	5,208,887
Final tax for previous year	1,665,590	4,707,564
	<u>8,229,361</u>	<u>9,916,451</u>
	=====	=====

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**11 EARNINGS PER SHARE**

The earnings per share is calculated by dividing the profit after tax of Kshs. 13,452,287 (2016: Kshs.16, 966,313) by the average number of ordinary shares in issue during the year of 250,000 (2016: 250,000). There were not dilutive or potentially dilutive ordinary share as at the reporting date.

**12 DIVIDEND PER SHARE**

Proposed dividends are accounted for as a separate component of equity until they have been ratified and declared at the relevant Annual General Meeting (AGM). At the AGM to be held before the end of 2017, a final dividend in respect of the year ended June 30, 2017 of Kshs.10 (2016: Kshs.10) for every ordinary share of par value of Kshs.20 is to be proposed. No interim dividend was declared and/or paid during the year. This will bring the total dividend for the year to Kshs.2, 500,000 (2016: Kshs.2, 500,000).



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**NOTES TO THE FINANCIAL STATEMENTS (Continued)**  
**13(a) PROPERTY, PLANT AND EQUIPMENT**

2017	Freehold land	Buildings & civil works	Plant and machinery	Motor vehicles, including motor cycles	Computers & related equipment	Office equipment, furniture & fittings	Capital work in progress	Total
	Kshs	Kshs	Kshs	Kshs	Kshs	Kshs	Kshs	Kshs
<b>COST OR VALUATION</b>								
At July 1, 2016	8,000,000	85,571,808	14,074,887	1,887,931	5,139,374	32,691,333	3,765,680	151,131,013
Additions	-	3,320,638	1,011,157	5,004,286	489,275	1,316,090	4,927,275	16,068,720
Transfers	-	-	-	-	-	-	-	-
Disposals(ESD write-off)	-	-	-	-	(218,250)	-	-	(218,250)
<b>At June 30, 2017</b>	<b>8,000,000</b>	<b>88,892,446</b>	<b>15,086,044</b>	<b>6,892,217</b>	<b>5,410,399</b>	<b>34,007,422</b>	<b>8,692,955</b>	<b>166,981,483</b>
<b>DEPRECIATION</b>								
At July 1, 2016	1,205,429	26,283,842	5,887,323	1,887,931	4,378,163	17,502,189	-	57,144,877
Charge for the year	109,584	2,161,679	1,422,584	208,063	504,809	3,465,763	-	7,872,482
ESD accumulated Depreciation	-	-	-	-	(218,250)	-	-	(218,250)
Eliminated on disposal	-	-	-	-	-	-	-	-
<b>At June 30, 2017</b>	<b>1,315,013</b>	<b>28,445,521</b>	<b>7,309,907</b>	<b>2,095,994</b>	<b>4,664,722</b>	<b>20,967,952</b>	<b>-</b>	<b>64,799,109</b>
<b>NET BOOK VALUE</b>								
At June 30, 2017	6,684,987	60,446,925	7,776,137	4,796,223	745,677	13,039,470	8,692,955	102,182,374

Work in progress relates to current Capital projects not yet completed as at 30 June 2017. Property, plant and equipment include items that are fully depreciated. During the year there were reallocation within the capital budget. All the above have been highlighted as follows;

	Fully Depreciated	Normal	2016/2017	2016/2017	2016/2017	2016/2017
	2016/2017	annual depreciation charge	Work in Progress Closing Balances	Actual Capital Budget	Reallocated Capital Budget	
<b>Building</b>						
Plant and machinery	3,123,363	390,420	5,964,371	6,100,000	5,771,500	
Motor vehicles, including motor cycles	1,887,931	471,983	2,728,584	1,935,000	4,035,000	
Computers and related equipment	3,913,188	1,173,956	-	2,500,000	6,000,000	
Office equipment, furniture and fittings	5,668,511	708,564	-	1,905,000	1,905,000	
	<b>14,592,993</b>	<b>2,744,923</b>	<b>8,692,955</b>	<b>19,211,500</b>	<b>19,211,500</b>	



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13(a) PROPERTY, PLANT AND EQUIPMENT (Continued)

2016	Freehold land Kshs	Buildings & civil works Kshs	Plant and machinery Kshs	Motor vehicles, including motor cycles Kshs	Computers & related equipment Kshs	Office equipment, furniture & fittings Kshs	Capital work in progress Kshs	Total Kshs
<b>COST OR VALUATION</b>								
At July 1, 2015	8,000,000	76,534,035	10,773,789	1,887,931	4,674,051	29,294,107	-	131,163,913
Additions	-	9,037,773	3,301,098	-	465,323	3,397,226	3,765,680	19,967,100
Transfers	-	-	-	-	-	-	-	-
Disposals	-	-	-	-	-	-	-	-
<b>At June 30, 2016</b>	<b>8,000,000</b>	<b>85,571,808</b>	<b>14,074,887</b>	<b>1,887,931</b>	<b>5,139,374</b>	<b>32,691,333</b>	<b>3,765,680</b>	<b>151,131,013</b>
<b>DEPRECIATION</b>								
At July 1, 2015	1,095,845	24,307,058	4,828,925	1,887,931	3,904,027	14,314,177	-	50,337,963
Charge for the year	109,584	1,976,784	1,058,398	-	474,136	3,188,012	-	6,806,914
Impairment loss	-	-	-	-	-	-	-	-
Eliminated on disposal	-	-	-	-	-	-	-	-
<b>At June 30, 2016</b>	<b>1,205,429</b>	<b>26,283,842</b>	<b>5,887,323</b>	<b>1,887,931</b>	<b>4,378,163</b>	<b>17,502,189</b>	<b>-</b>	<b>57,144,877</b>
<b>NET BOOK VALUE</b>								
<b>At June 30, 2016</b>	<b>6,794,571</b>	<b>59,287,966</b>	<b>8,187,564</b>	<b>-</b>	<b>761,211</b>	<b>15,189,144</b>	<b>3,765,680</b>	<b>93,986,136</b>

Property, plant and equipment include the following items that are fully depreciated:

	2016 Cost or Valuation	Normal annual depreciation charge
Plant and machinery	2,951,413	368,927
Motor vehicles, including motor cycles	1,887,931	471,983
Computers and related equipment	3,191,093	957,328
Office equipment, furniture and fittings	5,668,511	708,564
	<u>13,698,948</u>	<u>2,506,802</u>



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13. (b) DEFERRED TAX COMPUTATION

2016/2017	Kshs	Kshs	Kshs	Kshs	Kshs	Kshs	Kshs	Kshs	Kshs	Kshs	Kshs
Asset/S/Liabilities	Asset Base	Permanent Difference	Qualifying NBV	Tax Base	Temporary Difference	Deferred Tax (Asset)/liability 2016/2017	Deferred Tax (Asset)/liability 2015/2016	Deferred Tax (Asset)/liability 2016/2017	Deferred Tax (Asset)/liability 2015/2016	Deferred Tax (Asset)/liability 2016/2017	Deferred Tax (Asset)/liability 2015/2016
Building	60,446,925	-	60,446,925	61,043,389	(596,464)	(178,939)	-	(178,939)	-	(178,939)	-
Plant and Machinery	20,815,607	-	20,815,607	22,490,960	(1,675,353)	(502,606)	-	(502,606)	-	(502,606)	-
Motor Hevicles	4,796,223	-	4,796,223	4,795,774	449	135	-	135	-	135	-
Computers	745,677	-	745,677	875,340	(129,663)	(38,899)	-	(38,899)	-	(38,899)	-
<b>Total</b>	<b>86,804,432</b>	<b>-</b>	<b>86,804,432</b>	<b>89,205,463</b>	<b>(2,401,030)</b>	<b>(720,309)</b>	<b>-</b>	<b>(720,309)</b>	<b>-</b>	<b>(720,309)</b>	<b>-</b>
Deferred Tax 2016/2017											

WEAR AND TEAR ALLOWANCE SCHEDULE				TOTAL	
CLASS II	CLASS III	CLASS IV			
COMPUTERS & ACCESSORIES	MOTOR VEHICLE	PLANT EQUIPMENT & FFE			
30%	25%	12.50%			
KSHS	KSHS	KSHS			KSHS
2016 / 2017					
WDV 1/7/2016			23,376,708		24,137,919
Additions	5,004,286		2,327,246		7,820,807
	<b>5,004,286</b>		<b>25,703,954</b>		<b>31,958,726</b>
Disposals	-		-		-
	5,004,286		25,703,954		31,958,726
WTA	(375,146)		(3,212,994)		(3,796,652)
WDV 30/06/2017	<b>875,340</b>		<b>22,490,960</b>		<b>28,162,074</b>
INDUSTRIAL BUILDING ALLOWANCE SCHEDULE 2016 / 2017					
QUALIFYING COST	RESIDUAL B/F 01/07/2016	ADDITIONS	IBA @ 2.5% PA	RESIDUAL C/F	
KSHS	KSHS	KSHS	KSHS	KSHS	
88,892,446	59,287,966	3,320,638	1,565,215	61,043,389	

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**NOTES TO THE FINANCIAL STATEMENTS (Continued)**

**13. (b) Deferred Tax (Continued)**

Deferred tax is calculated on all temporary differences under the liability method using the enacted tax rate, currently 30%. The net deferred tax liability at year end is attributable to the following items:

	2016/2017 Kshs	2015/2016 Kshs
Accelerated capital allowances	(720,309)	-
Net deferred tax liability	<u>(720,309)</u>	<u>-</u>
	=====	=====

The movement on the deferred tax account is as follows:

Balance Brought forward	-	-
(Charge)/Credit for the year	<u>(720,309)</u>	<u>-</u>
Balance Carried forward	<u>(720,309)</u>	<u>-</u>

Class IV in the wear and tear schedule note 13(b) is a combination of the totals for Plant and machinery and Office equipment, furniture & fittings balances as per the PPE movement schedule in note 13(a). The hotel bought a new vehicle in May 2017. Depreciation has been computed on the same in under Class III and the PPE schedule for the two months the vehicle was used (May 2017 and June 2017)

**14 INVENTORIES**

Food	394,363	499,543
Drinks & Tobacco	659,491	595,133
	<u>1,053,854</u>	<u>1,094,676</u>
	=====	=====

**15 (a) TRADE AND OTHER RECEIVABLES**

Trade receivables (note 15 (b))	25,737,989	29,024,852
Deposits	310,000	310,000
Prepayments	303,879	290,949
VAT recoverable	2,462,939	2,826,139
Staff receivables (note 15 (c))	83,484	60,600
Other receivables (accrued interest/PDQ Receivable)	330,281	1,389,575
Gross trade and other receivables	<u>29,228,572</u>	<u>31,674,251</u>
Provision for bad and doubtful receivables	<u>(2,570,893)</u>	<u>(2,165,357)</u>
Net trade and other receivables	<u>26,657,679</u>	<u>31,736,758</u>
	=====	=====

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**NOTES TO THE FINANCIAL STATEMENTS (Continued)**

	2016/2017 Kshs	2015/2016 Kshs
<b>(b) TRADE RECEIVABLES</b>		
Gross trade receivables	25,737,989	29,024,852
Provision for doubtful receivables	(2,570,893)	(2,165,357)
	<u>23,167,096</u>	<u>26,859,495</u>
	=====	=====

At June 30, the ageing analysis of the gross trade receivables was as follows:

Less than 30 days	9,110,702	1,006,108
Between 30 and 60 days	4,023,502	9,750,510
Between 61 and 90 days	1,308,964	2,420,423
Between 91 and 120 days	59,453	3,326,445
Over 120 days	11,235,368	12,521,366
	<u>25,737,989</u>	<u>29,024,852</u>
	=====	=====

**(c) STAFF RECEIVABLES**

Gross staff loans and advances	83,484	60,600
Provision for impairment loss	(-)	(-)
	<u>83,484</u>	<u>60,600</u>
Less: Amounts due within one year	(83,484)	(60,600)
Amounts due after one year	<u>-</u>	<u>-</u>
	=====	=====

**16 SHORT TERM DEPOSITS**

Kenya Commercial Bank	-	30,000,000
	<u>-</u>	<u>30,000,000</u>
	=====	=====

The effective interest rate on the short term deposits as at June 30, 2017 was 13% (2016: 13%).

**17 BANK AND CASH BALANCES**

Cash in hand ( <i>cashiers Float &amp; Petty cash</i> )	63,160	91,280
Cash at bank (A/c 1101729023&1101729597)	21,698,612	5,716,611
	<u>21,761,772</u>	<u>5,807,891</u>
	=====	=====

The cash at bank was held at Kenya Commercial Bank, the Hotel's main bankers.

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**NOTES TO THE FINANCIAL STATEMENTS (Continued)**

	2016/2017 Kshs	2015/2016 Kshs
<b>18 ORDINARY SHARE CAPITAL</b>		
<b>Authorised:</b>		
250,000 ordinary shares of Kshs.20 par value each	5,000,000	5,000,000
	=====	=====
<b>Issued and fully paid:</b>		
250,000 ordinary shares of Kshs.20 par value each	5,000,000	5,000,000
	=====	=====
<b>19 REVALUATION RESERVE</b>		
These reserve arose as a result of hotels buildings and land revaluation which was carried out on 26 <sup>th</sup> February 2004. Initially land and building were taken at a value of Kshs. 524,360 and Kshs. 8,000,000 respectively. However, on revaluation the same recorded Kshs. 47,000,000 for building and Kshs. 8,000,000 for land. This therefore resulted in a reserve of Kshs. 7,475,640 for land and Kshs. 33,524,515 for Buildings inclusive of building improvements respectively. A total of Kshs 41,000,155.		
<b>20. RETAINED EARNINGS</b>		
The retained earnings represent amounts available for distribution to the Hotel's shareholders. Undistributed retained earnings are utilised to finance the Hotel's business activities.		
<b>21 BORROWINGS</b>		
Balance at beginning of the year	23,146,857	24,796,473
Repayments of domestics borrowings during the year	(1,649,616)	(1,649,616)
Balance at end of the year	21,497,241	23,146,857
The Hotel is servicing a loan from TFC of Kshs. 16,496,102 advanced for the clearance of KRA principal Arrears at an interest of 9% per annum to be repaid within 10years with effect from September 2011. Principal repaid during the year amounts to Kshs. 1,649,616 and an interest of Kshs. 857,964 as indicated in Note 9.		
The analyses of both external and domestic borrowings are as follows:		
<b>a) Domestic Borrowings</b>		
Kenya Shilling loan from TFC	21,497,241	23,146,857
	21,497,241	23,146,857
Total balance at end of year	21,497,241	23,146,857
	=====	=====
<b>22 TRADE AND OTHER PAYABLES</b>		
Trade payables	6,362,984	12,312,985
Accrued expenses ( <i>Audit fee, WIP&amp; Rent and Rates</i> )	3,748,132	2,591,563
Other payables ( <i>Payroll liabilities, Central charges</i> )	12,238,798	10,380,933
	22,349,914	25,285,481
	=====	=====



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**NOTES TO THE FINANCIAL STATEMENTS (Continued)**

**23 (a) RETIREMENT BENEFIT OBLIGATIONS**

	2016/2017	2015/2016
	Kshs	Kshs
Balance at beginning of the year	16,290,454	15,817,870
Provisions made during the year	1,353,695	1,169,672
Prior Year Adjustment	4,316,262	-
Benefits paid out during the year	(16,290,454)	(697,088)
Balance at end of the year	<u>5,669,957</u>	<u>16,290,454</u>

A provision is made annually in the company's books for the estimated gratuity liability payable to staff at the reporting date. Prior year adjustment arose from the difference between the computed gratuity liability to staff in the year ending June 2016 and provision accrued by the company. This was done to determine the actual value of gratuity to be transferred to the identified pension scheme. Gratuity payable to union staff was transferred in full to the respective pension scheme and they are no longer entitled to gratuity payment. The prior year adjustment therefore relates to under provision of gratuity payable to management staff for the same period.

**23 (b) LEAVE PROVISIONS**

Balance at beginning of the year	3,659,205	4,607,352
Increase in provision for the year	1,845,992	948,147)
Payment the year	(1,142,773)	-
Balance at end of the year	<u>4,362,424</u>	<u>3,659,205</u>

Gratuity for Management is calculated on one month's salary for every year worked for staff with over one year at work.

**24(a) DIVIDENDS PAID**

The total dividends paid relates to claimed dividends, paid to the ordinary shareholders. The payments are analysed in annual amount below.

Year 2014	2,000,000	-
Year 2015	2,000,000	-
Total paid during the year	<u>4,000,000</u>	<u>-</u>

**24(b) DIVIDENDS PAYABLE**

The balance of dividends payable relates to unclaimed dividends, payable to the ordinary shareholders. The balances are analysed in annual amount below.

Year 2016	2,500,000	-
Balance at end of the year	<u>2,500,000</u>	<u>-</u>



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**NOTES TO THE FINANCIAL STATEMENTS (Continued)**

**25 NOTES TO THE STATEMENT OF CASH FLOWS**

**(a) Reconciliation of operating profit/(loss) to  
Cash generated from/ (used in) operations**

	2016/2017 Kshs	2015/2016 Kshs
Operating profit/ (loss)	20,078,301	23,840,790
Depreciation	7,872,482	6,806,914
Operating profit/ (loss) before working capital changes	<u>27,950,783</u>	<u>30,647,704</u>
(Increase)/decrease in inventories	40,822	120,765
(Increase)/decrease in trade and other receivables	5,079,080	(1,840,814)
Increase/ (decrease) in trade and other payables	(2,935,567)	6,418,777
Increase/ (decrease) in retirement benefit obligations	1,353,695	472,584
Increase/ (decrease) in provision for staff leave pay	703,219	(948,147)
Cash generated from/ (used in) operations	<u>32,192,032</u>	<u>34,870,869</u>

**25.**

**(b) Analysis of changes in loans**

Balance at beginning of the year	23,146,857	24,796,473
Repayments during the year	(1,649,616)	(1,649,616)
Balance at end of the year	<u>21,497,241</u>	<u>23,146,857</u>

**(c) Analysis of cash and cash equivalents**

Cash in hand ( <i>cashiers Float &amp; Petty cash</i> )	63,160	91,280
Cash at KCB Bank A/c 1101729023	5,240,345	(466,088)
Cash at KCB Bank A/c 1101729597	16,458,267	6,182,699
Short term deposits	-	30,000,000
Balance at end of the year	<u>21,761,772</u>	<u>35,807,891</u>

**(d) Analysis of interest paid**

Interest on loans (note 9)	857,964	887,148
Interest on loans capitalised	-	-
Balance at beginning of the year	-	-
Balance at end of the year	(-)	(-)
Interest paid	<u>857,964</u>	<u>887,148</u>



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**NOTES TO THE FINANCIAL STATEMENTS (Continued)**

**26 RELATED PARTY DISCLOSURES**

**(a) Government of Kenya**

The Government of Kenya through Tourism Finance Corporation is the principal shareholder of Golf Hotel Limited, holding 80% of the equity interest with the remaining 20% being held by the County government of Kakamega.

**(b) Staff Advances**

In line with the company policy, employees are entitled to advance salary not exceeding two thirds of their net salary and are recoverable in not more than three instalments. Total advance recoverable as at 30 June 2017 was as follows:

	2016/2017 Kshs	2015/2016 Kshs
Due from directors	-	-
Due from other staff	83,484	60,600
	<u>84,484</u>	<u>60,600</u>

**(c) Directors' expenses**

Sitting allowance ( <i>Inclusive of PAYE &amp; Refreshments</i> )	895,343	639,625
Transport ( <i>Flight &amp; Taxi</i> )	441,270	328,020
Accommodation ( <i>Night out</i> )	317,200	-
	<u>1,653,813</u>	<u>967,645</u>

**(d) Borrowing from TFC**

The following are the balance for the related party relationship between Golf Hotel and TFC as at 30 June 2017 in relation to a loan acquired for the purpose of settlement of outstanding KRA Tax in 2011

Month	Period	Principal	Loan Balance	Interest
July 16	49	137,468.00	9,760,170.00	71,497.00
Aug 16	50	137,468.00	9,622,702.00	71,497.00
Sept 16	51	137,468.00	9,485,234.00	71,497.00
Oct 16	52	137,468.00	9,347,766.00	71,497.00
Nov 16	53	137,468.00	9,210,298.00	71,497.00
Dec 16	54	137,468.00	9,072,830.00	71,497.00
Jan 17	55	137,468.00	8,935,362.00	71,497.00
Feb 17	56	137,468.00	8,797,894.00	71,497.00
March 17	57	137,468.00	8,660,426.00	71,497.00
April 17	58	137,468.00	8,522,958.00	71,497.00
May 17	59	137,468.00	8,385,490.00	71,497.00
June 17	60	137,468.00	8,248,022.00	71,497.00
		<u>1,649,616.00</u>		<u>857,964.00</u>



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As at 30 June 2016

Month	Period	Principal	Loan Balance	Interest
July 15	37	137,468	11,409,786.00	86,604
Aug 15	38	137,468	11,272,318.00	85,573
Sept 15	39	137,468	11,134,850.00	71,497
Oct 15	40	137,468	10,997,382.00	71,497
Nov 15	41	137,468	10,859,914.00	71,497
Dec 15	42	137,468	10,722,446.00	71,497
Jan 16	43	137,468	10,584,978.00	71,497
Feb 16	44	137,468	10,447,510.00	71,497
March 16	45	137,468	10,310,042.00	71,497
April 16	46	137,468	10,172,574.00	71,497
May 16	47	137,468	10,035,106.00	71,497
June 16	48	137,468	9,897,638.00	71,497
		<u>1,649,616.00</u>		<u>887,148</u>

## 27 FINANCIAL RISK MANAGEMENT

The company's activities expose it to a variety of financial risks, including credit risk and the effects of changes in foreign currency exchange rates and interest rates. The company's overall risk management programme focuses on the unpredictability of the industry and seeks to minimise potential adverse effects on its financial performance.

Risk management is carried out by the finance and the internal audit departments under policies approved by the Board of Directors. The Board provides principles for overall risk management.

### a) *Market risk*

#### *Foreign exchange risk*

The company does not undertake any major transactions denominated in foreign currencies. Therefore, exposures to exchange rate fluctuations are minimal.

Any Foreign currency transactions during the year are converted into Kenya Shillings at Rates ruling at the transaction date. The resulting differences from conversion and Translation are dealt with in the Profit and Loss Statement in the year in which they arise.

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**NOTES TO THE FINANCIAL STATEMENTS (Continued)**

**b) Credit risk**

Credit risk arises from cash and cash equivalents as well as trade receivables and balances due from related parties.

The amount that best represents the company's maximum exposure to credit risk as at 30 June 2017 is as shown below:

	Neither past due nor impaired Kshs	Past due but not impaired Kshs	Impaired Kshs	Total Kshs
<b>30 June 2017</b>				
Trade receivables	13,134,204	12,603,785	(2,570,893)	23,167,096
Due from related parties	83,484	-	-	83,484
	<u>13,217,688</u>	<u>12,603,785</u>	<u>(2,570,893)</u>	<u>23,250,580</u>

The amount that best represents the company's maximum exposure to credit risk as at 30 June 2016 is as shown below:

	Neither past due nor impaired Kshs	Past due but not impaired Kshs	Impaired Kshs	Total Kshs
<b>30 June 2016</b>				
Trade receivables	13,177,041	15,847,811	(2,165,357)	26,859,495
Due from related parties	60,600	-	-	60,600
	<u>13,237,641</u>	<u>15,847,811</u>	<u>(2,165,357)</u>	<u>26,920,095</u>

Bank balances are held with creditable financial institutions and are fully performing. Trade receivables are due from customers with good credit rating.

**c) Liquidity risk**

Prudent liquidity risk management includes maintaining sufficient cash to meet company obligations. The company manages this risk by maintaining adequate cash balances in the bank, maintaining banking facilities and by continuously monitoring forecast and actual cash flows.

The table below analyses the company's financial liabilities that will be settled on a net basis into relevant maturity groupings based on the remaining period at the reporting date to the contractual maturity date. The amounts disclosed in the table below are the contractual undiscounted cash flows. Balances due within 12 months as well as parent company funding equal their carrying balances, as the impact of discounting is not significant.

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**NOTES TO THE FINANCIAL STATEMENTS (Continued)**

	Less than 1 month Kshs	Between 1- 3 months Kshs	Over 3 months Kshs	Total Kshs
<b>At 30 June 2017:</b>				
Trade payables	7,268,328	(1,845,060)	939,716	6,362,984
Parent company funding	-	-	21,497,241	21,497,241
	<u>7,268,328</u>	<u>(1,845,060)</u>	<u>22,436,957</u>	<u>27,860,225</u>
<b>At 30 June 2016:</b>				
Trade payables	9,668,770	2,397,697	246,518	12,312,985
Parent company funding	-	-	23,146,857	23,146,857
	<u>9,668,770</u>	<u>2,397,697</u>	<u>23,393,375</u>	<u>35,459,842</u>

**28 INCOPORATION**

The entity is incorporated in Kenya under the Kenyan Companies Act and is domiciled in Kenya.

**29. CAPITAL MANAGEMENT**

**Internally imposed capital requirements:**

The company's objectives when managing capital are; To provide an adequate return to shareholders by pricing products commensurate with the level of risk; To safeguard the entity's ability to continue as a going concern, so that it can continue to provide returns for shareholders and benefits for other stakeholders; To maintain a strong asset base to support the development of business; To maintain an optimal capital structure to reduce the cost of capital. The company sets the amount of capital in proportion to risk. The company manages the capital structure and makes adjustments to it in the light of changes in economic conditions and the risk characteristics of the underlying assets. In order to maintain or adjust the capital structure, the company may adjust the amount of dividends paid to shareholders, return capital to shareholders, issue new shares, or sell assets to reduce debt. Consistently with others in the industry, the company monitors capital on the basis of the gearing ratio. This ratio is calculated as net debt divided capital. Net debt is calculated as total debt (as shown in the statement of financial position) less cash and cash equivalents. Capital comprises all components of equity (i.e. share capital, and retained earnings).

The gearing ratios as at 30 June 2017 were;

	<b>2016/2017</b> <b>Kshs</b>	<b>2015/2016</b> <b>Kshs</b>
Total borrowings(Note 25(b))	21,497,241	23,146,857
Less:		
Cash & cash equivalents (Note 25c)	<u>21,761,772</u>	<u>35,807,891</u>
Net debt	<u>(264,531)</u>	<u>(12,661,034)</u>
Total equity	<u>95,213,901</u>	<u>88,577,874</u>
Gearing ratio	<u>-0.3%</u>	<u>-14%</u>

### **30. PROGRESS ON FOLLOW-UP OF AUDITORS RECOMMENDATIONS**

#### **a) Irregular Investment of Funds**

The statement of financial position reflects short-term deposit balance of Kshs. 30,000,000 and which note 16 to the financial statements shows is a cash deposited with a commercial bank. The deposit is contrary to the directive issued by the National treasury. As a result the security of the funds can't be ascertained.

**Management Action:** The Hotel has since the maturity of the last short-term deposit in August 2016, transferred the fund to one of its operating accounts and is being utilised in the implementation of the hotels turnaround strategy that involves major refurbishment of the facility with the view of elevating it to at least a 4 star rated hotel from the current 2 star within the 3-year implementation period.

#### **b) Long Outstanding Payables**

The statement of financial position reflects trade and other payables balance of Kshs. 25,285,481 as at 30 June 2015. Included in the balance are long outstanding expenses totalling Kshs. 7,385,000

Incurred between 2005/2006 and 2011/2012 financial years. It is not clear why the hotel has not offset these long outstanding expenses.

**Management Action:** These were levies charged for services centrally offered by the head office back in the years under reference for director's fee, Management fee and secretarial Services. The management and TFC agreed that there was no concrete basis for the respective charges and thus stopped the levying charges. The accrued charges so far were tabled before the Golf Hotel board during the year 2017 with a proposal of a write-off of the same and the board recommended for the issue to be taken up by the board of TFC. The Management is hopeful that a resolution for the write-off of this expenses will be assented to by the TFC board. The same is well documented in the board minutes of the year 2017.

#### **c) Unclaimed VAT recovery**

Records presented for audit indicated that vat recoverable balance amounted to Kshs. 2,826,139 (2014: Kshs. 2,127,323) as at 30 June 2016, thus implying that refund claims for input VAT were not lodged for with the KRA within 12 months as required. In the circumstance recovery of the VAT refund is doubtful.

**Management Action:** The unclaimed VAT represents withholding tax certificates receivable from trade debtors which have not been issued to the respective debtors to date. All of the VAT withholding certificates received during the period mentioned were dully claimed against VAT payable for the respective months they were received. The VAT receivable balance of Kshs. 2,826,139 consists of certificates not received amounting to Kshs. 895,528 for 2014, Kshs. 694,142 for 2015 and 2016. The balance of Kshs. 1,236,469 were received and claimed during the year 2017.



**PROGRESS ON FOLLOW-UP OF AUDITORS RECOMMENDATIONS (Continued)**

**d) Retirement Benefits Obligations (Gratuity Funds)**

The hotel has set aside funds for gratuity payment for its staff amounting to Kshs. 16,290,254 contrary to retirement benefit requirement that every employer offering gratuity to its employees should engage a registered fund administrator. Further, the funds are not kept in a distinctive bank account but are instead banked with other hotel cash. As a result, the company stands the risk of not being able to pay its retirement benefit obligations as they fall due.

**Management Action:** This has since been transferred to an identified pension scheme (British American Insurance).

