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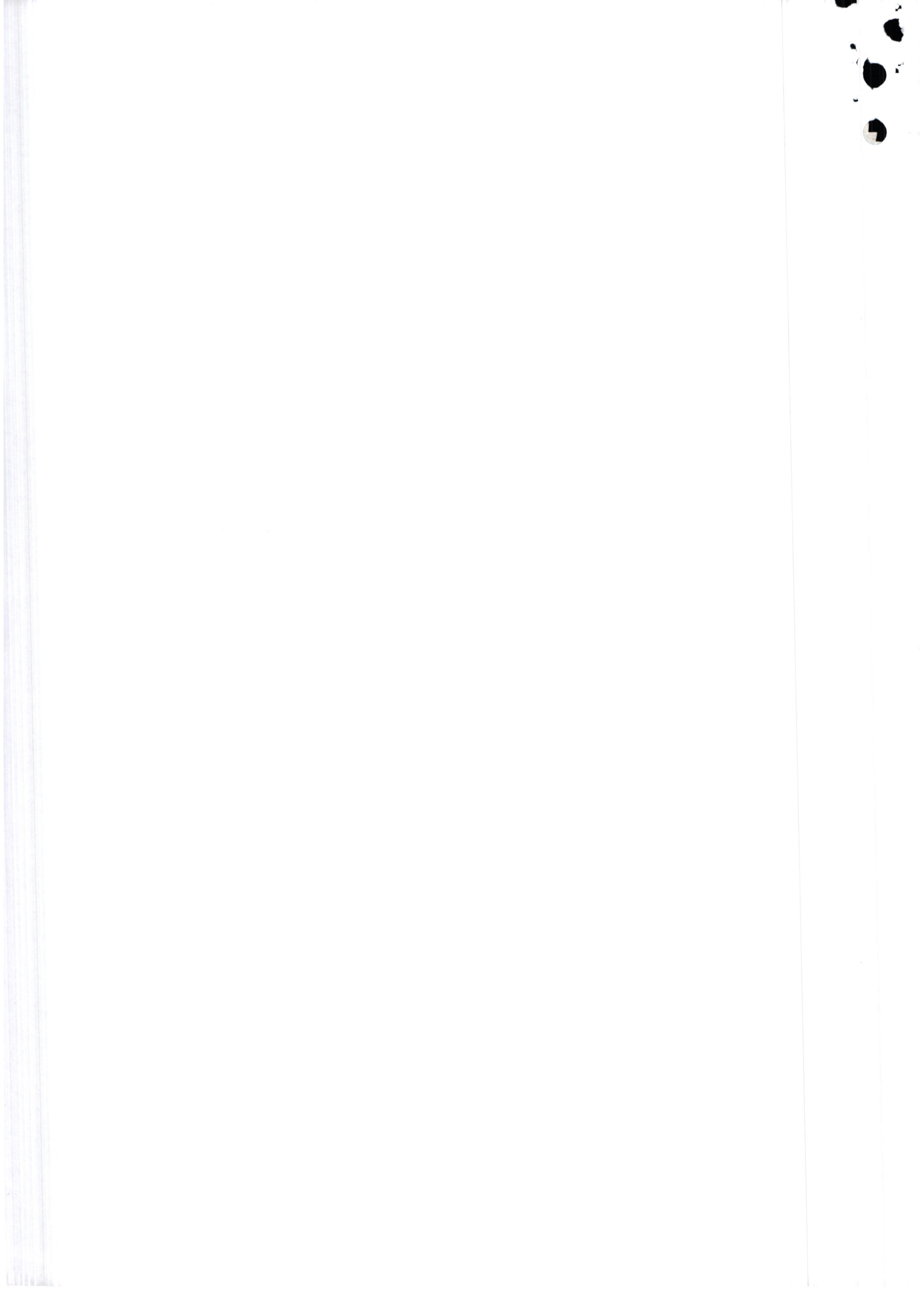
THE NATIONAL ASSEMBLY PAPERS LAID	
DATE: 14 FEB 2019	DAY: THURSDAY
TABLED BY: Hon. Aden Duale	
CLERK AT THE DESK: Mesos Lennung	

THE AUDITOR-GENERAL

ON

THE FINANCIAL STATEMENTS OF  
SUNSET HOTEL LTD

FOR THE YEAR ENDED  
30 JUNE 2018



# **SUNSET HOTEL LIMITED**

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## **REPORT AND FINANCIAL STATEMENTS FOR THE FINANCIAL YEAR ENDED JUNE 30, 2018**

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



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**KEY COMPANY INFORMATION**

Sunset Hotel Limited (“SHL”, “The Company”) was incorporated under the Kenya Companies Act (Cap 486) in 1976. The shareholders of SHL are Tourism Finance Corporation (TFC, formerly Kenya Tourist Development Corporation (KTDC) and Kisumu County (formerly Kisumu Municipal Council). TFC is the majority shareholder in SHL with a direct controlling stake of 95.4% shares with Kisumu County shareholding of 4.6%. From the management perspective, SHL is classified as a Commercial State Corporation by virtue of being a subsidiary of TFC. The shareholders through the Directors are responsible for the general policy and strategic direction of the Hotel.

**Principal Activities**

The principal activity of the Company is operation of the hotel facility mainly focusing on provision of accommodation and conference facilities.

**Directors**

1. Mr. Said Mwangi Ali - Director, Chairman to the Board (From 01/02/2018)
2. Mr. Franklin Ndi - Director, Chairman to the Board (Up to 31/01/2018)
3. Mrs. Fatuma Mohamed - Director - PS Ministry of Tourism
4. Prof. Peter Anyang Nyong'o- H.E the Governor – Kisumu County Government
5. Mr. Paul Kurgat - Director (Upto 31/01/2018)
6. Mr. Jonah T. Orumoi - Director

**Corporate secretary**

Tourism Finance Corporation  
Utalii House, 11<sup>th</sup> Floor  
P O Box 42013-00100  
Nairobi  
Email: [info@tourismfinance.go.ke](mailto:info@tourismfinance.go.ke)

**Registered Office**

Sunset Hotel Limited Aput  
Lane, Impala walk P. O.  
Box 215 – 40100  
Kisumu Kenya  
Tel. (254)057-2023482,2021490  
Email: [info@sunsethotel.co.ke](mailto:info@sunsethotel.co.ke)  
Website: [www.sunsethotel.co.ke](http://www.sunsethotel.co.ke)

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**Advocate**

P. OchiengOchieng& Co. Advocates  
ALPHA HOUSE,  
1<sup>st</sup> Floor, Wing A  
P.O. Box 3552 -40100  
**KISUMU**

**Corporate Bankers**

1. National Bank of Kenya Limited  
Oginga Odinga Street  
P.O. Box 1152 – 40100  
**KISUMU**



2. Kenya Commercial Bank  
Oginga Odinga Street  
P O Box 17 – 40100  
**KISUMU**

**Independent Auditors**



Auditor General  
Kenya National Audit Office  
Anniversary Towers, University Way  
P.O. Box 30084  
GOP 00100  
**NAIROBI, KENYA**

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**THE BOARD OF DIRECTORS**

DIRECTOR	KEY PROFESSIONAL/ ACADEMIC QUALIFICATIONS	WORK EXPERIENCE
 <p><b>Said Mwangi Ali</b> Incoming Chairman</p>	<p>Dob: 9<sup>th</sup> November 1967</p>	<p>Mr. Said M. Ali, is a Marketing Consultant with over twenty (20) years' experience in Marketing. He is the current Chairman of Sunset Hotel Limited and Rodex E.A Ltd</p> <p>He is the founder of Kenya Motor Repairers Association and a former Board Member of Hotel &amp; Restaurant Board (now TRA) and the former Secretary of Culture Kenya Arab Friendship. He was appointed to the Board on 1<sup>st</sup> February 2018.</p>
 <p><b>Franklin Ndi</b> Outgoing Chairman</p>	<p>DOB: 25<sup>th</sup> May, 1952</p> <p>Mr. Ndi 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. Ndi is a career accountant having 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>He was appointed to the Board on 2<sup>nd</sup> of October 2015 and brings on board a wealth of experience in Financial Management gained from the Public Sector where he has over 41 years' experience in Financial Management &amp; Administration.</p>

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 <p><b>Prof. Peter Anyang Nyong'o</b></p>	<p>DOB: 10<sup>th</sup> October 1945</p> <p>PhD Political Science, University of Chicago, USA.</p> <p>M.A Political Economy, University of Chicago, USA.</p> <p>Degree in Political Science, University of Chicago, USA.</p> <p>BA, Political Science &amp; Philosophy; 1<sup>st</sup> Class Honors, Makerere University, Uganda.</p>	<p>Prof . Peter Anyang Nyongo is the current Governor of Kisumu County. He has vast experience spanning over 30 years in the political field. He was previously the Senator of Kisumu County. He was the Minister of Medical Services from the year 2008 to 2013 and Member of Parliament for Kisumu Rural from 2003 to 2013.</p> <p>He was nominated to parliament from 1998-2002 after having been elected to parliament from 1993-1997 representing Kisumu Rural. He was also the very able minister of Planning and National Development from 2003 to 2005.</p> <p>Between the year 1977 and 1981, before joining the political arena, Prof. worked as the Head of Programs of African Academy of Sciences, Associate Professor of University of Addis Ababa, Ethiopia, Visiting Research Officer of EI Colegio De Mexico and as a Lecturer and Senior Lecturer of University of Nairobi.</p>
 <p><b>Orumoi. T. Jonah</b></p>	<p>DOB: 20<sup>th</sup>October 1978</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 (Hons) in Accounting &amp; Finance of the East London University, UK.</p>	<p>Mr. Orumoi is the Managing Director of Tourism Finance Corporation and 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>




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 <p><b>Fatuma Hirsi Mohamed</b>  (Mrs.) CBS Principal Secretary; Ministry Of Tourism</p>	<p>DOB: 17<sup>th</sup> August 1963</p> <p>Academically, she has an MBA in strategy and marketing, a BA (Hons) in languages and a postgraduate diploma in Public Relations. She is currently at the tail-end of completing a PhD in Communications Studies. Fatuma has been recognized for her leadership and honoured with a Fellow and lifetime achievement award from the Public Relations Society of Kenya which she served as chairman for 5 years. She has also been awarded by the President of the Republic of Kenya with an Order of Chief of the Burning Spear (CBS).</p>	<p>Mrs FatumaHirsiMohamed, Prior to joining the Ministry of Tourism as the Principal Secretary, Mrs. Fatuma Hirsi Mohamed was an international Civil Servant working for the United Nations. She has previous experience in various business sectors including telecom, media and banking contributing to their corporate and business reputation and success.</p> <p>Fatuma has wide experience in strategic implementation and governance of business through marketing, public relations, communications, community and stakeholder relation building, corporate social responsibility and media engagement. She has also been spokesperson for the companies she served.</p>
 <p><b>Paul Kurgat</b></p>	<p>DOB: 9<sup>th</sup> May 1969</p> <p>He holds a Bachelor's Degree in Hospitality and Events Management from Moi University and is currently pursuing a Master in Tourism Management at the Moi University. He is also a graduate of the Kenya Utalii College. Mr. Kurgat is a member of the General Assembly of Action Aid and is the National Chairman of the Kenya Utalii College alumni</p>	<p>Mr. Kurgat was appointed to the Board on 2<sup>nd</sup> October, 2015. He is the current General Manager of Somak Safaris Kenya. 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>He retired from the Board on 30<sup>th</sup> January 2018.</p>

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**MANAGEMENT TEAM**

<b>PERSONNEL</b>	<b>KEY PROFESSIONAL/ACADEMIC QUALIFICATIONS</b>	<b>AREA OF RESPONSIBILITY</b>
 <p><b>Joseph Oduor</b></p>	<p>Holds a Master of Business Administration (Accounting &amp; Finance). Over 15 years' experience in the Hospitality Management</p>	<p>General Manager</p>
 <p><b>Stephen Katambani</b></p>	<p>Diploma in Hotel Management Certificate in Food and Beverage sales &amp; Service. Over 10 years' experience in Hospitality Management</p>	<p>Manager</p>
 <p><b>Risper Chichole</b></p>	<p>Holds a Bachelor of Commerce (B.com.) Finance, CPA (K), Diploma in Accounting.</p> <p>Over 10 years experience</p>	<p>Accountant (On Secondment from Golf Hotel)</p>

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**CHAIRMAN'S STATEMENT**

On behalf of my fellow Board Members, the Management and myself I hereby present to Financial Statements of Sunset Hotel Ltd for the Financial Year 2017/2018. For a number of years the performance of the Hotel has been wanting; this can be attributed to a number of factors inter alia the downturn of the tourism sector in the country, the state of the facility and the increase in the number of star rated facilities within Kisumu County that provided stiff competition for the hotel which has highlighted the need for a strategic repositioning of the hotel. In the Year under review the hotel faced a loss of Kshs. 21.9 Million against the expected profit of Kshs. 0.6 Million; this brings the accumulated losses to Kshs. 139Million.

Given the performance of the hotel over the last few years, the continued operation of the hotel in the current circumstance would inevitably result in accumulation of more losses. Additionally, the status of the hotel as a going concern is in doubt and the Board of Directors has, in response, opted to take appropriate measures in the coming Financial Year to forestall the accumulation of more losses and safeguard the investment of the shareholders.

In the coming Financial Year, the Board will implement strategic and deep-seated changes in the hotel that are intended to bring sweeping changes in the operations of the hotel. The current Board has shown a lot of goodwill and I believe this will go a long way in assisting the hotel in making the revolutionary change required to salvage the hotel from its current quagmire. I would like to record my sincere gratitude to the Board for their invaluable support, commitment and dedication which has helped steer the hotel's strategic thinking to new altitudes.

Finally, on behalf of the Board of Directors, Management & Staff I would like to express my sincere gratitude to our customers for their patronage over the Years and look forward to their continued support in future.



28/9/18

**Mr. Said Mwangi Ali**  
**Chairman**

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**REPORT OF THE CHIEF EXECUTIVE OFFICER**

On behalf of management of Sunset Hotel Limited, I am pleased to present to you the Annual Report and Financial Statements of the company for the year ended 30<sup>th</sup> June 2018.

Kisumu County has in the recent past experienced a serious upsurge of new hotels that have created a serious scramble for clients coming to the region. This has indeed brought about serious competition that is certainly good for the industry. On the other hand, this entry of new hotels has 'disadvantaged' the old hotels and has created a challenge that the old hotels must quickly address and deal with in order to remain competitive and relevant. Apparently, this is the fate that has befallen Sunset Hotel Kisumu.

The hotel is however advantaged in the sense that it has reasonably built a name over the years and is strategically located and that this must be used to the benefit of the hotel.

During the year 2018, the hotel achieved a net turnover of Kshs 34 million (2017: Kshs 42.2million) representing a decline of 19.5 % and a loss of Kshs. 21.9 million (2017: Kshs 27.7 million) 21% improvement.

The management is however hopeful that the turnaround process will yield positive impact once the intended refurbishment is actualized. It is envisaged that more efforts will be directed towards increasing operational efficiency and implementing strategies such as increasing accommodation capacity, marketing, advertising and promotions that are directed towards securing more business.

Finally, on behalf of management and staff of Sunset Hotel Ltd, may I express our sincere appreciation to the Board of directors for their committed support and encouragement during the year ended 30<sup>th</sup> June 2018. I equally wish to express my gratitude to the National Government, The County Government of Kisumu as shareholders, customers and other valuable stakeholders for their support and we indeed look forward for continued engagement in future.



**Joseph Oduor**  
**General Manager**

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**CORPORATE GOVERNANCE STATEMENT**

Corporate Governance comprises the rules, practices and processes by which the company is directed and controlled. It also provides the framework for attaining the company's objectives. The Board of Directors has embraced Governance as the mode of engagement and interaction between the Corporation's Board, Management, Stakeholders and Regulators for the sustainable benefit of the hotel.

Sunset Hotel Ltd is committed to realizing profits and growth while complying with all legal Requirements and maintaining business ethics. The above are realized through:

**a) Board of Directors**

The Board provides leadership of the Company with the framework that upholds the core values underpinning good Corporate Governance.

The board's duties and responsibilities include;

- Setting the Strategic Direction of the hotel and putting in place appropriate policies, systems and structures for their successful implementation;
- Establishing and maintaining the hotel's overall systems of planning, accounting and internal controls that facilitate prudent risk management;
- Setting policy guidelines for management and ensuring competent management of the business including selection, supervision, and remuneration of Senior Management
- Ensuring the business of the hotel is conducted in compliance with relevant laws and regulations
- Monitoring the hotel's performance and reporting this to the shareholders.

There exists a formal procedure to the appointment of directors. Key elements such a conflict of interests and multiple directorships are considered during this exercise. Towards the end, the company has consistently formulated successive 5 years strategic plan.

**b) Board Composition**

The Board believes that to achieve good corporate governance, there is need for strong presence of the non- executive directors in the Board. During the year under review, the Board had five Directors of all whom were non-executive Directors. The General Manager attended the Board meetings in his capacity as General Manager.

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The Board Chairman has the overall responsibility of leading the Board. He oversees the operations and effectiveness of the Board and ensures that the Boards' discussions are conducted in a manner that promotes open participation.

The Directors who held office during the year under review is as listed under the Board of Directors; afore section in this report.

The Corporation Secretary being the custodian of corporate governance within the entity 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 and advises the Board on all Corporate Governance matters and prevailing statutory requirements.

**c) 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.

An extract of the calendar showing meetings scheduled for 2017/2018 for the hotel is as below:

ENTITY	Oct/Nov/Dec 2017	Jan/ FEB / march2018	April/ May/June 2018
Sunset Hotel	9 <sup>th</sup> Nov	15 <sup>th</sup> Feb	17 <sup>th</sup> May

The time, date, venue and Agenda of the meeting are communicated in advance. Attendance of the Board Members to full Board meeting, Special Board meeting and consultative meeting over the year are set as below:

DIRECTORS	DETAILS	FULL BOARD MEETING	CONSULTATIVE MEETINGS	SPECIAL BOARD MEETING
H.E Prof. Anyang Nyong'o	Director- Governor Kisumu County	2		
Said Ali Mwangi	Director- Chairperson	1		
Franklin Ndi	Director Rep. TFC - Chairperson	1	1	4
Jonah Orumoi	Director- MD Tourism Finance Corporation	2	1	3
Paul Kurgat	Director –Representing TFC	2	1	4

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Daudin Hajji	Rep. PS – Ministry Of Tourism			3
Sabina Nyamu	Alternate to MD - TFC			1
Dr. Ochieng Owili	Deputy Governor / Alternate to Kisumu Governor			1
John Karia	Company Secretary - TFC	2		1
Wamuyu Kariuki	Ag. Company Secretary			1
George Ongaya	CEC Member, Finance – Alternate to Governor			1
David Gichuhi	Inspectorate of State Corporations	1		
Achie Alai	Alternate to the Governor			1

**d) Company Policy on Directors Remuneration**

Company Directors are entitled to sitting allowances for each Board Meeting. The Chairman should be paid an honorarium on a monthly basis as per the budget approved 2017/2018. Directors are entitled to transport and meal allowance when attending Board Meetings outside their regular areas of residence. These are payable at the following rates:-

Title	Honorarium Per Month	Directors Sitting Allowance Per Sitting	Lunch Allowance Per Sitting	Air ticket per director	Subsistence Claim
Board Chairman	40,000	20,000	2,000		
Directors		20,000	2,000	As per travel	18,200

**e) General Terms of Service**

Directors serve a 3 years term service from the date they are elected into office. They are eligible for re-election for one second term of 3 years.

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**Directors Remuneration Paid During the Year end June 2018**

NO	Name	Details	Directors Sitting allowance (Kshs.)	Accrued Allowances (Kshs.)	Directors Expenses (Kshs.)
1.	Jonah Orumoi	MD-Tourism Finance Corporation	40,000	80,000	12,783
2.	Franklin Ndi	Director rep- Tourism Finance Corporation	40,000	80,000	7,799
3.	Paul Kurgat	Director rep- Tourism Finance Corporation	40,000	100,000	13,116
4.	Daudin Haji	Rep PS- Ministry of Tourism	20,000	40,000	2,160
5.	Prof. Anyang Nyong'o	Director		40,000	6,106
6.	Said Mwangi A.li	Director		20,000	5,614
7.	Sabina Nyamu	Alternate to MD - TFC		20,000	333
8.	Dr. Ochieng Owili	Alternate to Governor		20,000	333
9.	John Karia	Company Secretary		60,000	8,404
10.	Wamuyu Kariuki	Ag. Company Secretary		20,000	2,160
11.	George Ongaya	Alternate to Governor		20,000	2,160
12.	David Gichuhi	Inspectorate of State Corporations		20,000	3,650
13.	Achie Alai	Alternate to the Governor		20,000	333
		<b>Total</b>	<b>140,000</b>	<b>540,000</b>	<b>64,951</b>

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**Directors Remuneration Paid During the Year end June 2017**

<b>Directors</b>	<b>Details</b>	<b>Full Board Meeting</b>	<b>Consultative Meetings</b>	<b>Allowances As At 30<sup>th</sup> June 2017</b>
Jonah Orumoi	Director- Tourism Finance Corporation	3	2	79,250
George Ongaya	Executive Member Kisumu County – Treasury/ Alternate to Kisumu Governor	2		62,545
Franklin Ndi	Director Rep. TFC - Chairperson	3		65,340
Paul Kurgat	Director Rep. – TFC	4	1	196,340
Wamuyu Kariuki	Ag. Company Secretary - TFC	1		14,000
Said Athman	Rep. Ps – Min Of Tourism	1		22,800
Abdinasir Ali	Alternate to MD	1		50,605
Abdulai W.M.Omolo	Rep PS – Min Of Tourism	1		20,000
Mary Njeri	Company Secretary - TFC	2		50,090
	<b>Total</b>			<b>560,970</b>

**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.

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**MANAGEMENT DISCUSSION AND ANALYSIS**

**Operational and Financial Performance**

The day to day running of the business of Sunset Hotel Ltd is delegated by the Board to the Hotel General manager who implements Board decisions in a manner that adds value to the hotel.

**a) Revenue/Profitability**

During the year under review, the hotel achieved a net turnover of Kshs 34 million against a budget of Kshs 104.6 million. This represented an unfavorable variance of 67%. Net loss stood at Kshs.21.9million against the projected profit of Kshs.0.6million as shown below. This poor performance is attributed to the deplorable state of the hotel that needs an urgent and decisive attention to fix.

PARTICULARS	ACTUAL	APPROVED BUDGET	VARIANCE	%AGE	STATUS
	2018	2018		VARIANCE	
	Kshs.	Kshs.	Kshs.		
Sales	34,089,815	104,636,670	(70,546,855)	(67%)	U
Cost of sales	8,460,510	22,444,886	13,984,376	62%	F
<b>Gross Profit</b>	<b>25,629,305</b>	<b>82,191,784</b>	<b>(56,562,479)</b>	<b>(69%)</b>	<b>U</b>
Gross profit % overall	76	79			
Room Occupancy %	15	38			
Bed Occupancy %	10	31			
<b>EXPENDITURE</b>					
Administration Cost	38,325,651	72,406,561	34,120,910	47%	F
Selling & distribution cost	608,983	1,778,500	1,169,517	66%	F
Depreciation of PPE	3,560,816	3,675,000	114,184	3%	F
<b>Total Expenditure</b>	<b>42,495,450</b>	<b>77,860,061</b>	<b>35,364,611</b>	<b>45%</b>	<b>F</b>
<b>Operating Profit/ ( Loss)</b>	<b>(16,866,145)</b>	<b>4,331,723</b>	<b>(21,197,868)</b>	<b>(489%)</b>	<b>U</b>
Finance Costs	5,035,611	3,730,350	(1,305,261)	(35%)	U
<b>Net Profit / ( Loss)for the year</b>	<b>(21,901,756)</b>	<b>601,373</b>	<b>(22,503,129)</b>	<b>(3,742)%</b>	<b>U</b>

The Hotel's key strength is its strategic location with the major challenges being its poor facility, high cost of operations and increased competition. The visible decline in sales due to stiff competition from our competitors has really hit Sunset Hotel in that change is inevitable since it is a reality and what we knew yesterday may no longer be applicable today. In this regard, there is an urgent need to invest on the hotel as envisioned in capital budget for the Financial Year 2017/2018 in a bid to turn around the hotel. The continuity of the Hotel as a going concern is under serious threat as it currently stands.

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The Management however strongly believes that the Hotel has immense potential which if tapped through carefully thought out turn around strategies will certainly reclaim the Hotel's fast fading glory; this is already underway with discussions between the management, the directors/shareholders regarding the same having commenced.

**b) Administration Costs**

The overall vote was within the budget with a favorable variance of 47%. This is attributed to cost control measures.

**c) Finance Costs**

This relates to Interest on loans disbursed to sunset. The increment of the expense was due increment of loan interest rate from 9% to 11% by TFC.

**d) Liquidity Position**

As a result of the above adverse revenue variance and general dismal performance, the Hotel is unable to meet its obligations as and when they fall due with the Hotel being in arrears of salaries for five months for instance. The liquidity position clearly indicates that to date, the Hotel cannot even finance the very immediate obligations unless calculated steps are taken to address the improvement of cash flows in the Hotel.

**e) Compliance with Statutory Requirements**

Sunset Hotel is fully compliant with all the relevant statutory requirements. The required returns are filed as and when due. However, the hotel currently has financial constraints which make the hotel to occasionally lag behind on making remittances to the relevant organs e.g KRA and NSSF. These may expose the hotel to some contingent liabilities in the future.

**f) Key Projects and Investment Decisions Implemented by the Entity**

Due to the current financial crisis, the hotel has no ongoing projects or upcoming ones.

**g) Financial Probity and Serious Governance**

There are no major financial improbity reported by internal audit, external audit or other national government agencies providing oversight, neither are there serious governance issues among the board or member of the board and top management including conflict of interest.

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**CORPORATE SOCIAL RESPONSIBILITY**

Corporate Social Responsibility (CSR), Environmental Conservation and Sustainability means corporate culture for Sunset Hotel, 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 Sunset 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. Sunset Hotel continues to give priority to the local communities and farmers living around our areas of operation where possible so as to ensure economic independence. The Hotel occasionally hires local performers to entertain guests through dance and music thus enhancing guest experience by exposing them to the diverse range of local cultures and ethnic groups whilst economically empowering the local people. The hotel is largely engaged in supporting education specifically by offering internships to students and allowing the students to tour the facility as a way of gaining practical experience especially for hospitality students.

Occasionally, the Hotel also supports some charitable causes and community initiatives. These take many forms: cash, supply of foodstuffs or clothing, hosting of community events. Due to financial constraints, during the year the hotel made charitable donations amounting to Kshs.1,745.69 being Christmas gift to the needy children through the County x-mass tree.



Kisumu County City Manager's office      Found at Sunset Hotel

**SUNSET HOTEL LIMITED**  
**Annual Reports and Financial Statements**  
**For the year ended June 30, 2018**

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**REPORT OF DIRECTORS**

The Directors submit their report together with the audited financial statement for the year ended June 30, 2018 which shows the state of Sunset Hotel Ltd affairs.

**Principal activities**

The principal activity of the company is provision of accommodation and conferencing facilities.

**Results**

The results of the entity for the year ended June 30, 2018 are set out on pages 1- 42

**Dividend**

Owing to the loss recorded in the year, the directors do not recommend payment of dividend.

**Reserves**

The Directors propose to carry forward the balance of accumulated losses amounting to Kshs. 139,368,238

**Directors**

The members of the Board of Directors who served during the year to date of this report are set out on page iv-vi in accordance with Regulation 2(b) of the Sunset Hotel Ltd Articles of Association. Mr. Paul Kurgat retired on 30<sup>th</sup> January 2018.

**Auditors**

The Auditor General is responsible for the statutory audit of the Sunset Hotel Ltd in accordance with Article 229 of the Constitution of Kenya and the Public Audit Act 2015. The Auditor General continues in office in accordance with Section 35 of the Public Audit Act 2015.

**By Order of the Board**



**Company Secretary**  
**Tourism Finance Corporation**  
P O Box 42013-00100  
Nairobi  
Date.....

**SUNSET HOTEL LIMITED**  
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**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 Sunset 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.

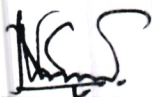
The Directors are responsible for the preparation and presentation of the Hotel's financial statements, which give a true and fair view of the state of affairs of the Hotel for and as at the end of the financial year ended on June 30, 2018. This responsibility includes: (i) maintaining adequate financial 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, 2018, 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.

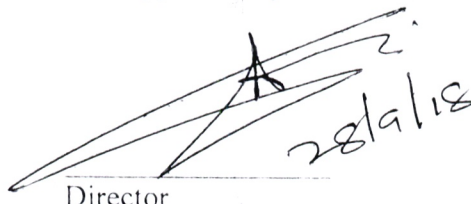
**Approval of the financial statements**

Sunset Hotel's financial statements were approved by the Board on 28<sup>th</sup> of September 2018 and signed on its behalf by:

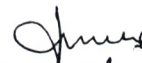


Director

28<sup>th</sup> SEPT. 2018



Director



Director

28/09/2018

**SUNSET HOTEL LIMITED**  
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**REPORT OF THE INDEPENDENT AUDITORS ON SUNSET HOTEL LIMITED**



## OFFICE OF THE AUDITOR-GENERAL

### REPORT OF THE AUDITOR-GENERAL ON SUNSET HOTEL LTD FOR THE YEAR ENDED 30 JUNE 2018

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#### REPORT ON THE FINANCIAL STATEMENTS

#### Qualified Opinion

I have audited the accompanying financial statements of Sunset Hotel Limited set out on pages 1 to 50 which comprise the statement of financial position as at 30 June 2018, and the statement of comprehensive income, statement of changes in equity, statement of cash flows and statement of comparison of budget and actual amounts for the year then ended, and a summary of significant accounting policies and other explanatory information in accordance with the provisions of Article 229 of the Constitution of Kenya and Section 35 of the Public Audit Act, 2015. I have obtained all the information and explanations which, to the best of my knowledge and belief, were necessary for the purpose of the audit

In my opinion, except for the effects of the matter described in the Basis for Qualified Opinion section of my report, the financial statements present fairly, in all material respects, the financial position of Sunset Hotel Limited as at 30 June, 2018, and (of) its financial performance and its cash flows for the year then ended, in accordance with International Financial Reporting Standards and comply with the Companies Act, Cap 486 of Kenya.

#### Basis for Qualified Opinion

##### 1.0. Inaccurate Share Holding - Discrepancy in Share Certificate and Undisclosed Share Certificates

Sunset Hotel was incorporated under the Kenya Companies Act (Cap 486) in 1976. The shareholders are Tourism Finance Corporation- TFC (formerly Kenya Tourist Development Corporation- KTDC) with 95.4% shareholding and Kisumu County Executive (formerly defunct Municipal Council of Kisumu) with 4.6% shareholding. The shares held by the defunct Municipal Council (MCK) and KTDC have not yet been transferred to the newly created entities as required by law. However, two (2) share certificates provided for audit indicated that entity shares were valued at Kshs.17,000,000 while the financial statements reflect shares worth Kshs.12,000,000 resulting in unexplained difference of Kshs.5,000,000. Also, KTDC shareholding stands at 67.3% as per the share certificates while MCK shares certificates were not availed for audit. Consequently, the correct ownership could not be verified.

## **2.0 Property, Plant and Equipment**

### **2.1 Fully Depreciated Assets**

The statement of financial position reflects property, plant and equipment balance of Kshs.92,680,945 as at 30 June 2018. However, the Hotel had not depreciated electric transformer, volund washing machines and motor vehicles whose original cost amounted to Kshs.8,814,614 to nil value. These assets were still in use but had not been revalued to reflect current market value and further, no funds had been set aside to replace the fully depreciated assets. Further, although the Hotel maintains a fixed assets register, the assets cards are not properly numbered and are not labeled in the hotels name. Physical verification revealed that all the fixed assets were not coded or assigned distinct identification tags as required. Consequently, the validity and correctness of the fixed assets register could not be confirmed.

### **2.2 Revaluation Reserve**

As reported in previous years, revaluation reserve balance of Kshs.79,262,476 has remained constant since the assets were last valued in 2004. The anomaly contravenes International Accounting Standard No.16 which requires that the transfers be made to the revenue reserves on an annual basis as the assets are depreciated. Further, although the standard requires that fixed assets be revalued periodically the last revaluation of the Hotel's assets was done fifteen (15) years ago.

Consequently, the accuracy of property, plant and equipment balance of Kshs.92,680,945 as at 30 June 2018 cannot be confirmed.

## **3.0 Material Uncertainty Related to Going Concern**

During the year under review, the Hotel realized a loss of Kshs.21,901,756 against a loss of Kshs.27,700,389 reported in the year ended 30 June 2017. This raised the cumulative loss to Kshs.139,368,338 (2017: Kshs.117,466,482) as at 30 June 2018. The statement of financial position also reflects a negative working capital of Kshs.101,553,014.

In view of the foregoing, the hotel is technically insolvent and its continued existence as a going concern is dependent upon financial support from National Government and its creditors.

The audit was conducted in accordance with International Standards of Supreme Audit Institutions (ISSAIs). I am independent of Sunset Hotel Ltd 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 ethical requirements applicable to performing audits of financial statements in Kenya. I believe that the audit evidence I have obtained is sufficient and appropriate to provide a basis for my qualified opinion.

## Emphasis of Matter

### 1. Current Liabilities

#### Non Remittance of Tax Arrears

Included in the statement of financial position is trade and other receivables under Note 21 of Kshs.59,596,097 is Paye As You Earn, Value Added Tax and Withholding Tax of Kshs.9,795,197, Kshs.9,191,315 and Kshs.1,456,346 respectively which have accrued from the year 2012 to 2018 and have not been remitted to Kenya Revenue Authority as per the requirements. Consequently, the continued operation of the Company is uncertain beside the risk of penalties and voidable interest charges.

### 2. Delayed Remittance of Statutory Deductions

Included in the statement of financial position is trade and other payables of Kshs.59,596,097 is National Social Security Fund (NSSF), National Health Insurance Fund (NHIF), Union dues, Sunset Sacco and staff insurance deductions of Kshs.2,373,198, Kshs.97,080, Kshs.344,370, Kshs.3,212,115 and Kshs.223,609 respectively. These payables have been outstanding since the year 2012. Consequently, the continued operation of the Company is uncertain and the company risks payment of voidable penalties and interest charges.

### 3. Audit Fee

Included in the statement of financial position trade and other payables of Kshs.59,596,097 is audit fee brought forward of Kshs.4,040,000 and charge for the year Kshs.600,000 totaling to Kshs.4,640,000 which has accrued for the last 14 years and have not been paid as at 30th June, 2018 as per the Public Audit Act 2015.

As a result, the hotel is breach of the law.

## Budget as a Control Tool

### Budget Performance

Comparison of budget and actual figures revealed variances as per the table below:

Audit Components	Budget Kshs.	Actual Kshs.	Variance Kshs.	% Absorption
Sales	104,636,670	34,089,815	70,546,855	33%
Cost of sales	22,444,886	8,460,510	13,984,376	38%
Administration costs	72,406,561	38,325,651	34,080,910	53%
Selling and distribution costs	1,778,500	608,983	1,169,517	34%
Depreciation costs	3,675,000	3,560,816	114,184	97%
Finance costs	3,730,350	5,035,611	-1,305,261	135%

Analysis of Sunset Hotel limited of budget against actual performance reveals that, the entity overspent on finance cost with Kshs.1,305,261. Further, the entity made low income from sales than they budgeted for by Kshs.70,546,855.

### **Key Audit Matters**

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

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

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(s) described in the Basis for Qualified Opinion section, I have determined that there are no other key audit matters to communicate in my report.

### **REPORT ON COMPLIANCE WITH LAWFULNESS AND EFFECTIVENESS IN USE OF PUBLIC RESOURCES**

#### **Conclusion**

As required by Article 229(6) of the Constitution, because of the significance of the matters discussed in the Basis for [Conclusion on Lawfulness and Effectiveness in Use of Public Resources/Qualified Opinion] section of my report, based on the audit procedures performed, I confirm that public resources have not been applied lawfully and in an effective way.

#### **Basis for Conclusion**

##### **Staff Costs**

##### **Cash Payment of Permanent Employees Salaries**

It has been observed that in some occasions the permanent employees of Sunset Hotel are being paid cash instead of their salaries being channeled in their respective bank accounts. A sample of payment vouchers paying salaries was done and a total of

Kshs.3,112,793 was realized to have been paid to several employees as salaries in cash during the period under review.

The audit was conducted in accordance with ISSAI 4000. The standard requires that I comply with ethical requirements and plan and perform the audit to obtain assurance about whether the activities, financial transactions and information reflected in the financial statements are in compliance, in all material respects, with the authorities that govern them. I believe that the audit evidence I have obtained is sufficient and appropriate to provide a basis for my conclusion.

## REPORT ON EFFECTIVENESS OF INTERNAL CONTROLS, RISK MANAGEMENT AND GOVERNANCE

### Conclusion

As required by Section 7(1) (a) of the Public Audit Act, 2015, based on the audit procedures performed, except for the matter(s) described in the Basis for [Conclusion on Effectiveness of Internal Controls, Risk Management and Governance/Qualified Opinion] section of my report, I confirm that, nothing has come to my attention to cause me to believe that internal controls, risk management and overall governance were not effective.

### Basis for Conclusion

#### 1. Understanding the Entity

##### Non Establishment of an Audit Committee

Sunset Hotel Ltd apart from not having an Internal Audit Department had not established an audit committee as required by the regulations. Consequently, the management is in breach of the regulation.

The audit was conducted in accordance with ISSAI 1315 and ISSAI 1330. The standards require that I plan and perform the audit to obtain assurance about whether effective processes and systems of internal control, risk management and governance were operating effectively, in all material respects. I believe that the audit evidence I have obtained is sufficient and appropriate to provide a basis for my conclusion.

## REPORT ON OTHER LEGAL AND REGULATORY REQUIREMENTS

As required by the Companies Act, cap 486, the Laws of Kenya, I report based on my audit, that:

- i. I have obtained all the information and explanations which, to the best of my knowledge and belief, were necessary for the purpose of the audit;
- ii. in my opinion, adequate accounting records have been kept by the Sunset Hotel Ltd, so far as appears from the examination of those records; and,

The Sunset Hotel Ltd financial statements are in agreement with the accounting records and returns.

### **Responsibilities of Management and Those Charged with Governance**

Management is responsible for the preparation and fair presentation of these financial statements in accordance with International Financial Reporting Standards and for maintaining effective internal control as management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error and for its assessment of the effectiveness of internal control.

In preparing the financial statements, management is responsible for assessing the Sunset Hotel Ltd ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the applicable basis of accounting unless the management either intends to liquidate the Sunset Hotel Ltd or to cease operations, or have no realistic alternative but to do so.

Management is also responsible for the submission of the financial statements to the Auditor-General in accordance with the provisions of Section 47 of the Public Audit Act, 2015.

In addition to the responsibility for the preparation and presentation of the financial statements described above, management is also responsible for ensuring that the activities, financial transactions and information reflected in the financial statements are in compliance with the authorities which govern them, and that public money is applied in an effective manner.

Those charged with governance are responsible for overseeing the Sunset Hotel Ltd financial reporting process, reviewing the effectiveness of how the entity monitors compliance with relevant legislative and regulatory requirements, ensuring that effective processes and systems are in place to address key roles and responsibilities in relation to governance and risk management, and ensuring the adequacy and effectiveness of the control environment.

### **Auditor-General's Responsibilities for the Audit**

The audit objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes my opinion in accordance with the provisions of Section 48 of the Public Audit Act, 2015 and submit the audit report in compliance with Article 229(7) of the Constitution. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISSAIs will always detect a material misstatement and weakness when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

In addition to the audit of the financial statements, a compliance review is planned and performed to express a conclusion with limited assurance as to whether, in all material respects, the activities, financial transactions and information reflected in the financial statements are in compliance with the authorities that govern them in accordance with the provisions of Article 229(6) of the Constitution and submit the audit report in compliance with Article 229(7) of the Constitution. The nature, timing and extent of the compliance work is limited compared to that designed to express an opinion with reasonable assurance on the financial statements.

Further, in planning and performing the audit of the financial statements and review of compliance, I consider internal control in order to give an assurance on the effectiveness of internal controls, risk management and governance processes and systems in accordance with the provisions of Section 7 (1) (a) of the Public Audit Act, 2015 and submit the audit report in compliance with Article 229(7) of the Constitution. My consideration of the internal control would not necessarily disclose all matters in the internal control that might be material weaknesses under the ISSAIs. A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements caused by error or fraud in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions.

Because of its inherent limitations, internal control may not prevent or detect misstatements and instances of non-compliance. Also, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the Sunset Hotel Ltd policies and procedures may deteriorate.

As part of an audit conducted in accordance with ISSAIs, I exercise professional judgement and maintain professional skepticism throughout the audit. I also:

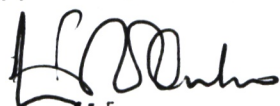
- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for my opinion. The risk of not detecting 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.
- 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 Sunset Hotel Ltd ability to continue as a going concern or 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 Sunset Hotel Ltd to cease to continue as a going concern or 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 Sunset Hotel Ltd 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.



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

**Nairobi**

**24 January 2019**

**SUNSET HOTEL LIMITED**  
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**STATEMENT OF PROFIT & LOSS AND OTHER COMPREHENSIVE INCOME FOR THE PERIOD ENDED 30<sup>TH</sup> JUNE 2018**

	Note	2018 Kshs	2017 Kshs
<b>REVENUES</b>			
Sales/ Turnover	6(a)	34,089,815	42,242,826
<b>TOTAL REVENUES</b>		<b>34,089,815</b>	<b>42,242,826</b>
Cost of Sales	6(b)	8,460,510	10,767,219
<b>GROSS PROFIT</b>		<b>25,629,305</b>	<b>31,475,607</b>
<b>OPERATING EXPENSES</b>			
Administration Costs	7(a)	38,325,651	50,995,225
Selling and Distribution Costs	8	608,983	874,166
Depreciation of Property, plant and equipment	14	3,560,816	3,574,603
<b>TOTAL OPERATING EXPENSES</b>		<b>42,495,450</b>	<b>55,443,994</b>
<b>OPERATING PROFIT/(LOSS)</b>		<b>(16,866,145)</b>	<b>(23,968,387)</b>
Finance Costs	10	5,035,611	3,732,002
<b>PROFIT/(LOSS) BEFORE TAXATION</b>	11(b)	<b>(21,901,756)</b>	<b>(27,700,389)</b>
<b>INCOME TAX EXPENSES/ (CREDIT)</b>		-	-
<b>PROFIT/(LOSS) AFTER TAXATION</b>	11(b)	<b>(21,901,756)</b>	<b>(27,700,389)</b>
Earnings per share – basic and diluted	12	(36.50)	(46.17)
Dividend per share	13	-	-

**SUNSET HOTEL LIMITED**  
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**STATEMENT OF FINANCIAL POSITION**

	Note	2018 Kshs	2017 Kshs
<b>ASSETS</b>			
<b>Non-Current Assets</b>			
Property, plant and equipment	14	92,680,945	96,231,262
<b>Total Non-Current Assets</b>		<b>92,680,945</b>	<b>96,231,262</b>
<b>Current Assets</b>			
Inventories	15	193,588	281,008
Trade and other receivables	16(a)	17,043,127	14,077,590
Bank and cash balances	17(a)	600,106	145,602
<b>Total Current Assets</b>		<b>17,836,821</b>	<b>14,504,200</b>
<b>Total Non-Current Assets</b>		<b>110,517,766</b>	<b>110,735,462</b>
<b>EQUITY AND LIABILITIES</b>			
<b>Capital and Reserves</b>			
Ordinary share capital	18	12,000,000	12,000,000
Revaluation reserve	19	79,262,476	79,262,476
Retained earnings		(139,368,238)	(117,466,482)
Proposed dividends			
<b>Capital and Reserves</b>		<b>(48,105,762)</b>	<b>(26,204,006)</b>
<b>Non-Current Liabilities</b>			
Shareholders loan advanced	20	1,431,286	1,431,286
TFC Principle balance account	20	35,302,407	38,192,607
Advance from TFC	20	2,500,000	-
<b>Total Non-Current Liabilities</b>		<b>39,233,693</b>	<b>39,623,893</b>
<b>Current Liabilities</b>			
Trade and other payables	21(a)	59,596,097	45,403,773
Accrued Loan Principal	22(b)	32,669,441	29,779,241
Accrued Loan interest	22(b)	27,124,297	22,088,686
Overdraft (NBK)	22(b)	-	43,875
<b>Total Current Liabilities</b>		<b>119,389,835</b>	<b>97,315,575</b>
<b>TOTAL EQUITY AND LIABILITIES</b>		<b>110,517,766</b>	<b>110,735,462</b>

The financial statements were approved by the Board on 28/09/ 2018 and signed on its behalf by:



**GM**  
Joseph Oduor

**Head of Finance**  
Risper Chichole  
CPAK M/NO: 8320

**Chairman of the Board**  
Said Mwangi Ali

28/9/18

**SUNSET HOTEL LIMITED**  
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**STATEMENT OF CHANGES IN EQUITY**

	Ordinary share capital	Revaluation reserve	Retained earnings	Total
<b>At July 1, 2016</b>	<b>12,000,000</b>	<b>79,262,476</b>	<b>(89,766,092)</b>	<b>1,496,384</b>
Revaluation gain	-	-	-	-
Transfer of excess depreciation on revaluation	-	-	-	-
Deferred tax on excess depreciation	-	-	-	-
Capital/Development grants received during the year	-	-	-	-
Profit/( Loss) for the year			(27,700,389)	(27,700,389)
<b>At June 30, 2017</b>	<b>12,000,000</b>	<b>79,262,476</b>	<b>(117,466,482)</b>	<b>(26,204,006)</b>
<b>At July 1, 2017</b>	<b>12,000,000</b>	<b>79,262,476</b>	<b>(117,466,482)</b>	<b>(26,204,006)</b>
Revaluation gain	-	-	-	-
Transfer of excess depreciation on revaluation	-	-	-	-
Deferred tax on excess depreciation	-	-	-	-
Capital/Development grants received during the year	-	-	-	-
Profit/( Loss) for the year			(21,901,756)	(21,901,756)
<b>At June 30, 2018</b>	<b>12,000,000</b>	<b>79,262,476</b>	<b>(139,368,238)</b>	<b>(48,105,762)</b>

**SUNSET HOTEL LIMITED**  
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**STATEMENT OF CASH FLOWS**

	Note	2018 Kshs	2017 Kshs
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>			
Cash generated from /(used in ) operations	22(a)	(1,991,122)	(2,110,175)
Interest received		-	-
Interest paid		-	-
Taxation paid		-	-
<b>Net cash generated from/(used in) operating activities</b>	<b>22(a)</b>	<b>(1,991,122)</b>	<b>(2,110,175)</b>
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>			
Purchase of property, plant and equipment	14	(10,500)	(40,862)
Proceeds from disposal of property, plant and equipment		-	-
<b>Net cash generated from/(used in) investing activities</b>		<b>(10,500)</b>	<b>(40,862)</b>
<b>CASH FLOWS FROM FINANCING ACTIVITIES</b>			
Advance from TFC	20	2,500,000	-
TFC Repayment of borrowings		-	-
<b>Net cash generated from/(used in) financing activities</b>		<b>2,500,000</b>	<b>-</b>
<b>INCREASE/(DECREASE) IN CASH AND CASH EQUIVALENTS</b>		<b>498,378</b>	<b>(2,151,037)</b>
<b>CASH AND CASH EQUIVALENTS AT BEGINNING OF YEAR</b>	<b>22(c)</b>	<b>101,728</b>	<b>2,252,765</b>
Effects of foreign exchanges rate fluctuations		-	-
<b>CASH AND CASH EQUIVALENTS AT END OF THE YEAR</b>	<b>22 (c)</b>	<b>600,106</b>	<b>101,728</b>

**SUNSET HOTEL LIMITED**  
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**STATEMENT OF COMPARISON OF BUDGET AND ACTUAL PERFORMANCE**

	Approved Budget	Actual Performance	Variance	% age Variance	Remark	Explanation of Material Variances
	2017-2018	2017-2018	2017-2018	2017-2018		
Revenue	Kshs	Kshs	Kshs	Kshs		
Sales	104,636,670	34,089,815	(70,546,855)	(67%)	U	(a)
Other Income	-	-	-			
<b>Total Revenues</b>	<b>104,636,670</b>	<b>34,089,815</b>	<b>(70,546,855)</b>	<b>(67%)</b>		
Cost of sales	(22,444,886)	(8,460,510)	(13,984,376)	62%	F	(b)
<b>Gross Profit</b>	<b>82,191,784</b>	<b>25,629,305</b>	<b>(56,562,479)</b>	<b>(69%)</b>	<b>U</b>	
<b>EXPENSES</b>						
Administration Costs	72,406,561	38,325,651	34,080,910	47%	F	(c)
Selling and distribution Costs	1,778,500	608,983	1,169,517	65%	F	(d)
Depreciation Costs	3,675,000	3,560,816	114,184	3%	F	(e)
<b>Total Operating expenses</b>	<b>77,860,061</b>	<b>42,495,450</b>	<b>35,364,611</b>	<b>45%</b>	<b>F</b>	
<b>Operating Profit/ ( Loss)</b>	<b>4,331,723</b>	<b>(16,866,145)</b>	<b>(21,197,868)</b>	<b>(489%)</b>	<b>U</b>	
Finance Costs	3,730,350	5,035,611	(1,305,261)	(35%)	U	
Profit/(Loss) before taxation	<b>601,373</b>	<b>(21,901,756)</b>	<b>(22,503,129)</b>	<b>(3,742%)</b>	<b>U</b>	
Income tax expenses (credit)	-	-	-	-	-	
Net Profit /( Loss)after taxation	<b>601,373</b>	<b>(21,901,756)</b>	<b>(22,503,129)</b>	<b>(3,742%)</b>	<b>U</b>	

**Key:** U- Unfavourable  
F- Favorable

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**STATEMENT OF COMPARISON OF BUDGET AND ACTUAL PERFORMANCE**(*continued*)

**Explanatory notes:-**

- a) The hotel's performance has been on a downward trend due to the dilapidated state of the hotel having been built 40 years ago. The hotel is in dire need for a facelift to bring back its lost glory. It has immense potential if renovated due to its prime location.  
It did not meet its sales target because of the poor state of the facility.
- b) The cost of sales was way below the target because of low sales thus the big positive variance.
- c) Administration costs were below the budgeted figure due to low sales combined with the cost control measures put in place.
- d) Selling and distribution costs were equally below the budgeted figure due to low sales.
- e) There were no capital expenditure in the period/ as budgeted thus the favourable variance for the depreciation.

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**NOTES TO THE FINANCIAL STATEMENTS**

**1. GENERAL INFORMATION**

Sunset Hotel Limited was established and derives its authority and accountability from the Kenya Companies Act (cap 486). It was established in 1976. It is 95.4% owned by the Government of Kenya through Tourism Finance Corporation under the Ministry of Tourism and 4.6% by the County Government of Kisumu and is domiciled in Kenya. The hotel's principal activity is provision of accommodation and conference facilities.

For Kenyan Companies Act reporting purposes, the balance sheet is represented by the statement of financial position and the profit and loss account by the statement of profit or loss and other comprehensive income in these financial statements.

**2. 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, 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 judgment 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.

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**3. APPLICATION OF NEW AND REVISED INTERNATIONAL FINANCIAL REPORTING STANDARDS (IFRS)**

**a) Relevant new standards and amendments to published standards effective for the year ended 30 June 2018**

Amendment/Interpretation to a standard	Effective date	Impact
IFRS 9: Financial Instruments (Issued 24 July 2014)	Effective for annual periods beginning on or after 1 January 2018	<p>Finalized version of IFRS 9 which contains accounting requirements for financial instruments, replacing <u>IAS 39</u> <i>Financial Instruments: Recognition and Measurement</i>. The standard contains requirements in the following areas:</p> <ul style="list-style-type: none"> <li>• <b>Classification and measurement.</b> Financial assets are classified by reference to the business model within which they are held and their contractual cash flow characteristics. The 2014 version of IFRS 9 introduces a 'fair value through other comprehensive income' category for certain debt instruments. Financial liabilities are classified in a similar manner to under IAS 39, however there are differences in the requirements applying to the measurement of an entity's own credit risk.</li> <li>• <b>Impairment.</b> The 2014 version of IFRS 9 introduces an 'expected credit loss' model for the measurement of the impairment of financial assets, so it is no longer necessary for a credit event to have occurred before a credit loss is recognized</li> <li>• <b>Hedge accounting.</b> Introduces a new hedge accounting model that is designed to be more closely aligned with how entities undertake risk management activities when hedging financial and non-financial risk exposures</li> <li>• <b>Derecognition.</b> The requirements for the derecognition of financial assets and liabilities are carried forward from IAS 39</li> </ul> <p><i>Not applied in preparing these financial statements</i></p>

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Amendment/Interpretation to a standard	Effective date	Impact
IFRS 15: Revenue from Contracts with Customers <i>(Issued 28 May 2014)</i>	Applicable to an entity's first annual IFRS financial statements for a period beginning on or after 1 January 2018	<p>IFRS 15 provides a single, principles based five-step model to be applied to all contracts with customers.</p> <p>The five steps in the model are as follows:</p> <ul style="list-style-type: none"> <li>• Identify the contract with the customer</li> <li>• Identify the performance obligations in the contract</li> <li>• Determine the transaction price</li> <li>• Allocate the transaction price to the performance obligations in the contracts</li> <li>• Recognize revenue when (or as) the entity satisfies a performance obligation.</li> </ul> <p>Guidance is provided on topics such as the point in which revenue is recognized, accounting for variable consideration, costs of fulfilling and obtaining a contract and various related matters. New disclosures about revenue are also introduced.</p> <p><i>Not applied in preparing these financial statements</i></p>
IFRIC 22: Foreign Currency Transactions and Advance Consideration <i>(Issued 8 December 2016)</i>	Applicable to annual reporting periods beginning on or after 1 January 2018	<p>The interpretation addresses foreign currency transactions or parts of transactions where:</p> <ul style="list-style-type: none"> <li>• there is consideration that is denominated or priced in a foreign currency;</li> <li>• the entity recognizes a prepayment asset or a deferred income liability in respect of that consideration, in advance of the recognition of the related asset, expense or income; and</li> <li>• the prepayment asset or deferred income liability is non-monetary.</li> </ul> <p>The Interpretations Committee came to the following conclusion:</p> <ul style="list-style-type: none"> <li>• The date of the transaction, for the purpose of determining the exchange rate, is the date of initial recognition of the non-monetary</li> </ul>

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Amendment/Interpretation to a standard	Effective date	Impact
		<p>prepayment asset or deferred income liability.</p> <ul style="list-style-type: none"> <li>If there are multiple payments or receipts in advance, a date of transaction is established for each payment or receipt.</li> </ul> <p><i>Not applied in preparing these financial statements</i></p>
<p><i>Recognition of Deferred Tax Assets for Unrealised Losses (Amendments to IAS 12)</i></p> <p><i>(Issued 19 January 2016)</i></p>	<p>Effective for annual periods beginning on or after 1 January 2017</p>	<p>Amends IAS12 <i>Income Taxes</i> to clarify the following aspects:</p> <ul style="list-style-type: none"> <li>Unrealized losses on debt instruments measured at fair value and measured at cost for tax purposes give rise to a deductible temporary difference regardless of whether the debt instrument's holder expects to recover the carrying amount of the debt instrument by sale or by use.</li> <li>The carrying amount of an asset does not limit the estimation of probable future taxable profits.</li> <li>Estimates for future taxable profits exclude tax deductions resulting from the reversal of deductible temporary differences.</li> <li>An entity assesses a deferred tax asset in combination with other deferred tax assets. Where tax law restricts the utilization of tax losses, an entity would assess a deferred tax asset in combination with other deferred tax assets of the same type.</li> </ul> <p><i>Not applied in preparing these financial statements</i></p>
<p><i>Disclosure Initiative (Amendments to IAS 7)</i></p> <p><i>(Issued 29 January 2016)</i></p>	<p>Effective for annual periods beginning on or after 1 January 2017</p>	<p>Amends IAS 7 <i>Statement of Cash Flows</i> to clarify that entities shall provide disclosures that enable users of financial statements to evaluate changes in liabilities arising from financing activities.</p> <p><i>The amendments was considered to be a clarification only and did not affect the hotels accounting policies or accounting estimates</i></p>
<p><i>Clarifications to IFRS 15 'Revenue from Contracts</i></p>	<p>Effective for annual periods beginning</p>	<p>Amends IFRS 15 <i>Revenue from Contracts with Customers</i> to clarify three aspects of the standard</p>

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<b>Amendment/Interpretation to a standard</b>	<b>Effective date</b>	<b>Impact</b>
<i>with Customers'</i> <i>(Issued 12 April 2016)</i>	on or after 1 January 2018	(identifying performance obligations, principal versus agent considerations, and licensing) and to provide some transition relief for modified contracts and completed contracts.  <i>Not applied in preparing these financial statements</i>
<i>Annual Improvements to IFRS Standards 2014–2016 Cycle</i> <i>(Issued 8 December 2016)</i>	The amendments to IFRS 1 and IAS 28 are effective for annual periods beginning on or after 1 January 2018, the amendment to IFRS 12 for annual periods beginning on or after 1 January 2017	Makes amendments to the following standards: <ul style="list-style-type: none"> <li>• <b>IFRS 1</b> - Deletes the short-term exemptions in paragraphs E3–E7 of IFRS 1, because they have now served their intended purpose</li> <li>• <b>IFRS 12</b> - Clarifies 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 IFRS 5 <i>Non-current Assets Held for Sale and Discontinued Operations</i></li> <li>• <b>IAS 28</b> - Clarifies that the election to measure at fair value through profit or loss an investment in an associate or a joint venture that is held by an entity that is a venture capital organization, or other qualifying entity, is available for each investment in an associate or joint venture on an investment-by-investment basis, upon initial recognition.</li> </ul> <i>Not applied in preparing these financial statements</i>

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**b) New and amended standards and interpretations in issue but not yet effective in the year ended 30 June 2018**

<b>Amendment/Interpretation to a standard</b>	<b>Effective date</b>	<b>Impact</b>
<i>IFRS 16: Leases</i> <i>(Issued 13 January 2016)</i>	Applicable to annual reporting periods beginning on or after 1 January 2019	IFRS 16 specifies how an IFRS reporter will recognize, measure, present and disclose leases. The standard provides a single lessee accounting model, requiring lessees to recognize assets and liabilities for all leases unless the lease term is 12 months or less or the underlying asset has a low value. Lessors continue to classify leases as operating or finance, with IFRS 16's approach to lessor accounting substantially unchanged from its predecessor, IAS 17.
<i>IFRIC 23: Uncertainty over Income Tax Treatments</i> <i>(Issued 7 June 2017)</i>	Applicable to annual reporting periods beginning on or after 1 January 2019	The interpretation addresses the determination of taxable profit (tax loss), tax bases, unused tax losses, unused tax credits and tax rates, when there is uncertainty over income tax treatments under IAS 12. It specifically considers: <ul style="list-style-type: none"> <li>• Whether tax treatments should be considered collectively</li> <li>• Assumptions for taxation authorities' examinations</li> <li>• The determination of taxable profit (tax loss), tax bases, unused tax losses, unused tax credits and tax rates</li> <li>• The effect of changes in facts and circumstances</li> </ul>
<i>Prepayment Features with Negative Compensation</i> <i>(Amendments to IFRS 9)</i> <i>(Issued 12 October 2017)</i>	Annual periods beginning on or after 1 January 2019	Amends the existing requirements in IFRS 9 regarding termination rights in order to allow measurement at amortised cost (or, depending on the business model, at fair value through other comprehensive income) even in the case of negative compensation payments.
<i>Annual Improvements to IFRS Standards 2015–2017 Cycle</i>	Annual periods	Makes amendments to the following standards:

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Amendment/Interpretation to a standard	Effective date	Impact
<i>IFRS 16: Leases</i> <i>(Issued 13 January 2016)</i>	Applicable to annual reporting periods beginning on or after 1 January 2019	IFRS 16 specifies how an IFRS reporter will recognize, measure, present and disclose leases. The standard provides a single lessee accounting model, requiring lessees to recognize assets and liabilities for all leases unless the lease term is 12 months or less or the underlying asset has a low value. Lessors continue to classify leases as operating or finance, with IFRS 16's approach to lessor accounting substantially unchanged from its predecessor, IAS 17.
<i>IFRIC 23: Uncertainty over Income Tax Treatments</i> <i>(Issued 7 June 2017)</i>	Applicable to annual reporting periods beginning on or after 1 January 2019	The interpretation addresses the determination of taxable profit (tax loss), tax bases, unused tax losses, unused tax credits and tax rates, when there is uncertainty over income tax treatments under IAS 12. It specifically considers: <ul style="list-style-type: none"> <li>• Whether tax treatments should be considered collectively</li> <li>• Assumptions for taxation authorities' examinations</li> <li>• The determination of taxable profit (tax loss), tax bases, unused tax losses, unused tax credits and tax rates</li> <li>• The effect of changes in facts and circumstances</li> </ul>
<i>Prepayment Features with Negative Compensation</i> <i>(Amendments to IFRS 9)</i> <i>(Issued 12 October 2017)</i>	Annual periods beginning on or after 1 January 2019	Amends the existing requirements in IFRS 9 regarding termination rights in order to allow measurement at amortised cost (or, depending on the business model, at fair value through other comprehensive income) even in the case of negative compensation payments.
<i>(Issued 12 December 2017)</i>	beginning on or after 1 January 2019	<ul style="list-style-type: none"> <li>• <b>IFRS 3 and IFRS 11</b> - The amendments to IFRS 3 clarify that when an entity obtains control of a business that is a joint operation, it remeasures previously held interests in that business. The amendments to IFRS 11 clarify that when an entity obtains joint</li> </ul>

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Amendment/Interpretation to a standard	Effective date	Impact
<i>IFRS 16: Leases</i> <i>(Issued 13 January 2016)</i>	Applicable to annual reporting periods beginning on or after 1 January 2019	IFRS 16 specifies how an IFRS reporter will recognize, measure, present and disclose leases. The standard provides a single lessee accounting model, requiring lessees to recognize assets and liabilities for all leases unless the lease term is 12 months or less or the underlying asset has a low value. Lessors continue to classify leases as operating or finance, with IFRS 16's approach to lessor accounting substantially unchanged from its predecessor, IAS 17.
<i>IFRIC 23: Uncertainty over Income Tax Treatments</i> <i>(Issued 7 June 2017)</i>	Applicable to annual reporting periods beginning on or after 1 January 2019	<p>The interpretation addresses the determination of taxable profit (tax loss), tax bases, unused tax losses, unused tax credits and tax rates, when there is uncertainty over income tax treatments under IAS 12. It specifically considers:</p> <ul style="list-style-type: none"> <li>• Whether tax treatments should be considered collectively</li> <li>• Assumptions for taxation authorities' examinations</li> <li>• The determination of taxable profit (tax loss), tax bases, unused tax losses, unused tax credits and tax rates</li> <li>• The effect of changes in facts and circumstances</li> </ul>
<i>Prepayment Features with Negative Compensation</i> <i>(Amendments to IFRS 9)</i> <i>(Issued 12 October 2017)</i>	Annual periods beginning on or after 1 January 2019	Amends the existing requirements in IFRS 9 regarding termination rights in order to allow measurement at amortised cost (or, depending on the business model, at fair value through other comprehensive income) even in the case of negative compensation payments.
		<p>control of a business that is a joint operation, the entity does not remeasure previously held interests in that business.</p> <ul style="list-style-type: none"> <li>• <b>IAS 12</b> - The amendments clarify that the requirements in the former paragraph 52B (to recognise the income tax consequences of</li> </ul>

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Amendment/Interpretation to a standard	Effective date	Impact
<i>IFRS 16: Leases</i> <i>(Issued 13 January 2016)</i>	Applicable to annual reporting periods beginning on or after 1 January 2019	IFRS 16 specifies how an IFRS reporter will recognize, measure, present and disclose leases. The standard provides a single lessee accounting model, requiring lessees to recognize assets and liabilities for all leases unless the lease term is 12 months or less or the underlying asset has a low value. Lessors continue to classify leases as operating or finance, with IFRS 16's approach to lessor accounting substantially unchanged from its predecessor, IAS 17.
<i>IFRIC 23: Uncertainty over Income Tax Treatments</i> <i>(Issued 7 June 2017)</i>	Applicable to annual reporting periods beginning on or after 1 January 2019	The interpretation addresses the determination of taxable profit (tax loss), tax bases, unused tax losses, unused tax credits and tax rates, when there is uncertainty over income tax treatments under IAS 12. It specifically considers: <ul style="list-style-type: none"> <li>• Whether tax treatments should be considered collectively</li> <li>• Assumptions for taxation authorities' examinations</li> <li>• The determination of taxable profit (tax loss), tax bases, unused tax losses, unused tax credits and tax rates</li> <li>• The effect of changes in facts and circumstances</li> </ul>
<i>Prepayment Features with Negative Compensation</i> <i>(Amendments to IFRS 9)</i> <i>(Issued 12 October 2017)</i>	Annual periods beginning on or after 1 January 2019	Amends the existing requirements in IFRS 9 regarding termination rights in order to allow measurement at amortised cost (or, depending on the business model, at fair value through other comprehensive income) even in the case of negative compensation payments.
		dividends where the transactions or events that generated distributable profits are recognized) apply to all income tax consequences of dividends by moving the paragraph away from paragraph 52A that only deals with situations where there are

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Amendment/Interpretation to a standard	Effective date	Impact
<i>IFRS 16: Leases</i> (Issued 13 January 2016)	Applicable to annual reporting periods beginning on or after 1 January 2019	IFRS 16 specifies how an IFRS reporter will recognize, measure, present and disclose leases. The standard provides a single lessee accounting model, requiring lessees to recognize assets and liabilities for all leases unless the lease term is 12 months or less or the underlying asset has a low value. Lessors continue to classify leases as operating or finance, with IFRS 16's approach to lessor accounting substantially unchanged from its predecessor, IAS 17.
<i>IFRIC 23: Uncertainty over Income Tax Treatments</i> (Issued 7 June 2017)	Applicable to annual reporting periods beginning on or after 1 January 2019	The interpretation addresses the determination of taxable profit (tax loss), tax bases, unused tax losses, unused tax credits and tax rates, when there is uncertainty over income tax treatments under IAS 12. It specifically considers: <ul style="list-style-type: none"> <li>• Whether tax treatments should be considered collectively</li> <li>• Assumptions for taxation authorities' examinations</li> <li>• The determination of taxable profit (tax loss), tax bases, unused tax losses, unused tax credits and tax rates</li> <li>• The effect of changes in facts and circumstances</li> </ul>
<i>Prepayment Features with Negative Compensation</i> (Amendments to IFRS 9) (Issued 12 October 2017)	Annual periods beginning on or after 1 January 2019	Amends the existing requirements in IFRS 9 regarding termination rights in order to allow measurement at amortised cost (or, depending on the business model, at fair value through other comprehensive income) even in the case of negative compensation payments.
		different tax rates for distributed and undistributed profits. <ul style="list-style-type: none"> <li>• <b>IAS 23</b> - The amendments clarify that if any specific borrowing remains outstanding after the related asset is ready for its intended use or sale, that borrowing becomes part of the</li> </ul>

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Amendment/Interpretation to a standard	Effective date	Impact
<i>IFRS 16: Leases</i> (Issued 13 January 2016)	Applicable to annual reporting periods beginning on or after 1 January 2019	IFRS 16 specifies how an IFRS reporter will recognize, measure, present and disclose leases. The standard provides a single lessee accounting model, requiring lessees to recognize assets and liabilities for all leases unless the lease term is 12 months or less or the underlying asset has a low value. Lessors continue to classify leases as operating or finance, with IFRS 16's approach to lessor accounting substantially unchanged from its predecessor, IAS 17.
<i>IFRIC 23: Uncertainty over Income Tax Treatments</i> (Issued 7 June 2017)	Applicable to annual reporting periods beginning on or after 1 January 2019	The interpretation addresses the determination of taxable profit (tax loss), tax bases, unused tax losses, unused tax credits and tax rates, when there is uncertainty over income tax treatments under IAS 12. It specifically considers: <ul style="list-style-type: none"> <li>• Whether tax treatments should be considered collectively</li> <li>• Assumptions for taxation authorities' examinations</li> <li>• The determination of taxable profit (tax loss), tax bases, unused tax losses, unused tax credits and tax rates</li> <li>• The effect of changes in facts and circumstances</li> </ul>
<i>Prepayment Features with Negative Compensation</i> (Amendments to IFRS 9) (Issued 12 October 2017)	Annual periods beginning on or after 1 January 2019	Amends the existing requirements in IFRS 9 regarding termination rights in order to allow measurement at amortised cost (or, depending on the business model, at fair value through other comprehensive income) even in the case of negative compensation payments.
		funds that an entity borrows <i>generally</i> when calculating the capitalization rate on general borrowings.
<i>Plan Amendment, Curtailment or Settlement</i> (Amendments to IAS	Annual periods	The amendments in <i>Plan Amendment, Curtailment or Settlement</i> (Amendments to IAS

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<b>Amendment/Interpretation to a standard</b>	<b>Effective date</b>	<b>Impact</b>
<i>IFRS 16: Leases</i> (Issued 13 January 2016)	Applicable to annual reporting periods beginning on or after 1 January 2019	IFRS 16 specifies how an IFRS reporter will recognize, measure, present and disclose leases. The standard provides a single lessee accounting model, requiring lessees to recognize assets and liabilities for all leases unless the lease term is 12 months or less or the underlying asset has a low value. Lessors continue to classify leases as operating or finance, with IFRS 16's approach to lessor accounting substantially unchanged from its predecessor, IAS 17.
<i>IFRIC 23: Uncertainty over Income Tax Treatments</i> (Issued 7 June 2017)	Applicable to annual reporting periods beginning on or after 1 January 2019	The interpretation addresses the determination of taxable profit (tax loss), tax bases, unused tax losses, unused tax credits and tax rates, when there is uncertainty over income tax treatments under IAS 12. It specifically considers: <ul style="list-style-type: none"> <li>• Whether tax treatments should be considered collectively</li> <li>• Assumptions for taxation authorities' examinations</li> <li>• The determination of taxable profit (tax loss), tax bases, unused tax losses, unused tax credits and tax rates</li> <li>• The effect of changes in facts and circumstances</li> </ul>
<i>Prepayment Features with Negative Compensation</i> (Amendments to IFRS 9) (Issued 12 October 2017)	Annual periods beginning on or after 1 January 2019	Amends the existing requirements in IFRS 9 regarding termination rights in order to allow measurement at amortised cost (or, depending on the business model, at fair value through other comprehensive income) even in the case of negative compensation payments.
<i>19)</i> (Issued 7 February 2018)	beginning on or after 1 January 2019	<i>19)</i> are: <ul style="list-style-type: none"> <li>• If a plan amendment, curtailment or settlement occurs, it is now mandatory that the current service cost and the net interest for the period after the measurement are</li> </ul>

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Amendment/Interpretation to a standard	Effective date	Impact
<i>IFRS 16: Leases</i> <i>(Issued 13 January 2016)</i>	Applicable to annual reporting periods beginning on or after 1 January 2019	IFRS 16 specifies how an IFRS reporter will recognize, measure, present and disclose leases. The standard provides a single lessee accounting model, requiring lessees to recognize assets and liabilities for all leases unless the lease term is 12 months or less or the underlying asset has a low value. Lessors continue to classify leases as operating or finance, with IFRS 16's approach to lessor accounting substantially unchanged from its predecessor, IAS 17.
<i>IFRIC 23: Uncertainty over Income Tax Treatments</i> <i>(Issued 7 June 2017)</i>	Applicable to annual reporting periods beginning on or after 1 January 2019	The interpretation addresses the determination of taxable profit (tax loss), tax bases, unused tax losses, unused tax credits and tax rates, when there is uncertainty over income tax treatments under IAS 12. It specifically considers: <ul style="list-style-type: none"> <li>• Whether tax treatments should be considered collectively</li> <li>• Assumptions for taxation authorities' examinations</li> <li>• The determination of taxable profit (tax loss), tax bases, unused tax losses, unused tax credits and tax rates</li> <li>• The effect of changes in facts and circumstances</li> </ul>
<i>Prepayment Features with Negative Compensation</i> <i>(Amendments to IFRS 9)</i> <i>(Issued 12 October 2017)</i>	Annual periods beginning on or after 1 January 2019	Amends the existing requirements in IFRS 9 regarding termination rights in order to allow measurement at amortised cost (or, depending on the business model, at fair value through other comprehensive income) even in the case of negative compensation payments.
		determined using the assumptions used for the measurement. <ul style="list-style-type: none"> <li>• In addition, amendments have been included to clarify the effect of a plan amendment, curtailment or settlement on the requirements</li> </ul>

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Amendment/Interpretation to a standard	Effective date	Impact
<i>IFRS 16: Leases</i> (Issued 13 January 2016)	Applicable to annual reporting periods beginning on or after 1 January 2019	IFRS 16 specifies how an IFRS reporter will recognize, measure, present and disclose leases. The standard provides a single lessee accounting model, requiring lessees to recognize assets and liabilities for all leases unless the lease term is 12 months or less or the underlying asset has a low value. Lessors continue to classify leases as operating or finance, with IFRS 16's approach to lessor accounting substantially unchanged from its predecessor, IAS 17.
<i>IFRIC 23: Uncertainty over Income Tax Treatments</i> (Issued 7 June 2017)	Applicable to annual reporting periods beginning on or after 1 January 2019	The interpretation addresses the determination of taxable profit (tax loss), tax bases, unused tax losses, unused tax credits and tax rates, when there is uncertainty over income tax treatments under IAS 12. It specifically considers: <ul style="list-style-type: none"> <li>• Whether tax treatments should be considered collectively</li> <li>• Assumptions for taxation authorities' examinations</li> <li>• The determination of taxable profit (tax loss), tax bases, unused tax losses, unused tax credits and tax rates</li> <li>• The effect of changes in facts and circumstances</li> </ul>
<i>Prepayment Features with Negative Compensation</i> (Amendments to IFRS 9) (Issued 12 October 2017)	Annual periods beginning on or after 1 January 2019	Amends the existing requirements in IFRS 9 regarding termination rights in order to allow measurement at amortised cost (or, depending on the business model, at fair value through other comprehensive income) even in the case of negative compensation payments.
		regarding the asset ceiling.
<i>Amendments to References to the Conceptual Framework in IFRS Standards</i> (Issued 29 March 2018)	Annual periods beginning on or after 1	Together with the revised <i>Conceptual Framework</i> published in March 2018, the IASB also issued <i>Amendments to References to the Conceptual Framework in IFRS Standards</i> . The document

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Amendment/Interpretation to a standard	Effective date	Impact
<i>IFRS 16: Leases</i> (Issued 13 January 2016)	Applicable to annual reporting periods beginning on or after 1 January 2019	IFRS 16 specifies how an IFRS reporter will recognize, measure, present and disclose leases. The standard provides a single lessee accounting model, requiring lessees to recognize assets and liabilities for all leases unless the lease term is 12 months or less or the underlying asset has a low value. Lessors continue to classify leases as operating or finance, with IFRS 16's approach to lessor accounting substantially unchanged from its predecessor, IAS 17.
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<i>Prepayment Features with Negative Compensation</i> (Amendments to IFRS 9) (Issued 12 October 2017)	Annual periods beginning on or after 1 January 2019	Amends the existing requirements in IFRS 9 regarding termination rights in order to allow measurement at amortised cost (or, depending on the business model, at fair value through other comprehensive income) even in the case of negative compensation payments.
	January 2020	contains amendments to IFRS 2, IFRS 3, IFRS 6, IFRS 14, IAS 1, IAS 8, IAS 34, IAS 37, IAS 38, IFRIC 12, IFRIC 19, IFRIC 20, IFRIC 22, and SIC-32. Not all amendments, however update those pronouncements with regard to references to and quotes from the framework so that they

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Amendment/Interpretation to a standard	Effective date	Impact
<i>IFRS 16: Leases</i> <i>(Issued 13 January 2016)</i>	Applicable to annual reporting periods beginning on or after 1 January 2019	IFRS 16 specifies how an IFRS reporter will recognize, measure, present and disclose leases. The standard provides a single lessee accounting model, requiring lessees to recognize assets and liabilities for all leases unless the lease term is 12 months or less or the underlying asset has a low value. Lessors continue to classify leases as operating or finance, with IFRS 16's approach to lessor accounting substantially unchanged from its predecessor, IAS 17.
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<i>Prepayment Features with Negative Compensation</i> <i>(Amendments to IFRS 9)</i> <i>(Issued 12 October 2017)</i>	Annual periods beginning on or after 1 January 2019	Amends the existing requirements in IFRS 9 regarding termination rights in order to allow measurement at amortised cost (or, depending on the business model, at fair value through other comprehensive income) even in the case of negative compensation payments.
		refer to the revised <i>Conceptual Framework</i> . Some pronouncements are only updated to indicate which version of the framework they are referencing to (the IASC framework adopted by the IASB in 2001, the IASB framework of 2010, or the new revised framework of 2018) or to

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Amendment/Interpretation to a standard	Effective date	Impact
<i>IFRS 16: Leases</i> (Issued 13 January 2016)	Applicable to annual reporting periods beginning on or after 1 January 2019	IFRS 16 specifies how an IFRS reporter will recognize, measure, present and disclose leases. The standard provides a single lessee accounting model, requiring lessees to recognize assets and liabilities for all leases unless the lease term is 12 months or less or the underlying asset has a low value. Lessors continue to classify leases as operating or finance, with IFRS 16's approach to lessor accounting substantially unchanged from its predecessor, IAS 17.
<i>IFRIC 23: Uncertainty over Income Tax Treatments</i> (Issued 7 June 2017)	Applicable to annual reporting periods beginning on or after 1 January 2019	The interpretation addresses the determination of taxable profit (tax loss), tax bases, unused tax losses, unused tax credits and tax rates, when there is uncertainty over income tax treatments under IAS 12. It specifically considers: <ul style="list-style-type: none"> <li>• Whether tax treatments should be considered collectively</li> <li>• Assumptions for taxation authorities' examinations</li> <li>• The determination of taxable profit (tax loss), tax bases, unused tax losses, unused tax credits and tax rates</li> <li>• The effect of changes in facts and circumstances</li> </ul>
<i>Prepayment Features with Negative Compensation</i> (Amendments to IFRS 9) (Issued 12 October 2017)	Annual periods beginning on or after 1 January 2019	Amends the existing requirements in IFRS 9 regarding termination rights in order to allow measurement at amortised cost (or, depending on the business model, at fair value through other comprehensive income) even in the case of negative compensation payments.
		indicate that definitions in the standard have not been updated with the new definitions developed in the revised <i>Conceptual Framework</i> .

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The entity does 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.

**c) Early adoption of standards**

The Hotel did not early – adopt any new or amended standards in year 2018.

**4. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

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

**a) Revenue Recognition**

Revenue is measured at the fair value of the consideration received or receivable and represents amounts receivable for services provided in the normal course of business, net of discounts and sales related taxes.;

i) **Revenue from the sale of goods and services** is recognized in the year in which the hotel delivers products/services to the customer, the customer has accepted the products and collectability of the related receivables is reasonably assured.

ii) **Other income** is recognized as it accrues.

**b) 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 valuers.

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.

Land and Buildings are subsequently shown at market value, based on valuations by external independent valuers, less subsequent Depreciation for Buildings.

All other property Plant and Equipment is stated at historical cost less Depreciation.

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

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recognized in profit or loss in the income statement.

**c) Depreciation and impairment of property, plant and equipment**

Freehold land and capital work in progress are not depreciated. Capital work in progress relates mainly to the costs of ongoing but incomplete works on buildings and other civil works and installations.

Depreciation on property, plant and equipment is recognized 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 as follows:-

The annual rates in use are:

a) No depreciation is charged on the Leaseholdland	
b) Building	-2.5%
c) Property, Plant&Machinery	- 12.5%
d) Furniture, Fittingsand Equipment	-12.5%
e) MotorVehicle	-25.0%
f) Computers	-33.0 %

A full year's depreciation charge is recognized both in the year of asset purchase and in the year of asset disposal.

**d) Intangible assets**

Intangible assets comprise purchased computer software licences, which are capitalized on the basis of costs incurred to acquire and bring to use the specific software. These costs are amortized over the estimated useful life of the intangible assets from the year that they are available for use, usually over three years.

**e) Amortization and impairment of intangible assets**

Amortization 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 recognized so that the asset is written down immediately to its estimated recoverable amount.

**f) Impairment of non-financial assets**

Assets that have an indefinite useful life – for example, goodwill or intangible assets not ready to use- are not subject to amortisation and are tested annually for impairment. assets that are

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subject to amortisation are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable.

An impairment loss is recognised for the amount by which the asset's carrying amount exceeds its recoverable amount. The recoverable amount is the higher of an asset's fair value less costs to sell and value in use.

For the purposes of assessing impairment, assets are grouped at the lowest levels for which there are separately identifiable cash flows (cash-generating units). Non-financial assets other than goodwill that suffered impairment are reviewed for possible reversal of the impairment at each reporting date.

**g) Inventories**

Inventory is valued at the lower of cost and net realizable value. The Cost is determined by first in, first out (FIFO) method. Inventories are held for sale as raw materials for kitchen production supplies. Specific provisions are made for obsolete, slow moving and defective inventories.

**h) Turnover**

Turnover represents amounts received and receivable for services provided net of government taxes and levies.

**i) Trade & other receivables**

Trade receivables are amounts due from customers for services performed in the ordinary course of business. If collection is expected in one year or less (or in the normal operating cycle of the business if longer), they are classified as current assets. If not, they are presented as non-current assets.

Receivables are carried at anticipated realizable value. An estimate is made for doubtful Receivables based on a review of all outstanding amounts at year end. Bad debts are written off when all reasonable steps to recover them have failed.

**j) Taxation**

**Current Income 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 recognized directly in equity is recognized in equity and not in the income statement. 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.

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**k) Cash and cashequivalents**

Cash and cash equivalents comprise cash on hand and cash at bank. Bank account balances include amounts held at the National Bank of Kenya and Kenya Commercial Bank at the end of the reporting period. For the purposes of these financial statements, cash and cash equivalents also include short term cash imprests accounted for at the end of the financial year.

**l) Borrowing**

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 amortized cost using the effective interest rate method. Amortized 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. Loan interest accruing during the construction of a project is capitalized as part of the cost of the project.

**m) Trade and otherpayables**

Trade and other payables are non-interest bearing recognised initially at fair value and subsequently 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.

Trade payables are obligations to pay for goods or services that have been acquired in the ordinary course of business from suppliers. Accounts payable are classified as current Liabilities if payment is due within one year or less (or in the normal operating cycle of the business if longer). If not, they are presented as non-current liabilities.

Payables are measured at amortised cost using the effective interest method. Payables are derecognised when extinguished.

**n) Retirement benefit obligations**

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's obligation under the scheme is limited to specific contributions legislated from time to time and is currently at Kshs.1080.00 per employee per month.

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**o) Provision for staff leave pay**

Employees' entitlements to annual leave are recognized as they accrue to the employees. A provision is made for the estimated liability for annual leave at the reporting date.

**p) Budget information**

The original budget for FY 2017-2018 was approved by the National Assembly on 28<sup>th</sup> February 2017. Subsequent revisions or additional appropriations were made to the approved budget in accordance with specific approvals from the appropriate authorities.

The hotel's budget is prepared on a different basis to the actual income and expenditure disclosed in the financial statements. The financial statements are prepared on accrual basis using a classification based on the nature of expenses in the statement of financial performance, whereas the budget is prepared on a cash basis. The amounts in the financial statements were recast from the accrual basis to the cash basis and reclassified by presentation to be on the same basis as the approved budget. A comparison of budget and actual amounts, prepared on a comparable basis to the approved budget, is then presented in the statement of comparison of budget and actual amounts. In addition to the Basis difference, adjustments to amounts in the financial statements are also made for differences in the formats and classification schemes adopted for the presentation of the financial statements and the approved budget. A statement to reconcile the actual amounts on a comparable basis included in the statement of comparison of budget and actual amounts and the actuals as per the statement of financial performance has been presented under page 22 of these financial statements.

**q) Comparatives**

Comparative figures have been adjusted to conform to the changes in the presentation in the current year.

r) **Subsequent events**

Since the end of the year 2017/2018, no events have become known or have occurred that may lead to significant changes to these financial statements. These would be like court judgments or regulatory decisions that may affect reported assets/liabilities or adversely reflect upon the Integrity of decision makers.

**5. SIGNIFICANT JUDGMENTS AND SOURCES OF ESTIMATION UNCERTAINTY**

The preparation of the Entity's financial statements in conformity with IFRS requires management to make judgments, estimates and assumptions that affect the reported amounts of revenues, expenses, assets and liabilities, and the disclosure of contingent liabilities, at the end of the reporting period. However, uncertainty about these assumptions and estimates could result in outcomes that require a material adjustment to the carrying amount of the asset or liability affected in future periods.

**Critical accounting estimates and judgments in applying the entity's accounting policies**

Estimates and judgments are continually evaluated and are based on historical experience and other factors, including experience of future events that are believed to be reasonable under the circumstances.

i) **Critical accounting estimates and assumptions**

The company makes estimates and assumptions concerning the future. The resulting accounting estimates will, by definition, seldom equal the related actual results. The estimates and assumptions that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year are addressed below:

**Useful lives of property, plant and equipment**

The company's management determines the estimated useful lives and related depreciation charges for its property, plant and equipment. The rates used are set out in (d) above.

**Recoverability of trade and other receivables**

Management has made Judgment in estimating the amounts that may not be recovered based on experience and efforts expended in the attempt to recover the outstanding balances.

ii) **Critical judgments in applying the entity's accounting policies**

In the process of applying the Company's accounting policies, management has made judgments in determining:

- The classification of assets into current and non-current
- Whether assets are impaired

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**Provisions**

Provisions were raised and management determined an estimate based on the information available; specifically provision for bad debts which was estimated at 1.25% of the total revenue for the period.

Provisions are measured at the management's best estimate of the expenditure required to settle the obligation at the reporting date, and are discounted to present value where the effect is material.

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<b>STAFF COSTS</b>	<b>2018</b>	<b>2017</b>
	<b>Kshs.</b>	<b>Kshs.</b>
Salaries and allowances of permanent employees	17,694,959	20,616,069
Wages of temporary employees	-	385,077
Compulsory national health insurance schemes	-	-
Compulsory national social security schemes	656,489	639,664
Leave Pay and gratuity provisions	229,809	406,126
Staff travel and other related expenses	8,127,757	9,739,381
<b>Total</b>	<b>26,709,014</b>	<b>3,1786,317</b>
<b>The average number of employees:</b>		
Permanent employees- Management	6	6
Permanent employees- Unionisable	47	49
Temporary and contract employees	nil	8
<b>Total</b>	<b>53</b>	<b>63</b>
<b>8. SELLING AND DISTRIBUTION COSTS</b>		
Marketing and promotional expenses	-	-
Sales commission	-	-
Sales discounts and rebates	-	-
Other selling and distribution costs	608,983	874,166
<b>Total</b>	<b>608,983</b>	<b>874,166</b>
<b>9. OPERATING PROFIT/(LOSS)</b>		
The operating profit /(loss) is arrived at after charging /(crediting):		
Staff cost (note7(b))	26,709,014	31,786,317
Depreciation of property, plant and equipment	3,560,816	3,574,603
Provision for bad doubtful debts	418,296	746,545
Directors emoluments -Fees	680,000	360,000
-Expenses	64,951	200,970
Auditors remuneration- current year fees	300,000	300,000
Interest on loan	5,035,611	3,732,002
Land rent & rates	370,032	370,032
<b>Total</b>	<b>37,138,720</b>	<b>41,070,469</b>

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**NOTES TO THE FINANCIAL STATEMENTS**

**6. (a) SALES /TURNOVER**

	<b>2018</b>	<b>2017</b>
	<b>Kshs.</b>	<b>Kshs.</b>
Gross sales of Services	42,612,269	52,803,532
Less :taxes on gross sales	8,522,454	10,560,706
	<b>34,089,815</b>	<b>42,242,826</b>
(Taxes :16% VAT,2% CLT &5% S/Charge)		
Accommodation	7,072,456	8,681,368
Food	19,460,596	21,906,011
Drinks	5,066,617	6,763,990
Tobacco	26,417	61,247
Swimming	576,901	1,903,576
Other Income	1,886,828	2,926,634
<b>Total</b>	<b>34,089,815</b>	<b>42,242,826</b>
<b>(b) Cost of sales</b>		
Food	6,138,993	7,930,921
Beverage	2,136,460	2,796,099
Tobacco	19,109	40,199
Accommodation Outsourced	165,948	-
<b>Total</b>	<b>8,460,510</b>	<b>10,767,219</b>

**7. (a) ADMINISTRATION COSTS**

Staff costs note( 7b)	26,709,014	31,786,317
Directors emoluments	744,951	560,970
Electricity and water	3,288,669	5,728,580
Transportation, travelling and subsistence	568,199	981,440
Advertising, printing, stationary and photocopy	256,499	579,332
Insurance costs	-	491,206
Bank charges and commissions	96,293	161,260
Office and general supplies and services	65,785	237,294
Auditors remunerations	300,000	300,000
Legal fees	1,108,643	1,415,658
Repairs and maintenance	1,736,341	4,011,650
Provision for Bad and doubtful debts	418,296	746,545
Other Operating Costs	3,032,961	3,994,974
<b>Total</b>	<b>38,325,651</b>	<b>50,995,226</b>

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	<b>2018</b>	<b>2017</b>
	<b>Kshs.</b>	<b>Kshs.</b>
<b>10. FINANCE COSTS</b>		
Exchange losses on short term bank deposits	-	-
Exchange losses on cash and bank balances	-	-
Interest expenses on loans	5,035,611	3,732,002
Interest expenses on bank overdrafts	-	-
<b>TOTAL</b>	<b>5,035,611</b>	<b>3,732,002</b>
<b>11. INCOME TAX EXPENSES / (CREDIT)</b>		
<b>(a) Current taxation</b>		
Current taxation based on the adjusted profit	-	-
Current tax :prior year under / ( over )	-	-
Current year deferred tax charge	-	-
Prior year under – provision for deferred tax	-	-
<b>TOTAL</b>	<b>-</b>	<b>-</b>
<b>(b) Reconciliation of tax expenses/ (credit) to the expected tax based on profit</b>		
Profit before taxation	(21,901,756)	(27,700,390)
Tax at applicable tax rate of 30%	-	-
Tax effects of expenses not deductible for tax	-	-
Tax effect of income not taxable	-	-
Deferred tax prior year over - provision	-	-
<b>Total</b>	<b>(21,901,756)</b>	<b>(27,700,390)</b>

**12. EARNINGS PER SHARE**

The earnings per share is calculated by dividing the loss after tax of (Kshs. 21,901,756) (2017: (Kshs.27,700,389)) by the average number of ordinary shares in issue during the year of 600,000 (2017: 600,000). There were not dilutive or potentially dilutive ordinary share as at the reporting date.

**13. 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). No interim dividend was declared and/or paid during the year neither is it expected that any dividends will be declared because of the recurrent losses.

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

**14. PROPERTY, PLANT AND EQUIPMENT**

<b>2018</b>	<b>LEASEHOLD LAND</b>	<b>BUILDING</b>	<b>WORK IN PROGRESS</b>	<b>PROPERTY PLANT &amp; EQUIPMENT</b>	<b>FURNITURE &amp; FITTING</b>	<b>MOTOR VEHICLE</b>	<b>TOTAL</b>
<b>COST OR VALUATION</b>	<b>Kshs</b>	<b>Kshs</b>	<b>Kshs</b>	<b>Kshs</b>	<b>Kshs</b>	<b>Kshs</b>	<b>Kshs</b>
As at 01-07-2017	15,000,000	75,000,000	26,911,576	11,923,281	15,958,734	295,000	145,088,592
Additions	-	-	-	-	10,500	-	10,500
<b>As at 30-06-2018</b>	<b>15,000,000</b>	<b>75,000,000</b>	<b>26,911,576</b>	<b>11,923,281</b>	<b>15,969,234</b>	<b>295,000</b>	<b>145,099,092</b>
<b>DEPRECIATION</b>							
As at 01.07.2017	-	24,375,000	-	10,830,364	13,356,965	295,000	48,857,331
Charge for the year	-	1,875,000	-	492,385	1,193,431	-	3,560,816
<b>As at 30-06-2018</b>	<b>-</b>	<b>26,250,000</b>	<b>-</b>	<b>11,322,745</b>	<b>14,550,398</b>	<b>295,000</b>	<b>52,418,147</b>
<b>NET BOOK VALUE</b>							
As at 30-6-2017	15,000,000	50,625,000	26,911,576	1,092,917	2,601,769	-	96,231,262
As at 30-6-2018	15,000,000	48,750,000	26,911,576	600,532	1,418,837	-	92,680,945

Work in progress relates to building renovation/extensions works for roof top bar and restaurant which are yet to be completed or commissioned.

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

	<b>Cost or valuation</b>	<b>Normal annual Depreciation charge</b>
Plant & machinery	7,984,199	998,024
Motor vehicle	295,000	73,750
Office equipment, furniture & equipment	6,421,785	802,723
	<b>14,700,984</b>	<b>1,873,497</b>

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

**PROPERTY, PLANT AND EQUIPMENT (continued)**

<b>2017</b>	<b>LEASEHOLD LAND</b>	<b>BUILDING</b>	<b>WORK IN PROGRESS</b>	<b>PROPERTY PLANT &amp; EQUIPMENT</b>	<b>FURNITURE &amp; FITTING</b>	<b>MOTOR VEHICLE</b>	<b>TOTAL</b>
<b>COST OR VALUATION</b>	<b>Kshs</b>	<b>Kshs</b>	<b>Kshs</b>	<b>Kshs</b>	<b>Kshs</b>	<b>Kshs</b>	<b>Kshs</b>
As at 01-07-2016	15,000,000	75,000,000	26,911,576	11,923,281	15,917,873	295,000	145,047,729
Additions	-	-	-	-	40,862	-	40,862
<b>As at 30-06-2017</b>	<b>15,000,000</b>	<b>75,000,000</b>	<b>26,911,576</b>	<b>11,923,281</b>	<b>15,958,735</b>	<b>295,000</b>	<b>145,088,592</b>
<b>DEPRECIATION</b>							
As at 01.07.2016	-	22,500,000	-	10,331,854	12,155,872	295,000	45,282,725
Charge for the year	-	1,875,000	-	498,510	1,201,093	-	3,574,603
<b>As at 30-06-2017</b>	<b>-</b>	<b>24,375,000</b>		<b>10,830,364</b>	<b>13,356,965</b>	<b>295,000</b>	<b>48,857,331</b>
<b>NET BOOK VALUE</b>							
<b>As at 30-6-2017</b>	<b>15,000,000</b>	<b>50,625,000</b>	<b>26,911,576</b>	<b>1,092,917</b>	<b>2,601,769</b>	<b>-</b>	<b>96,231,262</b>

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

	<b>Cost or valuation</b>	<b>Normal annual Depreciation charge</b>
Plant & machinery	7,735,204	966,980
Motor vehicle	295,000	73,750
Office equipment, furniture & equipment	6,349,990	793,749
	<b>14,380,194</b>	<b>1,834,479</b>

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

	<b>2018</b>	<b>2017</b>
	<b>Kshs.</b>	<b>Kshs.</b>
<b>15. INVENTORIES</b>		
Food store	79,471	103,415
Bar stock & Tobacco	114,117	177,593
<b>TOTAL</b>	<b>193,588</b>	<b>281,008</b>
<b>16 (a) TRADE AND OTHER RECEIVABLES</b>		
Trade receivables(note b )	18,730,845	15,190,609
Deposits and prepayments	406,596	563,000
VAT recoverable	-	-
Staff receivables	27,659	27,659
Gross trade and other receivables	<b>19,165,100</b>	<b>15,781,268</b>
Provisions for Bad and doubtful receivables)	(2,121,973)	(1,703,677)
Net trade and other receivables	<b>17,043,127</b>	<b>14,077,591</b>
<b>(b)TRADE RECEIVABLES</b>		
Gross trade and other receivables	18,730,845	15,190,609
Other : Provisions for Bad and doubtful receivables)	(2,121,973)	(1,703,677)
Net trade and other receivables	<b>16,608,872</b>	<b>13,486,932</b>
At June 30, the ageing analysis of the gross trade receivables was as follows :		
Less than 30days	1,430,539	3,595,012
Between 30 and 60days	2,177,181	929,708
Between 61 and 90 days	3,955,379	267,046
Between 91 and 120 days	3,973,494	704,589
Over 120 days	7,194,252	9,694,254
	<b>18,730,845</b>	<b>15,190,609</b>

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

	<b>2018</b>	<b>2017</b>
	<b>Kshs.</b>	<b>Kshs.</b>
<b>17 (a) BANK AND CASH BALANCES</b>		
Cash at hand	68,803	110,370
Cash at bank	531,303	35,232
	<b>600,106</b>	<b>145,602</b>

**(b) DETAILED ANALYSIS OF CASH AND CASH EQUIVALENTS**

**Cash at Hand:**

Cash float	33,000	33000
Petty cash	13,743	77,370
Mpesa	17,060	-
Airtime	5,000	-
	<b>68,803</b>	<b>110,370</b>

**Cash at Bank (Current Accounts)**

National bank-A/c No.01020023525100	475,497	-
KCB- A/c No. 1108232736	55,806	35,232
	<b>531,303</b>	<b>35,232</b>

The bulk of the cash was held at National bank  
the main banker

**18. ORDINARY SHARE CAPITAL**

	<b>2018</b>	<b>2017</b>
	<b>Kshs.</b>	<b>Kshs.</b>
Authorized , issued and fully paid 572,500 Ordinary Shares @ Kshs.20/= ( TFC)	11,450,000	11,450,000
27500 Ordinary Shares @ Kshs 20/= ( Kisumu County)	550,000	550,000
	<b>12,000,000</b>	<b>12,000,000</b>

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**19. REVALUATION RESERVE**

The revaluation reserve relates to the revaluation of certain items of property, plant and equipment. As indicated in the Statement of Changes in Equity, this is stated after transfer of excess depreciation to retained earnings.

- i) These reserves shown in the Statement of changes in Equity arose due to valuation of the hotels building and land in the year 2004.
- ii) Land and building were initially taken at a value of kshs. 178,013 and 10,559,511 respectively. However on revaluation, the values came to Kshs. 75,000,000 for Building and 15,000,000 for leasehold land.
- iii) This therefore resulted in reserves of Kshs. 64,440,489 for Building and 14,821,987 for leasehold land respectively. A total of kshs. 79,262,476.

**20. BORROWINGS**

	<b>2018</b>	<b>2017</b>
	<b>Kshs</b>	<b>Kshs</b>
Balance at beginning of the year	39,623,893	42,514,093
External borrowings during the year	-	-
Domestic borrowings during the year	2,500,000	-
Repayments of external borrowings during the year	-	-
Repayments of domestics borrowings during the year	-	-
Balance at end of the year	<b>42,123,893</b>	<b>42,514,093</b>
Less: Amounts due with one year (current portion)	(2,890,200)	(2,890,200)
Amounts due after one year (non-current portion)	<b>39,233,693</b>	<b>39,623,893</b>
Accrued Loan Principal(current portion)	32,669,441	29,779,241
Accrued Loan Interest(current portion)	27,124,297	22,088,686
Total loan and Accrued Interest	<b>99,027,431</b>	<b>91,491,820</b>

The above borrowing is from TFC. The interest rate was revised from 9% to 11% thus the sharp increase in finance costs/interest expense.

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**21. TRADE AND OTHER PAYABLES**

	<b>2018</b>	<b>2017</b>
	<b>Kshs</b>	<b>Kshs</b>
Trade Creditors	15,172,388	14,389,553
Value Added Tax	9,191,315	11,489,577
Service Charge	209,701	246,671
CLT	67,870	86,227
Deposits Payable	1,128,317	722,148
Payroll Control	9,814,178	2,014,426
P.A.Y.E	9,795,197	5,446,486
Staff Insurance Deductions	223,609	44,880
N.S.SF	2,373,198	1,005,160
N.H.I.F	97,080	102,530
Union dues	344,370	114,630
Other Payroll Deductions	9,631	15,001
Sunset Sacco	3,212,115	3,212,115
Accrued Expenses	5,600,812	4,151,209
Withholding Tax	1,456,346	1,456,346
Terminal Control	899,970	906,814
	<b>59,596,097</b>	<b>45,403,773</b>

**22. NOTES TO THE STATEMENT OF CASHFLOWS**

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

Operating profit/(loss)	(21,901,756)	(27,700,389)
Depreciation	3,560,816	3,574,603
Interest Charged	5,035,611	3,732,002
Operating profit/(loss) before working capital changes	<b>(13,305,329)</b>	<b>(20,393,784)</b>
(Increase)/decrease in inventories	87,420	1,697,087
(Increase)/decrease in trade and other receivables	(2,965,536)	5,598,879
Increase/(decrease) in trade and other payables	14,192,323	10,987,643
Cash generated from/(used in) operations	<b>(1,991,122)</b>	<b>(2,110,175)</b>

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

Balance at beginning of the year	39,623,893	42,514,093
Receipts during the year	2,500,000	-
Repayments during the year	(2,890,200)	-

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	<b>2018</b>	<b>2017</b>
	<b>Kshs</b>	<b>Kshs</b>
Repayments of previous year's accrued interest	-	-
Foreign exchange (gains)/losses	-	-
Accrued interest	27,124,297	22,088,686
Accrued Principal	32,669,441	29,779,241
Balance at end of the year	<b>99,027,431</b>	<b>91,491,820</b>

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

Cash at bank	531,303	35,232
Cash in hand	68,803	110,370
Cash in bank(Overdraft)	-	(43,874)
Balance at end of the year	<b>600,106</b>	<b>101,728</b>

**23. Related party transactions**

The hotel has two shareholders namely Tourism Finance Corporation and Kisumu County Government. Tourism Finance corporation owns 95% of Sunset Hotel Limited shareholding while Kisumu County owns 5%.

During the year, the hotel provided accommodation, conference and catering services to the Kisumu County Government valued at Kshs. 5,486,219 while Tourism Finance Corporation did not hold any business with the hotel in the financial year.

In addition, Tourism Finance Corporation loaned Sunset Hotel Kshs.2,500,000 to offset KRA arrears. Sunset Hotel incurred Land rates amounting to kshs. 334,030 for land leased to the hotel for 99 Years by Kisumu County Government.

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**Transactions with related parties**

	<b>2018</b>	<b>2017</b>
	<b>Kshs</b>	<b>Kshs</b>
<b>a) Loans received from the shareholders</b>		
Loans from TFC	2,500,000	Nil
Loans from Kisumu County Government	Nil	Nil
<b>Total</b>	<b>2,500,000</b>	<b>Nil</b>
<b>b) Key management compensation</b>		
Directors' emoluments	744,951	560,970
Compensation to key management	6,568,668	7,304,653
<b>Total</b>	<b>7,273,619</b>	<b>7,865,623</b>

**24. CONTINGENT LIABILITIES**

	<b>2018</b>	<b>2017</b>
	<b>Kshs</b>	<b>Kshs</b>
Land rate arrears against the <i>hotel(Kisumu County Government)</i>	53,135,978	4,0165,338
Notice of Distress for outstanding tax arrears( <i>KRA</i> )	18,727,031	18,727,031
<b>Total</b>	<b>71,863,009</b>	<b>58,892,369</b>

**Explanatory notes:**

During the year, the Kisumu County Government issued a demand notice to the hotel for outstanding Land rates arrears of principle amount Kshs. 3,669,014 which has over the year's accrued interest and penalty to the tune of Kshs. 49,466,964. The hotel management intends to enter into waiver negotiations with the County government once the waiver period is opened and after paying the principal amount. The said amount (accrued interest) has not been provided for in the financial statement because the issue is under discussion.

In the course of the year Kenya Revenue Authority issued notice of Distress for outstanding tax arrears of Kshs. 18,727,031. The management appealed to the County Government of Kisumu and Tourist Finance Corporation to intervene on behalf of the hotel to assist in payment of the principal amount with the intention that the interests will be waived.

**25. 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.

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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**

Market risk is the risk arising from changes in market prices, such as interest rate, equity prices and foreign exchange rates which will affect the entity's income or the value of its holding of financial instruments. The objective of market risk management is to manage and control market risk exposure within acceptable parameters while optimising the return. The company's finance department is responsible for the development of detailed risk management policies and day to day implementation of those projects subject to review and approval by Audit and Risk Management Committee.

There has been no major change to the entity's exposure to market risks or the manner in which it manages and measures the risk.

**i) 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 is dealt with in the Profit and Loss Statement in the year in which they arise.

**ii) Interest rate risk**

This is the risk that the entity's financial condition may be adversely affected as a result of changes in interest rate levels. The company's interest rate risk arises from bank deposits. This exposes the company to cash flow interest rate risk. The interest rate risk exposure arises mainly from interest rate movements on the company's deposits. To mitigate this risk, the hotel tries to bank and only deal with banks/institutions that are well established and offer favorable interest rates.

**b) Credit risk**

Credit risk arises from cash and cash equivalents as well as trade receivables and balances due from related parties. Management assesses the credit worthiness of each customer, taking into account its financial position, past experience among other factors. Individual credit limits are set based on the assessment. The amounts presented in the statement of financial position are net of allowances for doubtful debts, estimated by the hotel's management based on prior experience and the current economic environment.

The amount that best represents the company's maximum exposure to credit risk as at 30 June

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2018 is as shown below:

	Neither past due nor impaired Kshs	Past due but not impaired Kshs	Impaired Kshs	Total Kshs
<b>30 June 2018</b>				
Trade receivables	3,607,720	17,245,098	(2,121,973)	18,730,845
Due from related parties	<u>27,659</u>	<u>-</u>	<u>-</u>	<u>27,659</u>
	<u>3,635,379</u>	<u>17,245,098</u>	<u>(2,121,973)</u>	<u>18,758,504</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 2017</b>				
Trade receivables	4,524,720	12,369,566	(1,703,677)	15,190,609
Due from related parties	<u>27,659</u>	<u>-</u>	<u>-</u>	<u>27,659</u>
	<u>4,552,379</u>	<u>12,369,566</u>	<u>(1,703,677)</u>	<u>15,218,268</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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	Less than 1 month Kshs	Between 1- 3 months Kshs	Over 3 months Kshs	Total Kshs
<b>At 30 June 2018:</b>				
Trade payables	1,456,786	150,210	13,565,392	15,172,388
Parent company funding	-	-	99,027,431	99,027,431
	<u>1,456,786</u>	<u>150,210</u>	<u>111,592,823</u>	<u>114,199,819</u>
<b>At 30 June 2017:</b>				
Trade payables	1,151,164	287,791	12,950,598	14,389,553
Parent company funding	-	-	91,491,820	91,491,820
	<u>1,151,164</u>	<u>287,791</u>	<u>104,442,418</u>	<u>105,881,373</u>

**25. Currency**

The financial statement is presented in Kenya shillings. (Kshs.)

**26. Incorporation**

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

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**APPENDIX 1: PROGRESS ON FOLLOW UP OF AUDITOR RECOMMENDATIONS**

The following is the summary of issues raised by the Auditor General and the management comments that were provided to the auditors. The hotel nominated focal persons to resolve the various issues and associated time frame with which the issues are expected to be resolved.

Ref. No.	Issue/observations from Auditor General	Management comments	Focal point person to resolve the issue	Status	Time Frame
1.	<p><b>Going Concern</b></p> <p>As similarly reported in the previous Year, the Hotel realized loss of Kshs. 27,700,369 which led to cumulative loss of Kshs. 117,466,482 for the Year ended 30<sup>th</sup> June, 2017. In the previous Financial Year (2015/2016) the loss was Kshs. 12,025,168 and cumulative loss was Kshs. 89,766,093. The statement of Financial position also reflects a negative working capital of Kshs. 82,811,374 (2015/2016 Kshs. 55,754,528) In view of the foregoing, it would appear that the hotel is technically insolvent and its continued existence as a going concern is dependent upon the Financial support from the government, its trade and other payables.</p>	<p>It is true the hotel has been unable to meet its financial obligation as and when they fall due. As pertaining going concern, the management had presented the same through series of board meetings over the years. In these meetings, the management had made requests to the shareholders to support the company through capital /cash injection for the hotel to remain a going concern.</p>	Board of Directors	Unresolved	30 <sup>th</sup> June 2019
2.	<p><b>Audit Fees</b></p> <p>As previously reported in the previous Year, the trade and other payables balance of Kshs. 45,403,773 as at 30<sup>th</sup> June, 2017 includes Audit fees amounting to Kshs. 4,040,000 as at 30<sup>th</sup> June, 2017 which has remained outstanding for the</p>	<p>As reported in the previous year, the trade and other payables of Kshs. 45,403,773 as at 30<sup>th</sup> June 2016 included audit fees amounting to Ksh.4,040,000 .It is</p>	General Manager	Unresolved	30 <sup>th</sup> June 2019

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	last 13 Years. The Hotel is therefore in breach of section 41(1) of the Public Audit Act 2015 which requires a state corporation whose accounts are examined and audited by the Office of Auditor General to pay for the costs of the services.	true that the figure has been outstanding for the last 14 years and the management is working of modalities of clearing the arrears in installments as the challenge has been and still continue to be cash flow problem.			
3.	<p><b>Property, Plant and Equipment</b></p> <p><b>i. Fully Depreciated Assets</b></p> <p>The statement of financial position reflects property, plant and equipment balance of Kshs.96,231,262. However, the Hotel had depreciated Electric Transformer, Volume Washing Machine and Motor Vehicles whose original cost amounted to Kshs. 8,814,614 to nil value. These assets were still in use but had not been revalued to reflect current market value. These assets were still in use but had not been revalued to reflect current market value. There were no funds kept aside for replacement of fully depreciated assets. Further the Hotel maintains a fixed asset register. However, the assets cards are not properly numbered and do not have the Hotel's name. Physical verification revealed that all the assets were not coded or given a distinct identification tag as required.</p>	The fixed asset cards have since been numbered and labeled accordingly by indicating the name of the entity on each card. The management will also ensure that all the assets are physically coded as required. Records for any breakages shall also be kept accordingly. The hotel will also have the fully depreciated assets revalued and have the assets carried in the books at the revalued amounts accordingly.	Maintenance Supervisor/ Accountant	Unresolved	30 <sup>th</sup> June 2019
	<p><b>ii) Revaluation Reserve</b></p> <p>As previously reported, revenue reserve balance of Kshs. 79,262,476 has remained constant since the assets were lastly valued in 2004 and hence contravening International</p>	The management shall ensure that assets are revalued periodically.	General Manager	Unresolved	30 <sup>th</sup> June 2019

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	Accounting Standard No. 16 which requires that transfers be made to the revenue reserves on an annual basis as the assets are depreciated. Further, the standard requires that assets be revalued periodically. However, the Hotels assets have not been revalued for the last fourteen (14) Years. Consequently, the accuracy of Property, plant and Equipment balance of Kshs. 96,231,262 as at 30 June 2017 could not be confirmed and the hotel was therefore in breach of the International Accounting Standards No. 16 on property, plant and equipment.				
4.	<p><b>Tax Arrears</b></p> <p>As reported in the previous Years, the statement of financial position reflects Trade and other payables balance of Kshs. 45,403,773 which in turn includes amounts of Value Added Tax (VAT). Pay As You Earn (PAYE) and Withholding Taxes of Kshs. 11,489,577, Kshs. 5,446,486 and Kshs. 1,456,356 respectively, being arrears due to Kenya Revenue Authority (KRA). The arrears and penalties continued to attract additional charges as per the VAT Act and Income Tax Act Cap 470 which have not been incorporated in the Financial statements.</p>	<p>Management Response The Hotel Management made an agreement with the commissioner of Domestic Taxes on modalities of payment of vat arrears on monthly basis. Apart from this the KRA Regional Office Commissioner had promised to waive penalties and interest upon settling the principal balances in our books. The Management remained committed to this agreement by requesting TFC to make good the promise, who thereafter wired 2.5million directly to Kra Account. At the same time, the hotel also made an additional payment of Kshs. 2.5M.However, the hotel is still pursuing a waiver</p>	General Manager	Partly Resolved	30 <sup>th</sup> June 2019

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		of penalties and interest of Kshs. 1,456,346 on withholding value added tax with KRA. The hotel is yet to receive an official communication from Kenya Revenue Authority			
5.	<p><b>Delayed Remittance of Statutory Deductions</b></p> <p>The statement of Financial position reflects trade and other payables balance of Kshs. 45,403,773 which in turn includes National Social Security Fund (NSSF), National Hospital Insurance Fund (NHIF) Central Organization of Trade Unions (COTU), other payroll deductions, staff insurance deductions, Sunset Sacco of Kshs. 1,005,160, Kshs. 102,530, Kshs. 114,630, Kshs. 15,001, Kshs. 44,880 and Kshs. 3,212,115 respectively. The payables have been outstanding for a considerable long period of time and therefore their settlement is in doubt. As a result, the corporation has not complied with various aspects of the Retirement Benefits Act, Labour and Employment, Act, and Co-operative Societies Act.</p>	<p>It's indeed true that the hotel has failed to remit statutory deductions as required by the Retirement Benefits Act, Labour and Employment Act, and Co-operatives societies Act. This is as a result of the poor performance by the hotel. Due to the dilapidated state of the hotel, it has continued to operate at a loss with the year under review being no exception. Due to the constrained finances, the hotel is forced to divert the available resources to more urgent issues such as electricity and water and few most critical purchases. Plans are however underway to turn around the hotel and make itself sustaining.</p>	Board of Directors/General Manager	Unresolved	30 <sup>th</sup> June 2019
6.	<p><b>Provision for Bad and Doubtful Debt</b></p> <p>During the Year under review, it was observed that the management provided provision for bad and doubtful debt</p>	<p>Only a provision of Kshs.746,545 was made for bad and doubtful debts during the year with</p>	Board of Directors/General	Partly resolved	30 <sup>th</sup> June 2019

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	<p>amounting to Kshs. 1,703,677 against trade debtors of Kshs. 15,190,609 compared to prior Year of Kshs. 957,132 against debtors amount of Kshs. 19,411,219. The rate of provision for bad and doubtful debt as provided in the accounting manual seems to have been set without working our average probable failure rate or actual loss. The rates set by the management will always prove a burden in determination of surplus/deficit. From the foregoing it was therefore difficult to confirm the accuracy of Kshs. 1,703,677 charged as provision for bad and doubtful debt.</p>	<p>Kshs.1,703,677 being the cumulative provision for bad and doubtful debts having had the brought forward balance of Kshs.957,132. Notably, no provision had been made in the prior year hence the relatively high provision in the current year. However, as correctly observed during the audit, the provisions as made in the statements are not aligned to the hotel's accounting manual. The management will revise the accounting manual to make it more realistic.</p>	<p>Manager/Ac countant</p>		
7	<p><b>Trade and Other Receivables</b>          Included in statement of Financial position is a net trade and other receivables balance of Kshs. 14,077,591. However, during the Year under review trade receivables decreased by Kshs. 5,598,879 from Kshs. 19,676,470 as at 30 June 2016 to Kshs. 14,077,591 as at 30<sup>th</sup> June 2017. The decrease could not be directly linked to the debt collection as no schedule of debtors' payment was provided for audit verification.</p>	<p>The reduction in debtors was certainly due to collections made from the respective debtors. The schedules of payments from the debtors occasioning the reduction have since been forwarded to the auditors for verification.. Nonetheless, the hotel will endeavor to collect outstanding debts more vigorously and engage the services of debt collectors where necessary.</p>	<p>Accountant</p>	<p>Resolved</p>	<p>n/a</p>

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8.	<p><b>Undisclosed Share Certificate</b></p> <p>Sunset Hotel was incorporated in 1976 under the Kenya Companies Act. The shareholders are Tourism Finance Corporation with 95.4% shareholding and the defunct Municipal Council has not yet been transferred to the County Government of Kisumu County Government of Kisumu as required by the law.</p> <p>Further, share certificate provided for audit review amounted to Kshs. 17,000,000 while Financial statement reflects Kshs. 12,000,000. The difference of Kshs. 5,000,000 in capital as reflected in the share certificate was not explained. Further, the certificate of the defunct Municipal Council of Kisumu worth 4.6% shareholding was not made available for audit review</p>	<p>Sunset hotel is a state corporation registered under the company's Act as a limited company and owned 95% and 5% by TFC and Kisumu county respectively.</p> <p>The company secretary is pursuing the copy of share certificate for Kisumu County Government (formerly Municipal Council of Kisumu) and shall be availed once in receipt.</p>	Company Secretary	Unresolved	30 <sup>th</sup> June 2019
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 General Manager

Date... 28/9/18 .....

  
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 Chairman of the Board

Date... 28/9/18 .....