

REPUBLIC OF KENYA



OFFICE OF THE AUDITOR-GENERAL

**REPORT**

**OF**

**THE AUDITOR-GENERAL**

**ON**

**THE FINANCIAL STATEMENTS OF  
SUNSET HOTEL LIMITED**

**FOR THE YEAR  
ENDED 30 JUNE 2017**

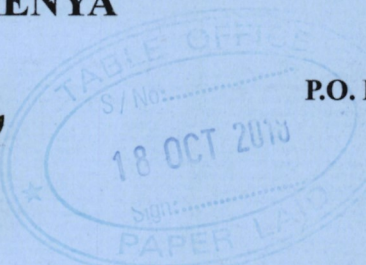
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*18/10/18  
OCT 2018*

# REPUBLIC OF KENYA

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NAIROBI

## OFFICE OF THE AUDITOR-GENERAL

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

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#### REPORT ON THE FINANCIAL STATEMENTS

#### Qualified Opinion

I have audited the accompanying financial statements of Sunset Hotel Limited set out on pages 17 to 42 which comprise the statement of financial position as at 30 June 2017, and the statement of comprehensive income, statement of changes in equity, statement of comparison of budget and actual performance and statement of cash flows and a summary of significant accounting policies and other explanatory information in accordance with the provisions of Article 229 of the Constitution of Kenya and Section 35 of the Public Audit Act, 2015. I have obtained all the information and explanations which, to the best of my knowledge and belief, were necessary for the purpose of the audit.

In my opinion, except for the effect of the matters discussed 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 2017, and of its financial performance and its cash flows for the period then ended, in accordance with International Reporting Standards and comply with the Kenya Company's Act 2015.

Further, as required by Article 229(6) of the Constitution, except for the matters described in the basis for qualified opinion section of my report, based on the procedures performed, I confirm that nothing has come to my attention to cause me to believe that public money has not been applied lawfully and in an effective way.

#### Basis for Qualified Opinion

##### 1.0 Doubtful Going Concern Status

The Hotel realized loss of Kshs.27,700,389 against loss of Kshs.12,025,168 in the year ended 30 June 2016. This raised the cumulative losses as at 30 June 2017 to Kshs.117,466,482 from Kshs.89,766,093 as at 30 June 2016. 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, the hotel is technically insolvent and its continued existence as a going concern is dependent upon financial support from the National Government and creditors.

##### 2.0 Outstanding Audit Fees

As in the previous year, the trade and other payables balance of Kshs.45,403,773 as at 30 June 2017 includes audit fees amounting to Kshs.4,040,000 that have been outstanding for the last 13 years. The Hotel is therefore in breach of Section 41(1) of the

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

Public Audit Act, 2015 which requires a state corporation whose accounts are examined and audited by the Auditor-General to pay for the costs of the services.

### **3.0 Bad Practice in Valuing and Accounting for Property, Plant and Equipment**

#### **i) Fully Depreciated Assets**

The statement of financial position reflects property, plant and equipment balance of Kshs.96,231,262. However, as at 30 June 2017, 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 and further, no funds had been set aside to replace the fully depreciated assets. Further, the Hotel maintains a fixed assets register, the assets cards are not properly numbered and are not labeled in the Hotel's name. Physical verification revealed that all the assets were not coded or assigned distinct identification tags as required.

#### **ii) Revaluation Reserve**

As reported in previous years, revenue 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 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 fourteen (14) years ago.

Consequently, the accuracy of Property, Plant and Equipment balance of Kshs.96,231,262 as at 30 June 2017 cannot be confirmed.

### **4.0 Long Standing Tax Arrears**

As reported in previous years, the statement of financial position reflects Trade and Other Payables balance of Kshs.45,403,773 which in turn includes Value Added Tax (VAT), Pay as You Earn (PAYE) and Withholding Taxes balances 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 continue to attract additional charges as per the Value-Added-Tax Act and Income Tax Act Cap 470 which have not been incorporated in these financial statements.

### **5.0 Delayed Remittance of Statutory Deductions**

The statement of financial position reflects trade and other payables balance of Kshs.45,403,773 which in turn includes deductions relating to National Social Security Fund (NSSF) amounting to Kshs.1,005,160, National Hospital Insurance Fund (NHIF) amounting to Kshs.102,530, Central Organization of Trade Unions (COTU) of Kshs.114,630, other payroll deductions Kshs.15,001, staff insurance deductions amounting to Kshs.44,880, and Sunset Sacco deductions amounting to Kshs.3,212,115. The payables have been outstanding for a considerable long period of time and therefore their settlement is in doubt. Therefore, the Hotel has not complied with various aspects

of the Retirement Benefits Act, Labour and Employment Act, and Co-operative Societies Act.

As a result, the Hotel risks penalties and interest on the outstanding remittances owed to statutory bodies for several years.

#### **6.0 Unexplained Provisioning Method for Bad and Doubtful Debts.**

During the year under review, the management of the Hotel made provisions for bad and doubtful debts amounting to Kshs.1,703,677 against trade debtors of Kshs.15,190,609. In the previous year, the provisions for trade debtors amounted to Kshs. 957,132 against total debtors balance of Kshs.19,411,219 as at 30 June 2016. Apparently, the rate for provision for bad and doubtful debts prescribed in the Hotel's accounting manual was set before the average probable failure rate or actual defaults experienced over time were determined. In the absence of sufficient information showing how the provisioning rate was arrived at, it is not possible to confirm the validity and accuracy of the provision of Kshs.1,703,677 made by management in regard to debts owed to the Hotel.

#### **7.0 Unexplained Reduction in Trade and Other Receivables**

Included in the statement of financial position is a balance of Kshs.14,077,591 relating to trade and other receivables. 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 30th June 2017. The decrease cannot be attributed to debt collection as no schedule showing payment of debts has been provided for audit verification.

Consequently, the accuracy and completeness of the trade and other receivables amount of Kshs.14,077,591 as at 30 June 2017 cannot be confirmed.

#### **8.0 Discrepancy in Share Capital Balance and Undisclosed Share Certificate**

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 of Kisumu with 4.6% shareholding. The shares held by the defunct municipal council have not yet been transferred to the County Government of Kisumu as required by law.

Further, while the share certificate provided for audit reflected shares valued at Kshs.17,000,000, the financial statements reflect shares worth Kshs.12,000,000. Management has not explained the difference of Kshs. 5,000,000 between the share capital balances reflected in the two records. Further, the certificate confirming ownership of a portion of the share capital (4.6%) by the defunct Municipal Council of Kisumu was not made available for audit review and therefore has not been confirmed as valid.

The audit was conducted in accordance with International Standards of Supreme Audit Institutions (ISSAIs). I am independent of Sunset Hotel Limited in accordance with ISSAI 30 on Code of Ethics. I have fulfilled other ethical responsibilities in accordance with the

ISSAI and in accordance with other 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 opinion.

### **Key Audit Matters**

Key audit matters are those matters that, in my professional judgment, are of most significance in the audit of the financial statements. Except for the matters described in the Basis for Qualified Opinion section, I have determined that there are no key audit matters to communicate in my report.

### **Other Matter**

### **Analysis of Budget Performance**

Comparison of budgeted and actual income and expenditure balances revealed variances as detailed below:

<b>Items</b>	<b>Budget Kshs.</b>	<b>Actual Kshs.</b>	<b>Variance Kshs.</b>	<b>Performance (%)</b>
Sales	101,265,939	42,242,826	59,023,113	41.7
Staff Expenses	11,780,375	9,341,581	2,438,794	79.2
Terminal Dues	1,725,000	1,191,439	533,561	69.0
Staff Travel	1,843,554	1,626,598	216,956	88.2
Administrative Expenses	1,132,290	2,630,687	(1,498,397)	232.3

Analysis of the balances revealed that the management Hotel overspent on administrative expenses without approval by the Board. Management have not provided a plausible explanation for this irregularity.

### **Responsibilities of Management and those charged with Governance for the Financial Statements**

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

In preparing the financial statements, management is responsible for assessing the Hotel's ability to sustain services, disclosing, as applicable, matters related to sustainability of services and using the going concern accounting assumption unless the management is aware of the intention to liquidate the Hotel or cease its operations. Those charged with governance are responsible for overseeing the Hotel's financial reporting process.

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

Those charged with Governance and responsible for overseeing the financial reporting process

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

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

As part of an audit 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 misstatements resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Hotel's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the management.
- Conclude on the appropriateness of the management's use of the going concern basis of accounting and based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Sunset Hotel Limited's ability to continue offering 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 Sunset Hotel Limited to cease to continue offering 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 of the entities or business activities to express an opinion on the financial statements.

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.

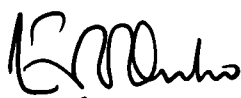
I also provide management with a statement that I have complied with relevant ethical requirements regarding independence, and communicate with them all relationships and other matters that may reasonably be thought to bear on my independence, and where applicable, related safeguards.

From the matters communicated with management, I determine those matters that were of most significance in the audit of consolidated financial statements of the current period and are therefore the key audit matters. These matters are described in my auditor's report unless law or regulation precludes public disclosure about the matters or when, in extremely rare circumstances, I determine that a matter should not be communicated in my report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

#### REPORT ON OTHER LEGAL AND REGULATORY REQUIREMENTS

As required by the Companies Act, I report based on my audit, that:

- i. I have obtained all the information and explanations which, to the best of my knowledge and belief, were necessary for the purpose of the audit.
- ii. In my opinion, adequate accounting records have been kept by the Hotel, so far as appears from my examination of those books:
- iii. The Company's statement of financial position and statement of comprehensive income are in agreement with the accounting records; and
- iv. In my opinion, the information given in the report of the directors is consistent with the financial statements.



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

**Nairobi**

**14 August 2018**



**FINANCIAL STATEMENTS**

**FOR THE**

**YEAR ENDED**

**30<sup>TH</sup> JUNE 2017**

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**SUNSET HOTEL LIMITED**  
**Reports and Financial Statements**  
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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 ownership and operation of the hotel facility mainly focusing on provision of accommodation and conference facility services to potential customers.

**Directors**

Mr. Franklin Ndii	Director - Chairman to the Board
Mrs Fatuma Mohamed	Director - Ps Ministry of Tourism
Mr. Jackton Ranguma	H.E the Govenor – Kisumu County Government
Mr. Paul Kurgat	Director
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)

**SUNSET HOTEL LIMITED**  
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**Advocate**

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

**Corporate Bankers**

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

Co-Operative Bank of Kenya  
Oginga Odinga Street  
P.O. Box 1151 – 40100  
**KISUMU**

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**

**THE BOARD OF DIRECTORS**



**FRANKLIN NDII**  
**DIRECTOR- CHAIRMAN**

DoB: 25<sup>th</sup> May, 1952

Mr. Ndii 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. He 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.

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 & Administration.





**FATUMA HIRSI MOHAMED( MRS.)**  
**CBS**  
**Principal Secretary; Ministry of Tourism**

DOB: 17<sup>th</sup> August 1963

**Mrs Fatuma Hirsi Mohamed**, the Principal Secretary of the Ministry of Tourism born in 1963 has 30 years integrated strategic management working experience in various sectors including telecom, media, banking and international civil service working for the United Nations. In her current role, she has been instrumental in the turnaround of the Tourism sector and facilitated strategic direction to enable growth and recovery of the sector.

She holds a Master of Business Administration (MBA) in strategy and marketing a BA (Hons) in languages and currently pursuing a PhD in Communications Studies. Mrs Mohamed is a Fellow and lifetime achiever of the Public Relations Society of Kenya. She is multilingual and speaks: English, Kiswahili, Somali and basic Arabic.

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	<p>DoB: 9<sup>th</sup> May 1952</p> <p>Master of Science (International Accounting and Management Information Systems) from the University of Illinois at Urbana-Champaign</p> <p><b>Alternate to the Governor</b></p> <p>Mr. George Onngaya- Executive member, Treasury, Kisumu County</p> <p>Dr. Rose Kisia Omondi - Executive member, Tourism, Kisumu County</p>
<p><b>MR. JACKTON RANGUMA – HE THE GOVERNOR – KISUMU COUNTY</b></p>	<p>DoB: 9<sup>th</sup> May 1969</p> <p>Mr. Kurgat was appointed to the Board on 2<sup>nd</sup> October, 2015. He is the Managing Director of Saiwa Holiday Resorts &amp; Restaurants 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 holds a Masters Degree in Tourism Management and a Bachelor’s Degree in Hospitality and Events Management both from Moi University. He is also a graduate of the Kenya Utalii College.</p> <p>Mr. Kurgat is also a Board Member of Action Aid and is the National Chairman of the Kenya Utalii College alumni.</p>
	<p><b>PAUL KURGAT DIRECTOR</b></p>

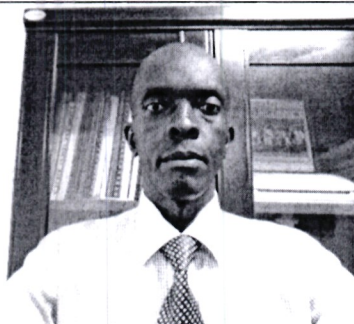
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**ORUMOI. T. JONAH**  
**DIRECTOR**

DoB: 20<sup>th</sup> October 1978

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 & Finance of the East London University, UK. He was the Head of Finance & ICT at the Kenya Tourism Board and has previously worked as Finance & Leasing Contracts Manager/ acting Head of Procurement at G4S and as a Senior Principal Finance Officer, Thurrock Council, UK. He is the Managing Director of Tourism Finance Corporation.




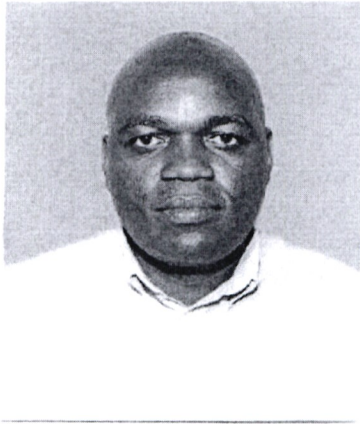

**JOSEPH ODUOR**  
**GENERAL MANAGER**

DoB: 17<sup>th</sup> December 1969

Holds a Master of Business Administration (Finance and Accounting)  
Over 15 years' experience in the Hospitality Management.

**SUNSET HOTEL LIMITED**  
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**MANAGEMENT TEAM**

 <p><b>JOSEPH ODUOR</b></p>	<p>DoB: 17<sup>th</sup> December 1969</p> <p>Holds a Master of Business Administration (Finance and Accounting)  Over 15 years' experience in the Hospitality Management</p>	<p><b>General Manager</b></p>
 <p><b>STEPHEN KATAMBANI</b></p>	<p>DoB: 24<sup>th</sup> August 1972</p> <p>Diploma in Hotel Management  Certificate in Food and Beverage sales &amp; Service. Over 10years  Experience in Hospitality Management</p>	<p><b>Hotel Manager</b></p>
 <p><b>JULIANA JEMUTAI</b></p>	<p>DoB: 28<sup>th</sup> May 1978</p> <p>B.com(Finance)&amp; CPA(K) Over 10Years experience in Financial Management.</p> <p>She resigned on 2<sup>nd</sup> May 2017</p>	<p><b>Hotel Accountant</b></p>

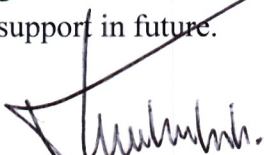
## **CHAIRMAN'S STATEMENT**

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 2016/2017. 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. 25 Million against the expected profit of Kshs. 2.8 Million; this brings the accumulated losses to Kshs. 118Million.

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.

  
**FRANKLIN NDII (MR)**

**SUNSET HOTEL LIMITED**  
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**For the year ended 30th June 2017**

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**REPORT OF THE GENERAL MANAGER**

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 2017.

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 hotel and has created a challenge that the old hotel 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 2017, the hotel achieved a net turnover of Kshs 42.2 million (2016: Kshs 59 million) representing a decline of 28.5 % and a loss of Kshs. 27.9 million (2016: Kshs 12 million) 125% decline.

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 2017. 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.



**GENERAL MANAGER**

## **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:

### **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 and is currently implementing the 2012 – 2017 strategic plan.

### **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 meeting in his capacity as General Manager.

**SUNSET HOTEL LIMITED**  
**Reports and Financial Statements**  
**For the year ended 30th June 2017**

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' discussion is conducted in a manner that promotes open participation.

**Board Meetings**

The Board discharges its responsibilities through scheduled meetings and additionally through ad hoc meetings as and when need arises.

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

<b>DIRECTORS</b>		<b>FULL BOARD MEETING</b>	<b>CONSULTATIVE MEETINGS</b>
Jonah Orumoi	Director- Tourism Finance Corporation	3	1
George Ongaya	Executive Member Kisumu County – Treasury/ Alternate to Kisumu Governor	2	
Francline Ndi	Director Rep. Tfc - Chairperson	3	
Paul Kurgat	Director Rep. – Tfc	4	1
Wamuyu Kariuki	Ag. Company Secretary - Tfc	1	
Said Attman	Rep. Ps – Ministry Of Tourism	1	
Abdinanir Ali	Rep Ps – Ministry Of Tourism	1	
Abdulai W.M.Omolo	Rep Ps – Ministry Of Tourism	1	
Mary Njeri	Company Secretary - Tfc	2	

**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 2016/2017. 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:-

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<b>Title</b>	<b>Monthly Allowance Per Month</b>	<b>Directors Sitting Allowance Per Sitting</b>	<b>Lunch Allowance Per Sitting</b>	<b>Airticket per director</b>	<b>Milleage Claim</b>
Board Chairman	40,000	20,000	2,000		
Directors		20,000	2,000	17,200	18,200

**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.

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

<b>NO.</b>	<b>Directors Name</b>	<b>Allowances as at 30th June 2017</b>
1	Jonah Orumoi	79,250.00
2	George Ongaya	62,545.00
3	Francline Ndi	65,340.00
4	Paul Kurgat	196,340.00
5	Wamuyu Kariuki	14,000.00
6	Said Attman	22,800.00
7	Abdinanir Ali	50,605.00
8	Abdulai W.M.Omolo	20,000.00
9	Mary Njeri	50,090.00
	<b>TOTAL</b>	<b>560,970.00</b>

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**Directors Remuneration Paid During The Year end June 2016**

<b>NO.</b>	<b>Directors Name</b>	<b>Details</b>	<b>Allowances as at 30th June 2016</b>
1	Mr. Dominic Ndewa	Head of Investment – TFC/Alternate to MD	
2	George Ongaya	Executive Member, Treasury/Alternate to Kisumu Governor	24,000
3	Dr. Rose Kisia Omondi	Executive Member, Tourism	24,000
4	Carry Francis	Company Secretary- TFC	24,000
		<b>TOTAL KSHS.</b>	<b>96.000</b>

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**MANAGEMENT DISCUSSION AND ANALYSIS**

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.

During the year under review, the hotel achieved a net turnover of Kshs 42.2 million against a budget of Kshs 101.2 million and compared to the Kshs 59 million achieved during the year ended 30<sup>th</sup> June 2016. This represented an unfavorable variance of 58% against the budget and a drop of 28% from the actual performance of 2016. Net loss stood at Kshs 27.7 million against the projected profit of 2.8 million and compared to a net loss of 12 million achieved during the year ended 30<sup>th</sup> June 2016. This poor performance is attributed to the deplorable status of the hotel that needs an urgent and decisive attention to fix.

	ACTUAL	ACTUAL	APPROVED	VARIANCE	%	STAT
	2016	2017	BUDGET	2017		US
	Kshs	kshs	Kshs	Kshs		
Sales	59,062,307	42,242,826	101,265,939	(59,023,113)	(58%)	U
Cost of sales	15,248,463	10,767,219	21,720,858	10,953,639	50%	F
<b>Gross Profit</b>	<b>43,813,844</b>	<b>31,475,607</b>	<b>79,545,081</b>	<b>(48,069,474)</b>	<b>(60%)</b>	<b>U</b>
Gross profit % overall	74	74	79			
Room Occupancy %	27	18	46			
Bed Occupancy %	18	13	30			
<b>EXPENDITURE</b>						
Staff Costs	31,224,170	32,580,989	38,130,290	5,549,301	15%	F
Operating Costs	13,780,149	12,956,920	18,337,569	5,380,649	29%	F
Administration Costs	7,326,751	9,345,115	14,609,782	5,264,667	36%	F
Directors Costs	96,000	560,970	2,259,200	1,698,230	75%	F
<b>Total Expenditure</b>	<b>52,427,070</b>	<b>55,443,994</b>	<b>73,336,841</b>	<b>17,892,847</b>	<b>24%</b>	<b>F</b>
<b>Operating Profit/ ( Loss)</b>	<b>(8,613,226</b>	<b>(23,968,387)</b>	<b>6,208,240</b>	<b>(17,760,147)</b>	<b>(286%)</b>	<b>U</b>
	<b>)</b>					
Finance Costs	3,411,942	3,732,002	3,364,328	(367,674)	(11%)	U
<b>Net Profit / ( Loss)for the year</b>	<b>12,025,168</b>	<b>(27,700,389)</b>	<b>2,843,912</b>	<b>(30,544,301)</b>	<b>(1074)%</b>	<b>U</b>

**Staff Costs**

The overall vote was within the budget with a favorable variance of 15%. There was however an increase of 4% from 2016 occasioned by CBA increments of 9% effective from October 2016.

**Operating Costs**

The overall operating costs were within the budget with a favorable variance of 29%. There was a slight reduction of 7% from the performance of 2016. This is attributed to cost control measures.

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**Administration Costs**

The expenditure was largely within the budget with a favorable variance of 36%. There was however an increment of 27% from the actual performance of 2016 due to legal charges for the various court cases against the hotel.

**Directors Costs**

The costs were within the budget for the year under review.

**Finance Costs**

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

The visible decline in sales is due to the stiff competition experienced within the year with the entrance of new and modern hotels like Acacia, Pine cone and Sovereign among others. This has really hit Sunset Hotel so hard such that Tourism change is inevitable. Change is a reality and what we knew yesterday is no longer applicable today. In this regard, the way the hotel has been operating must change or our competitors will overtake us as soon as it is imminent. Therefore, there is an urgent need to invest in the hotel as envisioned in the capital budget for the Financial Year 2016/2017.

Sunset's strength is its strategic location and the major challenges being its poor facility, high cost of operations and increased competition etc.

**Liquidity Position**

As a result of the above adverse revenue variance, the Hotel has been unable to meet its obligations as they fall due. 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.

This problem has forced the Hotel to pay only necessities such as net salaries due to the employees without remitting the statutory deductions in the hope of getting more money to settle the deductions which has not been forthcoming.

The budget for 2016/2017 F/Y, the management requested the shareholders to finance the capital budget in order for the Hotel to survive the competition. There is an urgent need to improve the facility to modern standards in order to improve its bed occupancy; match the customer needs as well as fight the current competition. If the challenges are minimal the hotel will increase its turnover and profitability. This can only happen if the **shareholders intervene** by injecting money in the facility to help the hotel be viable and improve its performance in the future.

## **REPORT OF DIRECTORS**

The Directors submit their report together with the audited financial statement for the Year ended 30 June 2017 which shows the state of Sunset Hotel Ltd affairs.

### **1. PRINCIPAL ACTIVITIES**

The principal activity of the company is that of carrying out hotel business.

### **2. RESULTS**

The results of the year are shown in details on pages 17 - 42

### **3. DIVIDEND**

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

#### **a) RESERVES**

The Directors propose to carry forward the balance of accumulated Losses amounting to Kshs. 117,466,482

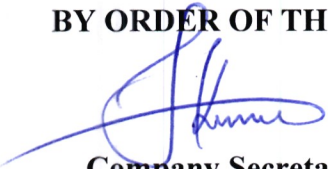
#### **b) DIRECTORS**

The members of the Board of Directors who served during the year and to date of this report are set out on page 3- In accordance with Regulation 2(b) of the Sunset Hotel Ltd Articles of Association.

#### **c) 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.....

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**STATEMENT OF DIRECTORS RESPONSIBILITIES**

Section 81 of the Public Finance Management Act, 2012 and of the State Corporations Act, require the Directors to prepare financial statements in respect of Sunset Hotel Ltd, 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 Directors are also required to ensure that the hotel keeps proper accounting records which disclose with reasonable accuracy the financial position. The Directors are also responsible for safeguarding the assets of the hotel.

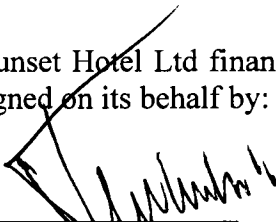
The Directors are responsible for the preparation and presentation of the hotel financial statements, which give a true and fair view of the state of affairs of the hotel for and as at the end of the financial year ended 30th June 2017. This responsibility includes:


- (i) maintaining adequate financial management arrangements 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 Directors accept responsibility for the hotel's financial statements, which have been prepared using appropriate accounting policies supported by reasonable and prudent judgments' and estimates, in conformity with International Financial Reporting Standards (IFRS), and in the manner required by the PFM Act , 2012 and the State Corporations Act. The Directors are of the opinion that the hotel's financial statements give a true and fair view of the state of hotel's s transactions during the financial year ended June 30, 2017, and of the hotel's 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.

**Approval of the financial statements**

The Sunset Hotel Ltd financial statements were approved by the Board on 29<sup>th</sup> September 2017 and signed on its behalf by:

  
\_\_\_\_\_  
Director

  
\_\_\_\_\_  
Director

**SUNSET HOTEL LIMITED**  
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**STATEMENT OF PROFIT / LOSS AND OTHER COMPREHENSIVE INCOME**

		<b>2017</b>	<b>2016</b>
<b>NOTES</b>		<b>Ksh</b>	<b>Ksh</b>
Sales	1	42,242,826	59,062,307
Cost of Sales	2	<u>(10,767,219)</u>	<u>(15,248,463)</u>
<b>GROSS PROFIT</b>		<b><u>31,475,607</u></b>	<b><u>43,813,844</u></b>
<b><u>EXPENDITURE</u></b>			
Staff Costs	3	32,580,989	31,224,170
Operating Costs	4	12,956,920	13,780,149
Administration Costs	5	9,345,115	7,326,751
Directors Costs	6	560,970	96,000
<b>Total Expenditure</b>		<b><u>55,443,994</u></b>	<b><u>52,427,070</u></b>
<b>Operating Profit/ (Loss)</b>		<b><u>(23,968,387)</u></b>	<b><u>(8,613,226)</u></b>
Finance Costs	7	<u>( 3,732,002)</u>	<u>(3,411,942)</u>
<b>Profit/(Loss) for the year</b>		<b><u>(27,700,389)</u></b>	<b><u>12,025,168)</u></b>

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**STATEMENT OF FINANCIAL POSITION**

	Notes	2017	2016
		<u>Ksh</u>	<u>Ksh</u>
<b><u>ASSETS</u></b>			
<b><u>Non – current Assets</u></b>			
Property, Plant and Equipment	8	96,231,262	99,765,004
<b><u>Current Assets</u></b>			
Inventories	9	281,008	1,978,095
Trade & Other Receivables	10	14,077,591	19,676,470
Cash and Bank Balances	11	<u>145,602</u>	<u>2,252,765</u>
<b>Total current assets</b>		<b><u>14,504,201</u></b>	<b><u>23,907,330</u></b>
<b>Total Assets</b>		<b><u>110,735,462</u></b>	<b><u>123,672,334</u></b>
<b><u>EQUITY AND LIABILITIES</u></b>			
<b><u>Equity</u></b>			
Share Capital	12	12,000,000	12,000,000
Revaluation reserves	13	79,262,476	79,262,476
Retained earnings/( Losses)	14	(117,466,482)	(89,766,093)
<b>Total equity</b>		<b><u>(26,204,006)</u></b>	<b><u>1,496,383</u></b>
<b><u>Non-Current Liabilities</u></b>			
Shareholders Loan	15(a)	1,431,286	1,431,286
TFC Principal balance Account	15(b)	<u>38,192,607</u>	<u>41,082,807</u>
<b>Total Non-Current Liabilities</b>		<b><u>39,623,893</u></b>	<b><u>42,514,093</u></b>
<b><u>Current Liabilities</u></b>			
Trade & Other Payables	16 (a)	45,403,773	34,416,130
TFC Principal Arrears	16 (b)	29,779,241	26,889,041
TFC Loan Interest	16 (c)	22,088,686	18,356,687
Overdraft (NBK)	16 (d)	43,875	-
<b>Total Current Liabilities</b>		<b>97,315,575</b>	<b>79,661,858</b>
<b>Total Liabilities</b>		<b>136,939,468</b>	<b>122,175,951</b>
<b>Total Equity and Liabilities</b>		<b><u>110,735,462</u></b>	<b><u>123,672,334</u></b>

The financial Statements were approved by the Board on .....and signed on its behalf by

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**Director**

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**Director**

**SUNSET HOTEL LIMITED**  
**Reports and Financial Statements**  
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**STATEMENT OF CHANGES IN EQUITY**

	<b>Share Capital</b>	<b>Revaluation Reserves</b>	<b>Retained Earnings/ Losses</b>	<b>Total Kshs.</b>
<b>As at 30th June 2014</b>	<b>12,000,000</b>	<b>79,262,476</b>	<b>(76,824,165)</b>	<b>14,438,311</b>
Profit/( Loss) for the	-	-	(916,759)	(916,759)
<b>As at 30th June 2015</b>	<b>12,000,000</b>	<b>79,262,476</b>	<b>(77,740,924)</b>	<b>13,521,552</b>
Profit/( Loss) for the			(12,025,168)	(12,025,168)
<b>As at 30th June 2016</b>	<b>12,000,000</b>	<b>79,262,476</b>	<b>(89,766,092)</b>	<b>1,496,384</b>
Profit/( Loss) for the			(27,700,389)	(27,700,389)
<b>As at 30th June 2017</b>	<b>12,000,000</b>	<b>79,262,476</b>	<b>(117,466,482)</b>	<b>(26,204,005)</b>

**SUNSET HOTEL LIMITED**  
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**STATEMENT OF CASHFLOW**

	NOTES	2017 <u>Kshs.</u>	2016 <u>Kshs.</u>
<b><u>Cash flow from operating activities</u></b>			
Net Profit/(Loss) before tax	14	(27,700,389)	(12,025,168)
<b><u>Adjustments for:</u></b>			
Add: Depreciation	8	3,574,603	3,629,640
Interest Expensed	7	<u>3,732,002</u>	<u>3,411,942</u>
<b>Adjusted profit before working capital adjustments</b>		<b>(20,393,784)</b>	<b>(4,983,586)</b>
<b><u>Changes in working capital</u></b>			
(Increase )/Decrease in Debtors	10	5,598,879	2,369,537
(Increase )/Decrease in Stocks	9	1,697,087	258,952
Increase/(Decrease) in Creditors	16	10,987,643	3,290,262
		<u>18,283,610</u>	<u>5,918,752</u>
<b>Net cash flow from operating activities</b>		<b>(2,110,175)</b>	<b>935,166</b>
<b><u>Cash flow from Investing activities</u></b>			
Purchase of Fixed Assets	8	(40,862)	(444,220)
<b>Net cash flow from investing activities</b>		<b>(40,862)</b>	<b>(444,220)</b>
<b><u>Cash flow from Financing activities</u></b>			
Advance from TFC		-	-
TFC Loan Repayment		-	-
<b>Net cash flow from financing activities</b>		<b>-</b>	<b>-</b>
Net Increase / (Decrease) Cash and Cash Equivalent		(2,151,037)	490,945
Opening balance of Cash & Cash equivalent		2,252,765	1,761,849
<b>Closing balance of Cash &amp; Cash equivalent</b>		<b>101,728</b>	<b>2,252,765</b>
<b><u>Cash Balances</u></b>			
Bank Overdraft (National Bank of Kenya )		(43,874)	-
Cash and Bank Balances		145,602	2,252,765
As at 30th June.2017		<b>101,728</b>	<b>2,252,765</b>

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**STATEMENT OF COMPARISON OF BUDGET AND ACTUAL PERFORMANCE**

	<b>APPROVED BUDGET</b>	<b>ACTUAL</b>	<b>VARIENCE</b>	<b>%</b>	<b>STATUS</b>
	<b>2017</b>	<b>2017</b>			
	<b>Kshs</b>	<b>kshs</b>	<b>Kshs</b>		
Sales	101,265,939	42,242,826	(59,023,113)	(58%)	U
Cost of sales	(21,720,858)	(10,767,219)	10,953,639	50%	F
<b>Gross Profit</b>	<b>79,545,081</b>	<b>31,475,607</b>	<b>(48,069,474)</b>	<b>(60%)</b>	<b>U</b>
<b>EXPENDITURE</b>					
Staff Costs	38,130,290	32,580,989	5,549,301	15%	F
Operating Costs	18,337,569	12,956,920	5,380,649	29%	F
Administration Costs	14,609,782	9,345,115	5,264,667	36%	F
Directors Costs	2,259,200	560,970	1,698,230	75%	F
<b>Total Expenditure</b>	<b>73,336,841</b>	<b>55,443,995</b>	<b>17,892,846</b>	<b>24%</b>	<b>F</b>
<b>Operating Profit/ ( Loss)</b>	<b>6,208,240</b>	<b>(23,968,388)</b>	<b>(30,176,628)</b>	<b>(486%)</b>	<b>U</b>
Finance Costs	3,364,328	3,732,002	(367,674)	(11%)	U
Net Profit / ( Loss)for the year	<b>2,843,912</b>	<b>(27,700,390)</b>	<b>(30,544,302)</b>	<b>(1074%)</b>	<b>U</b>

**Key:** U- unfavourable  
F- Favourable

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## **EXPLANATORY NOTES TO THE FINANCIAL STATEMENTS**

### **GENERAL INFORMATION**

Sunset Hotel Limited is established by and derives its authority and accountability from the Kenya Companies Act (cap 486) in 1976. The hotel is 95.4% owned by the Government of Kenya and 4.6% by the County Government of Kisumu and is domiciled in Kenya. The entity's principal activity is operation of the hotel facility mainly focusing on provision of accommodation and conference facility.

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.

### **SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

#### **1. 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.

#### **Adoption of new and revised International Financial Reporting Standards (IFRS)**

IFRS 9, 'Financial instruments' addresses the classification, measurement and recognition of financial liabilities. IFRS 9 was issued in November 2009 and October 2010. It replaces the part of IAS 39 that relate to the classified into two measurement categories: those measured as at fair value and those measured at amortized cost. The determination is made at initial recognition. The classification depends on the entity's business model for managing its financial instruments and the contractual cash flow characteristics of the instrument. For financial liabilities, the standard retains most of the IAS 39 requirement. The main change is that, in cases where the

**SUNSET HOTEL LIMITED**  
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**SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)**

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

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

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

**a) 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:

- No depreciation is charged on the Leasehold land
- Building - 2.5%
- Property, Plant & Machinery - 12.5%
- Furniture, Fittings and Equipment - 12.5%
- Motor Vehicle - 25.0%
- 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.

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

fair value option is taken for financial liabilities, the part of a fair value change due to an entity's own credit risk is recorded in other comprehensive income rather than the income statement, unless this creates an accounting mismatch. The company is yet to assess IFRS 9's full impact. The Company will also consider the impact of the remaining phases of IFRS9 when completed by the Board.

IFRS 15, 'Revenue from contracts with customers' deals with revenue recognition and establishes principles for reporting useful information to users of financial statements about the nature, amount, timing and uncertainty of revenue and cash flows arising from an entity's contracts with customers. Revenue is recognized when a customer obtains control of a good or service and thus has the ability to direct the use and obtain the benefits from the good or service. The standard replaces IAS 18 'Revenue' and IAS 11 'Construction contracts' and related interpretations. The standard is effective for annual periods beginning on or after 1 January 2017 and earlier application is permitted. The Group is assessing the impact of IFRS15.

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 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.
- iii) **Interest income** is accrued on a time basis, by reference to the principal outstanding and at the effective interest rate applicable, which is the rate the exactly discounts estimated future cash receipts through the expected life of the financial asset to that asset's net carrying amount.

**b) Property Plant and Equipment**

All categories of property, plant and equipment are initially recorded at cost less Accumulated depreciation and impairment losses.

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

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

**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 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) Inventory**

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.

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

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 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.

**k) Cash and cash equivalents**

For the purposes of the statement of cashflow, cash and cash equivalents comprise of cash in hand and deposits held at call with banks.

**l) Borrowings**

Interest bearing loans are initially recorded at fair value being received, net of issue costs associated with the borrowing.

<b>Borrowing from TFC</b>	<b>Loan1</b>	<b>Loan2</b>	<b>Loan 3</b>	<b>Loan 4</b>	<b>Loan 5</b>	<b>Total</b>
Tfc Principal Balance Account	14,092,760	10,004,022	2,226,779	1,982,732	9,886,313	38,192,606.70
TFC principal Arrears	14,100,000	418,224	3069692	16,662	12,174,663	29,779,241.00
Tfc Loan Interest	5,682.218	233,024	2374700	14,995	13,783,752	22,088,689.00
	<b>33,874,978</b>	<b>10,655,270</b>	<b>7,671,171</b>	<b>2,014,389.10</b>	<b>35,884,728.60</b>	<b>90,060,536.70</b>

The corporation Board meeting held on 25<sup>th</sup> July 2011 approved suspension of interest on Tfc loan funded from Privatization proceeds account with effect from 1<sup>st</sup> July 2011 as the corporation works out modalities of converting this loan into Equity Capital while the Hotel continues to service other loans as below.

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

<b>Short term loan Interest</b>	<b>Loan III</b>	<b>Loan v</b>	<b>Cumulative amount</b>
	52,600	245,780	298,380
	52,994	247,623	300,617
	53,392	249,480	302,872
	53,792	251,351	305,143
	54,195	253,236	307,431
	54,602	255,136	309,738
	55,011	257,049	312,060
	55,424	258,977	314,401
	55,840	260,919	316,759
	56,258	262,876	319,134
	56,680	264,848	321,528
	57,105	266,834	323,939
<b>Total</b>	<b>657,893</b>	<b>3,074,109</b>	<b>3,732,002</b>

**m) Trade and other payables**

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

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.

**n) Share capital**

Ordinary shares are classified as 'share capital' in equity. any premium received over and above the par value of the shares is classified as 'share premium' in equity.

**o) Going Concern**

The financial performance of the company is set out in the report of the directors and in the Statement of profit or loss and accumulated losses. The financial position of the company is set out in the statement of financial position.

At the reporting date there was excess of current liabilities over current assets of KSh. 82,811,374 (2016 KSh. 55,754,528).Based on this the directors are of the opinion that the company is a going concern.

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

**p) 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.

**q) Provision for staff leave pay**

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

**r) Comparatives**

Where necessary comparative figures have been adjusted to conform to the changes in the Presentation in the current year.

**s) 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.

These reserves shown in the Statement of changes in Equity arose due to valuation of the hotels building and land in the year 2004.

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. This therefore resulted in reserves of Kshs. 64,440,489 for Building and 14821987 for leasehold land respectively. A total of kshs. 79,262,476.

**t) Subsequent events**

Since the end of the year 2016/2017, 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.

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

u) **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. 4,466,990 while Tourism Finance Corporation did not hold any business with the hotel in the financial year.

In addition, Tourism Finance Corporation had loaned Sunset Hotel over the past number of years an amount of Kshs. 67,971,848 as principal and Kshs. 22,088,686 as outstanding loan interests as at 30<sup>th</sup> June 2017. Sunset Hotel incurred Land rates amounting to kshs. 334,030 for land which had been leased to the hotel for 99 Years by Kisumu County Government.

<b>a) Related party transactions</b>	<b>2017 Kshs.</b>	<b>2016 Kshs.</b>
Loans received from TFC	Nil	Nil
Loans received from Kisumu County	Nil	Nil
 <b>b) Key management remuneration</b>		
Directors	560,970	96,000
Key management compensation	7,304,653	4,805,400

v) **Financial risk management**

Sunset Hotel's financial instruments comprise of trade receivables, cash & cash equivalents, loans and trade payables. The main purpose of these financial instruments is to raise finance for the hotels operations. The hotel has various financial assets such as trade receivables, cash and short- term deposits, which arise directly from its operations.

The main risks arising from Sunset Hotel financial instruments are cash flow liquidity risk and credit risk. The management reviews and agrees policies for managing each of these risks which are summarized below.

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

**i) Liquidity risk**

Liquidity risk is the risk that suitable sources of funding for Sunset Hotel's business activities may not be available and thus the Hotel being unable to fulfill its existing and future cash flow obligations. Sunset Hotel's liquidity is managed by forecasting the cash requirements.

**ii) Credit risk management**

Credit risk is the risk that a customer or counter party to a financial instrument will fail to perform or fail to pay amounts due causing financial loss to the Hotel. Potential concentration of credit risk consists principally of short term cash and cash equivalents, and trade receivables. Sunset hotel has a credit policy that is designed to ensure that consistent processes are in place throughout the hotel to measure and control credit risk. Credit risk is considered as part of the risk- reward balance of doing business. On entering into any business contract the extent to which the arrangement exposes the sunset to credit risk is considered. Key requirements of the policy are formal delegated authorities to the sales and marketing teams to incur credit risk and to a specialized credit function to set counterparty limits;

Trade account receivables comprise a widespread base. Ongoing credit evaluation of the financial position of customers is performed. The granting of credit is made on application and is approved by the management.

	<b>Fully Performing</b>	<b>Past due</b>	<b>Impaired</b>
<b>As at 30<sup>th</sup> June 2017</b>	<b>kshs.</b>	<b>Ksh</b>	<b>Kshs.</b>
Trade receivables	5,496,365.70	9,605,620.30	1,703,677
Bank Balances	145,602.00		-

	<b>Fully Performing</b>	<b>Past due</b>	<b>Impaired</b>
<b>As at 30<sup>th</sup> June 2016</b>	<b>Kshs.</b>	<b>Kshs.</b>	<b>Kshs.</b>
Trade receivables	7,437,084.65	11,017,002.60	957,131.55
Bank Balances	2,252,765.00		

**w) 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.

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

**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**

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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<b>NOTES TO THE FINANCIAL STATEMENTS</b>		
	<b>2017</b>	<b>2016</b>
	<b>Kshs.</b>	<b>Kshs.</b>
<b>1. SALES &amp; OTHER INCOME</b>		
Accommodation	8,681,368	13,415,029
Food-Resident	5,365,200	8,907,876
Food-Casual	16,540,811	23,052,393
Drinks	6,763,990	7,625,455
Tobacco	61,247	66,910
Laundry	52,712	77,204
Shop	-	-
Miscellaneous income	2,851,922	4,047,362
Swimming pool	1,903,576	1,870,078
Sales proceeds	22,000	-
	<b>42,242,826</b>	<b>59,062,307</b>
<b>2. COST OF SALES</b>		
Food	7,930,921	12,132,189
Drinks	2,796,099	3,066,097
Tobacco	40,199	50,177
	<b>10,767,219</b>	<b>15,248,463</b>
<b>3. STAFF COSTS</b>		
Salary & Wages	20,449,371	19,004,425
Staff Expenses	9,313,581	8,363,209
Staff Travel	1,626,598	1,740,100
Terminal Dues	1,191,439	2,116,436
	<b>32,580,989</b>	<b>31,224,170</b>
<b>4. OPERATING COSTS</b>		
Property Upkeep & Expenses	1,146,523	1,685,556
Repairs & Renewals	3,356,333	2,168,247
Operating Costs	8,454,064	9,926,347
	<b>12,956,920</b>	<b>13,780,149</b>
<b>5. ADMINISTRATION COSTS</b>		
Office Expenses	816,626	685,297
Administration Expenses	2,630,687	571,828
Advertising & Promotion	874,166	1,014,949
General Charges	1,449,034	1,425,038
Depreciation	3,574,603	3,629,640
	<b>9,345,115</b>	<b>7,326,751</b>

**SUNSET HOTEL LIMITED**  
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<b>NOTES TO THE FINANCIAL STATEMENTS</b>	<b>2017</b>	<b>2016</b>
<b>6. DIRECTORS COSTS</b>	<b>Kshs.</b>	<b>Kshs.</b>
Directors Allowances	360,000	96,000
Directors' Expenses	200,970	-
	<b>560,970</b>	<b>96,000</b>
<b>7. FINANCE COSTS</b>		
Short Term Loan interest	3,732,002	3,411,942
	<b>3,732,002</b>	<b>3,411,942</b>

**8. PROPERTY PLANT & EQUIPMENT SCHEDULE**

	<b>LAND</b>	<b>BUILDING</b>	<b>WORK IN PROGRESS</b>	<b>PROPERTY PLANT &amp; EQUIPME NT</b>	<b>FURNITURE &amp; FITTING</b>	<b>MOTO R VEHIC LE</b>	<b>TOTAL</b>
<b>COST OR VALUATION</b>	<b>Kshs</b>	<b>Ksh s</b>	<b>Kshs</b>	<b>Kshs</b>	<b>Kshs</b>	<b>Kshs</b>	<b>Ksh s</b>
<b>As at 01-07-2015</b>	1,500,000	75,000,000	26,911,576	11,923,281	15,473,652	295,000	144,603,509
Additions	-	-	-	-	444,220	-	444,220
<b>As at 30-06-2016</b>	15,000,000	75,000,000	26,911,576	11,923,281	15,917,872	295,000	145,047,729
As at 01-07-2016	15,000,000	75,000,000	26,911,576	11,923,281	15,917,872	295,000	145,047,729
Additions	-	-	-	-	40,862	-	-
<b>As at 30-06-2017</b>	15,000,000	75,000,000	26,911,576	11,923,281	15,958,734	295,000	145,088,592
<b>DEPRECIATION</b>							
<b>As at 1.7.2015</b>	-	20,625,000	-	9,822,392	10,910,723	295,000	41,653,114
Charge for the year	-	1,875,000	-	509,462	1,245,149	-	3,629,610
<b>As at 30-06-2016</b>	-	22,500,000	-	10,331,854	12,155,872	295,000	45,282,725
<b>As at 1.7.2017</b>	-	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>	-	24,375,000	-	10,830,364	13,356,965	295,000	48,857,331
<b>NET BOOK VALUE</b>							
<b>As at 30-6-2016</b>	15,000,000	52,500,000	26,911,576	1,591,427	3,762,001	-	99,765,004
<b>As at 30-6-2017</b>	15,000,000	50,625,000	26,911,576	1,092,917	2,601,769	-	96,231,262

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<b>NOTES TO FINANCIAL STATEMENTS</b>	<b>2017</b>	<b>2016</b>
<b>9. INVENTORIES</b>	<b>Kshs.</b>	<b>Kshs.</b>
Food Stores	103,415	291,185
Cellar Stores	-	193,017
Bar Stocks	177,593	209,585
Tobacco Store	-	3,492
Empties Stock	-	97,448
Operating Equipment Store	-	682,433
Consumable Stores	-	150,497
Stationary Stock	-	376,666
Fuel & Gas	-	-
Misc. Electrical Tools Store	-	265,142
Less: Provision for Obsolete stock	-	(291,369)
	<b>281,008</b>	<b>1,978,095</b>
<b>10. TRADE AND OTHER RECEIVABLES</b>		
Trade Debtors	15,190,609	19,411,219
Staff Advances	23,259	122,668
Prepayments	153,904	686,219
Deposits Receivable	409,096	409,096
Staff Imprest	4,400	4,400
Less: bad and doubtful debt	(1,703,677)	(957,132)
	<b>14,077,591</b>	<b>19,676,470</b>
<b>11. CASH &amp; BANK BALANCES</b>		
Co - Operative Bank - A/C no.01120012924900	-	14,621
KCB - A/C no. 110822836	35,232	146,189
National Bank – A/C no. 01020023525100	-	2,002,154
Cash Control	27,370	6,800
Petty Cash Control	50,000	50,000
Cash Float	33,000	33,000
	<b>145,602</b>	<b>2,252,765</b>
<b>12. SHARE CAPITAL</b>		
Authorized , issued and fully paid		
572,500 Ordinary Shares @ Kshs.20/= ( TFC)	11,450,000	11,450,000
27500 Ordinary Shares @ Kshs 20/=	550,000	550,000
( Kisumu County)	<b>12,000,000</b>	<b>12,000,000</b>

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<b>NOTES TO FINANCIAL STATEMENTS</b>		
<i>(continued)</i>	<b>2017</b>	<b>2016</b>
	<b>Kshs.</b>	<b>Kshs.</b>
<b>13. REVALUATION RESERVES</b>	79,262,476	79,262,476
Revaluation reserve	<b>79,262,476</b>	<b>79,262,476</b>
<b>14. RETAINED PROFIT /(LOSSES</b>		
<b>Turnover</b>	42,242,826	59,062,307
Profit(Loss) before Taxation	(27,700,389)	(12,025,168)
<b>After charging</b>		
Depreciation	3,574,603	3,629,640
Auditors Fees	300,000	300,000
Interest on Loan	3,732,002	3,411,942
Directors Emoluments	560970	96,000
Land Rent & Rates	36,000	36,000
<b>Taxation</b>		
Profit /Loss after taxation	(27,700,389)	(12,025,168)
<b>Retain profit/ (loss) for the year</b>	(27,700,389)	(12,025,168)
Retained Losses b/f	(89,766,092)	(77,740,924)
Retained Loss c/f	<b>(117,466,482)</b>	<b>(89,766,092)</b>
<b>15.Non Current Liabilities</b>		
a) Shareholders Loan	1,431,286	1,431,286
b) TFC principal balance Account	38,192,607	41,082,807
	<b>39,623,893</b>	<b>42,514,093</b>
<b>16a. Trade and other payables</b>		
Trade Creditors	14,389,553	14,017,733
Value Added Tax	11,489,577	8,882,945
Service Charge	246,671	164,352
Catering Levy Training Trustee	86,227	74,130
Deposits Payable	722,148	878,828
Payroll Control	20,14,426	1,198,733
P.A.Y.E	5,446,486	2,792,947
N.S.S.F	1,005,160	121,500
N.H.IF.	102,530	104,430
COTU	114,630	116,910
Other Payroll Deductions	15,001	9,201

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Staff Insurance Deductions	44,880	40,380
<b>NOTES TO FINANCIAL STATEMENTS</b>	<b>2017</b>	<b>2016</b>
<i>(continued)</i>	<b>Kshs.</b>	<b>Kshs.</b>
Sunset Sacco	3,212,115	1,620,482
Accrued Expenses	4,151,209	2,942,209
Withholding Tax	1,456,346	1,456,346
Terminal Control A/C	906,814	-
	<b>45,403,773</b>	<b>34,421,126</b>
b) TFC Principal Arrears	29,779,241	26,889,041
c) TFC Loan Interest	22,088,686	18,356,687
d) Overdraft - NBK	43,875	-
	<b>97,315,575</b>	<b>79,666,854</b>

**17. Contingent Liabilities**

During the year, the Kisumu County Government issued a demand notice to the hotel for outstanding Land rates arrears of principle amount Kshs. 1,356,216 which has over the year's accrued interest and penalty to the tune of Kshs. 38,809,122. 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.

**18. Reporting Currency**

This financial statement has been reported in Kenya shillings. (Kshs.)

**19. Statement of Comparison of Budget and Actual Performance**

- **Sales**

From the financial report, the performance of the hotel was unfavorable, recording a turnover of 42 Million and a deficit of 28 Million against a budget of 101 Million and 2.8 Million respectively. This is due to the stiff competition experienced within the year with the entrance of new and modern hotels like Acacia, Pine cone and Sovereign among others.

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- **COST OF SALES**

These costs were well controlled relative to the turnover realized within the year.

- **OTHER OPERATING COSTS**

These costs were controlled within the budget estimates.

- **FINANCE COSTS**

This relates to interest on TFC Loan disbursed to Sunset hotel. The funds were used for acquisition of furniture, Payment to Dinesh construction (Roof top bar and restaurant) and for payment of long outstanding creditors.

- **NET INCOME**

Due to low income, the hotel made a net loss of 28 Million.

- **LIQUIDITY POSITION**

As a result of the adverse revenue variance, the Hotel has been unable to meet its obligations as and when they fall due. The liquidity position clearly indicates that to date, the Hotel cannot service the maturing debt obligations unless calculated steps are taken to address the improvement of cash flow in the Hotel.

**20. PROGRESS ON FOLLOW UP OF EXTERNAL AUDIT OBSERVATION FOR 2015/2016 FINANCIAL YEAR.**

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

<b>Audit Query Ref No.</b>	<b>Issue/observations from the Auditor General</b>	<b>Response</b>	<b>Focal point person to resolve the issue</b>	<b>Status</b>	<b>Time Frame</b>
1.	Going Concern	Management Response			30 <sup>th</sup>

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	<p>The Hotel realized a loss of Kshs. 12,025,168 which led to cumulative loss of Kshs. 89,766,092 for the Year ended 30<sup>th</sup> June 2016. In the previous Financial Year (2014/2015) the loss was Kshs. 916,759 and cumulative loss was Kshs. 77,740,924. The statement of financial position also reflects a negative working capital of Kshs. 55,754,528 (2014/2015 Kshs. 44,024,550). In view of the foregoing and as was the case in the previous year, 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>During the year under review, the Hotel incurred a loss of Kshs. 12,025,168 which brought the accumulated losses to Kshs. 89,766,092. Further, the total current liabilities of Kshs. 79,661,858 as at 30 a June 2016 exceed the current assets of 23,907,330 resulting in a negative working capital of Kshs. 55,754,528. In view of the foregoing and as was the case in previous year, the company is technically insolvent and its continue existence as going concern is dependent upon the assumption that it will continue to receive financial support from the Shareholders and creditors. As pertaining going concern, the management presented the same through several Board meetings one held on 9<sup>th</sup> September 2016 and 16<sup>th</sup> February 2017. In these meetings the management requested the shareholders to support The company through the capital Budget of 2016/2017 for it to remain a going</p>	Board of Directors	Unresolved	June 2018
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		concern.			
2.	<p><b>Audit Fees</b>  As reported in the previous Year, the trade and other payables balance of Kshs. 34,416,139 at 30<sup>th</sup> June, 2016 includes audit fees amounting Kshs. 3,692,000 as at 30<sup>th</sup> June 2016 part of which has remained outstanding for the last 12 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 the Auditor General to pay for the costs of the services.</p>	<p><b>Management Response</b>  As reported in the previous year, the trade and other payables balances of Kshs. 34,416,130 as at 30<sup>th</sup> June 2016 Includes audit fees amounting to Kshs. 3,692,000 part of which has remained outstanding for the last 12 years. The challenge has been the cash flow problem the hotel has been facing but the management is looking forward to clearing these arrears when the position improves. The Hotel is therefore in breach of section 19(1) of the Public Audit Act, 2003 which requires all state corporations Audited to meet the costs of the audit services.</p>	General Manager	Unresolved	30 <sup>th</sup> June 2018
3.	<p><b>Revaluation Reserve</b>  The revaluation reserve balance of Kshs. 79,262,476 has remained constant since the assets were last Revalued in 2004 and hence contravening International Accounting Standard No. 16 which required that Transferable 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</p>	<p><b>Management Response</b>  With the current financial difficulties, the hotel is trying to allocate funds to carry out this exercise.</p>	General Manager	Unresolved	30 <sup>th</sup> June 2018

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	<p>have not been revalued for the last thirteen (13) years. Consequently, the Hotel is therefore in breach of the International Accounting Standards</p>				
4.	<p><b>Trade and Other Receivables</b>  As previously reported included in the trade and other receivables balance of Kshs. 19,676,470 as at 30<sup>th</sup> June 2016 is Kshs. 14,465,945 owed by Government Institutions whose continued non-payment negatively affects the company's working capital. Although a provision for bad and doubtful of Kshs. 957,132 has been made an additional provision that would have been necessary in relation to this uncertainty has not been incorporated in this Financial Statements.  Consequently, it has not been possible to confirm that trade and other receivables balance of Kshs. 19,676,470 as at 30<sup>th</sup> June, 2016 is fairly stated.</p>	<p><b>Management Response</b>  The current debts incurred are being pursued for collection. However, the bulk of it belongs to Counties, Ministries and Parastatals who take long to get their funds cleared for payment e.g. Kisumu County, Bomet County, Vihiga county, Ministry of lands and Nema to name a few. However, as they take long to pay, these debts are recoverable.  It should be noted that we prepare regular, monthly debtors listing to guide us on the position of the aging of the debts. And provision for bad and doubtful debt will be corrected.</p>	General Manager	Resolved	30 <sup>th</sup> June 2018
5.	<p><b>Tax Arrears</b>  As similarly reported in the previous Year the trade and payables balances of Kshs. 34,416,130 as at 30<sup>th</sup> June 2016 includes amounts of Value Added Tax (VAT) Pay As You Earn (PAYE) and Withholding</p>	<p><b>Management Response</b>  The Hotel paid this amount with a promise from the KRA Regional Office Manager that once the principal was Settled, the interest would be waived. This</p>	General Manager	Unresolved	30 <sup>th</sup> June 2018

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	<p>taxes of Kshs. 8,882,945, Kshs. 2,792,947 and Kshs. 1,456,346 respectively being arrears due to Kenya Revenue Authority. The arrears and penalties continued to attract additional charges as per the VAT Act and the Income Tax Act Cap 470 which has not been incorporated in this Financial Statement.</p>	<p>did not happen despite settling the amounts in 2011. However, the hotel is pursuing a waiver 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</p>			
6.	<p><b>Renovation and Refurbishment of the Hotel</b>  As reported in the previous Year and as reflected in note 2 to the Financial Statements the property, plant and equipment balance of Kshs. 99,765,004 includes work in progress figure of Kshs. 26,911,576 on account of renovation, extension and refurbishment of the Hotel in regard to a contract entered into with a construction firm in July, 2004. This resulted to cost overruns of Kshs. 8,437,064 (46% increase) that have not been supported with necessary approvals and documentation. Further, no completion certificate for the renovations completed in June, 2011 has been availed for audit verification. Consequently, the accuracy of property, plant and equipment balance of Kshs 99,765,004 as at 30<sup>th</sup> June, 2016 could not be ascertained.</p>	<p><b>Management Response</b>  The Hotel has renovated and refurbished her facility at a cost of Kshs. 26,911,576. The work despite being completed and the facility being fully furnished in June 2011, it has not been operational due to lack of Certificate of completion and operation. This has led to loss of money from unearned business income; at the same time the hotel is incurring interest on Tourism Finance Corporation loan and depreciation charged on the building and furniture. However, the management is pursuing the Consultant Cost Bill System to</p>	<p>Board of Directors/General Manager</p>	<p>Unresolved</p>	<p>30<sup>th</sup> June 2018</p>

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		give us certificate of completion and occupation for us to get value for money.			
7.	<p>Non-Disclosure of the Current Tax Expense</p> <p>The Hotel Management did not disclose any tax expense, deferred tax asset/liability despite not being in possession of a tax exemption certificate as required by International Accounting Standard No. 12.</p>	<p>Management Response</p> <p>Your observation is noted.</p>	<p>Board of Directors/General Manager</p>	<p>unresolved</p>	<p>30<sup>th</sup> June 2018</p>