


REPUBLIC OF KENYA



REPORT

	
THE NATIONAL ASSEMBLY PAPERS LAID	
OF DATE: 05 APR 2022	DAY: Tues.
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THE AUDITOR-GENERAL

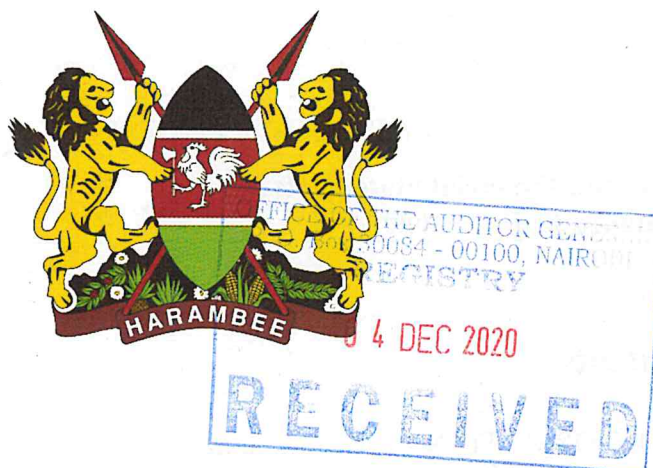
ON

KABARNET HOTEL LIMITED

**FOR THE YEAR ENDED
30 JUNE, 2020**



**Annual Reports and Financial Statements
For the year ending 30 June 2020**



KABARNET HOTEL LIMITED

ANNUAL REPORTS AND FINANCIAL STATEMENTS

**FOR THE FINANCIAL YEAR ENDING
JUNE 30, 2020**

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



KABARNET HOTEL LIMITED

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KEY ENTITY INFORMATION

Background information

The *Kabarnet Hotel limited* was established by the Kenya Companies Act of Parliament (cap 486) in

1976. At cabinet level, the *Kabarnet Hotel* is represented by the Cabinet Secretary for Ministry of Tourism who is responsible for the general policy and strategic direction of the *Kabarnet Hotel*. The *Kabarnet hotel* is domiciled in Kenya .

Principal Activities

The principal activity of the *Kabarnet hotel* is to provide accommodation and conference facilities services to potential customers.

The vision of the facility is to be the premier hotel of choice in the region while the mission is to resuscitate the Kabarnet hotel and make it the hotel of choice through provision of excellent guest services with courtesy and clean serene environment.

Directors

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

- | | | |
|------------------------|---|--|
| 1. Yunis Ibrahim | - Chairman | Appointed on 14 th June 2019 |
| 2. Ms. Pauline Rwamba | - Chairperson-Retired | Appointed on November 2017 |
| | | Exited the Board on 2 nd October 2018 |
| 3. Mr. Oromoi T. Jonah | - Managing Director TFC | Appointed June 2016 |
| 4. Mr. Jonam Kinama | - Alternate to PS State Department of Tourism | |
| 5. Mr. Dickson Yatich | - Director | |

Company Secretary

Mr. John Karia
P.O. Box -42013-00100
Nairobi

Registered Office

Kabarnet Hotel
Post Office Box Number 109 Kabarnet



KABARNET HOTEL LIMITED

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Corporate Contact

Telephone: 053-22094

E-mail: kabarnethotel.ktdc@gmail.com

Website: www.kabarnethotel.co.ke

Corporate Bankers

Kenya Commercial Bank

Kabarnet Branch

P.O. Box 175

Kabarnet

KENYA

Independent Auditors

Auditor General

Office of the Auditor General

Towers, University Way P.O. Box 30084

GOP 00100

Nairobi, Kenya

Principal Legal Advisers

The Attorney General

State Law Office


Harambee Avenue

P.O. Box 40112

City Square 00200



Nairobi, Kenya

THE BOARD OF DIRECTORS

<p>1. YUNIS IBRAHIM</p>		<p>Mr. Sheikh is an Advocate of the High Court of Kenya and a Partner at Yunis, Oman & Mwiti Advocates. He holds a Bachelor of Laws Degree (LL.B) (Hons.) from the University of Nairobi and a Postgraduate Diploma in Law from the Kenya School of Law. He also holds a Master of Science Degree in Health Systems Management from the Kenya Methodist University, a Bachelor of Medical Science Laboratory Services Degree from the Jomo Kenyatta University of Agriculture & Technology and is certified in Monitoring and Evaluation, Strategic Management, and Applied Research.</p> <p>He joined the Board on 14th June 2019 and is the Chairman of the Board</p>
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2. JOE OKUDO		Mr. Joe R. Okudo, CBS is the Principal Secretary in charge of the State Department for Tourism at the Ministry of Tourism and Wildlife. He was also the Principal Secretary for Sports responsible for Arts and Culture in Kenya. He previously worked with the Danish Embassy in Kenya (DANIDA) from 2002 – 2014, where he held several senior positions in the Private and Industry Sectors/ He holds a Bachelor of Arts degree from the University of Nairobi and a Master's Degree in Business Administration from Copenhagen Business School / Inoorero University.
3. MR. ORUMOIT. JONAH		Mr. Orumoi is the Managing Director; Tourism Finance Corporation. He holds a Master of Science degree in Finance and Investment, and is a Fully Qualified Accountant (FACCA) and a graduate of BA (Hons) in Accounting & Finance.
4. MR. DICKSON YATICH		Representing Kipngochoch farm Ltd

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MANAGEMENT TEAM

NAME	PHOTO	PROFESSIONAL/AC A DEMIN QUALIFICATIONS	AREA OF RESPONSIBIL I TY
1. REUBEN ARGUT		MBA (Marketing)- BSc. Hospitality Management, Dip. Hotel Management & Dip. Sc. Educ.	General Manager
2 BENSON KANDIE		C.P.A-SECTION 1- DCM II- (Kenya Institute of Management)	Accountant
3 CHARLES TOO		Education-KCE Attended Various Refresher courses	Food and Beverage Supervisor

KABARNET HOTEL LIMITED

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CHAIRMANS STATEMENT

It is my pleasure, honour, and privilege to present to you on behalf of the Board of Directors, the Management and staff of Kabarnet Hotel Ltd., the Annual Report and Financial Statements of the Company for the year ended 30th June 2020.

The Board of Directors efforts supported by the Management of the hotel has focused on implementing strategies aimed at improving the hotel's performance and efficiency and enhancing the value of investments.

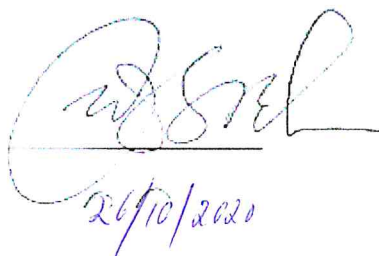
The Tourism Sector has, in the last two years experienced a spell of poor performance largely occasioned by security concerns and economic downturn in some key tourist markets. Additionally, the atmosphere surrounding the status of the facility have made our regular clients allocated their seminars to other hotels with new technological advancement such as free wi-fi and flat screen Tv in the rooms and the current food prices in Kenya which have increased tremendously in the last five years have also contributed to a challenging business environment. The outbreak of the corona virus pandemic also affected the business during the last quarter. The foregoing affected the performance and profitability of the hotel.

In response, the Board initiated a Turnaround Strategy that involving the major renovation of the facility and furnish the hotel with modern furniture for the conference and rooms which is a move that will resulted in a significant increase in revenues. In the coming year, the Management, with the support of the Board of Directors, will continued with the implementation of the Turnaround Strategy with start of the refurbishment of the hotel; on a phased out programme in a bid towards making the facility more competitive and profitable, particularly vital, in face of the increased competition in the town.

The Board exudes confidence that the fortunes of the company will improve significantly in the coming year and the hotel's potential will be fully realized.

Finally, I take this opportunity to thank my fellow Directors, Shareholders, Management and Staff for their support during the year.

Chairman of the Board of Directors

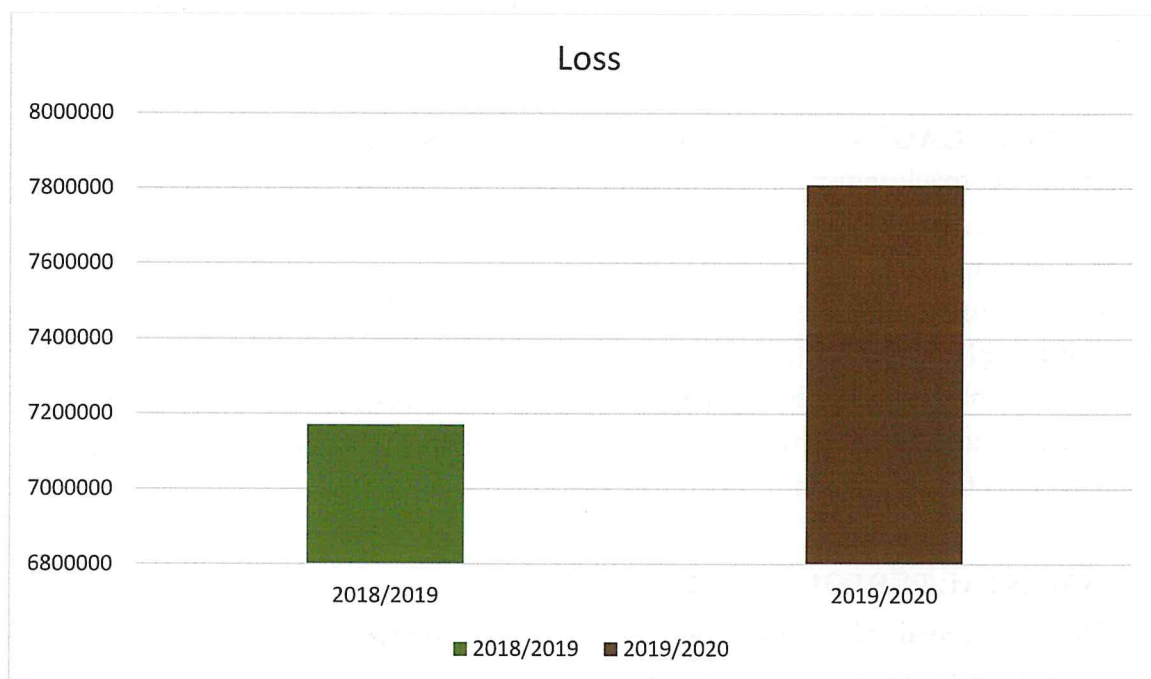


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OPERATING PROFIT LOSS

	Profit/loss Ksh.
2018/2019	(7,170,565)
2019/2020	(7,809,261)



The Hotel made a loss of Kshs. (7,809,261) as at 30th June 2020 as compared to loss of Kshs. (7,170,565) last financial year. This is illustrated in the above bar graph.

CORPORATE SOCIAL RESPONSIBILITY STATEMENT

In recognition of its obligations as a responsible corporate entity, the Board of Directors and management sustained the company's participation in corporate activities that enhance the social, economic and environmental interests that affect the community. Consequently, we have endeavored to contribute to initiatives that impact on improvement of their social well-being.

COMMUNITY ENGAGEMENT AND EDUCATIONAL SUSTAINABILITY

Our sustainable approach towards sourcing and production helps us create value for a wide group of stakeholders from farmers to community groups to customers. Kabarnet Hotel continues to provide support to the community by engaging in supporting and promoting sports in the County- (swimming). According to studies, children develop their mind/body connection. This, in turn, helps kids to significantly improve their brain development and intelligence. And also, due to the stimulation of young kid's senses regularly swimming improves brain and emotional development. And as such, the hotel is granting free access to the Sunrise Children Home – Kabarnet to use the swimming pool twice a month.

ENVIRONMENTAL PERFORMANCE

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

KABARNET HOTEL LIMITED

Annual Reports and Financial Statements

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REPORT OF THE MANAGER

On behalf of management of Kabarnet Hotel Limited, I am pleased to present to you the annual report and financial statements of the company for the year ended 30th June 2020.

During the period under review, the hotel achieved a loss of Kshs 7,809,261 million as compared to Kshs 7,170,565 million in 2019. Also in the last quarter, the business was affected by the outbreak of corona virus pandemic, which force the management to close the facility as by the ministry of health protocols.

The management is however hopeful that the long awaited renovation of the facility which is to start this financial year, will yield positive impact and that more efforts will be directed towards increasing operational efficiency and implementing strategies such as advertising and promotion that are directed towards securing more business, within and outside the county.

Specific strategies for improving performance of the hotel will involve;

- i. Sourcing for Conference business to leverage on the newly refurbished conference hall with a capacity of 100 participants.
- ii. Refurbishment of the presidential suite currently leased to the County Government of Baringo and subsequent increase of revenue generated by the facility.
- iii. Rationalization of the hotel's human capital in a bid towards ensuring optimal operational efficiency
- iv. Overall cost management to achieve industry standards and maximize profitability.
- v. Recognizing the importance of guest satisfaction.
- vi. Creating a website

Finally, may I, on behalf of the Staff and Management, express our gratitude and sincere appreciation to the Board of Directors for their guidance, diligence, invaluable support, and encouragement during the year 2019/2020. I also wish to express my gratitude to the shareholders, customers, various regulatory authorities and other stakeholders for their continued support in the years gone by. We, at Kabarnet, look forward to this continued support during the year 2019/2020.


MANAGER



KABARNET HOTEL LIMITED

Annual Reports and Financial Statements

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CORPORATE GOVERNANCE STATEMENT

Corporate Governance comprises rules, practices and processes by which a company is directed, controlled and operated as power is exercised over its assets and resources. Kabarnet Hotel Limited is committed to maintaining the highest standards of Corporate Governance. Our governance framework, led by the Board, supports our culture, values and our commitment to conducting business responsibly.

The hotel is also in compliance with the tenets of the code of Governance for State Corporations (Mwongozo Code of Governance) which offers a corporate governance code for all State Corporations.

As noted above, the Board provides direction on policy and oversight in respect of the Hotels' internal controls, strategy, finance, operations, budgets and compliance issues in order to ensure sustainable returns to the all the shareholders.

The Board is committed to ensuring that good Corporate Governance is obeyed throughout the Hotel. Except for direction and guidance on general policy, the Board delegates authority of its day to day activities to the management through the General Manager. The Board none the less is responsible for the overall stewardship of the Hotel and assumes responsibility for effective direction and control.

The Board holds meetings on a regular basis to deliberate on issues of strategic and operational importance as required under Statute. The Directors are given timely information so that they can maintain effective control over strategic, financial, operational and compliance issues.

Board of Directors Composition

The Board is made up of five (5) members comprising three directors representing Tourism finance Corporation, one director representing the principal secretary; Ministry of Tourism & Wildlife and one director representing Kipngochoch farm Ltd. The composition of the Board is outlined in the Companies Act and the company's Articles of Association.

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

Company Secretary

The Company Secretary role involves assisting the Chairman in promoting the highest standards of corporate governance and includes ensuring good information flows within the Board. In this regard, the Company secretary facilitates all Directors to have full and timely access to all relevant information, ensures that the correct board procedures are followed convenes meetings and advises the Board on all corporate Governance matters and prevailing statutory requirements.

Role of Management

In order to ensure that the Board discharges its responsibilities it delegates some of its duties to the management of the hotel led by the Hotel Manager. The Management is responsible for the development of the hotel's strategic direction and implementation of the agreed strategy. They

KABARNET HOTEL LIMITED**Annual Reports and Financial Statements****For the year ending June 30, 2020**

oversee its business operations and manage its risks. They are accountable to the Board for all aspects of the performance and management of the hotel. They are also required to provide timely and accurate information to the Board to ensure the Board makes effective and informed decisions.

NO	Name	No.of meetings to be Held	No of meetings Attended Per person	Directors sitting&Lunch Allowance – Ksh.	Directors Subsistence Claims Ksh.	Total Allowance Ksh.
1	Yunis Ibrahim	5	3	14,000	-	42,000
2	Dickson Yatich	5	4	14,000	-	56,000
3	David Jakaiti	5	2	14,000	-	28,000
4	Oromoi Jonah	5	4	14,000	-	56,000
5	Patricia Gachungi	5	1	14,000	-	14,000
6	Jonam Kinama	5	2	14,000	-	28,000
					50,906	50,906
						274,906

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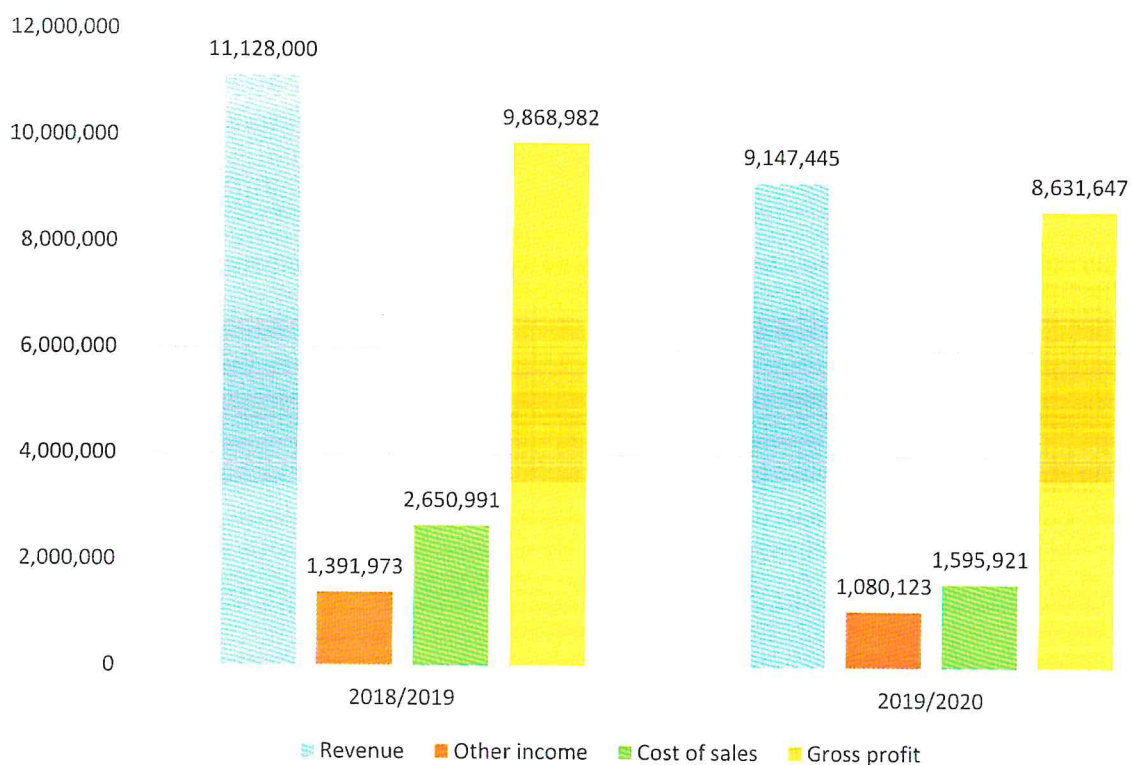
MANAGEMENT DISCUSSION AND ANALYSIS

The Revenue for year 2019/2020 stood at Kshs. 9.147 million as compared to Kshs. 11.128 million, a variance of Kshs 1,981,000. The decline in turnover is as a result of the status of the facility and competition from new and upcoming hotels within the town which has resulted to loss of business. The bar graph below explains the revenue trend and gross profit for 2018/2019 and 2019/2020 respectively.

The major risk which the hotel is facing is capital risk management. It is not meeting its obligation in terms of paying the statutory deduction as required law.

REVENUE

	Revenue Ksh.	Other income Ksh.	Cost of sales Ksh.	Gross profit Ksh.
2018/2019	11,128,000	1,391,973	2,650,991	9,868,982
2019/2020	9,147,445	1,080,123	1,595,921	8,631,647



REPORT OF THE DIRECTORS

The Directors submit their report together with the audited financial statements for the year ended June 30, 2020.

Principal activities

The principal activities of the Hotel are to operate the hotel facilities providing accommodation and conference facilities, serving the business and tourist markets.

Results

The results of the entity for the year ended June 30, 2020 are set out on pages 1 – 46.

Dividends

Subject to the net loss made, the directors do not recommend payments of dividends.

Directors

The members of the Board of Directors who served during the year are shown on page (v).

Auditors

The Auditor General is responsible for the statutory audit of Kabarnet Hotel in accordance with Article 229 of the Constitution of Kenya and the Public Audit Act 2015 which empowers the Auditor General to appoint an auditor to audit on his behalf.

By Order of the Board


.....
John Karia
Company Secretary

Date:.....

KABARNET 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 Directors to prepare financial statements in respect of that entity, 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 entity for that year/period. The Directors are also required to ensure that the entity keeps proper accounting records which disclose with reasonable accuracy the financial position of the entity. The Directors are also responsible for safeguarding the assets of the hotel.

The Directors are responsible for the preparation and presentation of the company's financial statements, which give a true and fair view of the state of affairs of the company for and as at the end of the financial year (period) ended on June 30, 2020. This responsibility includes:

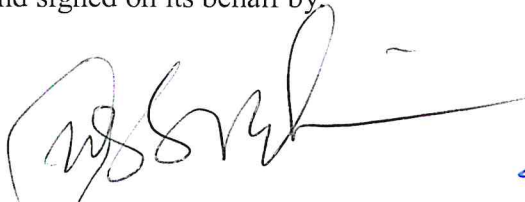
- (i) maintaining adequate financial management arrangements and ensuring that these continue to be effective throughout the reporting period;
- (ii) maintaining proper accounting records, which disclose with reasonable accuracy at any time the financial position of the entity;
- (iii) designing, implementing 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 company;
- (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 judgements and estimates, in conformity with International Financial Reporting Standards (IFRS), and in the manner required by the Public Finance Management(PFM) Act, 2012 and (the State Corporations Act) – entities should quote applicable legislation as indicated under) . The Directors are of the opinion that the company's financial statements give a true and fair view of the state of company's transactions during the financial year ended June 30, 2020, and of the hotel's financial position as at that date. The Directors further confirm the completeness of the accounting records maintained for the company, which have been relied upon in the preparation of the company'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 company will not remain a going concern for at least the next twelve months from the date of this statement.

Approval of the financial statements


Kabarnet Hotel's financial statements were approved by the Board on 22nd September 2020 and signed on its behalf by:



Director



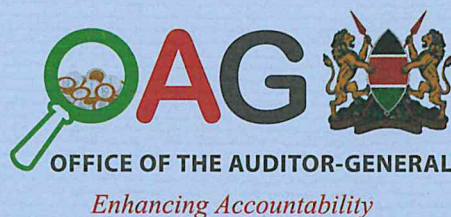
Director



Director

REPUBLIC OF KENYA

Telephone: +254-(20) 3214000
E-mail: info@oagkenya.go.ke
Website: www.oagkenya.go.ke



HEADQUARTERS
Anniversary Towers
Monrovia Street
P.O. Box 30084-00100
NAIROBI

REPORT OF THE AUDITOR-GENERAL ON KABARNET HOTEL LIMITED FOR THE YEAR ENDED 30 JUNE, 2020

REPORT ON THE FINANCIAL STATEMENTS

Qualified Opinion

I have audited the accompanying financial statements of Kabarnet Hotel Limited set out on pages 1 to 44, which comprise the statement of financial position as at 30 June, 2020, and the statement of profit or loss and other comprehensive income, statement of changes in equity, statement of cash flows and the 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 effect of the matters described in the Basis for Qualified Opinion section of my report, the financial statements present fairly, in all material respects, the financial position of the Kabarnet Hotel Limited as at 30 June, 2020, and of its financial performance and its cash flows for the year then ended, in accordance with International Financial Reporting Standards (IFRS) and comply with the Companies Act, 2015.

Basis for Qualified Opinion

1. Preparation and Presentation of the Annual Reports and Financial Statements

The annual report and the financial statements for the year ended 30 June, 2020 presented for audit had the following presentation inconsistencies;

- i. Page ix and xii reflects the figures to be in millions of shillings which is erroneous and misleading;
- ii. Page xiii and xiv header for has omitted the name of the entity "Kabarnet Hotel Limited" while report of Directors at page xv makes reference of entity instead of its name;
- iii. The statement of changes in equity reflects inaccurate closing and opening periods of 1 July, 2018 and 30 June, 2019 instead of 1 July, 2019 and 30 June, 2020 respectively;

- iv. The use of the terms; “gross profit” and “total revenues” in the statement of profit or loss and other comprehensive income and the statement of comparison of budget and actual amounts is inconsistent with the IFRS prescribed format;
- v. Pages 7 and 8 have the wordings PSASB, PFM and IFRS abbreviated instead of the full name while page 8 has the word Public Finance Management 2012 Act instead of Public Finance Management Act, 2012. The word entity is also used at pages 10,12, 18,19 instead of Kabarnet Hotel Limited;
- vi. The Notes to financial statements at page 9 have prefix Kshs and Kshs xxx with no amounts assigned to them;
- vii. Page 18 on budget information indicates that the original budget was approved by the National Assembly on 21 June, 2019, however there is no evidence in support of the assertion; and
- viii. Note 10 has been duplicate at page 24 while the date of assets revaluation under Note 17 at page 30 has not been disclosed.

Consequently, the annual report and the financial statements as prepared and presented are not IFRS compliant and do not comply with the format prescribed by the Public Sector Accounting Standards Board.

2. Inaccuracies in the Financial Statements

2.1. Management Discussion and Analysis

The gross profit figures reported under the management discussion and analysis report at page xii are at variance with those reported in the statement of profit or loss and other comprehensive income as analyzed below: -

Year	Statement of Profit and Loss and Other Comprehensive Income (Kshs)	Management Discussion and Analysis (Kshs.)	Variance Kshs
2018/2019	8,477,009	9,868,982	(1,391,973)
2019/2020	7,551,524	8,631,647	(1,080,123)

2.2. Unreconciled Cash Generated from Operations

Note 25 to the financial statements reconciles operating profit / (loss) to cash generated from operations. However, discrepancies were noted between the comparative figures and the audited balances as detailed out below: -

Item	Financial Statements 2019-2020 (Kshs)	Audited Balances 2018-2019 (Kshs)	Variance (Kshs)
Adjustment	322,817	0	322,817
Increase (Decrease) in Trade and Other Receivables	985,295	829,045	156,250
Cash at Bank	445,933	427,883	18,050
Balance at End of Year	482,145	464,045	18,100

In the circumstance, the accuracy and completeness of the above balances included in the financial statements could not be confirmed.

3. Long Outstanding Trade and Other Receivables

The statement of financial position reflects trade and other receivables balance of Kshs.3,874,349 and as disclosed under Note 14 to the financial statements. However, aging analysis in support of the balance revealed that debts amounting to Kshs.3,290,657 had remained uncollected for a period of over one hundred and twenty (120) days which casts doubt about their recoverability.

Further, no provisions for bad and doubtful debts had been made on the balances to adjust for likely impairment. The Management has not come up with measures to ensure prompt collection of the debts going forward.

In the circumstances, the fair statement of the reported trade and other receivables balance of Kshs.3,874,349 as at 30 June, 2020 could not be confirmed.

4. Completeness of Revenue

4.1. Unreconciled Total Revenue

The statement of profit or loss and other comprehensive income for the year ended 30 June, 2020 reflects total revenues of Kshs.8,631,647. However, scrutiny of cash book revealed collections of Kshs.11,138,110 resulting to an unreported and unreconciled revenue of Kshs.2,506,463. Further, comparison of the cash book and the bank statement revealed unbanked revenue amounting to Kshs.1,880,421.

4.2. Undisclosed Rental and Other Income

The statement of profit or loss and other comprehensive income reflects other income of Kshs.1,080,123, however, income amounting to Kshs.845,801 was unsupported by way of schedule.

Further, the Hotel had leased out office space to Baringo County Government at a monthly rent of Kshs.75,432 amounting to Kshs.905,184 annually. However, this income was not incorporated in the financial statements despite their continuous occupation during the year under review.

From the foregoing, the accuracy and completeness of the reported total revenues of Kshs.8,631,647 could not be confirmed.

5. Long Outstanding Borrowings (Loans)

The statement of financial position reflects long and short-term borrowings (loans) of Kshs.27,609,883 and Kshs.46,167,538 respectively and as disclosed under Note 20 to the financial statements. The loans have remained unpaid since 2006 with the Tourism Finance Corporation indicating the likelihood of converting them into equity.

Further, available records at the Hotel indicate that Kshs.62,845,024 was owed to the Corporation instead of Kshs.73,777,421 reflected in the financial statements as detailed out below: -

Loans	Amount Reported in the Financial Statements Kshs	Verified Amount Kshs	Unsupported Variance Kshs
Long Term	27,609,883	17,445,024	10,164,859
Short Term	46,167,538	45,400,000	767,538
Total	73,777,421	62,845,024	10,932,397

The variance of Kshs.10,932,397 was not explained and the interest accrued by the two loans was not incorporated in the financial statements for the year.

In the circumstances, the accuracy and completeness of the reported loan balances totaling to Kshs.73,777,421 as at 30 June, 2020 could not be confirmed.

6. Unconfirmed Directors Emoluments

The statement of profit or loss and other comprehensive income for the year reflects administration costs of Kshs.14,215,931 and as disclosed under Note 9a to the financial statements. Included in the amount is Directors' emoluments of Kshs.274,906. However, evidence of appointment of the Directors by way of gazette notice was not provided for audit review, since the term for the previous Directors had lapsed.

Further, there was no evidence of the Board having transacted Hotel business by way of minutes of meetings held and attendance registers. The expenditure was also not supported by way of payment receipt acknowledgement schedules.

In the circumstance, the regularity of Directors' emoluments of Kshs.274,906 for the year ended 30 June, 2020 could not be confirmed.

7. Irregular Sales and Commissions

The statement of profit or loss and other comprehensive income for the year reflects selling and distribution costs of Kshs.375,714 and as detailed under Note 10 to the financial statements. Included in the amount is sales commissions of Kshs.283,085 that is not covered in the Hotel's policy documents. The commissions were paid out in cash

instead of cheques or electronic funds transfers without any proof of receipt by the commission agents.

In the circumstances, the regularity of sales commissions of Kshs.283,085 for the year ended 30 June 2020 could not be confirmed.

8. Petty Cash Reimbursements

The statement of profit or loss and other comprehensive income for the year ended 30 June, 2020 reflects administration costs of Kshs.14,215,931. Verifications carried out revealed that payment vouchers amounting to Kshs.1,815,872 were unsupported by way of receipts, invoices, delivery notes and stores records to confirm receipt of goods and services.

The expenditure could not be linked to particular petty cash payment vouchers to enable the audit confirm the appropriateness of the expenditure. Payments were made to Kabarnet Hotel instead of an officer of the Hotel entrusted with incurring the expenditure. Voucher preparation, attachment of support documents, authorization, cheque writing, payments by cheque and cash is done by one person. Requisitions, purchases, receiving of goods and services, stores recording and issuance is done by the same person.

In the circumstance, the regularity of petty cash reimbursements of Kshs.1,815,872 for the year ended 30 June, 2020 could not be confirmed.

The audit was conducted in accordance with International Standards of Supreme Audit Institutions (ISSAIs). I am independent of the Kabarnet Hotel Limited Management in accordance with ISSAI 130 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.

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. There were no key audit matters to report in the year under review.

Other Matter

1. Material Uncertainty Related to Going Concern

The statement of profit or loss and other comprehensive income for the year ended 30 June, 2020 indicates that the Hotel incurred a loss of Kshs.7,809,261 for the year under review (2019-loss of Kshs.7,170,565) bringing accumulated losses to Kshs.111,588,413 (2019- Kshs.103,456,335). Further, the current liabilities balance of Kshs.73,866,897 exceeds the current assets of Kshs.4,395,580 by Kshs.69,471,317 resulting to negative working capital. The negative trend casts significant doubt on the

ability of the Hotel to continue operating as a going concern. This fact has not been disclosed by way of notes to the financial statements, with indication of the measures being undertaken or planned to reverse the situation, as required by the International Financial Reporting Standards (IFRS).

Consequently, the financial statements for the year as prepared and presented are not International Financial Reporting Standards (IFRS) compliant.

2. Budgetary Control and Performance

The statement of comparison of budget and actual amounts reflects total income and actual on comparative basis of Kshs.24,368,368 and Kshs.10,227,568 respectively resulting to under performance of Kshs.14,140,800 or 58% of the budget.

Similarly, the statement reflects budgeted expenditure and actual amount spent during the year on comparable basis of Kshs.18,113,876 and Kshs.16,440,908 respectively resulting in Kshs.1,672,968 or 9% under expenditure on the approved budget.

No explanations have been rendered for the underperformance, while the Hotel is at risk of not being able to meet its operating costs with the continued poor performance.

REPORT ON LAWFULNESS AND EFFECTIVENESS IN USE OF PUBLIC RESOURCES

Conclusion

As required by Article 229(6) of the Constitution, based on the audit procedures performed, except for the matters described in the Basis for Conclusion on Lawfulness and Effectiveness in Use of Public Resources section of my report, I confirm that, nothing else has come to my attention to cause me to believe that public resources have not been applied lawfully and in an effective way.

Basis for Conclusion

1. Long Outstanding Trade and Other Payables

The statement of financial position reflects trade and other payables balance of Kshs.27,699,359; (2019-Kshs.22,017,493) and as disclosed under Note 22 to the financial statements. Included in the balance is unremitted VAT of Kshs.11,830,553, catering levy fees of Kshs.3,295,462 and land rates of Kshs.817,576 which have been long outstanding. The Hotel is faced with the risk of incurring accrued interest and penalties on the non-remittances.

To the extent, the Hotel is in breach of law.

2. Irregular Procurements

The statement of profit or loss and other comprehensive income reflects cost of sales amount of Kshs.1,595,921;(2019-Kshs.2,650,991) and as disclosed under Note 7 to the

financial statements. Review of the Hotel records revealed that there were no prequalified suppliers, consequently all goods and services were being procured in cash resulting into direct procurement. This is contrary to Section 103 (2a) of the Public Procurement and Asset Disposal Act, 2015 which states that direct procurement is only for goods, works or services that are available only from a particular supplier or contractor, or a particular supplier or contractor has exclusive rights in respect of the goods, works or services, and no reasonable alternative or substitute exists.

To the extent, the Hotel is in breach of the law.

3. Non-Implementation of the e-Procurement System

Kabarnet Hotel budgeted for refurbishments of the Hotel at a cost of Kshs.45,000,000 in the year under review. The Management awarded the contract for the provision of proposed refurbishment, renovation and repair works for the Hotel at a cost of Kshs.20,801,851. However, no evidence has been provided that this tender was publicized through the websites of the Public Procuring Entity, e-Citizen, Public Procurement Regulatory Authority platforms, public notice boards and / or official government publications.

To the extent, the Hotel is in breach of the law.

4. Failure to Submit Annual Returns

The Hotel was incorporated under the Companies Act (Cap 486) and as a limited company. It was observed that the Hotel has not been filing its annual returns with Registrar of Companies. This is contrary to Section 705 (1) of the Companies Act, 2015 which requires that every company shall submit to the Registrar successive annual returns.


To the extent, the Hotel is in breach of the law.

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 matters described in the Basis for Conclusion on Effectiveness of Internal Controls, Risk Management and Governance section of my



report, I confirm that, nothing else has come to my attention to cause me to believe that internal controls, risk management and overall governance were not effective.

Basis for Conclusion

1. Lack of an Asset Register

The statement of financial position reflects property, plant and equipment balance of Kshs.57,285,787 and as disclosed under Note 12 to the financial statements. However, the assets register containing the details of the assets in terms of original cost, additions, disposal, accumulated depreciation and the depreciation charge for the year was not provided for audit review. It was therefore not possible to confirm the accuracy of the figures of assets as disclosed in these financial statements.

2. Lack of Risk Management Policy

The Hotel does not have an approved risk management policy in place to guide it on how to mitigate operational, legal and financial risks. This is contrary to Section 165 of the Public Finance Management (National Government) Regulations, 2015 which states that the accounting officer shall ensure that the (a) National Government entity develops risk management strategies, which include fraud prevention mechanism.

In the circumstances, the Hotel does not have in place a systematic approach for managing risks.

3. Staff Establishment

The Hotel has twenty-eight (28) staff on board of which sixteen (16) are permanent while twelve (12) are casuals. However, the Hotel does not have in place an approved staff establishment to guide on the available positions to be filled. Consequently, it was not possible to confirm whether the Hotel has the optimal human resources.

4. Poor Inventory Control and Management

The statement of financial position reflects inventories balance of Kshs.57,186 as detailed in Note 13 to the financial statements. However, the Hotel does not have systems for management of the inventories. The mechanism used does not give accurate stock operation reports on a quarterly basis or at the end of the year. It was therefore difficult to monitor the stock movement and determine the stock-out and the re-order levels. The stock records verified did not have requisition records, bin and ledger cards. There was no evidence of periodic reports from the stores after carrying out inspection.

In the circumstance, the Hotels' internal control systems are weak.

5. Governance and Internal Audit

During the year under review, it was observed that the hotel did not have an internal audit function in place to evaluate and improve the effectiveness of risk management, control

and governance processes. Further, the Hotel has been operating without a substantive managing director or accounting officer charged with day to day management of activities of the hotel. Consequently, the accountant doubles up as the Managing Director.

In the circumstance, the Hotels' internal control systems are weak.

6. IT Internal Control and Fire Systems

During the year under review, it was observed that there was no IT strategic plan, disaster recovery plan and policies and procedures. The environmental controls such as fire suppression systems, sensors, alarms and fire extinguishers had expired. There were no uninterrupted power supply (UPS) or generators for electricity powered systems. There was no formal documented and tested emergency procedure in place to be followed in case of an emergency and that all hotel process are manual with no departmental interphase. Without an IT system the manual documentation stands a higher risk of deterioration due to age and wearing out and there is no back up of information.

The audit was conducted in accordance with ISSAI 2315 and ISSAI 2330. The standards require that I plan and perform the audit to obtain assurance about whether effective processes and systems of internal control, risk management and overall governance were operating effectively, in all material respects. I believe that the audit evidence I have obtained is sufficient and appropriate to provide a basis for my conclusion.

REPORT ON OTHER LEGAL AND REGULATORY REQUIREMENTS

As required by the Companies Act, 2015, 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 the examination of those records; and,
- iii. The Hotel's financial statements are in agreement with the accounting records and returns.

Responsibilities of Management and the Board of Directors

Management is responsible for the preparation and fair presentation of these financial statements in accordance with International Financial Reporting Standards and for maintaining effective internal 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, risk management and overall governance.

In preparing the financial statements, Management is responsible for assessing the Hotel's ability to continue as a going concern, disclosing, as applicable, matters related



to going concern and using the going concern basis of accounting unless Management is aware of the intention to liquidate the Hotel or to cease operations.

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

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

The Board of Directors is responsible for overseeing the financial reporting process, reviewing the effectiveness of how the Hotel 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 overall 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 audit is planned and performed to express a conclusion about 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, and that public resources are applied in an effective way, 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.

Further, in planning and performing the audit of the financial statements and audit of compliance, I consider internal control in order to give an assurance on the effectiveness of internal controls, risk management and overall 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 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 Hotel's ability to continue as a going concern. If I conclude that a material uncertainty exists, I am required to draw attention in the auditor's report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify my opinion. My conclusions are based on the audit evidence obtained up to the date of my audit report. However, future events or conditions may cause the Hotel to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.
- Obtain sufficient appropriate audit evidence regarding the financial information and business activities of the Hotel to express an opinion on the financial statements.
- Perform such other procedures as I consider necessary in the circumstances.

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

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



CPA Nancy Gathungu, CBS
AUDITOR-GENERAL

Nairobi

09 February, 2022

KABARNET HOTEL LIMITED**Annual Reports and Financial Statements****For the year ending June 30, 2020****STATEMENT OF PROFIT AND LOSS AND OTHER COMPREHENSIVE INCOME
FOR THE YEAR ENDING 30 JUNE 2020**


	Note	2019-2020	2018-2019
		Kshs.	Kshs.
REVENUES			
Revenue	6	9,147,445	11,128,000
Cost of sales	7	(1,595,921)	(2,650,991)
Gross profit		7,551,524	8,477,009
Other Income	8	1,080,123	1,391,973
Other gains/(losses)		-	-
TOTAL REVENUES		8,631,647	9,868,982
OPERATING EXPENSES			
Administration Costs	9(a)	14,215,931	15,104,297
Selling and Distribution Costs	10	375,714	55,300
Finance Costs		-	-
Depreciation of property ,plant and equipment	12	1,849,263	1,879,950
TOTAL OPERATING EXPENSES		16,440,908	17,039,547
PROFIT/(LOSS) BEFORE TAXATION	11	(7,809,261)	(7,170,565)
INCOME TAX EXPENSE/(CREDIT)		-	-
PROFIT/(LOSS) AFTER TAXATION		(7,809,261)	(7,170,565)



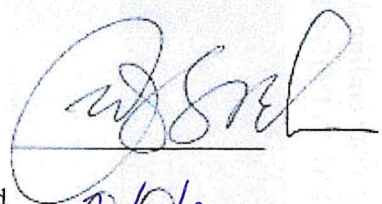
KABARNET HOTEL LIMITED**Annual Reports and Financial Statements
For the year ending June 30, 2020****STATEMENT OF FINANCIAL POSITION AS AT 30 JUNE 2020**

	Note	2019-2020	2018-2019
		Kshs.	Kshs.
ASSETS			
Non-Current Assets			
Property, plant and equipment	12	57,285,787	59,135,050
Total Non-Current Assets		57,285,787	59,135,050
Current Assets			
Inventories	13	57,186	78,834
Trade and other receivables	14	3,874,349	4,703,394
Advance recoverable		0	156,250
Short-term deposits		-	-
Bank and cash balances	15	464,045	58,051
Total Non-Current Assets		61,681,367	64,131,579
EQUITY AND LIABILITIES			
Capital and Reserves			
Ordinary share capital	16	5,000,000	5,000,000
Revaluation reserve	17	66,793,000	66,793,000
Fair value adjustment reserve		-	-
Retained earnings (loss)	19	(111,588,413)	(103,456,335)
Capital and Reserves		(39,795,413)	(31,663,335)
Non-Current Liabilities			
Borrowings(-loans)	20(a)	27,609,883	27,609,883
Deferred tax liability		-	-
Total Non-Current Liabilities		27,609,883	27,609,883
Current Liabilities			
Borrowings(-loans)	20(b)	46,167,538	46,167,538
Trade and other payables	22	27,699,359	22,017,493
Retirement benefit obligations		-	-
Provision for leave pay		-	-
Total Current Liabilities		73,866,897	68,185,031
TOTAL EQUITY AND LIABILITIES		61,681,367	64,131,579

The financial statements were approved by the Board on _____ 2020 and signed on its behalf

General Manager 

Name:

Chairman of the Board 

Name:

26/10/2020

KABARNET HOTEL LIMITED

**Annual Reports and Financial Statements
For the year ending June 30, 2020**

STATEMENT OF CHANGES IN EQUITY FOR THE YEAR ENDED 30 JUNE 2020

	Ordinary share capital	Revaluation reserve	Fair value adjustment reserve	Retained earnings	Proposed dividends	Capital/ Develop- ment Grants/ Fund	Total
At July 1, 2018	5,000,000	66,793,000	-	(96,003,000)	-	-	(24,210,000)
Revaluation gain	-	-	-	-	-	-	-
Transfer of excess depreciation on revaluation	-	-	-	-	-	-	-
Fair value adjustment on quoted investments	-	-	-	-	-	-	-
Total comprehensive income	-	-	-	(7,170,565)	-	-	(7,170,565)
Capital/Development grants received during the year	-	-	-	-	-	-	-
Loan – Adjustment	-	-	-	(282,770)	-	-	(282,770)
At June 30, 2018	5,000,000	66,793,000	-	(103,456,335)	-	-	(31,663,335)
At July 1, 2018	5,000,000	66,793,000	-	(103,456,335)	-	-	(31,663,335)
Revaluation gain	-	-	-	-	-	-	-
Transfer of excess depreciation on revaluation	-	-	-	-	-	-	-
Fair value adjustment on quoted investments	-	-	-	-	-	-	-
Total comprehensive income	-	-	-	(7,809,261)	-	-	(7,809,261)
Adjustment	-	-	-	(322,817)	-	-	(322,817)
Transfer of depreciation/amortisation from capital fund to retained earnings	-	-	-	-	-	-	-
Dividends paid – 2019	-	-	-	-	-	-	-
Interim dividends paid – 2020	-	-	-	-	-	-	-
Proposed final dividends	-	-	-	-	-	-	-
At June 30, 2019	5,000,000	66,793,000	-	(111,588,413)	-	-	(39,795,413)

KABARNET HOTEL LIMITED

Annual Reports and Financial Statements

Note: For the year ending June 30, 2020

1. For items that are not common in the financial statements, the entity should include a note on what they relate to – either on the face of the statement of changes in equity/net assets or among the notes to the financial statements.
2. Prior year adjustment should have an elaborate note describing what the amounts relate to. In such instances a restatement of the opening balances need to be done.

KABARNET HOTEL LIMITED**Annual Reports and Financial Statements
For the year ending June 30, 2020****STATEMENT OF CASH FLOWS FOR THE YEAR ENDED 30 JUNE 2020**

	Note	2019-2020	2018-2019
		Kshs.	Kshs.
CASH FLOWS FROM OPERATING ACTIVITIES			
Cash generated from/(used in) operations	25	405,994	(241,949)
Interest received		-	-
Interest paid		-	-
Dividends paid		-	-
Taxation paid		-	-
Purchase of furniture and Equipment		-	-
Net cash generated from/(used in) operating activities		405,994	(241,949)
CASH FLOWS FROM INVESTING ACTIVITIES			
Purchase of property, plant and equipment		-	-
Proceeds from disposal of property, plant and equipment		-	-
Purchase of intangible assets		-	-
Purchase of investment property		-	-
Purchase of quoted investments		-	-
Proceeds from disposal of quoted investments		-	-
Net cash generated from/(used in) investing activities		4205,994	(241,949)
CASH FLOWS FROM FINANCING ACTIVITIES			
Proceeds from issues of new share capital		-	-
Proceeds from borrowings		-	-
Repayment of borrowings		-	-
Net cash generated from/(used in) financing activities		405,994	(241,949)
INCREASE/(DECREASE) IN CASH AND CASH EQUIVALENTS		405,994	(241,949)
CASH AND CASH EQUIVALENTS AT BEGINNING OF YEAR		405,994	(241,949)
Effects of foreign exchanges rate fluctuations		58,051	300,000
CASH AND CASH EQUIVALENTS AT END OF THE YEAR	16	464,075	58,051

Annual Reports and Financial Statements
For the year ending June 30, 2020

STATEMENT OF COMPARISON OF BUDGET AND ACTUAL AMOUNTS FOR THE PERIOD ENDED 30 JUNE 2020

	Original budget	Adjustments	Final budget	Actual on comparable basis	Performance difference
	2019-2020	2019-2020	2019-2020	2019-2020	2019-2020
Revenue	Kshs.	Kshs.	Kshs.	Kshs.	Kshs.
Sale of goods	-	-	-	-	-
Sale of services	-	-	-	-	-
Transfers from the Government	20,771,714	-	20,771,714	9,147,445	(11,624,269)
Donations in kind	-	-	-	-	-
Finance Income	-	-	-	-	-
Other income	3,596,654	-	3,596,654	1,080,123	(2,516,531)
Total income	24,368,368	-	24,368,368	10,227,568	(14,140,800)
Cost of sales	5,335,024	-	5,335,024	1,595,921	(3,739,103)
Gross profit	19,033,344	-	19,033,344	8,631,647	(10,401,697)
Expenses	-	-	-	-	-
Administration costs	15,620,771	-	15,620,771	14,215,931	(1,404,840)
Selling and distribution cost	420,615	-	420,615	375,714	(44,901)
Depreciation of PPE	2,072,490	-	2,072,490	1,849,263	(223,227)
Rent paid	-	-	-	-	-
Taxation paid	-	-	-	-	-
Other payments	-	-	-	-	-
Grants and subsidies paid	-	-	-	-	-
Total expenditure	18,113,876	-	18,113,876	16,440,908	(1,672,968)
Surplus for the period	919,468	-	919,468	(7,809,261)	(8,728,729)

Note: PFM Act section 81(2) ii and iv requires a National Government entity to present appropriation accounts showing the status of each vote compared with the appropriation for the vote and a statement explaining any variations between actual expenditure and the sums voted. IFRS does not require entities complying with IFRS standards to prepare budgetary information because most of the entities that apply IFRS are private entities that do not make their budgets publicly available. However, for public sector entities, the

KABARNET HOTEL LIMITED

Annual Reports and Financial Statements For the year ending June 30, 2020

PSASB has considered the requirements of the PFM Act, 2012 which these statements comply with, the importance that the budgetary information would provide to the users of the statements and the fact that the public entities make their budgets publicly available and decided to include this statement under the IFRS compliant financial statements.

Budget notes: Provide explanation of differences between actual and budgeted amounts (10% over/ under) Provide an explanation of changes between original and final budget indicating whether the difference is due to reallocations or other causes. Where the total of actual on comparable basis does not tie to the statement of financial performance totals due to differences in accounting basis(budget is cash basis, statement of financial performance is accrual) provide a reconciliation.

NOTES TO THE FINANCIAL STATEMENTS

1. GENERAL INFORMATION

Kabarnet Hotel entity is established by and derives its authority and accountability from Public Finance Management 2012 Act. The Kabarnet hotel is wholly owned by the Government of Kenya and is domiciled in Kenya. The entity's principal activity is service industry.

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, marketable securities and financial instruments at fair value, impaired assets at their estimated recoverable amounts and actuarially determined liabilities at their present value. The preparation of financial statements in conformity with International Financial Reporting Standards (IFRS) allows the use of estimates and assumptions. It also requires management to exercise judgement in the process of applying the entity's accounting policies. The areas involving a higher degree of judgement or complexity, or where assumptions and estimates are significant to the financial statements, are disclosed in Note xx.

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

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

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

- i) **Relevant new standards and amendments to published standards effective for the year ended 30 June 2020**

IFRS 16: Leases

The new standard, effective for annual periods beginning on or after 1st January 2019, introduces a new lessee accounting model, which requires a lessee to recognise assets and liabilities for all leases with a term of more than 12 months, unless the underlying asset is of low value. A lessee is required to recognise a right-of-use asset representing its right to use the underlying leased asset and a lease liability representing its obligation to make lease payments.

NOTES TO THE FINANCIAL STATEMENTS (Continued)

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

i) Relevant new standards and amendments to published standards effective for the year ended 30 June 2019(Continued)

Application of IFRS 16 requires right-of-use assets and lease liabilities to be recognised in respect of most operating leases where the Company is the lessee. Based on the Directors' assessment, right of use assets of KSh xxx, lease liabilities of KSh xxx and a deferred tax asset of KSh ... have been recognised with a corresponding decrease of the net amount in retained earnings in these financial statements.

IFRIC 23: Uncertainty Over income tax treatments

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:

- Whether tax treatments should be considered collectively
- Assumptions for taxation authorities' examinations
- The determination of taxable profit (tax loss), tax bases, unused tax losses, unused tax credits and tax rates
- The effect of changes in facts and circumstances

Amendments to IFRS 9 titled Prepayment Features with Negative Compensation (issued in October 2017)

The amendments, applicable to annual periods beginning on or after 1 January 2019, allow entities to measure prepayable financial assets with negative compensation at amortised cost or fair value through other comprehensive income if a specified condition is met.

Amendments to IAS 28 titled Long-term Interests in Associates and Joint Ventures (issued in October 2017)

The amendments, applicable to annual periods beginning on or after 1st January 2019, clarify that an entity applies IFRS 9, rather than IAS 28, in accounting for long-term interests in associates and joint ventures.

Amendments to IFRS 3 - Annual Improvements to IFRSs 2015–2017 Cycle , issued in December 2017.

The amendments, applicable to annual periods beginning on or after 1st January 2019, provide additional guidance on applying the acquisition method to particular types of business combination.

NOTES TO THE FINANCIAL STATEMENTS (Continued)

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

i) Relevant new standards and amendments to published standards effective for the year ended 30 June 2019(Continued)

Amendments to IFRS 11 - Annual Improvements to IFRSs 2015–2017 Cycle , issued in December 2017

The amendments, applicable to annual periods beginning on or after 1st January 2019, clarify that when an entity obtains joint control of a business that is a joint operation, it does not re-measure its previously held interests

Amendments to IAS 12 - Annual Improvements to IFRSs 2015–2017 Cycle , issued in December 2017

The amendments, applicable to annual periods beginning on or after 1st January 2019, clarify that all income tax consequences of dividends should be recognised when a liability to pay a dividend is recognised, and that these income tax consequences should be recognised in profit or loss, other comprehensive income or equity according to where the entity originally recognised the transactions to which they are linked.

Amendments to IAS 23 - Annual Improvements to IFRSs 2015–2017 Cycle , issued in December 2017

The amendments, applicable to annual periods beginning on or after 1st January 2019, clarify that the costs of borrowings made specifically for the purpose of obtaining a qualifying asset that is substantially completed can be included in the determination of the weighted average of borrowing costs for other qualifying assets.

Amendments to IAS 19 titled Plan Amendment, Curtailment or Settlement (issued in February 2018)

The amendments, applicable to plan amendments, curtailments or settlements occurring on or after the beginning of the first annual reporting period that begins on or after 1st January 2019, requires an entity to use updated actuarial assumptions to determine current service cost and net interest for the remainder of the annual reporting period after the plan amendment, curtailment or settlement when the entity re-measures its net defined benefit liability (asset) in the manner specified in the amended standard.

(The organisation should assess the impact of the above standards and amendments and state the impact of their application in these financial statements.)

KABARNET HOTEL LIMITED

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For the year ending June 30, 2020

NOTES TO THE FINANCIAL STATEMENTS (Continued)

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

- ii) **New and amended standards and interpretations in issue but not yet effective in the year ended 30 June 2019**

IFRS 17 Insurance Contracts (Issued 18 May 2017)

IFRS 17 requires insurance liabilities to be measured at a current fulfillment value and provides a more uniform measurement and presentation approach for all insurance contracts. These requirements are designed to achieve the goal of a consistent, principle-based accounting for insurance contracts. IFRS 17 supersedes IFRS 4 *Insurance Contracts* as of 1 January 2021.

Amendments to References to the Conceptual Framework in IFRS Standards (Issued 29 March 2018-Applicable for annual periods beginning 1 January 2020)

Together with the revised *Conceptual Framework* published in March 2018, the IASB also issued *Amendments to References to the Conceptual Framework in IFRS Standards*. The document 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 refer to the revised *Conceptual Framework*. 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 indicate that definitions in the standard have not been updated with the new definitions developed in the revised *Conceptual Framework*.

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

NOTES TO THE FINANCIAL STATEMENTS (Continued)

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

iii) Early adoption of standards

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

iii) SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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

a) Revenue recognition

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

- i) **Revenue from the sale of goods and services** is recognised in the year in which the *entity* delivers products to the customer, the customer has accepted the products and collectability of the related receivables is reasonably assured.
- ii) **Grants from National Government** are recognised in the year in which the *entity* actually receives such grants. Recurrent grants are recognized in the statement of comprehensive income. Development/capital grants are recognized in the statement of financial position and realised in the statement of comprehensive income over the useful life of the assets that has been acquired using such funds.
- iii) **Finance income** comprises interest receivable from bank deposits and investment in securities, and is recognised in profit or loss on a time proportion basis using the effective interest rate method.
- iv) **Dividend income** is recognised in the income statement in the year in which the right to receive the payment is established.
- v) **Rental income** is recognised in the income statement as it accrues using the effective lease agreements.
- vi) **Other income** is recognised as it accrues.

b) In-kind contributions

In-kind contributions are donations that are made to the *entity* in the form of actual goods and/or services rather than in money or cash terms. These donations may include vehicles, equipment or personnel services. Where the financial value received for in-kind contributions can be reliably determined, the *entity* includes such value in the statement of comprehensive income both as revenue and as an expense in equal and opposite amounts; otherwise, the contribution is not recorded.

KABARNET HOTEL LIMITED

Annual Reports and Financial Statements

For the year ending June 30, 2020

NOTES TO THE FINANCIAL STATEMENTS (Continued)

3 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

c) 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.

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

d) 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 while motor vehicle and furniture and Equipment is on reducing balance method . The annual rates in use are:

Buildings and civil works	25 years or the unexpired lease period
Plant and machinery	12.5 years
Motor vehicles, including motor cycles	25 years
Computers and related equipment	3 years
Office equipment, furniture and fittings	12.5 years

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

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

NOTES TO THE FINANCIAL STATEMENTS (Continued)

4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

e) Intangible assets

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

f) Amortisation and impairment of intangible assets

Amortisation is calculated on the straight-line basis over the estimated useful life of computer software of three years.

All computer software is reviewed annually for impairment. Where the carrying amount of an intangible asset is assessed as greater than its estimated recoverable amount, an impairment loss is recognised so that the asset is written down immediately to its estimated recoverable amount.

g) Investment property

Buildings, or part of a building (freehold or held under a finance lease) and land (freehold or held under an operating lease) held for long term rental yields and/or capital appreciation, and which are not occupied by the entity, are classified as investment property under non-current assets.

Investment property is carried at fair value, representing open market value determined periodically by independent external values. Changes in fair values are included in profit or loss in the income statement.

h) Finance and operating leases

Leases which confer substantially all the risks and rewards of ownership to the entity are classified as finance leases. Upon initial recognition, the leased asset is measured at an amount equal to the lower of its fair value and the present value of the minimum lease payments, and the asset is subsequently accounted for in accordance with the accounting policy applicable to that asset.

All other leases are treated as operating leases and the leased assets are recognised in the statement of financial position to the extent of prepaid lease rentals at the end of the year. Payments made under operating leases are recognised in profit or loss on a straight-line basis over the term of the lease. Lease incentives received are recognised as an integral part of the total lease expense over the term of the lease.

KABARNET HOTEL LIMITED

Annual Reports and Financial Statements

For the year ending June 30, 2020

NOTES TO THE FINANCIAL STATEMENTS (Continued)

4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

i) Fixed interest investments (bonds)

Fixed interest investments refer to investment funds placed under Central Bank of Kenya (CBK) long-term infrastructure bonds and other corporate bonds with the intention of earning interest income upon the bond's disposal or maturity. Fixed interest investments are freely traded at the Nairobi Securities Exchange. The bonds are measured at fair value through profit or loss.

j) Quoted investments

Quoted investments are classified as non-current assets and comprise marketable securities traded freely at the Nairobi Securities Exchange or other regional and international securities exchanges. Quoted investments are stated at fair value.

k) Unquoted investments

Unquoted investments stated at cost under non-current assets, and comprise equity shares held in other Government owned or controlled entities.

l) Inventories

Inventories are stated at the lower of cost and net realisable value. The cost of inventories comprises purchase price, import duties, transportation and handling charges, and is determined on the moving average price method.

m) Trade and other receivables

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

n) Taxation

Current income tax

Current income tax assets and liabilities for the current period are measured at the amount expected to be recovered from or paid to the taxation authorities. The tax rates and tax laws used to compute the amount are those that are enacted or substantively enacted, at the reporting date in the area where the Entity operates and generates taxable income. Current income tax relating to items recognized directly in net assets is recognized in net assets and not in the statement of financial performance.

NOTES TO THE FINANCIAL STATEMENTS (Continued)

4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

n) Taxation (Continued)

Current income tax (Continued)

Current income tax assets and liabilities for the current period are measured at the amount expected to be recovered from or paid to the taxation authorities. The tax rates and tax laws used to compute the amount are those that are enacted or substantively enacted, at the reporting date in the area where the Entity operates and generates taxable income. Current income tax relating to items recognized directly in net assets is recognized in net assets and Management periodically evaluates positions taken in the tax returns with respect to situations in which applicable tax regulations are subject to interpretation and establishes provisions where appropriate.

Deferred tax

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

Deferred tax liabilities are recognized for all taxable temporary differences, except in respect of taxable temporary differences associated with investments in controlled entities, associates and interests in joint ventures, when the timing of the reversal of the temporary differences can be controlled and it is probable that the temporary differences will not reverse in the foreseeable future.

Deferred tax assets are recognized for all deductible temporary differences, the carry forward of unused tax credits and any unused tax losses. Deferred tax assets are recognized to the extent that it is probable that taxable profit will be available against which the deductible temporary differences, and the carry forward of unused tax credits and unused tax losses can be utilized, except in respect of deductible temporary differences associated with investments in controlled entities, associates and interests in joint ventures, deferred tax assets are recognized only to the extent that it is probable that the temporary differences will reverse in the foreseeable future and taxable profit will be available against which the temporary differences can be utilized.

The carrying amount of deferred tax assets is reviewed at each reporting date and reduced to the extent that it is no longer probable that sufficient taxable profit will be available to allow all or part of the deferred tax asset to be utilized. Unrecognized deferred tax assets are re-assessed at each reporting date and are recognized to the extent that it has become probable that future taxable profits will allow the deferred tax asset to be recovered.

Deferred tax assets and liabilities are measured at the tax rates that are expected to apply in the year when the asset is realized or the liability is settled, based on tax rates (and tax laws) that have been enacted or substantively enacted at the reporting date.

KABARNET HOTEL LIMITED

Annual Reports and Financial Statements

For the year ending June 30, 2020

NOTES TO THE FINANCIAL STATEMENTS (Continued)

4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

n) Taxation (Continued)

Deferred tax (Continued)

Deferred tax relating to items recognized outside surplus or deficit is recognized outside surplus or deficit. Deferred tax items are recognized in correlation to the underlying transaction in net assets. Deferred tax assets and deferred tax liabilities are offset if a legally enforceable right exists to set off current tax assets against current income tax liabilities and the deferred taxes relate to the same taxable entity and the same taxation authority.

o) Cash and cash equivalents

Cash and cash equivalents comprise cash on hand and cash at bank, short-term deposits on call and highly liquid investments with an original maturity of three months or less, which are readily convertible to known amounts of cash and are subject to insignificant risk of changes in value. Bank account balances include amounts held at the Central Bank of Kenya and at various Commercial Banks at the end of the reporting period. For the purposes of these financial statements, cash and cash equivalents also include short term cash imprests and advances to authorised public officers and/or institutions which were not surrendered or accounted for at the end of the financial year.

p) Borrowings

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

q) Trade and other payables

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

NOTES TO THE FINANCIAL STATEMENTS (Continued)**4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)****r) Retirement benefit obligations**

The entity operates a defined contribution scheme for all full-time employees from July 1, 2018. The scheme is administered by an in-house team and is funded by contributions from both the company and its employees. 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.200 per employee per month.

s) Provision for staff leave pay

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

t) Exchange rate differences

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

u) Budget information

The original budget for FY 2019-2020 was approved by the National Assembly on 21st June 2019. Subsequent revisions or additional appropriations were made to the approved budget in accordance with specific approvals from the appropriate authorities. The additional appropriations are added to the original budget by the entity upon receiving the respective approvals in order to conclude the final budget.

The entity'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.

KABARNET HOTEL LIMITED

Annual Reports and Financial Statements

For the year ending June 30, 2020

NOTES TO THE FINANCIAL STATEMENTS (Continued)

4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

u) Budget information (Continued)

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 section xxx of these financial statements.

v) Service concession arrangements

The Entity analyses all aspects of service concession arrangements that it enters into in determining the appropriate accounting treatment and disclosure requirements. In particular, where a private party contributes an asset to the arrangement, the Entity recognizes that asset when, and only when, it controls or regulates the services the operator must provide together with the asset, to whom it must provide them, and at what price. In the case of assets other than 'whole-of-life' assets, it controls, through ownership, beneficial entitlement or otherwise – any significant residual interest in the asset at the end of the arrangement. Any assets so recognized are measured at their fair value. To the extent that an asset has been recognized, the Entity also recognizes a corresponding liability, adjusted by a cash consideration paid or received.

w) Comparative figures

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

x) Subsequent events

There have been no events subsequent to the financial year end with a significant impact on the financial statements for the year ended June 30, 2020.

5 SIGNIFICANT JUDGMENTS AND SOURCES OF ESTIMATION UNCERTAINTY

The preparation of the Entity's financial statements in conformity with International Financial Reporting Standards (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.

State all judgments, estimates and assumptions made: e.g

**5 SIGNIFICANT JUDGEMENTS AND SOURCES OF ESTIMATION UNCERTAINTY
(Continued)**

Estimates and assumptions

The key assumptions concerning the future and other key sources of estimation uncertainty at the reporting date, that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year, are described below. The Entity based its assumptions and estimates on parameters available when the financial statements were prepared. However, existing circumstances and assumptions about future developments may change due to market changes or circumstances arising beyond the control of the Entity. Such changes are reflected in the assumptions when they occur.

Useful lives and residual values

The useful lives and residual values of assets are assessed using the following indicators to inform potential future use and value from disposal:

- The condition of the asset based on the assessment of experts employed by the Entity
- The nature of the asset, its susceptibility and adaptability to changes in technology and processes
- The nature of the processes in which the asset is deployed
- Availability of funding to replace the assets
- Changes in the market in relation to the asset

Provisions

Provisions were raised and management determined an estimate based on the information available. Additional disclosure of these estimates of provisions is included in Note xxx.

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.

KABARNET HOTEL LIMITED

Annual Reports and Financial Statements

For the year ending June 30, 2020

NOTES TO THE FINANCIAL STATEMENTS (Continued)

6 REVENUE

	2019/2020	2018/2019
	Kshs.	Ksh.
Gross sales of goods/services	9,147,445	11,128,000
Less: Value added tax ,service charge catering levy on gross sales	(2,058,991)	(1,780,480)
Total	7,088,454	9,347,520

7 COST OF SALES

	2019/2020	2018/2019
	Kshs.	Kshs.
	-	--
Cost of sales on services	1,595,524	2,650,991
Total	1,595,524	2,650,991

KABARNET HOTEL LIMITED

Annual Reports and Financial Statements

For the year ending June 30, 2020

NOTES TO THE FINANCIAL STATEMENTS (Continued)

8 OTHER INCOME

Description	2019- 2020	2018-2019
	Kshs.	Kshs.
Other miscellaneous receipts	1,080,123	1,391,973
Total	1,080,123	1,391,973

[These are sales from laundry ,swimming pool, hall hire &Lease]

KABARNET HOTEL LIMITED**Annual Reports and Financial Statements****For the year ending June 30, 2020****NOTES TO THE FINANCIAL STATEMENTS (Continued)****9 (a) ADMINISTRATION COSTS**

	2019-2020	2018-2019
Description	Kshs.	Kshs.
Staff costs (note 12b)	7,311,989	11,901,915
Directors' emoluments	274,906	231,887
Electricity and water	1,157,898	816,979
Staff transport, travelling and general charges	272,362	337,095
Office Expense- printing, stationery and photocopying	286,458	341,920
Staff training expenses	-	--
Secretarial Expenses	70,000	-
General services-secretarial services	-	18,000
Bank charges and commissions	79,969	87,377
Office and general supplies and services	-	--
Accrued Expenses –Rates	312,300	
Accrued Expenses - salaries	3,739,204	
Auditors' remuneration	48,000	48,000
Repairs and maintenance	45,810	87,990
Provision for bad and doubtful debts	-	--
Operating cost, property upkeep and other expenses	617,035	1,233,134
Total	14,215,931	15,104,297

9 (b) STAFF COSTS

Salaries and allowances of permanent employees	6,918,935	11,362,805,
Wages of temporary employees	227,654	156,590
Compulsory national health insurance schemes	-	-
Compulsory national social security schemes	51,400	69,200
Other pension contributions	-	-
Leave pay	114,000	313,320
Staff welfare	-	-
Total	7,311,989	11,901,915
The average number of employees at the end of the year was:		
Permanent employees – Management	1	1
Permanent employees – Unionisable	13	15
Temporary and contracted employees	-	12
Total	14	28

(These are the actual no. of permanent and contractual employees in the year)

KABARNET HOTEL LIMITED**Annual Reports and Financial Statements****For the year ending June 30, 2020****NOTES TO THE FINANCIAL STATEMENTS (Continued)****10. SELLING AND DISTRIBUTION COSTS**

	2019-2020	2018-2019
Description	Kshs.	.
Salaries and wages of sales personnel	-	--
Marketing and promotional expenses	92,629	55,300
Sales commissions	283,085	--
Sales discounts and rebates	-	--
Other selling and distribution costs	-	--
Total	375,714	55,300

[These are marketing fees and agents commission in the year]

/

10 OPERATING PROFIT/(LOSS)

	2019-2020	2018-2019
	Kshs."000"	Kshs."000"
The operating profit/(loss) is arrived at after charging/(crediting):	424,094	(241,949)
Staff costs (note 12b)	7,311,989	11,901,915
Depreciation of property, plant and equipment	1,849,263	1,879,950
Amortisation of intangible assets	-	-
Provision for bad and doubtful debts	-	-
Directors' emoluments - fees	-	-
- other	344,906	231,887
Auditors' remuneration - Provision	48,000	48,000
- prior year under-provision	-	-
Loss on disposal of property, plant and equipment	-	-
Interest receivable	-	-
Rent receivable	-	-
Total	9,978,252	13,819,803

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For the year ending June 30, 2020

12. PROPERTY, PLANT AND EQUIPMENT

2019	Freehold land ksh''000''	Buildings & civil works	Plant and machiner- y-ksh.	Motor vehicles, including, motor cycles	Computers & related equipment	Office equipment, furniture & fittings	Capital work in progress	Total
COST OR VALUATION								
At July 1, 2019	6,000,000	65,498,000	-	120,000	-	5,310,000		79,928,000
Additions	-	-	-	-	-	-	-	-
Transfers	-	-	-	-	-	-	-	-
Disposals	-	-	-	-	-	-	-	-
At June 30, 2019	6,000,000	65,498,000	-	120,000	-	5,310,000		76,928,000
DEPRECIATION								
At July 1, 2019	-	14,048,450	-	111,000	-	3,633,500	-	17,792,950
Charge for the year	-	1,637,450	-	2,250	-	209,563		1,849,263
Impairment loss	-	-	-	-	-	-	-	-
Eliminated on disposal	-		-	-	-	-	-	-
At June 30, 2020	-	15,685,900	-	113,250	-	3,843,063	-	19,642,213
NET BOOK VALUE At June 30, 2020	6,000,000	49,812,100	-	6,750	-	1,466,937	-	57,285,787

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

Annual Reports and Financial Statements

For the year ending June 30, 2020

NOTES TO THE 12.PROPERTY, PLANT AND EQUIPMENT (Continued)

2018	Freehold land	Buildings & civil works	Plant and machinery	Motor vehicles, including motor cycles	Computers & related equipment	Office equipment, furniture & fittings	Capital work in progress	Total
COST OR VALUATION								
At July 1, 2018	6,000,000	65,498,000	-	120,000	-	5,310,000	-	76,928,000
Additions	-	-	-	-	-	-	-	-
Transfers	-	-	-	-	-	-	-	-
Disposals	-	-	-	-	-	-	-	-
At June 30, 2019	6,000,000	65,498,000	-	120,000	-	5,310,000	-	76,928,000
DEPRECIATION								
At July 1, 2018	-	12,411,000	-	108,000	-	3,394,000	-	15,913,000
Charge for the year	-	1,637,450	-	3,000	-	239,500	-	1,879,950
Impairment loss	-	-	-	-	-	-	-	-
Eliminated on disposal	-	-	-	-	-	-	-	-
At June 30, 2019	-	14,048,450	-	111,000	-	3,633,500	-	17,792,950
NET BOOK VALUE								
At June 30, 2019	6,000,000	51,449,550	-	9,000	-	1,676,500	-	59,135,050

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

[illegible]

[There were no working progress in the year]

**Annual Reports and Financial Statements
For the year ending June 30, 2020****NOTES TO THE FINANCIAL STATEMENTS (Continued)****13. INVENTORIES**

		2019-2020	2018-2019
		Ksh.	Ksh.
Food		6,583	5,227
Drink		17,716	36,305
Tobacco		922	2,154
Kitchen/restaurant and Bar		1,205	1,090
Stationery and general stores		9,320	8,760
Cleaning stock		1,390	380
Toilet Requisite		-	-
Containers		19,600	24,918
Guest Suppliers		-	-
Misc.electrical&Tools		450	-
		<u>57,186</u>	<u>78,834</u>

(. The inventor at the end of the year comprised
of foods, drinks and containers)

KABARNET HOTEL LIMITED**Annual Reports and Financial Statements****For the year ending June 30, 2020****NOTES TO THE FINANCIAL STATEMENTS (Continued)****14. TRADE RECEIVABLES**

	2019-2020	2018-2019
	Kshs.	Kshs.
Gross trade receivables	3,874,349	4,703,394.00
Provision for doubtful receivables	-	-
Staff advances	-	156,250.00
	3,874,349	4,859,644.00
	=====	=====
		-
At June 30, the ageing analysis of the gross trade receivables was as follows:		
Less than 30 days	-	365,666.00
Between 30 and 60 days	547,692	70,198.00
Between 61 and 90 days	36,000	4,570.00
Between 91 and 120 days	-	310,227.00
Over 120 days	3,290,657	3,952,733.00
	=====	=====
	3,874,349	4,703,394.00
	=====	=====

[These are unpaid bills but most of amount are over 120 days]

KABARNET HOTEL LIMITED**Annual Reports and Financial Statements****For the year ending June 30, 2020****15.BANK AND CASH BALANCES (Continued)**

The make – up of bank balances and short term deposits is as follows:

Detailed analysis of the cash and cash equivalents

		2019-2020	2018-2019
Financial institution	Account number	KShs.	KShs.
a) Current account			
Kenya Commercial bank	A/C NO 1103669338	427,833	3,672.00
Sub- total		427,833	3,672.00
b) On - call deposits			
Kenya Commercial bank		-	-
Equity Bank - etc		-	-
Sub- total		-	-
c) Fixed deposits account			
Kenya Commercial bank		-	-
Bank B		-	-
Sub- total		-	-
d) Others(specify)			
Cash in transit		-	-
cash in hand		36,212	54,379.00
M pesa		-	-
Sub- total		36,212	54,379.00
Grand total		464,045	58,051.00

16.ORDINARY SHARE CAPITAL

	2019-2020	2018-2019
	Kshs.	Kshs.
Authorised:		
250,000 ordinary shares of Kshs.2 par value each	5,000,000	5,000,000
	=====	=====
Issued and fully paid:		
250,000 ordinary shares of Kshs.20 par value each	5,000,000	5,000,000
	=====	=====

[The shares as at June 2018 isv the same as at June 2019-therewere no increase in shares]

NOTES TO THE FINANCIAL STATEMENTS (Continued)**17.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 net of related deferred tax to retained earnings. Revaluation surpluses are not distributable.

	2020 Ksh.	2019 Ksh.
Revaluation at the beginning of the year	66,793,000	66,793,000
There were no revaluation during the year.		

18..FAIR VALUE ADJUSTMENT RESERVE

The fair value adjustment reserve arises on the revaluation of available-for-sale financial assets, principally the marketable securities. When a financial asset is sold, the portion of the reserve that relates to that asset is reduced from the fair value adjustment reserve and is recognised in profit or loss. Where a financial asset is impaired, the portion of the reserve that relates to that asset is recognised in profit or loss.

19.RETAINED EARNINGS

The retained earnings represent amounts available for distribution to the *Kabarnet hotel* shareholders. Undistributed retained earnings are utilised to finance the *Kabarnet hotel* business activities.

The accumulated Retained Earnings (loss) is **ksh.111,588,413**

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20.(a)BORROWINGS

	2019-2020	2018-2019
Description	Kshs.	Kshs.
Balance at beginning of the year	73,776,883	73,776,883
External borrowings during the year	-	-
Domestic borrowings during the year	-	-
Repayments of external borrowings during the year	-	-
Repayments of domestics borrowings during the year	-	-
Exchange rate gains/(losses) on revaluation of borrowings	-	-
Balance at end of the year	73,776,883	73,776,883
Less: Amounts due with one year (current portion)	-	-
Amounts due after one year (non-current portion)	73,776,883	73,776,883

NOTES TO THE FINANCIAL STATEMENTS (Continued)**20. (b)BORROWINGS (Continued)**

The analyses of domestic borrowings are as follows:

	2019-2020	2018-2019
	Kshs.	Kshs.
External Borrowings		
Dollar denominated loan from 'A'	-	-
Sterling Pound denominated loan from 'B'	-	-
Euro denominated loan from 'C'	-	-
	-	-
Domestic Borrowings		
Kenya Shilling loan from KCB	-	-
Kenya Shilling loan from Tourism Finance corporation –advance	27,609,883	27,609,883
Kenya Shilling loan from Tourism finance corporation	46,167,000	46,167,000
Total balance at end of year	73,776,,883	73,776,883
	=====	=====

[LOAN Brought forward from TOURISM FINANCE CORPORATION]

21.DEFERRED TAX LIABILITY

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

KABARNET HOTEL LIMITED**Annual Reports and Financial Statements****For the year ending June 30, 2020***[Provide short appropriate explanations as necessary]***22. TRADE AND OTHER PAYABLES**

	2019-2020	2018-2019
	Kshs.	Kshs.
Trade payables	-	-
Accrued expenses	2,193,356	2,193,356
Retention/ contract monies	-	-
Other payables	25,506,003	19,824,137
	27,699,359	22,017,493
	=====	=====

*[These are trade creditors and Statutory deductions]***23. RETIREMENT BENEFIT OBLIGATIONS**

The entity does not operates a defined benefit scheme for the employees but they have retirement gratuity based on the number of years worked:

	2019-2020	2018-2019
	Kshs.	Kshs.
Valuation at the beginning of the year	-	-
Changes in valuation during the year	-	-
Valuation at end of the year	-	-
	=====	=====

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.200

24. PROVISION FOR LEAVE PAY

	2019-2020	2018-2019
	Kshs.	Kshs.
Balance at beginning of the year	145,600	151,200
Additional provision at end of year	-	-
Leave paid out or utilised during the year	-	-
Balance at end of the year	145,600	151,200
	=====	=====

Provision for annual leave pay is based on services rendered by full-time employees up to the end of the year.

NOTES TO THE FINANCIAL STATEMENTS (Continued)

25. NOTES TO THE STATEMENT OF CASH FLOWS

	2019-2020	2018-2019
	Kshs-'000"	Kshs-'000"
(a) Reconciliation of operating profit/(loss) to cash generated from/(used in) operations		
Operating profit/(loss)	(7,809,261)	(7,453,335)
Depreciation	1,849,263	1,879,950
Adjustment	(322,817)	-
Amortisation	-	-
(Gain)/loss on disposal of property, plant and equipment	-	-
Operating profit/(loss) before working capital changes	(6,282,815)	(5,573,385)
(Increase)/decrease in inventories	21,648	38,166
(Increase)/decrease in trade and other receivables	985,295	(195,644)
Increase/(decrease) in trade and other payables	5,681,866	5,488,914
Increase/(decrease) in retirement benefit obligations	-	-
Increase/(decrease) in provision for staff leave pay	-	-
Cash generated from/(used in) operations	405,994	(241,949)
(b) Analysis of changes in loans		
Balance at beginning of the year	46,167,538	46,167,000
Receipts during the year	-	-
Repayments during the year	-	-
Balance at end of the year	46,167,538	46,167,000
(c) Analysis of cash and cash equivalents		
Cash at bank	445,933	3,672
Cash in hand	36,212	54,379
Balance at end of the year	482,145	58,051

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NOTES TO THE FINANCIAL STATEMENTS (Continued)

26.RELATED PARTY DISCLOSURES

(a) Government of Kenya

The Government of Kenya through Tourism Finance corporation is the principal shareholder of Kabarnet HOTEL, holding 98.4% of the equity interest with the remaining 1.6% being held by kipngochoch Farm limited . The Government of Kenya has provided full guarantees to all long-term lenders of the entity, both domestic and external.

The were no other related party transaction involving the government of Kenya.

NOTES TO THE FINANCIAL STATEMENTS (Continued)

27.FINANCIAL RISK MANAGEMENT

The entity's activities expose it to a variety of financial risks including credit and liquidity risks and effects of changes in foreign currency. The company's overall risk management programme focuses on unpredictability of changes in the business environment and seeks to minimise the potential adverse effect of such risks on its performance by setting acceptable levels of risk. The company does not hedge any risks and has in place policies to ensure that credit is only extended to customers with an established credit history.

The company's financial risk management objectives and policies are detailed below:

(i) Credit risk

The entity has exposure to credit risk, which is the risk that a counterparty will be unable to pay amounts in full when due. Credit risk arises from cash and cash equivalents, and deposits with banks, as well as trade and other receivables and available-for-sale financial investments.

Management assesses the credit quality of each customer, taking into account its financial position, past experience and other factors. Individual risk limits are set based on internal or external assessment in accordance with limits set by the directors. The amounts presented in the statement of financial position are net of allowances for doubtful receivables, estimated by the company's management based on prior experience and their assessment of the current economic environment.

The carrying amount of financial assets recorded in the financial statements representing the entity's maximum exposure to credit risk without taking account of the value of any collateral obtained is made up as follows:

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NOTES TO THE FINANCIAL STATEMENTS (Continued)

27. FINANCIAL RISK MANAGEMENT (Continued)

ii) Liquidity risk management

Ultimate responsibility for liquidity risk management rests with the entity's directors, who have built an appropriate liquidity risk management framework for the management of the entity's short, medium and long-term funding and liquidity management requirements. The entity manages liquidity risk through continuous monitoring of forecasts and actual cash flows.

The table below represents cash flows payable by the company under non-derivative financial liabilities by their remaining contractual maturities at the reporting date. The amounts disclosed in the table are the contractual undiscounted cash flows. Balances due within 12 months equal their carrying balances, as the impact of discounting is not significant.

NOTES TO THE FINANCIAL STATEMENTS (Continued)

(iii) Market risk

The board has put in place an internal audit function to assist it in assessing the risk faced by the entity on an ongoing basis, evaluate and test the design and effectiveness of its internal accounting and operational controls.

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 exposures within acceptable parameters, while optimising the return. Overall responsibility for managing market risk rests with the Audit and Risk Management Committee.

The company's Finance Department is responsible for the development of detailed risk management policies (subject to review and approval by Audit and Risk Management Committee) and for the day to day implementation of those policies.

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

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For the year ending June 30, 2020

NOTES TO THE FINANCIAL STATEMENTS (Continued)

27. FINANCIAL RISK MANAGEMENT (Continued)

(iii) Market risk (Continued)

a) Foreign currency risk

The entity has transactional currency exposures. Such exposure arises through purchases of goods and services that are done in currencies other than the local currency. Invoices denominated in foreign currencies are paid after 30 days from the date of the invoice and conversion at the time of payment is done using the prevailing exchange rate.

The carrying amount of the entity's foreign currency denominated monetary assets and monetary liabilities at the end of the reporting period are as follows:

NOTES TO THE FINANCIAL STATEMENTS (Continued)

27. FINANCIAL RISK MANAGEMENT (Continued)

(iii) Market risk (Continued)

b) Foreign currency sensitivity analysis

The following table demonstrates the effect on the company's statement of comprehensive income on applying the sensitivity for a reasonable possible change in the exchange rate of the three main transaction currencies, with all other variables held constant. The reverse would also occur if the Kenya Shilling appreciated with all other variables held constant.

c) Interest rate risk

Interest rate risk 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.

Management of interest rate risk

To manage the interest rate risk, management has endeavoured to bank with institutions that offer favourable interest rates.

Sensitivity analysis

The entity analyses its interest rate exposure on a dynamic basis by conducting a sensitivity analysis. This involves determining the impact on profit or loss of defined rate shifts. The sensitivity analysis for interest rate risk assumes that all other variables, in particular foreign exchange rates, remain constant. The analysis has been performed on the same basis as the prior year

KABARNET HOTEL LIMITED

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For the year ending June 30, 2020

NOTES TO THE FINANCIAL STATEMENTS (Continued)

27.

There were no transfers between levels 1, 2 and 3 during the year.

a) Financial instruments not measured at fair value

Disclosures of fair values of financial instruments not measured at fair value have not been made because the carrying amounts are a reasonable approximation of their fair values.

28.INCOPORATION

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

29.EVENTS AFTER THE REPORTING PERIOD

There were no material adjusting and non- adjusting events after the reporting period.

30.CURRENCY

The financial statements are presented in Kenya Shillings (Kshs).

KABARNET HOTEL LIMITED

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For the year ending June 30, 2020

APPENDIX 1: PROGRESS ON FOLLOW UP OF AUDITOR RECOMMENDATIONS

The following is the summary of issues raised by the external auditor, and management comments that were provided to the auditor. We have nominated focal persons to resolve the various issues as shown below with the associated time frame within which we expect the issues to be resolved.

Reference No. on the external audit Report	Issue / Observations from Auditor	Management comments	Focal Point person to resolve the issue (Name and designation)	Status: (Resolved / Not Resolved)	Timeframe: (Put a date when you expect the issue to be resolved)
1.0-1-1.9	The Annual Report and Financial Statement not IRS Complaint	Corrected	Management	Resolved	
2.0-2.1-2.3	Inaccuracies in the Financial statements	Not Corrected	Management	Not Resolved	Within this financial year
3.00	Material Uncertainty to Going Concern	Not Corrected	Board/management	Not Resolved	Within this financial year
4.00	Long Outstanding Trade and other Receivables	Not corrected	management	Not Resolved	Within this financial year
5.00	Bank Balance	Corrected	management	Resolved	
	Other Matters				
1.0-1.1	Under-Collection of Revenue	Not Corrected	Management	Not Resolved	Within this financial year
1.2	Expenditure	Not Corrected	Board/management	Not Resolved	Within this financial year


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Guidance Notes:

- (i) Use the same reference numbers as contained in the external audit report;
- (ii) Obtain the "Issue/Observation" and "management comments", required above, from final external audit report that is signed by Management;
- (iii) Before approving the report, discuss the timeframe with the appointed Focal Point persons within your entity responsible for implementation of each issue;
- (iv) Indicate the status of "Resolved" or "Not Resolved" by the date of submitting this report to National Treasury.

for General Manager 

Date.. 26/10/2020

Chairman of the Board 

Date.. 26/10/2020

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APPENDIX II: PROJECTS IMPLEMENTED BY THE ENTITY

Projects

Projects implemented by the State Corporation/ SAGA Funded by development partners

Project title	Project Number	Donor	Period/ duration	Donor commitment	Separate donor reporting required as per the donor agreement (Yes/No)	Consolidated in these financial statements (Yes/No)
1						
2						

N/B

There were no projects during the year

Status of Projects completion

(Summarise the status of project completion at the end of each quarter, ie total costs incurred, stage which the project is etc)

	Project	Total project Cost	Total expended to date	Completion % to date	Budget	Actual	Sources of funds
1	No project						
2	No project done						
3							