

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

REPORT ON THE FINANCIAL STATEMENTS

Qualified Opinion

I have audited the accompanying financial statements of Golf Hotel Limited set out on pages 1 to 32, which comprise the statement of financial position as at 30 June 2017, and the statement of comprehensive income, statement of changes in equity, statement of cash flows and comparison of budget and actual amount for the year then ended, and a summary of significant accounting policies and other explanatory information in accordance with the provisions of Article 229 of the Constitution of Kenya and Section 35 of the Public Audit Act, 2015. I have obtained all the information and explanations which, to the best of my knowledge and belief, were necessary for the purpose of the audit.

In my opinion, except for the effect of the matters described in the Basis for Qualified Opinion section of my report, the financial statements present fairly, in all material respects, the financial position of Golf Hotel Limited as at 30 June 2017, and of its performance and its cash flows for the year then ended, in accordance with International Financial Reporting Standards and comply with the Companies Act, 2015 of the Laws of Kenya.

In addition, as required by Article 229(6) of the Constitution, based on the audit procedures performed, except for the matters described in the Basis of Qualified Opinion and Other Matter sections of my report, I confirm that nothing has come to my attention to cause me to believe that public money has not been applied lawfully and in an effective way.

Basis for Qualified Opinion

1. Property, Plant and Equipment

1.1. Acquisition of Motor Vehicle

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

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

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

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

1.3. Work-in-Progress

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

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

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

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

2. Short Term Deposit

During the previous year ended 30 June 2016, the management had invested Kshs.30,000,000 in the interest earning fixed deposit account with Kenya Commercial Bank. It was noted that the deposits earned the Hotel a total of Kshs.3,498,821 and Kshs.555,083 (1 July 2016 to 14 August 2016) as interest. After expiry of the contract at 14 August 2016, the Hotel management transferred Kshs.31,652,959 from the fixed

deposit account to Golf Hotel Ltd Foreign Currency (KCB current account) which does not earn any interest. The management failed to take immediate action to notify the Board of the expiry of the contract period so that immediate action could be taken to invest the amount appropriately to earn the Hotel some interest. It was until almost 13 months later that the Board was informed and in their meeting held on 8 September 2016 resolved that the remaining amount be invested in short term security bonds.

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

3. Irregular Charge on Golf Hotel Limited

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

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

3.1 Trade and Other Payables

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

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

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

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

4. Irregular Commutation of Leave for Cash

The administrative cost figure of Kshs.78,973,510 includes an amount of Kshs.47,825,358 which in turn includes Kshs.3,523,923 out of which Kshs.1,142,773 was payment to a former manager being commutation of leave for cash. The manager had accumulated his leave to a total of 112 days as confirmed from the leave register.

However, the payment was authorized by the manager himself after he had tendered his resignation without Board approval as required. Consequently, the propriety of the payment could not be confirmed.

The audit was conducted in accordance with International Standards of Supreme Audit Institutions (ISSAIs). I am independent of Golf Hotel Limited in accordance with ISSAI 30 on Code of Ethics. I have fulfilled other ethical responsibilities in accordance with the ISSAI and in accordance with other requirements applicable to performing audits of financial statements in Kenya. I believe that the evidence I have obtained is sufficient and appropriate to provide a basis for my qualified opinion.

Key Audit Matters

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

Other Matter

1. Failure to Adhere to Budget Preparation Guidelines

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

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

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

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

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

2. Non-resident General Manager

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

3. Transfer of Share Holding

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

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

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

In preparing the financial statements, management is responsible for assessing the Hotel's ability to continue as a going concern/sustain services, disclosing, as applicable, matters related to sustainability of services.

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

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

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

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

or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

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

- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for my opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances and for the purpose of giving an assurance on the effectiveness of the Hotel's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the management.
- Conclude on the appropriateness of the management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Hotel's ability to sustain its services. If I conclude that a material uncertainty exists, I am required to draw attention in the auditor's report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify my opinion. My conclusions are based on the audit evidence obtained up to the date of my audit report. However, future events or conditions may cause the Hotel to cease to sustain its services.
- Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.
- Obtain sufficient appropriate audit evidence regarding the financial information and business activities of the Hotel to express an opinion on the financial statements.
- Perform such other procedures as I consider necessary in the circumstances.

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

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

REPORT ON LEGAL AND OTHER REGULATORY REQUIREMENT

As required by the Companies Act, 2015 I report based on the audit, that:

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



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

Nairobi

28 June 2018