

# **REPORT OF THE AUDITOR-GENERAL ON MT ELGON LODGE LIMITED FOR THE YEAR ENDED 30 JUNE 2017**

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## **REPORT ON THE FINANCIAL STATEMENTS**

### **Disclaimer of Opinion**

I have audited the accompanying financial statements of Mt Elgon Lodge Limited set out on pages 14 to 33, which comprise the statement of financial position as at 30 June 2017, and the statement of profit or loss and other comprehensive income, statement of changes in equity, statement of cash flows and statement of comparison of budget and actual amounts for the year then ended, and a summary of significant accounting policies and other explanatory information in accordance with the provisions of Article 229 of the Constitution of Kenya and Section 35 of the Public Audit Act, 2015.

I do not express an opinion on the accompanying financial statements. Because of the significance of the matters described in the Basis for Disclaimer of Opinion section of my report, I have not been able to obtain sufficient appropriate audit evidence to provide a basis for an audit opinion on these financial statements.

In addition, as required by Article 229(6) of the Constitution, based on the procedures performed, I have not been able to obtain sufficient appropriate audit evidence to confirm that public money has been applied lawfully and in an effective way.

### **Basis for Disclaimer of Opinion**

#### **1.0 Presentation of Financial Statements**

##### **1.1 Flow of Financial Statements**

The financial statements submitted for audit starts with the statement of financial position followed by statement of profit or loss and other comprehensive income contrary to the reporting format prescribed by the Public Sector Accounting Standards Board (PSASB) for state corporations reporting under International Financial Reporting Standards (IFRS) which requires that the financial statements starts with statement of comprehensive income. The financial statements have also been signed by the chairman and a director but excluded the head of finance who should also indicate his/her ICPAK membership number as required by the Public Sector Accounting Standards Board.

In addition, the list of directors on page 2 do not indicate the dates when they were appointed.

Consequently, the financial statements are not in line with the Public Sector Accounting Standards Board (PSASB).

##### **1.2 Errors in numbering the pages of the Financial Statements**

The table of contents on page 1 of the financial statements is not correctly presented as it does not indicate that the explanatory notes are on pages 28-33 to the financial statements. Also the summary of significant accounting policies are indicated in the table of contents as starting from page 22-32 instead of pages 23-27. Further the financial statements are not numbered consistently as page 12 is omitted and the explanatory notes are not numbered consistently in that notes 17, 18 and 19 on page 31 are also repeated on page 33. The numbering of notes is also not done sequentially such that note 4 in the statement of profit or loss and other comprehensive income is followed by note 3 while Note 10 to the statement of financial position is followed by note 8(c).

### 1.3 Discrepancies in the Financial Statements

The statement of financial position, statement of profit and loss and other comprehensive income and notes to the financial statements presented for audit review contained discrepancies as indicated below:

Note	Statement Financial position /Statement Comprehensive Income	Note	Notes to the Financial Statement
Note 2	TFC payroll support Kshs.0.00	2	Cost of sales Kshs.433,503
Note 3	Cost of sales Kshs.4,338,503	3	TFC payroll support Kshs.0.00
Note 5	Property, plant and equipment		Not included in the notes
Note 6	Not indicated	6	Property, Plant and Equipment
Note 7	Inventories Kshs.17,697		Not included in the notes
Note 8a	Trade and other receivables Kshs.1,825,819		Not included in the notes
Note 8c	Staff Receivable Kshs.468,717		Not included in the notes
Note 10	Bank and cash balance Kshs.691		Ordinary share capital
Note 13	Retained Earnings (Kshs.32,489,045)		Movement in Retained Earnings not included in the notes
Note 14	Current liabilities	14	Trade and other payables
Note 16	Not included in financial statement	16	Leave pay Kshs.19,800

Note 2	Cost of sales Kshs.4,338,503	Note 2	Cost of sales Kshs.433,503
Note 5(a)	Administration cost Kshs.3,367,198	Note 5(a)	Administration cost Kshs.3,459,599

Further, the administration costs in note 5(a) is indicated as Kshs.3,367,198 which is at variance with the computed figure of Kshs.3,459,198 resulting to a variance of Kshs.92,000 which has not been explained or reconciled. Also computation of staff costs in note 5(b) gives a total of Kshs.3,090,544 instead of the reported figure of Kshs.2,998,144 resulting in a variance of Kshs.92,400 which has not been explained or reconciled.

Consequently, the financial statements as presented have not complied with the accounting framework as prescribed by the Public Sector Accounting Standards Board (PSASB).

#### 1.4 Variances between Financial Statement Figures and Supporting Schedules

The financial statements availed for audit review contained variances with the respective supporting schedules as detailed below:

Item	Amount as Per Financial Statements (Kshs.)	Amount as Per Supporting Schedules (Kshs.)	Variance (Kshs.)
Cost of sales	4,338,503	439,095	3,899,408
Staff costs (note 5b)	2,998,144	3,090,544	(92,400)
Depreciation of property, plant and equipment	684,788	685,960	(1,172)
Property, plant and equipment	48,557,171	48,560,999	(3,828)
Staff Receivable	468,717	452,021	16,696
Borrowings from TFC	2,596,370	2,444,006.85	152,363.15
Trade and payables	10,522,345	11,227,912	(705,567)
Staff payables	5,647,563	5,625,762	21,801
<b>Total</b>	<b>75,813,601</b>	<b>72,526,300</b>	<b>3,287,301</b>

#### 1.5 Cost of Sales

The statement of profit or loss and other comprehensive income reflects cost of sales figure of Kshs.433,503 for the year ended 30 June 2017 which relates to purchases made during the year and does not therefore take into account the opening stock of

*Report of the Auditor-General on the Financial Statements of Mount Elgon Lodge Limited for the year ended 30 June 2017*

Kshs.23,289 as at 1 July 2016 and closing stock of Kshs.17,697 as at 30 June 2017. The cost of sales have therefore been understated by Kshs.5,592.

In the circumstances it has not been possible to ascertain the validity, accuracy and completeness of the figures presented in the financial statements for the year ended 30 June 2017.

## **2.0 Going Concern**

The statement of profit or loss and other comprehensive income for the year ended 30 June 2017 reflects net loss of Kshs.2,983,236 (2015/2016 - Kshs.1,850,336) resulting to accumulated losses of Kshs.32,489,045 as at 30 June 2017. Further, the total current liabilities of Kshs.25,846,285 exceeds the total current assets of Kshs.2,312,924 resulting to negative working capital of Kshs.23,533,361. As reported in the previous year, the Company is technically insolvent and the existence of the Lodge as a going concern is depended on continued support from the main shareholders. Tourism Finance Corporation (TFC) who however, withdrew monthly financial support towards staff salaries with effect from May 2016 and creditors.

## **3.0 Property, Plant and Equipment**

### **3.1 Assets Movement Schedule**

The statement of financial position as at 30 June 2017 reflects property, plant and equipment balance of Kshs.48,557,171 which include plant and machinery amounting to Kshs.78,901 and office equipment, furniture and fittings amounting to Kshs.177,900 as per assets movement schedule while the assets register shows these assets are fully depreciated. The assets movements schedule, further reflects office equipment, furniture and fittings additions during the year amounting to Kshs.5,000 whose details and supporting documents were not availed for audit verification.

In addition, the fixed assets movement schedule does not indicate the comparative figures for the year ended 30 June 2016 contrary to paragraph 53 of the International Accounting Standards (IAS) 1.

Consequently, the accuracy and completeness of the property, plant and equipment balance of Kshs.48,557,171 as at 30 June 2017 could not be confirmed.

### **3.2 Fixed Assets Register**

A review of the fixed assets register revealed that the values of the various categories of assets are not provided in the register but instead it only indicates a single value based on the valuation said to have been undertaken in the financial year ended 30 June 2010. However, the details of the valuation report was not been availed for audit review. Consequently, the accuracy of the property, plant and equipment balance of Kshs.48,557,171 as at 30 June 2017 cannot be confirmed.

### **3.3 Land**

Note 6 to the financial statements on property, plant and equipment reflects net assets figure of Kshs.48,557,171 which include freehold land valued at Kshs.23,000,000 as at 30 June 2017. However, the freehold title deed was not availed for audit verification.

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*Report of the Auditor-General on the Financial Statements of Mount Elgon Lodge Limited for the year ended 30 June 2017*

Consequently, the ownership of the land valued at Kshs.23,000,000 as at 30 June 2017 could not be confirmed.

### **3.4 Plant and Machinery**

The property, plant and equipment balance of Kshs.48,557,171 as at 30 June 2017 include plant and machinery with a net book value of Kshs.78,901 in respect of a generator set which was not operational as at the time of audit due to what was said to be lack of a motor taken for repair during 2012/2013 financial year and which has never been returned. However, as in reported in the previous years, there was no record to show when the motor was taken for repair, to which firm and for how much. There was also no evidence that the management was making efforts to get back the motor so that the generator can be operational. Consequently, the accuracy of the property, plant and equipment figure of Kshs.48,557,171 as at 30 June 2017 could not be confirmed.

### **4.0 Inventories**

The statement of financial position reflects inventories amount of Kshs.17,697 as at 30 June 2017. However, inventories records such as stock ledger cards, physical inventory count sheets and valuation records were not availed for audit review. Consequently, the accuracy and validity of the inventories balance of Kshs.17,697 as at 30 June 2017 could not be confirmed.

### **5.0 Trade and Other Receivables**

#### **5.1 Long Outstanding Debts**

The statement of financial position reflects trade and other receivables balance of Kshs.1,825,819 as at 30 June 2017 all of which have been outstanding for over 7 years. However, the management has not indicated the measures being taken to recover these long outstanding debts. Further, no provision for bad debts has been made in the financial statements in respect of these debts whose recoverability remains in doubt. Consequently, the validity, accuracy and recoverability of the trade and other receivables balance of Kshs.1,825,819 as at 30 June 2017 could not be confirmed.

#### **5.2 Staff Receivables**

The statement of financial position as at 30 June 2017 reflects staff receivables balance of Kshs.468,717 which is an increase of Kshs.16,696 as compared to an amount of Kshs.452,021 as at 30 June 2016. The previous year balance of Kshs.452,021, is indicated as owed by a former manager of the Lodge. However, no record was availed to show the details of the increase of Kshs.16,696 including the registers. Consequently, the validity, accuracy and recoverability of the staff receivables balance of Kshs.468,717 could not be confirmed as at 30 June 2017.

### **6.0 Bank and Cash Balance**

The statement of financial position reflects bank and cash balance of Kshs.691 as at 30 June 2017 which comprise of cash in hand amount of Kshs.13,940 and bank overdraft

balance of Kshs.13,248. However, the bank statements, bank reconciliation statements and certificate of bank balance as at 30 June 2017 were not availed for audit review. Although it was explained that the Lodge's bank account No.1105159779 maintained at Kenya Commercial Bank was closed in April 2016, no documentary evidence was availed to support the closure of the bank account and how the balance on the account was accounted for. Consequently, the accuracy, validity and existence of the cash and bank balance of Kshs.691 as at 30 June 2017 could not be confirmed.

## **7.0 Borrowing From Tourism Finance Corporation (TFC)**

The statement of financial position reflects borrowing from Tourism Finance Corporation (TFC) figure of Kshs.2,596,370 as at 30 June 2017 while records maintained by TFC reflects loan balance of Kshs.2,444,006.85 which has been outstanding since 31 March 2011 and therefore resulting in a variance of Kshs.152,363.15 and which the management has not been explained or reconciled. Consequently, the accuracy of the borrowing from TFC figure of Kshs.2,596,370 as at 30 June 2017 could not be confirmed.

## **8.0 Trade and Other Payables**

### **8.1 Unsupported Balances**

The statement of financial position as at 30 June 2017 reflects trade and other payables figure of Kshs.10,522,345 which is at variance with the supporting schedules figure of Kshs.11,227,912 resulting in a variance of Kshs.705,567 and which the management has not been explained or reconciled.

### **8.2 Unremitted Statutory Deductions**

Records availed for audit further indicates that the trade and other payables include statutory deductions balance of Kshs.8,626,876 as at 30 June 2017 which in turn includes an amount Kshs.7,891,487 brought forward from 2015/2016 and previous financial years and the management has not provided any reason for not remitting the deductions amounting to Kshs.8,626,876 to the relevant institutions. The management has not provided in these financial statements provisions for possible penalties and interests in relation to none compliance with the law.

Consequently the accuracy, validity and completeness of the trade and other payables figure of Kshs.10,522,345 as at 30 June 2017 could not be confirmed.

### **8.3 Secretarial Fees Payable**

The trade and other payables figure of Kshs.10,522,345 as at 30 June 2017 also include an amount of Kshs.230,000 brought forward from 2012/2013 financial year in form of accrued secretarial fees payable to TFC (formerly KTDC) for offering secretarial services to the Lodge. However, as reported in the previous years the agreement between the Lodge and the KTDC creating the obligation was not availed for audit review. Consequently, the accuracy and validity of the fees payable of Kshs.230,000 as at 30 June 2017 could not be confirmed.

## **8.4 Outstanding Audit Fees**

The trade and other payables figure of Kshs.10,522,345 as at 30 June 2017 further includes outstanding audit fee of Kshs.1,729,891 payable to the Office of the Auditor-General for audit services rendered, out of which an amount of Kshs.1,397,104 relates to 2015/16 and previous years while Kshs.332,787 relates to the year ended 30 June 2017 . As reported in the previous years, the Lodge has not indicated how it intends to clear the outstanding audit fees. Consequently, the management is in breach of the law.

## **8.5 Other Trade Creditors**

The trade and other payables figure of Kshs.10,522,345 also include trade creditors balance of Kshs.641,145 as at 30 June 2017 out of which Kshs.585,444 relate to 2015/2016 and previous financial years. In addition, the trade creditors balance of Kshs.641,145 includes sundry creditors amounting to Kshs.113,000 whose analysis was not availed for audit review and the management has not indicated how the Lodge intends to clear these long outstanding liabilities. Consequently, the accuracy of the sundry creditors amounting to Kshs.113,000 as at 30 June 2017 could not be confirmed.

## **8.6 Staff Payables**

The statement of financial position as at 30 June 2017 reflects staff payables balance of Kshs.5,647,563 which is an increase of Kshs.2,614,552 as compared to the balance of Kshs.3,033,011 as at 30 June 2016. However, the staff payables have continued to accrue and management appear not to be making any efforts to clear the arrears.

Consequently, the management is in breach of the labour laws.

## **9.0 Advances from Tourism Finance Corporation (TFC)**

The statement of financial position as at 30 June 2017 also reflects advances from Tourism Finance Corporation (TFC) figure of Kshs.9,466,377 brought forward from 2013/2014 financial year in form of payroll support. However, as reported in the previous years, no details have been provided to explain the terms and conditions pertaining to these advances. Consequently, the accuracy of the TFC advances balance of Kshs.9,466,377 as at 30 June 2017 could not be confirmed.

## **10.0 Failure to File Annual Company Returns**

Mt. Elgon Lodge Ltd was registered under the Companies Act, Cap 486 of the Laws of Kenya on 28 May 1976 and was expected to file company annual returns every month of May. However, there was no evidence that the Lodge had filed annual returns with the Registrar of Companies as at the time of audit in February 2018 as required by law. Consequently, the management is in breach of the law and the Lodge risks being deregistered.

## **11.0 Budgetary Control and Performance**

### **11.1 Approved Budget**

The statement of profit or loss and other comprehensive income for the year ended 30 June 2017 reflects operating expenses figure of Kshs.4,144,387. However, the management of the Lodge did not avail for audit review an approved budget for the financial year ended 30 June 2017. This is contrary to Section 11(2) of the State Corporations Act, Cap 446 of the Laws of Kenya which states that no annual estimates and proposals for funding projects shall be implemented until they have been approved by the Minister with concurrence of the Treasury. Consequently, the management is in breach of the law.

## **11.2 Budget Performance**

Mt. Elgon Lodge Limited had revenue budget of Kshs.8,637,614 for the year ended 30 June 2017 and realised revenue collection of Kshs.1,594,614. This resulted to under performance of Kshs.7,043,000 or approximately 82% of the budgeted revenues. The underperformance in revenue is an indication of ineffective or inadequate revenue collection controls by management. Consequently, the Lodge may experience cash flow problems and its continued operation as a going concern is threatened.

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

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

In preparing the financial statements, management is responsible for assessing the Lodge'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 the management either intends to liquidate the Lodge or to cease operations, or have no realistic alternative but to do so.

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

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

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

My responsibility is to conduct an audit of the Lodge's financial statements in accordance with International Standards of Supreme Audit Institutions (ISSAIs) 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. However, because of the matter described in the Basis for Disclaimer of Opinion section of my report, I was not able to obtain sufficient appropriate audit evidence to provide a basis for an audit opinion on these financial statements.



I am independent of Mt Elgon Lodge in accordance with ISSAI 30 on Code of Ethics. I have fulfilled other ethical responsibilities in accordance with the ISSAI and in accordance with other ethical requirements applicable to performing audits of financial statements in Kenya.



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

**Nairobi**

**16 May 2018**