REPUBLIC OF KENYA

REPUBLIC OF KENYA

OFFICE OF THE AUDITOR-GENERAL

Enhancing Accountability

REPORT

OF

THE AUDITOR-GENERAL

ON

MT. ELGON LODGE LIMITED

FOR THE YEAR ENDED 30 JUNE, 2025

REPUBLIC OF KENYA

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

REPUBLIC OF KENYA

OAG
OFFICE OF THE AUDITOR-GENERAL
Enhancing Accountability

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

REPORT OF THE AUDITOR-GENERAL ON MT. ELGON LODGE LIMITED FOR THE YEAR ENDED 30 JUNE, 2025

PREAMBLE

I draw your attention to the contents of my report which is in three parts:

A. Report on Financial Statements that considers whether the financial statements are fairly presented in accordance with the applicable financial reporting framework, accounting standards and the relevant laws and regulations that have a direct effect on the financial statements.

B. Report on Lawfulness and Effectiveness in the Use of Public Resources which considers compliance with applicable laws, regulations, policies, gazette notices, circulars, guidelines and manuals and whether public resources are applied in a prudent, efficient, economic, transparent and accountable manner to ensure the Government achieves value for money and that such funds are applied for the intended purpose.

C. Report on Effectiveness of Internal Controls, Risk Management and Governance which considers how the entity has instituted checks and balances to guide internal operations. This responds to the effectiveness of the governance structure, risk management environment and internal controls, developed and implemented by those charged with governance for orderly, efficient and effective operations of the entity.

A Qualified Opinion is issued when the Auditor-General concludes that, except for material misstatements noted, the financial statements are fairly presented in accordance with the applicable financial reporting framework. The Report on Financial Statements should be read together with the Report on Lawfulness and Effectiveness in the Use of Public Resources, and the Report on Effectiveness of Internal Controls, Risk Management and Governance.

The three parts of the report are aimed at addressing the statutory roles and responsibilities of the Auditor-General as provided by Article 229 of the Constitution, the Public Finance Management Act, 2012, and the Public Audit Act, 2015. The three parts of the report when read together constitute the report of the Auditor-General.

REPORT ON THE FINANCIAL STATEMENTS

Qualified Opinion

I have audited the accompanying financial statements of Mt. Elgon Lodge Limited set out on pages 1 to 27, which comprise of the statement of financial position as at

30 June, 2025 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 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 Mt. Elgon Lodge Limited as at 30 June, 2025 and of its financial performance and its cash flows for the year then ended, in accordance with International Financial Reporting Standards and comply with the Public Finance Management Act, 2012 and the Companies Act, 2015.

Basis for Qualified Opinion

1. Unsupported Work in Progress Balance

The statement of financial position and Note 18 to the financial statements reflect a balance of Kshs.57,148,908 in respect of property, plant and equipment. Included in the balance is Kshs.13,997,583 reflected as capital work in progress for the year. However, the balance was not supported by detailed asset register, partial completion certificates and assets addition schedules.

In the circumstances, the accuracy and completeness of capital work in progress balance of Kshs.13,997,583 could not be confirmed.

2. Unsupported Ordinary Share Capital

The statement of financial position reflects a balance of Kshs.1,845,780 in respect of ordinary share capital which, as disclosed in Note 22 to the financial statements, is made up of 92,289 ordinary shares of Kshs.20 each. However, 25,000 shares were not supported by share certificates.

In the circumstances, the accuracy, completeness, rights and obligations of the ordinary share capital balance of Kshs.500,000 as at 30 June, 2025 could not be confirmed.

3. Unsupported Borrowings

The statement of financial position reflects a balance of Kshs.26,590,477 in respect of borrowings as disclosed in Note 25 to the financial statements. The balance includes balance of Kshs.3,527,222 relating to KDC salary loan, Kshs.9,466,377 relating to KDC salary payments loan 2, KDC refurbishment loan Kshs. 9,931,256, KDC salary loan Kshs.456,827 and KDC accrued interest on refurbishment loan Kshs.3,208,795. However, the accrued interest workings, loan agreements and other supporting documents for the loans were not provided for audit review.

In the circumstances, the accuracy and completeness of the borrowings balance of Kshs.26,590,477 could not be confirmed.

4. Unsupported Provisions Balance

The statement of financial position and Note 26(c) to the financial statements reflect a balance of Kshs.1,941,038 in respect of provision for bad and doubtful debts for the year ended 30 June, 2025. However, the balance was not supported by schedules and provisions policy.

In the circumstances, the accuracy and completeness of the provisions balance of Kshs.1,941,038 could not be confirmed.

The audit was conducted in accordance with International Standards of Supreme Audit Institutions (ISSAIs). I am independent of the Mt. Elgon Lodge Limited Management in accordance with ISSAI 130 on the Code of Ethics. I have fulfilled other ethical responsibilities in accordance with the ISSAI and in accordance with other ethical requirements applicable to performing audits of financial statements in Kenya. I believe that the audit evidence I have obtained is sufficient and appropriate to provide a basis for my qualified opinion.

Emphasis of Matter

Material Uncertainty Relating to Going Concern

The Company reported a loss after taxation of Kshs.156,116 (2023/2024: Kshs.3,786,606). The accumulated losses depleted retained earnings from Kshs.(49,988,135) in 2023/2024 to Kshs.(50,211,158) in the year under review. Further, the Company reported Nil sales income for the last five (5) years in a row. In addition, the statement of financial position reflects current liabilities amounting to Kshs.28,023,118 while current assets amounted to Kshs.2,170,014 resulting to a negative working capital of Kshs.25,853,103. The Company was, therefore, unable to meet its financial obligations as and when they fall due.

In the circumstances, the Company is technically insolvent and its continued operations as a going concern will depend on the support from the Government, donors, creditors, and completion of privatization process by the Kenya Development Corporation as disclosed in Note 33 to the financial statements.

My opinion is not modified in respect of this matter.

Key Audit Matters

Key audit matters are those matters that, in my professional judgement, are of most significance in the audit of the financial statements. Except for the effects of the matters described in the Basis for Qualified Opinion and Material Uncertainty Relating to Going Concern sections, I have determined that there are no other key audit matters to communicate in my report.

Other Matter

Unresolved Prior Year Matters

In the previous year audit, issues were raised under the Report on the Financial Statements and Report on Lawfulness and Effectiveness in Use of Public Resources as detailed in **Appendix I.** However, Management has not resolved the issues or given any explanation for the delay in resolving the issues.

Other Information

Management is responsible for the Other Information set out on page iii to xv which comprise of Key Lodge Information and Management, Board of Directors, Key Management Team, Chairperson's Statement, Report of the Chief Executive Officer, Statement of Performance Against Predetermined Objectives, Corporate Governance Statement, Management Discussion and Analysis, Environmental and Sustainability Reporting, Report of the Directors and Statement of Directors Responsibilities. The Other Information does not include the financial statements and my audit report thereon.

In connection with my audit on the Lodge's financial statements, my responsibility is to read the Other Information and in doing so, consider whether the Other Information is materially inconsistent with the financial statements or my knowledge obtained in the audit or otherwise appears to be materially misstated. If based on the work I have performed, I conclude that there is a material misstatement of this Other Information, I am required to report that fact. I have nothing to report in this regard.

My opinion on the financial statements does not cover the Other Information and accordingly, I do not express an audit opinion or any form of assurance conclusion thereon.

REPORT ON LAWFULNESS AND EFFECTIVENESS IN THE USE OF PUBLIC RESOURCES

Conclusion

As required by Article 229(6) of the Constitution, based on the audit procedures performed, except for the effect of the matters described in the Basis for Conclusion on Lawfulness and Effectiveness in the 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. Failure to Insure Lodge's Assets

The statement of financial position for the year ended 30 June, 2025 reflects property, plant and equipment valued at Kshs.57,148,908. However, the Lodge had not insured its assets contrary to Paragraph 91 (1) of the National Treasury Guidelines on Asset and Liability Management in the Public Sector, March 2020.

In the circumstances, Management was in breach of the law.

2. Stalled Project and Non-existing Contract

The statement of financial position and Note 26(b) to the financial statements shows contingency-fencing liability balance of Kshs.1,796,740 in relation to tender No. MTEL/07/2017/2018 awarded to a local contractor for supply of fencing materials and fencing works at a total contract sum of Kshs.3,349,120 with certified works estimated at 51%. However, audit inspection carried out on 11 July, 2025 revealed that the project had stalled due to non-payment to the contractor of the amount certified and signed contract for the works was not provided for audit review.

In the circumstances, the validity and accuracy of contingent liability of Kshs.1,796,740 could not be confirmed.

3. Non-Remittance of Statutory Deductions

The statement of financial position and Note 26 to the financial statements show trade and other payables balance of Kshs.24,285,340. The balance includes statutory deductions of Kshs.2,267,717 and Kshs.7,634,980 for the National Social Security Fund (NSSF) and the Kenya Revenue Authority (KRA), respectively including interest and penalties from previous financial years that had remained unremitted. No explanation was provided for failure to remit statutory deductions as required.

This was contrary to Regulation 23 (2)(a) of the Public Finance Management (National Government) Regulations, 2015, which provides that in addition to the responsibilities of Accounting Officers provided in the Act, an Accounting Officer designated under the Constitution, the Act or any other Act, shall comply with any tax, levy, duty, pension, commitments as may be provided for in the legislation.

In the circumstances, Management was in breach of the law.

4. Lack of Internal Audit Reports

The Management did not provide internal audit reports for audit review. This was contrary to Section 73(1) of the Public Finance Management Act, 2012 which states that every National Government entity shall ensure that it complies with this Act and has appropriate arrangements in place for conducting internal audit according to the guidelines of the Accounting Standards Board.

In the circumstances, Management was in breach of the law.

The audit was conducted in accordance with ISSAI 3000 and ISSAI 4000. The standards require 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 comply 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, I confirm that nothing has come to my attention to cause me to believe that internal controls, risk management and governance were not effective.

Basis for Conclusion

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 controls, 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

Conclusion

As required by the Companies Act, 2015, I report, based on my audit, that except for the matters described in the Basis for Qualified Opinion, I confirm 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. Information given in the Directors' report on pages xiv is consistent with the financial statements; and

iii. The auditable part of the Directors' remuneration report on page 16 has been properly prepared in accordance with the Companies Act, 2015.

Basis for Conclusion

The Companies Act, 2015 requires that I report on the legal or regulatory requirements, or on performance information disclosed. These matters require expressing a separate opinion as to the Company's compliance with laws and regulations. I believe that the audit evidence I have obtained is sufficient and appropriate to provide a basis for my conclusion.

Responsibilities of the Management and 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 controls 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 controls, risk management and governance.

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 Management is aware of the intention liquidate the Lodge or to cease its 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 comply 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 Lodge's financial reporting process, reviewing the effectiveness of how Management monitors compliance with relevant legislative and regulatory requirements, ensuring that effective processes and systems are in place to address key roles and responsibilities in relation to governance and risk management, and ensuring the adequacy and effectiveness of the control environment.

Auditor-General's Responsibilities for the Audit

My responsibility is to conduct an audit of the financial statements in accordance with Article 229(4) of the Constitution, Section 35 of the Public Audit Act, 2015 and the International Standards of Supreme Audit Institutions (ISSAIs). The standards require that, in conducting the audit, I obtain reasonable assurance about whether the financial statements as a whole are free from material misstatements, whether due to fraud or error and to issue an auditor's report that includes my opinion in accordance with Section 48 of the Public Audit Act, 2015. Reasonable assurance is a high level of assurance but is not a guarantee that an audit conducted in accordance with ISSAIs will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

In conducting the audit, Article 229(6) of the Constitution also requires that I express a conclusion on whether or not 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 addition, I consider the entity's control environment in order to give an assurance on the effectiveness of internal controls, risk management and governance processes and systems in accordance with the provisions of Section 7(1)(a) of the Public Audit Act, 2015.

Further, I am required to submit the audit report in accordance with Article 229(7) of the Constitution.

Detailed description of my responsibilities for the audit is located at the Office of the Auditor-General's website at: https://www.oagkenya.go.ke/auditor-generals-responsibilities-for-audit/. This description forms part of my auditor's report.

FCPA Nancy Gathungu, CBS
AUDITOR-GENERAL

Nairobi

12 November, 2025

Appendix I

Unresolved Prior Year Matters

Reference No. of the Auditor-General's Report	Observation
	Report on the Financial Statements
1	Anomalies in the Annual Report and Financial Statements
2	Unsupported Ordinary Share Capital
3	Long Outstanding Trade and Other Receivables
4	Unsupported Borrowings
5	Unsupported Trade and Other Payables
6	Unexplained Payment of Management Fee to Golf Hotel Limited
	Emphasis of Matter
	Material Uncertainty Relating to Going Concern
	Other Matter
	Unresolved Prior Year Matters
	Report on Lawfulness and Effectiveness in Use of Resources
	Lack of Approved Budget