

REPUBLIC OF KENYA



OFFICE OF THE AUDITOR-GENERAL

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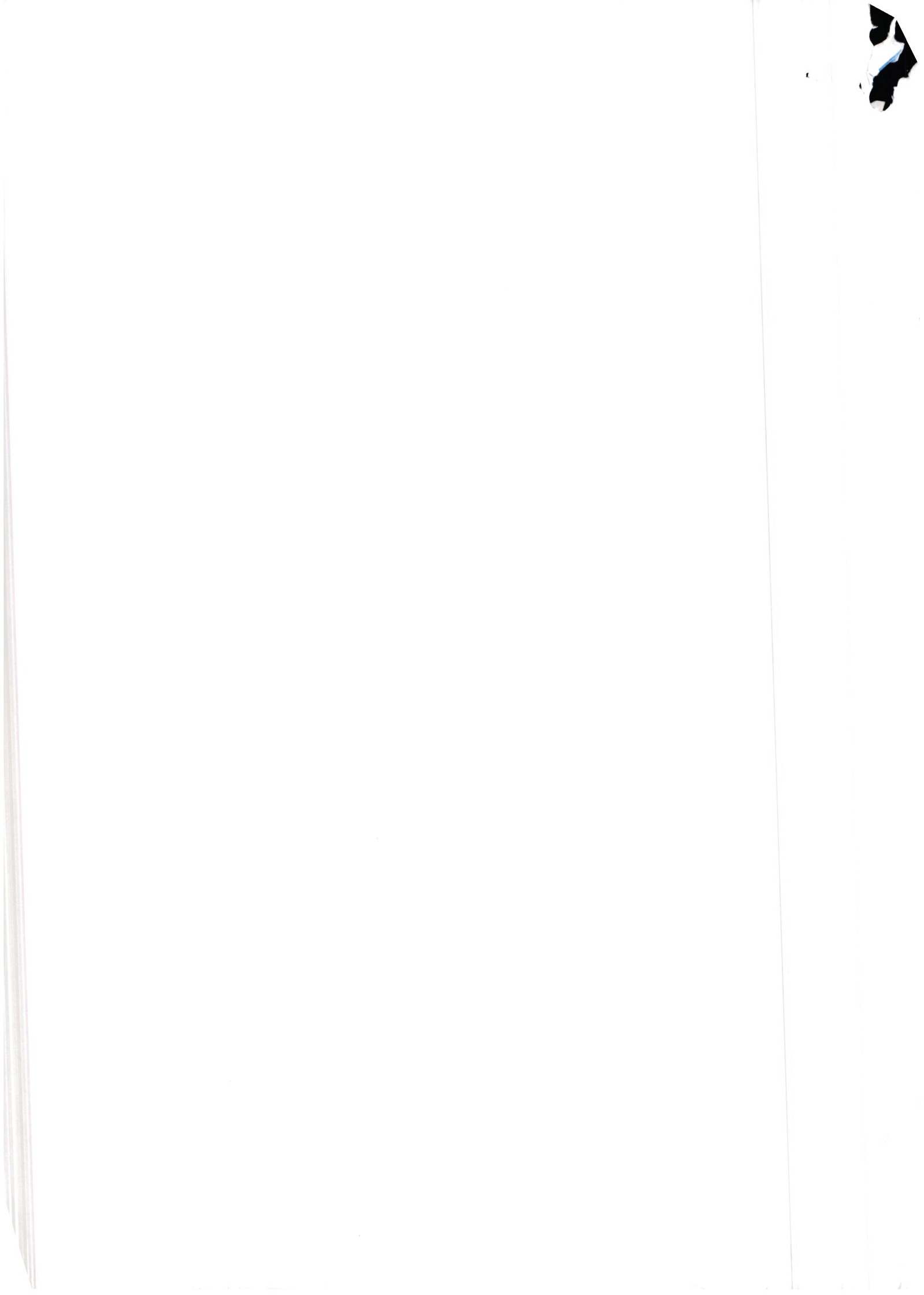
OF

THE AUDITOR-GENERAL

ON

THE FINANCIAL STATEMENTS OF
MT ELGON LODGE LIMITED

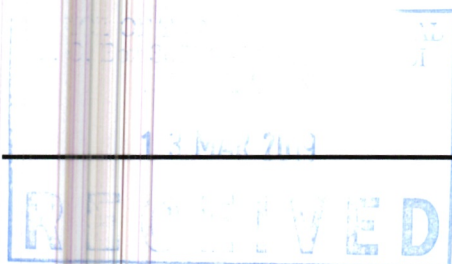
FOR THE YEAR
ENDED 30 JUNE 2018





**IFRS-Based
Financial Reporting Template for**

National Government Entities using IFRS



MT ELGON LODGE LIMITED

REPORTS AND FINANCIAL STATEMENTS

FOR THE FINANCIAL YEAR ENDED

30 JUNE 2018

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

MT ELGON LODGE LTD

**Reports and Financial Statements
For the year ended 30 June 2018**

CONTENTS	PAGE
Key Entity Information	ii-iii
Board of Directors	iv-vi
Management Team	vii
Chairman's Statement	viii-ix
Report of the Manager	x
Corporate Governance Statement	xi
Management Discussion & Analysis	xii-xiii
Corporate Social Responsibility	xiv
Report of the Directors	xv
Statement of Directors' Responsibilities	xvi
Report of the Auditor General	xvii
Statement of Comprehensive Income	1
Statement of Financial Position	2-3
Statement of Changes in Equity	4
Statement of Cash Flows	5
Budget Comparison	6-7
Summary of Significant Accounting Policies	8-24
Notes to Financial Statements	25-33
Progress on Follow up on Auditors Recommendations	34-35
Appreviations	36

MT ELGON LODGE LIMITED Reports and Financial Statements
For the year ended 30 June 2018

KEY ENTITY INFORMATION

Background Information

Mt. Elgon Lodge Limited was incorporated under the Kenya Companies Act (Cap 486) in 1974. The shareholders of Mt. Elgon Lodge are Tourism Finance Corporation (TFC, formerly Kenya Tourist Development Corporation (KTDC)) and Trans-Nzoia County (formerly Kitale Municipal Council and Nzoia County Council). Tourism Finance Corporation is the majority shareholder in MEL with a direct controlling stake of 72.91% shares with Trans-Nzoia County shareholding of 27.09%. From the management perspective, Mt. Elgon Lodge is classified as a Commercial State Corporation by virtue of being a subsidiary of TFC. The shareholders through the Directors are responsible for the general policy and strategic direction of the Lodge.

Principal Activities

The principal activity of the Mt. Elgon Lodge Limited is ownership and operation of the lodge facility mainly focusing on provision of accommodation and conference facility services to potential customers.

Directors

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

- | | | |
|----|----------------------|----------------------------------------|
| 1. | Ms Edith Alusa | Chair Person |
| 2. | Ms Fatuma Mohammed | Director – PS Ministry of Tourism |
| 3. | Hon. Patrick Khaemba | Director – Governor Trans Nzoia County |
| 4. | Mr. John Orumoi | Director |
| 5. | Pauline Rwamba | Director |

Corporate Secretary

Tourism Finance Corporation
Utalii House, 11th Floor
P.O. Box 42013-00100
Nairobi
Email: info@tourismfinanace.go.ke

Registered Office

Mt. Elgon Lodge Limited.
Mt. Elgon National Park
P.O. Box 7, ENDEBESS
KENYA

Corporate Headquarters



MT ELGON LODGE LIMITED Reports and Financial Statements
For the year ended 30 June 2018

11th Floor, Utalii House Building, Uhuru Highway
P.O. Box 42013 – 00100 GP Nairobi,
KENYA

Corporate Contacts

Telephone: (254) 722471992
E-mail: mtelgonlodge@yahoo.com
mtelgonlodge@gmail.com

Corporate Bankers

Kenya Commercial Bank
Kitale Branch
P.O BOX 1974-30200
KITALE

Independent Auditors


Auditor General
Kenya National Audit Office
Anniversary Towers, University Way
P.O. Box 30084 – 00100 GPO
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. EDITH ALUSA</p>		<p>DoB: 9th December, 1974</p> <p>Ms. Alusa is currently a Principal Partner at EED Advisory, a consultancy firm based in Kenya with service offerings in the energy and environment space. She is a seasoned consultant and has held Senior Management positions at Camco Clean Energy, NIRAS Consulting and the Ecotourism Society of Kenya.</p> <p>She holds a Master of Science Degree in Water and Environmental Management from Loughborough University (UK) and a Bachelor of Arts Degree (Geography) from Baraton University (Kenya). She is a Chevening Scholar, with training in applied environmental economics at the Imperial College London (UK).</p> <p>Ms. Alusa, who sits on several Boards including the Environment Committee; Kenya Alliance of Residents Association and Ecotourism Kenya, brings on the Board over nineteen (19) years of experience in Natural Resource Management, Environmental Policy Planning, Environmental Assessments and Carbon Asset Management.</p>
<p>2. FATUMA HIRSI MOHAMED (MRS.)</p>		<p>DoB: 17th August 1963</p> <p>Prior to joining the Ministry of Tourism as the Principal Secretary, Mrs. Fatuma Hirsi Mohamed was an international Civil Servant working for the United Nations. She has previous experience in various business sectors including telecommunications, media and banking</p>

MT ELGON LODGE LIMITED Reports and Financial Statements
For the year ended 30 June 2018



contributing to their corporate and business reputation and success.



Fatuma has wide experience in strategic implementation and governance of business through marketing, public relations, communications, community and stakeholder relation building, corporate social responsibility and media engagement. She has also been spokesperson for the companies she served.


Academically, she has an MBA in strategy and marketing, a BA (Hons) in languages and a postgraduate diploma in Public Relations. She is currently at the tail-end of completing a PhD in Communications Studies. Fatuma has been recognized for her leadership and honoured with a Fellow and lifetime achievement award from the Public Relations Society of Kenya which she served as chairman for 5 years. She has also been awarded by the President of the Republic of Kenya with an Order of Chief of the Burning Spear (CBS).

Since joining the Ministry of Tourism in 2016, Fatuma, as the Accounting Officer, has ensured prudent financial management of public funds and implementation of the Jubilee Government's flagship projects steering the Ministry and the tourism sector to become the second highest foreign exchange earner in the country with a growth rate of about 17% in both arrivals and revenue receipts.

s. Fatuma Hirsi Mohamed is multilingual and speaks English, French, Kiswahili, Somali and basic Arabic.


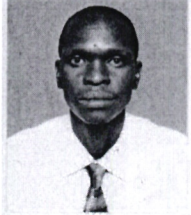

MT ELGON LODGE LIMITED Reports and Financial Statements
For the year ended 30 June 2018

<p>3. HON. PATRICK KHAEMBA</p>		<p>Hon Khaemba is currently the Governor Trans Nzoia Country and has Master's degree in Public Management. Former PS Ministry of Livestock Development. Head of bank, The African Development Bank in Uganda</p>
<p>4. ORUMOI T. JONAH</p>		<p>Mr Orumoi holds a Master of Science in Finance and Investment (Merit) from Queen Mary University of London, UK and is FACCAs qualified. He is a graduate of BA (Hons) in Accounting & Finance of the East London University, UK</p>

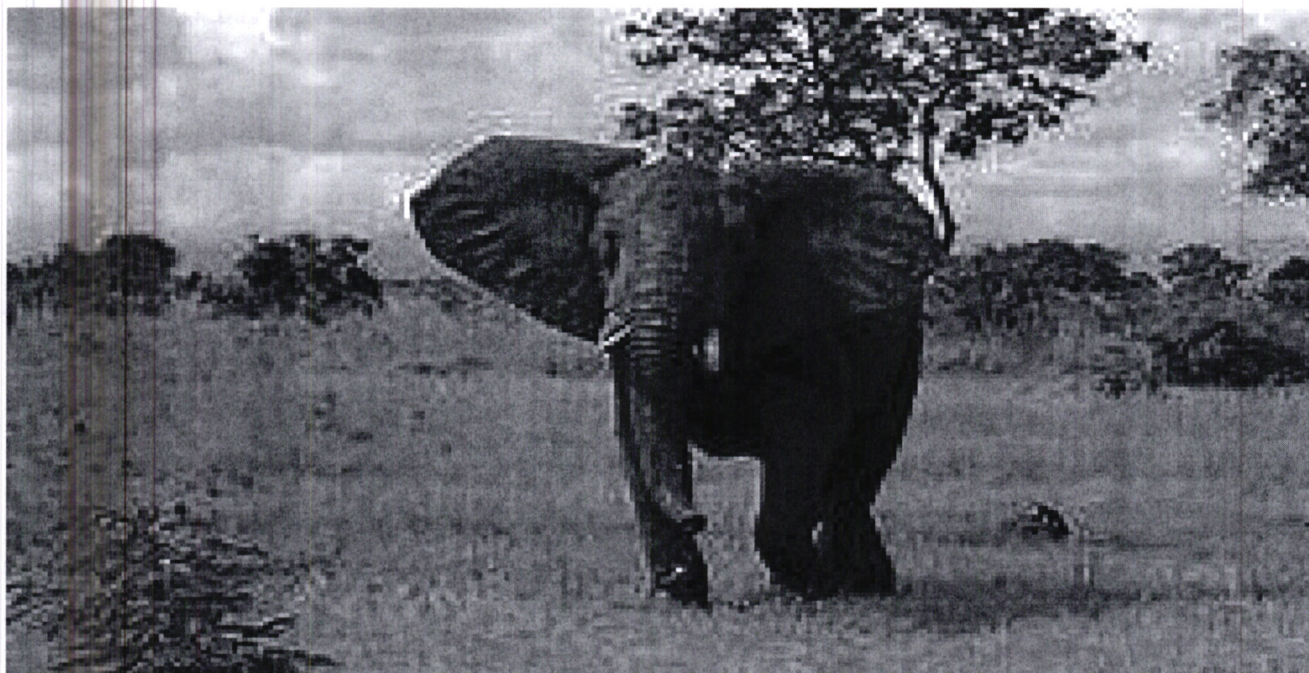
<p>4. PAULINE RWAMBA DIRECTOR</p>		<p>DoB: 29th December 1972</p> <p>Ms. Pauline Rwamba is a career Social/Community Development Specialist. She was appointed to the Board on 2nd October, 2015. She is a consultant with Polypat Consultancy Firm offerings training on Donor Relations, Youth and Women Empowerment, Table Banking and Revolving Fund, Strategic Plans, Market and Value Chains, Group Dynamics and Conflict Resolution, Psychosocial Support, Impact Evaluation and Documentation, Financial Literacy and Resource Mobilization.</p> <p>She holds a Master's degree in Business Administration, Marketing Option and an undergraduate degree in Business Administration, Entrepreneurship option. She joined the Board on 1st February 2018.</p>
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MT ELGON LODGE LIMITED Reports and Financial Statements
For the year ended 30 June 2018

MANAGEMENT TEAM

NAME	PHOTO	KEY PROFESSIONAL / ACADEMIC QUALIFICATIONS	AREA OF RESPONSIBILITY
1. REUBEN ARGUT		MBA (Marketing)- Thesis waiting, Bsc. Hospitality Management, Dip. Hotel Management & Dip. Sc. Educ.	GENERAL MANAGER
2. JOHN CHEPKWONY		ATC II(KATC II) Finalist, Certificate in IT (Egerton University) certificate in Front Office Cashiering (Utalii College)	ACCOUNTS CLERK
3. WILLIKISTER CHEPKISII		Certificate in Supervisory Techniques (Kitale College of Hotel Mgt), Certificate in Foods and Beverage service (UTALII COLLEGE)	F & B SUPERVISOR

MT ELGON LODGE LIMITED Reports and Financial Statements
For the year ended 30 June 2018



CHAIRMAN'S STATEMENT

On behalf of my fellow Board Members, the Management and myself I hereby present the Financial Statements of Mt. Elgon Lodge for the Financial Year 2017/2018. For a number of years the performance of the hotel has been wanting. This can be attributed to a number of factors under lying the downturn of the tourism sector in the country, over the last few years, the state of the facility and the increase in the number of star rated facilities within Trans-Nzoia County that provided competition for the hotel has highlighted the need for a strategic repositioning of the hotel. In the year under review the hotel incurred a loss of Kshs. 0.66 Million against the expected profit of Kshs. 0.9 Million.

Given the performance of the hotel over the last few years, the continued operation of the hotel in the current circumstances would inevitably result in accumulation of more losses. Additionally, the status of the hotel as a going concern is in doubt and the Board of Directors has, in response, opted to take appropriate measures in the

MT ELGON LODGE LIMITED Reports and Financial Statements
For the year ended 30 June 2018

coming financial year to forestall the accumulation of more losses and safeguard the investment of the shareholders.

In the coming financial year, the Board is committed to implementing strategic and deep-seated changes in the hotel that are intended to revive its operations. The current Board has shown a lot of goodwill and I believe this will go a long way in assisting the hotel in making the revolutionary change required to salvage the hotel from its current situation.

Trans-Nzoia County has a lot of potential and this facility will spearhead opening the Mt Elgon and Kitale Tourism circuit and compete both domestic and international arrivals.

Finally on behalf of the Board of Directors, Management and Staff, I would like to express my sincere gratitude to our customers for their patronage over the years and look forward to their continued support in future.


Edith Alusa

MT ELGON LODGE LIMITED Reports and Financial Statements
For the year ended 30 June 2018

REPORT OF THE GENERAL MANAGER

The Mt. Elgon Lodge Limited is situated at the gate of Mt. Elgon National Park approximately 28 kilometres from Kitale town. The principal activity of the Lodge is to provide accommodation and conference services to customers visiting the region.

The operations of the Lodge have been rather difficult (low) owing to the cash flow constraints. Total revenue of the hotel was Kshs. 1,875,364 in 2017/2018 Financial Year, an increase in revenue from last year 2016/2017 Financial Year of Kshs. 1,594,654. The main challenges having a direct negative impact on the Lodge performance include lack of Lodge refurbishing and renovation and also the fact that few number of tourists visits Mt. Elgon National Park.

Despite these challenges, management with the support of the Board of Directors and the shareholders have managed to continue in business. Reported revenues also include Land rental income which has boosted the overall income to enable the Lodge meet its short term obligations.

I wish to thank the shareholders, the Tourism Finance Corporation and the Board of Directors for their continuous support to the management.



Reuben Argut





CORPORATE GOVERNANCE STATEMENT

The Board of Directors recognizes the importance of good corporate governance in the company's performance, capital formation and maximization of shareholders value. Accordingly, the Board is committed to maintaining a high standard of corporate governance.

Board of Directors

The Board consists of Directors who represent the respective shareholders. The Directors possess a broad range of expertise and experience required to direct and provide the Lodge with policy guidance. The Board holds meetings on a regular basis.

The roles of the Board and management are separate and their responsibilities clearly defined as hereunder.

The Board is responsible for providing overall management and leadership to the company. The board's duties and responsibilities include;

- Setting the Strategic Direction of the hotel and putting in place appropriate policies, systems and structures for their successful implementation;
- Establishing and maintaining the hotel's overall systems of planning, accounting and internal controls that facilitate prudent risk management;
- Setting policy guidelines for management and ensuring competent management of the business including selection, supervision, and remuneration of Senior Management
- Ensuring the business of the hotel is conducted in compliance with relevant laws and regulations
- Monitoring the hotel's performance and reporting this to the shareholders.

In order to ensure that the Board is able to discharge its responsibilities, the management is required to provide adequate and timely information to the Board which includes operational report from the Manager, Management Accounts for each quarter, proposals, reports on major issues and strategic opportunities for the Company.



MANAGEMENT DISCUSSION AND ANALYSIS

OPERATIONAL AND FINANCIAL PERFORMANCE

The operations of the Lodge have been rather difficult (low) owing to the cash flow constraints. Total revenue of the hotel was Kshs. 1,875,364 in 2017/2018 Financial Year, an increase in revenue from last year 2016/2017 Financial Year of Kshs. 1,594,654. The main challenges having a direct negative impact on the Lodge performance include lack of Lodge refurbishing and renovation and also the fact that few number of tourists visits Mt. Elgon National Park.

The entity is still experiencing problems in its day to day operations due to lack of proper facilities. The sales in the last financial year was minimal and much below the budgeted sales. The entity therefore recorded losses amounting to 661,061 as indicated in the statement of profit and loss, but there is hope of improved sales after renovation is over.

Despite this the hotel maintained minimal of operating expenses to be able to cater for the few guests who come for accommodation or casual meals.

The entity could not meet its expenses due to low sales. The employees' salaries remained.

COMPLIANCE WITH STATUTORY REQUIREMENTS

Mt Elgon Lodge is not fully compliant with all the relevant statutory requirements. Because of low business the lodge is unable to remit statutory returns like NSSF, NHIF, UNION DUES, Catering levy, VAT etc. The lodge therefore is exposed to major worrying liabilities.

KEY PROJECTS AND INVESTMENT DECISIONS THE ENTITY IS IMPLEMENTING

The Lodge is undertaking capital expenditure on refurbishment of the Lodge in this financial year from externally generated funds as per the approved budget to the tune of Kshs.20, 000,000 to take place in the next financial year 2018/2019 of the financial year. All the improvements are geared towards meeting customer needs and improving the services rendered to our clientele.

MAJOR RISKS FACING THE ENTITY

The company's activities exposes it to a variety of financial risks, including credit risk and the effects of changes in foreign currency exchange rates and interest rates. The company's overall risk management programme focuses on the unpredictability of the industry and seeks to minimise potential adverse effects on its financial performance.

MT ELGON LODGE LIMITED Reports and Financial Statements
For the year ended 30 June 2018

Risk management is carried out by the management in collaboration with the internal audit department TFC under policies approved by the Board of Directors. The Board provides principles for overall risk management.

a) Market risk

Foreign exchange risk

The company does not undertake major transactions denominated in foreign currencies. Therefore, exposures to exchange rate fluctuations are minimal.

Any Foreign currency transactions during the year are converted into Kenya Shillings at Standing rates on the transaction date. The resulting differences from conversion and Translation are recognized in the Profit and Loss Statement in the period in which they arise.

b) Credit risk

Credit risk arises from cash and cash equivalents as well as trade receivables and balances due from related parties. The lodge observes the credit policy put in place for its respective customers. The lodge because of financial constraints does not make provision of bad debts in its books to cater for any eventualities of unpaid debts. This exposes it to credit risk.

c) Liquidity risk

Prudent liquidity risk management includes maintaining sufficient cash to meet company obligations. The company does not meet this requirement because of low business by the entity.

MATERIAL ARREARS IN STATUTORY/FINANCIAL OBLIGATION

There is an outstanding demand of Kshs.2, 2 m penalty charged to the Lodge by NSSF. The demand penalty arose from non-remittance of NSSF contributions between the years 2014 to date. The lodge is in arrears of all statutory dues as mentioned earlier and may attract more penalties and court cases.

FINANCIAL PROBITY AND SERIOUS GOVERNANCE ISSUES

There are no major financial improbity reported by internal audit, external audit or other national government agencies providing oversight, neither are there serious governance issues among the board or member of the board and top management including conflict of interest.

CORPORATE SOCIAL RESPONSIBILITY STATEMENT

The Mt Elgon Lodge has complied with the corporate social responsibility as required. In the year under review the Lodge did not do much of corporate social responsibility due to poor business performance, but soon it shall be accomplished as business takes off

Environment conservation

The Lodge in its operations conserves the environment by insuring cleanness, proper disposal of waste and proper sewerage system.

Promotion of education

The Lodge supports education at all levels through provision of hospitality services to those schools going to the park. This is done by providing meals, parking space and recreation facilities.

Health care services

The Lodge does not give this responsibility direct because of limited funds but considers doing in future.

Labour Relations

The lodge in its day to day management adheres to labour laws as pertains staff staff employment

Staff Training and development

The lodge has in place the Human Resource manual that supports staff training and development. The lodge empresses the art of staff retention and development.

Water and sanitation

The Lodge has empresses the water and sanitation requirement by ensuring there is enough water for use by both the lodge and the community at large.

MT ELGON LODGE LIMITED Reports and Financial Statements
For the year ended 30 June 2018

REPORT OF THE DIRECTORS

The Directors submit their report together with the audited financial statements for the year ended June 30, 2017 which show the state of the Lodge's affairs.

1. PRINCIPAL ACTIVITIES

The principal activities of the Lodge are the operation of Mt. Elgon Lodge mainly providing accommodation and conference services to customers.

2. RESULTS

The results of the entity for the year ended June 30, 2018 are set out on page 11-25

3. DIVIDENDS

The Directors do not recommend payment of dividends.

4. DIRECTORS

The members of the Board of Directors who served during the year are shown on page 2 in accordance with Regulation of the company's Articles of Association.

5. AUDITORS

The Auditor General is responsible for the statutory audit of Mt Elgon Lodge in accordance with the article 229(4) (5) (6) and (7) of the Constitution of Kenya and Public Audit Act (2015) which empowers the Auditor

Kenya National Audit office – Kakamega Branch, were nominated by the Auditor general to carry out the audit of the company for the year ended June 30, 2018 in accordance to section 23 of the Public Audit Act, 2015 which empowers the Auditor General to appoint an auditor to audit on his behalf.

BY ORDER OF THE BOARD

Company Secretary
Tourism Finance Corporation
P.O Box 42013 – 00100
Nairobi

for:
Sign 

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 company, which give a true and fair view of the state of affairs of the company at the end of the financial year/period and the operating results of the company for the year/period. The Directors are also required to ensure that the company keeps proper accounting records which disclose with reasonable accuracy the financial position of the company. The Directors are also responsible for safeguarding the assets of the company.

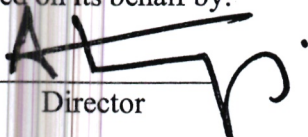
The Directors are responsible for the preparation and presentation of the company's financial statements, which give a true and fair view of the state of affairs of the company for and as at the end of the financial year (period) ended on June 30, 2018. This responsibility includes: (i) maintaining adequate 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 company'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 PFM Act and the State Corporations Act. 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, 2018, and of the company'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 *entity* will not remain a going concern for at least the next twelve months from the date of this statement.

Approval of the financial statements

The company's financial statements were approved by the Board on 14/11/2018 and signed on its behalf by:



Director



Director

REPUBLIC OF KENYA

Telephone: +254-20-342330
Fax: +254-20-311482
E-Mail: oag@oagkenya.go.ke
Website: www.kenao.go.ke



P.O. Box 30084-00100
NAIROBI

OFFICE OF THE AUDITOR-GENERAL

REPORT OF THE AUDITOR-GENERAL ON MT ELGON LODGE LIMITED FOR THE YEAR ENDED 30 JUNE 2018

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 35, which comprise the statement of financial position as at 30 June 2018, 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 Mt Elgon Lodge Limited as at 30 June 2018, and of its performance and its cash flows for the year then ended, in accordance with International Financial Reporting Standards and comply with the Kenya Companies Act, 2015.

Basis for Qualified Opinion

1. Property, Plant and Equipment

The property, plant and equipment reflects total cost/valuation figure of net book value of Kshs.47,977,062 of which could not be confirmed since the asset register and asset valuation certificate were not availed for audit verification.

In the circumstances, it was possible to confirm accuracy of the value of property, plant and equipment as at 30 June 2018.

2. Cash and Cash Equivalents

2.1 Inconsistency in Reported Cash and Bank Balance

The financial statement for the year under review indicates that the Lodge had a balance of Kshs.417,563. However, the following anomalies were noted:

- (i) There was no bank reconciliation statement for account No.1105159779 of KCB Bank, Kitale branch availed for audit review. No satisfactory explanation was given as to why the Lodge did not prepare the reconciliation statements.

Report of the Auditor-General on the Financial Statements of Mt Elgon Lodge Limited for the year ended 30 June 2018

- (ii) Further, it was noted that there was rampant alterations of the cash book entries, which may be a clear indication that cash book was being tampered with to read certain figures.
- (iii) The cashbook was not being checked and signed by senior officers.
- (iv) In some cases, the accountant did not capture the particulars of transactions in cashbook.

2.2 Suspense Account

Included in trial balance is Kshs.177,887 posted to suspense account. However, there was no suspense account records and breakdown of the transactions relating to suspense amount reported of which was not availed for audit verification.

Consequently, the validity, accuracy and completeness of the financial statements for the year ended 30 June 2018 could not be confirmed.

2.3 Statement of Cashflows

The cash and cash equivalents balance is reflected as an overdraft of Kshs.187,367 in the statement of cashflows while it is recorded as Kshs.417,563 in the statement of financial position and hence leading to an unexplained and unreconciled difference of Kshs.604,930.

In the circumstances, it has not been possible to confirm that the cash and cash equivalents balance of Kshs.417,563 as at 30 June 2018 is fairly stated.

3. Trade and Other Receivables

The policy for provision of bad debts has not been disclosed in the financial statements. This is contrary to section 21 of the International Public Sector Accounting Standards (IPSAS) 19 which requires that the basis for provision of bad debts should be disclosed. Further, the debtors' ledger in support of the debtors' balance of Kshs.2,294,536 was not availed for audit verification. The balance of Kshs.2,294,536 had an increase of Kshs.468,717 from previous year Kshs.1,825,819 relating to staff receivables on loans advanced to staff which is not recoverable from staff salaries. Further, staff loans and advances registers were not availed for audit verification and the management did not explain the measures taken to recover the long outstanding debts of over 120 days.

In the circumstances, it was not possible to ascertain the accuracy of the staff debtor balance of Kshs.468,717 as at 30 June 2018.

4. Trade and Other Payables

4.1 Unsupported Trade and Other Payables

The trade and other payables balance of Kshs.25,459,332 as at 30 June 2018 is not supported by details of invoices, demand notices, suppliers' statement, fee notes and delivery notes for confirmation of the authenticity of the payables. In addition, statutory deduction figure of Kshs.10,931,370 as analyzed below remained outstanding;

Creditor	Amount (Kshs.)
VAT	4,983,866
CLT	824,841
NSSF	202,000
NHIF	413,600
PAYE	1,502,444
UNION	268,133
NSSF Penalty	2,267,717
Tourism Levy	468,769
Total	10,931,370

4.2 Unsupported Advance

The trade and other payables balance of Kshs.25,459,332 is Kshs.9,466,377 relating to advances from Tourism Finance Corporation. However, there was no supporting document to ascertain authenticity, terms and conditions of the advanced amount.

4.3 Outstanding Audit Fees

Included in the current liabilities balance of Kshs.25,459,332 is Kshs.6,624,362 for other payables which in turn includes Kshs.1,729,891 outstanding audit fees payable to Office of the Auditor General relating to a number of years. However, the management has not indicated how it plans to clear the outstanding audit fee that is long overdue. Failure to pay audit fees contravenes Section 41 of the Public Audit Act, 2015.

4.4 Unremitted of Statutory Deductions

During financial year 2017/2018, the management deducted a total of Kshs.469,866 with respect to VAT, catering levy and service charge as analyzed below:

Month	Sales (Kshs.)		Deductions (Kshs.)		
	Gross Amount	Net Amount	Vat 16%	Levy 2%	Service Charge 7%
July	47,010	37,608	6,017	752.16	2,633
August	70,610	56,488	9,038	1,129.76	3,954
September	90,800	72,640	11,622	1,452.80	5,085
October	22,440	17,952	2,872	359.04	1,257
November	48,910	39,128	6,261	782.56	2,739
December	199,310	162,680	26,029	3,253.60	11,388
January	91,310	73,048	11,688	1,460.96	5,113
February	189,260	151,408	24,225	3,028.16	10,599
March	1,155,960	924,768	147,963	18,495.36	64,734
April	88,200	70,560	11,290	1,411.20	4,939
May	280,890	224,712	35,954	4,494.24	15,730
June	60,590	48,472	7,756	969.44	3,393
Total	2,345,290	1,879,464	300,714	37,589.28	131,562
		Grand Total			469,866

However, as at 30 June 2018, the management had not remitted the statutory deductions to the relevant authorities as required.

5. Unsupported Loan Account

The non-current Liabilities balance reflects borrowing from Tourism Finance Corporation (TFC) amounting to Kshs.3,527,222. However, no details were provided in regards to terms and conditions of the loan and further, the loan confirmation certificate was not availed for audit verification.

In the circumstances, it was not possible to ascertain the validity, accuracy, existence and authenticity of the borrowings amounting to Kshs.3,527,222 as at 30 June 2018.

6. Inaccuracies in the Expenditure Items

The financial statements figures differed with support schedules and ledger amounts leading to an unexplained negative variance of Kshs.6,499,158 as detailed below;

No	Description	Financial Statements Amount Kshs.	Schedules/Ledger amounts Kshs.	Variances Kshs.
	Salaries and allowances of permanent employees	2,113,328	4,939,318	(2,825,990)
	Wages of temporary employees	109,720	11,150	98,570
	Statutory deductions (NHIF, NSSF & PAYEE)	396,351	1,382,376	(986,025)
	Staff welfare and expenses	45,684	93,582	(47,898)
	Communication services and supplies	25,175	10,020	15,155
	Office and General Supplies and Services	45,119	37,436	7,683
	Repairs and maintenance	46,380	58,750	(12,370)
	Other operating expenses	306,419	240,168	66,251
	Trade and payables	22,412,144	19,597,610	(2,814,534)
	Total			(6,499,158)

In addition, note 2 to the financial statements reflects Ksh.535,775 relating to cost of sales. However, there was no breakdown of how the figure reported was computed. In the absence of the computations, it has not been possible to confirm as to how the amount was arrived at.

Consequently, the validity, accuracy and completeness of the financial statements as at 30 June 2018 could not be confirmed.

7. Staff Costs

Included in the administration cost of Kshs.1,323,969 is Kshs.502,996 incurred on staff costs during the year ended 30 June 2018. However, the analysis of payroll and staff

documentations revealed that the staff have never received salaries for the whole financial period under review and there were no records like master roll availed to enable verification of the staff who were paid as casuals and further, the statutory deductions were not paid for the same period.

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

Emphasis of Matter

Going Concern

The Lodge registered a loss of Kshs.661,061 for the year under review compared to Kshs.2,983,236 posted in the year 2016/2017, resulting in accumulated losses of Kshs.33,150,106. In addition, the current liabilities balance of Kshs.25,459,332 exceeded the current assets balance of Kshs.2,775,871 resulting in a negative working capital of Kshs.22,683,436 as at 30 June 2018. The Lodge is therefore technically insolvent and the financial statements have been prepared on a going concern basis on assumption that it will continue to receive financial support from Government and Tourist Finance Corporation (TFC). However, TFC, withdrew the monthly financial support towards staff salaries and creditors with effect from May 2016.

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 Emphasis of Matter sections, I have determined that there are no key audit matters to communicate in my report.

REPORT ON LAWFULNESS AND EFFECTIVE IN USE OF PUBLIC RESOURCES

Conclusion

As required by Article 229(6) of the Constitution, based on the procedures performed, except for the matter described in the Report on Lawfulness and Effective in Use of Public Resources section of my report, I confirm that, nothing 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 Adhere to Budget

1.1 Failure to Avail Approved Budget for Financial Year 2017/2018

During financial year 2017/2018, the management of the Lodge incurred expenditure totaling to Kshs.2,000,650 as disclosed in statement of comprehensive income.

However, the management only availed proposed budget for the year under review and not an approved budget.

1.2 Budget Performance

Comparative analysis of Lodge's budget revealed that the budgeted revenue collection was Kshs.8,614,551. However, the Lodge realized revenue collection of Kshs.1,875,364 resulting to under collection of Kshs.6,739,187 or approximately 78% of the budgeted revenue for the year.

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 procedures performed, except for the matter described in the Conclusion on Effectiveness of Internal Controls section of my report, I confirm that, nothing has come to my attention to cause me to believe that internal controls, risk management and overall governance were not effective.

Information Communication Technology (ICT)

During audit verification and assessment of the Information Technology position of the Lodge, the following anomalies was noted:

- (i) There is no IT department and systems in place to manage the overall entity documentations and improve performance.
- (ii) No disaster recovery plan to enable recovery of information in case of any disaster.
- (iii) No back up and retention strategy to enable the Lodge continue with its services in case of any eventualities.
- (iv) No formally documented approved user management standards and procedures to minimize errors.

The audit was conducted in accordance with ISSAI 1315 and ISSAI 1330. 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 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 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 Lodge, so far as appears from the examination of those records;
- (iii) The Lodge'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.

Responsibilities of Management and Those Charged with Governance

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 and using the applicable 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.

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 money is applied in an effective manner.

Those charged with governance are responsible for overseeing the Lodge's financial reporting process, reviewing the effectiveness of how the entity 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

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 review is planned and performed to express a conclusion with limited assurance as to 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 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. The nature, timing and extent of the compliance work is limited compared to that designed to express an opinion with reasonable assurance on the financial statements.

Further, in planning and performing the audit of the financial statements and review of compliance, I consider internal control 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 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.

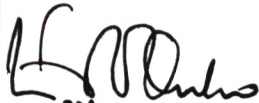
As part of an audit conducted in accordance with ISSAIs, I exercise professional judgement and maintain professional skepticism throughout the audit. I also:

- 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.
- 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 Lodge'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 Lodge'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 Lodge 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 Lodge 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.



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

Nairobi

07 March 2019

MT ELGON LODGE LTD

**Reports and Financial Statements
For the year ended 30 June 2018**

**STATEMENT OF COMPREHENSIVE
INCOME FOR THE YEAR ENDED 30
JUNE,2018**

	Note	2018 KShs	2017 K Shs
REVENUES			
Sales	1	739,364	807,884
Other Income	3	<u>1,136,000</u>	<u>786,770</u>
TOTAL REVENUES		<u>1,875,364</u>	<u>1,594,654</u>
COST OF SALES	2	535,775	433,503
GROSS PROFIT		<u>1,339,589</u>	<u>1,161,151</u>
OPERATING EXPENSES			
Administration Costs	4	1,323,969	3,459,599
Depreciation of property, plant and equipment	7	676,681	684,788
TOTAL OPERATING EXPENSES		<u>2,000,650</u>	<u>4,144,387</u>
OPERATING PROFIT/(LOSS)		(661,061)	(2,983,236)
PROFIT/(LOSS) BEFORE TAXATION		(661,061)	(2,983,236)
INCOME TAX EXPENSE/(CREDIT)	6		
PROFIT/(LOSS) AFTER TAXATION		(661,061)	<u>(2,983,236)</u>
Earnings per share – basic and diluted		(2.64)	54
Dividend per share		10	10

MT ELGON LODGE LIMITED Reports and Financial Statements
For the year ended 30 June 2018

STATEMENT OF FINANCIAL POSITION AS AT 30 JUNE, 2018

	Note	2018 KShs	2017 KShs
ASSETS			
Non-Current Assets			
Property, plant and equipment	7	47,977,062	48,552,798
Deferred tax Asset			-
Total Non-Current Assets		<u>47,977,062</u>	<u>48,552,798</u>
Current Assets			
Inventories	8	63,772	17,697
Trade and other receivables	9	2,294,536	2,294,717
Bank and cash balances	10	417,563	691
Staff Receivables			
Total Current Assets		<u>2,775,871</u>	<u>2,313,105</u>
Total Assets		<u>50,752,933</u>	<u>50,865,903</u>
EQUITY AND LIABILITIES			
Capital and Reserves			
Ordinary share capital	11	1,845,780	1,845,780
Revaluation reserve		53,070,705	53,070,705
Retained earnings		(33,150,106)	(32,489,045)
Capital and Reserves		<u>21,766,379</u>	<u>22,427,440</u>
Non-Current Liabilities			
Borrowings	12	3,527,222	2,596,370
Total Non-Current Liabilities		<u>3,527,222</u>	<u>2,596,370</u>

MT ELGON LODGE LIMITED Reports and Financial Statements
For the year ended 30 June 2018

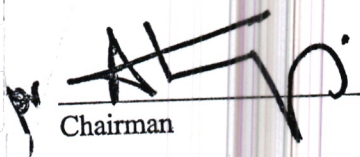
Current Liabilities

Trade and other payables 13 25,459,332 25,842,093

Total Current Liabilities 25,459,332 25,842,093

TOTAL EQUITY AND LIABILITIES 50,752,933 50,865,903

The Financial Statements were approved by the Board on...04/11/18...and signed on its behalf by


Chairman


Accountant


Director

MT ELGON LODGE LIMITED Reports and Financial Statements
For the year ended 30 June 2018

STATEMENT OF CHANGES IN EQUITY FOR YEAR ENDED 30 JUNE, 2018

	Ordinary share capital	Revaluation reserve	Fair value adjustment reserve	Retained earnings	Proposed dividends	Total
At July 1, 2016	1,845,780	53,070,705	0	(29,505,809)	0	25,410,676
Transfer of excess depreciation	0	0	0	0	0	
Deferred tax on excess depreciation	0	0	0	0	0	
Fair value adjustment on quoted investments	0	0	0	0	0	
Total comprehensive income	0	0	0	(2,983,236)	0	(2,986,236)
Dividends paid – 2017	0	0	0	0	0	
Interim dividends paid – 2017	0	0	0	0	0	
Proposed final dividends	0	0	0	0	0	
At June 30, 2017	1,845,780	53,070,705	0	(32,489,045)	0	22,427,440
At July 1, 2017	1,845,780	53,070,705	0	(32,489,045)	0	22,427,440
Issue of new share capital	0	0	0	0	0	
Transfer of excess depreciation	0	0	0	0	0	
Deferred tax on excess depreciation	0	0	0	0	0	
Fair value adjustment on quoted investments	0	0	0	0	0	
Total comprehensive income	0	0	0	(661,061)	0	(661,061)
Dividends paid – 2018	0	0	0	0	0	
Interim dividends paid – 2018	0	0	0	0	0	
Proposed final dividends	0	0	0	0	0	
At June 30, 2018	1,845,780	53,070,705	0	(33,150,106)	0	21,766,379

MT ELGON LODGE LIMITED Reports and Financial Statements
For the year ended 30 June 2018

STATEMENT OF CASH FLOWS AS AT 30 JUNE, 2018

	Note	2018 KShs	2017 KShs
OPERATING ACTIVITIES			
Cash generated from/(used in) operations	20	(86,402)	(1310)
Interest received		-	-
Interest paid		-	-
Dividends paid		-	-
Taxation paid	14	-	-
Net cash generated from/(used in) operating activities		<u>(86402)</u>	<u>(1310)</u>
INVESTING ACTIVITIES			
Purchase of property, plant and equipment		(100,945)	(5000)
Proceeds from disposal of property, plant and equipment		-	-
Net cash generated from/(used in) investing activities	10	<u>(100,945)</u>	<u>(5000)</u>
FINANCING ACTIVITIES			
Proceeds from issues of new share capital		-	-
Repayment of borrowings	18	-	-
Gratuity Paid		-	-
Interest paid		-	-
Dividends paid		-	-
Net cash generated from/(used in) financing activities		-	-
INCREASE/(DECREASE) IN CASH AND CASH EQUIVALENTS		(187,347)	(1310)
CASH AND CASH EQUIVALENTS AT BEGINNING OF THE QUARTER		-	(619)
Effects of foreign exchanges rate fluctuations		-	-
CASH AND CASH EQUIVALENTS AT END OF THE QUARTER	16	<u>(187,367)</u>	<u>(691)</u>

MT ELGON LODGE LIMITED Reports and Financial Statements
For the year ended 30 June 2018

STATEMENT OF COMPARISON OF BUDGET AND ACTUAL AMOUNTS AS AT 30 JUNE, 2018

	Budget quarter 4	Actual quarter 4		Budget	Actual		Exp of i var
	June - 18	June - 18	Variance	Cumulative to date	Cumulative to date	Variance	Va:
	Shs	Shs	Shs	Shs	Shs	Shs	
Revenue							
Sales	8,614,551	1,875,364	6,269,261	8,614,551	1,875,364	6,269,261	-
Other income	-	-	-	-	-	-	-
Total Revenues	8,614,551	1,875,364	6,269,261	8,614,551	1,875,364	6,269,261	-
Cost of sales	1,558,517	535,775	1,022,742	1,558,517	535,775	1,022,742	-
Gross profit	7,056,034	1,339,589	5,246,519	7,056,034	1,339,589	5,246,519	-
Expenses							
Administration costs	52,990,039	1,323,969	51,619,635	52,990,039	1,323,969	51,619,635	
Selling and distribution costs	-	-	-	-	-	-	-
Depreciation of PPE	444,768	676,681	231,913	444,768	676,681	231,913	
Total operating expenses	53,434,807	2,047,085	51,387,722	53,434,807	2,047,085	51,387,722	
Operating profit/(loss)	46,378,773	661,061	46,141,203	46,378,773	-661,061	46,141,203	
Finance income	-	-	-	-	-	-	-
Finance costs	-	-	-	-	-	-	-
Profit/(loss) before taxation	46,378,773	661,061	46,141,203	46,378,773	661,061	46,141,203	
Income tax expense(credit)	-	-	-	-	-	-	-

MT ELGON LODGE LIMITED Reports and Financial Statements

For the year ended 30 June 2018

Profit/(loss) after taxation	-	-	-	-	-	-
	46,378,773	661,061	46,141,203	46,378,773	661,061	46,141,203

Explanatory notes (a) and (b)

The total sales and gross profit was much below set target generally because of low business due to poor facilities. The sales are expected to rise in the near future after the renovations as per the management plan.

SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

GENERAL INFORMATION

The Mt. Elgon Lodge Limited is situated at the gate of Mt. Elgon National Park approximately 28 kilometres from Kitale town. The principal activity of the Lodge is to provide accommodation and conference services to customers visiting the region.

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

1. STATEMENT OF COMPLIANCE AND BASIS OF PREPARATION

The financial statements have been prepared on a historical cost basis except for the measurement at re-valued amounts of certain items of property, plant and equipment, 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 pages 14 to 19.

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, and International Financial Reporting Standards (IFRS). The accounting policies adopted have been consistently applied to all the years presented.

2. 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 2018

Amendment/Interpretation to a standard	Effective date	Impact (State the impact of the standard if relevant to the entity)
IFRS 9: Financial Instruments (Issued 24 July 2014)	Effective for annual periods beginning on or after 1 January 2018	Finalized version of IFRS 9 which contains accounting requirements for financial instruments, replacing <u>IAS 39</u> <i>Financial Instruments: Recognition and Measurement</i> .

MT ELGON LODGE LIMITED Reports and Financial Statements
For the year ended 30 June 2018

Amendment/Interpretation to a standard	Effective date	Impact <i>(State the impact of the standard if relevant to the entity)</i>
		<ul style="list-style-type: none"> • Classification and measurement. Financial assets are classified by reference to the business model within which they are held and their contractual cash flow characteristics. The 2014 version of IFRS 9 introduces a 'fair value through other comprehensive income' category for certain debt instruments. Financial liabilities are classified in a similar manner to under IAS 39, however there are differences in the requirements applying to the measurement of an entity's own credit risk. • Impairment. The 2014 version of IFRS 9 introduces an 'expected credit loss' model for the measurement of the impairment of financial assets, so it is no longer necessary for a credit event to have occurred before a credit loss is recognised • Hedge accounting. Introduces a new hedge accounting model that is designed to be more closely aligned with how entities undertake risk management activities when hedging financial and non-financial risk exposures • Derecognition. The requirements for the derecognition of financial assets and liabilities are carried forward from IAS 39 <p><i>(State the impact of the standard if relevant to the entity)</i></p>
IFRS 15: Revenue from Contracts with Customers <i>(Issued 28 May 2014)</i>	Applicable to an entity's first annual IFRS financial statements for a period beginning on or after 1 January 2018	<p>IFRS 15 provides a single, principles based five-step model to be applied to all contracts with customers.</p> <p>The five steps in the model are as follows:</p> <ul style="list-style-type: none"> • Identify the contract with the customer • Identify the performance obligations in the contract • Determine the transaction price • Allocate the transaction price to the performance obligations in the contracts • Recognise revenue when (or as) the entity satisfies a performance obligation. <p>Guidance is provided on topics such as the point in which revenue is recognised, accounting for variable consideration, costs of fulfilling and obtaining a</p>

MT ELGON LODGE LIMITED Reports and Financial Statements
For the year ended 30 June 2018

Amendment/Interpretation to a standard	Effective date	Impact <i>(State the impact of the standard if relevant to the entity)</i>
		<p>contract and various related matters. New disclosures about revenue are also introduced.</p> <p><i>(State the impact of the standard if relevant to the entity)</i></p>
<p>IFRIC 22: Foreign Currency Transactions and Advance Consideration <i>(Issued 8 December 2016)</i></p>	<p>Applicable to annual reporting periods beginning on or after 1 January 2018</p>	<p>The interpretation addresses foreign currency transactions or parts of transactions where:</p> <ul style="list-style-type: none"> • there is consideration that is denominated or priced in a foreign currency; • the entity recognizes a prepayment asset or a deferred income liability in respect of that consideration, in advance of the recognition of the related asset, expense or income; and • The prepayment asset or deferred income liability is non-monetary. <p>The Interpretations Committee came to the following conclusion:</p> <ul style="list-style-type: none"> • The date of the transaction, for the purpose of determining the exchange rate, is the date of initial recognition of the non-monetary prepayment asset or deferred income liability. • If there are multiple payments or receipts in advance, a date of transaction is established for each payment or receipt. <p><i>(State the impact of the standard if relevant to the entity)</i></p>
<p><i>Recognition of Deferred Tax Assets for Unrealised Losses (Amendments to IAS 12)</i> <i>(Issued 19 January 2016)</i></p>	<p>Effective for annual periods beginning on or after 1 January 2017</p>	<p>Amends <u>IAS 12</u> <i>Income Taxes</i> to clarify the following aspects:</p> <ul style="list-style-type: none"> • Unrealised losses on debt instruments measured at fair value and measured at cost for tax purposes give rise to a deductible temporary difference regardless of whether the debt instrument's holder expects to recover the carrying amount of the debt instrument by sale or by use. • The carrying amount of an asset does not limit the estimation of probable future taxable profits. • Estimates for future taxable profits exclude tax deductions resulting from the reversal of deductible temporary differences.

MT ELGON LODGE LIMITED Reports and Financial Statements
For the year ended 30 June 2018

Amendment/Interpretation to a standard	Effective date	Impact <i>(State the impact of the standard if relevant to the entity)</i>
		<ul style="list-style-type: none"> An entity assesses a deferred tax asset in combination with other deferred tax assets. Where tax law restricts the utilisation of tax losses, an entity would assess a deferred tax asset in combination with other deferred tax assets of the same type. <p><i>(State the impact of the standard if relevant to the entity)</i></p>
<i>Disclosure Initiative (Amendments to IAS 7) (Issued 29 January 2016)</i>	Effective for annual periods beginning on or after 1 January 2017	Amends <u>IAS 7 Statement of Cash Flows</u> to clarify that entities shall provide disclosures that enable users of financial statements to evaluate changes in liabilities arising from financing activities. <i>(State the impact of the standard if relevant to the entity)</i>
<i>Clarifications to IFRS 15 'Revenue from Contracts with Customers' (Issued 12 April 2016)</i>	Effective for annual periods beginning on or after 1 January 2018	Amends <u>IFRS 15 Revenue from Contracts with Customers</u> to clarify three aspects of the standard (identifying performance obligations, principal versus agent considerations, and licensing) and to provide some transition relief for modified contracts and completed contracts. <i>(State the impact of the standard if relevant to the entity)</i>
<i>Classification and Measurement of Share-based Payment Transactions (Amendments to IFRS 2) (Issued 20 June 2016)</i>	Effective for annual periods beginning on or after 1 January 2018	Amends <u>IFRS 2 Share-based Payment</u> to clarify the standard in relation to the accounting for cash-settled share-based payment transactions that include a performance condition, the classification of share-based payment transactions with net settlement features, and the accounting for modifications of share-based payment transactions from cash-settled to equity-settled. <i>(State the impact of the standard if relevant to the entity)</i>
<i>Applying IFRS 9 'Financial Instruments' with IFRS 4 'Insurance Contracts' (Amendments to IFRS 4) (Issued 12 September 2016)</i>	Overlay approach to be applied when IFRS 9 is first applied. Deferral approach effective for annual periods beginning on or after 1	Amends <u>IFRS 4 Insurance Contracts</u> provide two options for entities that issue insurance contracts within the scope of IFRS 4: <ul style="list-style-type: none"> an option that permits entities to reclassify, from profit or loss to other comprehensive income, some of the income or expenses arising from designated financial assets; this is the so-called overlay approach; an optional temporary exemption from applying IFRS 9 for entities whose

MT ELGON LODGE LIMITED Reports and Financial Statements
For the year ended 30 June 2018

Amendment/Interpretation to a standard	Effective date	Impact (State the impact of the standard if relevant to the entity)
	January 2018 and only available for three years after that date	<p>predominant activity is issuing contracts within the scope of IFRS 4; this is the so-called deferral approach.</p> <p>The application of both approaches is optional and an entity is permitted to stop applying them before the new insurance contracts standard is applied.</p> <p>(State the impact of the standard if relevant to the entity)</p>
<p><i>Transfers of Investment Property (Amendments to IAS 40)</i> (Issued 8 December 2016)</p>	<p>Effective for annual periods beginning on or after 1 January 2018</p>	<p>The amendments to <u>IAS 40 Investment Property</u>:</p> <ul style="list-style-type: none"> • Amends paragraph 57 to state that an entity shall transfer a property to, or from, investment property when, and only when, there is evidence of a change in use. A change of use occurs if property meets, or ceases to meet, the definition of investment property. A change in management's intentions for the use of a property by itself does not constitute evidence of a change in use. • The list of examples of evidence in paragraph 57(a) – (d) is now presented as a non-exhaustive list of examples instead of the previous exhaustive list. <p>(State the impact of the standard if relevant to the entity)</p>
<p><i>Annual Improvements to IFRS Standards 2014–2016 Cycle</i> (Issued 8 December 2016)</p>	<p>The amendments to IFRS 1 and IAS 28 are effective for annual periods beginning on or after 1 January 2018, the amendment to IFRS 12 for annual periods beginning on or after 1 January 2017</p>	<p>Makes amendments to the following standards:</p> <ul style="list-style-type: none"> • IFRS 1 - Deletes the short-term exemptions in paragraphs E3–E7 of IFRS 1, because they have now served their intended purpose • IFRS 12 - Clarifies the scope of the standard by specifying that the disclosure requirements in the standard, except for those in paragraphs B10–B16, apply to an entity's interests listed in paragraph 5 that are classified as held for sale, as held for distribution or as discontinued operations in accordance with IFRS 5 <i>Non-current Assets Held for Sale and Discontinued Operations</i> • IAS 28 - Clarifies that the election to measure at fair value through profit or loss an investment in an associate or a joint

MT ELGON LODGE LIMITED Reports and Financial Statements
 For the year ended 30 June 2018

Amendment/Interpretation to a standard	Effective date	Impact <i>(State the impact of the standard if relevant to the entity)</i>
		<p>venture that is held by an entity that is a venture capital organisation, or other qualifying entity, is available for each investment in an associate or joint venture on an investment-by-investment basis, upon initial recognition.</p> <p><i>(State the impact of the standard if relevant to the entity)</i></p>

ii) New and amended standards and interpretations in issue but not yet effective in the year ended 30 June 2018

MT ELGON LODGE LIMITED Reports and Financial Statements
For the year ended 30 June 2018

Amendment/Interpretation to a standard	Effective date	Impact <i>(State the impact of the standard if relevant to the entity)</i>
<i>IFRS 16: Leases</i> <i>(Issued 13 January 2016)</i>	Applicable to annual reporting periods beginning on or after 1 January 2019	IFRS 16 specifies how an IFRS reporter will recognise, measure, present and disclose leases. The standard provides a single lessee accounting model, requiring lessees to recognise assets and liabilities for all leases unless the lease term is 12 months or less or the underlying asset has a low value. Lessors continue to classify leases as operating or finance, with IFRS 16's approach to lessor accounting substantially unchanged from its predecessor, IAS 17. <i>(State the impact of the standard if relevant to the entity)</i>
<i>IFRS 17 Insurance Contracts</i> <i>(Issued 18 May 2017)</i>	Applicable to annual reporting periods beginning on or after 1 January 2021	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 <i>Insurance Contracts</i> as of 1 January 2021. <i>(State the impact of the standard if relevant to the entity)</i>
<i>IFRIC 23: Uncertainty over Income Tax Treatments</i> <i>(Issued 7 June 2017)</i>	Applicable to annual reporting periods beginning on or after 1 January 2019	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: <ul style="list-style-type: none"> • 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 <i>(State the impact of the standard if relevant to the entity)</i>

MT ELGON LODGE LIMITED Reports and Financial Statements
For the year ended 30 June 2018

<p><i>Prepayment Features with Negative Compensation (Amendments to IFRS 9) (Issued 12 October 2017)</i></p>	<p>Annual periods beginning on or after 1 January 2019</p>	<p>Amends the existing requirements in IFRS 9 regarding termination rights in order to allow measurement at amortised cost (or, depending on the business model, at fair value through other comprehensive income) even in the case of negative compensation payments. <i>(State the impact of the standard if relevant to the entity)</i></p>
<p><i>Long-term Interests in Associates and Joint Ventures (Amendments to IAS 28) (Issued 12 October 2017)</i></p>	<p>Annual periods beginning on or after 1 January 2019</p>	<p>Clarifies that an entity applies IFRS 9 <i>Financial Instruments</i> to long-term interests in an associate or joint venture that form part of the net investment in the associate or joint venture but to which the equity method is not applied. <i>(State the impact of the standard if relevant to the entity)</i></p>
<p><i>Annual Improvements to IFRS Standards 2015–2017 Cycle (Issued 12 December 2017)</i></p>	<p>Annual periods beginning on or after 1 January 2019</p>	<p>Makes amendments to the following standards:</p> <ul style="list-style-type: none"> • IFRS 3 and IFRS 11 - The amendments to IFRS 3 clarify that when an entity obtains control of a business that is a joint operation, it remeasures previously held interests in that business. The amendments to IFRS 11 clarify that when an entity obtains joint control of a business that is a joint operation, the entity does not remeasure previously held interests in that business. • IAS 12 - The amendments clarify that the requirements in the former paragraph 52B (to recognise the income tax consequences of dividends where the transactions or events that generated distributable profits are recognised) apply to all income tax consequences of dividends by moving the paragraph away from paragraph 52A that only deals with situations where there are different tax rates for distributed and undistributed profits. • IAS 23 - The amendments clarify that if any specific borrowing remains outstanding after the related asset is ready for its intended use or sale, that borrowing becomes part of the funds that an entity borrows <i>generally</i> when calculating the capitalisation rate on general borrowings. <p><i>(State the impact of the standard if relevant to the entity)</i></p>

MT ELGON LODGE LIMITED Reports and Financial Statements
For the year ended 30 June 2018

<p><i>Plan Amendment, Curtailment or Settlement (Amendments to IAS 19) (Issued 7 February 2018)</i></p>	<p>Annual periods beginning on or after 1 January 2019</p>	<p>The amendments in <i>Plan Amendment, Curtailment or Settlement (Amendments to IAS 19)</i> are:</p> <ul style="list-style-type: none"> • If a plan amendment, curtailment or settlement occurs, it is now mandatory that the current service cost and the net interest for the period after the remeasurement are determined using the assumptions used for the remeasurement. • In addition, amendments have been included to clarify the effect of a plan amendment, curtailment or settlement on the requirements regarding the asset ceiling. <p><i>(State the impact of the standard if relevant to the entity)</i></p>
<p><i>Amendments to References to the Conceptual Framework in IFRS Standards (Issued 29 March 2018)</i></p>	<p>Annual periods beginning on or after 1 January 2020</p>	<p>Together with the revised <i>Conceptual Framework</i> published in March 2018, the IASB also issued <i>Amendments to References to the Conceptual Framework in IFRS Standards</i>. 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 <i>Conceptual Framework</i>. 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 <i>Conceptual Framework</i>.</p> <p><i>(State the impact of the standard if relevant to the entity)</i></p>

MT ELGON LODGE LIMITED Reports and Financial Statements
For the year ended 30 June 2018

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.

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

a) 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 *company's* accounting policies.

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

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

b) Revenue recognition

Revenue is recognised to the extent that it is probable that future economic benefits will flow to the *company* 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 *company's* activities, net of value-added tax (VAT), where applicable, and when specific criteria have been met for each of the *company's* activities as described below.

- i) **Revenue from the sale of goods and services** is recognised in the year in which the *company* delivers products to the customer, the customer has accepted the products and collectability of the related receivables is reasonably assured.
- ii) **Grants from Tourism Finance Corporate** are recognised in the year in which the *company* actually receives such grants.
- 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.

SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

c) In-kind contributions

In-kind contributions are donations that are made to the *company* 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 *company* 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.

d) 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.

e) 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 cost of on-going but incomplete works on buildings and other civil works and installations.

Depreciation on property, plant and equipment is recognised in the income statement on a reducing balance basis to write down the cost of each asset or the re-valued amount to its residual value over its estimated useful life. The annual rates in use are:

Buildings and civil works	25 years or the unexpired lease period (2.5% p.a)	
Plant and machinery	12.5 years	(12.5% p.a)
Motor vehicles, including motor cycles	4 years	(25% p.a)
Computers and related equipment	3 years	(33.3% p.a)
Office equipment, furniture and fittings	12.5 years	(12.5% p.a)

MT ELGON LODGE LIMITED Reports and Financial Statements
For the year ended 30 June 2018

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

f) Depreciation and impairment of property, plant and equipment (Continued)

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 recognised so that the asset is written down immediately to its estimated recoverable amount.

g) 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.

h) Inventories

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

i) 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.

j) Taxation

Current income tax assets and liabilities for the current and prior periods are measured at the amount expected to be recovered from or paid to the tax authorities. The tax rates and tax laws used to compute the amount are those that are enacted or substantially enacted as at the reporting date. Current income tax relating to items recognised directly in equity is recognised in equity and not in the income statement.

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

k) Cash and cash equivalents

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 financial year. 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.

l) 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.

m) 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 *company* or not, less any payments made to the suppliers.

n) Retirement benefit obligations

The company 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. 360 per employee per month.

o) Provision for staff leave pay

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

SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

p) Exchange rate differences

The accounting records are maintained in the functional currency of the primary economic environment in which the *company* 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 recognised in profit or loss.

q) 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, 2018.



SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

a) Budget information

The original budget for FY 2017-2018 was approved by the Board of Directors as required. 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. Accordingly, the entity recorded additional appropriations of 20 million being on the 2017-2018 budget following the Board of Directors approval.

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.

b) NOTE Budget information

The original budget for FY 2017-2018 was approved by the Board of Directors as required. 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. Accordingly, the entity recorded additional appropriations of 20 million being capital expenditure on the 2017-2018 budget following the Board of Directors approval.

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.

SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (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.

c) 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.

d) Comparative figures

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

e) 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, 2018.

4 SIGNIFICANT JUDGMENTS AND SOURCES OF ESTIMATION UNCERTAINTY

The preparation of the Entity's financial statements in conformity with 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 judgements, estimates and assumptions made: e.g.

MT ELGON LODGE LIMITED Reports and Financial Statements
For the year ended 30 June 2018

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

The Mt Elgon lodge does not have any provision as at now. The Board intends to factor in its future budget the provision for bad debts.

MT ELGON LODGE LIMITED Reports and Financial Statements
For the year ended 30 June 2018

NOTES TO THE FINANCIAL STATEMENTS

	2018	2017
1. SALES		
Gross sales of goods	1,209,290	1,589,034
Less: Service charge on gross sales	(131,562)	-
Less: Value added tax on gross sales	(300,714)	-
Less: Catering Levy on gross sales	(37,589)	1,589,034
Net sales	<u>739,364</u>	<u>1,589,034</u>
2. COST OF SALES		
Food	350,903	307,488
Beverage	184,872	355,404
Tobacco	-	-
	<u>535,775</u>	<u>662,892</u>

COST OF SALES 2017/2018

	TOTALS	DRINKS	FOOD
OPENING STOCK	17,697	10,536	7,160
ADD PURCHASES	581,850	185,138	396,713
TOTAL	599,547	195,674	403,873
LESS CLOSING STOCK	63,772	10,802	52,970
COST OF SALES	535,775	184,872	350,903

MT ELGON LODGE LIMITED Reports and Financial Statements
For the year ended 30 June 2018

3. OTHER INCOME

Sale of tender documents	-	-
Interest on staff loans	-	-
Fines and penalties	-	-
Land Rentals	1,136,000	-
Other miscellaneous receipts	-	-
	<u>1,136,000</u>	<u>-</u>

4. ADMINISTRATION COSTS

Staff costs - note 5 (a)	502,996	1,774,685
Directors' emoluments	154,800	892
Electricity and water	75,000	31,628
Communication services and supplies	10,020	48,793
Transportation, travelling and subsistence	125,635	72,145
Advertising, printing, stationery and photocopying	-	2,000
Rent expenses	-	-
Staff training expenses	-	-
Hospitality supplies and services	14,032	-
Equipment	100,945	-
Bank charges and commissions	952	-
Office and general supplies and services	37,436	4,038
Auditors' remuneration	-	1,300
RENOVATIONS	216,663	-
FARM	3,235	-
Repairs and maintenance	58,750	130,605
Provision for bad and doubtful debts	-	-
Other operating expenses	23,505	51,599
	<u>1,323,969</u>	<u>2,117,685</u>

5 (a). STAFF COSTS

Salaries and allowances of permanent employees	382,126	1,774,685
Advances	109,720	-
Compulsory national health insurance schemes	-	-

MT ELGON LODGE LIMITED Reports and Financial Statements
For the year ended 30 June 2018

Compulsory national social security schemes	-	-
Other pension contributions/PAYE	-	-
Leave pay and gratuity	-	19,800
Wages	11,150	199,500
	<u>502,996</u>	<u>1,993,985</u>

6. INCOME TAX EXPENSE/(CREDIT)

(a) Current taxation

Current taxation based on the adjusted profit for the year at 30%	-	-
Current tax: prior year under/(over) provision	-	-
Current year deferred tax charge	-	-
Prior period under-provision for deferred tax	-	-
	-	-

(b) Reconciliation of tax expense/(credit) to the expected tax based on profit

Profit before taxation	<u>-661,061</u>	<u>- 2,983,236</u>
	-	-
Tax at the applicable tax rate of 30%	-	-
Current tax: 2017/2018 under-provision	-	-
Tax effects of expenses not deductible for tax purposes	-	-
Tax effects of income not taxable	-	-
	-	-
Tax effects of excess capital allowances over depreciation/amortisation	-	-
Deferred tax prior year over-provision	-	-
	-	-

7. PROPERTY, PLANT AND EQUIPMENT

(Detailed Schedule Separate)

Cost

At 1 July 2017/ beginning of year	48,552,798	49,237,586
Additions	100,945	-
Revaluation Surplus	-	-

MT ELGON LODGE LIMITED Reports and Financial Statements
For the year ended 30 June 2018

Transfers/adjustments	-	-
At end of the Year	48,653,743	49,237,586
At 1 July 2017/ beginning of year		
Depreciation	676,681	684,788
Disposals	-	-
Impairment	-	-
Transfer/adjustment	-	-
At end of Year		
Net Book Values	47,977,062	48,552,798

8. INVENTORIES

Food	10,802	7,161
Drinks & Tobacco	52,970	10,536
	-	-
	63,772	17,697

9. TRADE AND OTHER RECEIVABLES

Trade receivables	2,294,536	1,825,819
Deposits and prepayments	-	-
VAT recoverable	-	-
Staff receivables	-	468,717
Other receivables	-	-
Gross trade and other receivables	2,294,536	2,294,536
Provision for bad and doubtful receivables	-	-
Net trade and other receivables	2,294,536	2,294,717

MT ELGON LODGE LIMITED Reports and Financial Statements
For the year ended 30 June 2018

10. BANK AND CASH BALANCES

Cash at bank KCB	-	-
Cash at bank KCB	386,538	-
Float/Mpesa/petty cash	31,025	619
	417,563	619

11. ORDINARY SHARE CAPITAL

Authorised:

92289 ordinary shares of Kshs.20 par value each	1,845,780	1,845,780
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Issued and fully paid:

92289 ordinary shares of Kshs.20 par value each	-	-
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12. BORROWINGS

Balance at beginning of the period	3,527,222	2,596,370
External borrowings during the year	-	-
Domestic borrowings during the year	-	-
Repayments of external borrowings during the period	-	-
Repayments of domestic borrowings during the period	-	-
Total Repayments on borrowings	-	-
Balance at end of the period	3,527,222	2,596,370

The analyses of both external and domestic borrowings are as follows:

External Borrowings

Dollar denominated loan from 'A'	-	-
	-	-

Domestic Borrowings

Kshs. loan from Tourism Finance Corporation	9,466,377	9,466,377
	9,466,377	9,466,377

MT ELGON LODGE LIMITED Reports and Financial Statements
For the year ended 30 June 2018

Total balance at end of the period	9,466,377	9,466,377
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13. TRADE AND OTHER PAYABLES

Trade payables	10,522,345	10,522,345
Accrued expenses	8,312,625	5,643,341
Other payables	6,624,362	210,000
	25,459,332	16,375,716

14. NOTES TO THE STATEMENT OF CASH FLOWS

Reconciliation of operating profit/(loss) to
cash generated from/(used in) operations

Operating profit/(loss)	95,219	1,850,336
Depreciation	178,633	707,198
Operating profit/(loss) before working capital changes	273,852	2,557,534
(Increase)/decrease in inventories		-
(Increase)/decrease in trade and other receivables		-
Increase/(decrease) in trade and other payables		-
Increase/(decrease) in retirement benefit obligations		-
Increase/(decrease) in provision for staff leave pay		-
Increase/(decrease) in NSSF Penalties Payable		-
Cash generated from/(used in) operations		2,557,534

MT ELGON LODGE LIMITED Reports and Financial Statements
For the year ended 30 June 2018

	Land	Motor vehicles	Furniture and fittings	Computers	Buildings	Plant and Equipment	Total
7. Property, plant and equipment							
Cost	Shs	Shs	Shs	Shs	Shs	Shs	Shs
At 1 July 2017	23,000,000	-	173,525	-	25,300,372	78,901	48,552,798
Additions	-	-	-	-	-	-	-
Disposals	-	-	-	-	-	-	-
Transfers/adjustments(ESD Writeoff)	-	-	-	-	-	-	-
At SEPT 2017	23,000,000	-	173,525	-	25,300,371	179,846	48,552,798
Additions	-	-	-	-	-	-	-
Disposals	-	-	-	-	-	-	-
Revaluation Surplus	-	-	-	-	-	-	-
At end of Qtr. - September 2017	23,000,000	-	173,525	-	25,300,371	78,901	48,552,798
Depreciation and impairment							
At 1 Sep 2017	-	-	-	-	-	-	-
Depreciation	-	-	5,423	-	158,127	2,466	166,016
On Disposals	-	-	-	-	-	-	-
Additions	-	-	-	-	-	-	-
Impairment	-	-	-	-	-	-	-
At Dec 2017	-	-	5,423	-	158,127	2,466	166,016
Depreciation	-	-	10,846	-	316,254	4,932	332,032
On Disposals	-	-	-	-	-	-	-
Additions	-	-	-	-	-	-	-
Impairment	-	-	-	-	-	-	-
Transfer/adjustment	-	-	-	-	-	-	-

MT ELGON LODGE LIMITED Reports and Financial Statements
For the year ended 30 June 2018

At 31 March 2018	-	-	16,269	-	474,381	7,398	498,048
Net book values							
At 31st March 2018	23,000,000	-	157,256	-	24,825,990	71,503	48,054,749
Transfer/adjustment							-
Additions						100,945	100,945
Depreciation and impairment			5,422		158,127	15,083	178,632
At 30th June 2018			-		-	-	-
At 30 June 2018	23,000,000	-	151,834	-	24,667,863	157,365	47,977,062

MT ELGON LODGE LIMITED Reports and Financial Statements
For the year ended 30 June 2018

	Cumulative to date	Actual Audited
	2018	2017
	Shs	Shs
7. Property, plant and equipment		
Cost		
At 1 July 2017/ beginning of Quarter	48,552,798	49,237,586
Additions	100,945	
Revaluation Surplus	-	
adjustments(ESD machine Writeoff)	-	-
At end of the quarter/Year	48,653,743	49,237,586
Additions		
Depreciation and impairment		
At 1 April 2018/ beginning of Quarter	-	
Depreciation	676,681	684,788
Disposals	-	-
Impairment	-	-
adjustment (ESD machine Writeoff)	-	-
At end of quarter/Year	676,681	-
Net Book Values	47,977,062	48,552,798

MT ELGON LODGE LIMITED Reports and Financial Statements
For the year ended 30 June 2018

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.

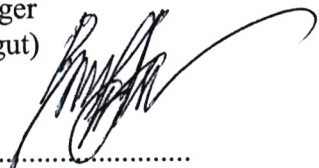
Reference No. on the external audit Report	Issue / Observations from Auditor	Management comments	Focal Point person to resolve the issue (Name and designation)	Status: (Resolved / Not Resolved)	Timeframe: (Put a date when you expect the issue to be resolved)
2.1	Dismal performance of the lodge .Expedite the refurbishment of the lodge to improve on sales	The refurbishment process on going	Board of Directors	On going	One year
2.2	Working capital---The lodge has been operating on a negative working capital for more than 3 years	The turnaround strategy of renovation and refurbishment of the lodge shall change the place completely and improve sales	management	On going	One year
2.3	Fencing of the lodge farm to secure the land	The surveyor was engaged to put beacons and fencing is in progress	management	On going	One year
2.4	Dispute over the boundaries of the lodge	The meeting between the community and the lodge and the issue was resolved	management	resolved	executed
2.5	Lack of standard operating Procedures organogram	The SOPS were put in place	management	resolved	executed
4.1	Weak internal controls	Internal controls were put in place and risk for loss minimized	management	resolved	executed



MT ELGON LODGE LIMITED Reports and Financial Statements
 For the year ended 30 June 2018

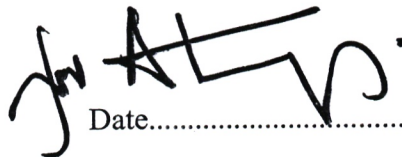
Reference No. on the external audit Report	Issue/ Observations from Auditor	Management comments	Focal Point person to resolve the issue (Name and designation)	Status (Resolved / Not Resolved)	Timeframe: (Put a date when you expect the issue to be resolved)
4.2	Non payment of Audit fees	The management promises to pay when funds become available	management	Not yet	On going
4.6	Non recovery of trade and other receivables	The management intends to come up with a credit policy to ensure all debts are recovered	management	Not yet	On going
4.10	Non-payment Statutory dues	The management shall pay the dues as and when funds become available.	management	Not yet	On going

General Manager
 (Reuben k. Argut)



Date.....

Chairman of the Board



Date.....

MT ELGON LODGE LIMITED Reports and Financial Statements
For the year ended 30 June 2018

ABBREVIATIONS

TFC - Tourism Finance Corporation

SOPS – Standard Operating Procedures

Mt- Mount

VAT- Value Added Tax

CLT - Catering Levy Trust

NSSF - National social security Fund

NHIF- National Hospital Insurance Fund

PAYE -Pay As You Earn

PPE – Property plant and Equipment

