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Enhancing Accountability

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**SPECIAL AUDIT REPORT OF
THE AUDITOR-GENERAL ON
TRANSPARENCY, ACCOUNTABILITY
AND INCLUSIVENESS ON THE USE OF
EMERGENCY FUNDING FOR COVID-19
ON SOCIO-ECONOMIC PACKAGES IN
THE TOURISM SECTOR BY
THE KENYA DEVELOPMENT
CORPORATION LIMITED**

APRIL 2023

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LIST OF ABBREVIATIONS

AIE	Authority to Incur Expenditure
COVID-19	Corona Virus Disease 2019
ESP	Economic Stimulus Program
DFI	Development Financial Institution
ESP	Economic Stimulus Packages
FY	Financial Year
GDP	Gross Domestic Product
GOK	Government of Kenya
INTOSAI	International Organization of Supreme Audit Institutions
KDC	Kenya Development Corporation
KTDC	Kenya Tourism Development Corporation
MOT&W	Ministry of Tourism and Wildlife
OAG	Office of the Auditor-General
PFMR	Public Finance Management Regulations, 2015
SDT	State Department of Tourism
TAI	Transparency, Accountability and Inclusiveness
TFC	Tourism Finance Corporation
TRA	Tourism Regulatory Authority

DEFINITION OF TERMS

TAI Audits	Transparency, Accountability and Inclusiveness (TAI) audits are visualised as ISSAI-based compliance audits which contribute to enhancing transparency, accountability and inclusiveness in the use of emergency funding for COVID-19, and the setting up of more transparent, accountable and inclusive frameworks for public spending during emergencies in the future.
Transparency	Transparency is the basic and commonly agreed-upon principle of disclosure to make policies, legal and institutional frameworks and information related to decisions available to the public in a comprehensible, accessible and timely manner.
Accountability	Accountability refers to the legal and reporting framework, organisational structure, strategy, procedures, and actions to ensure that organisations that use public money and make decisions that affect people's lives can be held responsible for their actions.
Inclusiveness	Inclusiveness refers to the process of improving the terms for individuals and groups, in particular for those marginalised or in danger of being left behind, to take part in society and to be able to benefit adequately from public spending on COVID-19.
Framework Level	Framework level is the scope of TAI audit that covers compliance of the framework.
Transactional Level	Transactional level is the scope of TAI audit that examines compliance of a set of transactions.

EXECUTIVE SUMMARY

1. Corona Virus Disease 2019 (COVID-19) is a global pandemic that has ravaged the world. Most people who got infected with the virus experienced mild to moderate respiratory illness and recovered without requiring special treatment. In Kenya, the first case was reported on 13 March, 2020 and the disease later spread to all the 47 counties. As a result of the pandemic, all spheres of the economy were affected.
2. The Government of Kenya (GoK) rolled out an 8-point Economic Stimulus Programme (ESP) on 23 May, 2020. The Program focused on sectors dealing with infrastructure, education, Micro, Small and Medium Enterprises (MSME), health, agriculture, tourism, environment and manufacturing.
3. Tourism is a key driver of the economy, generating about 8.8% of the country's Gross Domestic Product (GDP). The sector has been a major source of revenue to the Government. In 2017, it generated Kshs. 120 billion which rose to Kshs.157 billion in 2018, with further upward trend in 2019 to Kshs. 164 billion. However, in 2020, the revenue from the tourism sector dropped to Kshs. 37 billion. This was as a result of the COVID-19 pandemic that led to a reduction in the number of tourists, as the world experienced lockdown and travel restrictions. This subsequently resulted in jobs cuts in hotels and related businesses that depend on the sector, leading to unemployment. Prior to the COVID-19 pandemic, the tourism sector contributed about 8.3% of the total employment in the Country and directly and indirectly in other sectors dealing with agriculture, communication, health and education.
4. A total of Kshs. 53.7 billion was allocated towards cushioning the economy against the effects of the pandemic in the Financial Year 2020/2021. Out of the Kshs. 53.7 billion, the tourism sector was allocated Kshs. 3 billion aimed at providing soft loans to hotels and related establishments to help restore the tourism sector from the effects of the COVID-19 pandemic. The National Treasury disbursed the funds to the State Department for Tourism, which in turn allocated Kshs. 0.8 billion to the Tourism Board and Kshs 2.2 billion to the Tourism Finance Corporation (TFC). The

audit focused on the COVID-19 emergency funds allocated and disbursed through the Tourism Finance Corporation during the financial years 2019/2020 and 2020/2021.

5. The Tourism Finance Corporation (TFC), Industrial and Commercial Development Corporation (ICDC) and IDB Capital Limited, were merged to establish the Kenya Development Corporation (KDC) as per Legal Notice No. 113 of 02 July, 2021. Therefore, whereas the audit commenced with TFC as the auditee, it transitioned to KDC in the course of the audit after the merger.

Audit Objective

6. The objective of the audit was to assess whether the provisions and regulations governing socio-economic packages for COVID-19 spending provides for transparency, accountability and inclusiveness. The audit also assessed the extent to which the government complied with applicable laws, rules, regulations and policy decisions in terms of transparency, accountability and inclusiveness in the implementation of socio-economic packages.

Audit Scope

7. The audit focused on activities related to the utilization of funds allocated to the Tourism Finance Corporation (TFC), through the State Department of Tourism, under the Economic Stimulus Program in the tourism sector for the financial years 2019/2020 and 2020/2021. Field visits were conducted in 13 counties namely; Nairobi, Mombasa, Kilifi, Kisumu, Kajiado, Machakos, Kitui, Nakuru, Narok, Trans Nzoia, Uasin Gishu, Meru and Nyeri, where the beneficiaries were located. Audit evidence was gathered through documentary review, interviews and physical verification.

Summary of the Audit Findings

I. Availability of Information to the Public

8. The National Treasury, vide Circular No. 14/2020 dated 27 July, 2020, provided an ESP implementation framework that guided Ministries, Departments and Agencies (MDAs) on the implementation of the Post COVID-19 Economic Stimulus Programme (PC-ESP). The guidelines provided information on the target group for

the Economic Stimulus Program (ESP), institutional, reporting, operational frameworks, as well as the requisite budget for the program.

9. The Tourism Finance Corporation (TFC) advertised the Economic Stimulus Program for Call 1 and 2 on September, 2020 and 2 February 2021 respectively. The advertisement was on electronic, print and online platforms. The information provided included; loan application procedures, eligibility of applicants, products to be financed, terms and conditions of the loan and mode of application. The approved budget was published in the Supplementary II budget for FY 2020/2021.

II. Lack of Appointment Letters for some of the Steering Committee Members

10. According to the National Treasury Circular No. 14/2020 of 27 July, 2020, the Cabinet approved the establishment of a National PC-ESP Steering Committee, Technical Implementation Committee and the Ministry, Departments and Agencies (MDAs) Project Implementation Team. In addition, the Cabinet Secretary, The National Treasury and Planning, outlined the governance structure for ESP in a letter Reference No. TNT/CONF/267/01, dated 17 September, 2020.
11. However, the appointment letters for the Steering Committee members of the Principal Secretary (PS), the State Department for Tourism, the Chairperson of the Architecture Society of Kenya and one technical staff from TFC were not presented for audit review. The audit team could therefore not confirm whether the Steering Committee was properly constituted.

III. Lack of a Dedicated Bank Account for Receipt of Program Funds

12. A total of Kshs. 2.2 billion was received into the TFC Loans Fund Account held at KCB Bank for the period 1 September, 2020 to 8 July, 2021. However, on 4 September, 2021, Kshs. 2.251 billion was transferred from the bank account to the Kenya Development Corporation (KDC) Tourism Fund held in the same bank. The audit established that both bank accounts were used for banking other funds, besides the funds allocated for the Economic Stimulus Program. As a result, it was not possible to easily track the utilization of ESP funds, as they were comingled with funds from other sources.

IV. Failure to Apportion Emergency Funds as per the Set Guidelines

13. According to the implementing guidelines, ESP funds were to be apportioned as follows; 60% to the Coast Region and 40% to other areas. Based on the approved budget of Kshs 2.2 billion, Kshs. 1.323 billion was to be allocated to the Coast Region and Kshs. 0.881 billion to other areas. However, according to the board minutes, the actual allocation was Kshs. 1.006 billion to the Coast Region and Kshs. 1.198 billion to other areas, respectively.

V. Delay in Disbursement of Funds

14. The application process for funds/loans was to be completed within 60 days of submission of applications. However, the audit revealed that it took a period of between six to fourteen months to disburse funds to program beneficiaries thereby delaying implementation and benefits of ESP.

15. As at the time of audit in November 2021, out of Kshs. 2.2 billion provided under the COVID-19 Emergency Funds, only Kshs. 318.99 million, representing 14.5% of the allocation, had been disbursed to beneficiaries. Out of this, Kshs 18,169,670 was disbursed to beneficiaries in the Coast region and Kshs.300,819,627 was to beneficiaries to other regions. As a result of the delay in disbursement of the emergency funds, the intended impact of cushioning businesses against the effects of the COVID-19 pandemic may not have been achieved.

VI. Failure to Maintain Proper Financial Records and Bank Reconciliation

16. Article 226(1)(a) of the Constitution of Kenya, 2010 provides for the keeping of financial records and the auditing of accounts of all governments and other public entities. It also prescribes other measures for securing efficient and transparent fiscal management.

17. Section 90 (1) of the Public Finance Management (National Government) Regulations, 2015 states that Accounting Officers shall ensure bank accounts reconciliations are complete for each bank account held by that Accounting Officer, every month and submitted not later than the tenth of the subsequent month to the National Treasury with a copy to the Auditor-General.

18. The cashbook in respect to the bank accounts where the ESP funds were held was not properly maintained. For instance, according to the bank statements, ESP funds totalling Kshs.704,274,050 received on 8 July, 2021 9 had not been recorded in the cashbook, casting doubt on its accuracy and reliability. In addition, bank reconciliations undertaken could not be relied upon since the source of the cashbook figures on the bank reconciliations statements were different from those maintained in the cashbook.

VII. Lack of Provision for Special Groups in the Economic Stimulus Program Policy

19. Examination of documents revealed that no special considerations were given to businesses owned by the youth, women, persons with disabilities, older member of society, as well as members of minority and marginalized communities.

20. It was noted that the ESP Policy adopted most of its clauses from the Credit Policy, which does not consider businesses owned by special groups. Therefore, there is risk of the special groups not benefiting from the COVID-19 emergency funds.

VIII. Lack of a Product for Tour Operators and Travel Agents

21. According to Section 4 of the ESP Policy, the intended beneficiaries of the ESP funds are hotels, restaurants, tour operators, travel agents and any other tourism establishment registered in Kenya. Further, Section 7 specifies products to be financed by the COVID-19 Emergency Fund as refurbishment and hotel operations restructuring.

22. It was noted that the products that were developed for refurbishment and hotel operations restructuring targeted hotels and restaurants. There was no product designed for tour operators and travel agents. Although tour operators and travel agents applied for the fund, it was declined.

Conclusion

23. The implementing guidelines for the Economic Stimulus Program provide for transparency, as information on the target group, criteria for selecting beneficiaries, institutional framework, reporting framework, operational framework and the

required budget for the program are provided therein. The information regarding the Economic Stimulus Program was publicly advertised on electronic and print media.

24. The implementing guidelines for the Economic Stimulus Program provide for accountability. The roles and responsibilities of Ministries, Department and Agencies (MDAs), as well as committees such as the National Steering Committee, Technical Implementation and MDA Project Implementation Team were defined. The reporting framework for accounting for the ESP COVID-19 funds was also provided.

25. However, funds for the Economic Stimulus Program were comingled with other funds for normal loan account and operations as there was no separate bank account for ESP funds. In addition, the funds were not apportioned as per the ESP Policy with regard to the recommended proportions of 60% for the Coastal Region (beach destinations) and 40% for the rest of the Country. Further, the disbursement of funds to beneficiaries was delayed and the cashbook in respect to the account was not properly maintained.

26. The implementing guidelines provide for inclusiveness as it states that the stimulus package is designed to target vulnerable citizens and businesses affected by job losses, increased operating costs and reduced demand. However, the Post COVID-19 Economic Stimulus Programme (PC-ESP) policy does not clearly define or identify who the targeted vulnerable citizens are, under the State Department for Tourism

Recommendations

27. In view of the findings and conclusion of the Transparency, Accountability and Inclusiveness audit, the following is recommended for implementation by the Kenya Development Corporation (KDC):

- i. The Kenya Development Corporation should maintain a separate and distinct bank account for the COVID-19 emergency funds. This is to ensure that an audit trail is maintained and that the funds are utilized for intended purpose.
- ii. The Kenya Development Corporation should comply with the provisions of the ESP Policy and Guidelines in the allocation and disbursement of COVID-19 emergency funds. 60% of the funds should be allocated and disbursed to the Coastal Region (beach destinations) and 40% to the rest of the Country as per the requirements, in order for the Program to meet its intended objective.
- iii. The Kenya Development Corporation should review the appraisal and disbursement process so that beneficiaries can access COVID-19 emergency funds in a timely manner.
- iv. The Kenya Development Corporation should maintain an accurate cashbook and prepare bank reconciliation statements on a monthly basis. This is to ensure compliance with the Public Finance Management Regulations (PFMR), 2015 on accounting for public funds.
- v. The Kenya Development Corporation should review the ESP Policy to be in line with the National Treasury Implementation Framework to bring on board businesses owned by vulnerable groups.
- vi. The Kenya Development Corporation should develop suitable products that meet the needs of the targeted beneficiaries of the Emergency Fund as outlined in the Economic Stimulus Program (ESP) Policy. This will make the fund accessible for all tourism related activities.


CPA Nancy Gathungu, CBS

AUDITOR-GENERAL

13 April, 2023

CHAPTER ONE: BACKGROUND OF THE AUDIT

Introduction

1.1 Coronavirus disease (COVID-19) is an infectious disease caused by the SARS-CoV-2 virus that rapidly spread around the world. Most people infected with the virus experienced mild to moderate respiratory illness and recovered without requiring special treatment. However, some became seriously ill and required medical attention. Older people and those with underlying medical conditions like cardiovascular disease, diabetes, chronic respiratory disease, or cancer were more susceptible to develop serious illness. Anyone can get sick with COVID 19 and become seriously ill or even die at whatever age. The virus can spread from an infected person's mouth or nose in small liquid particles when they cough, sneeze, speak, sing or breathe. These particles range from larger respiratory droplets to smaller aerosols.¹

1.2 In Kenya, the first case of COVID-19 was reported on 13 March, 2020 and the disease later spread to all the 47 counties². The Government instituted the following measures to reduce the spread of COVID-19; cessation of movement by road, air and rail into Nairobi in the first wave, then to five diseased Counties of Nairobi, Kajiado, Machakos, Nakuru and Kiambu in the third wave, ban on public gatherings or in person meetings of whatever nature, ban on international travel in and out of Kenya, nationwide curfew from 7:00 PM to 5:00 AM, all restaurants to provide takeaway services only, bars were to be closed, social distancing, washing hands regularly, covering of the nose and mouth when coughing and sneezing with tissue or flexed elbow³. As a result of the pandemic and measures intended to control the spread of the disease, all the sectors of the economy were affected.

1.3 The Government of Kenya launched and rolled out an eight (8)-point Economic Stimulus Program (ESP) on 23 May, 2020. The Program focused on sectors

¹ https://www.who.int/health-topics/coronavirus#tab=tab_1

² Ministry of Health stakeholder Engagement Plan June 2021

³ Presidential address 25th March 2020 and 26th March 2021

dealing with infrastructure, education, Micro, Small and Medium Enterprises (MSME's), health, agriculture, tourism, environment and manufacturing.

1.4 A total of Kshs. 53.7 billion was allocated towards cushioning the economy against the effects of the pandemic in the Financial Year 2020/2021. Out of the Kshs. 53.7 billion, the tourism sector was allocated Kshs. 3 billion aimed at providing loans at concessionary rates to hotels and related establishments, to help restore the sector from ravages of the pandemic. The National Treasury disbursed the monies to the State Department for Tourism, which in turn allocated Kshs. 0.8 billion to the Tourism Board and Kshs. 2.2 billion to the Tourism Finance Corporation (TFC). The audit focused on the COVID-19 emergency funds allocated and disbursed to the TFC.

28. The Tourism Finance Corporation, Industrial and Commercial Development Corporation and IDB Capital Limited were merged to establish the Kenya Development Corporation (KDC), as per Legal Notice No. 113 of 02 July, 2021. Therefore, whereas the audit commenced with TFC as the auditee, it transitioned to KDC in the course of the audit after the merger.

Motivation for the Audit

1.5 Coronavirus disease (COVID-19) led to a global pandemic that ravaged the world. INTOSAI Development Initiative (IDI) partnered with select SAIs to capacity build and carry out collaborative audits on Transparency, Accountability and Inclusiveness (TAI) on the use of Emergency funding for the pandemic. The aim is to support and promote SAIs to respond in a timely manner with regards to audits on the use of emergency funds for COVID-19 interventions.

29. Tourism is a key driver of the economy, generating up to 8.8% of the country's Gross Domestic Product (GDP). The sector has been a major source of revenue to the Government; in 2017 it generated Kshs. 120 billion, which rose to Kshs.157 billion in 2018, with further upward trend in 2019 to Kshs.164 billion. However, in 2020, due to the COVID-19 pandemic, revenue from the sector dropped to Kshs.37 billion. This was attributed to a reduction in the number of tourists, as the world experienced lockdown and travel restrictions. This led to jobs losses in hotels and

related businesses that depend on the tourism sector. Prior to the COVID-19 pandemic, the tourism sector contributed about 8.3% of the total employment in the Country; directly and indirectly in other sectors dealing with agriculture, communication, health and education.

CHAPTER TWO: DESIGN OF THE AUDIT

Audit objective

2.1 The objectives of the audit were:

- i. To assess whether the rules and regulations governing socio-economic packages for COVID-19 spending provided for transparency, accountability and inclusiveness; and
- ii. To assess the extent to which the Government complied with the applicable laws, rules, regulations and policy decisions in terms of transparency, accountability and inclusiveness in the implementation of socio-economic packages.

Audit Scope

2.2 The audit focused on activities related to the utilization of funds allocated to the Tourism Finance Corporation (TFC), through the State Department of Tourism (SDT), under the Economic Stimulus Program (ESP) in the tourism sector for the financial years 2019/2020 and 2020/2021. The audit was conducted at TFC Headquarters in Nairobi and field visits conducted in 13 counties namely; Nairobi, Mombasa, Kilifi, Kisumu, Kajiado, Machakos, Kitui, Nakuru, Narok, Trans Nzoia, Uasin Gishu, Meru and Nyeri, where the beneficiaries were located.

Methods Used to Gather Data

2.3 The audit was conducted in accordance with International Standards of Supreme Audit Institutions (ISSAIs) 4000 issued by the International Organization of Supreme Audit Institutions (INTOSAI), Compliance Audit Manual and other procedures established by the Office of the Auditor- General Kenya. The methods used to gather audit evidence are as outlined below: -

a) Documentary Review

2.4 During the audit, various documents were reviewed, including the Tourism Act, 2011, National Treasury Framework for Post COVID -Economic Stimulus Programme (PC-ESP), board minutes and bank statements. This was to enable the team to obtain an understanding of the audit entity, its stakeholders and the activities involved in the Program, as detailed in **Appendix I**.

b) Interviews

2.5 The audit team interviewed key officers from the National Treasury, State Department for Tourism and Tourism Finance Corporation. Additionally, beneficiaries of ESP were interviewed, as detailed in **Appendix II**.

c) Physical Verification

2.6 The audit team visited 21 beneficiary projects of the ESP to confirm whether they received the funds and carried out the works intended, as listed in **Table 1** and detailed in **Appendix III**.

Table 1: Projects Visited

No	Name of the Beneficiary	No	Name of the Beneficiary
1	Doa Doa Tented Camps & Lodges Ltd	12	Rhino Watch Safaris Limited
2	Engwata Enterprises Ltd	13	Sandalwood hotel and Resorts Ltd
3	Moffat Court Apartments	14	Whirlsprings Hotel Kisumu Ltd
4	Afrikana Yard Limited	15	Sixty-Four Centre Limited
5	Alba Hotel Ltd	16	Rusinga Blue Ridge Hotel
6	Balis Best Bar Limited	17	Rusinga Management Ltd
7	Gelian Investments	18	Explore Nature Mara Lodge Ltd
8	Kasarani Sports View Hotel	19	Elangata Olerai Luxury Camps
9	Mwingi Hotel Ltd	20	Wigot Garden Ltd
10	Naivasha Kongoni Lodge Limited	21	Blue springs Hotel Ltd
11	Pinecone Hotels Kisumu Limited		

Assessment Criteria

2.7 The following assessment criteria was used for the audit: -

Transparency

- i) The National Treasury vide a Circular No. 14/2020 dated 27 July, 2020 provided an ESP implementation framework that guided MDAs on the implementation of the PC-ESP. The guidelines provided information on the target group for the ESP, institutional, reporting and operational frameworks, as well as the required budget for the program.

- ii) The National Treasury Circular No. 14/2020 of 27 July, 2020, issued by the Cabinet on approval for the establishment of a National PC-ESP Steering Committee, Technical Implementation Committee and MDAs Project Implementation Team.

Accountability

- iii) The Economic Stimulus Programme (ESP) policy provides for the structural organization on how the COVID-19 emergency funds are to be managed. The Steering Committee was to oversee operations of ESP implementation, whereas the TFC Board was responsible for loan approvals. The management was responsible for preparation of appraisal documents and management reports for the Steering Committee.
- iv) The Economic Stimulus Programme policy was anchored on the Coast Tourism Recovery Strategy, the Tourism Blueprint 2030 and the Tourism Taskforce, Policy 2015. Funds allocated for ESP were to be apportioned 60% to the Coast Region (beach destinations) and 40% for other areas of the Country.

Inclusiveness

- v) The National Treasury Circular No. 14/2020 on PC-ESP implementation framework dated 27 July, 2020 states that the stimulus package is designed to target vulnerable citizens and business affected by job losses, increased operating costs and reduced demand.
- vi) The Economic Stimulus Programme policy states that the intended beneficiaries of the funds under the program are hotels, restaurants, tour operators, travel agents and any other tourism establishment registered in Kenya. Further, specific products to be financed from the funds are refurbishment and the restructuring of hotel operations.

CHAPTER THREE: DESCRIPTION OF THE AUDIT AREA

State Department for Tourism

3.1 The State Department for Tourism was domiciled within the Ministry of Tourism and Wildlife at the time of the audit. It was mandated to provide strategic policy direction and leadership in tourism development and management in the Country.

3.2 The department's role included: coordination and policy implementation and planning; product diversification and experience; tourism marketing and promotion; synergy building and improving the alignment between supply and demand; enhancing competitiveness and investment potentials and monitoring and evaluation of tourism programmes and activities in the Country⁴. The department implemented the Economic Stimulus Program through the Tourism Finance Corporation, a specialized financial institution and business advisory services entity in the tourism sector⁵.

Tourism Finance Corporation and Kenya Development Corporation

3.3 The Tourism Finance Corporation (TFC) was a body corporate established by the Tourism Act No 28 of 2011; a specialized Development Financial Institution (DFI) with the mandate of facilitating and providing affordable development funding and advisory services for long-term investment in Kenya's tourism industry.

3.4 However, according to Legal Notice No. 113 of 02 July, 2021, the Tourism Finance Corporation (TFC), Industrial and Commercial Development Corporation (ICDC) and IDB Capital Limited (formerly the Industrial Development Bank) were merged to establish the Kenya Development Corporation (KDC). KDC is 100% owned by the Government of Kenya and is mandated to provide long-term financing and other financial, investment and business advisory services.

⁴ <http://www.tourism.go.ke/introduction/>

⁵ Revised National Tourism Policy 2020 pg 37

Process Description

Advertisement

3.5 The Tourism Finance Corporation advertised the ESP program for Call one (1) and two (2) on 22 September, 2020 and 02 February, 2021, respectively. The advertisement was on electronic, print and online platforms. The print media advertisement was done via the Daily Nation and My Gov. Information provided included; loan application procedures, eligibility criteria for the applicants, products to be financed, as well as terms and conditions of the loan. The advertisement invited interested parties to apply for ESP within 21 days⁶ by submitting their applications online using the TFC portal.

Online Application

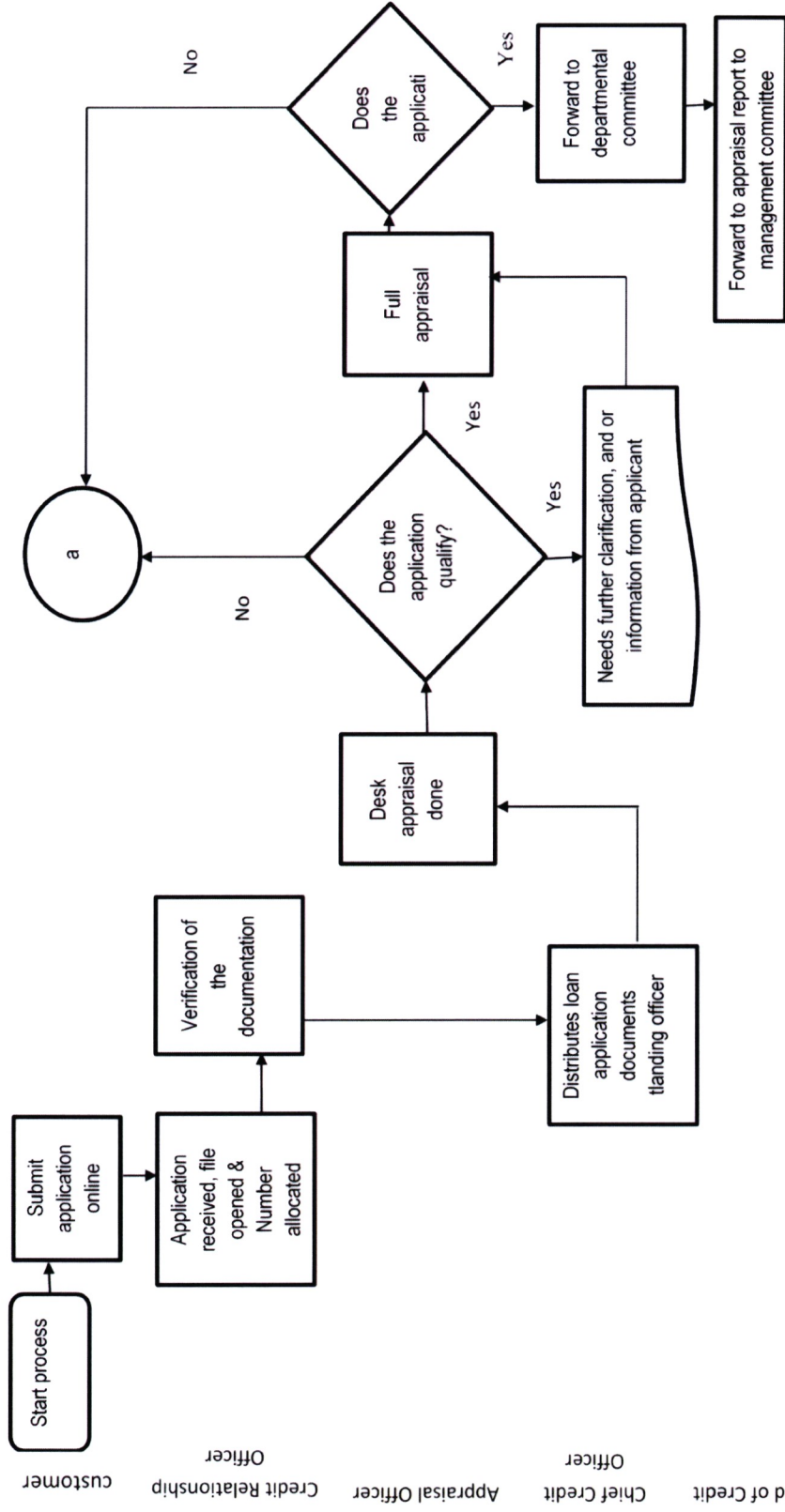
3.6 The Tourism Finance Corporation developed an online application portal where all applications were to be submitted. Applicants filled application forms and uploaded supporting documents through this medium. Thereafter, all applications were printed out and a credit file opened for each applicant, which was marked as per submission number auto allocated by the system.

Loan Appraisal and Approval

3.7 Each application was appraised based on a checklist that was developed by TFC. The appraisal process involved verification of submitted documents as detailed in **Figure 1**.

⁶ Credit Department: Stimulus Package Process

Figure 1: Loan appraisal process

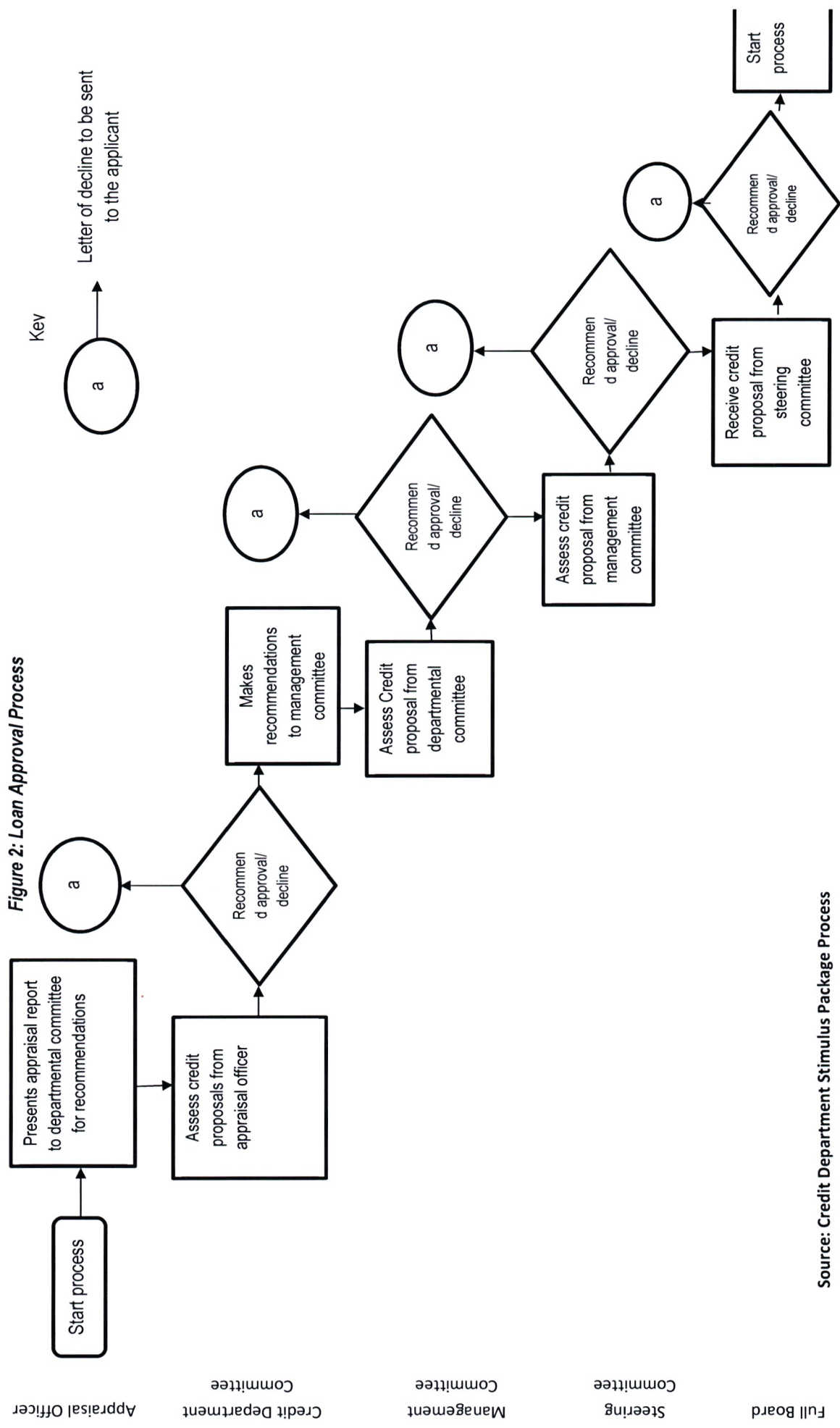


Key



Letter of decline to be sent to the applicant

- 3.8 Upon evaluation, all applications that did not meet the criteria for mandatory documents at desk appraisal level were declined. A report of declined loans was presented to the TFC management for recommendations and forwarded to the steering committee. Thereafter, the steering committee made their recommendations to the Board for approval.
- 3.9 Full appraisal was then carried out by officers on applications that met the minimum criteria and were acceptable, after desk appraisal, based on the laid down parameters in ESP Policy.
- 3.10 At full appraisal stage, the applications that did not meet the requisite criteria were declined and a report of declined loans presented to the TFC management for recommendations to the steering committee who in turn made recommendations to Board for approval.
- 3.11 Projects that met the minimum criteria after full appraisal while taking into consideration all the assumptions as realistically possible, including outlining financial and business risks; based on laid down parameters in the ESP policy, a report for approval was presented to the TFC management for recommendations to steering committee who in turn made their recommendation to the Board for approval.
- 3.12 Once the projects were approved by the TFC Board, a term sheet was issued within 72 hours providing indicative terms that outline the material terms and conditions of loan agreement, including disbursement terms before the final agreement.
- 3.13 Site appraisals were then undertaken to authenticate the project existence, as per the documentation provided to inform the final decision, before a letter of offer was issued by the corporation's legal department. The loan approval process is illustrated in **Figure 2**.



Source: Credit Department Stimulus Package Process

CHAPTER FOUR: AUDIT FINDINGS

4.1. The findings are drawn from the assessment of the governing policies and procedures in the development of guidelines for COVID-19 emergency funds and its implementation. These findings are presented according to the three elements of Transparency, Accountability and Inclusiveness (TAI) audit.

Transparency

Availability of Information to the Public

4.2. The National Treasury vide a Circular No. 14/2020 dated 27 July, 2020 provided an ESP Implementation Framework that guided Ministries, Departments and Agencies (MDAs) on implementation of the Post COVID-19 Economic Stimulus Programme (PC-ESP). The guidelines provided information on the target group for the ESP, institutional framework, reporting framework, operational framework and required budget for the program.

4.3. The Tourism Finance Corporation (TFC) advertised for the ESP program for Call one (1) and two (2) on 22 September, 2020 and 02 February, 2021, respectively. The advertisement was done on electronic, print and online platforms. The advertisements provided guidelines on loan application procedures, eligibility of applicants, products to be financed, terms and conditions of the loan and mode of application.

4.4. Further, KDC management announced for stakeholder engagement forums which were to be held virtually via Zoom between December 2020 and January 2021. The meetings were used to sensitize stakeholders about the ESP program.

4.5. The approved budget was published in the Supplementary II budget for the Financial Year 2020/2021 which was available to the public. TFC received a total of Kshs. 2, 204, 264, 050 which was disbursed from the State Department for Tourism in three tranches as shown in **Table 2**.

Table 2: Funds Received by the Tourism Finance Corporation

Date	Amount (Kshs.)
1 September, 2020	1,500,000,000
8 July, 2021	121,000,000
8 July, 2021	583,264,050
Total	2,204,264,050

4.6. The information on the ESP COVID-19 emergency funding was therefore made available to the public.

Lack of Appointment Letters for Some of the Steering Committee Members

4.7. According to the National Treasury Circular No. 14/2020 of 27 July, 2020, the Cabinet approved the establishment of a National PC-ESP Steering and Technical Implementation Committees and the MDAs Project Implementation Team.

4.8. Further, the Cabinet Secretary (CS) National Treasury and Planning in a letter ref TNT/CONF/267/01 and dated 17 September, 2020 to the CS Ministry of Tourism and Wildlife outlined the governance structure for the ESP. In this letter, the Principal Secretary (PS), State Department for Tourism would chair the Steering Committee comprising of two technical staff from the Ministry of Tourism and Wildlife, two technical staff from TFC, two retired professionals with vast experience in the tourism sector, the Chairperson of the Architectural Society of Kenya and the Managing Director of TFC as the secretary.

4.9. However, appointment letters for the PS, State Department for Tourism, the Chairperson of the Architecture Society of Kenya and a technical staff from TFC were not provided for audit review. The audit team could not therefore confirm whether the Steering Committee was properly constituted.

Accountability

Defined Organization structure

4.10. According to the ESP Policy, the funds allocated to the program were to be administered by TFC staff, management, steering committee and the Board. The roles and responsibilities of the organs involved are indicated in **Table 3**.

Table 3: The Economic Stimulus Program Fund Organization Structure

No.	Category	Responsibilities
1	TFC Staff	Receive, appraise and recommend applications to the TFC management
2	TFC Management	Recommend applications to the Steering Committee
3	Steering Committee	Provide oversight and consider applications recommended with the aim of ensuring that objectives of the programme are being achieved as well as operation and the administration of the programme
4	TFC Board	Approval of the loans and general administration

4.11. The organization structure was put in place as the Economic Stimulus Program required special consideration outside the normal TFC lending procedures. The audit established that the structure put in place was functional and eased the processing of loans by standardizing and providing checks and balances in the process.

Lack of a Dedicated Bank Account for Receipt of Program Funds

4.12. According to the Economic Stimulus Program Policy Part 4, TFC is a functional Financial Development Institution (FDI) that has relevant experience to handle the Fund. ESP funds should therefore be received and utilized for implementation of programs under the Tourism Finance Corporation.

4.13. A total of Kshs. 2,204,264,050 was received in the TFC Loans Fund Account held at KCB Bank in three tranches of Kshs. 1.5 billion, Kshs. 121 million and Kshs. 583.264 million on 1 September, 2020 and 8 July, 2021. Review of documents revealed that on 04 September, 2021, Kshs. 2,251,290,694 was transferred from TFC Loans Fund Account to the KDC Tourism Fund Account at KCB Bank. The audit established that both bank accounts where the COVID-19 emergency funds were deposited were also being used for other corporation activities such as normal loans and operations.

4.14. As a result, it was not possible to easily track the utilization of ESP funds, as they were comingled with funds from other sources. Comingling of funds may result in the emergency funds being utilized for purposes other than those intended.

Failure to Apportion Emergency Funds as per the Economic Stimulus Program Policy

4.15. Section 5, 6, 7 and 8 of the ESP Policy of October 2020 outline the eligible categories to apply, criteria for lending, products to be financed under the policy and loan application process, respectively.

4.16. According to Section 7, the ESP Policy was anchored on the Coast Tourism Recovery Strategy, Tourism Blueprint 2030 and Tourism Taskforce Policy of 2015. Funds allocated for the ESP were to be apportioned 60% in the Coast Region (Beach destinations) and 40% to other areas.

4.17. Based on the approved budget of Kshs. 2, 204, 264, 050 the apportionment translates to Kshs. 1,322,558,430 for the Coast Region and Kshs. 881, 705, 620 to other areas.

4.18. Documentary review revealed that for Call 1, the TFC Board approved loans amounting to Kshs. 1, 620, 266, 261, of which the Coast Region was allocated Kshs. 421, 955, 900 and other regions were allocated Kshs. 1, 198, 270, 361. The balance of Kshs. 583, 977, 789 was to be allocated after Call 2 to the Coast Region that had responded poorly to Call 1.

4.19. Based on the total allocation, the Coast Region was allocated Kshs 1, 005, 993, 689, representing 46% of the budgeted amount, contrary to the policy of 60% as detailed in **Table 4**.

Table 4: Analysis of Allocation of Funds

Region	Call one (1) (Kshs.)	Call two (2) (Kshs.)	Total (Kshs.)	%
Coast	421, 995, 900	583, 997, 789	1, 005, 993, 689	46
Others	1, 198, 270, 361	0	1, 198, 270, 361	54
Total	1, 620, 266, 261	583, 997, 789	2, 204, 264, 050	100

4.20. Therefore, the Kenya Development Corporation did not comply with the ESP Policy in apportioning the COVID-19 emergency funds in the ratio of 60% for the Coast Region and 40% for other regions.

Delay in Disbursement of Funds

4.21. According to the ESP Policy, Part 8, applications were to be submitted online within 21 days from the date of opening of the portal. Further, applications were to be reviewed periodically within 7 days to ensure that the whole process from application, appraisal, approval to disbursement of funds is completed within 60 days.

4.22. Applications for Call one (1) were opened on 22 September, 2020 and closed on 12 October, 2020. Applications for Call 2 were opened on 02 February, 2021 and closed on 03 March, 2021. According to the provided timelines, disbursements for Call one (1) successful applicants was supposed to have been concluded by 11 December, 2020. However, the disbursement took between six to fourteen months as detailed in **Table 5**.

Table 5: Timelines from Application to Disbursement of Funds

No.	Name Beneficiary of	Amount Disbursed (Kshs.)	Application Date	Application Deadline Date	Appraisal Date (7 days upon closure)	Board Approval Date	Date Letter Offer	60 days (target)	Actual Disbursement Date	Duration (Months)
1.	Doa Doa Tented Camps & Lodges Limited	10,800,000	12-Oct-20	12-Oct-20	19-Oct-20	16-Dec-20	17-Mar-21	11-Dec-20	13-May-21	7
2.	Engwata Enterprises Ltd	2,115,350	12-Oct-20	12-Oct-20	19-Oct-20	16-Dec-20	04-Mar-21	11-Dec-20	04-Jun-21	8
3.	Moffat Apartments Court	5,254,320	12-Oct-20	12-Oct-20	19-Oct-20	16-Dec-20	11-Mar-21	11-Dec-20	24-May-21	7
4.	Afrikaana Limited Yard	6,888,218	10-Oct-20	12-Oct-20	19-Oct-20	22-Dec-20	17-Feb-21	11-Dec-20	13-May-2021(1 st) 04-Oct-2021(2 nd)	7
5	Alba Hotel Ltd	47,939,291	12-Oct-20	12-Oct-20	19-Oct-20	28-Dec-20	18-Feb-21	11-Dec-20	20-April-2021 (1 st) 02-July-2021(2 nd)	6
6.	Balis Best Bar Limited	15,082,662	12-Oct-20	12-Oct-20	19-Oct-20	22-Dec-20	18-Feb-21	11-Dec-20	15-Jun-21	8
7.	Gelian Investments	43,552,000	09-Oct-20	12-Oct-20	19-Oct-20	22-Dec-20	02-Mar-21	11-Dec-20	04- Jun- 2021(1 st) 08- Oct- 2021(2 nd)	8
8.	Kasarani View Hotel Sports	9,028,253	12-Oct-20	12-Oct-20	19-Oct-20	28-Dec-20	13 April 021	11-Dec-20	25-Jun-21	8
9	Mwingi Hotel Ltd	20,935,704	10-Oct-20	12-Oct-20	19-Oct-20	22-Dec-20	18-Feb-21	11-Dec-20	29-Apr-21	7
10.	Naivasha Kongoni Lodge Limited	10,387,534	12-Oct-20	12-Oct-20	19-Oct-20	22-Dec-20	22-Feb-21	11-Dec-20	04-Jun-21	8

No.	Name Beneficiary	Amount Disbursed (Kshs.)	Application Date	Application Deadline Date	Appraisal Date (7 days upon closure)	Board Approval Date	Date of Letter Offer	60 days (target)	Actual Disbursement Date	Duration (Months)
11.	Pinecone Hotels Kisumu Limited	12,000,000	11-Oct-20	12-Oct-20	19-Oct-20	26-Mar-21	31-Mar-21	11-Dec-20	24-May-21	8
12.	Rhino Watch Safaris Limited	9,866,667	12-Oct-20	12-Oct-20	19-Oct-20	26-Mar-21	09-Apr-21	11-Dec-20	25-Jun-21	8
13.	Sandalwood hotel and Resorts Ltd	33,961,800	12-Oct-20	12-Oct-20	19-Oct-20	16-Mar-21	31-Mar-21	11-Dec-20	25-Jun-21	8
14.	Whirlsprings Hotel Kisumu Ltd	8,452,515	01-Oct-20	12-Oct-20	19-Oct-20	28-Dec-20	16-Feb-21	11-Dec-20	11-May-2021 (1 st) 04-Oct-2021 (2 nd)	7
15.	Sixty-Four Centre Limited	15,337,658	12-Oct-20	12-Oct-20	19-Oct-20	22-Dec-20	17-Feb-21	11-Dec-20	24-May-21	7
16.	Rusinga Blue Ridge Hotel	11,850,768	10-Oct-20	12-Oct-20	19-Oct-20	22-Dec-20	28-May-21	11-Dec-20	21-Sep-21	12
17.	Rusinga Management Ltd	22,117,490	12/10/2020	12-Oct-20	19-Oct-20	22 Dec 020	09-Jun-21	11-Dec-20	30-Sep-21	13
18.	Explore Nature Mara Lodge Ltd	13,752,661	12-Oct-20	12-Oct-20	19-Oct-20	05-May-21	09-Jun-21	11-Dec-20	21-Sep-21	12
19.	Elangata Luxury Camps	15,734,559	12-Oct-20	12-Oct-20	19-Oct-20	24-Feb-21	10-Jun-21	11-Dec-20	23-Sep-21	13
20.	Wigot Garden Ltd	8,841,520	12-Oct-20	12-Oct-20	19-Oct-20	26-Mar-21	06-Apr-21	11-Dec-20	07-Oct-21	14
21.	Blue springs Hotel Ltd	8,367,608	12-Oct-20	12-Oct-20	19-Oct-20	24-Feb-21	28-May-21	11-Dec-20	30-Sep-21	13

4.23. As at the time of audit in November 2021, out of the Kshs. 2,204,264,050 available for COVID-19 Emergency Funds, only Kshs 318,989,297 or 14.5% of the funding had been disbursed to beneficiaries. Out of the total amount disbursed, Kshs 18,169,670 was to beneficiaries in the Coast region and Kshs.300,819,627 was to beneficiaries to other regions as detailed in **Table 6**.

Table 6: Disbursements as at November 2021

S/No	Name of Entity	County	Amount Disbursed (Kshs)
	Coast Region		
1	Doa Doa Tented Camps & Lodges Limited	Kilifi	10,800,000
2	Engwata Enterprises Ltd	Kwale	2,115,350
3	Moffat Court Apartments	Mombasa	5,254,320
	Sub total		18,169,670
	Other Regions		
4	Afrikana Yard Limited	Trans-Nzoia	4,614,973
5	Alba Hotel Ltd	Meru	47,939,291
6	Balis Best Bar Limited	Nairobi	15,082,662
7	Gelian Investments	Machakos	35,328,464
8	Kasarani Sports View Hotel	Nairobi	9,028,253
9	Mwingi Hotel Ltd	Kitui	20,935,704
10	Naivasha Kongoni Lodge Limited	Nakuru	10,387,534
11	Pinecone Hotels Kisumu Limited	Kisumu	12,000,000
12	Rhino Watch Safaris Limited	Nyeri	9,866,667
13	Sandalwood hotel and Resorts Ltd	Kajiado	33,961,800
14	Whirlsprings Hotel Kisumu Ltd	Kisumu	5,672,015
15	Sixty Four Centre Limited	Uasin-Gishu	15,337,658
16	Wigot Ltd	Kisumu	8,841,520
17	Rusinga Blue Ridge Hotel	Homabay	11,850,768
18	Rusinga Management Company Ltd	Homabay	22,117,490
19	Explore Nature Mara Lodge	Narok	13,752,661
20	Elangata Olerai Luxury Camp	Narok	15,734,559
21	Blue Springs Hotel Ltd	Nairobi	8,367,608
	Sub total		300,819,627
	GRAND TOTAL		318,989,297

4.24. On review of the respective applications, it was noted that the delays were caused by the following factors, among others:

- i) Borrowers were substituting securities submitted after term sheets were issued. For example, one of the beneficiaries had applied for a loan of Kshs. 50 million against a security property valued at Kshs.133 million but later substituted with another property of a similar value. The new security had to be revalued before approval were granted;
- ii) Securities provided did not meet the requisite threshold for loan to value ratio upon valuation. Borrowers were therefore required to provide additional security. Alternatively, the applicant was required to accept an amount commensurate to the value of the security provided. For instance, a beneficiary applied for Kshs. 40 million while the security they provided supported Kshs. 14.8 million. They had to accept a loan amount of Kshs.9,866,667;
- iii) A number of proposed securities upon valuation were found to be encumbered, resulting in borrowers seeking consent to share securities with their financiers, which required approval from the bank's side. The correspondence between the interested parties therefore took time. For example, an applicant applied for a loan of Kshs. 49,545,888 against a security of Kshs. 240 million that was already encumbered. Arrangements with the other financiers had to be made to ensure equal ranking in the charge for the property;
- iv) There were delays in receiving searches from respective lands offices, especially for Nairobi and Kajiado Counties registries. This was due to closure of registries for a period of up to 5 months, due to the COVID 19 pandemic and the digitization of lands registries. During this period, land searches and charging of property could not be undertaken in order for the loan process to be concluded; and
- v) A number of business enterprises did not provide updated tax compliance certificates and Tourism Regulatory Authority (TRA) licences, which were a mandatory requirement for processing of the loan. Therefore, TFC had to write to the respective applicants requesting for the information to be provided, resulting in delays in the process.

4.25. As a result of the above delays, there were delays in disbursement of the funds to the beneficiaries. Consequently, the COVID-19 emergency funds may not have had the intended impact of cushioning businesses against the effects of the COVID-19 pandemic. By the time the funds were disbursed, it may have been too late for some of the closed businesses to re-open.

4.26. Additionally, there were changes in market prices of commodities and labor costs, leading to proprietors incurring costs over and above the original estimates. For example, the TFC Board approved a loan of Kshs. 43,552,000 on 22 December, 2020 for one of the applicants based on a costed Bill of Quantities. However, the funds were disbursed 04 June, 2021 and 08 October, 2021. According to the certificate of completion, the works costed Kshs. 54,883,039. The delay in disbursement of funds resulted in additional costs of Kshs. 11,331,039.60, which had to be borne by the proprietor.

Failure to Maintain Proper Financial Records

4.27. Article 226(1)(a) of the Constitution of Kenya, 2010 provides for keeping of financial records and the auditing of accounts of all governments and other public entities, and prescribes other measures for securing efficient and transparent fiscal management.

4.28. Section 90 (1) of the Public Finance Management (National Government) Regulations, 2015 states that Accounting Officers shall ensure bank accounts reconciliations are complete for each bank account held by that Accounting Officer, every month and submitted not later than the tenth of the subsequent month to the National Treasury with a copy to the Auditor-General.

Examination of the TFC Loan Fund Account revealed that the Corporation received COVID-19 emergency funds totalling to Kshs. 2,204,264,050. The funds were held in the same bank account that is used for other TFC operational activities.

4.29. The cashbook in respect to this account was not accurate and up to date as ESP funds totalling Kshs.704,274,050 received on 8 July, 2021 were yet to be

recorded in the cashbook as at the time of audit. In addition, bank reconciliations were unreliable as the source of the cashbook balances were not tallying to those from the availed cashbook.

4.30. Further, upon the establishment of KDC, funds were transferred from the TFC Loans Fund Account to the KDC Tourism Fund Account held at KCB Bank. Although KDC was required to maintain a separate cashbook for the new bank account, neither cashbook nor bank reconciliations statements were presented for audit review.

4.31. In the absence of accurate financial records, there is a risk of errors and irregularities not being detected.

Failure to Obtain Approval from the Cabinet Secretary in Charge of Finance

4.32. Section Sec 82(1)(a)(iv) of the Public Finance Management Regulations 2015, requires that the National Treasury grants authority to an accounting officer or receiver of revenue or collector of revenue to open and operate a bank account in a commercial bank for purposes of revenue collection, and that commercial bank shall have a wide branch network and is government linked.

4.33. However, no evidence of approval by the National Treasury to open the KDC Tourism Fund Account at KCB Bank was presented during the audit.

Unauthorized Transfer of COVID-19 Emergency Funds to a Fixed Deposit Account

4.34. According to Section 4 of the National Treasury Circular No 14/2020 dated 3 July, 2020 on PC-ESP implementation framework, the funds approved for the ESP in the financial year 2020/2021 were to be ring fenced and coded under specific heads and sub-heads in the budget, to ensure accountability. MDAs were therefore not allowed to re-allocate ESP funds without express approval of the National Treasury.

4.35. Examination of the bank statement for KDC Tourism Fund revealed that there was transfer of funds to a fixed deposit account on various dates between 9

September, 2021 and 13 October, 2021 totaling to Kshs. 2,400,000,000 as shown in **Table 7**.

Table 7: Funds Transferred to the Fixed Deposit Account

Date	Details of Monies Transfers	Amount (Kshs.)
9/9/2021	New Fixed Deposit AT-MOIAVMM21252XCZXP	400,000,000
9/9/2021	New Fixed Deposit AT-MOIAVMM212523Y4QM	1,500,000,000
24/9/2021	New Fixed Deposit AT-MOIAVMM21267HLV26	250,000,000
13/10/2021	New Fixed Deposit AT-MOIAMM212865YN8J	250,000,000
	TOTAL	2,400,000,000

4.36. It was also noted that as at 13 October, 2021, out of Kshs.2,204,264,050 received as emergency funds for COVID-19, KDC had disbursed Kshs. 328,260,242, leaving a balance of Kshs.1,876,003,808. However, the bank statement reflected a bank balance of Kshs. 159,577,514.63. Therefore, the fixed deposit account which had a balance of Kshs 2,400,000,000 as at 13 October, 2021 was mainly financed by ESP funds.

4.37. There was no evidence that The National Treasury had authorized KDC to invest the COVID-19 emergency funds in a fixed deposit account. Further, there are no guidelines on how the interest earned from the fixed deposit will be accounted for.

Inclusiveness

4.38. Section 3 of the National Treasury Circular No. 14/2020 on PC-ESP, Implementation Framework dated 27 July, 2020 states that the stimulus package is designed to target vulnerable citizens and businesses affected by job losses, increased operating costs and reduced demand.

4.39. Article 21 (3) of Constitution of Kenya, 2010 on bill of rights defines vulnerable groups within the society as women, older members of society, persons with disabilities, children, youth, members of minority or marginalized communities, and members of particular ethnic, religious or cultural communities.

4.40. The advertisement/Call up made invited applicants who were hospitality integrated investors. There was no additional information defining who the hospitality integrated investors were. Therefore, the audit could not ascertain whether all stakeholders were given an opportunity to benefit from the ESP funds.

Lack of Provision for Special Groups in the Economic Stimulus Program Policy

4.41. Examination of documents revealed that no special considerations were given to businesses owned by the youth, women, persons with disabilities, older member of society, as well as members of minority and marginalized communities.

4.42. It was noted that the ESP Policy adopted most of its clauses from the Credit Policy, which does not consider businesses owned by special groups. Therefore, there is risk of the special groups not benefiting from the COVID-19 emergency funds.

Lack of a Product for Tour Operators and Travel Agents

4.43. According to Section 4 of the ESP Policy, the intended beneficiaries of the ESP funds are hotels, restaurants, tour operators, travel agents and any other tourism establishment registered in Kenya. Further, Section 7 specifies products to be financed by the COVID-19 Emergency Fund as refurbishment and hotel operations restructuring.

4.44. It was noted that the products that were developed for refurbishment and hotel operations restructuring targeted hotels and restaurants. There was no product designed for tour operators and travel agents. Although tour operators and travel agents applied for the fund, it was declined as detailed in **Table 8**.

Table 8: Tours and Travel Applicants

No.	Name	Purpose of Application	Reason for the Decline
1.	Classic Safari Limited	To finance company operations	The application was not in line with the ESP Policy
2.	Leboo Safaris Limited	To revive and bring back employees sent on leave, cater for their salaries and pay other operational cost	The application was not in line with the ESP Policy
3.	Mobinet Solutions Tours and Travel	Working capital to pay suppliers and payroll	The application was not in line with the ESP Policy
4.	Richwills Tours and Travel Limited	Purposes not indicated	The company did not meet the 3year threshold for operations. The security provided was lower than the threshold and the application was considered not to be in line with the ESP Policy
5.	Jambo Travel House Holiday Limited	To buy two tour motor vehicles, clear office rent arrears and pay salaries	The application was not in line with the ESP Policy
6.	Travel Corporation Limited	Working capital to pay pending bills	The application was not in line with the ESP Policy
7.	Pega Tours and Travel Agencies Limited	Purchase of motor vehicle and repairs and to clear financial commitments	The application was not in line with the ESP Policy
8.	Pearl World Travel Limited	Office operations and working capital	The application was not in line with the ESP Policy

Feedback from the beneficiaries

4.45. The audit team visited 21 establishments who were beneficiaries of the COVID-19 funds. During the visit, the audit team interviewed the management or their representatives and also inspected projects to establish their existence. Details of the scope of works and status is at **Appendix III**. Interview with the beneficiaries established that stakeholders were pleased by the concept of the ESP and the manner in which the application process was handled electronically. This ensured that beneficiaries overcame challenges associated with exposure and spread of COVID-19. However, the following complaints were registered:

- i) Delay in disbursement of funds occasioned by long process of undertaking due diligence by TFC and KDC.
- ii) Most of the panel of experts (lawyers, valuers and insurer) recommended were based in Nairobi. Delivery and processing of documents for applicants who were out of Nairobi was hectic during the pandemic.
- iii) Although application was at no fee, the use of panel of experts attracted extra costs.
- iv) ESP funds were for renovations and did not cover working capital items such as and normal operation costs. most beneficiaries had accumulated operation costs especially staff salaries.
- v) The tourism industry player such as members of Association of Kenya Tours & Travels, Kenya Association of Travel Agencies were not considered.
- vi) The ESP funds given to the tourism sector were loans. The Government could have considered giving the funds in form both grant and a loan at a ratio of 50/50

CHAPTER FIVE: CONCLUSION

Transparency

- 5.1 The implementing guidelines for the Economic Stimulus Program provide for transparency, as information on the target group, criteria for selecting beneficiaries, institutional framework, reporting framework, operational framework and the required budget for the program are provided therein. The information regarding the Economic Stimulus Program was publicly advertised on electronic and print media.
- 5.2 Further, KDC management announced for stakeholder engagement forums which were to be held virtually via Zoom. The meetings were used to sensitize stakeholders about the ESP program.

Accountability

- 5.3 The implementing guidelines for the Economic Stimulus Program provide for accountability, as the roles and responsibilities of Ministries, Department and Agencies (MDAs), as well as committees such as the National Steering Committee, Technical Implementation and MDA Project Implementation Team were defined. The reporting framework for accounting for the ESP COVID-19 funds was also provided.
- 5.4 However, funds for the Economic Stimulus Program were comingled with other monies for normal loan account and operations as there was no separate bank account for ESP funds. In addition, the funds were not apportioned as per the ESP Policy with regard to the recommended proportions of 60% for the Coastal Region (beach destinations) and 40% for the rest of the Country. Further, the disbursement of funds to beneficiaries was delayed and the cashbook in respect to this account was not properly maintained.

Inclusiveness

- 5.5 The implementing guidelines provide for inclusiveness as it states that the stimulus package is designed to target vulnerable citizens and businesses

affected by job losses, increase operating costs and reduced demand. However, the Post COVID-19 Economic Stimulus Programme (PC-ESP) policy does not indicate who the vulnerable citizens are under the State Department for Tourism.

5.6 Further, the advertisement/Call up made invited applicants who were hospitality integrated investors. There was no additional information defining who the hospitality integrated investors were. Therefore, the audit could not ascertain whether all stakeholders were given an opportunity to benefit from the ESP funds

CHAPTER SIX: RECOMMENDATIONS

6.1 In view of the findings and conclusion of the audit on Transparency, Accountability and Inclusiveness (TAI) on the use of emergency funding for COVID -19, the Auditor-General makes the following recommendations for implementation by the Kenya Development Corporation (KDC): -

- i. The Kenya Development Corporation should maintain a separate and distinct bank account for the COVID-19 emergency funds. This is to ensure that an audit trail is maintained and that the funds are utilized for the intended purpose.
- ii. The Kenya Development Corporation should comply with the provisions of the Economic Stimulus Program (ESP) Policy and Guidelines in the allocation and disbursement of COVID-19 emergency funds. 60% of the funds should be disbursed to the Coastal Region (beach destinations) and 40% to the rest of the Country as per the requirements, in order for the Program to meet its intended objective.
- iii. The Kenya Development Corporation should review the appraisal and disbursement process so that beneficiaries can access COVID-19 emergency funds in a timely manner.
- iv. The Kenya Development Corporation should maintain an accurate cashbook and prepare bank reconciliation statement on a monthly basis. This is to ensure compliance with the Public Finance Management Regulations (PFMR), 2015 on accounting for public funds.
- v. The Kenya Development Corporation should review the ESP Policy to be in line with the National Treasury Implementation Framework to bring on board businesses owned by vulnerable groups.
- vi. The Kenya Development Corporation should develop suitable products that meet the needs of the targeted beneficiaries of the Emergency Fund as outlined in the Economic Stimulus Program (ESP) Policy. This will make the fund accessible for all tourism related activities.

APPENDICES

Appendix I: Documents Reviewed

No	Document Reviewed	Objective
1.	Tourism Act, 2011	To gain understanding of the mandate of the Tourism Finance Corporation
2.	PFMR, 2015	To gain understanding of government financial guidelines
3.	The National Treasury Post-COVID Economic Stimulus Programme (PC-ESP)	To gain understanding of guidelines to Ministries, Departments and Agencies (MDAs) including constitutional commissions and independent offices on the implementation of PC- COVID 19 ESP
4.	TFC Refurbishment Economic Stimulus Programme (PC-ESP) Policy	To obtain information regarding governance and administration of the loan
5.	Board minutes	To confirm Board deliberations and approvals for the loans
6.	Applicant files	To examine applications, supporting documents provided and to determine if they met the eligibility criteria
7.	TFC 2017 Credit Policy	To assess governing guidelines on credit
8.	Bank statements	To assess the amounts received and how they were disbursed
9.	Credit Department Stimulus Package Processes	To gain understanding of ESP loan application procedures and process

Appendix II: List of People Interviewed and the Purpose

No	Interviewee
1.	Senior Deputy Director, Directorate of Budget, Fiscal & Economic Affairs at the National Treasury & Planning
2.	The Principal Secretary and staff of the State Department for Tourism
3.	Director Credit, Tourism Finance Corporation
4.	Beneficiaries

Appendix III: List of Sites and Beneficiaries Sampled

No.	Name of the Entity	County	Amount Loaned (Kshs.)	Amount Received (Kshs.)	Date of Inspection	Scope of Works	Status as at the Time of Audit Inspection
1	Balis Best Bar & Resort Ltd	Nairobi	30,000,000	15,082,662	17 November 2021	Rooms <ul style="list-style-type: none"> • Demolitions • Windows • Doors • Finishes • Sanitary fittings, plumbing & drainage Bar <ul style="list-style-type: none"> • Demolitions • Doors • Windows • Finishes • Joinery fittings • Electrical installations 	The works were at 70% completion and the workers were on site
2	Wigot Ltd	Kisumu	16,765,986	8,841,520	24 November, 2021	Preliminaries <ul style="list-style-type: none"> • Water, lighting and power for the works • Temporary structures • Hoarding and fencing • Scaffolding and plant • Local authority approval 	The works were on going estimated at 25%, only the first tranche of the funding had been received

No.	Name of the Entity	County	Amount Loaned (Kshs.)	Amount Received (Kshs.)	Date of Inspection	Scope of Works	Status as at the Time of Audit Inspection
3	Rusinga Blue Ridge Hotel	Homabay	21,350,000	11,850,768	24 November, 2021	Demolitions <ul style="list-style-type: none"> • Demolitions and Remedial works Builders Work <ul style="list-style-type: none"> • Window sill installation • Repairs and plaster • General repairs, servicing, upgrading and replacement where necessary for kitchen mechanical works, plumbing and damage 	
						Water Treatment System <ul style="list-style-type: none"> • Furnishing the existing house • RO water treatment installation • Installation of pressed steel water tank • Installation of booster pump • Installation of control panel • Plumbing work 	90% of the works had been done

No.	Name of the Entity	County	Amount Loaned (Kshs.)	Amount Received (Kshs.)	Date of Inspection	Scope of Works	Status as at the Time of Audit Inspection
						Solar Heating System <ul style="list-style-type: none"> • Installation of solar fittings • Installation of solar panels 	
4	Rusinga Management Company Ltd	Homabay	26,926,800	22,117,490	24 November, 2021	<ul style="list-style-type: none"> • Renovations of cottages to completion • Renovation of staff houses to completion • Renovations of kitchen works and laundry works • External works (site preparation, paved areas and car parks) • Electrical, plumbing and landscaping 	<ul style="list-style-type: none"> - Electrical, plumbing and landscaping were yet to be done - Roofing of the cottages was incomplete
5	Explore Nature Mara Lodge	Narok	19,741,661	13,752,661	26 November, 2021	<ul style="list-style-type: none"> • Preliminaries-professional fee for architectural, structural and quantity surveying services 	80% of the works were complete except roofing of the dining area

No.	Name of the Entity	County	Amount Loaned (Kshs.)	Amount Received (Kshs.)	Date of Inspection	Scope of Works	Status as at the Time of Audit Inspection
						<ul style="list-style-type: none"> • Site clearance, trimming hedges, debris removal • Demolition and down takings • Sealing of cracks, treatment cracks, repairs around cracked areas, repainting • Roofing & rain water disposal • Internal and external finishing • Provision for building approval permits from the Narok County Planning Department 	
6	Whirlsprings Hotel Kisumu Ltd	Kisumu	8,452,515	8,452,515	23 November, 2021	<ul style="list-style-type: none"> • Replacement of beds • Purchase of mattress • Purchase of mattress protector • Purchase of beddings, towels and pillow protectors, bed sheets 	70% of the works were complete and workers were on site

No.	Name of the Entity	County	Amount Loaned (Kshs.)	Amount Received (Kshs.)	Date of Inspection	Scope of Works	Status as at the Time of Audit Inspection
						<ul style="list-style-type: none"> • Purchase of chairs and tables • Internal paint works to rooms • External surface paint works • Installation of electric door locks • Car park cabro placing • Installation of Air conditioners • Installation works-wash hand basin, toilet seats and accessories 	
7	Naivasha Kongoni Lodge Ltd	Nakuru	12,229,549	10,387,534.4	27 November, 2021	<ul style="list-style-type: none"> • Reverse Osmosis treatment plant • Solar water heating installations • Waste water treatment • Power stabilizer 	The waste water treatment was incomplete
8	Sixty Four Centre Ltd	Uasin-Gishu	19,536,012	15,337,658	22 November, 2021	<ul style="list-style-type: none"> • Complete overhaul of the kitchen • Purchase of furniture, linen, equipment, 	-Works (Expansion and refurbishment) were on going in the kitchen area

No.	Name of the Entity	County	Amount Loaned (Kshs.)	Amount Received (Kshs.)	Date of Inspection	Scope of Works	Status as at the Time of Audit Inspection
						cutleries, TV and music system	-TV and Music System were fully paid for but were yet to be delivered as they were being imported
9	Afrikana Yard Hotel	Trans-Nzoia	6,888,218	6,888,218	22 November, 2021	Works done at Afrikana Yard Hotel involved refurbishment of holiday homes and refurbishment & extension on restaurants and conferences The refurbishment of holiday homes was to include; <ul style="list-style-type: none"> • Reinforcement walling • Internal wall • Doors & windows fittings 	Doors and window fittings that were to be replaced with new ones as stated in the BQ pending
10	Elangata Olerai Luxury Camp	Narok	25,436,738	15,734,559	26 November, 2021	Works to be done at Elangata Olerai Luxury Camp were to include refurbishment works - Rooms and borehole installation with its accessories	The borehole had been sunk, however, the pump installed was not functional
11	Pine Cone Hotel	Kisumu	13,000,000	12,000,000	23 November, 2021	<ul style="list-style-type: none"> • Renovation works for ground floor, first floor and third floor • Roof terrace 	No inspection was undertaken as the director was not available

No.	Name of the Entity	County	Amount Loaned (Kshs.)	Amount Received (Kshs.)	Date of Inspection	Scope of Works	Status as at the Time of Audit Inspection
12.	Doa Doa Tented Camps & Lodges Limited	Kilifi	10,800,000	10,800,000	22 November, 2021	<ul style="list-style-type: none"> Parapet wall External finishes Staircase finishes Acquire and install solar <ul style="list-style-type: none"> Materials and equipment sourcing Site preparation & civil works Structural installation, racking assembly and panel mounting and DC side wiring Electrical installation, AC side wiring, inverter configuration and remote monitoring set up Testing and commissioning 	Solar mounting structure and civil works had been done Estimated completion was at 10%
13.	Engwata Enterprises Ltd	Kwale	2,315,350	2,315,350	25 November, 2021	Global Art Gallery Renovation of <ul style="list-style-type: none"> Walling, windows, doors, finishes/roofing, leakages 	At Global Art Gallery works were already completed At the Art Gallery Bethel, the

No.	Name of the Entity	County	Amount Loaned (Kshs.)	Amount Received (Kshs.)	Date of Inspection	Scope of Works	Status as at the Time of Audit Inspection
						Art gallery Bethel <ul style="list-style-type: none"> • Walling, windows, doors, finishes/roofing 	management indicated that the works were complete, however, the doors they claimed to have installed appeared to be old
14.	Moffat Court Apartments	Mombasa	9,570,000	5,254,320.44	23 November, 2021	<ul style="list-style-type: none"> • Digging of well • Installation of bio-digester • Installation of CCTV • Repainting of the premise • Acquisition of garden umbrella 	Works done were estimated at 60%
15.	Alba Hotel Ltd	Meru	50,000,000	47,939,291	02 December, 2021	<ul style="list-style-type: none"> • Demolitions • Construction of internal walls • Renovation/acquisition of windows • Internal finishes • Electrical installation • Plumbing and Drainage installation 	Works were on going and completion estimated at 90%

No.	Name of the Entity	County	Amount Loaned (Kshs.)	Amount Received (Kshs.)	Date of Inspection	Scope of Works	Status as at the Time of Audit Inspection
16.	Gelian Investments	Machakos	43,552,000	43,552,000	29 November, 2021	<ul style="list-style-type: none"> • Audio visual installations • Furniture • Accessories • Artwork • Special wall finishes • Preliminaries • Renovation of common areas • Audio visual • Renovation of ambassadorial room • Renovating to comply with the Ministry of Health COVID-19 rules • Renovation of disabled rooms 	Works were complete
17.	Kasarani Sports View Hotel	Nairobi	9,028,253	9,028,253	16 November, 2021	<ul style="list-style-type: none"> • Installation of tank • Roof steel works quotation • Aluminium windows quotation • Painting, clean floor, sanding 	Tank installed and commissioned but the building that had been earmarked for renovations had since been demolished and funds directed to

No.	Name of the Entity	County	Amount Loaned (Kshs.)	Amount Received (Kshs.)	Date of Inspection	Scope of Works	Status as at the Time of Audit Inspection
18	Mwingi Hotel Ltd	Kitui	50,000,000	20,935,704	28 November, 2021	<ul style="list-style-type: none"> Renovation works Preliminaries Renovation of substructure Demolitions External works Superstructure, finishes and fit-out 	<p>construction of a new structure</p> <p>Renovation works done and were estimated at 90% completion</p>
19	Rhino Watch Safaris Limited	Nyeri	9,866,667	9,866,667	01 December, 2021	<ul style="list-style-type: none"> Acquisition and installation of solar panels Purchase of furniture Purchase of furnishing equipment Purchase of kitchen equipment Installation of an electric fence Purchase of a generator Purchase of a pool pump 	<p>Acquisition and installation of solar panels and purchase of furniture had been done</p> <p>Purchase of furnishing and kitchen equipment were estimated at 70% and 90%, respectively</p> <p>Installation of the electric fence was estimated at 90%, while the generator had been acquired and installed</p> <p>A pool pump had also been bought and installed</p>

No.	Name of the Entity	County	Amount Loaned (Kshs.)	Amount Received (Kshs.)	Date of Inspection	Scope of Works	Status as at the Time of Audit Inspection
20	Sandalwood Hotel and Resorts Ltd	Kajiado	36,123,187	33,961,800	30 November, 2021	<ul style="list-style-type: none"> Interior/ exterior refurbishment/total overhaul of 25 bedrooms Landscaping 	Completed works estimated at 25%
21	Blue Springs Hotel Ltd	Nairobi	23,545,888	8,367,608	16 November, 2021	<ul style="list-style-type: none"> Preliminaries Demolitions New walls New mezzanine Kitchen drainage Tiling Plastering and painting T & G ceiling Construction of kitchen worktop Construction of kitchen hood Mechanical works External painting Driveway and parking Boundary wall and gate 	Only the kitchen hood had been installed

Appendix IV: Response to Management Comments

Audit Findings	Management Response	Auditor's Remarks
<p>Transparency</p> <p>Failure to avail some appointment letters for the Steering Committee (Paragraph 4.9)</p>	<p>All steering committee members were requested to provide their appointment letters. Once the Corporation receives from the remaining three (3) they will be availed.</p>	<p>The request to the concerned parties has been noted. There being no additional evidence provided by the auditee, the finding remains as was observed.</p>
<p>Accountability</p> <p>Lack of a dedicated bank account for receipt of ESP funds (Paragraph 4.13)</p>	<p>The ESP funds were deposited into TFC loans Fund Account since a dedicated account for the ESP funds had not been opened by the time the funds became due for disbursement. After the merger the new entity opened the KDC Tourism Fund Account which is a dedicated account for the ESP funds and the balance that was held in the TFC loans Fund account was transferred to this account. No other funds are deposited into the account and no other payment are made from the account other to approved projects under the program. However, the interest earned from the funds is deposited into the account and is meant to cater for the expenses relating to the administration of the fund.</p>	<p>Documentary review of the bank statements, cashbook and bank reconciliations revealed the funds are comingled hence finding remains as was observed.</p>

Audit Findings	Management Response	Auditor's Remarks
<p>Failure to apportion emergency funds as directed by the State Department for Tourism (Paragraph 4.18 to 4.20)</p>	<p>The total allocation to the Economic Stimulus Program (ESP) was Kshs. 2,204,264,000 with 60% of the funds or Kshs. 1,322,558,400 allocated to the Coast Region and 40% or Kshs. 881,705,600 allocated to other regions.</p> <p>The total funds approved and committed (as per offer letter) to the projects in the Coast Region is Kshs. 896,279,478.43 thus realizing Kshs. 426,278,921.57 unabsorbed.</p> <p>The total funds approved and committed (as per offer letter) in other regions is Kshs. 1,006,986,775.65 thus realizing Kshs. 125,281,175.65 overcommitment.</p> <p>The Board of KDC in due consideration of the above circumstances recommended for re-allocation of Kshs. 125,281,175.65 from the Coast Region unabsorbed funds to cover the overcommitment to other regions.</p>	<p>We acknowledge the detailed explanation. However, minutes of the Board meeting granting the re-allocation were not provided, hence the finding remains as observed.</p>

Audit Findings		Management Response			Auditor's Remarks
Item	Coast Region Kshs.	Other Regions Kshs.	Total Allocation Kshs.		
(A) ALLOCATED FUNDS	1,322,558,400	881,705,600	2,204,264,000		
Less: Committed funds (Offer Letter)					
ESP1 (as per offer letter)	337,955,900.00	1,107,355,729.25	1,445,311,629.25		
ESP2 (as per offer letter)	623,205,844.64	-	663,205,844.64		
(B) Total Amount Committed	1,001,161,744.64	1,107,355,729.25	2,108,517,473.89		
(C) Surplus/Deficit (A-B)	321,396,655.36	225,650,129.25	95,746,526.11		
(D) Re-Allocation Approved by KDC Board	125,281,175.65	125,281,175.65			
(E) TOTAL AVAILABLE FUNDS	196,115,479.71	100,368,953.60	95,746,526.11		

Audit Findings	Management Response	Auditor's Remarks
<p>Delay in disbursement of funds (Paragraph 4.20 to 4.26)</p>	<p>The delay in disbursement of funds was caused by external challenges as below;</p> <ul style="list-style-type: none"> i) Term sheet issued in January 2021 with indicative terms however the borrowers resulted to substituting securities or upon valuation the securities did not meet the required Loan to Value Ratio. ii) A number of proposed securities upon valuation were seen to be encumbered resulting to borrowers seeking for consent to share securities with their financiers which was also an approval process from the banks' side. iii) There were delays in receiving searches from Lands office, especially for Nairobi Registry and Kajjado which was closed for almost 5 months. iv) Directors of a number of business enterprises did not have updated TRA licence due to the pandemic having affected sector which was a mandatory requirement for disbursement to be done. v) Borrowers also issued with letters of offer took time to return the offer letters and also to appoint lawyers. <p>Further, the corporation continued to review the policy to accommodate all borrowers such as including undeveloped properties to secure the loans which were not initially in the policy.</p>	<p>Agreed, we have amended the causes to the delay.</p>

Audit Findings	Management Response	Auditor's Remarks
<p>Failure to maintain proper financial records and bank reconciliation (Paragraph 4.30)</p>	<p>A cashbook for the KDC Tourism Account is maintained and monthly bank reconciliations are prepared. The approval to open the KDC Tourism Funds Account was granted by The National Treasury through letter ref AG.3/88/1Vol.50/(69) dated 12th August 2021.</p>	<p>The finding remains as reported since the source of the cashbook figures on the bank reconciliations statements were not from the availed cashbook. Further, the approval from the National Treasury was not provided</p>
<p>Unauthorized transfer of COVID-19 Emergency funds to a fixed deposit account (Paragraph 4.36 to 4.38)</p>	<p>The ESP Funds are maintained in the KDC Tourism Fund Account at KCB which is a dedicated account for the funds. The ESP funds invested in the fixed deposit are also placed in KCB and are linked to the ESP Bank account that once the deposits mature the funds are paid into the bank account thereby eliminating the risk of loss of funds. The interest earned from the funds is well accounted for and is meant to cater for expenses relating to the administration of the fund.</p>	<p>The finding remains as reported as no authority to invest the funds was provided.</p>


Audit Findings	Management Comments	Auditor's Remarks
<p>Inclusiveness</p> <p>Lack of provision for special groups in the ESP policy (Paragraph 4.41 to 4.42)</p>	<p>The ESP call was not discriminative as it funded women and Youth. For the Marginalized the Corporation considered projects such as; Doa Doa Tented Camp in Tana River and Paran Resort a Maasai (Minority) in Kimana Kajiado.</p>	<p>The finding is with regards to provisions of the governing policy rather than implementation.</p>
<p>Lack of a product for tour operators and travel agents (Paragraph 4.44 to 4.45)</p>	<p>A letter dated 10 August 2020 from the Ministry of Wildlife and Tourism and the concurrence from the National Treasury dated 17th September 2020 provided the framework and guidelines on the products to be financed through the ESP program being the refurbishment of hotels and business restructuring hence tour companies were not considered.</p>	<p>We take note of the evidence provided, however, the tours and travel operators are also sector players that ought to have benefitted from ESP.</p>



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