

REPUBLIC OF KENYA



OFFICE OF THE AUDITOR-GENERAL

REPORT

OF

THE AUDITOR-GENERAL

ON

THE FINANCIAL STATEMENTS OF  
TOURISM FUND

FOR THE YEAR  
ENDED 30 JUNE 2017

*Paper Laid on the  
Table of the House  
by the Leader of the  
Majority Party on  
Wednesday*

*22/08/2018  
Afternoon*

PARLIAMENT  
OF KENYA  
LIBRARY



**TOURISM FUND**

*Propelling Kenyan tourism*

## **Annual Report And Financial Statements**

**For the year ended 30<sup>th</sup> June 2017**



# TOURISM FUND ANNUAL REPORT AND FINANCIAL STATEMENTS FOR FINANCIAL YEAR 2016/2017

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# TOURISM FUND ANNUAL REPORT AND FINANCIAL STATEMENTS FOR FINANCIAL YEAR 2016/2017

## **MANDATE**

Mobilize resources to finance the development of a sustainable tourism industry in Kenya.

## **VISION**

To be the lead mobilizer of funding for the sustainable development of Tourism Industry in Kenya.

## **MISSION**

To effectively manage the Tourism Fund through policy development, collection of tourism levy and other funds for funding the development and sustenance of the tourism industry.

## **CORE VALUES**

<b>TEAM WORK;</b>	To create one family focused to deliver
<b>CUSTOMER FOCUS;</b>	Meet and surpass expectations of all our customers
<b>INTEGRITY;</b>	To uphold good conduct and ethics in all our operations
<b>ACCOUNTABILITY;</b>	Transparent and socially responsible
<b>PROFESSIONALISM;</b>	Committed to excellence through continuous improvement
<b>INNOVATION;</b>	To promote and reward creativity and embrace best practices in service delivery
<b>EQUITY;</b>	Committed to fairness in all our undertakings

# TOURISM FUND ANNUAL REPORT AND FINANCIAL STATEMENTS FOR FINANCIAL YEAR 2016/2017

## CORPORATE INFORMATION

**Who we are:** Tourism Fund is a statutory body established by an Act of Parliament under Section 66 of The Tourism Act, 2011.

**Principal activities:**

Collect the Tourism Levy imposed under section 105 of the Tourism Act or any other written law.

- : Establish, equip and control such other tourism and hospitality training institutions.
- : Establish a tourism training revolving fund.
- : Finance various functions in the tourism sector as stipulated in the Sec 68 of the Tourism Act.

**Location:**

**Head Office.**

NHIF Building, Car Park Tower 5th Floor,

P.O Box 46987-00100, Nairobi, Kenya

Tel: 020-2714900/1/2

Website: [www.tourismfund.co.ke](http://www.tourismfund.co.ke)

**Regional Offices:**

**Nairobi Regional office**

NHIF Building, Car Park Tower 5th Floor,

P.O Box 46987-00100, Nairobi, Kenya

Tel: 020-2730708

**Mombasa Regional Office**

Sheetal Plaza 1<sup>st</sup> Floor Aga Khan Road

P.O. Box 99832-80100 Mombasa, Kenya

Tel: 041-220493

# TOURISM FUND ANNUAL REPORT AND FINANCIAL STATEMENTS FOR FINANCIAL YEAR 2016/2017

## **Kisumu Regional Office**

Reinsurance Plaza 7<sup>th</sup> Floor Oginga Odinga Road

P.O. Box 1406-40100 Kisumu, Kenya

Tel: 057-2022247

## **Nakuru Regional office**

AFC Building, Mezzanine Floor, Kijabe off Kenyatta Avenue

P.O. Box 2812-20100 Nakuru, Kenya

Tel: 051-2215660

## **Nyeri Regional office**

Sohan Plaza 4<sup>th</sup> Floor Nyayo Road

P.O Box 348-10100 Nyeri, Kenya

Tel: 061-2030778

## **Bankers: Kenya Commercial Bank**

K.I.C.C Branch, Harambee Avenue

P.O. Box 48400-00100 Nairobi

## **National Bank of Kenya Ltd**

Harambee Avenue Branch.

P.O Box 73866-00100 Nairobi

## **Auditors: Auditor-General**

Kenya National Audit Office

Anniversary Towers-University way

P.O BOX 30084-00100, Nairobi, Kenya

# TOURISM FUND ANNUAL REPORT AND FINANCIAL STATEMENTS FOR FINANCIAL YEAR 2016/2017

## **FORWARD BY THE CHAIRMAN, BOARD OF TRUSTEES**

On behalf of the board of trustees it's my pleasure to present the Fund annual report. I am delighted to report that Tourism Fund performed very strongly. I am also honoured to be part of this dynamic and service oriented organization determined to ensure prosperity of the tourism industry.

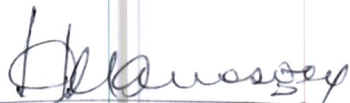
The Board of Trustees continues to ensure that a robust governance structure is in place to enable the Fund succeed and finance the long term sustainable growth of the industry. To this end, the Board safeguards the structured process of delivering right skills and independence to support the successful execution of the Fund's strategy.

Tourism Fund 2016/17 performance was achieved during a year marked by exogenous pressures, including the global financial crisis, terrorism and resulting travel advisories that had a substantial impact on the country's economy. In this environment, we have proven ourselves to be agile, resilient and adequately responsive to ensure sustainable tourism development.

During the financial year, the fund registered an overall improved performance of 13.3% in comparison to the previous year 2015/16.

Finally, in the light of the Fund's strong performance, the Board is optimistic about the resilience demonstrated this far to create increasing value and better outcomes for our stakeholders in future. I have no doubt that Tourism Fund team is experienced enough to face these challenges and make 2017/18 another year of success.

On behalf of the board of Trustees, I take this opportunity to thank our stakeholders, without whom our success in the year 2016/17 would not have been achieved. I would also like to thank our entire workforce for their hard work and dedication.



Hon. Henry Kosgey

**Chairman Board of Trustees**

# TOURISM FUND ANNUAL REPORT AND FINANCIAL STATEMENTS FOR FINANCIAL YEAR 2016/2017

## **CHIEF EXECUTIVE OFFICER`S STATEMENT**

The financial 2016/17 marks the 46<sup>th</sup> year since inception of Tourism Fund. Since its launch in 1972, Tourism Fund has consistently implemented strategic plans with a view to enhancing service delivery to our customers thus improving voluntary compliance and levy collection.

The period under review saw continued investment in the execution of our corporate strategy aimed at utilizing new innovative ways and breaking new grounds to build and expand its horizons in providing information and direction in the implementation of the Tourism Act.

### **Operating Economic Environment in 2016/17**

Kenya has shown resilient growth so far this year and its economy remains one of the fastest-growing in the region. During the financial year 2016/17, the Gross Domestic Product and the economy at large was on the upward trend.

Tourism sector earnings increased substantially. On the domestic front, improvements in hotel occupancy were recorded for the better part of the year.

In line with the vision 2030 plan synchronized with our strategic plan 2014-19, Tourism Fund made significant strides in the following areas:

#### **Revenue performance**

During the Financial year 2016/17, Tourism Fund collected a total of Kshs.2.26 Billion against a target of Kshs.2.86 Billion, being a performance rate of 79%.

#### **ISO 9001:2008 certification**

Tourism Fund is ISO 9001:2008 certified. This certification of compliance recognizes that the policies, practices and procedures of the Fund are in tandem with the best practices in the world and it goes a long way to confirm to our clients and stakeholders of our commitment to excellent service delivery. The said certification has enabled implementation of dedicated activities that led to continuous improvement, and enhanced the Fund's efficiency.

#### **Office Block.**

After many years of planning and execution, The Fund has finally realized the dream of setting up and completing the office block along Valley Road. This is a capital project that has been going on for the last five years. Substantial amount of internal resources has been put into the construction of the office block and it now stands out as an icon in the upper Hill area. This is going to be a home for the Ministry of Tourism and other agencies within the sector.

# TOURISM FUND ANNUAL REPORT AND FINANCIAL STATEMENTS FOR FINANCIAL YEAR 2016/2017

## CHIEF EXECUTIVE OFFICER'S STATEMENT

### **Construction of the Second Tourism Hospitality College Kilifi County- Ronald Ngala Utalii College.**

The Ronald Ngala Utalii College is jointly funded by Tourism Fund and the National Treasury, as per the Cabinet Memorandum signed in June 2014 which requires that Tourism Fund set aside Kshs. 500 million annually in favor of the project and the National Treasury set aside Kshs. 1.23 billion annually. This proposal is presented and documented in the Medium Term Expenditure Framework (MTEF) and the General Economic and Commercial Affairs Sector (GECA) sector paper.

The Fund is now in the third year of implementing this flagship project. It is expected that at completion, the college will offer training opportunities to students' specializing in tourism and hospitality. By the end of the second year, a total of 47% completion rate had been achieved. It is expected that the project will be fully operational by the end of the remaining two years.

### **Conclusion**

Tourism Fund is optimistic of exceeding the targets with the support of the Government and the stakeholders. The Fund will continue to improve on quality, efficiency and service delivery through a wide range of initiatives and improved business processes.



Joseph Cherutoi  
**Chief Executive Officer**

# TOURISM FUND ANNUAL REPORT AND FINANCIAL STATEMENTS FOR FINANCIAL YEAR 2016/2017

## TOP LEVEL MANAGEMENT TEAM

Tourism Fund has an approved organization structure comprising of top level management, middle level, supervisory and support staff. The Current top level management comprises of:

### Key Professional /Academic Qualifications



Pursuing Phd in Leadership, MBA, Bachelor of Commerce, CPA (K)

**Mr Joseph Cherutoi**  
**Chief Executive Officer**



MBA, Bachelor of Commerce, CPA(K)

**Mr Eric Kiplagat**  
**Head Of Finance**



Bachelor of Arts, Bachelor of Laws Degree, Pursuing Postgraduate Diploma in Law at School of Law

**Mr Charles Okeyo**  
**Head Of Levy Operations**

# TOURISM FUND ANNUAL REPORT AND FINANCIAL STATEMENTS FOR FINANCIAL YEAR 2016/2017

## TOP LEVEL MANAGEMENT TEAM

### Key Professional /Academic Qualifications



**Ms Nancy Siboe**  
**Head of Legal**

Bachelor of Laws (LLB),  
Post graduate Diploma in Law, Admission to the Roll of  
Advocates, MBA (Strategic Management), Masters in  
International Law (LLM)



**Ms Patricia Ondeng**  
**Corporate Affairs Manager**

Pursuing Masters of Arts (Corporate Communications), Bachelor  
of Business & Office Management, Diploma Business  
Management



**Mr Alex Njuguna**  
**Business Development Manager**

Masters of Arts, Bachelor of Arts, Diploma in Marketing

# TOURISM FUND ANNUAL REPORT AND FINANCIAL STATEMENTS FOR FINANCIAL YEAR 2016/2017

## TOP LEVEL MANAGEMENT TEAM

### Key Professional /Academic Qualifications



MBA, B.COM (Human Resource), Higher Diploma in Human Resources Management, Diploma in Human Resource Management.

**Mr Adan Adad**  
**Head of Human Capital**



Bachelor of Commerce

**Ms. Jane Aganyoh**  
**Head of Internal Audit and Risk**



Masters of Arts, Bachelor of Education, Diploma in Purchasing And Supplies

**Mrs Emily Langat**  
**Procurement Manager**



MBA (Strategic Management), BSC (Information Technology)

**Mr. Isaiah Rutto**  
**Ag. Information, Communication & Technology Manager**

# TOURISM FUND ANNUAL REPORT AND FINANCIAL STATEMENTS FOR FINANCIAL YEAR 2016/2017

## CORPORATE GOVERNANCE STATEMENT

Corporate governance is the process and structure used to direct and manage the business affairs of the Trustees.

The Board of Trustees is the supreme forum for formulating and interpreting policy and charting out the roadmap for goal attainment including plans of action. The Trustees attach great importance to the need to conduct the business and operations of the Fund with integrity, professionalism and in accordance with generally accepted international corporate practice.

The Board meets on a regular basis to review management performance including revenue collection, operational issues and future planning. The trustees are given appropriate and timely information to enable them maintain full and effective control over strategic, financial, and operational revenue and compliance issues.

The Board is responsible for the management of the affairs of the Fund including:

- Review and approval of the policy of the Fund.
- Monitoring the performance of the Fund in carrying out its core functions.
- Offering general direction and guidelines for the overall operations of Tourism Fund.

### Committees of the Board

The Board has three standing committees that meet under the terms of reference set out by the Board, namely:

#### · **Finance Committee**

The finance committee reviews the annual budget and is responsible for the financial policies of the Fund.

The members are : Mr.Wallace Mark Gathuri (Chairperson), Mrs.Fatuma Hirsi Mohamed (CBS), Ms.Julie Debaly Scott, Mr.Kiprop Chirchir, Mr.Peter Ngori and Mr.Godfrey Busolo.

#### · **Audit and Risk Committee**

The committee is responsible for reviewing audit reports, compliance with relevant laws, procedures and standards, quality of financial reporting and oversight on internal controls among others.

The members are : Ms.Caroline Ng'anga (Chairperson), Mrs.Fatuma Hirsi Mohamed (CBS), Mr.Kiprop Chirchir and Mr.Peter Ngori

# TOURISM FUND ANNUAL REPORT AND FINANCIAL STATEMENTS FOR FINANCIAL YEAR 2016/2017

## **Staff and Technical Committee**

The committee is responsible for monitoring and appraising the performance management, reviewing of human resource policies and making recommendations on issues to do with general staff welfare to the board.

The members are : Mrs.Fatuma Hirsi Mohamed (CBS), Ms.Julie Debaly Scott, Mr.Wallace Mark Gathuri, Ms.Caroline Ng'anga and Mr.Dominic Katiku.

## **Project Committee**

The committee is responsible for monitoring and appraising projects.

The members are : Mr.Wallace Mark Gathuri (Chairperson), Mrs.Fatuma Hirsi Mohamed (CBS), Ms.Caroline Ng'anga, Mr.Kiprop Chirchir and Mr.Dominic Katiku.

# TOURISM FUND ANNUAL REPORT AND FINANCIAL STATEMENTS FOR FINANCIAL YEAR 2016/2017

## BOARD OF TRUSTEES



**Hon Henry Kosgei**  
**Chairman**

Henry Kosgei was appointed the chair of Tourism Fund in 2016. He holds Masters in Leadership and currently pursuing Phd in Theology .Previous to this appointment, he served as a Member of Parliament for Tinderet Constituency for over 25 years. He has also serve as the Minister of Transport & Communication, Co-operative Development, Culture and social services and Tourism among others.



**Mr Mark Gathuri**  
**Trustee**

Mr Mark Gathuri has over 34 year's wealth of experience in Hotel Management. Previously served as the Director of Operations, lodges and Resorts within Serena Hotels. In addition, Mr Gathuri has served as a board member in Kenya Association of Hotel Keepers and Caterers and Kenya Tourism Federation. He was appointed to the board of Trustees in 2016, is also Alumni of Strathmore Business School and Kenya Utalii College. He holds Advanced Diploma Hotel Management.

# TOURISM FUND ANNUAL REPORT AND FINANCIAL STATEMENTS FOR FINANCIAL YEAR 2016/2017

## BOARD OF TRUSTEES



**Mr Peter Ngori**  
Trustee

Mr Peter Ngori was appointed to Board of Tourism Board in 2017. He has a wealth of experience in Tourism Industry that spans to over 40 years. He holds Advanced Diploma in Hotel Management and Diploma in Hotel Management.



**Ms Caroline Nganga CPA**  
Trustee

Ms Caroline Nganga was appointed to the Board of Tourism Fund in 2016. She holds Bsc Statistic, MBA (Strategic Management Option) and CPA (K). She is also a member of ICPAK, Institute of Internal Auditors, Associate member of Chartered Institute of Arbitrators.

# TOURISM FUND ANNUAL REPORT AND FINANCIAL STATEMENTS FOR FINANCIAL YEAR 2016/2017

## BOARD OF TRUSTEES



**Mr Kiprop Chirchir**  
**Trustee**

Kiprop Chirchir is a leading entrepreneur and a business man. He previously worked with Nation Media Group as a Marketer. He is a graduate of Moi University from where he attained Bachelor of Business Management. Mr.Chirchir Joined Tourism Fund board of Trustee in 2016



**Ms Julie Scott**  
**Trustee**

Ms. Julie Scott has a wealth of experience spanning for over 40 years in Travel and Tour. She currently serves as Managing Director, Bunson Travel, Liason executive for Carlson Wagonlit Travel, Vice Chairperson Kenya Association of Travel Agents. She was appointed to the Board of Tourism Fund in 2016.

# TOURISM FUND ANNUAL REPORT AND FINANCIAL STATEMENTS FOR FINANCIAL YEAR 2016/2017

## BOARD OF TRUSTEES



**Ms Rael Rotich**  
**Alternate Trustee National Treasury**

CPA Rael Rotich was appointed as Alternate Trustee of Tourism Fund in 2017. She holds MBA (Finance Option) and Bachelor of Commerce.


# TOURISM FUND ANNUAL REPORT AND FINANCIAL STATEMENTS FOR FINANCIAL YEAR 2016/2017

## STATEMENT OF BOARD OF TRUSTEES RESPONSIBILITIES ON THE FINANCIAL STATEMENTS

It is the responsibility of the Trustees to prepare financial statements for each financial year, which give a true and fair view of the state of affairs of Fund and its operating results for that year. It is also the Board's responsibility to ensure that the Fund keeps proper accounting records, which disclose with reasonable accuracy, the financial position of the Fund. The Board is also responsible for safeguarding the assets of the Fund and maintenance of adequate system of internal financial control.

The Trustees accept responsibility for the annual financial statements, which have been prepared using appropriate accounting policies supported by reasonable and prudent judgments and estimates, in accordance with International Public Sector Accounting Standards (IPSAS). The Trustees are of the opinion that the financial statements give a true and fair view of the state of the financial affairs of the Fund and its operating results.

Nothing has come to the attention of the Trustees to indicate that Tourism Fund will not remain a going concern for at least the next twelve months from the date of this statement.



Hon. Henry Kosgei

**Chairman of the Board of Trustees**

17<sup>th</sup> July 2018

# REPUBLIC OF KENYA

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P.O. Box 30084-00100  
NAIROBI

## OFFICE OF THE AUDITOR-GENERAL

### REPORT OF THE AUDITOR-GENERAL ON TOURISM FUND FOR THE YEAR ENDED 30 JUNE 2017

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#### REPORT ON THE FINANCIAL STATEMENTS

#### Qualified Opinion

I have audited the accompanying financial statements of Tourism Fund set out on pages 1 to 29, which comprise the statement of financial position as at 30 June 2017, and the statement of financial performance, statement of changes in net assets, statement of cash flows and statement of comparison of budget and actual amounts for the year then ended, and a summary of significant accounting policies and other explanatory information in accordance with the provisions of Article 229 of the Constitution of Kenya and Section 35 of the Public Audit Act, 2015. I have obtained all the information and explanations which, to the best of my knowledge and belief, were necessary for the purpose of the audit.

In my opinion, except for the effect of the matters described in the Basis for Qualified Opinion section of my report, the financial statements present fairly, in all material respects, the financial position of the Tourism Fund as at 30 June 2017, and of its financial performance and its cash flows for the year then ended, in accordance with International Public Sector Accounting Standards (Accrual Basis) and comply with the Tourism Act, No.28 of 2011.

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

#### Basis for Qualified Opinion

##### 1. Receivables from Non-Exchange Transactions

- i. As reported in the previous year, the receivables from non-exchange transactions balance of Kshs.50,647,773 as at 30 June 2017 excludes an amount of Kshs.16,617,045 relating to dishonored cheques brought forward from the previous year for various levy collections for which a provision of the total amount has been made in the financial statements. The Fund was since enjoined in the Winding up case No.1 of 2005 in the High court of Kenya at Mombasa against the creditor in pursuit of a debt of Kshs.9,500,000. In a ruling made on 19 June 2014 the court ruled that the creditor be wound up and an official receiver was appointed as provisional liquidator. Although the creditors' meetings are ongoing, the outcome is yet to be determined.

- ii. Further, the receivables balance includes an amount of Kshs.2,344,617 described as other debtors which had no movement during the year under audit. Although management has explained that the debtors relate to former employees and that the same has been fully provided for, no satisfactory explanation was given as to why the management did not recover the dues from the former employees before they left the Fund.

In the circumstances, it has not been possible to confirm that receivables from non-exchange transactions balance of Kshs.50,647,773 as at 30 June 2017 is fairly stated.

## **2. Proposed Office Block**

Included in the property, plant and equipment balance of Kshs.1,843,887,018 as at 30 June 2017 is an amount of Kshs.1,371,998,165 being work in progress for construction of the Fund's office block that was still ongoing by the time of the audit. However, examination of the contract agreement revealed that the intended completion date for the construction work was 30 November 2012 and the original contract sum was Kshs.811,717,150. No approval for project extension period was given after expiry of the initial contract duration.

According to the financial appraisal No.5 dated November 2015, the projected revised contract price is Kshs.1,415,281,613, with a variation of Kshs.603,564,463 (about 74.36%) from the original contract price. However, approval of the financial appraisal as per Section 139 of the Public Procurement and Asset Disposal Act, 2015 was not provided for audit confirmation.

Consequently, the propriety of the anticipated expenditure of Kshs.603,564,463 without appropriate approval and the uncertainties underlying the project implementation cannot be confirmed.

## **3. Ronald Ngala Utalii College**

- i. The College had been initially established as Kenya Utalii College, Coast branch vide Cabinet Memo Ref: CAB.58/4A of 18 September 2007 at REA Vipingo site on 60 acres of land donated by REA Vipingo Plantations Ltd. However, out of the total acreage only 40 acres has been fenced leaving the other 20 acres exposed to the risk of encroachment.
- ii. The development of the College was transferred to Catering and Tourism Development Levy Trustees (now Tourism Fund) from Kenya Utalii College and a process began to change and legalize the college name to Ronald Ngala Utalii College without Cabinet approval. By a Gazette Notice No. 3478 of 25 March 2010, the then Tourism Minister established Ronald Ngala Utalii Academy and which was now different from the envisaged name of the "College" and further appointed board members of the Academy through Gazette Notices of 6 August 2010 and 5 November 2010. However, these appointments were in 2012 nullified alongside those of other Tourism Agencies by the subsequent Minister for Tourism. In view of the change of name from Ronald Ngala Utalii College to

Ronald Ngata Utalii Academy there are uncertainties as to the name the new title deed will be registered in.

- iii. No feasibility study was done for the project to establish its viability. The procurement plan of the procuring entity did not capture the estimated cost of the project nor in the multi-year procurement plan as envisaged in Section 26(3) of the Public Procurement and Disposal Act, 2005 and Section 12 of the Public Finance Management Act, 2012.
- iv. No evidence has been availed to prove that the procurement process for the consultancy started with expression of interest as envisaged by Section 78 of the Public Procurement and Disposal Act, 2005. Further there is no proof that the tender committee approved use of request for proposal method without going through the expression of interest.
- v. The tender evaluation committee included two members from consortium of consultants procured (Baseline-Architect and Ujenzi-Quantity Surveyor) who were responsible for designing and drawing of Bills of Quantities which was in contravention of Section 26(3)(c) of the Public Procurement and Disposal Act, 2005 on segregation of duties and Section 28 of the same Act on appointment of procuring agent.
- vi. The tender for consultancy services was awarded to Baseline Architects Limited and the award was based on the technical proposal submitted by the winning firm, who were to be invited for negotiation on the basis of scale of fees for professional services. It is not clear whether the procuring entity indeed negotiated as provided for by request for proposal document with the consultants taking into consideration that the negotiation of award was done on 4 April 2012 which was the same day the tender was awarded. The award letter did not also specify the scale of fees applicable for professional services and the tender document was silent on how the consultants were to be paid. Baseline Architects Ltd. consortium included Geomeasures Surveyors Ltd whose bid was not evaluated and was one of the contracted consultants. Consequently, it has not been possible to ascertain the fairness of the evaluation process.
- vii. The award of the construction project contract was made to the third lowest prequalified bidder Ms Mulji Devraj and Brothers at a contract cost of Kshs.8,961,370,998. It is not clear why the contract was not awarded to the lowest bidder (M/S China Jiangxi International K Ltd) since there was a material difference of Kshs.498,731,291 yet all the bidders had undergone evaluation and prequalification.
- viii. On the 10 March 2016, Baseline Architects Limited presented fee note No.9 for architectural services of Kshs.208,780,092. Included in the total amount is out of pocket expense of Kshs.44,953,350, for which no supporting documents were provided for audit verification on this consultancy. On 8 September 2015, Ujenzi

Consultants presented a fee note No.3 for quantity surveying services of Kshs.242,971,448. Included in the amount is reimbursements of Kshs.7,196,378 for which the consultant did not provide the supporting documents as per Section 139(2)(d) of Public Procurement and Asset Disposal Act, 2015.

- ix. Ms Central Electricals International Limited was issued with an advance payment guarantee for Kshs.38,952,592 by Imperial Bank Limited. However, the bank went into receivership in October 2015 and the consultant did not get another guarantor in contravention of Public Procurement and Asset Disposal Act, 2015 Section 147(1).
- x. The contract was revised on 25 August 2014 vide second addendum which scaled down the contract sum from Kshs.8,961,370,998 to Kshs.4,923,005,000. However, no cabinet approval has been availed to confirm this revised scope of the project.
- xi. During the year under review, National Treasury transferred Kshs.562,000.000 whereas the Fund incurred Kshs.629,984,854 on the project. Further, the main contractor's interim certificates still reflect a contract sum of Kshs.8,961,370,998 inspite of the scaled down activities.
- xii. According to monthly progress report No. 43 of February 2018, the certified gross value of work done together with advance payment, materials on site plus contractual claims was approximately Kshs.2.646 billion representing approximately 53.75% completion. Total payments made in respect of the project so far amount to Kshs.4,981,554,505 as at 30 June 2017. Most tasks are behind schedule and the updated programme of works shows a finish date of 25 March 2019.
- xiii. As previously reported, the amount of Kshs.1,536,015,714 charged by consultants of the project was based on the original contract sum of Kshs.8,961,370,998 (representing about 17.1%) yet the contract had been scaled down to Kshs.4,923,005,699 as per revised bill of quantities which should be Kshs.841,833,975 resulting in an overpayment to the consultants by Kshs.694,181,739.
- xiv. During the year under review, the Fund paid Kshs.7,959,600 to Kilifi County Government being land rates for Ronald Ngala Utalii College. It was however noted that M/s Kithi and Company Advocates had been engaged to negotiate on the outstanding land rates with Kilifi County Government in August 2013. The lawyer was paid Kshs.13,000,000 excluding fees on 9th September 2014 and the rates clearance certificate was to be obtained within 30 days from the date of payment. On 10 October 2016 the lawyer wrote to the Fund to request for an additional Kshs.10,000,000 towards finalizing the same which the Fund did not honour. The Fund's efforts to get a refund of the Kshs.13,000,000 have not yielded any fruits. The value for money from legal fees paid could not be

ascertained and the Fund has not recognized the lawyer as a debtor for the 13 million in their books.

- xv. According the Public Financial Management Act, 2012 Section 72 (1)(a), the accounting officer for a national government entity shall be responsible for the management of the entity's assets and liabilities. However, a review of the financial statements showed the Fund has been expensing grants to Ronald Ngala Utalii College project. However, an enquiry showed that Ronald Ngala Utalii College is non-existent hence the work-in progress has not been captured in any entity's books. Given that Tourism Fund implements and Funds the project and any liability thereof belongs to the Fund, the corresponding asset also needs to be recognized.
- xvi. On 27 June 2017 Mulji Devraj & Brothers presented interim certificate No. 22 of Kshs.69,698,562.96. Included in the amounts is interest on delayed payments Kshs.98,250,000, price fluctuations of Kshs.75,000,000 and other contractual claims of Kshs.281,750,000. It was however noted that the main contractor included Kshs.75,000,000 as price fluctuations in fee note number 22 without a detailed assessment on what caused the price fluctuation contrary to Clause 35 of the terms and conditions of the contract. According to the agreement and conditions of contract for building works between Tourism Fund and Mulji Devraj and Brothers Ltd clause 34.28, any penalties or fines imposed on the contractor by the relevant authority for delay in the payment of Value Added Tax(VAT) and other taxes levied in the building industry arising from a delay in the honouring of a payment certificate shall be reimbursed by the employer to the contractor. It was however noted that the contractor charged interest on VAT without evidence that the same had been charged by the Kenya Revenue Authority. Similarly, on 27 June 2017 the Armitech Consulting Engineers presented a fee note No.20 of Kshs.215,373,242 which included disbursements of Kshs.7,444,005 cumulated interest on outstanding pre and post contract fees of Kshs.178,193,025 and VAT on cumulated interest on outstanding fees of Kshs.28,510,884.
- xvii. According IPSAS 11 (51) an entity should disclose the aggregate amount of costs incurred and recognized surpluses (less recognized deficits) to date; the amount of advances received; and the amount of retentions. The contracts signed by the main contractor, consultancies and the sub-contractor provided for retention monies and advance payments to various contractors. It was however noted that the Fund did not report retention of Kshs.170,222,858 and advance payment not yet recovered of Kshs.242,524,026 in the financial statements.

Consequently, the propriety of the project expenditure could not be ascertained.

### **3. Uncertified Works**

As previously reported, office partitioning works at Central Kenya regional office was awarded to M/s Plenser Limited at a cost of Kshs.4,958,766 according to quotation number 0837 dated 24 October 2011. The work involved partitioning of the new office space and

the existing (old) office space at the cost of Kshs.3,560,953 and Kshs.713,845 before VAT respectively. Although inspection and acceptance certificate No.296 indicate that partitioning works in respect of the new office space were well done, the committee did not give any comments on the certificate relating to works on existing (old) office space. As a result, the Fund may have paid Kshs.713,845 for works not done.

The audit was conducted in accordance with International Standards of Supreme Audit Institutions (ISSAIs). I am independent of Tourism Fund 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 qualified opinion.

### **Key Audit Matters**

Key audit matters are those matters that, in my professional judgement, were of most significance in the audit of the financial statements. Except for the matters described in the Basis for Qualified Opinion section of my report, there were no other Key Audit Matters to report in the year under review.

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

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

In preparing the financial statements, management is responsible for assessing the Fund's ability to continue sustaining services, disclosing, as applicable, matters related to sustainability of services and using the applicable basis of accounting unless the management intends to have the Fund cease operations.

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

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

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

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

with ISSAIs will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

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 Fund'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 Fund's ability to continue to sustain its services. If I conclude that a material uncertainty exists, I am required to draw attention in the auditor's report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify my opinion. My conclusions are based on the audit evidence obtained up to the date of my audit report. However, future events or conditions may cause the Fund to cease to continue 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 Institute 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**

**26 July 2018**

**TOURISM FUND ANNUAL REPORT AND FINANCIAL STATEMENTS  
FOR FINANCIAL YEAR 2016/2017**

**STATEMENT OF FINANCIAL PERFORMANCE**

**For the year ended 30<sup>th</sup> June 2017**

	Note	2016-2017 Kshs	2015-2016 Kshs
<b>Revenue from non-exchange transactions</b>			
Levy Income	2	2,262,852,667	1,989,386,078
Levy Arrears		36,170,061	40,241,207
Grants from GOK	5	<u>562,000,000</u>	<u>-</u>
<b>Total revenue from non-exchange transactions</b>		<b><u>2,861,022,728</u></b>	<b><u>2,029,627,284</u></b>
<b>Revenue from exchange transactions</b>			
Interest on Loans & Investments	3	1,866,926	2,163,652
Interest on Staff Loans	3	55,651	27,000
Miscellaneous Revenue	3	323,619	82,500
Rental income	4	<u>220,500</u>	<u>210,000</u>
<b>Total revenue from exchange transactions</b>		<b><u>2,466,696</u></b>	<b><u>2,483,152</u></b>
<b>Total revenue</b>		<b>2,863,489,424</b>	<b>2,032,110,437</b>
<b>Expenses</b>			
Administrative Expenses:			
Board Expenses	6(i)	30,278,876	18,745,064
Compensation of Employees	6(ii)	394,837,922	379,432,184
Depreciation and Amortization	20	35,715,738	33,300,079
Contracted Services	7	58,679,270	74,414,548
Grants and Subsidies	8	1,863,482,159	1,368,673,417
General Operating Expenses	9	312,577,164	193,474,974
Other Expenses	10	<u>-</u>	<u>3,849,818</u>
<b>Total expenses</b>		<b><u>2,695,571,129</u></b>	<b><u>2,071,890,084</u></b>
<b>Other gains/(losses)</b>			
Gains / (Loss) on Disposal	11	- 24,811	- 835,558
<b>(Deficit) / Surplus for the period</b>		<b><u>167,893,484</u></b>	<b><u>- 40,615,206</u></b>

The notes set out in pages 7 – 29 form an integral part of these Financial Statements.

# TOURISM FUND ANNUAL REPORT AND FINANCIAL STATEMENTS FOR FINANCIAL YEAR 2016/2017

## STATEMENT OF FINANCIAL POSITION

As at 30<sup>th</sup> June 2017

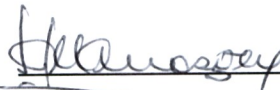
	Note	2016-2017 Kshs	2015-2016 Kshs
<b>Assets</b>			
<b>Current Assets</b>			
Cash and cash equivalents	12	219,529,529	150,560,880
Receivables from exchange transactions	13	9,956,742	12,676,689
Receivables from non-exchange transactions	14	50,647,773	75,032,494
<b>Total Current Assets</b>		<b><u>280,134,044</u></b>	<b><u>238,270,064</u></b>
<b>Non-Current Assets</b>			
Property, plant and equipment	15	1,843,887,018	1,684,446,904
Investments (Fixed deposit and interest)	16	3,100,000	3,100,000
Intangible assets	17	15,333,709	15,333,709
<b>Total Non-Current Assets</b>		<b><u>1,862,320,727</u></b>	<b><u>1,702,880,613</u></b>
<b>Total Assets</b>		<b><u>2,142,454,771</u></b>	<b><u>1,941,150,677</u></b>
<b>Liabilities</b>			
<b>Current Liabilities</b>			
Trade and other payables from exchange transactions	18	158,392,633	133,232,062
<b>Total Liabilities</b>		<b><u>158,392,633</u></b>	<b><u>133,232,062</u></b>
<b>Net Assets</b>			
Accumulated Surplus		1,984,062,138	1,807,918,615
<b>Total Net Assets</b>		<b><u>1,984,062,138</u></b>	<b><u>1,807,918,615</u></b>
<b>Total Net Assets and Liabilities</b>		<b><u>2,142,454,771</u></b>	<b><u>1,941,150,677</u></b>

The notes set out in pages 7 – 29 form an integral part of these Financial Statements.  
The Financial Statements were approved by the Trustees and signed on its behalf by:



Chief Executive Officer

Date: 17/7/18



Chairman Board of Trustees

Date: 17/7/18

# TOURISM FUND ANNUAL REPORT AND FINANCIAL STATEMENTS FOR FINANCIAL YEAR 2016/2017

## STATEMENT OF CHANGES IN NET ASSETS

For the year ended 30th June 2017

	Note	Revenue Reserves  Kshs	Accumulated surplus(Deficit)  Kshs	Total  Kshs
<b>Balance as at 30 JUNE 2015 (Bal b/d 1.7.2015) Restated</b>	-	52,617,003	1,987,856,791	1,935,239,788
Surplus for the period		-	- 40,615,206	- 40,615,206
Prior Year Adjustment			- 86,705,970	- 86,705,970
<b>Balance as at 30 JUNE 2016 (Bal b/d 1.7.2016)</b>	-	<b>52,617,003</b>	<b>1,860,535,615</b>	<b>1,807,918,612</b>
Surplus for the period		-	167,893,484	167,893,484
Prior Year Adjustment	22		8,250,042	8,250,042
<b>Balance as at 30 JUNE 2017 (Bal b/d 30.6.2017)</b>	-	<b>52,617,003</b>	<b>2,036,679,141</b>	<b>1,984,062,138</b>

**Note:** The nature of reserves is levy collected.

The notes set out in pages 7 – 29 form an integral part of these Financial Statements.

## TOURISM FUND ANNUAL REPORT AND FINANCIAL STATEMENTS FOR FINANCIAL YEAR 2016/2017

### STATEMENT OF CASHFLOWS

	Note	2016-2017 Kshs	2015-2016 Kshs
<b>Cash flows from operating activities</b>	21		
<b>Surplus / (Deficit) for the year before tax</b>		<b>167,893,484</b>	<b>40,615,206</b>
Adjusted for:			
Depreciation		45,430,130	33,300,079
Non-cash grants received			
Contributed assets			
Impairment	17	-	-
Gains and losses on disposal of assets	11	24,811	835,558
Contribution to provisions			
Contribution to impairment allowance			
Finance income	3	2,246,196	2,273,152
Finance cost		-	-
<b>Working capital adjustments:</b>			
Increase in inventory		-	-
Increase in receivables		27,104,668	31,169,324
Increase in deferred income		-	-
Increase / (Decrease) in payables		25,160,571	291,313,110
Increase in payments received in advance		-	-
Prior year adjustment	22	8,250,041	86,705,970
<b>Net cash flows from operating activities</b>		<b>271,617,509</b>	<b>164,685,094</b>
<b>Cashflows from investing activities</b>			
Purchase of property, plant, equipment	-	204,780,963	164,228,853
Proceeds from sale of property, plant, equipment		90,300	412,000
Sale of fixed assets proceeds	-	204,390	2,738,900
Finance income - Interest on Loans & Investments	3	2,246,196	2,273,152
<b>Net cash flows used in investing activities</b>		<b>202,648,857</b>	<b>164,282,601</b>
<b>Cashflows from financing activities</b>		-	-
<b>Net increase in cash and cash equivalent</b>		<b>68,968,652</b>	<b>402,494</b>
Add Cash and Cash Equivalent 1 <sup>st</sup> July 2016		150,560,877	150,158,384
<b>Cash and Cash Equivalent 30<sup>th</sup> June 2017</b>	12	<b>219,529,529</b>	<b>150,560,877</b>

The notes set out in pages 7 – 29 form an integral part of these Financial Statements.

# TOURISM FUND ANNUAL REPORT AND FINANCIAL STATEMENTS FOR FINANCIAL YEAR 2016/2017

## FINANCIAL STATEMENT OF COMPARISON OF BUDGET AND ACTUAL AMOUNTS

FOR THE YEAR ENDED 30<sup>TH</sup>  
JUNE 2017

	Original budget	Adjustments	Final budget	Budget	Actual on comparable basis	Variance	Explanation of material variances
	FY ended 30 June 2017	FY ended 30 June 2017	FY ended 30 June 2017	FY ended 30 June 2017	FY ended 30 June 2017		
	Kshs.	Kshs.	Kshs.	Kshs.	Kshs.	Kshs.	
<b>Revenue</b>							
Fines, penalties and levies	2,865,023,585	-	2,865,023,585	2,865,023,585	2,299,022,728	566,000,857	1
Finance Income (Interest)	2,000,000	-	2,000,000	2,000,000	2,246,196	- 246,196	2
Government grants and subsidies	500,000,000	-	500,000,000	500,000,000	562,000,000	- 62,000,000	3
Other Income	60,260,800	-	60,260,800	60,260,800	231,957	60,028,842	4
<b>Total income</b>	<b>3,427,284,385</b>	<b>-</b>	<b>3,427,284,385</b>	<b>3,427,284,385</b>	<b>2,863,500,881</b>	<b>563,783,503</b>	
<b>Expenses / Payments.</b>							
Administrative expenses							
(i) Board expenses	32,300,000	-	32,300,000	32,300,000	30,278,876	2,021,124	5
(ii) Compensation of employees	413,259,819	-	413,259,819	413,259,819	394,837,922	18,421,898	6
Rent paid	32,379,900	-	32,379,900	32,379,900	33,246,417	- 866,517	7
Grants and subsidies paid	2,107,300,000	-	2,107,300,000	2,107,300,000	1,863,482,159	243,817,841	8
Capital expenses	472,015,000	-	472,015,000	472,015,000	204,780,963	307,819,896	9
Other payments	370,029,665	-	370,029,665	370,029,665	373,762,023	- 3,640,208	10
<b>Total expenditure</b>	<b>3,427,284,385</b>	<b>-</b>	<b>3,427,284,385</b>	<b>3,427,284,385</b>	<b>2,900,388,360</b>	<b>567,574,032</b>	
<b>Surplus for the period</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>36,887,478</b>	<b>- 3,790,529</b>	

## TOURISM FUND ANNUAL REPORT AND FINANCIAL STATEMENTS FOR FINANCIAL YEAR 2016/2017

### Explanation of material variances

- 1 There was a shortfall in the forecasted international tourist arrivals in July & September 2016 (Mara Circuit).
- 2 Reduced uptake of staff loans.
- 3 Kshs.187,000,000 received in July 2016 for ongoing construction of Ronald Ngala Utalii College relates to the previous financial year 2015/2016 allocation from the Ministry.
- 4 Rental income from the office block is budgeted for, but tenancy/occupancy is yet to take place.
- 5 Increased Board activities/events.
- 6 Provision was made for review of salaries. However, the process for seeking approval is ongoing.
- 7 Due to the planned partitioning of the office block, the Headquarter and Nairobi Region offices have not relocated as envisaged to happen during the financial year. Therefore, rent payable has risen covering the period that the Headquarter and Nairobi Region offices are still occupying the current spaces.
- 8 The budgetary allocation for Grants to Ronald Ngala Utalii College from internal funds was doubled to bridge the gap resulting from reduced funding from exchequer, due to ongoing economic austerity measures. However, the internal funding is dependent on the levy collected.
- 9 Acquisition of Levy System Software and procurement of Motor vehicles is yet to be undertaken.
- 10 Upgrade of exchange server, Office security for office block and ISO enhanced staff training.

# TOURISM FUND ANNUAL REPORT AND FINANCIAL STATEMENTS FOR FINANCIAL YEAR 2016/2017

## 1 Notes to the Financial Statements for the year ended 30th June 2017

Tourism Fund prepares its general purpose financial statements in accordance with International Public Sector Accounting Standards (IPSAS). In the preparation of the said statements for the financial year under review, Tourism Fund elected to comply with the The Public Finance Management Act 2012 section 192 and Kenya Gazette No. 5440 pronouncement dated 8<sup>th</sup> August 2014, as detailed below:

2.2.3 The state and County Corporations carrying out commercial activities shall apply IFRS while regulatory and non-commercial State and County Corporations shall apply IPSAS Accrual.

The IPSAS that Tourism Fund has complied with in line with the pronouncement in the preparation of its financial statements are: IPSAS: 1, 2, 3, 9, 17, 19, and 20. These standards that Tourism Fund complied with were effective by 30<sup>th</sup> June 2014.

The notes in the financial statements provided and the respective disclosures made refer to the above applied standards.

### (a) Basis of Preparation

The financial statements are prepared under the historical cost basis of accounting as modified by the revaluation of assets and fair value adjustments to investments. They are presented in Kenya Shillings (Kshs.) and comply with International Public Sector Accounting Standards (IPSAS).

### (b) Income Recognition

(i) **Levy Income:** In accordance with the Tourism Act 2011, levy income is a % charge on gross sales levied by enterprises providing tourism activities and services as stipulated in the ninth schedule. The rate is gazetted by the Cabinet Secretary in charge of Tourism and the levy income is deemed as earned when received.

(ii) **Other Income:** Interest income is recognized on a time basis at the effective interest rate applied on the principal amounts outstanding.

Other incomes are recognized when earned.

# TOURISM FUND ANNUAL REPORT AND FINANCIAL STATEMENTS FOR FINANCIAL YEAR 2016/2017

## Notes to the Financial Statements for the year ended 30th June 2017

### (c) Property and Equipment

All categories of property and equipment are stated at cost or valuation less accumulated depreciation and impairment losses. Depreciation is calculated to write off the cost or valuation of each asset to its residual value where applicable over the expected useful life of the asset in equal installments. A full year's depreciation is charged in the year of purchase but no charge is made in the year of disposal.

The estimated rates are as follows

(i)	Computers and Accessories	30%
(ii)	Furniture, Fittings & Equipment	12.50%
(iii)	Motor Vehicles	25%
(iv)	Land	2%

### (d) Intangible Assets

Intangible assets consist of various computer software systems purchased for use by the Trustees. These assets are recognized as purchased separately at cost less accumulated amortization. Amortization is charged 30% same as the category of computers and accessories.

### (e) Retirements Benefits Obligations

The Trustees operates a Defined Contributory scheme. The assets of the scheme are held in a separate trustee administered fund. The cost of providing pension and other post retirement benefit for employees is charged to the fund.

### (f) Cash and Cash Equivalents

For the purposes of the cash flow statement, cash and cash equivalents comprise cash in hand and short term deposits held with the banks.

### (g) Taxation

The Trustee is a wholly owned government organization hence is exempt from taxation on investment income.

# TOURISM FUND ANNUAL REPORT AND FINANCIAL STATEMENTS FOR FINANCIAL YEAR 2016/2017

## Notes to the Financial Statements for the year ended 30th June 2017

### 2 LEVY INCOME

ALL BRANCHES	2016-2017 Kshs	2015-2016 Kshs
Nairobi Region	1,356,519,727	1,236,362,342
Coast Region	367,347,043	324,350,098
Western Region	122,544,177	119,617,882
Rift Valley Region	293,440,565	238,718,149
Central Region	159,171,216	110,578,814
	<u>2,299,022,728</u>	<u>2,029,627,284</u>

### 3 FINANCE INCOME (INTEREST)

	2016-2017 Kshs	2015-2016 Kshs
Interest on Loans & Investment	1,866,926	2,163,652
Interest on Staff Loans	55,651	27,000
Miscellaneous revenue	323,619	82,500
	<u>2,246,196</u>	<u>2,273,152</u>

### 4 OTHER INCOME

	2016-2017 Kshs	2015-2016 Kshs
Rental income	220,500	210,000
	<u>220,500</u>	<u>210,000</u>

### 5 GRANTS FROM GOK

	2016-2017 Kshs	2015-2016 Kshs
Grants from GOK	562,000,000	-
	<u>562,000,000</u>	<u>-</u>

# TOURISM FUND ANNUAL REPORT AND FINANCIAL STATEMENTS FOR FINANCIAL YEAR 2016/2017

## Notes to the Financial Statements for the year ended 30th June 2017

### 6 ADMINISTRATIVE EXPENSES (BOARD EXPENSES & COMPENSATION OF EMPLOYEES)

	2016-2017 Kshs	2015-2016 Kshs
<b>(i) BOARD EXPENSES</b>		
Chairman's Honorarium	640,000	160,000
Trustees Sitting Allowance	7,882,000	6,106,000
Trustees Travelling & Accommodation	21,756,876	12,479,064
	<u>30,278,876</u>	<u>18,745,064</u>
<b>(ii) COMPENSATION OF EMPLOYEES</b>		
Basic Pay	188,567,816	189,042,570
Pension and Gratuity	37,569,238	41,823,329
House Allowance	69,884,548	69,353,814
Acting Allowance	1,165,331	1,588,045
Leave Allowance	4,559,212	4,809,460
Transfer Allowance	3,297,885	550,019
Transport Allowance	13,609,880	13,732,759
Remunerative Allowance	270,000	30,000
Staff Development (Training)	32,666,344	20,876,695
Staff Uniforms	1,359,572	755,620
Staff Tea	3,707,009	3,446,787
Levy Collection Incentives	7,175,384	8,095,000
Medical Insurance	30,713,427	25,066,080
Staff Contingencies	292,275	262,005
	<u>394,837,922</u>	<u>379,432,184</u>

### 7 CONTRACTED SERVICES

	2016-2017 Kshs	2015-2016 Kshs
Rebranding	-	420,000
Tourism Dvpt (Semin & Wkshp)	25,380,682	23,052,772
HIV Programmes	-	1,062,735
Office Cleaning	5,803,737	2,975,584
Performance Contract Surveys	9,201,253	13,274,299
ISO 9001-2008 Expenses	7,864,995	3,157,922
ICT Repair Expenses	-	20,051,852
Legal Fees	8,688,602	9,897,384
Audit Fees	1,740,000	522,000
	<u>58,679,270</u>	<u>74,414,548</u>

# TOURISM FUND ANNUAL REPORT AND FINANCIAL STATEMENTS FOR FINANCIAL YEAR 2016/2017

## Notes to the Financial Statements for the year ended 30th June 2017

### 8 GRANTS AND SUBSIDIES

	2016-2017 Kshs	2015-2016 Kshs
Grants to Kenya Utalii College	318,000,000	283,500,000
Grants to Training for Refresher Courses	-	5,361,100
Grants to Kenya Tourist Board	328,000,000	276,000,000
Grants to Ronald Ngala College	629,984,854	784,671,384
Grants - Other Training Activities (PERAK, KAHC)	25,232,255	15,867,194
Product Development	265,050	3,273,739
Grants from GOK	562,000,000	-
	<b><u>1,863,482,159</u></b>	<b><u>1,368,673,417</u></b>

### 9 GENERAL OPERATING EXPENSES

	2016-2017 Kshs	2015-2016 Kshs
Levy Collection expenses	57,982,170	46,439,376
General Insurances	24,855,948	18,282,386
Office Security	3,077,600	146,698
Electricity & Water	4,876,702	3,301,354
Telephone & Postage Expenses	5,850,506	5,561,735
Printing & Stationery	11,362,286	10,893,087
Newspapers & Periodicals	1,449,780	1,491,790
Office Rent-H/O & Branches	33,246,417	27,422,340
Land Rent, Rates & Services	587,500	619,000
Entertainment & Public Relations	12,593,438	7,579,501
Shows And Exhibitions	-	9,180,912
Media, Advertisement & Publicity	36,530,869	19,455,791
General Office Expenses	1,771,705	1,845,237
Subscriptions	835,830	1,197,671
Levy Recruitment Drive	55,618,597	-
Repair & Maint-Motor Vehicles	8,474,124	6,987,409
E-Mail& Internet Connectivity	43,176,157	11,296,199
Repair & Maint-Equip	-	12,333,201
Repair & Maint-Building	186,666	118,136
Fuel Expenses	5,747,611	5,545,263
Repair & Maint- Furniture	521,942	302,683
Bank Charges	3,336,522	3,475,205
Bad Debts w/o	494,794	-
	<b><u>312,577,164</u></b>	<b><u>193,474,974</u></b>

### 10 OTHER EXPENSES

	2016-2017 Kshs	2015-2016 Kshs
Corporate Social Responsibility	-	3,849,818
	<b><u>-</u></b>	<b><u>3,849,818</u></b>

# TOURISM FUND ANNUAL REPORT AND FINANCIAL STATEMENTS FOR FINANCIAL YEAR 2016/2017

## Notes to the Financial Statements for the year ended 30th June 2017

### 11 LOSS ON SALE OF ASSETS

	2016-2017 Kshs	2015-2016 Kshs
Loss on sale of assets	-	36,269
Gain on sale of assets	11,458	835,558
	<u>24,811</u>	<u>835,558</u>

### 12 CASH AND CASH EQUIVALENTS

	2016-2017 Kshs	2015-2016 Kshs
KCB-Revenue a/c	101,570	205,150.50
KCB - Collection a/c	3,860,765	239,378.57
KCB - Staff Loan A/C	-	16,175.15
KCB - Asset Finance a/c	17,871,735	16,841,592.90
KCB Mortgage Account	97,396,689	96,572,466.65
NBK- Operational A/C	27,061,231	3,025,631.56
NBK Ksm-Operational A/C	10,281	166,835.04
NBK Msa-Operational A/C	226,374	116,690.00
NBK Nyeri-Operational A/C	6,631	68,945.00
NBK Nkr-Operational A/C	251,145	171,736.00
NBK Nrb North -Operational A/C	126,225	-
NBK Nrb South - Operational A/C	161,680	-
Coop-Collection A/C	1,791	1,035,647.22
Co-op Bank Donor A/C	14,469	440,000.00
Co-Op Bank Savings A/C	261,624	249,062.26
Co-op Mortgage Account	70,000,000	30,000,000.00
NBK - RNUC a/c	1,492,115	731,761.60
M-pesa collection a/c	600,199	574,562
Pettycash imprest a/c	-	-
NBK Nrb-Operational A/C	-	105,246.00
Cash at Hand	101,850	-
	<u>219,529,529</u>	<u>150,560,880</u>

### 13 RECEIVABLES FROM EXCHANGE TRANSACTIONS

	2016-2017 Kshs	2015-2016 Kshs
Deposits	9,956,742	12,676,687
Prepayments	-	2
	<u>9,956,742</u>	<u>12,676,689</u>

**TOURISM FUND ANNUAL REPORT AND FINANCIAL STATEMENTS  
FOR FINANCIAL YEAR 2016/2017**

**Notes to the Financial Statements for the year ended 30th June 2017**

**14 RECEIVABLES FROM NON-EXCHANGE TRANSACTIONS**

	<b>2016-2017</b>		<b>2015-2016</b>
	<b>Kshs</b>		<b>Kshs</b>
Levy debtors	50,834,199		79,016,402
Other debtors	2,344,617		2,044,617
Provision for rd cheques	- 20,443,841	-	20,443,841
Staff imprest	11,863,936		10,815,123
Advances	2,103,396		2,735,179
Staff housing loans	3,945,466		691,014
Cash office imprest	-		174,000
	<b>50,647,773</b>		<b>75,032,494</b>

**TOURISM FUND ANNUAL REPORT AND FINANCIAL STATEMENTS FOR FINANCIAL YEAR 2016/2017**

<b>PROPERTY, PLANT AND EQUIPMENT - 2016 / 2017 TOURISM FUND</b>										
<b>15</b>										
<b>COST</b>	<b>Furniture &amp; Fittings</b>	<b>Partitions</b>	<b>Office Equipment</b>	<b>Computer Accessories</b>	<b>Motor Vehicles</b>	<b>Land</b>	<b>WIP</b>	<b>WIP - Partitions</b>	<b>Total</b>	
At 1 <sup>st</sup> July 2015	15,408,564	118,482,659	12,500,966	56,836,547	43,337,000	285,000,000	1,137,623,227		1,669,188,963	
Additions	437,380	9,160,039	1,401,805	5,981,688	15,500,001	-	134,486,841		166,967,754	
Disposals	(1,688,650)	-	(16,000)	(1,034,250)	-	-	-		(2,738,900)	
<b>At 30<sup>th</sup> June 2016</b>	<b>14,157,294</b>	<b>127,642,697</b>	<b>13,886,771</b>	<b>61,783,985</b>	<b>58,837,001</b>	<b>285,000,000</b>	<b>1,272,110,068</b>	<b>-</b>	<b>1,833,417,816</b>	
Additions	1,129,584	-	3,552,345	5,534,034	27,090,400	-	99,888,097	67,790,893	204,985,353	
Disposals	-	-	(144,000)	(60,390)	-	-	-	-	(204,390)	
Prior-Year Adjustment				(3,500)					(3,500)	
<b>At 30<sup>th</sup> June 2017</b>	<b>15,286,878</b>	<b>127,642,697</b>	<b>17,295,116</b>	<b>67,254,129</b>	<b>85,927,401</b>	<b>285,000,000</b>	<b>1,371,998,165</b>	<b>67,790,893</b>	<b>2,038,195,280</b>	
<b>DEPRECIATION</b>										
At 1 <sup>st</sup> July 2015	5,069,363	29,771,926	2,838,565	34,768,356	22,588,892	22,125,074	-	-	117,162,176	
Disposals	(698,794)	-	(6,621)	(785,927)	-	-	-	-	(1,491,343)	
Charge for the year	1,135,991	12,233,846	1,381,026	8,104,689	5,187,027	5,257,499	-	-	33,300,078	
<b>At 30<sup>th</sup> June 2016</b>	<b>5,506,560</b>	<b>42,005,772</b>	<b>4,212,970</b>	<b>42,087,118</b>	<b>27,775,919</b>	<b>27,382,573</b>	<b>-</b>	<b>-</b>	<b>148,970,911</b>	
Disposals	-	-	(47,531)	(50,240)	-	-	-	-	(97,772)	
Charge for the year	1,207,631	11,074,066	1,641,494	7,432,404	9,207,795	5,152,349	-	-	35,715,738	
Prior-Year Adjustment	91,953	-	9,214	544,515	9,073,702	-	-	-	9,719,384	
<b>At 30<sup>th</sup> June 2017</b>	<b>6,806,143</b>	<b>53,079,839</b>	<b>5,816,146</b>	<b>50,013,796</b>	<b>46,057,416</b>	<b>32,534,921</b>	<b>-</b>	<b>-</b>	<b>194,308,261</b>	
<b>NET BOOK VALUES</b>										
At 30 <sup>th</sup> June 2017	8,480,735	74,562,859	11,478,970	17,240,333	39,869,985	252,465,079	1,371,998,165	67,790,893	1,843,887,018	
At 30 <sup>th</sup> June 2016	8,650,734	85,636,925	9,673,801	19,696,867	31,061,082	257,617,427	1,272,110,068	-	1,684,446,905	

The land as indicated above is a parcel of land wholly owned by the organization and is located along Valley Road. The parcel has leasehold of 50 yrs. The 2% amortization rate is meant to take care of the amortization of the land over the lease period. The last valuation was done in August 2011.

The 5 motorvehicles procured in the financial year 2015/2016 under audit were delivered in July 2016, hence depreciation was not provided for in that financial year, but have been provided for under the current year under audit.

# TOURISM FUND ANNUAL REPORT AND FINANCIAL STATEMENTS FOR FINANCIAL YEAR 2016/2017

## Notes to the Financial Statements for the year ended 30th June 2017

### 16 INVESTMENTS

	2016-2017 Kshs	2015-2016 Kshs
Shares-Consolidated Bank	3,100,000	3,100,000
Shares-Institutions under Liquidation	62,600,000	62,600,000
Provision for Doubtful Debts	- 62,600,000	- 62,600,000
	<b>3,100,000</b>	<b>3,100,000</b>

### 17 AMORTIZATION - 2015/2016

ITEM	Licences, Back-up software, Bank software
<b>Cost / Value as at 30th June 2015</b>	<b>15,333,709</b>
Amortization as at 1st July 2015	-
<b>Net Book Value 30th June 2016</b>	<b>15,333,709</b>

### 18 TRADE AND OTHER PAYABLES FROM EXCHANGE TRANSACTIONS

	2016-2017 Kshs	2015-2016 Kshs
Trade creditors	19,755,126	23,347,433
Sundry creditors	2,497,912	-
Withholding tax	2,718,842	1,530,130
V.A.T account	4,184,412	4,101,365
Accrued expenses	85,940,380	84,734,195
Statutory Payables	1,404,064	2,177,745
Retention T.F W.I.P	40,585,858	-
Tax Arrears	1,306,038	17,341,194
	<b>158,392,663</b>	<b>133,232,062</b>

# TOURISM FUND ANNUAL REPORT AND FINANCIAL STATEMENTS FOR FINANCIAL YEAR 2016/2017

## Notes to the Financial Statements for the year ended 30th June 2017

### 19 OTHER PAYMENTS

	2016-2017 Kshs	2015-2016 Kshs
Levy Collection expenses	57,982,170	46,439,376
General insurances	24,855,948	18,282,386
Office security	3,077,600	146,698
Electricity & water	4,876,702	3,301,354
Telephone & postage expenses	5,850,506	5,561,735
Printing & stationery	11,362,286	10,893,087
Newspapers & periodicals	1,449,780	1,491,790
Land rent, rates & services	587,500	619,000
Entertainment & public relations	12,593,438	7,579,501
Shows and exhibitions	-	9,180,912
Media, Advertisement & publicity	36,530,869	19,455,791
Rebranding	-	420,000
Corporate Social Responsibility	-	3,849,818
Tourism dvpt (seminar & workshop)	25,380,682	23,052,772
HIV programmes	-	1,062,735
General office expenses	1,771,705	1,845,237
Office cleaning	5,803,737	2,975,584
Subscriptions	835,830	1,197,671
Performance Contract Surveys	9,201,253	13,274,299
ISO 9001-2008 expenses	7,864,995	3,157,922
Levy Recruitment Drive	55,618,597	-
Repair & maint - motor vehicles	8,474,124	6,987,409
Repair & maint - equipment	-	12,333,201
Repair & maint - building	186,666	118,136
Fuel expenses	5,747,611	5,545,263
Repair & maint - furniture	521,942	302,683
ICT repair expenses	-	20,051,852
E-mail & internet connectivity	43,176,157	11,296,199
Legal fees	8,688,602	9,897,384
Audit fees	1,740,000	522,000
Bank Charges	3,336,522	3,475,205
Bad Debts w/o	494,794	-
Loss on Disposal	36,269	835,558
Depn - furniture	1,207,631	1,135,991
Depn - partitions	11,074,066	12,233,847
Depn - computers	7,432,404	8,104,689
Depn - motor vehicles	9,207,795	5,187,027
Depn - land	5,152,349	5,257,499
Depn - office equipment	1,641,494	1,381,026
	<b>373,762,023</b>	<b>278,452,638</b>

# TOURISM FUND ANNUAL REPORT AND FINANCIAL STATEMENTS FOR FINANCIAL YEAR 2016/2017

## Notes to the Financial Statements for the year ended 30th June 2017

### 20 DEPRECIATION AND AMORTIZATION

	2016-2017 Kshs	2015-2016 Kshs
Depn - Furniture	1,207,631	1,135,991
Depn - Partitions	11,074,066	12,233,847
Depn - Computers	7,432,404	8,104,689
Depn - Motor Vehicles	9,207,795	5,187,027
Land Amortization	5,152,349	5,257,499
Depn - Intang Assets	-	-
Depn - Off Equip	1,641,494	1,381,026
	<b>35,715,738</b>	<b>33,300,079</b>

### 21 CASH FLOWS FROM OPERATING ACTIVITIES

Note	2016-2017 Kshs	2015-2016 Kshs
<b>Cash flows from operating activities</b>		
<b>Receipts</b>		
Fines, penalties and levies	2 2,299,022,728	2,029,627,284
Finance Income (Interest)	3 2,246,196	2,273,152
Other Income	4 & 5 562,231,958	210,000
	<b>2,863,500,882</b>	<b>2,032,110,437</b>
<b>Payments</b>		
Administrative expenses	6 425,116,798	398,177,248
Rent paid	9 33,246,417	27,422,340
Grants and subsidies paid	8 1,863,482,159	1,368,673,417
Other payments	19 373,762,023	278,452,638
	<b>2,695,607,398</b>	<b>2,072,725,642</b>
<b>Surplus for the year before tax.</b>	<b>167,893,484</b>	<b>- 40,615,206</b>

### 22 PRIOR YEAR ADJUSTMENT

	2016-2017 Kshs	2015-2016 Kshs
Prior Year Adjustment	8,250,042	86,705,970
	<b>8,250,042</b>	<b>86,705,970</b>

# TOURISM FUND ANNUAL REPORT AND FINANCIAL STATEMENTS FOR FINANCIAL YEAR 2016/2017

## Notes to the Financial Statements for the year ended 30th June 2017

### COMPARATIVES

Where necessary, comparative figures have been adjusted to conform to changes in presentation in the current year.

### FINANCIAL RISK MANAGEMENT

The Fund's financial liabilities comprises of trade and other payables. The main purpose of these financial liabilities is to raise finance for the Fund's operations. The Fund has also various financial assets such as trade receivables and cash and short-term deposits, which arise directly from its operations. Arising out of these financial liabilities and assets is the credit / default risk and liquidity risk that the management ensures it is reduced to acceptable levels.

- (i) On financial liabilities (credit risk), the Fund has set credit limits (60 days) within which its trade payables must be settled. It is important to note that it's because of the existence of credit limits that payables which would not have been settled at the balance sheet date are accrued and settled immediately in the next financial year to avoid the default risk premium. The Fund also ensures that there are no significant concentrations of the credit risks by offsetting most of its financial liabilities within the credit limit period.
- (ii) On financial assets, the Fund has managed its risk to a shortage of funds through a set deadline within which levy revenues (cash) should be remitted to the Fund and any defaults are fined and penalized. It is against this backdrop that the Fund has established a Levy Compliance, Enforcement and Monitoring Unit as a way of enhancing compliance levels with levy revenues which is the major source of cash inflows for the Fund.
- (iii) The Fund also advances soft loans to employees (salary advances and engine overhaul) at no interest rates as a social benefit. To manage defaults on repayment, the Fund has a policy which ensures that repayment is by way of a payroll deduction on a monthly basis until the loan is fully serviced within the loan agreement period of 3 years (engine overhaul) and one (1) year (salary advance) as per TF's policy. These actions by management therefore ensure that the Fund's exposure to bad debts arising from its receivables is not so significant as to affect its operations.
- (iv) On short term deposits, the Fund enters into agreements with the respective banks for on call deposits or for three months renewable maturity periods depending on the Fund's need. The deposits earn interest at the respective short-term deposit rates as agreed which is used to finance the Fund's ongoing operations of the time.

On currency risk, all the Fund's branches are locally based and thus the Fund's financial statement items are not subjected to foreign exchange translations into Kenya shillings at the financial statement date. The Fund is therefore not exposed to currency translations that may give rise to negative foreign exchange differences.

### CURRENCY

The financial statements are presented in Kenya Shillings (Kshs.)

# TOURISM FUND ANNUAL REPORT AND FINANCIAL STATEMENTS FOR FINANCIAL YEAR 2016/2017

## 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 for the Financial Year 2014/2015	Management comments	Focal Point person to resolve the issue (Name and designation)	Status: (Resolved / Not Resolved)	Time frame: (Date for resolving issue)
<b>1. Receivables from Non-Exchange Transactions</b>					
	<p>i) The receivables from non-exchange transactions balance of Kshs.43,863,170 as at 30 June 2015 excludes an amount of Kshs.16,617,045 relating to dishonored cheques brought forward from the previous year for various levy collections for which a provision of the total amount has been made in the financial statements. The Fund was since enjoined in the winding up case No.1 of 2005 in the High court of Kenya at Mombasa against the creditor in pursuit of a debt of Kshs.9,500,000. In a ruling made on 19 June 2014, the court ruled that the creditor be wound up and an official receiver was appointed as provisional liquidator. Although the creditor's meetings are ongoing, the outcome is yet to be determined.</p>	<p>The amount of Kshs. 16,617,045 consists of levy collections balances fully provided for in the previous year. Efforts to recover the said amounts have been futile. The list of pending legal cases was placed before the Full board on 18th April 2012, for purposes of seeking for approval to write off the unrecoverable amounts. The Board recommended that the same be categorized to reflect the recoverable and non- recoverable amounts. This process was completed but before the matter was presented to the board for approval, the board was de-gazetted and the new Board did not take office following a court case. A new board has since been constituted but the matter is already taken up by our lawyers. The greatest portion of the levy debt relate to African Safari Club whose debt was Kshs. 9,900,423.25. The club was taken to court by the fund for recovery of the said debt vide case number no CM CR No 2207/2009 (where one of the directors Mr. Frank Helge Neugebauer was arrested). An out of court settlement was negotiated and that the club agreed to deposit to the Fund postdated cheques for the entire sum owed. The Club issued eighteen (18) postdated cheques and a ruling was issued by the Magistrate Court dated 12/4/2010 withdrawing the case under Section 87(a) of the Criminal Procedure Rules Cap 75 LoK. Upon banking the said cheques on their maturity date, only two (2) cheques were honored amounting to Kshs. 400,000/- and the rest were dishonored. On 12th February 2014 through the firm of Wekesa and Simiyu Advocates, we filed a notice of intention to be enjoined in Winding Up Case No. 1 of 2005 at Mombasa between Universal Hardware Ltd (Creditor) and African Safari Club. A judgment on the Case was delivered on 19th June 2014 and a Winding Up order against the Club was issued on 23rd June 2014.</p>	The Chief Executive Officer	Not Resolved	

## TOURISM FUND ANNUAL REPORT AND FINANCIAL STATEMENTS FOR FINANCIAL YEAR 2016/2017

### 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 for the Financial Year 2014/2015	Management comments	Focal Point person to resolve the issue (Name and designation)	Status: (Resolved / Not Resolved)	Time frame: (Date for resolving issue)
<b>1. Receivables from Non-Exchange Transactions</b>					
		<p>After the Winding up order was issued against the Club, our lawyers together with our legal officer have been attending the Official Receiver meetings with a view to ensuring that the organization benefits from the sharing of the assets to date. Attached herein, please find the minutes of the last creditors meetings and the subsequent actions taken thereafter. On the particulars of the Directors, we instructed Safety Loss Assessors to investigate on the particulars of the Club and in their report, the directors are as follows;</p> <p>i) Carl Jacob Rudin                      ii) Benato Fabrizio Bachmann                      iii) Brigitte Hutzli                      iv) Frank Helge Neugebauer                      v) Murtaza Hatimala Hassanazi                      vi) Hans Peter Ruedin</p> <p>We further instructed the Law Firm to do a search in the Companies Registry on the particulars of the directors and shareholders, however the firm was unable to get the particulars since the subject file was missing at the Registry. The Costs incurred so far in the recovery process amount to Kshs. 974,340/- being legal fees and investigation fees.</p>	The Chief Executive Officer	Not Resolved	
	<p>ii) Further, the receivables balance includes an amount of Kshs.2,509,617 described as other debtors which had minimal movement during the year under audit. Although management has explained that the debtors relate to former employees and that the same has been fully provided for, no satisfactory explanation was given as to why the management did not recover the dues from the former employees before they left the Fund. The receivables were noted to increase at a rate of 633% compared to the previous year.</p>	<p>The figure of Kshs.2,509,617 comprises of miscellaneous debtors amounting to Kshs. 2,004,617 being due from defunct Kenya National Assurance of Kshs.649,958, Pension arrears from I.C.E A of Kshs. 116,501, staff loans amount of Kshs. 1,678, and Kshs. 880,000 and other miscellaneous debtors of Kshs. 356,480 (These loans relate to former staff of Tourism Fund who either died or left organization and their final dues were not able to cover the outstanding). The balances date back to 1990s and the chances of being recovered are negligible.</p>	The Chief Executive Officer	Not Resolved	

# TOURISM FUND ANNUAL REPORT AND FINANCIAL STATEMENTS FOR FINANCIAL YEAR 2016/2017

## 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 for the Financial Year 2014/2015	Management comments	Focal Point person to resolve the issue <i>(Name and designation)</i>	Status: <i>(Resolved / Not Resolved)</i>	Time frame: <i>(Date for resolving issue)</i>
<b>1. Receivables from Non-Exchange Transactions</b>					
	At the same time, management has only been able to collect an insignificant portion from the debtors during the year under review. In the circumstances, it has not been possible to confirm that the receivables from non-exchange transactions balance of Kshs.43,863,170 is fairly stated as at 30 June 2015	The increase in debtors was a result of increase in trade debtors arising from the computations of penalties and arrears of the levy payers. The law requires that any late payment attract interest and penalties. The levy department is working round the clock to collect the outstanding penalties and arrears.	The Chief Executive Officer	Not Resolved	

# TOURISM FUND ANNUAL REPORT AND FINANCIAL STATEMENTS FOR FINANCIAL YEAR 2016/2017

## 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 for the Financial Year 2014/2015	Management comments	Focal Point person to resolve the issue (Name and designation)	Status: (Resolved / Not Resolved)	Time frame: (Date for resolving issue)
<b>3. Ronald Ngala Utalii College</b>					
	i) Ronald Ngala Utalii College had initially been established as Kenya Utalii College, Coast branch VIDE Cabinet memo Ref: CAB.58/4A of 18th September 2007 at REA Vipingo site on 60 acres of land donated by REA Vipingo Plantations Ltd at a projected cost of Kshs. 1.948B to be undertaken in 4 phases of Kshs 500M each. However, out of the total acreage only 40 acres have been fenced leaving the other 20 acres exposed to the risk of encroachment.	In the period succeeding the Cabinet Memorandum of 2007, the Ministry of Tourism in conjunction with the Ministry of Public Works developed the initial concept paper and design works for the College. As per the Concept Paper, the project would constitute of the following: a) A training facility with an initial capacity of 600 students but with room for further expansion. b) Training facilities including tuition blocks, administration block, student accommodation, staff quarters, nursery and primary school, health centre, public library and recreational facilities. c) A five star hotel complex that would serve as a training laboratory for the College. d) The design of the college as currently designed will take a total of 40 acres which has been fenced off. The balance of 20 acres will be used to put up a five star hotel as envisaged in the concept paper under Public Private Partnership. e) The construction of the hotel is yet to commence on the 20 acre piece of land touching the ocean. There are no funds allocated for the construction of the boundary wall.	The Chief Executive Officer	Resolved	
	ii) The development of the College was on 19th March 2010 transferred to Catering and Tourism Development Levy Trustees (now Tourism Fund) from Kenya Utalii College and a process began to change and legalize the College's name to Ronald Ngala Utalii College without the Cabinet approval. By a Gazette Notice No.3478 of 25 March 2010, the then Tourism Minister established Ronald Ngala Utalii Academy and which was now different from the envisaged name of a College and further appointed board members of the Academy through Gazette Notices of 6 August 2010 and 5 November 2010.	The transfer of Title L.R No 5052/4 Vipingo from Kenya Utalii College has been going for the last three years. The lawyers Kaplan and Stratton representing the Vipingo Properties Ltd did write to Tourism Fund then CTDLT on 13th June 2014 informing the Fund of the Clients surrender of the property to the Government and thereby asking Tourism Fund to undertake the necessary steps to acquire a valid title. The Fund embarked on this process. It is important to note that Kenya Utalii College had not paid rates to County Government of Kilifi since inception and the outstanding amount totaled to Kshs. 17,912,989 as at July 2014. Our lawyers Kithi and Co Advocates issued a professional undertaking to procure Rates Clearance Certificate from the County Government a process which is ongoing to date.	The Chief Executive Officer	Resolved	

# TOURISM FUND ANNUAL REPORT AND FINANCIAL STATEMENTS FOR FINANCIAL YEAR 2016/2017

## 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 for the Financial Year 2014/2015	Management comments	Focal Point person to resolve the issue (Name and designation)	Status: (Resolved / Not Resolved)	Time frame: (Date for resolving issue)
<b>3. Ronald Ngala Utalii College</b>					
	However, these appointments were in 2012 nullified alongside those of other Tourism Agencies by the subsequent Minister for Tourism. In view of the change of name from Ronald Ngala Utalii College to Ronald Ngala Utalii Academy, there are uncertainties as to the name the new title deed will be registered in.	Part of the Kshs. 32 million paid in favor of legal fees include Kshs. 13 million being final settlement of the outstanding rates liability. Upon completion of this process, it is envisaged that the Title deed will be transferred to Ronald Ngala Utalii College.	The Chief Executive Officer	Resolved	
	iii) Though the project is branded by the management as Vision 2030 flagship project, it does not appear in the documented Vision 2030 planned flagship projects. Further, no feasibility study was done for the project to establish its viability. The procurement plan of the procuring entity did not capture the estimated cost of the project nor in the multi-year procurement plan as envisaged in Section 26(3) of the Public Procurement and Disposal Act, 2005 and Section 47(c) of the Public Finance Management Act, 2012.	The Ronald Ngala Utalii College is jointly funded by Tourism Fund and The National Treasury. In the period succeeding the Cabinet Memorandum of 2007, the Ministry of Tourism in conjunction with the Ministry of Public Works developed the initial concept paper and design works for the College. The concept paper developed detailed all the aspects relating to the study and implementation of the college. The Fund only implemented the results of the study which were documented in the Concept Paper. Further, the Cabinet Memorandum signed in June 2014 requires that Tourism Fund set aside Kshs. 500 million annually in favor of the project and the National Treasury set aside Kshs. 1.23 billion annually. These proposal are presented and documented in the Medium Term Expenditure Framework (MTEF) and the General Economic and Commercial Affairs Sector (GECA) sector paper.	The Chief Executive Officer	Resolved	
	iv) No evidence has been availed to prove that the procurement process for the consultancy started with Expression of Interest as envisaged by Section 78 of the Public Procurement and Disposal Act, 2005. Further there is no proof that the tender committee approved use of request for proposal method without going through the Expression of Interest.	Trustees put in place measures to procure professionals to implement the Project. In accordance with the Public Procurement and Disposals Act, 2005 and the Regulations made thereunder, the Fund identified a consortium of Consultants to oversee the design and overall supervision of the Project. Vide an advertisement carried out in the daily press, Trustees invited qualified firms to submit proposals for consideration. The respective consortia would be composed of architects, civil and structural engineers, services engineers and quantity surveyors.	The Chief Executive Officer	Resolved	

## TOURISM FUND ANNUAL REPORT AND FINANCIAL STATEMENTS FOR FINANCIAL YEAR 2016/2017

### 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 for the Financial Year 2014/2015	Management comments	Focal Point person to resolve the issue (Name and designation)	Status: (Resolved / Not Resolved)	Time frame: (Date for resolving issue)
<b>3. Ronald Ngala Utalii College</b>					
		The successful consortium is led by the firms of Baseline Architects, as the Lead Consultant and Ujenzi Consultants as the Quantity Surveyors. The consortium is further composed of Armitech Consultants as structural engineers, Westconsult engineers as electrical/mechanical engineers, Geomeasures Ltd as surveyors and PKF Consultants as environmental impact experts.	The Chief Executive Officer	Resolved	
	vi) The tender for consultancy services was awarded to Baseline Architects Limited and the award was based on the technical proposal submitted by the winning firm, who were to be invited for negotiation on the basis of scale of fees for professional services.	It is important to note that the consultants were procured using Standard Tender documents provided for by the Public Procurement Oversight Authority. The standard document provides at Clause 2.1.3 as follows: In the assignment where the procuring entity intends to apply standard conditions of engagement and scales of fees for professional services, which scale of fees will have been approved by a relevant authority, a technical proposal only may be invited and submitted by the consultants. In such a case the highest ranked individual consultant in the technical proposals shall be invited to negotiate a contract on the basis of the set scale of fees. The technical proposals will be the basis for contract negotiations and ultimately for a signed contract with the selected individual consultant.	The Chief Executive Officer	Resolved	

# TOURISM FUND ANNUAL REPORT AND FINANCIAL STATEMENTS FOR FINANCIAL YEAR 2016/2017

## Progress on follow up of auditor recommendations

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Reference No. on the external audit Report	Issue / Observations from Auditor for the Financial Year 2014/2015	Management comments	Focal Point person to resolve the issue <i>(Name and designation)</i>	Status: <i>(Resolved / Not Resolved)</i>	Time frame: <i>(Date for resolving issue)</i>
<b>3. Ronald Ngala Utalii College</b>					
	It is not clear whether the procuring entity indeed negotiated as provided for by the request for proposal document with the consultants taking into consideration that the negotiation of award was done on 4 April 2012 which was the same day the tender was awarded. The award letter did not also specify the scale of fees applicable for professional services and the tender document was silent on how the consultants were to be paid. Individual score sheets by evaluation committee members have not been availed for audit verification. Baseline Architects Ltd consortium included Geomeasures Surveyors Ltd whose bid was not evaluated and was one of the contracted consultants hence casting doubts on the fairness of the evaluation process.	The contract entered into with the consultants provides for minimum scale of fees as provided for in law and there was negotiation on the man hour charges. The entire consortium was evaluated in accordance with their relevant laws e.g. Architects and Quantity Surveyors Cap 525, engineers Cap 530. The individual score sheets are available for evaluation.	The Chief Executive Officer	Resolved	
	viii) The contract was revised on 25 August 2014 second Addendum which scaled down the contract sum from Kshs. 8,961,370,998 to Kshs. 4,923,005,000. However, no cabinet approval has been availed to confirm this revised scope of the project.	Due to economic austerity measures, it was agreed that even though the works were tendered and awarded at Kshs. 8.96 billion, the project must be rationalized with a view to downscaling the total cost through possible ways while ensuring that the project does would still be functional and achieve the mandate. The review was done in consultations with parent Ministry and the National Treasury. Specifically, the Fund was required to mobilize the consultants to rationalize the project by removing all the auxiliary proposed developments and retaining only the functional components. The total construction cost would be scaled down to Kshs 4.93 billion. The costs of construction will be provided by the National Treasury while the Tourism Fund will pay for the professional services. This culminated in the signing of the cabinet Memo dated 9th July 2014. The Fund further concluded this process by having the concerned parties sign an addendum to the earlier contracts executed.	The Chief Executive Officer	Resolved	

## TOURISM FUND ANNUAL REPORT AND FINANCIAL STATEMENTS FOR FINANCIAL YEAR 2016/2017

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Reference No. on the external audit Report	Issue / Observations from Auditor for the Financial Year 2014/2015	Management comments	Focal Point person to resolve the issue (Name and designation)	Status: (Resolved / Not Resolved)	Time frame: (Date for resolving issue)
<b>3. Ronald Ngala Utalii College</b>					
	ix) According to monthly progress report No.21 of March 2016, the certified gross value of work done together with advance payment, materials on site plus contractual claims was approximately Kshs. 1.61 Billion representing approximately 32.7% completion. Total payments made in respect of the project so far amount to Kshs. 3,152,444,635 whereas the interest accrued on the payments as at 18 April 2016 amounted to Kshs. 877,897,530	The consultants have claimed interest on overdue payments. This claim was made in accordance with Section 48 of the Public Procurement and Disposal Act, 2005. Likewise the main contractor also charged interest on idle plant and machinery, labor acceleration costs and cost fluctuations as provided for by the governing laws in the industry.	The Chief Executive Officer	Not Resolved	
	x) The amount of Kshs. 1,303,755,521 paid to consultants of the project as at 30 June 2015 was based on the original contract sum of Kshs. 8,961,370,998 (representing about 15%) yet the contract had been scaled down to Kshs. 4,923,005,699 as per revised bills of quantities which should be Kshs. 738,450,855 resulting to an overpayment to the consultants by Kshs. 565,304,666.	The payment of fees for professional services for the project is guided by the Architects and Quantity Surveyors Act. The Act provides at Section 5 for the gazette of By-laws to guide payment of professional fees for consultants involved in the project. The fees for architectural services are calculated as specified percentages in the Fourth Schedule to the Act and in this case total construction cost upon which calculations are to be based is Kshs.8,961,370,998.	The Chief Executive Officer	Resolved	
	Further, the contract duration was extended to 60 months ending 19 June 2018. Consequently, the propriety of the project expenditure could not be ascertained.	The supervision rates are however based on the scaled down works of Kshs. 4.9 billion. In reliance to the foregoing and the contract entered into between the consortium of consultants and the Tourism Fund, payments were made for the amount of work done by the consortium. The first payment made to the consortium was well after they had submitted the initial design. The payments made were thus due in accordance with the Fourth Schedule of the Architects and Quantity Surveyors Act. In undertaking the initial design, the consortium relied on Part 5 of the By-laws which require of them to come up with a development plan and master plan for the project. The plans set out in detail how the project will be implemented and how future additions may be made thereto. All these aspects are contained in the overall fees chargeable by the consortium under the Act. Downscaling of the project considered the fact that there was already a valid contract which had not been executed for close to two years. The extension was therefore given to cater for the time lapsed and the actual time it would take to complete the project.	The Chief Executive Officer	Resolved	

# TOURISM FUND ANNUAL REPORT AND FINANCIAL STATEMENTS FOR FINANCIAL YEAR 2016/2017

## 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 for the Financial Year 2014/2015	Management comments	Focal Point person to resolve the issue (Name and designation)	Status: (Resolved / Not Resolved)	Time frame: (Date for resolving issue)
<b>4. Irregular procurement- Uncertified Works</b>					
	Office partitioning works at Central Kenya regional office was awarded to M/s Plenser Limited at a cost of Kshs. 4,958,766 according to quotation number 0837 dated 24 October 2011. The work involved partitioning of the new office space and the existing (old) office space at the cost of Kshs. 3,560,953 and Kshs. 713,845 before VAT respectively. Although inspection and acceptance certificate No. 296 indicated that partitioning works in respect of the new office space were well done, the committee did not give any comments on the certificate relating to works on existing (old) office space. As a result, the Fund may have paid Kshs. 713,845 for works not done.	As per the recommendations of our internal audit department on the issue, the same was forwarded to the Legal department for the necessary Legal action. The legal department has taken up the matter with Plenser Ltd.	The Chief Executive Officer	Not Resolved	

## TOURISM FUND ANNUAL REPORT AND FINANCIAL STATEMENTS FOR FINANCIAL YEAR 2016/2017

### APPENDICES

#### Appendix 1: PROJECTS IMPLEMENTED BY THE AGENCY

##### Status of project completion

(Status of projects completion at the end of each quarter, i.e. total costs incurred, stage at which the project is etc)

Quarter	Project	Total project cost	Total expended to date	Completion % to date	Budget	Actual	Sources of Funds
1	Tourism Fund Head Office Block (Valley Road)	1,415,281,613	1,272,354,802	90%	20,000,000	244,734	2% Tourism Levy
2	Tourism Fund Head Office Block (Valley Road)	1,415,281,613	1,283,049,031	91%	20,000,000	10,694,229	2% Tourism Levy
3	Tourism Fund Head Office Block (Valley Road)	1,415,281,613	1,293,289,202	91%	20,000,000	10,240,171	2% Tourism Levy
4	Tourism Fund Head Office Block (Valley Road)	1,415,281,613	1,371,998,165	97%	20,000,000	78,708,963	2% Tourism Levy

Notes: 1. Total expended to date is on cumulative basis for each quarter since inception.  
2. The Annual Budgeted amount for the FY 2016/2017 was Kshs.20,000,000.

#### Appendix 2: INTER-ENTITY TRANSFERS

ENTITY NAME: TOURISM FUND				
Break down of Transfers from the State Department of Tourism				
FY 16/17				
b	Development Grants	Bank Statement Date	Amount (Kshs)	Indicate the FY to which the amounts relate
		08.07.16	187,000,000.00	2016/2017
		04.10.16	125,000,000.00	2016/2017
		05.05.17	250,000,000.00	2016/2017
		<b>Total</b>	<b>562,000,000.00</b>	

(Note: Only extracted segment of the template relevant to Tourism Fund Reporting requirement)

The above amounts have been communicated to and reconciled with the parent Ministry.

# TOURISM FUND ANNUAL REPORT AND FINANCIAL STATEMENTS FOR FINANCIAL YEAR 2016/2017

## Appendix 3: RECORDING OF TRANSFERS FROM OTHER GOVERNMENT ENTITIES.

Name of the MDA / Donor Transferring the funds	Date Received	Nature : Recurrent / Development / Others	Total Amount - KES	Statement of Financial Performance	Capital Fund	Deferred Income	Receivables	Others- must be specific	Total Transfers during the Year
	as per bank statement								
Ministry of Tourism	08.07.16	Recurrent	187,000,000	187,000,000					187,000,000
Ministry of Tourism	04.10.16	Recurrent	125,000,000	125,000,000					125,000,000
Ministry of Tourism	05.05.17	Recurrent	250,000,000	250,000,000					250,000,000
<b>Total</b>			<b>562,000,000</b>	<b>562,000,000</b>					<b>562,000,000</b>