



REPUBLIC OF KENYA



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By the Leader of
majority party
Hon. Aden Duale
on Tuesday
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REPORT
OF
THE AUDITOR-GENERAL
ON
THE FINANCIAL STATEMENTS OF
TOURISM FUND
FOR THE YEAR ENDED
30 JUNE 2016





OFFICE OF THE AUDITOR GENERAL
P. O. Box 30084 - 00100, NAIROBI
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Annual Report and Financial Statements

For year ended 30th June 2016



TOURISM FUND

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TOURISM FUND

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

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

TOURISM FUND

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
- 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
- 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 1st Floor Aga Khan Road
P.O. Box 99832-80100 Mombasa, Kenya
Tel: 041-220493

TOURISM FUND

Kisumu Regional Office

Reinsurance Plaza 7th 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 4th 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

FORWARD BY THE CHAIRMAN BOARD OF TRUSTEES

In my first statement as Chairman, I am delighted to report that Tourism Fund performed very strongly. I am also honored 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.

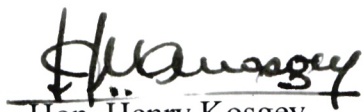
Tourism Fund 2015/16 performance was achieved during a year marked by exogenous pressures, including the global financial crisis, terrorism and resulting travel advisories that had a substantial impact on the country's economy. In this environment, we have proven ourselves to be agile, resilient and adequately responsive to ensure sustainable tourism development.

During the financial year, the fund registered an overall improved performance of 10.6% in comparison to the previous year 2014/15.

The second half of year 2016 saw the gazettment of the supporting regulations to the Tourism Act CAP 383 Laws of Kenya thereby enabling ease of actualization of the Fund's financial mandates. The Board is thus confident that the Fund is well placed to take advantage of the different opportunities ahead.

Finally, in 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 TF team is experienced enough to face these challenges and make 2016/17 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 2015/16 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

CHIEF EXECUTIVE OFFICER'S STATEMENT

The financial 2015/16 marks the 45th 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 2015/16

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 2015/16, 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 15/16, Tourism Fund collected a total of Kshs.2.029 Billion against a target of Kshs.2.388 Billion a performance rate of 85 %. This was an increase of 10.6% above the previous year 2014/15

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 four 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

CHIEF EXECUTIVE OFFICER'S STATEMENT

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

The Fund is now in the second 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 41% 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.

Finally, I wish to take this opportunity to thank all our stakeholders and levy payers without whose support the impressive performance could not have been achieved. I would also like to appreciate the support accorded to us by our parent ministry- Ministry of Tourism, Board of Trustees and Government of Kenya. I also wish to thank members of staff for making the year a success.



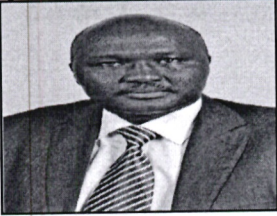





Joseph Cherutoi

Chief Executive Officer

TOURISM FUND

MANAGEMENT TEAM




Tourism Fund has an approved organization structure comprising of top level management,

Passport-size photo	Name	Key professional / academic qualifications	Area of Responsibility
1) 	Mr. Joseph Cherutoi	Pursuing PHD in Leadership, MBA, Bachelor Commerce, CPA(K)	Ag. Chief Executive Officer
2) 	Ms. Margaret Njoka	MBA, B Com, CPA(K), Higher Diploma in Human Resource Management, Credit Management Professional.	Ag. Head of Human Capital and Administration
3) 	Mr. Charles Okeyo	Bachelor of Arts, Pursuing Bachelor of Laws Degree (final year).	Ag. Head of Levy Operations
4) 	Ms. Nancy Siboe	Bachelor of Laws (LLB), Post graduate Diploma in Law, Admission to the Roll of Advocates, MBA (Strategic Management), Masters in International Law (LLM)	Ag. Head of Legal
5) 	Ms. Patricia Ondeng	Bachelor of Business & Office Management, Diploma in Business Management	Ag. Corporate Affairs Manager
6) 	Mr. Samuel Obote	Computer Programming Computerized Personnel Officer Course Networking & Communications.	Ag. Information, Communication and Technical Manager

TOURISM FUND

MANAGEMENT TEAM

Tourism Fund has an approved organization structure comprising of top level management,

Passport-size photo	Name	Key professional / academic qualifications	Area of Responsibility
7) 	Mr. Peter Otieno	Bachelor of Arts	Business Development Officer
8) 	Ms. Jane Aganyoh	Bachelor of Commerce	Head of Internal Audit and Risk
9) 	Mr. Gerald Omondi	CIPS Level 5 & 6 CIPS Graduate Diploma Bachelor of Business Administration & Management – Purchasing & Supply Chain Management	Ag. Procurement Manager

TOURISM FUND

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), Ms.Julie Debaly Scott, Mr.Zephania Ngaira, Mr.Kiprop Chirchir 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), Mr.Zephania Ngaira, Mr.Kiprop Chirchir, Mr.Caleb Kositany and Mr.Godfrey Busolo.
- **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 : Mr.Caleb Kositany (Chairperson), Mr.Wallace Mark Gathuri, Ms.Caroline Ng'anga, Ms.Julie Debaly Scott, Mr.Dominic Katiku and Mr. Said Athman.


TOURISM FUND

BOARD OF TRUSTEES

	Name	Key professional / academic qualifications	Area of Responsibility	Experience
1)	 Hon. Henry Kosgei	Bachelor of Science, Farmer and Business Man	Chairman	42 years
2)	 Mr. Zephaniah N. Angweye	Bcom (Accounting Option), MBA, Corporate Governance. Certificate in Project Appraisal, General Manager, Vicmat Consultants (Pty) Ltd	Trustee	23 years
3)	 Mr. Mark W. Gathuri	Advanced Diploma Hotel Management, Director of Operations, Lodges and Resorts within Serena Hotels, Board member Kenya Association of Hotel Keepers and Caterers, Kenya Tourism Federation, Alumni Kenya Utalii College, Alumni Strathmore Business School	Trustee	34 years
4)	 Mr. Caleb Kositany	Business Man	Trustee	20 years
5)	 Ms. Caroline Nganga	BSc Statistics, MBA (Strategic Management), CPA (K), Member of ICPAK. Member Institute of Internal Auditors, Associate Member, Chartered Institute of Arbitrators, Independent Consultant	Trustee	10 years
6)	 Mr. Kipro Chirchir	Bachelor of Business Management, Business Man	Trustee	13 years
7)	 Ms. Julie D. Scott	Managing Director, Bunson Travel Service, Liaison Executive for Carlson Wagonlit Travel, Vice Chairman, Kenya Association of Travel Agents, Vice Chairman, Tourism Sector Board - KEPSA	Trustee	40 years

TOURISM FUND

BOARD OF TRUSTEES

	Name	Key professional / academic qualifications	Area of Responsibility	Experience
8)	 Godfrey Busolo	MBA (Strategic Management), BA Social Sciences, Diploma in Human Resources Management, Diploma in Business Administration.	Alternate Trustee - The National Treasury	19 years

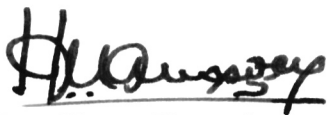
TOURISM FUND

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

11th January 2017

REPUBLIC OF KENYA

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OFFICE OF THE AUDITOR-GENERAL

REPORT OF THE AUDITOR-GENERAL ON TOURISM FUND FOR THE YEAR ENDED 30 JUNE 2016

REPORT ON THE FINANCIAL STATEMENTS

I have audited the accompanying financial statements of Tourism Fund set out on pages 1 to 18, which comprise the statement of financial position as at 30 June 2016, and the statement of financial performance, statement of changes in net assets, statement of cash flows for the year then ended, statement of comparison of budget and actual amounts 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.

Management's Responsibility 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.

The 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.

Auditor-General's Responsibility

My responsibility is to express an opinion on these financial statements based on the audit and report in accordance with the provisions of Section 48 of the Public Audit Act, 2015 and to submit the audit report in compliance with Article 229(7) of the Constitution. The audit was conducted in accordance with International Standards of Supreme Audit Institutions. Those standards require compliance with ethical requirements and that the audit be planned and performed to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the

Report of the Auditor-General on the Financial Statements of Tourism Fund for the year ended 30 June 2016

auditor's judgement, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Fund's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by the management, as well as evaluating the overall presentation of the financial statements.

I believe that the audit evidence obtained is sufficient and appropriate to provide a basis for my adverse audit opinion.

Basis for Adverse Opinion

1. Receivables from Non-Exchange Transactions

- (i) The receivables from non-exchange transactions balance of Kshs.75,032,494 as at 30 June 2016 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 said to be ongoing, the outcome is yet to be determined.
- (ii) Further, the receivables balance includes an amount of Kshs.2,044,617 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.
- (iii) The receivables were noted to increase at a rate of 67% to Kshs.75,032,494 compared to previous year figure of Kshs.43,863,170. At the same time the management has only been able to collect an insignificant portion from debtors during the year under review.

In the circumstances, it has not been possible to confirm that receivables from non-exchange transactions balance of Kshs.75,032,494 is fairly stated.

2. Proposed Office Block

Included in the property, plant and equipment balance of Kshs.1,684,446,904 as at 30 June 2016 is Kshs.1,272,110,069 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 site meeting on 16 June 2015 it was confirmed that an extension of time was granted to the main contractor to 31 August 2015 with all the subcontractors expected to complete all their works by 31 July 2015 to allow the main contractor to finish up after them. However, up to date some sub-contractors are yet to complete their works. Ms Kone, the lift sub-contractor is yet to replace the lift that didn't fit into the shaft. Ms Contemporary Electricals Limited, the sub-contractor for supply and installation of automatic voltage stabilizer is also yet to commission the works. The delay in completion of the project is thus likely to lead to cost escalation.

According to the interim variation No.38 of 15 January 2016, the costs variation were noted to be Kshs.328,190,157 representing an increase of 40% from the original contract price of Kshs.811,717,150. However, no approval was provided for audit verification on the financial appraisal. 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 no approval of the financial appraisal as per Section 39(4) of the Public Procurement and Disposal Act, 2005 was provided for audit review.

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

- (iii) Though the project is branded 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 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. The contract provides for interest charges on late payment and an advance payment of 10% before the commencement of works thus the contract was flawed in favour of the contractor.

- (viii) On the 10 March 2016, Ms 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 performance bond 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.687,000,000 whereas the Fund incurred Kshs.525,701,860 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.28 of October 2016, the certified gross value of work done together with advance payment, materials on site plus contractual claims was Kshs.2,137,403,153 representing approximately 43.4% completion. Total payments made in respect of the project so far amount to Kshs.3,789,569,651 whereas the interest accrued on the payments as at 30 June 2016 amounted to Kshs.1,028,532,681.
- (xiii) The amount of Kshs.1,536,015,714 charged by consultants of the project as at 30 June 2016 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. Further, the contract duration was extended to 60 months ending 19 June 2018. Consequently, the propriety of the project expenditure could not be ascertained.

4. 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.

5. Cash and Cash Equivalents

(i) Use of Defunct Name

The Fund maintains an account for central regional office with a balance of Kshs.68,945 as at 30 June 2016 at National Bank of Kenya which reflect the name of Catering and Tourism Development Levy Trustees. With the operationalization of the Tourism Act 2011, the organization's name has since changed to Tourism Fund. It is not clear why it has taken too long to change the name of the account or have it closed and new one opened.

(ii) Encashment of Cheques

It was noted that cashier does encashment of cheques for individual payments as well as board allowances which is contrary to the Tourism Fund Finance manual and contravened the Treasury circular No. 9/2007 and No.18/2009 which set out 1 October 2009 as the commencement date of Electronic Funds Transfer (EFT) method in all Government departments. During the financial year 2015/2016 cash withdrawals of Kshs.152,331,828 were done.

Consequently, the propriety of the withdrawn cash could not be confirmed besides the Fund violating its own financial manual and contravening Treasury circulars.

(iii) Bank Reconciliations

A Co-operative Bank account balance of Kshs.440,000 did not reconcile with the balance disclosed in the bank reconciliation statement as at 30 June 2016 of Kshs.37,435 which resulted in a variance of Kshs.402,565.

Consequently, it has not been possible to confirm the accuracy and completeness of cash and cash equivalents balance of Kshs.150,560,880.

6. Board Expenses

During the year under review, the board members attended various events both locally and abroad for which they were issued imprests. However, by the conclusion of the audit exercise, imprests totalling to Kshs.5,463,996 had not been accounted for as tabulated below;

PV No	Payee	Amount (Kshs)	Description
986	Eunice Cherotich	2,072,386	Official travel to Instabul Turkey
1170	Norah Nkirote	512,685	Trustees Allowances
1443	Eunice Cherotich	1,304,929	Trustees Allowances
1511	Eunice Cherotich	1,573,996	Travel to Peoples Republic of China
	Total	5,463,996	

Further, the board expenses of Kshs.18,745,064 exceeded the budget of Kshs.17,572,000 by Kshs.1,173,064 whereas the trustees travelling and accommodation expenditure of Kshs.12,479,064 exceeded the budget of Kshs.8,042,000 by Kshs.4,437,064 without approval. This is despite the fact that the Board was only appointed on October 2015.

As a result, the priority and probity of the payments could not be ascertained and the over expenditure was in contravention of Public Finance Management Act, 2012.

7. Levy Management

(i) Levy Management Module

A walkthrough of the system and levy operations revealed that the levy regulations were not properly mapped on the system and required human intervention to undertake transactions especially those conducted after the due date of 10 of every month. The system could not also distinguish a late payment with an arrears payment, as it applied penalties on both. This meant that levy department has to call back and confirm the payment and manually make the corrections. Consequently, there is a possibility of data manipulation and making unauthorized entries in the system. The levy reported may not be a true reflection of the levy collected and hence likelihood of misstatement of collection of levies. Further, the Fund had budgeted to collect Kshs.2,388,200,968 but only realized an amount of Kshs.2,029,627,284 reflecting an under collection of Kshs.358,573,684.

(ii) Over and Under Declaration of Levy

An analysis of the data from ledgers and bank details revealed the following differences which were not explained by the management;

Source	Ledger amount Kshs.	Bank details Kshs.	Difference Kshs.
Mpesa	76,884,506	77,096,698	(212,192)
Co-op	410,409,542	1,013,707,739	(603,298,197)
KCB	1,066,697,568	889,583,159	177,114,409
Total	1,553,991,616	1,980,387,596	(426,395,980)

Further, 34 Mpesa transactions amounting to Kshs.199,198 in the month of June 2016 were not posted to the Mpesa collection account. Thus revenue collected likelihood that revenue has been materially misstated.

(iii) Deleted and Missing Receipts and Transactions

Analysis of the receipts and transaction data revealed, 5274 receipts were missing in the receipt range BS-196453 to BS-258606 issued within the year. Further, 30,057 transaction entries were missing during the year under review. In addition, 17,209 receipts have been deleted from the year 2013 amounting to Kshs.390,583,398. Included in the 17,209 receipts are 4,360 receipts that relate to the financial year 2015/2016 amounting to Kshs.74,330,435. Further, analysis revealed that 99% of these receipts were deleted by the vendor/consultant. Further and coincidentally, the Fund transferred revenue from the main collection account to the operations account and made unexplained cash withdrawals of over Kshs.152,331,828 during the financial year.

As a result there is likelihood that revenue collected is deleted from the system and later withdrawn in cash for unauthorized transactions and also possible manipulation of receipt numbers. Consequently, it is not possible to ascertain if the levy income of Kshs.2,009,627,284 is fairly stated.

8. Unsupported Expenditure

It was noted that there were payments made with no proper documentation, whereby there was no issue of official ETR receipts nor invoices in contravention of Section 49 of VAT Act and ETR Regulations as tabulated below;

PV No	Payee	Amount Kshs.
457	Public Relations Society of Kenya	195,000
1164	Norah Nkirete	586,118
887	Kenya School of Government	137,460
875	Nyeri Motors	143,901
972	Kenya School of Government	29,000
1090	Pawoka Enterprises	103,950
	Total	1,195,429

As a result of unavailability of proper documentation, it has not been possible to confirm the propriety of payment of Kshs.1,195,429 which are not in compliance with Section 49 of VAT Act and ETR regulations.

9. Budgetary Control

The Fund exceeded the budgeted provision for the following line items for which the relevant approval for over expenditure has not been availed for audit review.

Item	Actual Expenditure Kshs	Budget Kshs	Over expenditure Kshs.	Percentage %
Trustees travelling and accommodation	12,479,064	8,042,000	4,437,064	55.2
Subsistence and Travel	46,439,376	39,226,842	7,212,534	18.4

The excess expenditure without approval contravenes Section 44 of the Public Finance Management Act, 2012.

10. Human Resource and Payroll; Difference between Net Pay and bank

Comparison of the net pay voucher and re-computation of the amounts paid to different banks revealed a difference of Kshs.2,131,667 which was not explained by the management and thus the Fund may lose money to fictitious and fraudulent activities.

The excess expenditure without approval contravenes Section 44 of the Public Finance Management Act, 2012.

Adverse Opinion

In my opinion, because of the significance of the matters described in the Basis for Adverse Opinion paragraph, the financial statements do not present fairly, the financial position of the Tourism Fund as at 30 June 2016, 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 do not comply with the Tourism Act, No 28 of 2011.

Other Matter

Management Information System

(a) Lack of Approved ICT Policy

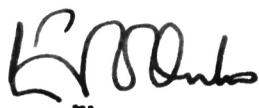
A review of the Information Communication Technology (ICT) policy availed to audit indicated that it had not been approved by the Board of Trustees. In addition, the draft document lacked guidance on key issues like password management, user management, and detailed information on business continuity, disaster recovery and back up procedures. As a result, this may be an indication of lack of commitment from the senior management to support Information Technology (IT) strategies and functions. Further, ICT operations in the institution may not be effectively guided and the institution may not be prepared to handle disasters and ensure business continuity in the event of unforeseen eventualities.

(b) Lack of Segregation Duties

Further analysis of the user set up however indicated that there were sixty two (62) users who had conflicting roles in the system. Consequently, administrative errors may not be detected in time and there is a likelihood of inappropriate or unauthorized transactions to occur.

(c) Over Reliance on Vendor (Database Consultant)

Enquiry on database related issues revealed that the organization system administrator did not have access to all database and the organization placed heavy reliance on the vendor/ consultant for any access to and resolution of all database issues. As a result, in case of unavailability of the consultant, there is a likelihood of failure of operations and the integrity may be compromised without being detected by the management.



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

Nairobi

01 February 2017

TOURISM FUND

STATEMENT OF FINANCIAL PERFORMANCE

For the year ended 30th June 2016

	Note	2015-2016 Kshs	2014-2015 Kshs
Revenue from non-exchange transactions			
Levy Income	2	1,989,386,078	1,834,295,010
Levy Arrears		40,241,207	-
Total revenue from non-exchange transactions		<u>2,029,627,284</u>	<u>1,834,295,010</u>
Revenue from exchange transactions			
Interest on Loans & Investments	3	2,163,652	4,960,335
Interest on Staff Loans	3	27,000	324,001
Disposal Income	4	-	31,000
Miscellaneous Revenue	3	82,500	96,000
Rental income	4	210,000	200,000
Total revenue from exchange transactions		<u>2,483,152</u>	<u>5,611,336</u>
Total revenue		2,032,110,437	1,839,906,346
Expenses			
Administrative Expenses:			
Board Expenses	5 (i)	18,745,064	147,230
Compensation of Employees	5 (ii)	379,432,184	361,298,004
Depreciation and Amortization	19	33,300,079	38,339,940
Contracted Services	6	74,414,548	106,164,330
Grants and Subsidies	7	1,368,673,417	930,534,746
General Operating Expenses	8	193,474,974	182,330,673
Other Expenses	9	3,849,818	5,475,495
Total expenses		<u>2,071,890,084</u>	<u>1,624,290,419</u>
Other gains/(losses)			
Gains / (Loss) on Disposal	10 -	835,558	218,984
(Deficit) / Surplus for the period	-	<u>40,615,206</u>	<u>215,834,912</u>

TOURISM FUND

STATEMENT OF FINANCIAL POSITION

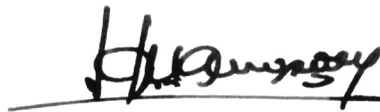
As at 30th June 2016

	Note	2015-2016 Kshs	2014-2015 Kshs
Assets			
Current Assets			
Cash and cash equivalents	11	150,560,880	150,158,385
Receivables from exchange transactions	12	12,676,689	12,676,689
Receivables from non-exchange transactions	13	75,032,494	43,863,170
Total Current Assets		<u>238,270,064</u>	<u>206,698,244</u>
Non-Current Assets			
Property, plant and equipment	14	1,684,446,904	1,552,026,787
Investments (Fixed deposit and interest)	15	3,100,000	3,100,000
Intangible assets	16	15,333,709	15,333,709
Total Non-Current Assets		<u>1,702,880,613</u>	<u>1,570,460,496</u>
Total Assets		<u>1,941,150,677</u>	<u>1,777,158,740</u>
Liabilities			
Current Liabilities			
Trade and other payables from exchange transactions	17	133,232,062	- 158,081,048
Total Liabilities		<u>133,232,062</u>	<u>- 158,081,048</u>
Net Assets			
Accumulated Surplus		<u>1,807,918,615</u>	<u>1,935,239,788</u>
Total Net Assets		<u>1,807,918,615</u>	<u>1,935,239,788</u>
Total Net Assets and Liabilities		<u>1,941,150,677</u>	<u>1,777,158,740</u>



Chief Executive Officer

11th January 2017



Chairman Board of Trustees

11th January 2017

TOURISM FUND

STATEMENT OF CHANGES IN NET ASSETS

For the year ended 30th June 2016

	Note	Revenue Reserves Kshs	Accumulated surplus(Deficit) Kshs	Total Kshs
Balance as at 30 JUNE 2014 (Bal b/d 1.7.2014) Restated	-	52,617,003	1,533,220,880	1,480,603,877
Surplus for the period		-	215,834,912	215,834,912
Prior Year Adjustment			238,801,000	238,801,000
Balance as at 30 JUNE 2015 (Bal b/d 1.7.2015) Restated	-	52,617,003	1,987,856,791	1,935,239,788
Surplus for the period		-	40,615,206	40,615,206
Prior Year Adjustment	21	-	86,705,970	86,705,970
Balance as at 30 JUNE 2016 (Bal b/d 30.6.2016)	-	52,617,003	1,860,535,615	1,807,918,612

Note: The nature of reserves is levy collected.

TOURISM FUND

STATEMENT OF CASHFLOWS

	Note	2015-2016 Kshs	2014-2015 Kshs
Cash flows from operating activities	20		
Surplus / (Deficit) for the year before tax	-	40,615,206	215,834,912
Adjusted for:			
Depreciation		33,300,079	37,092,636
Non-cash grants received			
Contributed assets			
Impairment	16	-	1,247,304
Gains and losses on disposal of assets	10	835,558	218,984
Contribution to provisions			
Contribution to impairment allowance			
Finance income	3	2,273,152	5,380,336
Finance cost		-	-
Working capital adjustments:			
Increase in inventory		-	-
Increase in receivables	-	31,169,324	43,498,152
Increase in deferred income		-	-
Increase / (Decrease) in payables		291,313,110	737,961,730
Increase in payments received in advance		-	-
Prior year adjustment	21	86,705,970	238,801,000
Net cash flows from operating activities		164,685,094	294,083,350
Cashflows from investing activities			
Purchase of property, plant, equipment	-	164,228,853	205,904,597
Proceeds from sale of property, plant, equipment		412,000	605,000
Sale of fixed assets proceeds	-	2,738,900	
Finance income - Interest on Loans & Investments	3	2,273,152	5,380,336
Net cash flows used in investing activities	-	164,282,601	199,919,261
Cashflows from financing activities		-	
Net increase in cash and cash equivalent		402,494	494,002,611
Add Cash and Cash Equivalent 1 st July 2015		150,158,384	644,160,995
Cash and Cash Equivalent 30 th June 2016	11	150,560,877	150,158,384

TOURISM FUND

STATEMENT OF COMPARISON OF BUDGET AND ACTUAL AMOUNTS
FOR THE YEAR ENDED 30TH JUNE, 2016

	Original budget	Adjustments	Final budget	Actual on comparable basis	Performance difference	
	12 month period ended 30th June 2016	12 month period ended 30th June 2016	12 month period ended 30th June 2016	12 month period ended 30th June 2016	12 month period ended 30th June 2016	
	Kshs.	Kshs.	Kshs.	Kshs.	Kshs.	Remarks
Revenue						
Fines, penalties and levies	2,508,057,684	-	2,508,057,684	2,029,627,284	478,430,400	Decline in Tourism.
Finance Income (Interest)	4,000,000	-	4,000,000	2,273,152	1,726,848	Reduction of Staff Loan interest from 6% to 3%.
Government grants and subsidies	-	1,000,000,000	1,000,000,000	-	1,000,000,000	Received Kshs.500 Million as Government Grants and reflected in the Liability account.
Other Income	200,000	-	200,000	210,000	(10,000)	Shortfall in tender fees following review of guidelines by PPOA where tender fees are now pegged at Kshs.1,000/=.
Total Income	2,512,257,684	1,000,000,000	3,512,257,684	2,032,110,437	1,480,147,248	
Expenses / Payments.						
Administrative expenses						
(i) Board expenses	17,572,000	-	17,572,000	18,745,064	(1,173,064.25)	New Board was inaugurated in January 2016 and backlog of 3 years of business was executed. This led to an increase in the number of meetings beyond the approved ones.
(ii) Compensation of employees	474,876,380	-	474,876,380	379,432,184	95,444,196	The approval for review of salaries was not granted for implementation, though the budget allocation had been provided for.
Rent paid	41,243,961	-	41,243,961	27,422,340	13,821,621	Due to lack of completion of the office block, the Headquarter and Nairobi Region offices were not relocated as envisaged to happen during the financial year. Therefore, rent payable was estimated to rise and consequently Kshs.20 Million budgetary amount was reallocated from Revolving Fund account to Rent account, with the Board's approval.
Grants and subsidies paid	1,291,000,000	-	1,291,000,000	1,368,673,417	(77,673,417)	The accumulated bills received from RNJC resulted to payments from internal sources so as to avert further penalties and interests.
Capital expenses	350,441,000	-	350,441,000	164,228,853	186,212,147	Partitioning of Office Block did not take place, but its scheduled to be done between January 2017 to March 2017.
Other payments	337,124,283	-	337,124,283	278,452,638	58,671,645	Implementation of cost cutting measures was in a bid to conform to the budget guidelines. For instance, P.C Surveys cost savings was due to the revision of 12 th PC Cycle that led to reduction of commitments to be actualised and ICT Repair expenses cost savings was as a result of undertaking necessary repairs with the expectation of relocating to the new office block.
Total expenditure	2,512,257,624	-	2,512,257,624	2,236,954,495	275,303,128	
Surplus for the period	61	1,000,000,000	1,000,000,061	-	204,844,059	1,204,844,119

TOURISM FUND

Notes to the Financial Statements for the year ended 30th June 2016

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 8th August 2014, as detailed below:

2.2.3 The state and County Corporations carrying out commercial activities shall apply IFRS while regulatory and noncommercial 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 30th June 2014.

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

1 (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).

1 (b) **Income Recognition**

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

TOURISM FUND

Notes to the Financial Statements for the year ended 30th June 2016

1 (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%

1 (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.

1 (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.

1 (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.

1 (g) Taxation

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

TOURISM FUND

Notes to the Financial Statements for the year ended 30th June 2016

2 LEVY INCOME

ALL BRANCHES	2015-2016 Kshs	2014-2015 Kshs
Nairobi Region	1,236,362,342	1,043,991,827
Coast Region	324,350,098	371,179,754
Western Region	119,617,882	103,284,849
Rift Valley Region	238,718,149	207,107,852
Central Region	110,578,814	108,730,728
	<u>2,029,627,284</u>	<u>1,834,295,010</u>

3 FINANCE INCOME (INTEREST)

	2015-2016 Kshs	2014-2015 Kshs
Interest on Loans & Investment	2,163,652	4,960,335
Interest on Staff Loans	27,000	324,001
Miscellaneous revenue	82,500	96,000
	<u>2,273,152</u>	<u>5,380,336</u>

4 OTHER INCOME

	2015-2016 Kshs	2014-2015 Kshs
Diposal Income	-	31,000
Rental income	210,000	200,000
	<u>210,000</u>	<u>231,000</u>

5 ADMINISTRATIVE EXPENSES (BOARD EXPENSES & COMPENSATION OF EMPLOYEES)

	2015-2016 Kshs	2014-2015 Kshs
5 (i) BOARD EXPENSES		
Chairman's Honorarium	160,000	-
Trustees Sitting Allowance	6,106,000	-
Trustees Travelling & Accomodation	12,479,064	147,230
	<u>18,745,064</u>	<u>147,230</u>

TOURISM FUND

Notes to the Financial Statements for the year ended 30th June 2016

5	ADMINISTRATIVE EXPENSES (BOARD EXPENSES & COMPENSATION OF EMPLOYEES)	2015-2016	2014-2015
		Kshs	Kshs
5 (ii)	COMPENSATION OF EMPLOYEES		
	Basic Pay	189,042,570	188,707,832
	Pension and Gratuity	41,823,329	34,657,726
	House Allowance	69,353,814	60,184,916
	Acting Allowance	1,588,045	1,590,972
	Leave Allowance	4,809,460	4,759,518
	Transfer Allowance	550,019	1,495,410
	Transport Allowance	13,732,759	14,259,759
	Remunerative Allowance	30,000	360,000
	Staff Development (Training)	20,876,695	18,032,177
	Staff Uniforms	755,620	123,730
	Staff Tea	3,446,787	3,484,362
	Staff Incentives - Awards	8,095,000	4,900,500
	Medical Insurance	25,066,080	28,715,704
	Staff Contingencies	262,005	25,400
		379,432,184	361,298,004
5 (iii)	NUMBER OF EMPLOYEES	211	220
6	CONTRACTED SERVICES		
		2015-2016	2014-2015
		Kshs	Kshs
	Rebranding	420,000	9,911,590
	Tourism Dvpt (Semin & Wkshp)	23,052,772	26,151,786
	HIV Programmes	1,062,735	542,260
	Office Cleaning	2,975,584	3,487,859
	P.C.Surveys	13,274,299	11,508,603
	ICT : Computerization	-	4,809
	ISO 9001-2008 Expenses	3,157,922	1,374,362
	Tourism Act and Constitution	-	-
	ICT Repair Expenses	20,051,852	19,715,658
	Legal Fees	9,897,384	32,336,404
	Audit Fees	522,000	1,131,000
	Revolving Fund	-	-
		74,414,548	106,164,330

TOURISM FUND

Notes to the Financial Statements for the year ended 30th June 2016

7 GRANTS AND SUBSIDIES

	2015-2016	2014-2015
	Kshs	Kshs
Grants to Kenya Utalii College	283,500,000	315,000,000
Grants to Training for Refresher Courses	5,361,100	-
Grants to Kenya Tourist Board	276,000,000	310,000,000
Grants to Ronald Ngala College	784,671,384	289,112,278
Grants - Other Training Activities (PERAK, KAHC)	15,867,194	8,900,000
Product Development	3,273,739	7,522,468
	1,368,673,417	930,534,746

8 GENERAL OPERATING EXPENSES

	2015-2016	2014-2015
	Kshs	Kshs
Subsistence & Travel	46,439,376	46,119,595
General Insurances	18,282,386	25,306,591
Office Security	146,698	867,102
Electricity & Water	3,301,354	2,906,563
Telephone & Postage Expenses	5,561,735	5,774,083
E-Mail & Internet Connectivity	11,296,199	8,346,505
Printing & Stationery	10,893,087	13,764,003
Newspapers & Periodicals	1,491,790	1,470,650
Office Rent-H/O & Branches	27,422,340	24,526,695
Land Rent, Rates & Services	619,000	1,309,473
Entertainment & Public Relatio	7,579,501	4,884,089
Shows And Exhibitions	9,180,912	2,431,600
Advertisement & Publicity	19,455,791	10,894,482
General Office Expenses	1,845,237	1,485,758
Subscriptions	1,197,671	1,525,460
Repair & Maint-Motor Vehicles	6,987,409	7,111,334
Repair & Maint-Equip	12,333,201	15,209,038
Repair & Maint-Building	118,136	189,900
Fuel Expenses	5,545,263	5,192,226
Repair & Maint- Furniture	302,683	77,965
Bank Charges	3,475,205	2,937,560
	193,474,974	182,330,673

9 OTHER EXPENSES

	2015-2016	2014-2015
	Kshs	Kshs
Corporate Social Responsibility	3,849,818	5,475,495
	3,849,818	5,475,495

TOURISM FUND

Notes to the Financial Statements for the year ended 30th June 2016

10 LOSS / GAIN ON SALE OF ASSETS

	2015-2016	2014-2015
	Kshs	Kshs
Loss on sale of assets	835,558	
Gain on sale of assets		218,984
	835,558	218,984

11 CASH AND CASH EQUIVALENTS

	2015-2016	2014-2015
	Kshs	Kshs
Kenya Commercial Bank	113,874,764	123,314,481
National Bank	3,655,084	1,071,612
Co-operative Bank	31,724,709	1,676,465
NBK - RNUC a/c	731,762	16,307,235
M-pesa collection a/c	574,562	7,783,592
Pettycash imprest a/c	-	5,000
	150,560,880	150,158,385

12 RECEIVABLES FROM EXCHANGE TRANSACTIONS

	2015-2016	2014-2015
	Kshs	Kshs
Deposits	12,676,687	12,676,687
Prepayments	2	2
	12,676,689	12,676,689

13 RECEIVABLES FROM NON-EXCHANGE TRANSACTIONS

	2015-2016	2014-2015
	Kshs	Kshs
Levy debtors	79,016,402	55,834,385
Other debtors	2,044,617	2,509,617
Provision for rd cheques	20,443,841	20,443,841
Staff imprest	10,815,123	1,929,578
Advances	2,735,179	3,053,195
Staff housing loans	691,014	819,586
Cash office imprest	174,000	160,650
Staff Car Loans	-	
	75,032,494	43,863,170

TOURISM FUND

14 PROPERTY, PLANT AND EQUIPMENT - 2015 / 2016								
COST	Furniture & Fittings	Partitions	Office Equipment	Computer Accessories	Motor Vehicles	Land	WIP	
	12.50%	12.50%	12.50%	30%	25%	2%		
At 1st July 2014	11,857,971	70,613,718	5,811,561	46,108,318	28,546,000	285,000,000	1,016,261,798	1,464,199,368
Additions	3,550,593	47,868,941	6,689,405	10,728,229	15,706,000	-	121,361,429	205,904,597
Disposals					- 915,000			- 915,000
At 30th June 2015	15,408,564	118,482,659	12,500,966	56,836,548	43,337,000	285,000,000	1,137,623,227	1,669,188,965
Additions	437,380	9,160,039	1,401,805	5,981,688	15,500,000	-	134,486,841	166,967,753
Disposals	- 1,688,650	-	- 16,000	- 1,034,250	-			- 2,738,900
At 30th June 2016	14,157,294	127,642,698	13,886,771	61,783,986	58,837,000	285,000,000	1,272,110,069	1,833,417,818
DEPRECIATION								
At 1st July 2014	3,592,334	17,098,964	1,458,222	25,310,559	16,378,169	16,760,280	-	80,598,527
Disposals					- 528,984		-	- 528,984
Charge for the year	1,477,029	12,672,962	1,380,343	9,457,797	6,739,708	5,364,794	-	37,092,633
At 30th June 2015	5,069,363	29,771,926	2,838,565	34,768,356	22,588,892	22,125,074	-	117,162,175
Disposals	- 698,794	-	- 6,621	- 785,927	-	-	-	- 1,491,342
Charge for the year	1,135,991	12,233,847	1,381,026	8,104,689	5,187,027	5,257,499	-	33,300,078
At 30th June 2016	5,506,560	42,005,772	4,212,969	42,087,118	27,775,919	27,382,573	-	148,970,912
NET BOOK VALUES								
At 30th June 2016	8,650,735	85,636,926	9,673,802	19,696,868	31,061,081	257,617,427	1,272,110,069	1,684,446,907
At 30th June 2015	10,339,202	88,710,734	9,662,402	22,068,192	20,748,108	262,874,926	1,137,623,227	1,552,026,789

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 the financial year under audit.

TOURISM FUND

Notes to the Financial Statements for the year ended 30th June 2016

15 INVESTMENTS

	2015-2016		2014-2015
	Kshs		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
	3,100,000		3,100,000

16 AMORTIZATION - 2015/2016

ITEM	Licences, Back-up software, Bank software
Cost / Value as at 30th June 2015	15,333,710
Amortization as at 1st July 2015	-
Net Book Value 30th June 2016	15,333,710

17 TRADE AND OTHER PAYABLES FROM EXCHANGE TRANSACTIONS

	2015-2016		2014-2015
	Kshs		Kshs
Trade creditors	23,347,433		36,096,979
Withholding tax	1,530,130		13,714,468
V.A.T account	4,101,365		1,566,910
Accrued expenses	84,734,195		64,915,639
Ronald Ngala Utalii College	0	-	274,409,940
Statutory Payables	2,177,745		34,896
Disposal account	-		-
Tax Arrears	17,341,194		-
	133,232,062	-	158,081,048

TOURISM FUND

Notes to the Financial Statements for the year ended 30th June 2016

18 OTHER PAYMENTS

	-	-
	Kshs	Kshs
Subsistence & travel	46,439,376	46,119,595
General insurances	18,282,386	25,306,591
Office security	146,698	867,102
Electricity & water	3,301,354	2,906,563
Telephone & postage expenses	5,561,735	5,774,083
E-mail & internet connectivity	11,296,199	8,346,505
Printing & stationery	10,893,087	13,764,003
Newspapers & periodicals	1,491,790	1,470,650
Land rent, rates & services	619,000	1,309,473
Entertainment & public relations	7,579,501	4,884,089
Shows and exhibitions	9,180,912	2,431,600
Advertisement & publicity	19,455,791	10,894,482
Rebranding	420,000	9,911,590
Corporate Social Responsibility	3,849,818	5,475,495
Tourism dvpt (seminar & workshop)	23,052,772	26,151,786
HIV programmes	1,062,735	542,260
General office expenses	1,845,237	1,485,758
Office cleaning	2,975,584	3,487,859
Subscriptions	1,197,671	1,525,460
P.C Surveys	13,274,299	11,508,603
ICT: Computerization	-	4,809
ISO 9001-2008 expenses	3,157,922	1,374,362
Repair & maint - motor vehicles	6,987,409	7,111,334
Repair & maint - equipment	12,333,201	15,209,038
Repair & maint - building	118,136	189,900
Fuel expenses	5,545,263	5,192,226
Repair & maint - furniture	302,683	77,965
ICT repair expenses	20,051,852	19,715,658
Legal fees	9,897,384	32,336,404
Audit fees	522,000	1,131,000
Bank Charges	3,475,205	2,937,560
Loss on Disposal	835,558	-
Depn - furniture	1,135,991	1,477,029
Depn - partitions	12,233,847	12,672,962
Depn - computers	8,104,689	9,457,797
Depn - motor vehicles	5,187,027	6,739,708
Depn - land	5,257,499	5,364,797
Depn - intangible assets	-	1,247,304
Depn - office equipment	1,381,026	1,380,343
Revolving Fund	-	-
	278,452,638	307,783,744

TOURISM FUND

Notes to the Financial Statements for the year ended 30th June 2016

19 DEPRECIATION AND AMORTIZATION

	2015-2016	2014-2015
	Kshs	Kshs
Depn - Furniture	1,135,991	1,477,029
Depn - Partitions	12,233,847	12,672,962
Depn - Computers	8,104,689	9,457,797
Depn - Motor Vehicles	5,187,027	6,739,708
Land Amortization	5,257,499	5,364,797
Depn - Intang Assets	-	1,247,304
Depn - Off Equip	1,381,026	1,380,343
	<u>33,300,079</u>	<u>38,339,940</u>

20 CASH FLOWS FROM OPERATING ACTIVITIES

	Note	2015-2016	2014-2015
		Kshs	Kshs
Cash flows from operating activities			
Receipts			
Fines, penalties and levies	2	2,029,627,284	1,834,295,010
Finance Income (Interest)	3	2,273,152	5,380,336
Other Income	4 & 10	210,000	449,984
		<u>2,032,110,437</u>	<u>1,840,125,330</u>
Payments			
Administrative expenses	5	398,177,248	361,445,234
Rent paid	8	27,422,340	24,526,695
Grants and subsidies paid	7	1,368,673,417	930,534,746
Other payments	18	278,452,638	307,783,744
		<u>2,072,725,642</u>	<u>1,624,290,419</u>
Surplus for the year before tax.		(40,615,206)	215,834,911

TOURISM FUND

Notes to the Financial Statements for the year ended 30th June 2016

21 PRIOR YEAR ADJUSTMENT

The Prior Year Adjustment tabulated below relates to the tax arrears incurred in prior years.

	2015-2016	2014-2015
	Kshs	Kshs
Tax Arrears	86,705,970	-
	<u>86,705,970</u>	<u>-</u>

	2014-2015
	Kshs
TRADE AND OTHER PAYABLES FROM EXCHANGE TRANSACTIONS	
Ronald Ngala Utalii College	-
	<u>274,409,940</u>
	<u>-</u>
	<u>274,409,940</u>
GRANTS AND SUBSIDIES	
Grants to Ronald Ngala College	289,112,278
	<u>289,112,278</u>

In the previous audited year 2014-2015, RNUC was restated from Capital expenditure to Grants to RNUC because it would have resulted to tax implications.

Notes to the Financial Statements for the year ended 30th June 2016

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.

TOURISM FUND

Notes to the Financial Statements for the year ended 30th June 2016

- (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

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)
1. Receivables from Non-Exchange Transactions					
	<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).</p> <p>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

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 with 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)
1. Receivables from Non-Exchange Transactions					
		<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> <ul style="list-style-type: none"> i) Carl Jacob Rudin ii) Benato Fabrizio Bachmann iii) Brigitte Hutzli iv) Frank Helge Neugebauer v) Murtaza Hatimala Hassanazi vi) Hans Peter Ruedin <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.</p> <p>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> <p>The balance of Kshs. 505,000 relate to sale of motor vehicle KAY 427V where the client had paid a deposit by the end of the year and the full balance was received in the subsequent year 2015/16.</p>	The Chief Executive Officer	Not Resolved	
				Resolved	

TOURISM FUND

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 (Name and designation)	Status: (Resolved / Not Resolved)	Time frame: (Date for resolving issue)
1. Receivables from Non-Exchange Transactions					
	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

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)
2. Proposed Office Block					
	<p>Included in the property, plant and equipment balance of Kshs. 1,552,026,787 as at 30 June 2015 is Kshs. 1,137,623,227 being work in progress for construction of the fund's office block along Valley Road, Nairobi 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. In view of the foregoing, the Fund has not obtained value for money from the project and stands the risk of losing due to delayed completion.</p>	<p>The provisions in the contract as to the site possession were 15th November 2010. However the contractor took over the site officially on 1st February 2011. The initial exercise of excavation took longer than expected due to the nature of the hard rock and this had not been addressed at the time of preparing the time schedule. In May 2012, the contractor wrote officially requesting for the extension of the time considering the time lost in excavation. This proposal was presented to the Board for further guidance. The finance committee of the board deliberated on this issue during the meeting held on 18th July 2012 and directed management to move with speed and finalize the matter with Ministry of Public Works. Management engaged the Officials from the public works who agreed to conduct a thorough audit of the project and report back. However, the board was de-gazetted before this exercise was concluded. The new board has taken over the matter and an official meeting was held on the site on 15th February 2016. The pending issues were addressed. The building is now complete and was officially handed over to the Fund on 17th October 2016. The increase in the contract sum is as result of the specialized works whose provisional sums were provided for in the contract sum. These works were tendered for in September 2013 and July 2015 three to five years after the award. The increase in market price of the related items led to the increase in the total sum cost.</p> <p>The specialized works include:</p> <ul style="list-style-type: none"> i) Supply and installation of lifts and escalators ii) Mechanical ventilations, iii) Refuse chute and kitchen extract installations, iv) Aluminum and aluco bond cladding, aluminium windows, shop fronts and doors v) CCTV and access control vi) Building management system vii) Façade cleaning equipment <p>We are yet to get the final accounts to determine the total increase in the contract sum.</p>	The Chief Executive Officer	Resolved	

TOURISM FUND

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 (Name and designation)	Status: (Resolved / Not Resolved)	Time frame: (Date for resolving issue)
3. Ronald Ngala Utalii College					
	<p>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.</p>	<p>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:</p> <p>a) A training facility with an initial capacity of 600 students but with room for further expansion.</p> <p>b) Training facilities including tuition blocks, administration block, student accommodation, staff quarters, nursery and primary school, health centre, public library and recreational facilities.</p> <p>c) A five star hotel complex that would serve as a training laboratory for the College.</p> <p>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.</p> <p>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.</p>	The Chief Executive Officer	Not Resolved	
	<p>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.</p>	<p>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.</p>		Not Resolved	

TOURISM FUND

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 (Name and designation)	Status: (Resolved / Not Resolved)	Time frame: (Date for resolving issue)
3. Ronald Ngala Utalii College					
	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	Not 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	Not 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	Not Resolved	

TOURISM FUND

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)
3. Ronald Ngala Utalii College					
		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 Armitex 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	Not Resolved	
	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 in Contravention of Section 26(3) (c) of the PP&D Act, 2005 on segregation of duties and Section 28 of PP&D Act, 2005 on appointment of procuring agent.	The Fund does not have in-house engineers and therefore the exercise is outsourced to the consultants. During tender evaluation, the consultants are best suited because of their in-depth knowledge of the technical issues in the bills of quantities. The Act allows for invitation of external expertise on technical matters in the evaluation of tenders. The team was also working in conjunction with the Public Works officials who were playing a leading role in the evaluation process. There is no conflict of interest in appointing members of the consortium of consultants to evaluate the tenders. The members deputed to serve in the evaluation committee are seasoned professionals with skills in architectural and quantity surveying which are critical to the evaluation of bids of this nature The proposals were evaluated with technical assistance from the Ministry of Public Works.	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	Not Resolved	

TOURISM FUND

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 (Name and designation)	Status: (Resolved / Not Resolved)	Time frame: (Date for resolving issue)
3. Ronald Ngala Utalii College					
	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	Not Resolved	
	vii) The award of the construction project contract was made to the third lowest prequalified bidder M/s 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. The contract provides for interest charges on late payment and an advance payment of 10% before the commencement of works thus the contract flawed in favour of the contractor.	The tender for main works was awarded to M/s Mulji Devraj and Brothers Limited in accordance with the resolution of the Tourism Fund Tender Committee meeting held on 11th April 2013. The tender was awarded on the basis of evaluated bids that had been submitted to six pre-qualified firms. The tender required of firms to submit both financial and technical bids. An award would therefore be made to the most responsive bidder based on combined financial and technical scores. After the due process had been followed, the firm of Mulji Devraj and Brothers Limited were awarded the tender for main works. It is important to note that the contractor was procured using Standard Tender documents provided for by the Public Procurement Oversight Authority. Provisions of the 10% advance payment and also payment of interest charges on late payment are well stipulated in the standard tender document. Payment of the 10% is secured by a valid guarantee.	The Chief Executive Officer	Resolved	

TOURISM FUND

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)
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	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	Not Resolved	
	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 gazettement 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	Not Resolved	

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	<p>Further, the contract duration was extended to 60 months ending 19 June 2018. Consequently, the propriety of the project expenditure could not be ascertained.</p>	<p>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.</p>	The Chief Executive Officer	Not Resolved	
4. Irregular procurement- Uncertified Works					
	<p>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.</p>	<p>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.</p>	The Chief Executive Officer	Not Resolved	