

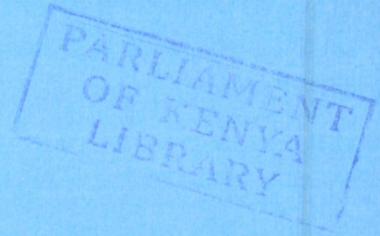
REPUBLIC OF KENYA



OFFICE OF THE AUDITOR-GENERAL



REPORT



THE NATIONAL ASSEMBLY PAPERS LAID	
DATE: 07 JUL 2019	DAY: Wednesday
TABLED BY: WOK	OF
CLERK-AT-THE-TABLE: Getrude Chebet	

THE AUDITOR-GENERAL

ON

THE FINANCIAL STATEMENTS OF  
TOURISM FUND

FOR THE YEAR ENDED  
30 JUNE 2018

7





OFFICE OF THE AUDITOR GENERAL  
P. O. Box 30084 - 00100, NAIROBI  
REGISTRY

25 MAR 2019

**RECEIVED**

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## **TOURISM FUND**

### **ANNUAL REPORT AND FINANCIAL STATEMENTS**

#### **FOR THE FINANCIAL YEAR ENDING JUNE 30, 2018**

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**Prepared in accordance with the Accrual Basis of Accounting Method under the  
International Public Sector Accounting Standards (IPSAS)**

**Tourism Fund  
Annual Reports and Financial Statements  
For the year ended June 30, 2018**

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**CORPORATE INFORMATION AND MANAGEMENT**

**(a) Background information**

Tourism Fund is a statutory body established by an Act of Parliament under Section 66 of The Tourism Act, 2011.

**(b) Principal activities:**

**MANDATE**

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

**VISION**

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

**MISSION**

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

**CORE VALUES**

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

**(c) Key Management**

Tourism Fund's day-to-day management is under the following key organs:

- Board of Trustees
- Chief Executive Officer
- Directorate
- Management

**Tourism Fund**  
**Annual Reports and Financial Statements**  
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**CORPORATE INFORMATION AND MANAGEMENT**

**(d) Fiduciary Management**

The key management personnel who held office during the financial year ended 30<sup>th</sup> June 2018 and who had direct fiduciary responsibility were:

No.	Designation	Name
1	Chief Executive Officer	Mr. Joseph Cherutoi
2	Head of Finance	Mr. Eric Kiplagat
3	Head of Levy Operations	Mr. Charles Okeyo
4	Head of Legal	Ms. Nancy Siboe
5	Corporate Affairs Manager	Ms. Patricia Ondeng
6	Business Development Manager	Mr. Alex Njuguna
7	Head of Human Capital	Mr. Adan Adad
8	Head of Internal Audit and Risk	Ms. Jane Aganyoh
9	Procurement Manager	Mrs. Emily Langat
10	Ag. Information, Communication and Technology Manager	Mr. Isaiah Rutto

**(e) Fiduciary Oversight Arrangements**

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

**Audit and Risk Committee**

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

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

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**CORPORATE INFORMATION AND MANAGEMENT**

**(e) Fiduciary Oversight Arrangements  
Committees of the Board**

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

**Project Committee**

The committee is responsible for monitoring and appraising projects.

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

**(f) Entity Headquarters Location and Contacts**

**Head Office.**

Tourism Fund, Valley Road, 5th Floor,  
P.O Box 46987-00100, Nairobi, Kenya  
Tel: 020-2714900/1/2  
Website: [www.tourismfund.co.ke](http://www.tourismfund.co.ke)

**(g) Entity Regional Offices Location and Contacts**

**Nairobi North Regional office and Nairobi South Regional office**

Tourism Fund, Valley Road, 5th Floor,  
P.O Box 46987-00100, Nairobi, Kenya  
Tel: 020-2730708

**Mombasa Regional Office**

Sheetal Plaza 1<sup>st</sup> Floor Aga Khan Road  
P.O. Box 99832-80100 Mombasa, Kenya  
Tel: 041-220493

**Tourism Fund**  
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**For the year ended June 30, 2018**

**CORPORATE INFORMATION AND MANAGEMENT**

**(g) Entity Regional Offices Location and Contacts**

**Kisumu Regional Office**

Reinsurance Plaza 7<sup>th</sup> Floor Oginga Odinga Road  
P.O. Box 1406-40100 Kisumu, Kenya  
Tel: 057-2022247

**Nakuru Regional office**

AFC Building, Mezzanine Floor, Kijabe off Kenyatta Avenue  
P.O. Box 2812-20100 Nakuru, Kenya  
Tel: 051-2215660

**Nyeri Regional office**

Sohan Plaza 4<sup>th</sup> Floor Nyayo Road  
P.O Box 348-10100 Nyeri, Kenya  
Tel: 061-2030778

**(h) Entity 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

**(i) Independent Auditors**

Auditor-General  
Kenya National Audit Office  
Anniversary Towers-University way  
P.O BOX 30084-00100, Nairobi, Kenya

**Tourism Fund  
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**BOARD OF TRUSTEES**



**Hon Henry Kosgei  
Chairman**

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



**Mr Mark Gathuri  
Trustee**

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

He is the Chairperson to Finance Committee and Project Committee.



**Mr Peter Ngori  
Trustee**

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



**Ms Caroline Nganga CPA  
Trustee**

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

She is the Chairperson to Audit and Risk Committee.

**Tourism Fund  
Annual Reports and Financial Statements  
For the year ended June 30, 2018**

**BOARD OF TRUSTEES**



**Mr Kiprop Chirchir  
Trustee**

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



**Ms Julie Scott  
Trustee**

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

She is the Chairperson to Staff and Technical Committee.



**Ms Rael Rotich  
Alternate Trustee National Treasury**



**Mr Joseph Cherutoi  
Chief Executive Officer**

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

**Tourism Fund  
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For the year ended June 30, 2018**

**MANAGEMENT TEAM**

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



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

**Mr Joseph Cherutoi  
Chief Executive Officer**



MBA, Bachelor of Commerce, CPA(K)

**Mr Eric Kiplagat  
Head Of Finance**



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

**Mr Charles Okeyo  
Head Of Levy Operations**

**Tourism Fund  
Annual Reports and Financial Statements  
For the year ended June 30, 2018**

**MANAGEMENT TEAM**



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

**Ms Nancy Siboe  
Head of Legal**



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

**Ms Patricia Ondeng  
Corporate Affairs Manager**



Masters of Arts, Bachelor of Arts, Diploma in Marketing

**Mr Alex Njuguna  
Business Development Manager**



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

**Mr Adan Adad  
Head of Human Capital**

**Tourism Fund  
Annual Reports and Financial Statements  
For the year ended June 30, 2018**

**MANAGEMENT TEAM**



MBA (Corporate Management), Bachelor of Commerce (Finance), Diplo

**Mr. Abraham Kiprono Kiptum**  
**Risk and Internal Audit Manager**



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

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



MBA (Strategic Management), BSC (Information Technology)

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

**Tourism Fund  
Annual Reports and Financial Statements  
For the year ended June 30, 2018**

**STATEMENT BY THE CHAIRMAN BOARD OF TRUSTEES**

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

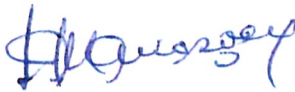
The Board of Trustees continues to ensure that a robust governance structure is in place to enable the Fund succeed and finance the long term sustainable growth of the industry. To this end, the Board safeguards the structured process of delivering right skills and independence to support the successful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

Tourism Fund 2017/18 performance was achieved during a year marked by exogenous pressures, including the global financial crisis 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 6.9% in comparison to the previous year 2016/17.

Finally, in the light of the Fund's strong performance, the Board is optimistic about the resilience demonstrated this far to create increasing value and better outcomes for our stakeholders in future. I have no doubt that Tourism Fund team is experienced enough to face these challenges and make 2018/19 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 2017/18 would not have been achieved. I would also like to thank our entire workforce for their hard work and dedication.



**Hon. Henry Kosgey**  
**Chairman Board of Trustees**

**Tourism Fund  
Annual Reports and Financial Statements  
For the year ended June 30, 2018**

**REPORT OF THE CHIEF EXECUTIVE OFFICER**

The financial 2017/18 marks the 47<sup>th</sup> year since inception of Tourism Fund. Since its launch in 1972, Tourism Fund has consistently implemented strategic plans with a view to enhancing service delivery to our customers thus improving voluntary compliance and levy collection.

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

**Operating Economic Environment in 2017/18**

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 2017/18, 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 2017/18, Tourism Fund collected a total of Kshs.2.41 Billion against a target of Kshs.2.69 Billion, being a performance rate of 90%.

**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 six years. Substantial amount of internal resources has been put into the construction of the office block and it now stands out as an icon in the upper Hill area. This is going to be a home for the Ministry of Tourism and other agencies within the sector.

**Tourism Fund  
Annual Reports and Financial Statements  
For the year ended June 30, 2018**

**REPORT OF THE CHIEF EXECUTIVE OFFICER**

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

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

The Fund is now in the fourth 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 third year, a total of 49% completion rate had been achieved. It is expected that the project will be fully operational by the end of the remaining one year.

**Conclusion**

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



Joseph Cherutoi  
**Chief Executive Officer**

**Tourism Fund  
Annual Reports and Financial Statements  
For the year ended June 30, 2018**

**CORPORATE GOVERNANCE STATEMENT**

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

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

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

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

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

**Committees of the Board**

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

· **Finance Committee**

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

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

· **Audit and Risk Committee**

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

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

· **Staff and Technical Committee**

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

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

**Project Committee**

The committee is responsible for monitoring and appraising projects.

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

**Tourism Fund  
Annual Reports and Financial Statements  
For the year ended June 30, 2018**

**REPORT OF THE DIRECTORS**

The Directors submit their report together with the audited financial statements for the year ended June 30, 2018 which show the state of Tourism Fund's affairs.

**Principal activities**

The principal activities of the Tourism Fund are as follows:

- (a) Finance the development of tourism products and services ;
- (b) Finance the marketing of Kenya as a tourist destination through the Tourism Board ;
- (c) Finance the activities of the Protection Service ;
- (d) Finance the tourism research, tourism intelligence and the national tourism information management system ;
- (e) Finance the activities of the Tourism Sector Safety, Communication and Crisis Management Centre to be established and managed by the Ministry ;
- (f) Finance training and capacity development activities of the College and of such other tourism hospitality training institutions as may be established under this Act ;
- (g) Mobilize resources to support tourism-related activities.

**Results**

The results of Tourism Fund for the year ended June 30, 2018 are set out on page 1 - 24.

**Directors**

The members of the Board of Trustees who served during the year are shown on pages vi - vii.

**Surplus remission**

In accordance with Section 219 (2) of the Public Financial Management Act regulations, regulatory entities shall remit into Consolidated Fund, ninety per centum of its surplus funds reported in the audited financial statements after end of each financial year. Tourism Fund did not make any surplus during the year 2017/2018 and hence no remittance to the Consolidated Fund.

**Auditors**

The Auditor General is responsible for the statutory audit of Tourism Fund in accordance with Article 229 of the Constitution of Kenya and the Public Audit Act 2015.

By Order of the Board



**James Njogu  
Corporate Secretary**

**Nairobi**

**Date : 12/03/2019**

**Tourism Fund  
Annual Reports and Financial Statements  
For the year ended June 30, 2018**

**STATEMENT OF BOARD OF TRUSTEES RESPONSIBILITIES**

Section 81 of the Public Finance Management Act, 2012, section 14 of the State Corporations Act and Tourism Act 2011 require the Directors to prepare financial statements in respect of Tourism Fund, which give a true and fair view of the state of affairs of the Fund at the end of the financial year 2017/2018 and the operating results of the Fund for that year. The Directors are also required to ensure that the Fund keeps proper accounting records which disclose with reasonable accuracy the financial position of the Fund. The Directors are also responsible for safeguarding the assets of the Fund.

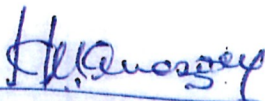
The Directors are responsible for the preparation and presentation of the Fund's financial statements, which give a true and fair view of the state of affairs of the Fund for and as the end of the financial year ended June 30, 2018. This responsibility includes:

- (i) Maintaining adequate financial management arrangements and ensuring that these continue to be effective throughout the reporting period;
- (ii) Maintaining proper accounting records, which disclose with reasonable accuracy at any time the financial position of the entity;
- (iii) Designing, implementing and maintaining internal controls relevant to the preparation and fair presentation of the financial statements, and ensuring that they are free from material misstatements, whether due to error or fraud;
- (iv) Safeguarding the assets of the Fund;
- (v) Selecting and applying appropriate accounting policies;
- (vi) Making accounting estimates that are reasonable in the circumstances.

The Trustees accept responsibility for the Fund's financial statements, which have been prepared using appropriate accounting policies supported by reasonable and prudent judgments and estimates, in conformity with International Public Sector Accounting Standards (IPSAS) and in the manner required by the PFM Act, 2012 and Tourism Act 2011. The Trustees are of the opinion that the Fund's financial statements give a true and fair view of the state of the Fund's transactions during the financial year ended June 30, 2018, and of the Fund's financial position as at that date. The Trustees further confirm the completeness of the accounting records maintained for the Fund, which have been relied upon in the preparation of the Fund's financial statements as well as the adequacy of the systems of internal financial control.

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.

The Fund's financial statements were approved by the Board on \_\_\_\_\_ 2019 and signed on its behalf by:



Hon. Henry Kosgey

**Chairman of the Board of Trustees**

12<sup>th</sup> March 2019

**Tourism Fund  
Annual Reports and Financial Statements  
For the year ended June 30, 2018**

**REPORT OF THE INDEPENDENT AUDITORS ON TOURISM FUND**

# REPUBLIC OF KENYA

Telephone: +254-20-342330  
Fax: +254-20-311482  
E-mail: [oag@oagkenya.go.ke](mailto:oag@oagkenya.go.ke)  
Website: [www.oagkenya.go.ke](http://www.oagkenya.go.ke)



P.O. Box 30084-00100  
NAIROBI

## OFFICE OF THE AUDITOR-GENERAL

### REPORT OF THE AUDITOR-GENERAL ON TOURISM FUND FOR THE YEAR ENDED 30 JUNE 2018

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#### REPORT ON THE FINANCIAL STATEMENTS

#### Qualified Opinion

I have audited the accompanying financial statements of Tourism Fund set out on pages 1 to 18, which comprise the statement of financial position as at 30 June 2018, and the statement of financial performance, statement of changes net assets, statement of cash flows and statement of comparison of budget and actual amounts for the year then ended, and a summary of significant accounting policies and other explanatory information in accordance with the provisions of Article 229 of the Constitution of Kenya and Section 35 of the Public Audit Act, 2015. I have obtained all the information and explanations which, to the best of my knowledge and belief, were necessary for the purpose of the audit.

In my opinion, except for the effect of the matters described in the Basis for Qualified Opinion section of my report, the financial statements present fairly, in all material respects, the financial position of Tourism Fund as at 30 June 2018, and of its financial performance and its cash flows for the year then ended, in accordance with International Public Sector Accounting Standards (Accrual Basis) and comply with the Tourism Act, No.28 of 2011.

#### Basis for Qualified Opinion

##### 1. Investments

Note 16 to the financial statements reflects a figure of Kshs.3,100,000 for shares invested in Consolidated Bank, whose recoverability remains doubtful. Although management has explained that no dividends had been received as at 30 June 2018 and the recoverability of the investment is doubtful, no provision is made in the financial statements of the Fund. Consequently, it has not been possible to ascertain the validity of the investment.

##### 2. 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

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*Report of the Auditor-General on the Financial Statements on Tourism Fund for the year ended 30 June 2018*

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 nullified in 2012 alongside those of other Tourism Agencies by the subsequent Minister for Tourism. In view of the change of name from Ronald Ngala Utalii College to Ronald Ngata Utalii Academy there are uncertainties as to the name the new title deed will be registered in.

- (iii) No feasibility study was done for the project to establish its viability. The Fund's procurement plan 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 the procured consortium of consultants (Baseline-Architect and Ujenzi-Quantity Surveyor) who were responsible for designing and drawing of bills of quantities which was in contravention of Section 26(3)(c) of the Public Procurement and Disposal Act, 2005 on segregation of duties and Section 28 of the same Act on appointment of procuring agent.
- (vi) The tender for consultancy services was awarded to Baseline Architects Limited and the award was based on the technical proposal submitted by the winning firm, who were to be invited for negotiation on the basis of scale of fees for professional services. It is not clear whether the procuring entity indeed negotiated as provided for by request for proposal document with the consultants taking into consideration that the negotiation of award was done on 4 April 2012 which was the same day the tender was awarded. The award letter did not also specify the scale of fees applicable for professional services and the tender document was silent on how the consultants were to be paid. Baseline Architects Ltd consortium included Geomeasures Surveyors Ltd whose bid was not evaluated and was one of the contracted consultants. Consequently, it has not been possible to ascertain the fairness of the evaluation process.
- (vii) The award of the construction project contract was made to the third lowest prequalified bidder Ms. Mulji Devraj and Brothers at a contract cost of Kshs.8,961,370,998. It is not clear why the contract was not awarded to the lowest bidder (M/S China Jiangxi International K Ltd) since there was a material difference

of Kshs.498,731,291 yet all the bidders had undergone evaluation and prequalification.

- (viii) On the 10 March 2016, Baseline Architects Limited presented fee note No.9 for architectural services of Kshs.208,780,092. Included in the total amount is out of pocket expense of Kshs.44,953,350, for which no supporting documents were provided for audit verification. On 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) 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 was availed to confirm the revised scope of the project.
- (x) During the year under review, the National Treasury transferred Kshs.94,663,793 whereas the Fund incurred Kshs.528,795,651 on the project while in the financial year ended 30 June 2017, the National Treasury transferred Kshs.562,000,000 while the Fund incurred Kshs.629,984,854 on the project.
- (xi) As reported previously, according to monthly progress report No.43 of February 2018, the certified gross value of work done together with advance payment, materials on site and contractual claims was approximately Kshs.2.646 billion representing approximately 53.75% completion. Total payments made in respect of the project amounted to Kshs.4,981,554,505 as at 30 June 2017. Most tasks are behind schedule and the updated programme of works indicates a finish date of 25 March 2019.
- (xii) As previously reported, the amount of Kshs.1,536,015,714 charged by consultants of the project was based on the original contract sum of Kshs.8,961,370,998 (representing about 17.1%) yet the contract had been scaled down to Kshs.4,923,005,699 as per revised bill of quantities and thus the consultants ought to have charged Kshs.841,833,975 and therefore they were overpaid by Kshs.694,181,739.
- (xiii) In financial year 2016/2017, the Fund paid Kshs.7,959,600 to Kilifi County Government being land rates for Ronald Ngala Utalii College. It was however noted that M/s Kithi and Company Advocates had been engaged to negotiate on the outstanding land rates with Kilifi County Government in August 2013. The lawyer was paid Kshs.13,000,000 excluding fees on 9th September 2014 and the rates clearance certificate was to be obtained within 30 days from the date of payment. On 10 October 2016, the lawyer wrote to the Fund to request for an additional Kshs.10,000,000 towards finalizing the same which the Fund did not honour. The Fund's efforts to get a refund of the Kshs.13,000,000 have not yielded any results. The value for money from legal fees paid could not be ascertained and

the Fund has not recognized the lawyer as a debtor in their books for the Kshs.13,000,000.

- (xiv) According to the Public Financial Management Act, 2012 Section 72 (1)(a), the accounting officer for a national government entity shall be responsible for the management of the entity's assets and liabilities. However, a review of the financial statements showed the Fund has been expensing grants to Ronald Ngala Utalii College project. However, an enquiry showed that Ronald Ngala Utalii College is non-existent hence the work-in progress has not been captured in any entity's books. Given that the Fund implements and provides funds for the project and any liability thereof belongs to it, the corresponding asset also needs to be recognized.
- (xv) On 27 June 2017 Mulji Devraj & Brothers presented interim certificate No.22 of Kshs.69,698,562.96. Included in the amounts is interest on delayed payments Kshs.98,250,000, price fluctuations of Kshs.75,000,000 and other contractual claims of Kshs.281,750,000. It was however noted that the main contractor included Kshs.75,000,000 as price fluctuations in fee note No.22 without a detailed assessment on what caused the price fluctuation contrary to Clause 35 of the terms and conditions of the contract. According to the agreement and conditions of contract for building works between Tourism Fund and Mulji Devraj and Brothers Ltd clause 34.28, any penalties or fines imposed on the contractor by the relevant authority for delay in the payment of Value Added Tax (VAT) and other taxes levied in the building industry arising from a delay in the honouring of a payment certificate shall be reimbursed by the employer to the contractor. It was however noted that the contractor charged interest on VAT without evidence that the same had been charged by the Kenya Revenue Authority. Similarly, on 27 June 2017 the Armitech Consulting Engineers presented a fee note No.20 of Kshs.215,373,242 which included disbursements of Kshs.7,444,005 cumulated interest on outstanding pre and post contract fees of Kshs.178,193,025 and VAT on cumulated interest on outstanding fees of Kshs.28,510,884.
- (xvi) According to IPSAS No.11 Section 51, an entity should disclose the aggregate amount of costs incurred and recognized surpluses (less recognized deficits) to date; the amount of advances received; and the amount of retentions. The contracts signed by the main contractor, consultancies and the sub-contractor provided for retention monies and advance payments to various contractors. It was however noted that the Fund did not report retention of Kshs.170,222,858 and advance payment not yet recovered of Kshs.242,524,026 in the financial statements.
- (xvii) The Quantity Consultants letter Ref No.UC/P/105/V/24 dated 22 November 2017 for 24 interim valuation indicates work done as at that date as Kshs.1,747,443,000. In addition to the valuation amount is a figure of Kshs.298,250,000 as interest on delayed payments, Kshs.105,000,000 on price fluctuations and Kshs.286,750,000 as other contractual claims (idle plant and labor etc). These amounts are irrelevant as they have no commensurate value and should be regarded as nugatory.

- (xviii) 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. The project status as at 28 February 2019 was at 90% period lapse while percentage of work done is 70% where most tasks are behind schedule.

It is not clear why the quantity surveyor and the architect have not scaled down the contract sum from Kshs.8,961,370,998 to Kshs.4,923,005,000 as reflected in the interim certificates.

Consequently, the propriety of the Ronald Ngala Utalii College project expenditure could not be ascertained.

### **3. Receivables from Non-Exchange Transactions**

The receivables from non-exchange transactions balance reflects Kshs.227,174,710 as at 30 June 2018. However, the following was noted;

- (i) The receivables balance includes an amount of Kshs.1,508,532 relating to staff advances owed by former employees. Although management has explained that the debt 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. No evidence was provided to show efforts made by the management to recover the debts during the year.
- (ii) The receivables figure includes an amount of Kshs.2,535,659 relating to other debtors, which includes Kshs.2,344,617 described as other debtors for the previous year whose break down and explanation was not provided for audit verification.
- (iii) The levy debtors increased from Kshs.50,834,199 (2016/2017) to Kshs.92,305,853 (2017/2018) resulting to an increase of Kshs.41,471,654 (82%) which was not explained by management. This is despite the revenue from levy arrears increasing by Kshs.15,315,589 (42%).
- (iv) As reported in the previous years, the receivables from non-exchange transactions balance of Kshs.227,174,710 as at 30 June 2018 excludes an amount of Kshs.16,617,045 relating to dishonored cheques brought forward from the previous year for various levy collections for which a provision of the total amount has been made in the financial statements. The Fund was since enjoined in the winding-up case No.1 of 2005 in the High Court of Kenya at Mombasa against the creditor in pursuit of a debt of Kshs.9,500,000. In a ruling made on 19 June 2014 the court ruled that the creditor be wound up and an official receiver was appointed as provisional liquidator. Although the creditors' meetings are ongoing, the outcome is yet to be determined.
- (v) The management did not provide the aging analysis for the receivables from non-exchange transactions.

In the circumstances, it has not been possible to confirm that receivables from non-exchange transactions balance of Kshs.227,174,710 is fairly stated.

#### **4. Property, Plant and Equipment**

##### **4.1 Fund's Office Block**

As reported previously, included in the property, plant and equipment balance of Kshs.2,099,397,939 as at 30 June 2018 is an amount of Kshs.1,465,768,637 being work in progress for construction of the Fund's office block that was still ongoing by the time of the audit. However, examination of the contract agreement revealed that the intended completion date for the construction work was 30 November 2012 and the original contract sum was Kshs.811,717,150. No approval for project extension period was given after expiry of the initial contract duration.

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

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

##### **4.2 Uncertified Works**

As previously reported, office partitioning works at Central Kenya regional office were awarded to M/s Plenser Limited at a cost of Kshs.4,958,766 according to quotation No.0837 dated 24 October 2011. The work involved partitioning of the new office space and the existing (old) office space at a cost of Kshs.3,560,953 and Kshs.713,845 respectively exclusive of VAT. Although inspection and acceptance certificate No.296 indicate that partitioning works in respect of the new office space were well done, the committee did not give any comments on the certificate relating to works on existing (old) office space. As a result, the Fund may have paid Kshs.713,845 for works not done.

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

## **Key Audit Matters**

Key audit matters are those matters that, in my professional judgment, are of most significance in the audit of the financial statements. Except for the matters described in the Basis for Qualified Opinion section, I have determined that there are no other key audit matters to communicate in my report.

## **Other Matter**

### **Non-compliance with Public Finance Management Act, 2012**

Section 84 of the Public Finance Management Act, 2012 requires the Accounting Officer administering a national public fund to prepare and submit the financial statements of the fund at the end of each fiscal period and submit these to the Auditor-General for audit. During the audit review, it was observed that Tourism Fund has been transferring funds to Ronald Ngala College under transfers to other entities from the year ending 30 June, 2010 to date. However, no financial statements were prepared and submitted to the Auditor-General for the College for eight (8) years ended 30 June 2010 to 30 June 2018 to enable the Auditor-General provide an opinion on the College's operations for the periods and its financial position at the close of each financial year. In addition, besides gazettelement of the College, it appears that the governing board has never been appointed or even staff employed.

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

## **REPORT ON LAWFULNESS AND EFFECTIVENESS IN USE OF PUBLIC RESOURCES**

### **Conclusion**

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

### **Basis for Conclusion**

The audit was conducted in accordance with ISSAI 4000. The standard requires that I comply with ethical requirements and plan and perform the audit to obtain assurance about whether the activities, financial transactions and information reflected in the financial statements are in compliance, in all material respects, with the authorities that govern them. I believe that the audit evidence I have obtained is sufficient and appropriate to provide a basis for my conclusion.

## REPORT ON EFFECTIVENESS OF INTERNAL CONTROLS, RISK MANAGEMENT AND GOVERNANCE

### **Conclusion**

As required by Section 7(1) (a) of the Public Audit Act, 2015, based on the procedures performed, except for the effect of the matters described in the Basis for Report on Effectiveness of Internal Controls, and Risk Management and Governance section in my report, I confirm that, nothing else has come to my attention to cause me to believe that internal controls, risk management and overall governance were not effective.

### **Basis for Conclusion**

#### **1. Lack of an Information Technology Steering Committee**

It was noted that the Fund lacks an information technology steering committee to provide guidance with respect to governance and management of information systems contrary to Sections 18 and 19 of the Public Finance Management Regulations 2015.

#### **2. Unapproved Information Communication Technology Policy**

It was observed that the Fund did not have an approved information communication technology policy contrary to Sections 18 and 19 of the Public Finance Managements Regulations 2015.

The audit was conducted in accordance with ISSAI 1315 and ISSAI 1330. The standards require that I plan and perform the audit to obtain assurance about whether effective processes and systems of internal control, risk management and governance were operating effectively, in all material respects. I believe that the audit evidence I have obtained is sufficient and appropriate to provide a basis for my conclusion.

### **Responsibilities of Management and Those Charged with Governance**

Management is responsible for the preparation and fair presentation of these financial statements in accordance with International Public Sector Accounting (Accrual Basis) and for maintaining effective 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 and for its assessment of the effectiveness of internal control, risk management and governance.

In preparing the financial statements, management is responsible for assessing the Fund's ability to continue as a going concern/ sustain services, disclosing, as applicable, matters related to sustainability of services and using the going concern basis of accounting unless the management either intends to liquidate the Fund or to cease operations, or have no realistic alternative but to do so

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

In addition to the responsibility for the preparation and presentation of the financial statements described above, management is also responsible for ensuring that the activities, financial transactions and information reflected in the financial statements are in compliance with the authorities which govern them, and that public resources are applied in an effective way.

Those charged with governance are responsible for overseeing the Fund's financial reporting process, reviewing the effectiveness of how the entity monitors compliance with relevant legislative and regulatory requirements, ensuring that effective processes and systems are in place to address key roles and responsibilities in relation to governance and risk management, and ensuring the adequacy and effectiveness of the control environment.

### **Auditor-General's Responsibilities for the Audit**

The audit objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes my opinion in accordance with the provisions of Section 48 of the Public Audit Act, 2015 and submit the audit report in compliance with Article 229(7) of the Constitution. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISSAIs will always detect a material misstatement and weakness when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

In addition to the audit of the financial statements, a compliance audit is planned and performed to express a conclusion about whether, in all material respects, the activities, financial transactions and information reflected in the financial statements are in compliance with the authorities that govern them and that public resources are applied in an effective way, in accordance with the provisions of Article 229(6) of the Constitution and submit the audit report in compliance with Article 229(7) of the Constitution.

Further, in planning and performing the audit of the financial statements and audit of compliance, I consider internal control in order to give an assurance on the effectiveness of internal controls, risk management and governance processes and systems in accordance with the provisions of Section 7(1) (a) of the Public Audit Act, 2015 and submit the audit report in compliance with Article 229(7) of the Constitution. My consideration of the internal control would not necessarily disclose all matters in the internal control that might be material weaknesses under the ISSAIs. A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements

caused by error or fraud in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions.

Because of its inherent limitations, internal control may not prevent or detect misstatements and instances of non-compliance. Also, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the

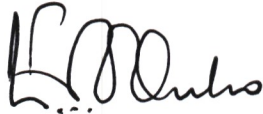
Tourism Fund policies and procedures may deteriorate.

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

- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for my opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the management.
- Conclude on the appropriateness of the management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Fund's ability to continue as a going concern or to sustain its services. If I conclude that a material uncertainty exists, I am required to draw attention in the auditor's report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify my opinion. My conclusions are based on the audit evidence obtained up to the date of my audit report. However, future events or conditions may cause the Fund to cease to continue as a going concern or to sustain its services.
- Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.
- Obtain sufficient appropriate audit evidence regarding the financial information and business activities of the Fund to express an opinion on the financial statements.
- Perform such other procedures as I consider necessary in the circumstances.

I communicate with the management regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that are identified during the audit.

I also provide management with a statement that I have complied with relevant ethical requirements regarding independence, and to communicate with them all relationships and other matters that may reasonably be thought to bear on my independence, and where applicable, related safeguards.



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

**Nairobi**

**07 May 2019**



**Tourism Fund****Annual Reports and Financial Statements**

For the year ended June 30, 2018

**STATEMENT OF FINANCIAL PERFORMANCE  
FOR THE YEAR ENDED 30<sup>TH</sup> JUNE 2018**

	Note	2017-2018 Kshs	2016-2017 Kshs
<b>Revenue from non-exchange transactions</b>			
Levy Income	2	2,406,781,725	2,262,852,667
Levy Arrears		51,559,977	36,170,061
Grants from GOK	5	93,750,000	562,000,000
<b>Total revenue from non-exchange transactions</b>		<b>2,552,091,702</b>	<b>2,861,022,728</b>
<b>Revenue from exchange transactions</b>			
Interest on Loans & Investments	3	1,799,229	1,866,926
Interest on Staff Loans	3	77,131	55,651
Miscellaneous Revenue	3	8,478	323,619
Rental income	4	208,373	220,500
<b>Total revenue from exchange transactions</b>		<b>2,093,211</b>	<b>2,466,696</b>
<b>Total revenue</b>		<b>2,554,184,913</b>	<b>2,863,489,424</b>
<b>Expenses</b>			
Administrative Expenses:			
Board Expenses	6(i)	19,708,904	30,278,876
Compensation of Employees	6(ii)	397,665,523	394,837,922
Depreciation and Amortization	20	48,361,189	35,715,738
Contracted Services	7	67,012,461	58,679,270
Grants and Subsidies	8	1,383,014,819	1,863,482,159
General Operating Expenses	9	286,929,642	312,577,164
Other Expenses	10	-	-
<b>Total expenses</b>		<b>2,202,692,538</b>	<b>2,695,571,129</b>
<b>Other gains/(losses)</b>			
Gains / (Loss) on Disposal	11	94,621	- 24,811
<b>(Deficit) / Surplus for the period</b>		<b>351,586,995</b>	<b>167,893,484</b>

The notes set out in pages 6 - 18 form an integral part of these Financial Statements.

**Tourism Fund  
Annual Reports and Financial Statements  
For the year ended June 30, 2018**

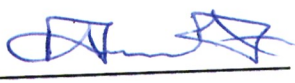
**STATEMENT OF FINANCIAL POSITION  
AS AT 30<sup>TH</sup> JUNE 2018**

	Note	2017-2018 Kshs	2016-2017 Kshs
<b>Assets</b>			
<b>Current Assets</b>			
Cash and cash equivalents	12	101,696,864	219,529,529
Receivables from exchange transactions	13	15,231,319	9,956,742
Receivables from non-exchange transactions	14	227,174,710	50,647,773
<b>Total Current Assets</b>		<b>344,102,893</b>	<b>280,134,044</b>
<b>Non-Current Assets</b>			
Property, plant and equipment	15	2,099,397,939	1,843,887,018
Investments (Fixed deposit and interest)	16	3,100,000	3,100,000
Intangible assets	17	23,725,729	15,333,709
<b>Total Non-Current Assets</b>		<b>2,126,223,668</b>	<b>1,862,320,727</b>
<b>Total Assets</b>		<b>2,470,326,561</b>	<b>2,142,454,771</b>
<b>Liabilities</b>			
<b>Current Liabilities</b>			
Trade and other payables from exchange transactions	18	132,693,987	158,392,633
<b>Total Liabilities</b>		<b>132,693,987</b>	<b>158,392,633</b>
<b>Net Assets</b>			
Accumulated Surplus		2,337,632,574	1,984,062,138
<b>Total Net Assets</b>		<b>2,337,632,574</b>	<b>1,984,062,138</b>
<b>Total Net Assets and Liabilities</b>		<b>2,470,326,561</b>	<b>2,142,454,771</b>

The Financial Statements set out on pages 6 - 18 were signed on behalf of the Trustees by:

**Chief Executive Officer**

Name: Mr Joseph Cherutoi

Sign: 

Date: 12/03/2019

**Head of Finance**

Name: Erick Kiplagat

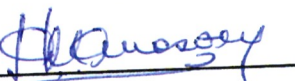
ICPAK Member No.: 4370

Sign: 

Date: 12/03/2019

**Chairman Board of Trustees**

Name: Hon Henry Kosgei

Sign: 

Date: 12/03/2019

**Tourism Fund**  
**Annual Reports and Financial Statements**  
**For the year ended June 30, 2018**

**STATEMENT OF CHANGES IN NET ASSETS**  
**FOR THE YEAR ENDED 30TH JUNE 2018**

	Note	Revenue Reserves Kshs	Accumulated surplus(Deficit) Kshs	Total Kshs
Balance as at 30 JUNE 2016 (Bal b/d 1.7.2016)	-	52,617,003	1,860,535,615	1,807,918,612
Surplus for the period		-	167,893,484	167,893,484
Prior Year Adjustment			8,250,042	8,250,042
<b>Balance as at 30 JUNE 2017 (Bal b/d 1.7.2017)</b>	<b>-</b>	<b>52,617,003</b>	<b>2,036,679,141</b>	<b>1,984,062,138</b>
Surplus for the period		-	351,586,995	351,586,995
Prior Year Adjustment	22		1,983,440	1,983,440
<b>Balance as at 30 JUNE 2018 (Bal b/d 30.6.2018)</b>	<b>-</b>	<b>52,617,003</b>	<b>2,390,249,577</b>	<b>2,337,632,574</b>

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

The notes set out in pages 6 - 18 form an integral part of these Financial Statements.

**Tourism Fund**  
**Annual Reports and Financial Statements**  
**For the year ended June 30, 2018**

**STATEMENT OF CASHFLOWS**  
**FOR THE YEAR ENDED 30TH JUNE 2018**

	Note	2017-2018	2016-2017
		Kshs	Kshs
<b>Cash flows from operating activities</b>	21		
<b>Surplus / (Deficit) for the year before tax</b>		351,586,995	167,893,483
Adjusted for:			
Depreciation		44,764,609	45,430,130
Non-cash grants received			
Contributed assets			
Impairment	17	3,596,580	-
Gains and losses on disposal of assets	11	94,621	24,811
Contribution to provisions			
Contribution to impairment allowance			
Finance income	3	1,884,839	2,246,196
Finance cost		-	-
<b>Working capital adjustments:</b>			
Increase in inventory		-	-
Increase in receivables	-	181,801,514	27,104,668
Increase in deferred income		-	-
Increase / (Decrease) in payables	-	25,698,646	25,160,571
Increase in payments received in advance		-	-
Prior year adjustment	22	1,983,440	8,250,041
<b>Net cash flows from operating activities</b>		<b>192,452,005</b>	<b>271,617,508</b>
<b>Cashflows from investing activities</b>			
Purchase of property, plant, equipment	-	306,701,493	204,780,963
Proceeds from sale of property, plant, equipment		1,422,900	90,300
Sale of fixed assets	-	6,890,916	204,390
Finance income - Interest on Loans & Investments	3	1,884,839	2,246,196
<b>Net cash flows used in investing activities</b>	-	<b>310,284,670</b>	<b>202,648,857</b>
<b>Cashflows from financing activities</b>			
<b>Net increase in cash and cash equivalent</b>	-	<b>117,832,665</b>	<b>68,968,651</b>
Add Cash and Cash Equivalent 1 <sup>st</sup> July 2017		219,529,529	150,560,877
Cash and Cash Equivalent 30 <sup>th</sup> June 2018	12	<b>101,696,864</b>	<b>219,529,529</b>

The notes set out in pages 6 - 18 form an integral part of these Financial Statements.

## STATEMENT OF COMPARISON OF BUDGET AND ACTUAL AMOUNTS

FOR THE YEAR ENDED 30<sup>TH</sup> JUNE 2018

	Original budget	Adjustments	Final budget	Actual on comparable basis	Variance	Explanation of material variances
	FY ended 30 June 2018	FY ended 30 June 2018	FY ended 30 June 2018	FY ended 30 June 2018		
	Kshs.	Kshs.	Kshs.	Kshs.	Kshs.	
<b>Revenue</b>						
Fines, penalties and levies	2,685,392,000	-	2,685,392,000	2,458,341,702	227,050,298	1
Finance Income (Interest)	50,000	-	50,000	1,884,839	1,834,839	2
Government grants and subsidies	400,000,000	-	400,000,000	93,750,000	306,250,000	3
Other Income	3,005,000	-	3,005,000	542,628	2,462,372	4
<b>Total income</b>	<b>3,088,447,000</b>	<b>-</b>	<b>3,088,447,000</b>	<b>2,554,519,168</b>	<b>533,927,832</b>	
<b>Expenses / Payments.</b>						
Administrative expenses						
(i) Board expenses	22,482,000	-	22,482,000	19,708,904	2,773,096	5
(ii) Compensation of employees	444,223,819	-	444,223,819	397,665,523	46,558,296	6
Rent paid	22,303,388	-	22,303,388	30,809,262	8,505,874	7
Grants and subsidies paid	1,915,000,000	-	1,915,000,000	1,383,014,819	531,985,181	8
Capital expenses	612,033,987	-	612,033,987	307,077,083	304,956,903	9
Other payments	438,905,561	-	438,905,561	371,733,665	67,171,897	10
<b>Total expenditure</b>	<b>3,454,948,755</b>	<b>-</b>	<b>3,454,948,755</b>	<b>2,510,009,256</b>	<b>944,939,499</b>	
<b>Surplus for the period</b>	<b>- 366,501,755</b>	<b>- -</b>	<b>366,501,755</b>	<b>44,509,912</b>	<b>- 411,011,667</b>	

## Explanation of material variances

- 1 The two election cycles affected the tourism levy earnings especially in West-Kenya region.
- 2 Increased uptake of staff loans.
- 3 Received less grants than anticipated from exchequer for the ongoing construction of Ronald Ngala Utalii College due to austerity measures implemented by the Exchequer.
- 4 Rental income from the office block was budgeted for, but tenancy/occupancy is yet to take place.
- 5 Savings were realised from the implementation of cost cutting measures.
- 6 Provision was made for review of salaries. However, the process for seeking approval was ongoing at the closure of the financial year.
- 7 Due to the planned partitioning of the office block, the Headquarter and Nairobi Region offices have not relocated as envisaged to happen during the financial year.  
Therefore, rent payable increased covering the period that the Headquarter and Nairobi Region offices were still occupying the spaces.
- 8 The internal funding was dependent on the levy collected.
- 9 Acquisition of Levy System Software was ongoing.
- 10 Savings were realised from the implementation of cost cutting measures.

## Tourism Fund

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#### NOTES TO THE FINANCIAL STATEMENTS

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

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

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

**(a) Basis of Preparation**

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

**(b) Income Recognition**

- (i) Levy Income:** In accordance with the Tourism Act 2011, levy income is a % charge on gross sales levied by enterprises providing tourism activities and services as stipulated in the ninth schedule. The rate is gazetted by the Cabinet Secretary in charge of Tourism and the levy income is deemed as earned when received.
- (ii) Other Income:** Interest income is recognized on a time basis at the effective interest rate applied on the principal amounts outstanding. Other incomes are recognized when earned.

## **Tourism Fund**

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#### **NOTES TO THE FINANCIAL STATEMENTS**

##### **(c) Property and Equipment**

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

The estimated rates are as follows

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

##### **(d) Intangible Assets**

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

##### **(e) Retirements Benefits Obligations**

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

##### **(f) Cash and Cash Equivalents**

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

##### **(g) Taxation**

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

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**NOTES TO THE FINANCIAL STATEMENTS**

**2 LEVY INCOME**  
**ALL BRANCHES**

	2017-2018	2016-2017
	Kshs	Kshs
Nairobi Region	-	1,356,519,727
Nairobi North Region	648,969,606	-
Nairobi South Region	769,901,971	-
Coast Region	430,612,696	367,347,043
Western Region	128,357,087	122,544,177
Rift Valley Region	316,332,471	293,440,565
Central Region	164,167,870	159,171,216
	<u>2,458,341,702</u>	<u>2,299,022,728</u>

**3 FINANCE INCOME (INTEREST)**

	2017-2018	2016-2017
	Kshs	Kshs
Interest on Loans & Investment	1,799,229	1,866,926
Interest on Staff Loans	77,131	55,651
Miscellaneous revenue	8,478	323,619
	<u>1,884,839</u>	<u>2,246,196</u>

**4 OTHER INCOME**

	2017-2018	2016-2017
	Kshs	Kshs
Rental income	208,373	220,500
	<u>208,373</u>	<u>220,500</u>

**5 GRANTS FROM GOK**

	2017-2018	2016-2017
	Kshs	Kshs
Grants from GOK	93,750,000	562,000,000
	<u>93,750,000</u>	<u>562,000,000</u>

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**NOTES TO THE FINANCIAL STATEMENTS**

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

	2017-2018 Kshs	2016-2017 Kshs
<b>6 (i) BOARD EXPENSES</b>		
Chairman's Honorarium	1,520,000	640,000
Trustees Sitting Allowance	5,324,500	7,882,000
Trustees Travelling & Accomodation	10,764,404	21,756,876
Trustees Remuneration	2,100,000	-
	<u>19,708,904</u>	<u>30,278,876</u>
<b>6 (ii) COMPENSATION OF EMPLOYEES</b>		
Basic Pay	202,760,066	188,567,816
Pension and Gratuity	35,785,592	37,569,238
House Allowance	71,059,967	69,884,548
Acting Allowance	1,251,398	1,165,331
Leave Allowance	5,154,351	4,559,212
Transfer Allowance	95,362	3,297,885
Transport Allowance	13,826,668	13,609,880
Remunerative Allowance	360,000	270,000
Staff Development (Training)	17,436,987	32,666,344
Staff Uniforms	3,336,760	1,359,572
Staff Tea	3,656,075	3,707,009
Levy Collection Incentives	8,014,506	7,175,384
Medical Insurance	34,740,657	30,713,427
Staff Contingencies	187,135	292,275
	<u>397,665,523</u>	<u>394,837,922</u>
<b>7 CONTRACTED SERVICES</b>		
	2017-2018 Kshs	2016-2017 Kshs
Tourism Dvpt (Semin & Wkshp)	18,780,206	25,380,682
Office Cleaning	6,884,337	5,803,737
Performance Contract Surveys	13,089,381	9,201,253
Administrative Contingency	945	-
ISO 9001-2008 Expenses	4,562,095	7,864,995
Legal Fees	16,357,198	8,688,602
Audit Fees	1,740,000	1,740,000
Skills Audit	5,598,299	-
	<u>67,012,461</u>	<u>58,679,270</u>

Tourism Fund

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NOTES TO THE FINANCIAL STATEMENTS

8 GRANTS AND SUBSIDIES

	2017-2018	2016-2017
	Kshs	Kshs
Grants to Kenya Utalii College	495,000,000	318,000,000
Grants to Kenya Tourist Board	264,000,000	328,000,000
Grants to Ronald Ngala College	528,795,651	629,984,854
Grants - Other Training Activities (PERAK, KAHC)	337,500	25,232,255
Product Development	217,875	265,050
Grants from GOK	94,663,793	562,000,000
	<u>1,383,014,819</u>	<u>1,863,482,159</u>

9 GENERAL OPERATING EXPENSES

	2017-2018	2016-2017
	Kshs	Kshs
Levy Collection expenses	81,220,837	57,982,170
General Insurances	25,277,798	24,855,948
Office Security	4,336,800	3,077,600
Electricity & Water	4,903,512	4,876,702
Telephone & Postage Expenses	6,549,613	5,850,506
Printing & Stationery	12,645,026	11,362,286
Newspapers & Periodicals	1,514,010	1,449,780
Office Rent-H/O & Branches	30,809,262	33,246,417
Land Rent, Rates & Services	587,500	587,500
Entertainment & Public Relations	8,354,941	12,593,438
Shows And Exhibitions	7,238,275	-
Media, Advertisement & Publicity	15,173,306	36,530,869
General Office Expenses	1,800,636	1,771,705
Subscriptions	962,755	835,830
Levy Recruitment Drive	27,237,228	55,618,597
Repair & Maint-Motor Vehicles	8,490,935	8,474,124
E-Mail& Internet Connectivity	38,781,807	43,176,157
Repair & Maint-Building	290,555	186,666
Fuel Expenses	7,823,030	5,747,611
Repair & Maint- Furniture	24,680	521,942
Bank Charges	2,907,137	3,336,522
Bad Debts w/o	-	494,794
	<u>286,929,642</u>	<u>312,577,164</u>

10 OTHER EXPENSES

	2017-2018	2016-2017
	Kshs	Kshs
Corporate Social Responsibility	-	-
	<u>-</u>	<u>-</u>

**Tourism Fund**  
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**NOTES TO THE FINANCIAL STATEMENTS**

**11 LOSS ON SALE OF ASSETS**

	2017-2018		2016-2017
	Kshs		Kshs
Loss on sale of assets	-	239,634	-
Gain on sale of assets	334,255	-	36,269
	<u>94,621</u>	-	<u>11,458</u>
		-	<u>24,811</u>

**12 CASH AND CASH EQUIVALENTS**

	2017-2018		2016-2017
	Kshs		Kshs
KCB-Revenue a/c	2,045,006		101,570
KCB - Collection a/c	2,392,185		3,860,765
KCB - Staff Loan A/C	-		-
KCB - Asset Finance a/c	19,139,373		17,871,735
KCB Mortgage Account	23,510,757		97,396,689
NBK- Operational A/C	22,793,802		27,061,231
NBK Ksm-Operational A/C	147,434		10,281
NBK Msa-Operational A/C	228,661		226,374
NBK Nyeri-Operational A/C	22,528	-	6,631
NBK Nkr-Operational A/C	185,020		251,145
NBK Nrb North -Operational A/C	217,410		126,225
NBK Nrb South - Operational A/C	197,380		161,680
Coop-Collection A/C	27,507,563	-	1,791
Co-op Bank Donor A/C	10,317		14,469
Co-Op Bank Savings A/C	277,314		261,624
Co-op Mortgage Account	1,240,000		70,000,000
NBK - RNUC a/c	568,762		1,492,115
M-pesa collection a/c	1,013,352		600,199
Pettycash imprest a/c	6,000		-
NBK Nrb-Operational A/C	-		-
Cash at Hand	194,000		101,850
	<u>101,696,864</u>		<u>219,529,529</u>

**13 RECEIVABLES FROM EXCHANGE TRANSACTIONS**

	2017-2018		2016-2017
	Kshs		Kshs
Deposits	9,956,742		9,956,742
Prepayments	5,274,577		-
	<u>15,231,319</u>		<u>9,956,742</u>

**14 RECEIVABLES FROM NON-EXCHANGE TRANSACTIONS**

	2017-2018		2016-2017
	Kshs		Kshs
Levy debtors	92,369,180		50,834,199
Other debtors	2,535,659		2,344,617
Provision for rd cheques	-	20,443,841	-
Staff imprest	4,820,333		11,863,936
Advances	2,277,178		2,103,396
Staff housing loans & Mortgages	145,616,202		3,945,466
	<u>227,174,710</u>		<u>50,647,773</u>

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PROPERTY, PLANT AND EQUIPMENT - 2017 / 2018										
COST	Furniture & Fittings	Partitions	Office Equipment	Computer Accessories	Motor Vehicles	Land	WIP	WIP Levy System Software	WIP Partitioning	Total
At 1st July 2016	14,157,294	127,642,697	13,886,771	61,783,985	58,837,001	285,000,000	1,272,110,067	-	-	1,833,417,815
Additions	1,129,584	-	3,552,346	5,534,034	27,090,400	-	99,888,098	-	67,790,893	204,985,355
Disposals	-	-	144,000	60,390	-	-	-	-	-	204,390
At 30th June 2017	15,286,878	127,642,697	17,295,117	67,257,629	85,927,401	285,000,000	1,371,998,165	-	67,790,893	2,038,198,780
Additions	314,700	-	5,395,078	10,056,334	43,813,000	-	93,770,471	28,900,592	119,353,635	301,603,810
Disposals	-	-	209,046	936,280	5,370,000	-	-	-	-	6,890,916
At 30th June 2018	15,225,988	127,642,697	22,481,149	76,377,683	124,370,401	285,000,000	1,465,768,637	28,900,592	187,144,528	2,332,911,674
<b>DEPRECIATION</b>										
At 1st July 2016	5,506,560	42,005,773	4,212,970	42,087,118	27,775,919	27,382,573	-	-	-	148,970,913
Disposals	-	-	47,531	50,240	-	-	-	-	-	97,772
Charge for year	1,207,631	11,074,066	1,641,493	7,432,404	9,207,795	5,152,349	-	-	-	35,715,738
prior year adjustment	91,953	-	9,214	548,015	9,073,702	-	-	-	-	9,722,884
At 30th June 2017	6,806,143	53,079,839	5,816,146	50,017,296	46,057,416	32,534,922	-	-	-	194,311,762
Disposals	-	-	115,227	826,128	4,414,255	-	-	-	-	5,562,637
Charge for year	1,078,105	9,366,539	2,098,964	8,052,140	19,119,560	5,049,302	-	-	-	44,764,609
At 30th June 2018	7,677,221	62,446,378	7,799,883	57,243,309	60,762,721	37,584,223	-	-	-	233,513,735
Net Book Values	-	-	-	-	-	-	-	-	-	-
At 30th June 2018	7,548,767	65,196,320	14,681,266	19,134,375	63,607,680	247,415,777	1,465,768,637	28,900,592	187,144,528	2,099,397,939
At 30th June 2017	8,480,735	74,562,858	11,478,972	17,240,333	39,869,985	252,465,078	1,371,998,165	-	67,790,893	1,843,887,018

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 3 motorvehicles, 2 laptops and 1 iPad procured in the financial year 2017/2018 under audit were delivered end of June 2018, hence depreciation was not provided for in that financial year, but have been provided for under the subsequent financial year 2018/2019.

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NOTES TO THE FINANCIAL STATEMENTS

16 INVESTMENTS

	2017-2018	2016-2017
	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	-	-
	<u>3,100,000</u>	<u>3,100,000</u>

17 AMORTIZATION - 2017/2018	Licences, Back-up software, Bank software
At 1st July 2016	49,671,881
Additions	-
Disposals	-
<b>At 30th June 2017</b>	<b>49,671,881</b>
Additions	11,988,600
Disposals	-
<b>At 30th June 2018</b>	<b>61,660,481</b>
<b>DEPRECIATION</b>	
At 1st July 2016	34,338,172
Disposals	-
Charge for year	-
prior year adjustment	-
<b>At 30th June 2017</b>	<b>34,338,172</b>
Disposals	-
Charge for year	3,596,580
<b>At 30th June 2018</b>	<b>37,934,752</b>
<b>Net Book Values</b>	
<b>At 30th June 2018</b>	<b>23,725,729</b>
<b>At 30th June 2017</b>	<b>15,333,709</b>

18 TRADE AND OTHER PAYABLES FROM EXCHANGE TRANSACTIONS

	2017-2018	2016-2017
	Kshs	Kshs
Trade creditors	5,068,227	19,755,126
Sundry creditors	2,149,097	2,497,912
Withholding tax	1,060,007	2,718,842
V.A.T account	2,337,216	4,184,412
Accrued expenses	63,901,239	85,940,380
Statutory Payables	1,185,839	1,404,064
Retention T.F W.I.P	56,992,362	40,585,858
Tax Arrears	-	1,306,038
	<u>132,693,987</u>	<u>158,392,633</u>

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NOTES TO THE FINANCIAL STATEMENTS

19 OTHER PAYMENTS

	2017-2018 Kshs	2016-2017 Kshs
Levy Collection expenses	81,220,837	57,982,170
General insurances	25,277,798	24,855,948
Office security	4,336,800	3,077,600
Electricity & water	4,903,512	4,876,702
Telephone & postage expenses	6,549,613	5,850,506
Printing & stationery	12,645,026	11,362,286
Newspapers & periodicals	1,514,010	1,449,780
Land rent, rates & services	587,500	587,500
Entertainment & public relations	8,354,941	12,593,438
Shows and exhibitions	7,238,275	-
Media, Advertisement & publicity	15,173,306	36,530,869
Tourism dvpt (seminar & workshop)	18,780,206	25,380,682
General office expenses	1,800,636	1,771,705
Office cleaning	6,884,337	5,803,737
Subscriptions	962,755	835,830
Performance Contract Surveys	13,089,381	9,201,253
Administrative Contingency	945	-
ISO 9001-2008 expenses	4,562,095	7,864,995
Levy Recruitment Drive	27,237,228	55,618,597
Repair & maint - motor vehicles	8,490,935	8,474,124
Repair & maint - building	290,555	186,666
Fuel expenses	7,823,030	5,747,611
Repair & maint - furniture	24,680	521,942
E-mail & internet connectivity	38,781,807	43,176,157
Legal fees	16,357,198	8,688,602
Audit fees	1,740,000	1,740,000
Skills Audit	5,598,299	-
Bank Charges	2,907,137	3,336,522
Bad Debts w/o	-	494,794
Loss on Disposal	239,634	36,269
Depn - furniture	1,078,105	1,207,631
Depn - partitions	9,366,539	11,074,066
Depn - computers	8,052,140	7,432,404
Depn - motor vehicles	19,119,560	9,207,795
Depn - land	5,049,302	5,152,349
Depn - intangible assets	3,596,580	-
Depn - office equipment	2,098,964	1,641,494
	<u>371,733,665</u>	<u>373,762,023</u>

Tourism Fund

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NOTES TO THE FINANCIAL STATEMENTS

20 DEPRECIATION AND AMORTIZATION

	2017-2018	2016-2017
	Kshs	Kshs
Deprn - Furniture	1,078,105	1,207,631
Deprn - Partitions	9,366,539	11,074,066
Deprn - Computers	8,052,140	7,432,404
Deprn - Motor Vehicles	19,119,560	9,207,795
Land Amortization	5,049,302	5,152,349
Deprn - Intang Assets	3,596,580	-
Deprn - Off Equip	2,098,964	1,641,494
	<u>48,361,189</u>	<u>35,715,738</u>

21 CASH FLOWS FROM OPERATING ACTIVITIES

	Note	2017-2018	2016-2017
		Kshs	Kshs
<b>Cash flows from operating activities</b>			
<b>Receipts</b>			
Fines, penalties and levies	2	2,458,341,702	2,299,022,728
Finance Income (Interest)	3	1,884,839	2,246,196
Other Income	4, 5 & 11	94,292,628	562,231,958
		<u>2,554,519,168</u>	<u>2,863,500,881</u>
<b>Payments</b>			
Administrative expenses	6	417,374,427	425,116,798
Rent paid	9	30,809,262	33,246,417
Grants and subsidies paid	8	1,383,014,819	1,863,482,159
Other payments	19	371,733,665	373,762,023
		<u>2,202,932,173</u>	<u>2,695,607,398</u>
Surplus for the year before tax.		351,586,995	167,893,484

Tourism Fund

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NOTES TO THE FINANCIAL STATEMENTS

22 PRIOR YEAR ADJUSTMENT

	2017-2018	2016-2017
	Kshs	Kshs
Prior Year Adjustment	1,983,440	8,250,042
	<u>1,983,440</u>	<u>8,250,042</u>

Prior Year Adjustment relates to reversal of an accrued portion of basic salary and pension unpaid to a staff who was suspended in 2012, put on half pay, reinstated in the Financial Year 2017/18 after court clearance but subsequently left the organization.

## NOTES TO THE FINANCIAL STATEMENTS

### 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

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#### NOTES TO THE FINANCIAL STATEMENTS

- (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.)

APPENDIX I : PROGRESS ON FOLLOW UP OF AUDITOR RECOMMENDATIONS

Reference No. on the external audit Report	Issue / Observations from Auditor for the Financial Year 2016/2017	Management comments	Focal Point person to resolve the issue (Name and designation)	Status: (Resolved / Not Resolved)	Time frame (Date for resolving issue)
<b>I. Receivables from Non-Exchange Transactions</b>					
	<p>i) The receivables from non-exchange transactions balance of Kshs.43,863,170 as at 30 June 2015 excludes an amount of Kshs.16,617,045 relating to dishonored cheques brought forward from the previous year for various levy collections for which a provision of the total amount has been made in the financial statements. The Fund was since enjoined in the winding up case No. 1 of 2005 in the High court of Kenya at Mombasa against the creditor in pursuit of a debt of Kshs.9,500,000. In a ruling made on 19 June 2014, the court ruled that the creditor be wound up and an official receiver was appointed as provisional liquidator. Although the creditor's meetings are ongoing, the outcome is yet to be determined.</p>	<p>The amount of Kshs. 16,617,045 consists of levy collections balances fully provided for in the previous year. Efforts to recover the said amounts have been futile.</p> <p>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.</p> <p>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.</p> <p>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.</p> <p>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	

APPENDIX I : PROGRESS ON FOLLOW UP OF AUDITOR RECOMMENDATIONS

Reference No. on the external audit Report	Issue / Observations from Auditor for the Financial Year 2014/2015	Management comments	Focal Point person to resolve the issue (Name and designation)	Status: (Resolved / Not Resolved)	Time frame (Date for resolving issue)
<b>I. Receivables from Non-Exchange Transactions</b>					
		<p>After the Winding up order was issued against the Club, our lawyers together with our legal officer have been attending the Official Receiver meetings with a view to ensuring that the organization benefits from the sharing of the assets to date. Attached herein, please find the minutes of the last creditors meetings and the subsequent actions taken thereafter. On the particulars of the Directors, we instructed Safety Loss Assessors to investigate on the particulars of the Club and in their report, the directors are as follows;</p> <ul style="list-style-type: none"> <li>i) Carl Jacob Rudin</li> <li>ii) Benato Fabrizio Bachmann</li> <li>iii) Brigitte Hutzli</li> <li>iv) Frank Helge Neugebauer</li> <li>v) Murtaza Hatimala Hassanazi</li> <li>vi) Hans Peter Rudedin</li> </ul> <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>	The Chief Executive Officer	Not Resolved	

APPENDIX I : PROGRESS ON FOLLOW UP OF AUDITOR RECOMMENDATIONS

Reference No. on the external audit Report	Issue / Observations from Auditor for the Financial Year 2014/2015	Management comments	Focal Point person to resolve the issue (Name and designation)	Status: (Resolved / Not Resolved)	Time frame: (Date for resolving issue)
<b>1. Receivables from Non-Exchange Transactions</b>					
	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	
<b>2. Ronald Ngala Utalii College</b>					
	ix) According to monthly progress report No.21 of March 2016, the certified gross value of work done together with advance payment, materials on site plus contractual claims was approximately Kshs. 1.61 Billion representing approximately 32.7% completion. Total payments made in respect of the project so far amount to Kshs. 3,152,444,635 whereas the interest accrued on the payments as at 18 April 2016 amounted to Kshs. 877,897,530	The consultants have claimed interest on overdue payments. This claim was made in accordance with Section 48 of the Public Procurement and Disposal Act, 2005.  Likewise the main contractor also charged interest on idle plant and machinery, labor acceleration costs and cost fluctuations as provided for by the governing laws in the industry.	The Chief Executive Officer	Not Resolved	
<b>3. Irregular procurement- Uncertified Works</b>					
	Office partitioning works at Central Kenya regional office was awarded to M/s Plenser Limited at a cost of Kshs. 4,958,766 according to quotation number 0837 dated 24 October 2011. The work involved partitioning of the new office space and the existing (old) office space at the cost of Kshs. 3,560,953 and Kshs. 713,845 before VAT respectively. Although inspection and acceptance certificate No. 296 indicated that partitioning works in respect of the new office space were well done, the committee did not give any comments on the certificate relating to works on existing (old) office space. As a result, the Fund may have paid Kshs. 713,845 for works not done.	As per the recommendations of our internal audit department on the issue, the same was forwarded to the Legal department for the necessary Legal action. The legal department has taken up the matter with Plenser Ltd.	The Chief Executive Officer	Not Resolved	

**Tourism Fund**

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**APPENDIX II : PROJECTS IMPLEMENTED BY THE ENTITY**

**Projects**

Projects implemented by the State Corporation / SAGA Funded by development partners

Project Title	Project No.	Donor	Period / Duration	Donor Commitment	Separate donor reporting required as per donor requirement (Yes/No.)	Consolidated in the financial statements (Yes /No.)
N/A	N/A	N/A	N/A	N/A	NO	NO

**Status of project completion**

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

Quarter	Project	Total project cost	Total expended to date	Completion % to date	Budget	Actual	Sources Funds
1	Tourism Fund Head Office Block (Valley Road)	1,415,281,613	1,421,092,171	100%	150,000,000	49,094,005	2% Tourism Levy
2	Tourism Fund Head Office Block (Valley Road)	1,506,989,523	1,434,216,461	95%	150,000,000	13,124,290	2% Tourism Levy
3	Tourism Fund Head Office Block (Valley Road)	1,506,989,523	1,451,595,736	96%	150,000,000	17,379,275	2% Tourism Levy
4	Tourism Fund Head Office Block (Valley Road)	1,506,989,523	1,462,835,915	97%	150,000,000	11,240,179	2% Tourism Levy

- Notes: 1. Total expended to date is on cumulative basis for each quarter since inception.  
 2. The Annual Budgeted amount for the FY 2017/2018 was Kshs 150,000,000.

**Tourism Fund**

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**APPENDIX III : INTER-ENTITY TRANSFERS**

ENTITY NAME:		TOURISM FUND		
Break down of Transfers from the State Department of Tourism				
FY 17/18				
b	Development Grants	Bank Statement Date	Amount (Kshs)	Indicate the FY to which the amounts relate
		02.03.18	93,750,000.00	2017/2018
		<b>Total</b>	<b>93,750,000.00</b>	

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

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

**Head of Finance**

**Tourism Fund**

Sign \_\_\_\_\_



**Tourism Fund**

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**APPENDIX IV : RECORDING OF TRANSFERS FROM OTHER GOVERNMENT ENTITIES.**

Name of the MDA / Donor Transferring the funds	Date Received	Nature : Recurrent / Development / Others	Total Amount - KES	Statement of Financial Performance	Capital Fund	Deferred Income	Receivables	Others- must be specific	Total Transfers during the Year
	as per bank statement								
Ministry of Tourism	02.03.18	Recurrent	93,750,000	93,750,000					93,750,000
<b>Total</b>			<b>93,750,000</b>	<b>93,750,000</b>					<b>93,750,000</b>