

## **REPORT OF THE AUDITOR-GENERAL ON TOURISM FUND FOR THE YEAR ENDED 30 JUNE, 2020**

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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 15, which comprise the statement of financial position as at 30 June, 2020, and the statement of financial performance, statement of changes in net assets, statement of cash flows and statement of comparison of budget and actual amounts for the year then ended, and a summary of significant accounting policies and other explanatory information in accordance with the provisions of Article 229 of the Constitution of Kenya and Section 35 of the Public Audit Act, 2015. I have obtained all the information and explanations which, to the best of my knowledge and belief, were necessary for the purpose of the audit.

In my opinion, except for the effects of the matter described in the Basis for Qualified Opinion section of my report, the financial statements present fairly, in all material respects, the financial position of the Tourism Fund as at 30 June, 2020, 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 and the Public Finance Management Act, 2012.

#### **Basis for Qualified Opinion**

##### **Unreconciled Cash and Cash Equivalents**

The statement of financial position reflects cash and cash equivalents balance of Kshs.85,776,027 as disclosed in Note 13. However, the bank reconciliation statements in support of the Fund's bank balances were not provided for audit review. In addition, a bank transfer of Kshs.5 million dated 7 January, 2020 was made from KCB Revenue Account to Equity Operations account. This amount was not reflected or received in the Equity operations account. The amount was also not captured as a reconciling item in the bank reconciliation statement for the Equity account.

Consequently, the accuracy and completeness of the cash and cash equivalents balance of Kshs.85,776,027 as at 30 June, 2020 could not be confirmed.

The audit was conducted in accordance with International Standards of Supreme Audit Institutions (ISSAIs). I am independent of the Tourism Fund Management in accordance with ISSAI 130 on Code of Ethics. I have fulfilled other ethical responsibilities in accordance with the ISSAI and in accordance with other ethical requirements applicable to performing audits of financial statements in Kenya. I believe

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

### **Key Audit Matters**

Key audit matters are those matters that, in my professional judgement, are of most significance in the audit of the financial statements. There were no key audit matters to report in the year under review.

### **Other Matter**

#### **1. Irregular Transfers to Kenya National Convention Bureau**

The Fund transferred Kshs.8 million to the Kenya National Convention Bureau (KNCB) during the year under review to carry out functions meant to be carried out by the Kenyatta International Convention Centre (KICC) as per Section 42 of the Tourism Act, 2011. The KNCB was gazetted on 16 August, 2019 vide a gazette notice No.7263 and its mandate is to market Kenya as a Meeting, Incentive, Conference and Events destination. The Management is therefore in breach of the Act.

Consequently, the regularity of the transfer could not be confirmed

#### **2. Unresolved Prior Year Matters**

In the audit report of the previous year, several issues were raised under the Report on financial statements. However, the Management has not resolved the issues or given any explanations for failure to adhere to the provisions of the Public Sector Accounting Standards Board templates and The National Treasury's Circular Ref:No.AG.416/3 Vol.1 (19) dated 24 June, 2020.

## **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 for Conclusion on Lawfulness and Effectiveness in Use of Public Resources 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**

#### **1. Avoidable Penalties and Interests**

The Fund's continued delay to pay Ronald Ngala Utalii College (RNUC) contractors on time as per the contract requirements and section 48 of the Public procurement and Disposal Act 2005, has led to imposition of penalties and Interests amounting to Kshs.1,520,489,236 out of which Kshs.516,166,749 was outstanding as at 30 June, 2020.

In the circumstances, the validity and value for money on expenditure incurred due to continued delay in disbursements to the project could not be confirmed.

## **2. Delayed Installation of Revenue Management System**

A contract was signed on 12 February, 2018 between the Fund and a local company for the Implementation and commissioning of an integrated Revenue Management System for Kshs.144,503,960.27 for a period not exceeding eight months that was to end on 12 October, 2018.

The first addendum to the contract introduced a consulting company to the project.

The second addendum dated 1 October, 2019 varied the contract by Kshs.28,900,792 and extended the contract by a further 5 months which has since expired. The consultant was to provide seamless integration to the clients' financial systems through its application protocol, Interference, Jambo pay online payments, which supports multi payment interface to be defined namely mobile banking, credit and debit cards and agency cash collection.

However, by the time of audit in April, 2021, the Fund had already started paying for the maintenance services even though the project was 70% complete. In addition, prior consultations between the parties before the variations and inclusion of consulting company to the project were not availed for audit verification.

Consequently, it was not possible to confirm that the Tourism Fund obtained value for the services offered by the local company and if the company had the capacity to complete the works as envisaged in the spirit of the contract.

## **3. Incomplete Contact Centre**

The Fund entered into a contract with a local company for installation, supply, and configuration of a contact centre. The contract was dated 13 February, 2020 for a contract sum of Kshs.34,631,976.44 and was to be completed in three months. During the year under review only Kshs.6,627,843 was paid to the contractor. This is after some minor works were done and few items delivered that were not as per the specification. As at the time of audit in April, 2021, the project had not been completed and there was no evidence that the project was going on.

In the circumstances, it was not possible to confirm that the Fund obtained value for its money on the incomplete project.

## **4. Regularization and processing of Title Deed**

The Fund contracted a law firm to regularize and process a title deed for Kenya Utalii College from a law firm. As per letter Ref. TF/CONF/10/158 dated 17 December, 2019, the firm, had successfully obtained a certified deed plan for land ref 5035/5. However, a valid title in the name of Kenya Utalii College (KUC) was yet to be obtained due to change of user approval which had taken a long time. The total

amount payable was Kshs.11,492,655 which was paid in full by 19 February, 2020. As at the time of audit in April, 2021, the law firm had not obtained the title for the college despite being paid in full.

Consequently, the regularity and value for money for the expenditure incurred could not be confirmed.

## 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 audit procedures performed, except for the matters described in the Basis for Conclusion of Effectiveness of Internal Controls, Risk Management and Governance Section of 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**

#### **Irregular Administration of Staff Loans**

Section 5.3(a) of the Tourism Fund Finance Manual states that the Mortgage loans will be advanced to staff who may wish to buy already developed houses from the open market. In addition to the general rules, other requirement for advance of mortgage loans are required to be met.

During the year under review, the former Chief Executive Officer (CEO), applied for a development loan that was repayable during his tenure of Office. The amount of loan applied was Kshs.10 million to be recovered in 35 months. The advance was to be in line with the mortgage scheme of the Fund. However, this advance was not issued as per the prevailing conditions of the mortgage scheme contained in the manual. As at the time of the CEO's resignation the advance balance of Kshs.7,461,000 as at 30 June, 2020 had not been recovered.

Consequently, the regularity and recoverability of the amount owing could not be confirmed.

The audit was conducted in accordance with ISSAI 2315 and ISSAI 2330. The standard requires that I plan and perform the audit to obtain assurance about whether effective processes and systems of internal control, risk management and overall 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 the Board of Trustees**

Management is responsible for the preparation and fair presentation of these financial statements in accordance with Public Sector Accounting Standards (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 overall governance.

In preparing the financial statements, Management is responsible for assessing the Fund's ability to continue to sustain its services, disclosing, as applicable, matters related to sustainability of services and using the applicable basis of accounting unless Management is aware of the intention to terminate the Fund or to cease operations.

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

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.

The Board of Trustees is responsible for overseeing the Fund's financial reporting process, reviewing the effectiveness of how the Management 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 overall governance processes and systems in accordance with the provisions of Section 7(1)(a) of the Public Audit Act, 2015 and submit the audit report in compliance with Article 229(7) of the Constitution. My consideration of the internal control would not necessarily disclose all matters in the internal control that might be material weaknesses under the ISSAIs. A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements caused by error or fraud in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions.

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

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

- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for my opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- 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 applicable basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Fund's ability to continue to sustain its services. If I conclude that a material uncertainty exists, I am required to draw attention in the auditor's report to the

related disclosures in the financial statements or, if such disclosures are inadequate, to modify my opinion. My conclusions are based on the audit evidence obtained up to the date of my audit report. However, future events or conditions may cause the Fund to cease to continue to sustain its services.

- Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.
- Obtain sufficient appropriate audit evidence regarding the financial information and business activities of the 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.



**CPA Nancy Gathungu, CBS**  
**AUDITOR-GENERAL**

**Nairobi**

**04 February, 2022**