REPUBLIC OF KENYA

OFFICE OF THE AUDITOR-GENERAL

Enhancing Accountability

REPORT

OF

THE AUDITOR-GENERAL

ON

TOURISM RESEARCH INSTITUTE

FOR THE YEAR ENDED
30 JUNE, 2025

REPUBLIC OF KENYA

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OFFICE OF THE AUDITOR-GENERAL

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REPORT OF THE AUDITOR-GENERAL ON TOURISM RESEARCH INSTITUTE FOR THE YEAR ENDED 30 JUNE, 2025

PREAMBLE

I draw your attention to the contents of my report which is in three parts:

A. Report on Financial Statements that considers whether the financial statements are fairly presented in accordance with the applicable financial reporting framework, accounting standards and the relevant laws and regulations that have a direct effect on the financial statements;

B. Report on Lawfulness and Effectiveness in the Use of Public Resources which considers compliance with applicable laws, regulations, policies, gazette notices, circulars, guidelines and manuals and whether public resources are applied in a prudent, efficient, economic, transparent and accountable manner to ensure the Government achieves value for money and that such funds are applied for the intended purpose; and,

C. Report on Effectiveness of Internal Controls, Risk Management and Governance which considers how the entity has instituted checks and balances to guide internal operations. This responds to the effectiveness of the governance structure, risk management environment and internal controls, developed and implemented by those charged with governance for orderly, efficient and effective operations of the entity.

A Qualified Opinion is issued when the Auditor-General concludes that, except for specific issues, the financial statements present a true and fair view in accordance with the applicable financial reporting framework. The Qualified Opinion indicates that the financial statements are to a large extent in agreement with the books of accounts and the underlying records, except for a few cases where material misstatements or omissions were noted in the books of accounts and the financial statements. The issues though material, are not widespread or persistent.

The Qualified Opinion on the report on the Financial Statements should be read together with the report on the Lawfulness and Effectiveness in the Use of Public Resources, and the report on the Effectiveness of Internal Controls, Risk Management and Governance.

The three parts of the report are aimed at addressing the statutory roles and responsibilities of the Auditor-General as provided by Article 229 of the Constitution, the Public Finance Management Act, 2012, and the Public Audit Act, 2015. The three parts of the report when read together constitute the report of the Auditor-General.

REPORT ON THE FINANCIAL STATEMENTS

Qualified Opinion

I have audited the accompanying financial statements of Tourism Research Institute set out on pages 1 to 24, which comprise of the statement of financial position as at 30 June, 2025, and the statement of financial performance, statement of changes in net assets, statement of cash flows and statement of comparison of budget and actual amounts for the year then ended and a summary of significant accounting policies and other explanatory information in accordance with the provisions of Article 229 of the Constitution of Kenya and Section 35 of the Public Audit Act, 2015. I have obtained all the information and explanations which to the best of my knowledge and belief, were necessary for the purpose of the audit.

In my opinion, except for the effect of the matters described in the Basis for Qualified Opinion section of my report, the financial statements present fairly, in all material respects, the financial position of Tourism Research Institute as at 30 June, 2025 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, 2011 and the Public Finance Management Act, 2012.

Basis for Qualified Opinion

1. Unsupported Trade and Other Payables

The statement of financial position reflects trade and other payables balance of Kshs.11,367,475 as disclosed in Note 17 to the financial statements. Included in the balance is Kshs.8,518,393 which was accrued as at 30 June, 2025. Review to confirm the existence, validity and accuracy of trade creditors balance revealed that the accounts payables were not adequately supported with documents such as purchase requisitions, local purchase orders/local service orders and invoices.

Further, proof that the goods were delivered to the Institute could not be established.

In the circumstances, the accuracy and completeness of the trade and other payables balance of Kshs.8,518,393 could not be confirmed.

2. Inaccuracies in Cash and Cash Equivalents

The statement of financial position reflects cash and cash equivalents balance of Kshs.606,160. However, review of the reconciliation statement for the month of June 2025 revealed that two (2) unpresented cheques totalling Kshs.52,300 were at variance with ledger amount of Kshs.131,800 resulting to a variance of Kshs.79,500 as detailed below;

Cheque	Date	Ledger Amount (Kshs)	Reconciliation Amount (Kshs)	Variance (Kshs)
3931	30 June, 2025	67,200	20,000	47,200
3868	26 May, 2025	64,600	32,300	32,300
Total		**131,800**	**52,300**	**79,500**

In the circumstances, the accuracy and completeness of cash and cash equivalents balance of Kshs.606,160 could not be confirmed.

3. Unsupported Data Analysis, Research and Survey Expenditure

The statement of financial performance reflects use of goods and services of Kshs.135,449,743 which further includes data analysis, research and survey amount of Kshs.70,016,102 as detailed in Note 7 to the financial statements. Included in the amount is an expenditure of Kshs.17,457,922 for Tourism workforce audit and skills survey. Review of the supporting documents revealed that the budget cost of phase 1 of the survey was Kshs.6,222,300. On this account, Management spent Kshs.1,131,200 on other government agencies whose participation was not clear.

Further, no evidence was provided on competitive recruitment of fifty (50) project support staff with an expenditure of Kshs.5,122,300. In addition, report and work programme were not attached to confirm inputs of individual officers in the research project.

In the circumstances, the accuracy and completeness on the data analysis, research and survey expenditure amounting to Kshs.6,253,500 could not be confirmed.

The audit was conducted in accordance with International Standards for Supreme Audit Institutions (ISSAIs). I am independent of the Tourism Research Institute Management in accordance with ISSAI 130 on the 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.

Emphasis of Matter

1. Budgetary Control and Performance

The statement of comparison and budget actual amounts reflects final budgeted receipts and actual of Kshs.235,919,600 and Kshs.130,511,133 respectively resulting to underfunding of Kshs.105,408,467 or 45% of the budget.

The underfunding may have affected the planned activities and may have impacted negatively on service delivery to the public.

2. Material Uncertainty Related to Going Concern

The statement of financial performance reflects a deficit of Kshs.43,433,962 for the year under review. In addition, the Institute was operating on a negative working capital of Kshs.10,760,755 as the current liabilities of Kshs.11,367,475 exceeded the current assets of Kshs.606,720. The Institute ability to meet its short-term obligations as and when they may fall due could not be confirmed.

In the circumstances, the going concern of the Institute is doubtful and have prepared the financial statements on a going concern basis assuming continued support from the Government and the creditors.

My opinion is not modified in respect of these matters.

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

Unresolved Prior Years Issues

In the audit report of the previous year, several issues on Lawfulness and Effectiveness in the Use of Public Resources and on Effectiveness of Internal Controls, Risk Management and Governance were raised. However, Management had not resolved all the issues as at 30 June, 2025. or provided reasons for the delay in resolving the prior year audit issues as required by the Public Sector Accounting Standards Board template.

Other Information

The Management is responsible for the other information set out on page iv to xxviii which comprise of Key Entity Information and Management, the Board of Directors, Management Team, Chairman's Statement, Report of the Chief Executive Officer and Statement of Performance Against Predetermined Objectives. The Other Information does not include the financial statements and my audit report thereon.

In connection with my audit on the Institute's financial statements, my responsibility is to read the other information and in doing so, consider whether the other information is materially inconsistent with the financial statements or my knowledge obtained in the audit or otherwise appears to be materially misstated. If, based on the work I have performed, I conclude that there is a material misstatement of this other information and I am required to report that fact. Based on the audit procedures performed, because of the significance of the matters described in my Basis for Qualified Opinion, I confirm that the Other Information is materially inconsistent with the financial statements.

My opinion on the financial statements does not cover the Other Information and accordingly, I do not express an audit opinion or any form of assurance conclusion thereon.

REPORT ON LAWFULNESS AND EFFECTIVENESS IN THE USE OF PUBLIC RESOURCES

Conclusion

As required by Article 229(6) of the Constitution, based on the audit procedures performed, because of the significance of the matter(s) discussed in the Basis for Adverse Opinion and the Basis for Conclusion on Lawfulness and Effectiveness in the Use of Public Resources sections of my report, I confirm that public resources have not been applied lawfully and in an effective way.

Basis for Conclusion

1. Failure to Maintain Tourism Data Base

The Institute is mandated under Section 61(1) of the Tourism Act, 2011 to prepare a compressive National Tourism Database. However, it was noted that to date, the Database has not been completed.

In the circumstances, the mandate of the Institute has not fully been achieved and therefore Management was in breach of the law.

2. Long Outstanding Trade and Other Payables

The statement of financial position and as disclosed in Note 16 to the financial statements reflects trade and other payables balance of Kshs.11,367,475. However, included in the balance are trade payables of Kshs.2,849,082 which had been outstanding for more than two (2) years. This was contrary to Section 53(8) of the Public Procurement and Asset Disposal Act, 2015 which states that 'an accounting officer shall not commence any procurement proceedings unless satisfied that sufficient funds to meet the obligations of the resulting contract(s) are reflected in the approved budget estimates'.

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

3. Failure to Collect and Remit Public Procurement Capacity Building Levy

The National Treasury in the month of November, 2023 issued the Levy order ,2023 vide legal notice No. 206 of November, 2023 directing all procurement entities effective from 1 September, 2024 to remit at the rate of 0.03% of the value of signed contracts exclusive of applicable taxes to the Public Procurement Regulatory Authority through e-citizen platform. However, no evidence was provided to demonstrate that the Institute complied with the levy order.

In the circumstances, Management was in breach of the order and the Institute is likely to be penalized for outstanding levies.

The audit was conducted in accordance with ISSAI 3000 and ISSAI 4000. The standards require 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 comply 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 audit procedures performed, because of the significance of the matters discussed in the Basis for Conclusion on Effectiveness of Internal Controls, Risk Management and Governance sections of my report, I confirm that nothing else has come to my attention that internal controls, risk management and governance were not effective.

Basis for Conclusion

1. Staffing Shortfall in the Institute

As previously reported, review of the Institute's organizational structure effected in November, 2023 revealed that the Institute has an approved staff establishment of fifty-four (54) employees. However, review of payroll records revealed that the current staff in-place are only ten (10) employees resulting in a shortfall of forty-four (44) employees.

In the circumstances, Management's ability to discharge its mandate and provide adequate services to the public could not be confirmed.

2. Ineffective System of Internal Controls on Procurement Management

Review of internal controls on procurement management revealed that Management did not consolidate procurements, failed to undertake market surveys and or recommend for appointment members of the adhoc committees.

In the circumstances, internal controls on procurements of goods and services could not be confirmed.

3. Lack of a Functional Board of Directors

As previously reported, the Institute did not have in place a Board of Directors to provide oversight on operations as required by the State Corporations Act and Mwongozo code of governance.

In the circumstances, the Board's ability to provide oversight to the management in line with good governance practices in the Institute could not be confirmed.

The audit was conducted in accordance with ISSAI 2315 and ISSAI 2330. The standards require that I plan and perform the audit to obtain assurance about whether effective processes and systems of internal controls, 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 the 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 Standards (Accrual Basis) and for maintaining effective internal controls 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 controls, risk management and governance.

In preparing the financial statements, Management is responsible for assessing the , Institute's ability to continue sustaining 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 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 comply 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 Institute's, financial reporting process, reviewing the effectiveness of how 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

My responsibility is to conduct an audit of the financial statements in accordance with Article 229(4) of the Constitution, Section 35 of the Public Audit Act, 2015 and the International Standards of Supreme Audit Institutions (ISSAIs). The standards require that, in conducting the audit, I obtain reasonable assurance about whether the financial statements as a whole are free from material misstatements, whether due to fraud or error and to issue an auditor's report that includes my opinion in accordance with Section 48 of the Public Audit Act, 2015. Reasonable assurance is a high level of assurance but is not a guarantee that an audit conducted in accordance with ISSAIs will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

In conducting the audit, Article 229(6) of the Constitution also requires that I express a conclusion on whether or not 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 addition, I consider the entity's control environment 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.

Further, I am required to submit the audit report in accordance with Article 229(7) of the Constitution.

Detailed description of my responsibilities for the audit is located at the Office of the Auditor-General's website at: https://www.oagkenya.go.ke/auditor-generals-responsibilities-for-audit/. This description forms part of my auditor's report.

FCPA Nancy Gathungu, CBS
AUDITOR-GENERAL

Nairobi

07 October, 2025