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Leader of major
on 16/7/2014
Mwaka

**TOURISM TRUST FUND (TTF)
TOURISM INSTITUTIONAL STRENGTHENING AND MARKET PROMOTION PROGRAMME (TISMPP)**

**FUND ACCOUNTABILITY STATEMENT
CLOSE OUT AUDIT**

FOR THE PERIOD ENDED 31 DECEMBER 2008

PARLIAMENT
OF KENYA
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1. INTRODUCTION

1.1 BACKGROUND

The objective of Tourism Institutional Strengthening and Market Promotion Programme (TISMPP) was to establish a sustainable base for the repositioning and revamping of Kenya as a tourist destination by providing complementary funding towards tourism destination marketing and promotion activities undertaken by Kenya Tourist Board and/or other private sector organisations. The programme is complementary to and fully integrated with the Tourism Diversification and Sustainable Development Programme (TDSDP). The total financial allocation is Euros 10 million originated from the 1992-1993 STABEX transfers as provided for in the 1992-1993 Framework of Mutual Obligations (FMO) of which Euros 0.5 million has been set aside to support the setting up of the Tourism Trust Fund and the general co-ordination and management of TTF during the establishment phase. A Financing Agreement between the Republic of Kenya and the European Commission was signed on 5 March 2001.

A Memorandum of Understanding (MoU) was signed on 21 December 2001 between the Chairman of the Board of Trustees (Permanent Secretary, Ministry of Tourism and Information), the National Authorising Officer (NAO) of the EDF in Kenya and the Head of Delegation of the European Commission to the Republic of Kenya.

The Tourism Trust Fund (TTF) was established jointly by European Commission and the Kenya Government, and forms the legal framework under which the Tourism Diversification and Sustainable Development Programme (TDSDP) and the Tourism Institutional Strengthening and Market Promotion Programme (TISMPP) are implemented.

1.2 AUDIT OBJECTIVES AND SCOPE

Ernst & Young were engaged by the Delegation of the European Commission in Kenya to carry out the close out audit of the Tourism Institutional Strengthening and Market Promotion Programme (TISMPP) expenditure for the period ended 31 December 2008.

The objectives of this assignment were to:

- audit the Fund Accountability Statement of TISMPP for the period ended 31 December 2008 and express an opinion as to whether the Fund Accountability Statement of TISMPP presents, in all material respects, accurately, the expenditure actually incurred and the revenue received for the Programme in conformity with the applicable Agreement terms and conditions;
- express an opinion as to whether the funds of the Programme have, in all material respects, been used in conformity with the applicable Agreement terms and conditions;
- check compliance with the requirements for reporting, presentation and submission of the financial information; and
- check compliance with the requirements for internal control, generally

accepted accounting principles, record keeping and documentation.

1.3 AUDIT APPROACH

In the course of our audit, we performed the following procedures:

- Tested compliance with the agreement terms and conditions and the project budget;
- Tested the entity's compliance with the requirements for reporting, presentation and submission of financial information;
- Tested the entity's compliance with the terms and conditions for the eligibility of expenditure and rules and criteria for interest, other revenues and use of exchange rates. In respect of the specific projects executed with grant contracts between TTF and the beneficiaries, ensured compliance as to the beneficiaries' own contribution reporting;
- Reviewed the internal control structure and the controls in place to ensure that project funds and resources were utilized on project activities.

1.4 SUMMARY OF FINDINGS

1.4.1 Questioned Costs

There were questioned costs amounting KShs (1,908,259).

2. STATEMENT OF TRUSTEES' RESPONSIBILITIES

The Financing Agreement requires the Trustees to prepare fund accountability statement for each Programme Estimate, which gives a true and fair view of the Programme's receipts and expenditure for that Programme Estimate. It also requires the Trustees to ensure the Management Unit keeps proper accounting records which disclose with reasonable accuracy at any time the financial position of the Programme. They are also responsible for safeguarding the assets of the Programme.

The Trustees accept responsibility for the fund accountability statement, which has been prepared using appropriate accounting policies supported by reasonable and prudent judgments and estimates, in conformity with the Financing Agreement. The Trustees are of the opinion that the fund accountability statement gives a true and fair view of the state of the financial affairs of the Programme and of its sources and uses of funds. The Trustees further accept responsibility for the maintenance of accounting records, which may be relied upon in the preparation of fund accountability statement, as well as adequate systems of internal financial control.

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TRUSTEE

.....
TRUSTEE

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Date

3. INDEPENDENT AUDITOR'S REPORT

The Head of Delegation
Delegation of the European Commission in Kenya
Union Insurance Building
Ragati Road, Upper Hill
P.O. Box 45119
00200- Nairobi
KENYA

We have audited the fund accountability statement for the Tourism Institutional Strengthening and Market Promotion Programme (TISMPP) Programme, set out on page 6 for the period ended 31 December 2008 and have obtained all information and explanations which, to the best of our knowledge and belief, were necessary for the purposes of our audit.

PROGRAMME TRUSTEES RESPONSIBILITY FOR THE FUND ACCOUNTABILITY STATEMENT

The Trustees are responsible for the preparation and fair presentation of the fund accountability statement in accordance with the financing agreement. This responsibility includes: designing, implementing and maintaining internal control relevant to the preparation and fair presentation of fund accountability statement that is free of material misstatement, whether due to fraud or error selecting and applying appropriate accounting policies; and making accounting estimates that are reasonable in the circumstances

AUDITOR'S RESPONSIBILITY

Our responsibility is to express an independent opinion on this fund accountability statement based on our audit. We conducted our audit in accordance with International Standards on Auditing. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance whether the fund accountability statement is free of material misstatement.

An audit involves performing procedures to obtain evidence about the amounts and disclosures in the fund accountability statement. The procedures selected depend on the auditor's judgment, including the assessment of risks of material misstatement of the statement, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of Fund Accountability Statement in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the organization's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by the Trustees, as well as evaluating the overall presentation of the fund accountability statement.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

FINDING

There were questioned costs amounting to KShs (1,908,259) whose details and basis of questioning are in Section 4 of this report.

OPINION

Except for the effects of the matter discussed in the preceding paragraph, in our opinion, proper books of account have been kept and the fund accountability statement of TISMPP which is in agreement therewith, gives a true and fair view of the Programme's receipts and expenditure for the period ended 31 December 2008.

Nairobi

.....2009

**4. FUND ACCOUNTABILITY STATEMENT
 FOR THE PERIOD ENDED 31 DECEMBER 2008**

	Note	Current Period Costs	Questioned Costs	Eligible Costs
Receipts:				
Cash balance b/fwd	4.1.2	5,475,265	(5,475,265)	-
Stale cheques written back to income	4.1.3	73,033		73,033
Funds from Investments A/c	4.1.4	5,823,856		5,823,856
Refunds from EU (Refund from 2004 work plan)	4.1.5	6,260,222		6,260,222
Advance refund to the Organization	4.1.6	5,000		5,000
		17,637,376		12,162,111
Expenditure				
Questioned Cash Transfers:				
Funds Transfer to TDSDP Account 0140021985105	4.1.7	1,451,837	1,451,837	-
Funds Transfer to GOK Account	4.1.7	2,115,169	2,115,169	-
Eligible Expenditure (Bank charges)		2,660		2,660
Total expenditure		3,569,666	(1,908,259)	2,660
Fund Balance		14,067,710		12,159,451
Represented by:				
Bank	4.1.8	277,710		277,710
Questioned Costs	4.1.7	-	(1,908,259)	(1,908,259)
Debtors - Government of Kenya	4.1.9	14,050,000		14,050,000
Funds for CSR Projects	4.1.10	(260,000)		(260,000)
		14,067,710		12,159,451

The fund accountability statement was approved by the Board of Trustees on2009 and signed on its behalf by: -

.....)
) Trustees

4.1 NOTES TO THE FUND ACCOUNTABILITY STATEMENT

4.1.1 Basis of Accounting

The fund accountability statement is prepared on cash basis of accounting modified to accrue for outstanding/unpaid obligations and receivables as at the close out date. This is a comprehensive basis of accounting other than generally accepted accounting principles.

4.1.2 Opening Cash Balance

The opening cash balance relates to the closing bank balance for PE 2006/2007 that was in the bank account as at the beginning of PE 2007/2008. The funds were utilized during PE 2007/2008 to settle commitments arising from the previous PE mainly liabilities owed to GOK account.

Management Comment

Ernst and Young took the cash balance of Kshs 5,475,265 that was in the bank account at the close of PE 2006 as the opening balance in the PE 2008 Fund Accountability Statement. As had been explained before, the cash balance in the account was a refund from the EC. The Delegation had refunded to TTF an amount that the latter had used in pre-financing TISMPP 2003 activities for which no advance payment had been received. As a matter of fact, TTF also pre-financed the TISMPP 2006 activities to the tune of Kshs. 19,909,079 for which payment has not been received yet. Under proper accounting procedures, the fund balance at the end of the year 2006 should have been the opening balance at the beginning of the subsequent period.

4.1.3 Stale Cheques Written Back to Income

This refers to two cheques which were written and expensed in PE 2006 but were never presented for payment till they became stale. They have been written back as income during the period.

Date	Description	Amount KShs
31-Mar-07	Cheque no 101	7,000
31-Mar-07	Cheque no 389	66,033
Total		73,033

4.1.4 Funds from Investment Account

TTF board approved the transfer KShs 5,823,856 on 30 November 2007 from the TISMPP Investments account to the operational account. The transfer was effected on 22 April 2008. The amount was to cater for ineligible expenditure in TDSDP PE 2005. However this amount has not been recognized as income in TDSDP thus we recognize it in TISMPP in whose bank account the money was transferred.

Management Comment

The Board approved the transfer of Kshs. 5,823,856 on 30th November 2007 from interest on the TISMPP investment to cater for some of the past years questioned costs. As the minutes for the meeting during which this was approved show, the amount was approved specifically to cater for questioned costs and not to finance the year's budgeted activities. For that reason, this amount could not be taken by TTF as income where income means funds received to specifically finance the year's activities.

4.1.5 Refunds from EU for PE 2004

During the period, TTF was reimbursed KShs 6,260,222 by EU on 27 July 2007 for the 2004 Work plan.

Management Comment

During the PE 2004, there were some activities budgeted for and approved to be financed under TISMPP but no advance payment was received from the EC Delegation to finance the same. TTF however went ahead to pre-financed expenditure amounting to Kshs. 6,260,222. A verification of the expenditure was done and based on the verification report, the Delegation refunded the full amount of pre-financing on the 27th July 2007. This was therefore not income as indicated in the Fund Accountability Statement but rather refund for a previous year's pre-financing.

4.1.6 Advance Refund

On 11 September 2007 a staff member who had been given an imprest accounted for it and deposited Kshs 5,000 back to the account being an excess of imprest over expenditure.

4.1.7 Questioned Costs

Date	Description	KShs	Note
	Opening bank balance	(5,475,265)	a
24 April 2008	Funds transfer to TSDSP account 014002185105	1,451,837	b
15 May 2008	Funds transfer to TSP GOK account	2,115,169	c
	Total questioned costs	(1,908,259)	

- a) The opening bank balance has been questioned since it relates to the PE 2006/2007 but was utilised by TTF during PE 2007/2008. Although the funds were utilised during PE 2007/8, they do not form part of funding from EC during PE 2007/8. The funds ought to have been utilised to settle obligations arising during PE 2006/7.
- b) On 24 April 2008, TTF transferred an amount of KShs 1,451,837 from the TISMPP bank account to TSDSP (KShs) Holding Account 0140021985105. The account was in debit (overdraft) and TTF board approved the transfer of this

amount in order to offset the overdraft position. However, this payment has been questioned on the basis that the expenditure resulting in the account being in a debit position did not relate to PE 2006. The debit balance (overdraft) had been considered in the determination of the closing cash and bank balance for PE 2005. As shown on the audit report for PE 2005, the available cash balance at the close of PE 2005 was sufficient to cover the overdraft facility. (Refer to PE 2005 audit report). It is on this basis that the expenditure has been questioned.

- C) On 15 May 2008, TTF transferred KShs 2,115,169 to the Government of Kenya (GoK) account. In order to refund to Delegation of the European Commission the unutilised funds and questioned costs for PE 2005, TTF borrowed KShs 2,115,169 from GOK account since the funds available were not sufficient to settle the obligation. The amount has been questioned because it relates to questioned costs for PE 2005 refunded to the Delegation and therefore TTF cannot subsequently recover it in PE 2007/8.

Management Comment

A questioned cost has been defined as:

- *An alleged violation of a provision of a law, regulation, contract, grant or other agreement or document governing the expenditure of funds;*
- *A finding that at the time of the audit, such cost is not supported by adequate documentation; or*
- *A finding that the expenditure of funds for the intended purpose is unnecessary or unreasonable.*

The amounts questioned in the report do not fall under any of these categories. The fund transfers that were made and that have now been questioned relate to questioned costs for which the Board of Trustees had approved that payments be made. Documentation detailing the appeal made to the Board to and reasons for the same, and the minutes for the Board meeting at which this was approved were all provided to the auditors.

4.1.8 Bank

The make up of the bank balance as at 31 December 2008 (end of PE 2007) for TISMPP is as follows:

TISMPP Bank Accounts	Bank Account Number	Bank Balance as at 31.12.2008 KShs
TISMPP KShs Operations Account	0140022005104	277,710

4.1.9 Debtors - Government of Kenya

This relates to payment made to the GoK account to settle debts arising during PE 2006. During PE 2006, TTF had borrowed KShs 20,896,344 from GoK account to pre-finance part of TISMPP budget. Out of this amount, TTF settled KShs 14,050,000 using funds for PE 2007/8. The amount KShs 14,050,000 is refundable since the settlement being made should have been done using funds received from the Delegation of the European Commission in Kenya with respect to PE 2006/7 and not PE 2007/8.

Management Comment

The auditors in the audit report have referred to an amount that was transferred to the TTF GOK Development Fund account as payable by the Government of Kenya. As rightfully stated, TTF during the PE 2006/7 used funds from the TTF GOK Development

Fund bank account to pre-finance some of the TISMPP budgeted activities. This was done in the anticipation that as soon the EC released funds meant to finance the activities, the amount borrowed from the GOK funds account would be refunded. The final PE 2006 TISMPP report, signed on the 1st September 2008 shows that TTF, pre-financed activities amounting to Kshs. 19,909,079. TTF has to date not received a refund of the same.

To ensure however that committed activities that were to be funded using the funds from the GOK did not stall as most of the funds received to finance the same had been used to pre-finance TISMPP, (one of which was to pay for a beach plot meant for the beach traders), the then TTF Chief Executive Officer approved the transfer of Kshs. 14,050,000 to the GOK Development Fund account from the funds in the TISMPP account. Note that the balance in this account was made up of refunds from the Delegation for the years 2003 & 2004 for which TTF had pre-financed TISMPP activities.

The note on debtors that TTF used funds meant for 2007/8 to repay GOK is therefore incorrect.

4.1.10 Funds for CSR Projects

On 10 July 2008, CFC Stanbic bank donated to TTF KShs 1,000,000 to use in some projects as part of its (TTF) Corporate Social Responsibility. The funds were credited to TISMPP account and disbursed as follows:

Description	Amount (KShs)
Amount Received from CFC Stanbic Bank	1,000,000
Disbursement	
Ilchamus Cultural Centre	(150,000)
Bombolulu Cultural Centre	(500,000)
Lake Bogoria Cultural Festival Week	(90,000)
Total Disbursement	(740,000)
Unutilised funds	260,000