

Regional Inspector General for Audit  
Nairobi, Kenya

Audit of  
Khalifa Investments (Proprietary)  
Limited Contracts Under  
USAID/Swaziland Projects

Report No. 3-645-92-11-N  
July 24, 1992



FINANCIAL INFORMATION CONTAINED IN THIS REPORT MAY BE PRIVILEGED. THE RESTRICTIONS OF 18 USC 1905 SHOULD BE CONSIDERED BEFORE ANY INFORMATION IS RELEASED TO THE PUBLIC. THIS REPORT IS INTENDED SOLELY FOR THE INFORMATION OF KHALIFA INVESTMENTS (PROPRIETARY) LIMITED AND THE AGENCY FOR INTERNATIONAL DEVELOPMENT BUT IS NOT INTENDED TO LIMIT OR CONSTITUTE AN OPINION OF THE REPORT BY A MEMBER OF THE AGENCY.



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July 24, 1992

**memorandum**

**TO:** Roger D. Carlson, Director, USAID/Swaziland

**FROM:** Joseph Farinella, Acting RIG/A/Nairobi 

**SUBJECT:** Audit of Khalipha Investments (Proprietary) Limited Contracts Under USAID/Swaziland Projects, Audit Report No. 3-645-92-11-N

Attached are five copies of a mission-contracted financial audit report of Khalipha Investments (Pty) Limited (Khalipha) contracts under USAID/Swaziland projects. The accounting firm of Deetlefs and Company, South Africa performed the audit.

Khalipha Investments (Pty) Limited, a Swaziland-based investment advisory and management consultancy company, contracted with USAID/Swaziland to provide a wide range of services under three contracts and one sub-contract. The contract for African Child Survival Initiatives - Combatting Childhood Communicable Diseases, Project Nos. 698-0421 and 625-0963 for \$362,973 was signed in February 1990. In May 1990, a contract was authorized for \$70,089 to provide services under the Swaziland Manpower Project, Project No. 645-0218. Another contract for \$19,000 was authorized, effective from September 1989, under the Program Development Support Project, Project No. 645-0510. Lastly, a sub-contract was authorized with Chemonics International Consulting Division in June 1989 for \$93,450 under the Swaziland Commercial Agricultural Production and Marketing Project, Project No. 645-0229. All the contracts except for Project No. 645-0510 had provisional overhead rates and/or general and administrative rates. Authorized funding for the three contracts and one sub-contract totaled \$545,512. The audit covered expenditures in dollars and local currency totalling \$494,238 as of June 30, 1991. Further, the audit examined Khalipha's overhead and general and administrative rates for the fiscal periods ending June 30, 1990 and June 30, 1991.

The objectives of the audit were to:

- examine and express an opinion on Khalipha's Fund Accountability Statement;
- examine and report on Khalipha's internal control structure;
- examine and report on Khalipha's compliance with the contract terms and applicable laws and regulations; and
- examine and determine Khalipha's overhead and general and administrative rates for the fiscal periods ending June 30, 1990 and June 30, 1991.

The auditors issued an unqualified opinion on the Fund Accountability Statement after conducting 100 percent testing of costs claimed by Khalipha. However, the audit identified material internal control structure weaknesses which included non-maintenance of records of accounts, lack of written operating procedures, weak accounting and reporting systems, a poor environment with respect to recording overhead and general and administrative costs, and weak disbursement and document retention procedures. The auditors concluded that the system of internal control was inadequate for purposes of identifying and accounting for expenditures to USAID. In addition, the audit identified material instances of non-compliance which included inadequate accounting and reporting of project activities.

The report on overhead and general administrative rates recommended the following rates:

<u>Year Ended</u>	<u>Overhead</u>	<u>General &amp; Administrative</u>
6/30/90	121.56%	20.28%
6/30/91	104.20%	29.99%

The draft audit report was submitted to the auditee and USAID/Swaziland for comment and their comments (Appendix I and Appendix II) were incorporated in the final report by Deetlefs & Company. We are including the following recommendations in the Office of the Inspector General audit recommendation follow-up system.

**Recommendation No. 1:** We recommend that the Regional Contracting Officer, USAID/Swaziland finalize Khalipha Investments (Proprietary) Limited's following rates:

<b><u>Year Ended</u></b>	<b><u>Overhead</u></b>	<b><u>General &amp; Administrative</u></b>
6/30/90	121.56%	20.28%
6/30/91	104.20%	29.99%

**Recommendation No. 2:** We recommend that the Regional Contracting Officer, USAID/Swaziland obtain a plan of action from Khalipha Investments (Proprietary) Limited to improve internal control structure regarding:

- 2.1 maintenance of records of accounts;
- 2.2 establishment of written operating procedures;
- 2.3 establishment of adequate disbursement and document retention procedures;
- 2.4 establishment of adequate accounting and reporting systems ;
- 2.5 establishment of an adequate environment for recording overhead and general and administrative costs; and
- 2.6 compliance with contract terms relating to accounting and reporting of project activities.

We consider Recommendation No. 1 resolved based upon the contracting officer's indication that all relevant Khalipha contracts will be amended to include approved rates. We will close this recommendation upon receipt of amended contracts. Recommendation No. 2 is considered closed based upon actions taken by Khalipha management. Please respond to this report within 30 days indicating actions planned or already taken to close Recommendations No. 1.

Thank you for the cooperation extended to Deetlefs & Company and Regional Inspector General for Audit representatives during the audit.

Attachments: a/s.

**AUDIT OF  
KHALIPHA INVESTMENTS (PROPRIETARY) LIMITED CONTRACTS  
UNDER USAID/SWAZILAND PROJECTS**

**ATTACHMENTS**

2



**Audit Report**

of Mission contracted audit of

**KHALIPHA INVESTMENTS (Pty) Ltd**

**FINAL REPORT**

10

**Audit report of Mission-contracted audit of Khalipha Investments (Pty) Ltd  
Indirect cost rates under U.S.A.I.D. Swaziland projects.**

**TABLE OF CONTENTS**

Background.....	1
Audit Objectives and Scope .....	2
Methodology.....	4
Results of Audit.....	5
Overhead and General and Administrative Rates.....	5
Fund Accountability Statement .....	5
Internal control Structure.....	6
Compliance with Contract Terms and applicable Laws and Regulations .....	6
Financial Management Capabilities.....	6
Exhibits.....	6
Management Comments.....	7
Summary of Khalipha Comments.....	7
Summary of USAID/Swaziland Mission Comments .....	7
<b>1 FUND ACCOUNTABILITY STATEMENT.....</b>	<b>10</b>
Independent Auditor's Report .....	10
Fund Accountability Statement .....	12
Findings and Recommendations .....	12
Introduction .....	12
Sample Selection Criteria.....	12
Summary of Audit Results .....	13
Finding.....	13
Recommendation No: 1 .....	14
Discussion.....	14
Recommendation No: 2 .....	15
<b>2 INTERNAL CONTROL STRUCTURE.....</b>	<b>16</b>
Independent Auditor's Report .....	16
Introduction.....	20
Definition .....	20
Work performed .....	20
Findings and Recommendations .....	21
Control Environment .....	21
Overhead and G&A expenses.....	21
Recommendation No: 3 .....	22
Discussion.....	23
Written procedures.....	23
Finding.....	23
Recommendation No: 4 .....	24
Accounting system .....	24
General ledger & USAID invoices .....	24
Finding.....	24
Recommendation No: 5 .....	24
Cash book.....	25
Finding.....	25
Recommendation No: 6 .....	25
Control procedures .....	26
Disbursements.....	26
Finding.....	26

C'

<b>Recommendation No: 7</b> .....	<b>26</b>
<b>Cash management and budgeting</b> .....	<b>26</b>
<b>Finding</b> .....	<b>26</b>
<b>Discussion</b> .....	<b>27</b>
<b>Time Sheets</b> .....	<b>27</b>
<b>Finding</b> .....	<b>27</b>
<b>Discussion</b> .....	<b>28</b>
<b>Recommendation 7A</b> .....	<b>28</b>
<b>3 COMPLIANCE WITH GRANT PROVISIONS &amp; US GOVERNMENT REGULATIONS</b> .....	<b>29</b>
<b>Independent Auditor's Report</b> .....	<b>29</b>
<b>Introduction</b> .....	<b>31</b>
<b>Findings &amp; Recommendations</b> .....	<b>31</b>
<b>Accounting &amp; Reporting system</b> .....	<b>31</b>
<b>Finding</b> .....	<b>31</b>
<b>Recommendation No: 8</b> .....	<b>32</b>
<b>Advances</b> .....	<b>32</b>
<b>Finding</b> .....	<b>32</b>
<b>Recommendation No: 9</b> .....	<b>32</b>
<b>4 FINANCIAL MANAGEMENT CAPABILITY</b> .....	<b>33</b>
<b>Job Descriptions</b> .....	<b>33</b>
<b>Finding</b> .....	<b>33</b>
<b>Recommendation No: 10</b> .....	<b>33</b>
<b>Khalipha capabilities</b> .....	<b>33</b>
<b>Finding</b> .....	<b>33</b>
<b>Recommendation No: 11</b> .....	<b>33</b>
<b>5 OVERHEAD and GENERAL ADMINISTRATIVE RATES</b> .....	<b>35</b>
<b>Independent Auditor's Report</b> .....	<b>35</b>
<b>Contractor Schedules of Computation</b> .....	<b>37</b>
<b>Findings and Recommendations</b> .....	<b>37</b>
<b>Introduction</b> .....	<b>37</b>
<b>Sample Selection Criteria</b> .....	<b>37</b>
<b>Summary Audit Results</b> .....	<b>37</b>
<b>Finding</b> .....	<b>37</b>
<b>Recommendation No: 12</b> .....	<b>38</b>
<b>Discussion</b> .....	<b>38</b>
<b>Overhead Rate Recommendation</b> .....	<b>39</b>
<b>General Administrative Rate</b> .....	<b>39</b>
<b>Recommendation No: 13</b> .....	<b>39</b>



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June 5, 1992

Mr John Burns

Regional Inspector General for Audit

U.S. Agency for International Development

Nairobi, KENYA

Dear Mr Burns:

This report presents the results of our audit of the overhead and general and administrative rates of the three contracts and one sub-contract performed by Khalipha Investments (Pty) Limited under U.S.A.I.D./Swaziland mission contracts, for the period July 1, 1989 through June 30, 1991.

## **BACKGROUND**

Khalipha Investments (Proprietary) Limited is a Swaziland based investment advisory and management consultancy company, incorporated under the Swaziland Companies Act. Khalipha Investments (Pty) Ltd contracted with USAID/Swaziland to provide a wide range of services under three contracts and one sub-contract with Chemonics International Consulting Division (US).

Contract number 645-0421-C-00-0009-00 was signed in February 1990 between Khalipha Investments (Pty) Ltd ("Khalipha") and USAID/Swaziland to provide services for the Centers for Disease Control (CDC), Atlanta (US) and the African Child Survival Initiatives-Combatting Childhood Communicable Diseases (ACSI-CCCD), project numbers 698-0421 and 625-0963, respectively. The contract

incremental funding totalled US\$362 973. Under this contract, a provisional overhead rate of 70 percent of salaries and a general and administrative rate of 18 percent of total costs were to be used for six calendar months pending establishment of audited final indirect costs.

A sub-contract between Chemonics International Consulting Division (US) and Khalipha under the Swaziland Commercial Agricultural Production and Marketing project number 645-0229 was signed effective June 1989. The total estimated sub-contract amount was US\$93 450. The sub-contractor was to use a provisional overhead rate of 60 percent of salaries pending establishment of a final audited overhead rate. The estimated completion was August 1992.

In May 1990 USAID/Swaziland signed contract number 645-0218-C-00-0011-00 with Khalipha to provide services under Swaziland Manpower project number 645-0218. The project funding totalled US\$70 089. The Contractor was to apply a provisional overhead rate of 70 percent of salaries and a general and administrative rate of 18 percent of total costs, pending establishment of final audited indirect cost rates to be used. The estimated completion date was extended to August 1990.

Contract number 645-0510-C-00-9027-00 for US\$19 000 was authorised effective from September 1989 under Program Development and Support project number 645-0510. The contract did not have any provisions for using indirect cost rates and was to complete delivery of all services within seven weeks of the effective date of the contract.

The survey results determined that the official accounting records of Khalipha Investments (Pty) Ltd under these contracts are located in Mbabane, Kingdom of Swaziland. In addition, the USAID/Swaziland Mission withheld payments of some of these contracts until final indirect cost rates were established. The audit covered indirect cost rate computations for the two fiscal periods ended June 30, 1990, and June 30, 1991, of Khalipha Investments (Pty) Ltd.

### **AUDIT OBJECTIVES AND SCOPE**

Deetlefs & Company was contracted under a Mission contract No: 649-0229 dated August 26, 1991, as amended on March 16, 1992, to perform a non-Federal audit of Khalipha Investments (Pty) Ltd, in accordance with generally accepted auditing standards and the US Comptroller General's Government Auditing Standards (1988 Revision).

The specific objectives of our examination were to:

- 1 Determine overhead and general and administrative rates for Khalipha Investments (Pty) Ltd managed contracts for the fiscal periods ended June 30, 1990 and June 30, 1991.

- 2 Determine if Khalipha's internal control structure was adequate to manage the contracts.
- 3 Review Khalipha's compliance with the terms and conditions of the contracts and applicable laws and regulations.

Except for the above mentioned standards our examination was performed in accordance with generally accepted auditing standards as well as with United States Comptroller General's Government Auditing Standards (1988 Revision), and included a review of Khalipha's statutory audited Annual Financial Statements for the periods ended June 30, 1990, and June 30, 1991.

The scope of our work consisted of the following:

Reviewing Khalipha's direct and indirect costs for the periods ended June 30, 1990 and June 30, 1991.

Determining allowable direct costs for each period.

Determining allowable indirect costs for each period.

Applying principles contained in OMB Circular A-122 to calculate overhead rates based on allowable direct and indirect costs, using the following methods for allocating overhead and general and administrative costs for each period:

- 1 Simplified allocation
- 2 Multiple allocation
- 3 Direct allocation.

Reviewing Khalipha's internal control structure with emphasis on those systems which are utilised in recording activities of the contracts.

Reviewing Khalipha's operations and contract transactions for compliance with the terms of the contracts and applicable laws and regulations.

With respect to all contract costs, both US Dollar and local currency costs, Deetlefs & Co. was requested to provide written opinions on :

- the auditee's Fund Accountability Statement;
- the auditee's internal control structure;
- the auditee's compliance with the contracts and applicable US laws and regulations.

**Due to Mission concerns, Deetlefs was asked to review the job descriptions and qualifications of financial management personnel to determine appropriateness of the descriptions and the ability of hired personnel to perform the required financial management functions.**

## **METHODOLOGY**

**Deetlefs conducted the initial survey of the accounting records of Khalipha in Mbabane from September 30, 1991 through to October 9, 1991 at which time the selection for transactions for detailed testing was completed. Deetlefs subsequently prepared it's audit work plan for approval by RIG/AN, and performed the field work from October 18, 1991 to October 30, 1991.**

**The principal audit steps performed included :**

- a review of the terms and conditions of the contracts, applicable standard provisions and regulations, and other contract documents as deemed necessary;**
- a review of the internal control structure in order to classify the recipients significant internal control policies and procedures;**
- performance of detailed compliance, internal controls and errors and irregularities (SAS 53 and 54) audit procedures to evaluate the auditees compliance with grant and applicable provisions, adequacy of accounting system and internal controls, and to obtain reasonable assurance of detecting errors, irregularities and illegal acts;**
- testing of cost transactions from the Khalipha fund accountability statement to determine the extent of non compliance, unallowable or unallocable expenses and the effectiveness of internal controls;**
- reconciliation of financial reports submitted by Khalipha to USAID's mission accounting control system (MACS) in order to determine if the expenditures are properly reflected in MACS;**
- reconciliation of financial reports submitted by Khalipha to local currency records in order to determine if the financial submissions are accurate and supported by the accounting records;**
- review of bank account and reconciliation procedures, including selected testing to determine if non-USAID transactions are present;**

- review of cash on hand and reconciliation procedures, including a cash account;
- review of the financial management capability of the Khalipha staff.

Report preparation was prepared at our office in Randburg.

## **RESULTS OF AUDIT**

### **Overhead and general and administrative rates**

Based on the results of our work, we believe that the multiple allocation method, with a direct cost (net of capital expenditures) distribution base, provides an appropriate methodology for calculating overhead and general and administrative rates applicable to Khalipha managed projects.

Our work disclosed that the direct costs incurred by Khalipha are not completely recorded in individual cost centres different from those related to non USAID projects. This condition affects determination of overhead and general and administrative rates for each contract of Khalipha.

Khalipha's accounting records do not provide the separation of costs relating to the respective contracts. However, detailed working papers prepared by Khalipha complete with all supporting vouchers enabled us to verify the accountability by Khalipha for the costs incurred in each contract. From these working papers we were able to identify direct and indirect salary allocations and direct costs related to each contract.

After the completion of the June 30, 1991 statutory audit, we were able to arrive at recommended overhead and general and administrative rates for the periods ended June 30, 1990 and June 30, 1991.

### **Fund Accountability Statement**

Our audit tests revealed that the direct costs reported to USAID and included in the Fund Accountability Statement agree with the costs recorded by Khalipha and submitted to USAID/Swaziland Mission. The Fund Accountability Statements prepared by Khalipha were redrawn by ourselves.

As we conducted 100% audit of all vouchers presented by Khalipha with respect to incurred expenditures, we were able to satisfy ourselves with regard to

allowability, allocability and reasonableness. The results of our audit revealed no questioned or unsupported costs.

### **Internal Control Structure**

The results of our tests disclosed the following condition which we consider to be a material weakness in Khalipha's internal control structure for purposes of determining overhead and general and administrative rates for the specific contracts under Khalipha management.

Lack of segregation of indirect costs for each contract undertaken by Khalipha.

### **Compliance with the Terms of the Contracts and Applicable Laws and Regulations**

Khalipha complied with contract terms and applicable laws and regulations, except as follows:

Regular books of account, apart from a cash book, were not written up during the course of the periods, but were completed by the Khalipha statutory auditors at the time of their audit. This condition leads to inadequate information for the monitoring of expenses and income of Khalipha which hampers the control of projects on a timeous base.

With respect to items not reviewed or tested, nothing came to our attention to indicate that Khalipha had not complied with the terms of the contracts and applicable laws and regulations.

### **Financial Management Capabilities**

Our review of financial management capabilities of Khalipha personnel indicates that training of adequate accounting staff is required. We believe that because of the size and nature of the Khalipha consultancy, a highly qualified accountant is not essential to it's activities. In this regard USAID/Swaziland Mission disagree with us and this is dealt with later in this report. We do believe that a properly installed appropriate accounting system would be of great benefit to Khalipha in providing financial information on a regular basis.

### **Exhibits**

The results from our testing and the Fund Accountability Statement are quantified in Exhibits 2 and 3. In Exhibit 1 we have summarised all of the recommendations included in this report. In Exhibits 4 and 5 we have

summarised our recommendations for the overhead and general administrative rates for the periods ended June 30, 1990 and June 30, 1991.

## **MANAGEMENT COMMENTS**

We submitted a copy of this audit report to Khalipha and USAID/Swaziland Mission for their review and analysis. Khalipha have dealt with all the recommendations and where possible have begun implementing a major portion of those recommendations. USAID/Swaziland mission have commented on some points. USAID/Swaziland financial reports were not readily available and delays were experienced in extracting information from them. These delays could have been avoided as the Swaziland Mission were fully aware of the needs for the audit.

### **Summary of Khalipha Comments**

The full text of the Khalipha comments is included in Appendix I.

A copy of the comments from the Auditee and USAID/Swaziland mission are attached as Appendix I and II to this report. Khalipha concurs with the findings of the report and has already made positive steps to implement a number of the recommendations.

### **Summary of USAID Swaziland Mission Comments**

USAID/Swaziland in their response address a few general points based on the draft audit report and we deal with these points as follows :

- USAID/Swaziland Mission did not readily have financial reports (MACS) available and delays were experienced in extracting information from them. It is correct to state that a member of our staff requested these reports, which was in October 1991, but the Mission had to spend time in pulling these reports. These delays could have been avoided as the Swaziland Mission were fully aware of the needs for the audit.
- USAID/Swaziland Mission posed the question as to how we believe the Fund Accountability Statement presents fairly the revenues and expenses incurred in the projects when there is a lack of full accounting records. It seems self evident that despite the lack of full accounting records if a 100% review of the underlying documentation is done from which the Fund Accountability Statement is prepared, the auditor is fully capable of passing an opinion.

- we note that USAID/Swaziland Mission has advised that the amount of \$11 294 has been returned to them. Khalipha were under the impression that they could offset this sum against outstanding revenues due to them. USAID maintain they were awaiting a final voucher in order to settle the advance which is why they did not issue a bill of collection. Khalipha had in fact submitted on two occasions, details of the final accounting of the advance made to them and had advised the amount retained by them. The awaiting of a final voucher is not acceptable to us as an excuse for not following up outstanding funds which had already been drawn to the attention of the Mission and for which there is no procedure known to us whereby an additional final voucher has to be provided by the auditee.
- USAID/Swaziland Mission refers to our comment under paragraph 2.3.1.2 wherein we state "the general control environment with respect to the USAID contracts is insufficient". They require an explanation of why it is insufficient. It would seem to us that the Mission has misread this as an overall statement covering themselves and Khalipha. This relates to the paragraphs in the finding stated before the comment. We advised that there were no written procedures and that control was maintained by practice and authority of the two Khalipha directors and not by any formal procedure.
- In the Mission point 5 they disagree with our recommendation 11, wherein we state that a qualified accountant is not necessary because of the nature of Khalipha's consultancy business and the size of the firm. Khalipha in their reply have advised that they have employed personnel who have been trained by their statutory auditors Ernst & Young. A third long term senior accountant has been employed to successfully implement the new accounting and administrative systems designed by their statutory auditors. Khalipha also advised that their auditors will be providing overall accounting supervision on a weekly basis.
- USAID Mission has requested that the report include an explanation stating what base should be utilised when calculating overhead and general and administrative rates. The contracts contain the basis upon which the calculations are to be made. These contracts are supposed to be issued in conformity with US Government Regulations. We find this a strange request as the Mission has set out in it's contracts the basis upon which the recoveries are to be made. If the recovery is based on direct salaries then the percentage recovery rate is used to multiply the total of direct salaries to arrive at the overall recovery to be claimed



by the contractor. Likewise if total costs are the base then the percentage is applied to total costs to arrive at the claimable amount.

- USAID/Swaziland Mission did not like our point that Khalipha's rates were much higher than expected. We have deleted this comment. The base upon which the comment was made was as a view against the original recommended rates. We agree with Swaziland Mission that the comment in this context is irrelevant.

A copy of the comments from the Auditee and USAID/Swaziland Mission are attached as Appendix I and II respectively to this report.

We would like to express our appreciation to USAID/Swaziland Mission and the management and staff of Khalipha for the cooperation and assistance provided to the Deetlefs team during the course of this protracted audit. We would also like to express our gratitude for the very valuable guidance, constructive criticism and assistance given by the staff of RIG/A Nairobi during the course of the various reviews to ensure a meaningful and well presented report.

If there is anything else required of us, please do not hesitate to contact our office.

Yours faithfully,

A handwritten signature in black ink, appearing to read 'P M Collins', written over a horizontal line.

Deetlefs & Company

per P M Collins



# deetlefs & company

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## 1 FUND ACCOUNTABILITY STATEMENT

### 1.1 INDEPENDENT AUDITOR'S REPORT

We have audited the Fund Accountability Statement for the three contracts and one sub-contract performed by Khalipha Investments (Pty) Ltd for the period July 1, 1989 to June 30, 1991. This statement is the responsibility of the management of Khalipha Investments (Pty) Ltd (Khalipha). Our responsibility is to express our opinion on this statement based upon our audit.

We conducted our audit in accordance with generally accepted auditing standards and in accordance with the Government Auditing Standards (1988 Revision) issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the Fund Accountability Statement is free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts in this statement. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall statement presentation. We believe that our audit provides a reasonable basis for our opinion.

As discussed in the following Notes to the Fund Accountability Statement, the statement was prepared on the basis of cash receipts and disbursements which is a comprehensive basis of accounting other than generally accepted accounting principles.

As discussed in Sections 1 and 2 of this report, a significant portion of the claimed expenses relate to expenses incurred in the running of project no. 645-0421-C-00-0009-00 for the provision of a wide array of services for the holding of two conferences for Center for Disease Control (CDC) employees and African Child Survival Initiative-Combating Childhood Communicable Diseases (ACSI-CCCD) delegates. The controls over the distribution, recording and reporting of those direct costs



under the project were adequate. However, while the detailed claims and supporting vouchers were adequate to verify the costs, there were no proper books of account or project cost accounts kept. The principal effect of this poor accounting and costing system is that we are unable to obtain reasonable assurance that costs charged to the USAID project have been fully stated. The risk and effect could be one of omission rather than one of commission. Costs may not have been claimed by Khalipha. The right to claim costs expired on December 15, 1990.

As there were poor financial records maintained by Khalipha from July 1, 1990 to June 30, 1991, the statements of incurred expenses prepared by Khalipha were not formally incorporated into the financial records. Khalipha were, however, able to produce all supporting source documents as part of their invoicing system to USAID/Swaziland for all the claimed expenses.

Audited financial statements were only available for the period ended June 30, 1990. No audited statements for the period ended June 30, 1991 were initially available and reliance had to be placed on vouched expenses submitted by Khalipha to USAID/Swaziland. On March 6, 1992, we received from Khalipha their annual audited Financial Statements which we have now utilised in arriving at our opinion.

Despite the lack of full accounting records, we believe the Fund Accountability Statement presents fairly, in conformity with the basis of accounting described in the Notes to the Statement, the revenues and expenses of the three projects, numbers 645-0421, 645-0510, 645-0218, and one sub-contract number 645-0229 for the period July 1, 1989 to June 30, 1991.

Information contained in this report may be privileged. The restrictions of 18 USC 1905 should be considered before any information is released to the public. This report is intended solely for the use of Khalipha Investments (Pty) Ltd and USAID, but this is not intended to limit the distribution of the report if it is a matter of public record.

A handwritten signature in cursive script, appearing to read 'Deetlefs'.

**Deetlefs & Company**

**June 5, 1992**

## 1.2 FUND ACCOUNTABILITY STATEMENT

The Fund Accountability Statement and accompanying Notes to the Statement are included as Exhibit 2. Audit statistics and findings with respect to questioned and unsupported costs are included in Exhibit 3 and are described below.

## 1.3 FINDINGS AND RECOMMENDATIONS

### 1.3.1 Introduction

The scope of this audit included both local currency costs and US dollar costs of the three contracts and one sub-contract. Where local currency is expressed in US dollars, we used an average exchange rate of 2.6 Swaziland Emalangeni to US\$1.00. This rate has been used consistently throughout the report where local currency is expressed in US Dollars.

As described in Sections 2.1, 2.3, 3.3 and 5.1 of this report, we encountered a limitation with respect to the audit of books of account due to the poor accounting system and the lack of any audited accounts for the year ended June 30, 1991. This has been rectified with the provision of the audited Financial Statements on March 5, 1992.

### 1.3.2 Sample Selection Criteria

The basis for our sample was the invoiced claims submitted by Khalipha to USAID/Swaziland. Our methodology included the selection of all transactions submitted for each invoiced claim.

In summary, the sample profile is as follows :

TOTAL of all Claims	Sample Selected	Percentage Selected	NOT REVIEWED
US\$ 158 280	158 280	100%	
E 873 491	873 491	100%	

E= Emalangeni E2.6=US\$1

Due to the lack of regular accounting records, we are not able to render our opinion whether all the costs recoverable from USAID/Swaziland have been claimed.

The Fund Accountability Statement has been prepared by us from the information supplied by the auditee.

**1.3.3. Summary of Audit Results**

**Finding**

Results from our audit show that all claims have been fully documented and supported with the appropriate invoices submitted to USAID/Swaziland.

However, we initially questioned the figure of E80 112 (\$30 812) for "other direct costs" as we were unable to substantiate this. We were advised by Khalipha that all supporting copies had been attached to the claim invoice submitted to USAID/Swaziland. Subsequently, supporting vouchers were made available by Khalipha staff who were available to collate all the documents necessary. From our tests, Khalipha submitted detailed invoices supported by appropriate supporting vouchers. We have accepted these costs based on all the supporting documents submitted to us by Khalipha as these documents total the invoiced amount claimed. These costs represent 9.17% of the local currency costs.

<b>Costs Claimed</b>	<b>Accepted</b>	<b>Questioned</b>	<b>Unsupported</b>	<b>Not Reviewed</b>
US\$ 158 280	158 280	--	--	--
E 873 491	873 491	--	--	--

**E= Swaziland Emalangeni. E2.6=US\$1**

### **Recommendation No. 1**

**Khalipha should have a contract ledger to identify all the costs which pass through the cash book and each entry should have corresponding vouchers filed as analysed in the ledger.**

**Internal controls with respect to the accounting and reporting system should be created and proper accounting records maintained on a monthly basis.**

### **Khalipha Comments**

**Khalipha agrees with this recommendation and has established a manual accounting system. Substantial headway has been made by Khalipha in conjunction with their auditors to ensure that a system of internal controls is established.**

### **Discussion**

**The total disbursements of US\$158 280 and E873 491 were understated against the approved budgets of US\$196 630 and E879 438 by US\$ 38 350 and E5947 respectively.**

**We must point out that an amount of US\$ 11 294 is due to be returned to USAID/Swaziland. This amount represents the balance of the float of US\$ 30 300 advanced to Khalipha to meet the per diem amounts of the delegates to the two conferences organised under Project No. 645-0421. We counted the cash on hand held by Khalipha which included the balance of cash for the project. The amount on hand was sufficient to meet the liability of returning the dollar amount of US\$11 294 to USAID/Swaziland. Additional cash on hand was for the account of Khalipha.**

**We were informed by Khalipha that the cash balance is not allowed to be placed in an interest bearing account. Khalipha fully accounted to USAID/Swaziland for the cash balance, but neither party has arranged for the return of the funds. The funds were held in cash, under lock and key, and were not deposited in any banking account.**

## **Recommendation No. 2**

**Any cash on hand after disbursements have been made, should be immediately returned to USAID/Swaziland and not held for 19 months after the last payment.**

### **Khalipa Comments**

**Khalipa advises that the outstanding amount of \$11 294 was returned to USAID/Swaziland Mission on April 1, 1992. USAID/Swaziland Mission has confirmed that this transaction has taken place.**



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## **2 INTERNAL CONTROL STRUCTURE**

### **2.1 INDEPENDENT AUDITOR'S REPORT**

We have audited the Fund Accountability Statement and Contractor Schedules of Computation of overhead rates for the three contracts numbers 645-0421, 645-0510, 645-0218, and one sub-contract number 645-0229 performed by Khalipha Investments (Pty) Limited for the period July 1, 1989 to June 30, 1991, and have issued our report thereon dated March 31, 1992.

We conducted our audit in accordance with generally accepted auditing standards and in accordance with the Government Auditing Standards (1988 Revision) issued by the Comptroller General of the United States,. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the Fund Accountability Statement is free of material misstatement.

In planning and performing our audit of the Fund Accountability Statement and the Contractor Schedules of Computation of overhead rates for the period July 1, 1989 to June 30, 1991, we considered Khalipha's internal control structure in order to determine our auditing procedures for the purpose of expressing our opinion on the Fund Accountability Statement and Contractor Schedules of Computation of overhead rates and not to provide assurance on the internal control structure.

Khalipha Investments (Pty) Limited is responsible for establishing and maintaining an internal control structure for the three contracts and one sub-contract. In fulfilling this responsibility, estimates and judgements by management are required to assess the expected benefits and related costs of the internal control structure policies and procedures. The objectives of an internal control structure are to provide management with reasonable, but not absolute, assurance that assets are safeguarded against loss from unauthorised use or disposition and that transactions are executed



in accordance with generally accepted accounting principles. Because of inherent limitations in any internal control structure, errors or irregularities may nevertheless occur and not be detected. Projection of any evaluation of the structure to future periods is subject to risk that procedures may become inadequate because of changes in conditions, or that the effectiveness of the design and operation of practices and procedures may deteriorate.

For the purpose of this report, we have classified the significant internal control structure policies and procedures as they relate to the four projects in the following categories :

#### **CONTROL ENVIRONMENT**

- overhead and general administrative costs
- written procedures

#### **ACCOUNTING SYSTEM**

- general ledger and USAID invoices
- cash book

#### **CONTROL PROCEDURES**

- disbursements
- cash management and budgeting
- time sheets

For all the internal control structure categories listed above, we obtained an understanding of the design of relevant policies and procedures and whether they have been placed in operation, and we assessed the control risk.

We noted certain matters involving the internal control structure and its operation that we consider to be reportable conditions



under standards established by the American Institute of Certified Public Accountants. Reportable conditions involve matters coming to our attention relating to significant deficiencies in the design or operation of the internal control structure that, in our judgement, could adversely affect the entity's ability to record, process, summarise and report financial data consistent with the assertions of management in the financial statements.

The following reportable conditions were observed :

- the control environment with respect to overhead and general administrative costs is poor;
- the accounting and reporting system for the four projects is weak;
- apart from a cash book, unanalysed, no books of account have been maintained for the period July 1, 1990 to June 30, 1991;
  - there are no written procedures resulting in a weak control environment;
- disbursement and document retention procedures are weak.

Our study and evaluation disclosed the weaknesses noted in Section 2.3 below of this report. In view of the number and significance of weaknesses identified we consider that the system of internal accounting control of Khalipha was inadequate for the purpose of properly identifying and accounting for expenditures to USAID.

A material weakness is a reportable condition in which the design or operation of the specific internal control structure elements does not reduce, to a relatively low level, the risk that errors or irregularities 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.

Our consideration of the internal control structure would not necessarily disclose all matters in the internal control structure that might be reportable conditions and accordingly, would not necessarily disclose all reportable conditions that are also considered to be material weaknesses as defined above.



We also noted other matters involving the internal control structure and its operation that we have reported in Section 3.3 of the report.

Information contained in this report may be privileged. The restrictions of 18 USC 1905 should be considered before any information is released to the public. This report is intended solely for the use of Khalifa Investments (Pty) Limited and USAID, but this is not intended to limit the distribution of the report if it is a matter of public record.

A handwritten signature in cursive script, appearing to read 'L. Leo'.

**Deetlefs & Company**

**June 5, 1992**

## **2.2 INTRODUCTION**

### **2.2.1 Definition**

**The American Institute of Certified Public Accountants (AICPA) Codification of Auditing Standards, section 319, defines an organisation's internal control structure as consisting of the policies and procedures established to provide reasonable assurance that a specific entity's objectives will be achieved. The internal control structure is composed of three elements :**

- control environment**
- the accounting system**
- control procedures**

**The control environment reflects the overall attitude, awareness and actions of management. The accounting system consists of methods and records established to identify , assemble, analyse, classify, record and report transactions. Control procedures are those policies and procedures in addition to the control environment and accounting system that management has established to safeguard the organisation's resources.**

**In Section 2.3 below, we have classified our findings and recommendations by those three elements of Khalipha's internal control structure.**

### **2.2.2 Work Performed**

**Our review of the internal control structure was directed towards those elements which relate to the nature of the funding of the four projects. The review encompassed the following :**

## **CONTROL ENVIRONMENT**

- Overhead and general administration expenses
- Written procedures

## **ACCOUNTING SYSTEM**

- General ledger and USAID invoices
- Cash book

## **CONTROL PROCEDURES**

- Disbursements
- Cash management and budgeting
- Time sheets

## **2.3 FINDINGS AND RECOMMENDATIONS**

### **2.3.1 CONTROL ENVIRONMENT**

#### **2.3.1.1 Overhead and G & A expenses**

We noted that the general ledger and accounts for the periods ended June 30, 1990, and June 30, 1991, had been prepared by the auditors of Khalpha. For June 30, 1990 the write up took place at the time of the audit, approximately April 1991 some nine months after the financial year end. For June 30, 1991, the write up took place during the period December 1991 and January to February 1992. No management accounts had been prepared during these periods nor draft financial statements for the auditors from which to work. The basic accounting was completed by the auditors prior to their final audit.

For the period ended June 30, 1991, no management accounts nor year end financial statements were available for inspection at the time of our initial main

audit. The statutory audit which had been scheduled for September/October 1991 had to be postponed to early December 1991. (The statutory audit was in progress on December 10, 1991, which we witnessed). The completion of the statutory audit was a condition of our proposal for the audit dated August 9, 1991. A copy of the financial statements was supplied to us on March 5, 1992

There was no management analysis of project costs except for the detailed invoices submitted to USAID/Swaziland. No books of account were kept for the three contracts and one sub-contract nor were there any analyses available of such costs, again other than the invoices submitted to USAID.

Accounting records consisted only of a cash book which was reconciled on a monthly basis for the periods under review. For the period ended June 30, 1991, no general ledger was kept for the year. A cash book was kept and was reconciled monthly. No cost analysis from the cash book was available nor were vouchers, such as cheque authorisations, readily available.

Khalipha advise that in March 1990 the Solomon project accounting package was to be installed at the suggestion of Chemonics. However, there was no support service in Swaziland to implement the installation. This resulted in Khalipha not being able to use an expensive and sophisticated package specifically purchased to keep track of all project costs individually.

### **RECOMMENDATION NO. 3**

Khalipha Investments (Pty) Ltd., which is well computerised, should invest in an inexpensive accounting package, such as Turbocash +, to maintain an analysed cash book and a general ledger automatically. This would provide management with individual project analysed costs on a monthly basis and reduce audit costs.

### **Khalipha Comments**

**Khalipha has recently set up a manual accounting system which is comprehensive and serves their needs for the next year. Khalipha intends installing a computerised accounting system when their staff is familiar with the present manual system.**

### **Discussion**

**The Pool of overhead and general administrative costs is not easily identifiable from the records and the cash book for the period July 1, 1990 to June 30, 1991.**

**Management provided a summary schedule of costs they considered claimable for the overhead and the G & A rates. Supporting documents were provided. Time sheets of staff and management were scrutinised together with the salary register to vouch the allocation of this particular overhead. Our compilation of the result of the rates is attached as Exhibit 5.**

### **2.3.1.2 Written Procedures**

#### **Finding**

**There are no written procedures to control the disbursement of USAID funds under the four projects. Because of the nature and size of Khalipha, all disbursements and cheques are authorised by one of the two partners. Control is, therefore, maintained by practice. However, until an invoice is drawn for USAID reimbursement, no analysis or running totals are available for scrutiny. The invoices listed actual and budget monetary values (in terms of the relevant project approval), and reflected any balance available for appropriation.**

**All invoices contain detailed supporting vouchers which are submitted in full to USAID, prior to funds being reimbursed by USAID to Khalipha. However, as mentioned in the discussion under recommendation 1 above, an advance by USAID/Swaziland to Khalipha took place. This was fully documented by Khalipha and the documentation submitted**

in full, together with a reconciliation of the balance on hand, to USAID/Swaziland

The general control environment with respect to the USAID contracts is insufficient .

#### **RECOMMENDATION NO. 4**

Simple written procedures covering all aspects of the USAID projects should be prepared explaining the current accounting and allocation system needed to track, not only project costs, but also the Consulting practice overhead and general & administrative costs. The salaries should be allocated on a monthly basis, from the salary register, to the projects and other consulting work.

#### **Khalipha Comments**

Khalipha concurs with this recommendation and has implemented a programme to introduce written procedures.

### **2.3.2 ACCOUNTING SYSTEM**

#### **2.3.2.1 General Ledger and USAID Invoices**

##### **Finding**

The accounting and financial reporting system is poor and may result in material errors of omissions in the financial submissions to USAID. Invoices submitted to USAID were adequately detailed and material costs substantiated by attached supporting vouchers.

#### **RECOMMENDATION No. 5**

Khalipha Investments (Pty) Ltd should install a simple inexpensive computerised accounting system to ensure that the accounting records accurately and completely reflect project expenditures. Written procedures should be prepared to guide and control the processing and reporting of project expenditures. There are no longer adequately

trained accounting staff. Ernst & Young are being selectively employed to create financial statements within the Khalipha Group of Companies. By installing a simple software package to run on the existing PC's, Khalipha need not employ a qualified accountant. Thorough scrutiny by management of all disbursements could be correctly allocated and costed by them to ensure adequate reporting.

#### **Khalipha Comment**

Khalipha concurs with this recommendation and has already established a manual system to run concurrently with the implementation of a computerised system.

### **2.3.2.2 Cash Book**

#### **Finding**

The cash book was written up and reconciled monthly. No postings to a general ledger or analysis sheets were done. Documentation to support disbursements were filed in various project files instead of in cash book monthly payment files.

### **RECOMMENDATION No. 6**

For each project a file with dividers should be opened. Each divider should relate to an expense heading in terms of the project budget. A summary sheet, as currently in use by Khalipha but modified, should be attached to the supporting vouchers in each division. This would enable a ready reference and verification of the basis of each claim made by invoice to USAID. Where, for example, salaries are claimed, a detailed working paper of the overhead and general & administrative claims would be readily available.

#### **Khalipha Comments**

Khalipha concurs with this recommendation and has purchased a new filing system designed by Kalamazoo to implement this recommendation.

## **2.3.3 CONTROL PROCEDURES**

### **2.3.3.1 Disbursements**

#### **Finding**

The controls over the disbursements of per diem amounts to the conferences under project 645-0421 were well managed. Each delegate had to sign for each drawing made on the per diem amount. These amounts were totalled on a daily basis and reconciled to the cash on hand. Detailed schedules were prepared and properly accounted for to USAID when the invoices were submitted.

### **RECOMMENDATION NO. 7**

Proper project costing files relating to each separate project should be maintained in accordance with Recommendation 6. These cost summaries should reconcile back to an appropriate general ledger account.

#### **Khalipha Comments**

Khalipha concurs with this recommendation and has opened a subsidiary ledger which is to reconcile back to the general ledger.

### **2.3.3.2 Cash Management and Budgeting**

#### **Finding**

There are no monthly or annual budgets of operating costs to use as a management tool for planning purposes or for evaluating actual costs. Consequently, the basis for overhead and general and administration costs is not adequately established. However, budgets are approved as part of the project request for proposal and award. Funds are paid by USAID/Swaziland to Khalipha on the basis of submitted invoices and vouchers. The only cash advance under the four projects was for the per diem allowances under project 645-0421. This cash advance was well administered. The only aspect of

**this cash advance relates to the balance on hand referred to in Section 1.3.3 above.**

#### **Discussion**

**If previous recommendations are implemented, the above accounting controls will be in place to identify allocation of costs.**

#### **2.3.3.3 TIME SHEETS**

##### **Finding**

**Time sheets for the period to June 30, 1990 were not kept. No regular time sheets were kept by staff allocating their time between direct project involvement and pure Khalipha general time. The result is that the salaries and wages could not be allocated between direct costs to projects and to overhead. In scrutinising the salary register, we have attempted to isolate the core consultancy general and administrative staff and treated everyone else as direct costs.**

**For the period July 1, 1990 to June 30, 1991, time sheets were available, but these merely allocated time between Khalipha work and other Khalipha activities. The time was not allocated between projects. As a result we have treated all time that was allocated, as direct costs. We noted that the two partners had not allocated their overhead and general & administrative time. After discussion with them, their costs have been allocated as 50% chargeable to consultancy and 50 % general and administrative costs. Their cost to the consultancy had been excluded from Khalipha Contractor Schedule of Computation. We have adjusted the computation to include the costs of the partners based on their agreement in the founding of the consultancy and prorated their costs as indicated above.**

## **Discussion**

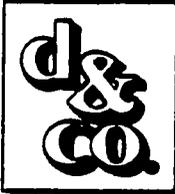
**In any consultancy, time is the commodity being sold. As a result it is extremely important that a system of time control exists. Without this management cannot allocate the time spent by staff to individual projects. This has the effect of distorting the total direct costs to consultancy activity and that portion allocable to overhead/general administrative costs. The salary register should be the source of allocation on a monthly basis. Unless a proper accounting system is in place, it will be difficult to monitor these controls.**

## **RECOMMENDATION 7A**

**Time sheets should be reconciled by all staff on a weekly/monthly basis. Their monthly salary should be allocated to direct and indirect costs and, if possible, between projects in the general ledger.**

## **Khalifa Comment**

**Khalifa concurs with this recommendation and has devised a new time sheet to cater for the allocation of salaries by direct and indirect costs.**



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## 3 COMPLIANCE WITH GRANT PROVISIONS AND US GOVERNMENT REGULATIONS

### 3.1. INDEPENDENT AUDITOR'S REPORT ON COMPLIANCE

We have audited the Fund Accountability Statement of Khalipha Investments (Pty) Ltd for the three contracts numbers 645-0421, 645-0510, 645-0218 and one sub-contract number 645-0229 for the period July 1, 1989 to June 30, 1991 and have issued our report thereon dated March 31, 1992.

We conducted our audit in accordance with generally accepted auditing standards and in accordance with the Government Auditing Standards (1988 Revision) issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the Fund Accountability Statement is free of material misstatement.

Compliance with laws, regulations, contracts and grants applicable to Khalipha Investments (Pty) Ltd is the responsibility of Khalipha's management. As part of obtaining reasonable assurance about whether the financial statements are free of material misstatement, we performed tests of Khalipha's compliance with certain provisions of laws, regulations and grants. Our objective was not to provide an opinion on overall compliance with such provisions.

Material instances of noncompliance are failures to follow requirements, or violations of prohibitions, contained in statutes, regulations, contracts, or grants that cause us to conclude that the aggregation of the misstatements resulting from those failures or violations is material to the financial statements. The results of our tests of compliance disclosed the following material instances of noncompliance.



Material non-compliance includes the condition and nature of the accounting records, which are not adequately supported until audited. Apart from a basic cash book no proper books of account are kept during the year. At the time of the statutory audit, the auditors write up books of account and compile a general ledger from raw data and vouchers filed by the auditee. Material noncompliance also includes non-project disbursements. The auditee has addressed these issues in conjunction with the statutory auditors.

We considered these material instances of noncompliance in forming our opinion on whether Khalipha's Fund Accountability Statement is presented fairly, in all material respects, in conformity with the basis of accounting described in the Notes to the Fund Accountability Statement, and this report does not affect our report dated March 31, 1992 on that statement.

Except as described above, the results of our tests of compliance indicate that, with respect to the items tested, Khalipha complied, in all material respects, with the provisions referred to in the third paragraph above, and with respect to items not tested, nothing came to our attention that caused us to believe that Khalipha had not complied, in all material respects, with those provisions.

Information contained in this report may be privileged. The restrictions of 18 USC 1905 should be considered before any information is released to the public. This report is intended solely for the use of Khalipha Investments (Pty) Ltd and USAID, but this is not intended to limit the distribution of the report if it is a matter of public record.

*Deo*

**Deetlefs & Company**

**June 5, 1992**

## **3.2 INTRODUCTION**

**USAID requires all grantees, regardless of the country or legal entity, to comply with the terms and conditions included in the grant agreement, attached provisions and referenced procurement regulations. In general, such compliance cannot be waived by a Mission or by USAID/Washington.**

**Steps performed in this audit to test compliance with the grant agreement and related provisions included :**

- a review of grant provisions and related regulations to identify those provisions and regulations which could have a material affect on the financial statements.**
- audit procedures including detailed testing to evaluate Khalipha's compliance with these provisions and regulations.**

## **3.3 FINDINGS AND RECOMMENDATIONS**

### **3.3.1 Accounting and Reporting System**

#### **Finding**

**We reviewed Khalipha's accounting and reporting system for the four projects and noted that :**

- the accounting records are insufficient to show, without limitation, the receipt and use of goods and services acquired under the projects. The records and financial reports were audited to June 30, 1990 but were not audited to June 30, 1991, until after our initial audit in November 1991.**
- Apart from a cash book containing project and non-project income and expenditure, no other books of account were available for the period July 1, 1990 to June 30, 1991. As a result no financial statements were available either monthly or annually for this period. After the completion of the statutory audit, a general ledger prepared by the statutory auditors became available.**
- regular invoices are submitted to USAID/Swaziland for reimbursement under the four projects grants.**

**Details of the accounting and reporting system are included in Section 2.**

#### **RECOMMENDATION NO. 8**

**The accounting and reporting system of Khalipha Investments (Pty) Ltd must be improved in order for Khalipha to achieve complete compliance with the accounting and reporting requirements of the project grants and related provisions.**

##### **Khalipha Comments**

**Khalipha concurs with this recommendation and has taken steps to implement it.**

#### **3.3.2 Advances**

##### **Finding**

**We noted that the advance made by USAID/Swaziland under contract number 645-0421 has not been liquidated some 19 months later. (See Section 1.3.3 above)**

#### **RECOMMENDATION NO. 9**

**Advances should be liquidated once the purpose for which the funds were intended, has been fulfilled and any balances or shortfalls settled inside 30 days with USAID/Swaziland. A separate project account should be established for project funds to enable easy accountability of the use of all funds.**

##### **Khalipha Comments**

**Khalipha has addressed this issue and has made the appropriate refund to USAID/Swaziland Mission.**



#### **4. FINANCIAL MANAGEMENT CAPABILITY**

##### **4.1 JOB DESCRIPTIONS**

###### **Finding**

There are currently no written job descriptions for personnel involved in the financial management of Khalipha.

###### **RECOMMENDATION NO. 10**

Job descriptions should be prepared for all personnel involved in the financial management of the USAID projects for Khalipha.

###### **Khalipha Comment**

Khalipha concurs with this recommendation and job descriptions have recently been prepared by them.

##### **4.2 KHALIPHA CAPABILITIES**

###### **Finding**

The financial management capability of the staff involved in Khalipha is generally weak. Persons involved in Khalipha's financial management have limited knowledge of accounting and bookkeeping. Significant training is required to meet minimum and upgrade accounting and reporting standards. Khalipha had previously employed qualified accounting staff but had high turnover of that staff due to "job hopping".

###### **RECOMMENDATION NO. 11**

Because of the nature of the Khalipha consultancy, a qualified accountant is not required on a full time basis. Because of the



nature of Khalipha's consultancy business, it is a small firm with a minimum infrastructure. It would require qualified accountants to install an adequate accounting system. Khalipha has a close working relationship with its Statutory Auditors, Ernst & Young, who are more than capable of implementing any such system. We contend that taking Khalipha on its own, a full time qualified accountant is not required to maintain an adequate accounting system. However, a basic accounting system needs to be installed whereby monthly management accounts, at least, are available to management and costs can be separately allocated to projects. Internal controls and procedures need to be strengthened. Implementation of an improved accounting system will require only basic accounting and bookkeeping skills. The current staff will be able to implement improvements with basic training.

#### **Khalipha Comments**

Khalipha has taken steps to improve the level of their accounting and financial capabilities with assistance from their statutory auditors. Overall accounting supervision will be provided by their statutory auditors on a weekly basis.



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## 5 OVERHEAD AND GENERAL ADMINISTRATIVE RATES

### 5.1 INDEPENDENT AUDITOR'S REPORT

We have audited the Contractor Schedules of Computation of overhead and general and administration cost rates of Khalipha Investments (Pty) Ltd for the period July 1, 1989 to June 30, 1991 for the four USAID/Swaziland projects numbers 645-0421, 645-0510, 645-0218 and 645-0229. These schedules are the responsibility of the Khalipha management. Our responsibility is to express an opinion on these schedules based upon our audit.

We conducted our audit in accordance with generally accepted auditing standards and in accordance with the Government Auditing Standards (1988 Revision) issued by the Comptroller General of the United States. These standards require that we plan and perform the audit to obtain reasonable assurance about whether the schedules are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts in these schedules. An audit also includes assessing the accounting principles used and significant estimates made by the management, as well as evaluating the overall presentation of the schedules. We believe that our audit provides a reasonable basis for our opinion.

As discussed in the following Notes to the Contractor Schedules of Computation of overhead and general and administrative cost rates, the schedules were prepared on the basis of cash receipts and disbursements which is a comprehensive basis of accounting other than generally accepted accounting principles.

As discussed in Section 5.3 several expenses claimed relate to the non-consultancy work. The controls over the allocation of expenses and the recording, allocation and reporting of those expenses for the period July 1, 1990 to June 30, 1991 were weak.



No financial records apart from a cash book, nor audited financial statements, were available for the period July 1, 1990 to June 30, 1991 until after our initial audit. The schedules of incurred expenses, prepared by Khalipha, were compared with the audited financial statements.

We did not consider it our task, as part of our assignment, to write up the books of account or prepare financial statements.

Our audit had initially been limited by the lack of proper accounting records and audited financial statements for the period July 1, 1990 to June 30, 1991. The annual write up of the books of account and the annual audit took place at the beginning of December 1991. (This was evidenced by us as being in progress on December 10, 1991). The statutory audit was completed in February 1992, and a copy of those statements were made available to us on March 5, 1992.

In our opinion the Contractor Schedules of Computation of the overhead and general and administrative cost rates for the period July 1, 1989 to June 30, 1991, conform to the basis of generally accepted accounting practice, and fairly present those rates and expenses relating to overheads and general administrative costs.

Information contained in this report may be privileged. The restrictions of 18 USC 1905 should be considered before any information is released to the public. This report is intended solely for the use of Khalipha Investments (Pty) Ltd or USAID, but this is not intended to limit the distribution of the report if it is a matter of public record.

**Deetlefs & Company**

**June 5, 1992.**

## **5.2 CONTRACTOR SCHEDULES OF COMPUTATION**

**The Contractor Schedules of Computation and accompanying Notes to the Schedules are included as Exhibits 4 and 5. Audit analysis with respect to cost allocations are included in Exhibits 4 and 5 and are described below.**

## **5.3 FINDINGS AND RECOMMENDATIONS**

### **5.3.1 Introduction**

**The scope of this audit included both local currency and US dollar costs of the four projects. Where applicable an average rate of E2.6 to US\$1 was used. This rate was the approximate rate during 1990 and has been used consistently throughout the report.**

**As described in Section 2.1, 2.3, 3.3 and 5.1 of this report, we encountered a limitation with respect to the audit of overheads and general administrative costs due to the weak accounting records and the lack of audited financial statements for the period July 1, 1990 to June 30, 1991 at the time of our initial audit. However, this has been subsequently rectified by the receipt of the audited Financial Statements for the period ended June 30, 1991.**

### **5.3.2 Sample Selection Criteria**

**The basis for our sample was the audited annual financial statements for the period July 1, 1989 to June 30, 1991 and the Contractor Schedules of Computation prepared by Khalipha. The methodology included the selection of all transactions that supported the invoiced claims to USAID/Swaziland.**

### **5.3.3 Summary Audit Results**

#### **Finding**

**Results from our audit show that a significant proportion of costs had been misallocated in the Contractor Schedule of Computation of overhead and general and administrative cost rates for the period July 1, 1990 to June 30, 1991 prior**

to the statutory audit because of the lack of proper books of account during the period. The schedule has now been balanced and reconciled back to the cash book and other financial records for that period.

## **RECOMMENDATION NO. 12**

Proper books of account need to be written up and a trial balance produced. If possible, this should be compiled into financial statements and audited if Khalipha wish to put up a reasoned case for overhead and general administrative rates.

### **Khalipha Comments**

Khalipha disagrees with the comment that proper books of account are not kept. They maintain that according to the Companies Act of 1912 they are in compliance with the law relating to the keeping of proper books of account when their audit is completed. They have taken steps to implement improved systems to comply with USAID regulations.

### **Auditor Response**

We disagree that proper books of account have been maintained during the course of the financial year of Khalipha. While they may comply once their audit is completed, during the course of the periods under review, they are not in compliance on a regular basis. If at any time prior to their statutory audit there had to be an inspection of their books of account, they would be in default. There was no regular preparation of proper books of account.

### **Discussion**

While Khalipha management and staff were prepared to furnish us with all the documentation available, no headway could be satisfactorily achieved until proper books of account were written up for the period July 1, 1990 to June 30, 1991 during December 1991 and January 1992.

For the period July 1, 1989 to June 30, 1991, we based our audit of the Contractor Schedule of Computation of overhead and general and administrative costs rates on the audited financial statements. In conjunction with this and the Contractor Schedule of Computation for the same period, we arrived at our analysis and rates recommended, as depicted in Exhibits 4 and 5.

#### **5.3.4 Overhead Rate Recommendation**

**Arising out of our audit we are able to recommend a rate for overhead recovery for the two periods ended 30 June 1991.**

**The rate for the first period is 121.56%. The rate for the second period is 104.20%.**

#### **5.3.5 General and Administrative Rate**

**Arising out of our audit we are able to recommend a rate for General and Administrative recovery for the two periods ended June 30, 1991.**

**The rate of 20.28% for the first period is above provisional rates of 18%. The rate for the second period is 29.99%.**

### **5.4 RECOMMENDATION OF RATES NO. 13**

**It was difficult for us to recommend a rate for the two periods ended June 30, 1991, until the statutory audit for June 30, 1991 had been completed.**

**We would, however, suggest that all future contracts be done on the basis of a negotiated fixed percentage recovery rate acceptable to USAID and the contractor. There are sufficient standards from which to draw an assessment of the rates applicable to this type of business activity. Allowance would have to be made for the regional business environment in which Khalipha operates.**

#### **Khalipha Comments**

**Khalipha concurs with this recommendation.**

## LIST OF REPORT RECOMMENDATIONS

Rec #	Page	Summary of recommendation
1	14	Install proper accounting system & internal controls.
2	15	Cash float should be returned after use has been fulfilled.
3	22	Install simple computerised accounting system.
4	24	Written procedures and cost tracking to be installed.
5	24	Accounting system installation and disbursement control.
6	25	Expense summaries to be created for each project cost.
7	26	Project costing files to reconcile to general ledger.
7A	28	Proper time sheets and time allocation to the general ledger.
8	32	Comply with grant and project accounting requirements.
9	32	Separate project account for advances made by USAID.
10	33	Job descriptions for financial management.
11	33	Basic accounting training for current staff.
12	38	Proper books of account to be kept.
13	39	Recommendation of future overhead and G&A rates.

**FUND ACCOUNTABILITY STATEMENT as of JUNE 30,1991**

**for the three contracts and one sub-contract.**

	Total Grant US\$	Actual expenditures	Total Grant £	Actual expenditures	TOTAL expenditure
	\$	\$	£	£	\$
<b>Total Revenue</b>	<b>196 630</b>	<b>158 280</b>	<b>879 438</b>	<b>873 491</b>	<b>494 238</b>
<b>EXPENDITURE</b>					
Salary	65 900	57 571	85 459	86 209	90 728
Overhead	33 000	16 160	69 072	70 175	43 150
Travel & Transport	6 605	6 023	79 473	72 019	33 723
Allowances	6 710	6 733	300	--	6 733
Other direct costs	1 000	989	79 030	81 312	32 263
Hotel charges	--	--	121 383	123 503	47 501
Equipment & supplies	36 988	36 958	500	--	36 958
Subcontractors	5 161	5 161	271 637	268 051	108 258
Pass thru G&A	--	--	2 428	--	--
G&A	--	--	129 577	131 778	50 684
Pass thru per diem	30 300	19 006	--	--	19 006
Fixed fee	5 350	4 090	40 579	40 444	19 645
Other indirect costs	5 616	5 589	--	--	5 589
<b>TOTAL</b>	<b>196 630</b>	<b>158 280</b>	<b>879 438</b>	<b>873 491</b>	<b>494 238</b>

**NOTE:**

Per diem allowance balance cash on hand = \$ 11 294

**NOTES TO THE FUND ACCOUNTABILITY STATEMENT - Exhibit 2**

**1** The basis for the revenues and expenditures in Swaziland Emalangeni is the cumulative amounts reported by Khalipha on the invoices submitted for the period March 11, 1988 (date of inception), to June 30, 1991, which report revenues and expenses on a cash basis. The only funds advanced by USAID prior to invoice were US\$30 300 advanced for the per diem allowances in terms of the conferences under project number 645-0421.

**2** Khalipha have incurred further expenses relating to the projects since June 30, 1991, in particular for the Chemonics subcontract no. 645-0229, and these have been invoiced with supporting documents to USAID.

**3.** The total revenue and total expenditure dollar values are based on actual dollars claimed by Khalipha.

**4.** The exchange rate used to calculate dollar equivalent expenditures by line item is 2.6 Swaziland Emalangeni to the dollar. This rate has been used consistently to translate all local currency amounts. The rate used by Khalipha Investments (Pty) Ltd and accepted by USAID/Swaziland has been based on the average over the period July 1, 1989 to June 30, 1991.

**5.** As at November 28, 1991, there was a balance on hand of US\$ 11 294 in respect of an advance of US\$30 300 for per diem advances for delegates to the conference under project 645-0421.

**6.** As at June 30, 1991, the total cost approvals by USAID/Swaziland were US\$196 630 and E879 438 (US\$338 245). Of this, US\$158 280 and E873 491 (US\$335 958) had been reimbursed to Khalipha by USAID/Swaziland.

**ANALYSIS OF AUDIT RESULTS IN US DOLLARS  
AND SAMPLE TESTED**

<u>Grant line item</u>	Total grant claimed per invoices	Amount accept/ selected for testing	% selected for testing to total expenditure	Questioned or Unsupported
Salary	90 728	90 728	100%	--
Overhead	43 150	43 150	100%	--
Travel & Transport	33 723	33 723	100%	--
Allowances	6 733	6733	100%	--
Other direct costs	32 263	32 263	100%	--
Hotel charges	47 501	47 501	100%	--
Equipment & supplies	36 958	36 958	100%	--
Subcontractors	108 258	108 258	100%	--
Pass thru per diem G&A	--	--	--	--
G & A	50 684	50 684	100%	--
Per diem allowances Del	19 006	19 006	100%	--
Fixed fee	19 645	19 645	100%	--
Other indirect costs	5 589	5 589	100%	--
<b>Total Expenditure US\$</b>	<b>494 238</b>	<b>494 238</b>	<b>100%</b>	<b>--</b>

**NOTE:**

The rate of exchange used is E2.60 to US\$1.00. See exhibit 2

**NOTES TO ANALYSIS OF AUDIT RESULTS - Exhibit 3**

- 1** The amount claimed is based upon Exhibit 2 - the Fund Accountability Statement.
- 2** There are no amounts which are questioned or unsupported.
- 3** Dollar transactions are based upon the exchange rate of 2.6 Swaziland Emalangeni to US\$1. The rate is the average rate over the period covered used by Khalipha Investments (Pty) Ltd.

**OVERHEAD AND GENERAL ADMINISTRATIVE RATES**

**FOR THE PERIOD FROM JULY 1, 1989 TO JUNE 30, 1990**

Line Item	AUDITED accounts	G & A	OVERHEAD	UN- ALLOWABLE	
				G & A	Overhead
Advertising	1239		--	1239	
Accounting fee	3612	3612	--		
Auditors remuneration					
- Audit fee	3200		3200		
- Accountancy	2800	2800	--		
Bank charges	1239	1239	--		
Car hire	4788		4788		
Consulting fees	7709	--	--		7709
Depreciation	4895	--	4895		
General expenses	3815	3815	--		
Insurance & licences	12786	--	12786		
Leasing charges-Equip	28505	--	28505		
Leasing charges - Motor	53881	53881	--		
Motor vehicle repairs	12686	12686	--		
Plants & flowers	1041		1041		
Printing & stationery	7132	7132	--		
Professional fees	1400	--	--		1400
Rent - net	38421	19211	19210		
Repairs & Maintenance	2052		2052		
Salaries & Wages	92894	70706	--	22188	
Security	15130	--	15130		
Sub contractors	554474	--	--		554474
Telephone & postage	38404	19202	19202		
Travel, meals, accomm	70353	--	70353		
Uniforms--	--	--	--		
Water & electricity	3122	1561	1561		
<b>TOTAL</b>	<b>E 965578</b>	<b>195845</b>	<b>182723</b>	<b>23427</b>	<b>563583</b>

**Recovery rates 20.28% 121.56%**

**G & A recovery rate= Total G&A/Total all operating costs.**

$$195845/965578 \times 100 = 20.28\%$$

**Overhead recovery rate = Total overhead costs(excl total direct salaries)/Total direct salaries. [ Total direct salaries= E150 311]**

$$182723/150311 \times 100 = 121.56\%$$

## OVERHEAD AND GENERAL ADMINISTRATIVE RATES

FOR THE PERIOD JULY 1, 1990 TO 30 JUNE 1991

Line Item	AUDITED accounts	G & A	OVERHEAD	EXPENSE UN- ALLOWABLE	
				G & A	Overhead
Airfreight	8337				8337
Advertising	630				630
Accounting fee	--	--	--	--	--
Auditors remuneration					
- Audit fee	11990		11990		
- Accountancy	--				
Bank charges	1569	1569			
Car hire	30384		11586		18798
Consulting fees	72106		52427		19679
Depreciation	8517		8517		
Directors' salaries	60000		60000		
General expenses	9919	7249		2670	
Insurance & Licences	26682		26682		
Interest paid	66165			66165	
Leasing charges-Equip	29656		29656		
-Motor vehicles	62615	62615			
Motor vehicle repairs	20704	20704			
Printing & stationery	22471	22471			
Professional fees	800				800
Rates	4304		4304		
Rent	68703	34351	34352		
Repairs & maintenance	4752		4752		
Salaries & wages	228527	114263	114264		
Security	17174		17174		
Secretarial fees	4215	4215			
Sub-contractors	97422				97422
Telephone & postage	11298	5649	5649		
Teas & Cleaning	3142		3142		
Travel, meals, accomm	42270		42270		
Water & electricity	5709	2854	2855		
<b>TOTAL</b>	<b>E 920061</b>	<b>275940</b>	<b>429620</b>	<b>68835</b>	<b>145666</b>

Recovery rates

29.99% 104.20%

G &amp; A recovery rate= Total G&amp;A/Total all operating costs.

$$275940/920061 \times 100 = 29.99\%$$

Overhead recovery rate = Total overhead costs(excl total direct salaries)/Total direct salaries.

[ Total direct salaries= E412 289]

$$429620/412289 \times 100 = 104.20\%$$

-2- UNAB-07



# KHALIPHA INVESTMENTS

(PTY) LTD.

April 22, 1992

Mr C. D. Botha  
Managing Director  
Deetlefs and Company  
P.O. Box 3805  
Randburg, RSA  
2125

Ref.: Overhead Rate Audit  
Report dated  
March 31, 1992

Dear Mr. Botha:

Thank you for your draft report on Khalipha's overhead rates and other financial and accounting issues. We have received comments relating to your draft audit report from our auditors, Ernst & Young, and have incorporated those comments in the following response.

As you know, Khalipha is a relatively new firm established in 1987 with various business interests. Over the past two years Khalipha has decentralized its companies with the objective of having self-financed operations totally independent from each other. The implementation of our decentralization strategy has been slow, but we believe the results of our efforts have begun to materialize at the end of the first quarter of 1992.

Numerous new financial and internal control systems have been introduced recently and we are presently using those new systems to more accurately provide our senior management with better financial desegregation of costs and revenues by activity with a subsequent substantial increase in Khalipha's internal financial controls.

The following is our response to your Audit Report of Khalipha point-by-point where necessary.

1. PAGE 11-12 Article 1.3.3 "Summary of Audit Results."

I. Recommendation # 1 - Reply:

In conjunction with our auditors, Ernst & Young, Khalipha has designed and set up a manual accounting system which encompasses the following:-

a) Cash books which are written up, analysed and reconciled monthly;

b) A debtors ledger system showing all recoveries from contracts and clients in respect of costs incurred on their behalf by Khalipha reconciled monthly;

c) A creditors ledger system which shows all invoices received and analysed either to contracts or overheads reconciled monthly;

d) A time sheet system where all employees' time is allocated either to projects or overheads on a monthly basis and invoices raised wherever the cost is recoverable; and

e) A filing system where invoices are filed as analysed in the creditors ledger, bank statements and reconciliations filed on a monthly basis, time sheets and their analyses filed on a monthly basis and all project-related costs which are filed separately.

Substantial headway has been made to ensure that a system of internal controls has been put in place over the past several months.

B. Internal controls have been substantially strengthened and new proper accounting records are being maintained monthly. This system has been designed by our company auditors Ernst & Young in Swaziland. A senior member of their staff has been involved on a weekly basis in implementing the new accounting system, training Khalipha's accounting staff and supervising the accounting day-to-day operations.

II. Recommendation # 2 - Reply:

The advance amount in question of \$11,294.00 was returned to USAID on April 1, 1992. A full itemized account of the original advance of \$30,300.00 was provided to USAID upon completion of our contract in 1990.

48

2. Page 13-24, Article 2, "Internal Control Structure".

I. Recommendation #3 Reply:

Khalipha has recently set up a manual accounting system which is comprehensive and adequately serves our needs for the next year. The ultimate aim of Khalipha is to computerise the accounting functions but it has been decided to delay the implementation of such a system until the beginning of the next financial year. An accounting programme called Solomon III version 3.0 has been acquired from a US-based firm and when the transition to computerisation takes place, the accounting personnel will be sufficiently familiar with the present manual system to ensure an efficient transition.

II. Recommendation # 4 - Reply :

As stated, Khalipha has recently set up a manual accounting system that allocates projects' direct costs along with overhead and general and administrative costs. By the beginning of next fiscal year (June 1, 1992) written procedures covering the new accounting system will be adopted as administrative and financial policy for Khalipha. The salaries issue in recommendation number four is covered in our reply to recommendation number seven-A (7A) that follows.

III. Recommendation # 5 - Reply :

As stated in our reply to recommendation number three, Khalipha has procured Solomon III version 3.0 to computerize its accounts, beginning in Khalipha's next fiscal year. At that time, it is expected that present and new financial and accounting staff will be sufficiently familiar with the manual accounting system to ensure a more effective and efficient transition to computerized accounting. The transition is expected to require three to six months before all the "bugs" can be worked out of the system. Consequently, the manual system will be run concurrently to ensure accuracy of Khalipha's accounts for this period.

IV. Recommendation # 6 - Reply :

A new filing system designed by Kalamazoo has been purchased by Khalipha and is being implemented at present. The new system is advanced, simplifies filing and allows immediate access by project, client or expense.

V. Recommendation # 7 - Reply :

A subsidiary ledger has been opened within Khalipha's accounting section that relates to each project and contract reconciled back to the general ledger.

VI. Recommendation # 7A - Reply :

As stated in the audit report, Khalipha had instituted time sheets from June 1, 1990. A new advanced time sheet has been developed that allocates salaries by direct and indirect costs, and between contracts. Also see recommendation number 1 reply "subsection E" for further filing details.

3. Page 25-28, Article 3, "Independent Report on Compliance".

I. Recommendation # 8 Reply :

As stated earlier in recommendation reply numbers 1,3,4,5,6 and 7, a new accounting system which includes a monthly reconciled and analysed cash book, a debtors ledger reconciled monthly showing all recoveries from contracts and clients in respect of cost incurred, a creditors' ledger reconciled monthly showing all invoices received and analysed either as direct contract costs or overhead costs, a new time sheet system and a new filing system.

II. Recommendation # 9 - Reply :

The initial advance provided by USAID was held in a separate non-interest bearing account within Khalipha and returned early April, 1992. The advance was held under the assumption that the advance will be subtracted from the amounts owed by USAID. Only after a formal letter dated March 18, 1992 and a subsequent meeting between USAID's financial staff and Khalipha's financial staff was it apparent that the advance could not be off-set against amounts owed by USAID.

III. Recommendation # 10 - Reply :

Job descriptions within Khalipha have historically been included within each employee's "Contract of Employment". Specific job descriptions for Khalipha's financial staff have been prepared recently and are on file with Khalipha's Personnel Manager, Mr. S. Magagula.

4. Page 29, Article 4. "Financial Management Capability".

I. Recommendation # 11 - Reply :

Khalipha has employed qualified accountants historically, but have lost those employees due to "job hopping". At present Khalipha has a bookkeeper and financial analyst employed who have been trained by Ernst & Young. A third long-term Senior Accountant has been employed to successfully implement the new accounting and administrative systems designed by Ernst & Young. Overall accounting supervision is provided by Ernst & Young to Khalipha on a weekly basis.

5. Page 30-34, Article 5. "Overhead and General Administrative Rates".

I. Recommendation # 12 - Reply :

According to the Companies Act of 1912 on completion of a statutory audit Khalipha was in full compliance with the requirement of the Act in relation to the keeping of proper books of accounts. At the time of its incorporation, it was not intended that Khalipha would provide consulting services to USAID. Accordingly, it was not deemed necessary to implement advanced accounting systems. In fact, the cost-benefit ratios at the time did not warrant such a sophisticated system. However, as a result of past and recent contract awards from USAID, Khalipha has invested considerable time and effort in understanding USAID's requirements for an accounting system along with designing and implementing a system to ensure compliance with U.S. Government regulations and use of project funds. The new system will produce financial statements and allow for the allocation of overheads and G & A expenses.

51

II. Recommendation of Rates # 13 - Reply :

Khalipha will discuss recommended rates with the appropriate USAID representative once a NICRA has been proposed to Khalipha.

We thank you for providing Khalipha with an opportunity to formally respond to the observations and recommendations contained in your overhead rate audit report. We also welcome USAID to visit our office in Swaziland and review our new accounting systems to verify their existence and compliance with USAID regulations.

If you require any elaboration on the points raised in this letter, please feel free to call.

Sincerely,



Peter J. Capozza  
Director

cc: Mr. M. Kenyon, RCO  
USAID-Swaziland



UNITED STATES  
AGENCY FOR INTERNATIONAL DEVELOPMENT  
USAID MISSION TO SWAZILAND

*Received 20/5/92*

P.O. BOX 750, MBABANE, SWAZILAND  
TEL. 48430, TELEX 2016 WD

May 05, 1992

Mr. C. D. Botha  
Managing Director  
Deetlefs and Company  
P.O. Box 3805  
Randburg, RSA  
2125

**Subject: Overhead Rate Audit of Khalipha Investments**

Dear Mr. Botha:

We have received your draft audit of Khalipha Investments and would like to submit our comments. USAID/Swaziland will not attempt to respond to the specific recommendations you have made in terms of Khalipha's financial management systems as these can only be commented upon by the relevant staff at Khalipha. However we would like to address a few general points in the audit report which are as follows:

- 1) The report states that all of Khalipha's records related to USAID contracts were examined. However, these records have not been properly verified until compared with the mission financial reports. A member of your staff once requested these reports but never returned to collect the printouts.
- 2) On page nine of the report it is stated that "Despite the lack of full accounting records, we believe the Fund Accountability Statement presents fairly, in conformity with the basis of accounting described in the Notes to the Statement, the revenues and expenses of the three projects...". If there is a lack of full accounting records why do you believe that the statement presents fairly the revenues and expenses incurred in the projects?
- 3) The outstanding advance amount of \$11,294 has been returned to USAID. We would like to point out that Khalipha had been advised that we were waiting on a final voucher in order to settle the advance, which is why a bill of collection was not issued.

53

4) On Page 20 the last sentence reads "the general control environment with respect to the USAID contracts is insufficient". Perhaps an explanation of why it is insufficient would be in order here.

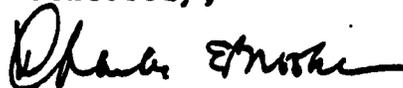
5) In spite of all the financial system and internal control deficiencies, it is stated that Khalipha need not employ a qualified accountant. It would seem that a qualified accountant should be recommended not only to implement the recommendations in the report but also to maintain any new systems put in place.

6) We would like to request that the report include an explanation stating what base should be utilized when calculating overhead and G & A.

7) On Page 34 it is pointed out that Khalipha's rates are much higher than expected. I cannot see a basis for this statement and unless an explanation can be provided to clarify this statement I recommend it be deleted from the report.

Please feel free to call me or Mrs. Malika Magagula if you should have any questions.

Sincerely,



Charles E. Brooks  
Controller

cc: M. Kenyon, RCO  
D. Eames, PD/PEO  
K. Reagor, RIG/A/Nairobi

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