

Regional Inspector General for Audit  
Nairobi, Kenya

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Audit of  
The Kenya Health Care Financing Program  
Under Grant No. 615-0245

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Report No. 3-615-93-25-N  
July 16, 1993



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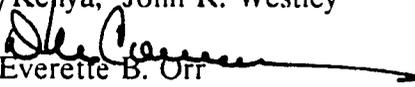
U.S. AGENCY FOR  
INTERNATIONAL  
DEVELOPMENT

July 16, 1993

**Memorandum**

TO: Director, USAID/Kenya, John R. Westley

*Regional  
Inspector General  
for Audit/Nairobi*

FROM: ~~for~~ RIG/A/Nairobi,  Everett B. Orr

SUBJECT: Agency-contracted Audit of the Kenya Health Care Financing Program under Grant No. 615-0245, Audit Report No. 3-615-93-25-N

Attached are five copies of an Agency-contracted audit of the Kenya Health Care Financing Program under Grant No. 615-0245. The accounting firm of Price Waterhouse, Kenya, performed the audit.

The grant agreement for the Kenya Health Care Financing Program (KHCFP) was signed on August 28, 1989 for a period of five years. The grant is for a total of \$9.7 million which is to be disbursed in three tranches. The purpose of the grant is to assist the Government of Kenya (GOK) in accomplishing progressive economic reforms in health care financing. The program will result in reallocation of financial resources in favor of preventive/primary health care services and increased financial resources available to the overall health sector. The implementation of these reforms primarily will occur through three institutions: Ministry of Health (MOH), Kenyatta National Hospital (KNH) and the National Hospital Insurance Fund (NHIF). As of June 30, 1992, the total amount allocated to tranche one of \$4.6 million had been disbursed by USAID to the GOK.

The audit found that no funds had been received by the NHIF in the period ending June 30, 1992. Therefore, the audit covered expenditures incurred by the Ministry of Health and Kenyatta National Hospital. The audit covered the period August 28, 1989 through June 30, 1992 and covered expenditures of \$4,730,419 out of total claimed expenditures of \$5,020,295. The objectives of the audit were to:

- audit the KHCFP's Fund Accountability Statement and express an opinion as to whether the Fund Accountability Statement presents fairly, in all material respects and in conformity with the basis of accounting described in the report, the use of funds in accordance with the grant agreement;

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- consider the KHCFP's internal control structure in order to determine the auditing procedures for the purposes of expressing an opinion on the Fund Accountability Statement and to report on significant internal control deficiencies and material weaknesses; and
- test the implementing Institutions' compliance with the terms of the grant agreement as part of obtaining reasonable assurance about whether the Fund Accountability Statement is free of material misstatement, and report on any identified material instances of noncompliance.

The auditors issued an adverse opinion on the Fund Accountability Statement. The auditors found that MOH books reported expenditure in excess of funds provided by USAID of \$707,198. In addition, the MOH had incurred ineligible costs of \$291,365 while KNH had ineligible costs of \$55,803. The ineligible costs consisted of expenditures such as allocations associated with other projects, first class air fares, accounting errors, overpayment to a staff member, renovations and construction costs. The auditors also reported that the MOH had unsupported costs of \$431,325 while KNH had unsupported costs of \$211. The auditors reported material internal control weaknesses which included poor environmental controls, lack of management direction to develop an appropriate accounting system, a system of accounts not structured to produce regular periodic financial reports, poor document and file maintenance and inadequate control procedures. The auditors also reported material instances of noncompliance. These included failure of (a) MOH to provide USAID with timely, reliable financial information, (b) MOH to maintain adequate records to show receipt and use of goods and services acquired under the grant and (c) MOH and KNH to demonstrate transparency of funds expended under the program. The auditors made recommendations to address the questioned costs, weaknesses in internal controls and noncompliance issues reported above.

The draft report was submitted to the Mission, the Ministry of Health, and Kenyatta National Hospital for comments. Their comments are incorporated in the final report as Appendix I, II and III respectively. The MOH and KNH generally agreed with the findings of the audit and the recommendations made by the auditors. In regard to the questioned amounts, the Mission agreed to recover from the Government of Kenya the total questioned amount less the overstated expenditure. In their response, the auditors indicated that, in the absence of a Fund Accountability Statement prepared on the basis of properly reconciled books, the audit cannot attribute the overstated expenditure to ineligible and unsupported costs. RIG/A/N agrees with the auditors because the over-expenditure could relate to expenditure incurred pending reimbursement from A.I.D. from future tranches. If that is the case, off-setting the over-expenditure against the questioned amounts would legitimize any questioned costs included in the costs pending reimbursement from A.I.D. Without a reconciliation to establish how the over-expenditure occurred it would not be acceptable to off-set the over expenditure against the questioned costs.

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The Office of the Regional Inspector General for Audit is including the following recommendations in the Office of the Inspector General audit recommendation follow up system.

**Recommendation No. 1:** We recommend that USAID/Kenya obtain from the Ministry of Health a reconciliation of expenses in the auditee's general ledger with the funds provided by USAID.

**Recommendation No. 2:** We recommend that USAID/Kenya determine the allowability, and recover as appropriate, from the Government of Kenya, the following questioned ineligible costs:

2.1 \$291,365 incurred by the Ministry of Health, and

2.2 \$55,803 incurred by the Kenyatta National Hospital.

**Recommendation No. 3:** We recommend that USAID/Kenya determine the allowability, and recover as appropriate, from the government of Kenya, the following questioned unsupported costs:

3.1 \$431,325 incurred by the Ministry of Health, and

3.2 \$211 incurred by Kenyatta National Hospital.

**Recommendation No. 4:** We recommend that USAID/Kenya obtain from the Ministry of Health a plan to improve its internal control structure and compliance with grant agreement requirements which would include ensuring:

4.1 that a specific individual with the necessary authority, capability and responsibility is assigned to design a suitable accounting system which includes written procedures;

4.2 that policies and procedures are appropriately followed, through implementation of an acceptable management reporting system and direct supervisory controls;

4.3 that modifications and revisions of the accounting system are made to (a) promote reporting of expenditures at a greater level of detail, (b) ensure correct coding of transactions, and (c) increase the frequency and consistency of program reporting; and

- 4.4 that management procedures are strengthened by updating bank reconciliations, improving the internal audit function, improving the filing system, and providing for periodic reconciliations and analyses of expenditure.

**Recommendation No. 5:** We recommend that USAID/Kenya obtain from Kenyatta National Hospital a plan to improve its internal control structure and compliance with grant agreement requirements which would include ensuring:

- 5.1 that the grant is monitored by a designated individual who has the necessary skills, experience and authority to satisfy grant agreement requirements;
- 5.2 that the accounting system is revised to incorporate cost center codes for each donor funded program to avoid the potential to claim an expenditure under more than one program;
- 5.3 that periodic budget variance analysis reports are prepared in order to improve controls over expenditures and ensure that funds are available for a budget line item prior to authorization of purchase orders; and
- 5.4 that the quality of document and file maintenance is improved.

We consider all recommendations to be unresolved. Recommendation No. 1 will be resolved when the Mission requests the Ministry of Health to reconcile the expenditures included in the general ledger with funds provided by USAID. The recommendation will be closed when a reconciliation is completed. Recommendations No. 2 and 3 will be resolved when the Mission makes a final determination as to the allowability of the questioned amounts. The recommendations will be closed when the Mission takes action appropriate to the determination. Recommendations No. 4 and 5 will be resolved when RIG/A/N receives an acceptable plan for corrective action. The recommendations will be closed upon implementation of the corrective action. Please respond to this report within 30 days indicating action planned or already taken to implement the recommendations.

Thank you for the cooperation extended to Price Waterhouse auditors and the Regional Inspector General for Audit representatives during the audit.

Attachments: a/s.

AUDIT OF  
THE KENYA HEALTH CARE FINANCING PROGRAM  
GRANT NO. 615-0245

ATTACHMENTS

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AGENCY-CONTRACTED AUDIT OF THE KENYA HEALTH CARE FINANCING  
PROGRAM NO. 615-0245

FINAL REPORT

JUNE 14, 1993



AGENCY-CONTRACTED AUDIT OF THE KENYA HEALTH CARE FINANCING  
PROGRAM (KHCFP)

FOR THE PERIOD AUGUST 28, 1989 TO JUNE 30, 1992

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AGENCY-CONTRACTED AUDIT OF THE KENYA HEALTH CARE FINANCING  
PROGRAM (KHCFP)

FOR THE PERIOD AUGUST 28, 1989 TO JUNE 30, 1992

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GLOSSARY

AICPA	American Institutue of Certified Public Accountants
AIE	Authorization to Incur Expenditure
CBK	Central Bank of Kenya
FAS	Fund Accountability Statement
HCF	Health Care Financing (Secretariat)
KHCFP	Kenya Health Care Financing Program
KNH	Kenyatta National Hospital
MOH	Ministry of Health
NBK	The National Bank of Kenya
NHIF	National Hospital Insurance Fund
PIL	Project Implementation Letter
RIG/A/N	Regional Inspector General/Audit/Nairobi

= INTRODUCTION

1.1 BACKGROUND

The Kenya Health Care Financing Program (KHCFP) was authorized on August 28, 1989, when USAID signed a grant agreement with the Republic of Kenya. The purpose of the grant is to assist the grantee in accomplishing progressive economic reforms in health care financing. Specifically, the program will result in reallocation of financial resources in favor of preventive/primary health care services and increased financial resources available to the overall health sector.

Implementation of these reforms will be carried out through three institutions: Ministry of Health (MOH), Kenyatta National Hospital (KNH) and the National Hospital Insurance Fund (NHIF).

The grant agreement is for a five year period. The total amount of the grant is \$9.7 million and is to be disbursed in three tranches. As at June 30, 1992, the total amount allocated to tranche one, \$4.6 million, had been disbursed by USAID.

1.2 AUDIT APPROACH

1.2.1 Audit objectives and scope

Price Waterhouse was contracted under Contract No. 623-0000-I-2003-00 to perform a financial and compliance audit of the program's expenditures incurred by the three implementing institutions for the period August 28, 1989 to June 30, 1992.

This was the first agency-contracted audit of the program. The audit confirmed that no funds had been received by the NHIF in the period ending June 30, 1992. Therefore the audit focused on tranche one expenditures incurred by the other two implementing institutions, namely MOH and KNH.

Expenditure reflected in the Fund Accountability Statement amounted to \$5,020,295. Of this expenditure, the audit tested expenditures amounting to \$4,730,419 (See exhibit 1). The balance of \$289,876 is discussed in Section 1.2.3.

The objectives of the audit were to:

- . audit the KHCFP's Fund Accountability Statement and express an opinion as to whether the Fund Accountability Statement presents fairly, in all material respects and in conformity with the basis of accounting described in the report, the use of the funds in accordance with the Grant Agreement;
- . consider KHCFP's internal control structure in order to determine the auditing procedures for the purpose of expressing an opinion on the Fund Accountability Statement and to report on significant internal control deficiencies and material weaknesses; and
- . test the implementing institutions' compliance with the terms of the Grant Agreement, as part of obtaining reasonable assurance about whether the Fund Accountability Statement is free of material misstatement, and report on any identified material instances of noncompliance.

Our audit was performed in accordance with generally accepted auditing standards and Government Auditing Standards issued by the United States Comptroller General with the exception that we have not been subject to a quality review by a non Price Waterhouse firm. Such reviews are not required or available to professional firms in Kenya. We do not believe that this departure has affected our audit. We were subject to a quality control review in July 1992 undertaken by a Price Waterhouse firm independent of our firm.

Our audit included such tests of the auditees' data and records and other auditing procedures as were considered necessary in the circumstances. The audit was performed under the supervision of the Regional Inspector General (RIG) based in Nairobi. Price Waterhouse also adhered to the guidelines contained in various chapters of the "Guidelines for Financial and Compliance Audits of AID - Financed Agreements".

1.2.2 Methodology

A preliminary survey was conducted to secure an understanding of the grant recipients' accounting systems, assess the overall strength of the systems of internal control, estimate the extent of compliance with the grant provisions and determine the degree to which supporting documentation would be available to the audit team. The survey provided the groundwork from which Price Waterhouse developed its detailed audit work plan.

Price Waterhouse conducted its initial survey from October 29, to November 17, 1992 at which time the selection of transactions for detailed testing was completed. Price Waterhouse subsequently prepared its work plan for approval by RIC/A/N. Fieldwork was commenced November 23, 1992.

The detailed audit work included the following procedures:

- . examination and testing of supporting documentation for expenditures to determine the extent to which they relate to actual identifiable cost transactions and to determine the extent of non-compliance, ineligible or unsupported expenses;
- . performance of detailed audit tests to obtain reasonable assurance of detecting irregularities and illegal acts;
- . a reconciliation of all grant receipts on the Fund Accountability Statement to records held by USAID;
- . a review of the bank account and reconciliation procedures;
- . a study and evaluation of internal accounting controls and accounting practices to the extent necessary to render an opinion on the Fund Accountability Statement;
- . a review of the grant agreement, implementation letters, handbooks, relevant government regulations and other related documents;
- . a review of the existence of an internal audit function; and

a review of job descriptions and qualifications of the financial management personnel employed to manage and account for the grant funds.

1.2.3 Limitation

At the request of USAID, expenditures incurred upcountry by district hospitals in the amount of Shs 6,385,000 (equivalent to US \$284,050) were not audited. Documentation supporting these expenditures, incurred in implementing the cost sharing program, are held at over forty separate locations throughout Kenya.

In addition there were further expenditures incurred upcountry in the amount of Shs 130,945 (equivalent to US \$5,826) which were not included in the audit sample as the small level of expenditures was similarly scattered all over the country. Whilst we do not classify this as a specific limitation of scope, we have expressed no opinion on this expenditure in view of the inadequacy of the project system.

1.3 SUMMARY OF AUDIT RESULTS

1.3.1 Introduction

This summary of audit results highlights only the significant findings. For a complete discussion of our findings, recommendations and observations arising from the KHCFP audit, please refer to the appropriate sections.

1.3.2 Fund Accountability Statement

A financial and compliance audit of the Fund Accountability Statement of the MOH and KNH relating to the Grant Agreement with USAID was performed for the period August 28, 1989 to June 30, 1992.

Audit tests on the Fund Accountability Statement revealed significant ineligible and unsupported costs for the auditees. The audit results include ineligible costs of \$347,168 and unsupported costs of \$431,536.

In respect of MOH, ineligible and unsupported costs total \$291,365 and \$431,325 respectively. Our audit tests identified that MOH's FAS reflects project expenditure in excess of funds made available to it by USAID. This excess, in the amount of \$707,198, has affected our independent audit reports contained in this report.

In accordance with USAID guidelines, our recommendations for reimbursement are based on the gross amount of ineligible and unsupported costs. No allowance is taken for the presence of overstated expenditure. In the absence of a Fund Accountability Statement prepared on the basis of properly reconciled books, this audit cannot attribute the overstated expenditure to ineligible and unsupported costs.

In addition, MOH expenditures in the amount of \$289,876 (12.5% of MOH's FAS expenditure) have not been audited, for reasons outlined in Section 1.2.3. No recommendation is made in respect of these expenditures.

At KNH, ineligible and unsupported costs total \$55,803 and \$211 respectively. This brings the total amount of questioned costs to \$56,014, representing 2.8% of KNH's FAS expenditure.

KNH has submitted further vouchers amounting to US \$60,912 (Shs 1,392,550) in response to the ineligible costs identified above. These vouchers represent costs incurred which have been recorded in recurrent cost ledgers (ie non KHCFP ledgers), but which KNH believes are eligible under the project specifications and should replace the ineligible costs accordingly. For reasons similar to the overstatement of MOH expenditure noted above, this audit cannot replace ineligible vouchers with other vouchers. The Mission must make such determination.

### 1.3.3 Internal control structure

A study and evaluation of the system of internal accounting controls was made to the extent required by generally accepted government auditing standards.

The study and evaluation was designed to determine the nature, timing and extent of auditing procedures necessary to express an opinion on the Fund Accountability Statement.

Our evaluation of the internal control structure identified the following reportable conditions :

- . system of accounts are not structured to promote reliable and regular periodic financial reports;
- . account and bank reconciliations are not regularly performed, and are inadequate when performed;
- . mingled bank accounts are in operation;

- . documentation and file maintenance procedures are unsatisfactory;
- . controls over coding of transactions are inadequate;
- . internal audit checks are not operating effectively;
- . the Finance Department is operating inadequately in carrying out its duties under the program; and
- . control over journal entries is inadequate.

In view of the significance of questioned costs identified in Section 1.3.2, we consider the reportable conditions above constitute a material weakness.

Whilst many of these weaknesses were found to be common to both auditees, section 3 of this report distinguishes the internal control systems in operation at MOH and KNH, and provides recommendations specific to each institution.

#### 1.3.4 Compliance with grant provisions

An evaluation of compliance with the grant provisions and US Government Regulations identified certain material instances of noncompliance. These include:

- . failure to report to the Agency reliable financial data on a timely basis,
- . unsatisfactory books and records to adequately show the receipt and use of grant funds, and
- . failure to promote transparency of use of grant funds - e.g. through establishment of separate bank accounts to receive grant funds.

In view of the significance of questioned costs identified in Section 1.3.2, our audit report states that in our opinion the grant agreement has not been materially complied with.

1.3.5 Summary of management comments

We have reviewed MOH's and KNH's management comments and they generally agreed with the findings of the audit and the recommendations made. The comments also refer to some previously questioned costs for which documentary evidence has since been located. Our findings have been updated for all documentary evidence located subsequent to the draft report and accepted for audit purposes where appropriate.

The auditees have made some progress towards implementation of a number of the recommendations. Their comments have been reproduced in full in the appropriate sections of the final report.

In addition, USAID Mission, MOH's and KNH's comments are included in this report as Appendices I, II and III respectively.



THE KENYA HEALTH CARE FINANCING PROGRAM (KHCFF)

II FUND ACCOUNTABILITY STATEMENT

2.1 INDEPENDENT AUDITOR'S REPORT

We have audited the Fund Accountability Statement of the Kenya Health Care Financing Program No. 615-0245-3-90164 for the period August 28, 1989 to June 30, 1992. The Fund Accountability Statement is the responsibility of the auditee's management. Our responsibility is to express an opinion on the Fund Accountability Statement based on our audit.

We conducted our audit in accordance with generally accepted auditing standards and the standards contained in the Government Auditing Standards issued by the Comptroller General of the United States (1988 revision), with the exception that we have not been subject to a quality control review by a non Price Waterhouse firm. Such reviews are not required or available to professional firms in Kenya. We do not believe that this departure has affected our audit. We were subject to a quality control review in July 1992 undertaken by a Price Waterhouse firm independent of our firm.

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 and disclosures in the Fund Accountability Statement. An audit also includes assessing the accounting principles used and significant estimates made by management as well as evaluating the overall financial statement presentation. We believe that our auditing provides a reasonable basis for our opinion.

As discussed in Note 1 to the Fund Accountability Statement, this statement was prepared on the basis of cash receipts and disbursements which is a comprehensive basis of accounting other than generally accepted accounting principles.

With respect to incurred expenditures, the results of our audit include questioned costs of \$778,704 (ineligible costs of \$347,168 and unsupported costs of \$431,536). In addition, we were subject to a limitation of scope outlined in section 1.2.3, whereby we express no opinion on the eligibility of costs incurred but not audited in the amount of \$289,876.



In our opinion, because of the significance of the questioned costs referred to in the preceding paragraph, the Fund Accountability Statement does not present fairly, in conformity with the basis of accounting described above, the revenues and expenses of the Kenya Health Care Financing Program for the period August 28, 1989 to June 30, 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 use of the Government of Kenya and the United States Agency for International Development but is not intended to limit the distribution of the report, if a matter of public record.

*Rice Waterhouse*

February 15, 1993

2.2 FUND ACCOUNTABILITY STATEMENT

KENYA HEALTH CARE FINANCING PROGRAM  
GRANT AGREEMENT NO. 615-0245  
FOR THE PERIOD AUGUST 28, 1989 THROUGH JUNE 30, 1992

	Note	KShs.	US \$
<b>TREASURY ACCOUNT NO. 169</b>			
Total Deposits	2		
Less Withdrawals:		104,279,260	4,600,000
Distributed to MOH			
Distributed to KNH		52,000,000	2,313,332
Total Withdrawals		<u>45,900,000</u>	<u>2,007,742</u>
		<u>97,900,000</u>	<u>4,321,074</u>
Closing Balance of a/c #169		6,379,260	278,926

<b>MINISTRY OF HEALTH DISTRIBUTION</b>			
Revenue (net of KNH distribution)	2	52,000,000	2,313,332
Expenditure	3		
Salaries		0	0
Non expendable items		4,789,725	213,081
Operating expenses		46,201,774	2,055,385
Other costs		<u>16,905,176</u>	<u>752,064</u>
Total expenditure per MOH books		<u>67,896,675</u>	<u>3,020,530</u>
Overstatement of expenditure		15,896,675	707,198

<b>KENYATTA NATIONAL HOSPITAL DISTRIBUTION</b>			
Revenue from MOH	2	45,900,000	2,007,742
Expenditure	3		
Salaries		0	0
Non expendable items		12,510,796	547,243
Operating expenses		32,867,957	1,437,699
Other costs		<u>338,899</u>	<u>14,824</u>
Total expenditure per KNH books		<u>45,717,652</u>	<u>1,999,766</u>
Funds received and unspent - tranche 1		182,348	7,976

## NOTES TO THE FUND ACCOUNTABILITY STATEMENT

### 1. Basis of Accounting

The Fund Accountability Statement has been prepared on a cash basis, which is a comprehensive basis of accounting other than Generally Accepted Accounting Principles. As noted in Notes 2 and 3 below, revenues and expenditures are recorded when cash is physically received or expended.

### 2. Revenues

Total deposits received by Treasury represent amounts received under the program from USAID in the period August 28, 1989 to June 30, 1992.

Revenues received by MOH are based on payment vouchers prepared and approved by Treasury during the period, net of allocations to KNH described below.

Revenues received by KNH represent monies received from MOH during the period in respect of the program. The payment vouchers prepared by MOH in this respect correspond to cash receipts recorded in KNH's accounting records.

### 3. Expenditures

Expenditures comprise the sum of expenses in the ledger accounts designated for recording transactions related to the Kenya Health Care Financing Program.

### 4. Currency conversion

Conversion of Kenya Shillings to US dollars is based on the exchange rate used by Treasury when crediting the special local currency account with funds received from USAID.

**KENYA HEALTH CARE FINANCING PROGRAM  
EXPENDITURE STATEMENT  
FOR THE PERIOD AUGUST 28, 1989 THROUGH JUNE 30, 1992**

MINISTRY OF HEALTH	Costs Claimed		Amount Recommended To Be		
	KSh.	US \$	Accepted	Ineligible	Unsupported
			US\$	US\$	US\$
Non-expendable items	4,789,725	213,081	170,040	0	43,041
Operating expenses	46,201,774	2,055,385	1,758,089	1,347	295,949
Other costs	10,389,231	462,188	79,835	290,018	92,335
Unaudited costs	6,515,945	289,876	0	0	0
<b>Total</b>	<b>67,896,675</b>	<b>3,020,530</b>	<b>2,007,964</b>	<b>291,365</b>	<b>431,325</b>

KENYATTA NATIONAL HOSPITAL					
Non-expendable items	12,510,796	547,242	547,031	0	211
Operating expenses	32,867,957	1,437,699	1,381,896	55,803	0
Other costs	338,899	14,824	14,824	0	0
<b>Total</b>	<b>45,717,652</b>	<b>1,999,765</b>	<b>1,943,751</b>	<b>55,803</b>	<b>211</b>

COMBINED					
Non-expendable items	17,300,521	760,323	717,071	0	43,252
Operating expenses	79,069,731	3,493,084	3,139,985	57,150	295,949
Other costs	10,728,130	477,012	94,659	290,018	92,335
Unaudited costs	6,515,945	289,876	0	0	0
<b>Total</b>	<b>113,614,327</b>	<b>5,020,295</b>	<b>3,951,715</b>	<b>347,168</b>	<b>431,536</b>

NOTES TO THE FUND ACCOUNTABILITY STATEMENT (AUDIT FINDINGS ON EXPENDITURE)

Unaudited costs (& sample selection criteria)

The audit sample profile is set out in Exhibit 1.

The majority of unaudited costs of \$289,876 comprise cost sharing expenditures in the amount of \$284,050, which at the request of USAID were not audited. This limitation of scope is discussed in section 1.2.3.

In respect of auditable costs, 99.88% of costs were audited as illustrated in Exhibit 1. This approach was considered necessary in view of the poor state of accounting records, and the lack of proper reconciliations.

No opinion has been expressed on the eligibility of unaudited expenditures, in view of the high level of questioned costs identified in the audit and the inadequacy of the project system.

2.3 FINDINGS AND RECOMMENDATIONS : FUND ACCOUNTABILITY STATEMENT

2.3.1 Finding on funds received and not spent

The Fund Accountability Statement reflects funds received from USAID which had not been spent on the KHCFP project at June 30, 1992. These balances are as follows:

- . an amount of Shs 6,379,260 (equivalent to US \$278,926) remained in special local currency account no. 169 at June 30, 1992, as evidenced by Treasury bank statements. Of this balance, \$100,000 is intended for distribution to NHIF, and the remainder is available for approved project expenditure of MOH;
- . a cash amount of \$7,976 remained accountable in the hands of KNH, representing the excess of inward receipts over KNH project expenditures. As detailed in Section 3.4, KNH's bank reconciliation procedures do not split cash at bank among the various projects. Accordingly, it is not possible to verify the amount above as cash held by KNH; and
- . the records of MOH are insufficient to verify whether any project cash remained on hand at June 30, 1992. The ledger expenditure designated for the program exceeds funds received under the program, thereby implying a negative amount of cash on hand. The bank reconciliations cannot verify project cash as they are not up to date, and in any event they do not split cash at bank among the various projects.

Recommendation No. 1

We recommend that:

- 1.1 the implementing institutions be kept accountable by USAID for the cash balances on hand at June 30, 1992 as outlined above and
- 1.2 the Ministry of Health reconcile the expenses in the ledger with the funds provided by USAID.

**Auditee comments**

No comments.

**USAID comments**

The Mission concurs.

**Auditors' response**

We continue to make the above recommendations.

**2.3.2 Finding on ineligible costs**

Details of ineligible costs in the amount of \$347,168 are provided in Exhibits 2 and 3, comprising \$291,365 for MOH and \$55,803 for KNH. These ineligible costs arise for a number of reasons including:

- . overpayment to a staff member who was issued an advance imprest warrant for a KHCFP expense, and was subsequently paid again on production of an expense report for the same expenditure
- . first class air fare to USA
- . allocation of MOH recurrent expenditures to the project ledger, including the purchase of a motor vehicle for the Division of Planning
- . allocation of expenditures associated with other projects including:
  - . freight handling charges for printed matter from Switzerland
  - . economy class fares for travel to USA by staff to attend courses under the USAID/Kenya Family Planning & Child Survival project
  - . full board for staff to attend seminar in Mombasa for the Control of Diarrhoeal Diseases
  - . construction of a district hospital
  - . renovation and repairs to health and dispensary centres financed by the World Bank

construction of Lodwar School of Nursing

accounting error whereby a cancelled cheque for KHCFFP expenditure at KNH has never been reversed in the accounting records.

Recommendation No. 2

USAID should determine the allowability and recover from the Government of Kenya as appropriate, ineligible expenditures of \$291,365 for Ministry of Health and \$55,803 for Kenyatta National Hospital.

**Auditee comments**

Ministry of Health comments (set out in Appendix II) address one major expenditure voucher which was previously classified as ineligible but has subsequently been accepted for audit, based on further consideration of the Mission's comments and review of the Project Implementation Letters. The Ministry thereby implicitly accepts the revised recommendation.

As noted in Section 1.3.2, KNH has submitted further vouchers from recurrent cost ledgers amounting to US \$60,912 (Shs 1,392,550) in response to the ineligible costs identified above, and believes these costs should replace the ineligible costs identified above.

**USAID comments**

The Mission comments (set out in Appendix I) address two major expenditure vouchers which were previously classified as ineligible but have subsequently been accepted for audit, based on further consideration of the Mission's comments and review of the Project Implementation Letters.

The Mission thereby implicitly concurs with the revised recommendation.

**Auditors' response**

Accepted. In the case of Kenyatta National Hospital, the auditors have no jurisdiction to substitute vouchers in the manner requested by the auditee. This is a matter for Mission determination.

### 2.3.3 Finding on unsupported costs

Details of unsupported costs in the amount of \$431,536 are provided in Exhibits 4 and 5, comprising \$431,325 at MOH and \$211 at KNH.

For the purposes of the audit, a cost is unsupported in the event that one or more of the following documentation cannot be located:

- . payment voucher, along with supporting documentation (invoices, LPO's etc) verifying the nature and description of the expenditure
- . in the case of journals, sufficient supporting documentation to validate the entry in the accounting records.

Exhibits 4 and 5 specify which of the above documentation remains outstanding with respect to each line item of unsupported expenditure detailed therein.

#### Recommendation No. 3

USAID should determine the allowability and recover, as appropriate, unsupported costs of \$431,536 from the Government of Kenya if supporting documents are not provided.

#### Auditee comments

Ministry of Health clarifies that the total amount disbursed to purchase the revenue stamps pertains to the total cost and number of stamps ordered, which they have received in full. In a letter subsequent to their comments, they have presented copies of the packing lists to support the total number of stamps received. As a result, we have re-classified this expenditure as unsupported until the auditee supplies the auditors' with the corresponding invoices to justify the full cost of the order.

In the case of Kenyatta National Hospital, they accept the revised recommendation.

#### USAID comments

USAID's comments (as set out in Appendix I), recommend that the Mission should recover from the Government of Kenya the total questioned costs, net of the overstated expenditure.

**Auditors' response**

In accordance with USAID guidelines, our recommendations for reimbursement are based on the gross amount of ineligible and unsupported costs. No allowance is taken for the presence of overstated expenditure. In the absence of a Fund Accountability Statement prepared on the basis of properly reconciled books, this audit cannot attribute the overstated expenditure to ineligible and unsupported costs.



THE KENYA HEALTH CARE FINANCING PROGRAM (KHCFP)

III INTERNAL CONTROL STRUCTURE

3.1 INDEPENDENT AUDITOR'S REPORT ON INTERNAL ACCOUNTING CONTROLS

We have audited the Fund Accountability Statement relating to the Kenya Health Care Financing Program No. 615-0245 for the period August 28, 1989 to June 30, 1992 and have issued a report thereon dated February 15, 1993.

We conducted our audit in accordance with generally accepted auditing standards and Government Auditing Standards, issued by the Comptroller General of the United States (1988 revision), with the exception that we have not been subject to a quality control review by a non Price Waterhouse firm. Such reviews are not required or available to professional firms in Kenya. We do not believe that this departure has affected our audit. We were subject to a quality control review in July 1992 undertaken by a Price Waterhouse firm independent of our firm.

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 of KHCFP for the period August 28, 1989 to June 30, 1992, we considered its internal control structure in order to determine our auditing procedures for the purpose of expressing our opinion on the Fund Accountability Statement and not to provide assurance on the internal control structure.

The management of MOH and KNH is responsible for establishing and maintaining an internal control structure. In fulfilling this responsibility, estimates and judgements by management are required to assess the expected benefits and related costs of internal control structure, policies and procedures. The objectives of an internal control structure are to provide management with a reasonable, but not absolute, assurance that assets are safeguarded against loss from unauthorized use or disposition, and that transactions are executed in accordance with management's authorization and recorded properly to permit the preparation of the Fund Accountability Statement 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. Also, projection of any evaluation of the structure to future periods is subject to the risk that procedures may become inadequate because of changes in condition or that the effectiveness of the design and operations of policies and procedures may deteriorate.



For the purpose of this report, we have classified significant internal control structure policies and procedures in the following categories:

- . CONTROL ENVIRONMENT
  - Implementing institution personnel
  - Project definition & implementing institution responsibilities
  - Written policies & procedures (including job descriptions)
- . ACCOUNTING SYSTEMS
  - Project reporting systems
  - Accounting systems of implementing institutions
  - Allocation of costs to the project
  - Coding of transactions to the general ledgers
- . CONTROL PROCEDURES
  - Purchasing procedures
  - Personnel procedures
  - Authorization and clerical controls

For all of 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, summarize and report financial data consistent with the assertions of management in the Fund Accountability Statement.

The following reportable conditions were observed:

- . poor environmental controls to ensure compliance with the grant agreement,
- . no management direction to develop an appropriate accounting system,
- . a system of accounts not structured to produce regular periodic financial reports,
- . poor document and file maintenance, and



. inadequate control procedures.

Our consideration of the internal control structure would not necessarily disclose all matters in the internal control structure that might be material weaknesses under standards established by the American Institute of Certified Public Accountants.

A material weakness is a reportable condition in which the design or operation of one or more of the specific internal control structure elements does not reduce to a relatively low level of 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.

In our opinion, the reportable conditions described above constitute a material weakness in view of the fact that expenditures of \$778,704 were ineligible or unsupported.

Financial information contained in this final 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 the United States Embassy, Kenya and the Agency for International Development but is not intended to limit the distribution of the report, if a matter of public record.

*Pricewaterhouse*

February 15, 1993

## 3.2 INTRODUCTION

### 3.2.1 Definition

American Institute of Certified Public Accountants' (AICPA) Codification of Auditing Standards, Section 319, defines an organization'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 comprises three elements:

- . the 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, analyze, 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 organization's resources.

In Sections 3.3 and 3.4 below, we have classified our findings and recommendations by these three categories, as they apply to the respective auditees' internal control structures.

### 3.2.2 Work performed

Our review of the respective auditees' internal control structures was directed towards those elements which relate to the nature of project funding. The review encompassed the following:

- . CONTROL ENVIRONMENT
  - Implementing institution personnel
  - Project definition & implementing institution responsibilities
  - Written policies & procedures (including job descriptions)
- . ACCOUNTING SYSTEMS
  - Project reporting systems
  - Accounting systems of implementing institutions
  - Allocation of costs to the project
  - Coding of transactions to the general ledgers

- . CONTROL PROCEDURES
  - Purchasing procedures
  - Personnel procedures
  - Authorization and clerical controls

We observe that the KHCFP is a five year program, scheduled for completion by August 28, 1994. We believe that immediate implementation of the recommendations specified in sections 3.3 and 3.4 will significantly improve the auditees' abilities to account for future project revenues and expenditures.

3.3 INTERNAL CONTROL STRUCTURE FINDINGS AND RECOMMENDATIONS FOR MINISTRY OF HEALTH

A CONTROL ENVIRONMENT

3.3.1 Finding on MOH financial management environment

The MOH environment is such that the accounting system which has evolved cannot be relied upon to accurately record transactions or produce financial statements. The accounting staff are not adequately supervised to ensure their awareness of, and compliance with, specific project responsibilities designated in their job descriptions. There has been a lack of continuity in accounting staff, and lack of environment conducive to reliable and consistent financial management of project funds.

Recommendation No. 4

We recommend that:

- 4.1 the Ministry of Health assign a specific individual with the corresponding authority and capability, responsibility for designing a suitable accounting system which incorporates written procedures, and
- 4.2 the Ministry of Health ensure the implementation of stronger management reporting systems and direct supervisory controls in order to ensure policies and procedures are appropriately followed.

Auditee comments (MOH)

The Ministry accepts the recommendations in whole and will strictly adhere to them while making expenditures on Tranche II.

USAID comments

The Mission is not clear on what is required in this recommendation because during the USAID/Price Waterhouse exit conference held in early February, the auditors indicated that the GOK has accounting systems but the problem is that these systems are not being followed up properly. Is the GOK expected to design additional accounting systems? Please clarify this recommendation.

During the exit conference meeting held on March 23, 1992, the MOH confirmed that the Head of the HCF Secretariat will be made the AIE holder for all the KHCFP funds effective GOK fiscal year 1993/94. Since the HCF Secretariat is now staffed with an accountant, among other staff, this action will greatly strengthen the accountability of HCF funds. In addition, it was henceforth agreed that MOH will be reporting on the expenditures to USAID on a quarterly basis.

#### Auditors' response

In terms of the clarification requested by the Mission above, this recommendation does not refer to the accounting hardware or software employed by GOK. It refers to the remainder of the accounting systems environment, comprising a whole range of factors including the accounting ledger structure employed for KHCFP, the supervision of accounting staff, project responsibilities, and attitudes and procedures relating to reliable and consistent financial management reporting of program funds.

In this respect, we accept that extensive involvement of the HCF Secretariat and the increased frequency of project reporting should strengthen the control environment over MOH expenditures.

#### 3.3.2 Finding on project responsibility

The implementing institution personnel responsible for compliance with the terms and provisions of the grant agreement do not appear to have been clearly defined. This lack of assigned responsibility has created an environment leading to substantial non-compliance with the grant terms. A separate bank account to record grant transactions was not set up and books and records do not adequately show the receipt and use of grant funds.

#### Recommendation No. 5

We recommend that the grant be monitored by a clearly designated official (a grant co-ordinator) whose responsibility should include making all other relevant parties aware of the limits of the grant and enforcing its provisions. This individual should possess the skills, experience and authority to satisfy the grant requirements.

#### Auditee comments (MOH)

The Ministry accepts the recommendations in whole and will strictly adhere to them while making expenditures on Tranche II.

**USAID comments**

The Mission agrees that there should be an individual designated as a grant co-ordinator for each donor funded project. In the case of the KHCFP, the Head of the Secretariat will be designated as the grant co-ordinator.

**Auditors' response**

Accepted.

**B ACCOUNTING SYSTEM**

**3.3.3 Finding on structure of general ledger**

The structure of the chart of accounts system at MOH is not conducive to comprehensive financial reporting. Only one general ledger account exists to record KHCFP expenditures. There is no further analysis of expenditures to satisfy key requirements for accurate financial reporting to a level of detail consistent with the budgetary process.

One result of this weakness has been that MOH has had insufficient information at hand to meet USAID's requirements of project reporting of line item expenditures, leading to incorrect interim reporting as detailed in Section 4.3.

**Recommendation No.6**

We recommend that the accounting system be modified to promote the reporting of Kenya Health Care Financing Program expenditures to a greater level of detail. This may be achieved by the implementation of logical sub-ledger codes consistent with the program's budgetary line items.

**Auditee comments (MCH)**

The Ministry accepts the recommendations in whole and will strictly adhere to them while making expenditures on Tranche II.

**USAID comments**

The accounting system in the GOK is universal for all GOK Ministries and can not therefore be modified. However, the Mission together with the KHCFP Technical Assistance team will work with MOH on the reporting formats and requirements of USAID. The implementation of "logical sub-ledger codes" will be reviewed with the GOK to see if it will aid reporting.

#### **Auditors' response**

The action on reporting formats and chart of accounts is accepted. The fact that the GOK hardware and software systems are fixed was taken into account throughout the audit, and the finding and recommendation stated above has focused accordingly on the need to modify the structure of the general ledger and chart of accounts recording KHCFP expenditures.

#### **3.3.4 Finding on system of cost classification**

As outlined in section 2.3.2, a large amount of costs have been incorrectly coded to the KHCFP ledger account. These costs are either recurrent in nature, or are associated with other projects. The scope of our audit could not determine whether eligible KHCFP expenditure incurred has been incorrectly coded to other MOH ledger accounts.

#### **Recommendation No. 7**

We recommend that:

- 7.1 the accounting system be revised to promote the correct coding of transactions made by Ministry of Health. This would include the enforcement of tighter controls over the authorization of vouchers and data input, including independent checks and reconciliations, and
- 7.2 a review be undertaken of MOH's current account code balances to bring reconciliations up to date and to reclassify expenses charged to incorrect projects.

#### **Auditee comments (MOH)**

The Ministry accepts the recommendations in whole and will strictly adhere to them while making expenditures on Tranche II.

#### **USAID comments**

The Mission will require MOH to correct its miscodings and update its reconciliations. The Mission expects that there will be an improvement in account codings for the KHCFP once the control of funds is shifted to the HCF Secretariat.

#### **Auditors' response**

Accepted.

3.3.5 Finding on lack of separate bank account

The bank account applicable to KHCFP is also operated for MOH's general development and the conduct of other projects. No separate bank account has been maintained to account for project expenditure on a non-commingled basis.

We observe that the grant agreement only places an obligation on the Republic of Kenya to establish a separate bank account in Treasury for initial receipt and distribution of USAID funds. However, the accountability and audit trail of MOH project expenditure would be considerably enhanced by the establishment of a separate bank account.

Recommendation No. 8

We recommend that Ministry of Health discuss with USAID the merits for establishment of a separate bank account to account for revenues and expenditures under the program.

Auditee comments (MOH)

The Ministry accepts the recommendations in whole and will strictly adhere to them while making expenditures on Tranche II.

USAID comments

Under the GOK Exchequer Act, GOK Ministries are not allowed to open separate bank accounts in commercial banks. However, since the HCF Secretariat will be the AIE holder, different set of accounting books will be maintained which will be separate from the other MOH accounting records.

Auditors' response

Accepted.

3.3.6 Finding on program reporting

Project reporting has not been regularly conducted, whether for internal management purposes or externally to USAID. Accordingly, matters raised in this report have been allowed to compound as the program has proceeded without rectification.

At a briefing meeting with the Permanent Secretary on December 7, 1992, it was suggested by Agency staff and the Permanent Secretary that quarterly reporting be introduced in respect of project funds.

Recommendation No. 9

We recommend that program reporting be increased in frequency and consistency.

**Auditee comments (MOH)**

The Ministry accepts the recommendation in whole and will strictly adhere to them while making expenditures on Tranche II.

**USAID comments**

The Mission and MOH have already agreed that quarterly reporting to USAID by MOH will henceforth be required. This action should close this recommendation.

**Auditors' response**

This recommendation is closed.

**C CONTROL PROCEDURES**

**3.3.7 Finding on accounting staff performance of duties**

Job descriptions for the accounting staff include among others the following duties:

- . responsibility to maintain high accounting standards
- . authorization of payment vouchers
- . enforcement of accounting and financial regulations
- . supervision of accounting records and systems
- . maintenance of manual accounting records to record and monitor all transactions related to the project
- . peruse and reconcile records with monthly expenditure returns and computerised ledgers and trial balance
- . prepare accurate and realistic accounts at the end of the financial year indicating the actual position for all individual donor financed project.

Our audit revealed that many duties are not carried out as they should be as evidenced by the following:

- . there is a high number of misclassified expenditures
- . bank reconciliations are not up to date
- . there is a high number of unsupported expenditures
- . no fund accountability statement was prepared
- . document and file maintenance was found inadequate
- . there are considerable differences between the values of the ledger accounts and those reported in a letter to USAID
- . no monthly reconciliations or analysis of the expenditures incurred are performed
- . expenditures recorded in the ledger account exceed funds received from the special local currency account.

**Recommendation No. 10**

We recommend that management procedures be strengthened to ensure accounting staff carry out their duties.

**Auditee comments (MOH)**

The Ministry accepts the recommendation in whole and will strictly adhere to them while making expenditures on Tranche II.

**USAID comments**

This recommendation is redundant and should therefore be deleted.

**Auditors response**

This recommendation is not redundant as it refers to the failure of MOH staff to carry out designated duties consistent with appropriate financial management, this being the source of the majority of recommendations raised in this report. The Mission should satisfy itself that the intended future role of the HCF Secretariat will ensure that all of the designated duties described in this finding will be carried out in future.

3.3.8 Finding on bank account reconciliations

Bank account reconciliations are currently inadequate for the following reasons:

- . the reconciliations are not up to date. The most recent reconciliation was performed in May 1991
- . the reconciliations do not account for funds on a project by project basis. This clouds the accountability trail for funds received under the program, as remaining cash on hand cannot be individually verified
- . there is no satisfactory investigation into outstanding cheques. The most recent bank reconciliation includes outstanding cheques dating back as far as 1978.

Recommendation No. 11

We recommend that bank reconciliations be updated as a matter of priority, and address the accountability of funds on an individual project basis. Outstanding cheques should be investigated, and either reissued or reversed as appropriate.

**Auditee comments (MOH)**

The Ministry accepts the recommendation in whole and will strictly adhere to them while making expenditures on Tranche II.

**USAID comments**

The Mission will require the MOH to update all recommendations.

**Auditors' response**

Accepted.

3.3.9 Finding on internal audit function

Internal audit's control over the project has been inadequate. Their involvement with respect to the administration of the grant funds has been restricted to authorizing payments and ensuring they are adequately supported. Our audit tests on the grant expenditures revealed significant ineligible and unsupported costs, in many instances for which vouchers were evidenced as signed by internal audit. In two other instances, payments were processed despite not being authorized by the internal audit function.

In addition, no project audit has been carried out by internal audit for this program since inception.

In respect of the absence of a project audit, we appreciate that internal audit must designate its own priorities and direct its limited resources appropriately. However, in view of the findings of this report, internal audit may wish to schedule project audits of this program in future.

Recommendation No. 12

We recommend that controls enforced by internal audit be tightened to ensure that no expenditures are incurred without correct supporting documentation, accurate coding and appropriate departmental authorization.

**Auditee comments (MOH)**

The Ministry accepts the recommendation in whole and will strictly adhere to them while making expenditures on Tranche II.

**USAID comments**

The Mission agrees that the internal audit function should be tightened. However, it is not within the Mission's power to make this happen. We request this recommendation be deleted.

**Auditors' response**

Internal audit's role in KHCFP is an important part of GOK's internal controls in ensuring program accountability is maintained. In this respect, the findings raised above reflect a serious breakdown in these controls. Accordingly, we maintain this recommendation. While recognising that internal audit does not come under the Mission's jurisdiction, we believe the Mission may discuss with GOK representatives the failure of the internal audit function to promote program accountability, and that such discussions may lead to either an improvement in internal audit's performance or the introduction of alternative, compensating controls.

**3.3.10 Finding on document and file maintenance**

The maintenance of documents and files was found inadequate and has led to a large number of unsupported costs as evidenced by the following:

some payment vouchers either had no supporting documentation or were only partially supported

- . cleared and returned cheques from the bank were missing from their files
- . some payment vouchers and files could not be found at all
- . breakdown in responsibility trails, whereby accounting staff were recorded to be in possession of files for long periods without follow-up. Subsequent investigation at the time of the audit revealed that such staff believed the files had been returned a long time ago.

In general the quality of filing was poor, there being no reliable system.

Recommendation No. 13

We recommend that:

- 13.1 the quality of document and file maintenance be improved,
- 13.2 the responsibility for developing and maintaining a suitable filing system be assigned to a specific individual. This system should enable an individual to locate a file at any time, and
- 13.3 records relating to the Kenya Health Care Financing Program be kept in a secure location and filed on a systematic basis.

**Auditee comments (MOH)**

The Ministry accepts the recommendation in whole and will strictly adhere to them while making expenditures on Tranche II.

**USAID comments**

The Mission agrees that file and document maintenance should be improved by MOH. Mission will require that KHCFF files and documents be properly maintained.

**Auditors' response**

Accepted.

3.3.11 Finding on journal entries

A significant number of unsupported journal entries, to the value of \$259,107, were recorded in the KHCFP account. Although these entries were authorized, they are not supported by any attached information, neither are there journal commentaries giving background reasons for the entries. Subsequent interview of personnel who had originated or approved such journal entries, revealed in many instances that the personnel could not recall specific reasons for the entries.

Recommendation No. 14

We recommend that journal entries be supported and provide more information such as what transactions and amounts were involved and why the entry was required.

Auditee comments (MOH)

The Ministry accepts the recommendation in whole and will strictly adhere to them while making expenditures on Tranche II.

USAID comments

The Mission concurs.

Auditors' response

Accepted.

3.4 INTERNAL CONTROL STRUCTURE FINDINGS AND RECOMMENDATIONS FOR KENYATTA NATIONAL HOSPITAL

A CONTROL ENVIRONMENT

3.4.1 Finding on project responsibility

The implementing institution personnel responsible for compliance with the terms and provisions of the grant agreement do not appear to have been clearly defined. This lack of assigned responsibility has created an environment leading to substantial non-compliance with the grant terms. A separate bank account to record grant transactions was not set up and books and records do not adequately show the receipt and use of grant funds.

Recommendation No. 15

We recommend that the grant agreement be monitored by a clearly designated official (a grant co-ordinator) whose responsibility should include making all other relevant parties aware of the limits of the grant and enforcing its provisions. This individual should possess the skills, experience and authority to satisfy the grant agreement requirements.

Auditee comments (KNH)

We entirely agree with this recommendation. All future grants will be monitored by our Planning Manager, who shall be the Grant Co-ordinator, and will be assisted by our Senior Accountant who will be responsible for all financial matters, as the Project Accountant.

USAID comments

The Mission agrees that there should be a grant co-ordinator. The Mission will encourage KNH to designate an official to be the KHCFP grant co-ordinator.

Auditors' response

Accepted.

3.4.2 Chief accountant and senior accountant positions

Since early 1990, the positions of chief and senior accountants have been vacant. These positions have been filled temporarily by an Accountant I employee. In addition, in the past two years the position of finance manager has seen a high turnover. As a result, the accounting department has suffered from a lack of continuity and direction.

Recommendation No. 16

We recommend that the positions of chief and senior accountants be filled as soon as possible by individuals who possess the necessary qualifications and experience.

Auditee comments (KNH)

We agree with proposition. Since the audit, we may wish to report that the two positions are already filled and the officers are in place. In fact, one Senior Accountant will be responsible for Donor Financing.

USAID comments

The Mission concurs.

Auditors' response

This recommendation is now closed, as the two positions have been filled since we have completed the detailed field work.

B ACCOUNTING SYSTEM

3.4.3 Finding on accounting approach

The accounting system uses an inverted approach, whereby costs are initially incurred, and then the applicability of the expenditures to the various current donor programs is considered, along with the availability of program funds remaining.

Consequently, KHCFP expenditures have been initially charged to the regular KNH account code, and thereafter allocated against the program to the extent that it is believed that program provisions have been met.

This method of accounting introduces a risk that expenditures may be claimed under more than one program where multi-program conditions have been met. The scope of our audit has not extended to determine whether such double-claiming has occurred.

Recommendation No. 17

We recommend that the accounting system be revised to incorporate cost center codes for each donor funded program to avoid the potential to claim an expenditure under more than one program. Cost center codes would also enhance the quality and usefulness of the financial information generated.

**Auditee comments (KNH)**

The revision of the accounting system to incorporate cost centre codes for each donor funded program, is already at an advanced stage. Our Planning Manager has already initiated this concept in the Hospital, but we may wish to state that since this is quite a new concept, and our accounting system (accruals) being at its infancy stages (having just changed from the central government cash accounting), we may beg to be allowed some more time, to study and introduce the system. However, we also wish to state that by allocating different accounting codes for each donor funded program, there is very little possibility of claiming an expenditure under more than one program.

**USAID comments**

The Mission will discuss the revision of the accounting system to incorporate cost center codes for each donor funded program.

**Auditors' response**

We continue to make the above recommendation, but we understand that it will require some time to bring the accrual accounting system and implementation of cost centres fully under control.

**3.4.4 Finding on lack of separate bank account**

The bank account applicable to KHCFFP is also operated for KNH's general development and the conduct of other projects. No separate bank account has been maintained to account for project expenditure on a non-commingled basis. We observe that the grant agreement only places an obligation on the Republic of Kenya to establish a separate bank account in Treasury for initial receipt of funds. However, the accountability and audit trail of KNH project expenditure would be considerably enhanced by the establishment of a separate bank account.

**Recommendation No. 18**

We recommend that Kenyatta National Hospital discuss with USAID the merits for establishment of a separate bank account to account for revenues and expenditures under the program.

**Auditee comments (KNH)**

Since Kenyatta National Hospital is a parastatal, the issue of establishment of a separate bank account for the program, would, if the Donor so wishes, be presented to the Board of Management for approval. This would be after deliberations with USAID.

**USAID comments**

The Mission together with KNH will explore the possibility of KNH opening a separate bank account assuming now that it is acceptable under the Exchequer Act since KNH is a parastatal and not a GOK Ministry.

**Auditors' response**

Accepted.

**C CONTROL PROCEDURES**

**3.4.5 Finding on control over expenditures**

Although the project implementation letters (PIL #4,5 and 9) do not impose any rigid structure as to how the funds need to be utilized, KNH submitted a proposed plan of expenditure to USAID before receiving any funds.

It was found that no periodic budget variance analysis reports have been subsequently prepared to compare expenditure line items with the original budget submission. As a result, many line items of the budget for tranche one were over run. The cost authorization procedures did not take into consideration these specific over runs.

These are as follows:

	<u>Per Budget</u> <u>Shs</u>	<u>Actual</u> <u>Shs</u>	<u>Variance</u> <u>Shs</u>
Drugs	4,000,000	14,256,320.75	10,256,320.75
MRC Infusion Bottles	1,200,000	2,159,276.50	959,276.50
Dental Services	6,000,000	6,553,434.50	553,434.50
D.P.M. Consultancy	4,550,000	5,025,000.00	475,000.00

These over runs were financed by spending less expenditure on other line items, including laboratory and theatre services, linen, transport, spares for maintenance, renal unit and private wing. There is a danger that a significant change to expenditure mix might change the nature of the program.

Recommendation No. 19

We recommend that:

- 19.1 Kenyatta National Hospital prepare periodic budget variance analysis reports in order to improve control over expenditures. In addition, an individual should be responsible for monitoring grant expenditures and in particular ensuring that funds are available for the budget line item prior to the authorization of a purchase order, and
- 19.2 for future tranches, USAID consider a more specific approach to project implementation letters concerning the allocation of funds. This will facilitate expenditure monitoring.

**Auditee comments (KNH)**

We agree that periodic budget variance analysis reports are necessary in order to improve control over expenditure. We have now designated one of our recently recruited Senior Accountants as the Accountant responsible for Donor financing. One of his responsibilities will be to ensure that funds are available for the budget line item prior to the authorization of a purchase order.

**USAID comments**

The Mission agrees that periodic budget variance is important to improve control over expenditures. As in the case for MOH, the Mission will henceforth require quarterly financial reporting from KNH showing actual as compared to budgeted expenditures.

However, the Mission does not concur with a more specific approach to PILs. As you are aware, USAID together with KNH programs the "general" uses of the HCF tranche funds. The use of these funds is not meant to be specific so as to allow flexibility.

**Auditors' response**

Accepted. Our concern with the general use of HCF tranche funds is that there is significant overlap in the types of expenditures acceptable to KNH's different donors. It follows that the link between donor income and expenditure may not be sufficiently strong to promote accountability, for example a voucher expense might be claimed from more than one donor. We accept the Mission comments concerning PILs, but suggest that the quarterly reporting process include a requirement for KNH to provide listings of specific expenses claimed against tranche funds, and representation that no such costs have been or will be claimed from other donors.

3.4.6 Finding on bank reconciliations

Bank reconciliations for the development account were found to be unsatisfactory as they did not split funds on a project by project basis. This clouds the accountability trail for funds received under the program, as remaining cash on hand cannot be individually verified.

Recommendation No. 20

We recommend that monthly bank reconciliations be further analyzed to distinguish funds available on a project by project basis, and a separate bank account be opened for each project.

**Auditee Comments (KNH)**

We agree that our bank reconciliation is normally behind schedule but all concerted effort has been put to ensure that it is up to date. We may wish to report that as of now, the reconciliation for April 1993 is ready. In future, when we have a separate bank account for each project, and with a Senior Accountant in place, we hope the situation will not be the same again.

**USAID Comments**

The Mission will encourage KNH to update its bank reconciliations and will request KNH to explore the possibility of opening separate bank accounts for each project/donor.

**Auditors' response**

Accepted.

3.4.7 Finding on internal audit function

Internal audit's control over the project has been inadequate. Their involvement with respect to the administration of the grant funds has been restricted to authorizing payments and ensuring they are adequately supported. Our non-federal audit tests on the grant expenditures revealed significant ineligible and unsupported costs, in many instances for which vouchers were evidenced as signed by internal audit.

Our discussions with internal audit personnel revealed their view that their department is currently understaffed leading to inability to satisfactorily carry out their duties.

In addition, no project audit has been carried out by internal audit for this program since inception. In respect of the absence of a project audit, we appreciate that internal audit must designate its own priorities and direct its limited resources appropriately. However, in view of the findings of this report, internal audit may wish to schedule project audits of this program in future. The claims of under staffing should be investigated and rectified if appropriate.

Recommendation No. 21

We recommend that controls enforced by internal audit should be tightened to ensure that no expenditures are incurred without correct supporting documentation, accurate coding and appropriate departmental authorization.

Auditee comments (KNH)

We agree that controls should be enforced by Internal Audit in order to ensure that no expenditures are incurred without correct supporting documentation, accurate coding and appropriate departmental project audit, this task will be undertaken by our Internal Audit Department, which we are in the process of strengthening. We have already advertised for the post of Senior Internal Auditor, which we hope to fill soon.

USAID comments

The Mission agrees that the internal audit function should be tightened. However, it is not within the Mission's power to make this happen. We request this recommendation be deleted.

Auditors' response

Internal audit's role in KHCFP is an important part of GOK's internal controls in ensuring program accountability is maintained. In this respect, the findings raised above reflect a serious breakdown in these controls. Accordingly, we maintain this recommendation. While recognising that internal audit does not come under the Mission's jurisdiction, we believe the Mission may discuss with GOK representatives the failure of the internal audit function to promote program accountability, and that such discussions may lead to either an improvement in internal audit's performance or the introduction of alternative, compensating controls.

3.4.8 Finding on document and file maintenance

The maintenance of documents and files was found inadequate and has led to a large number of unsupported costs:

- . some payment vouchers either had no supporting documentation or were only partially supported
- . cleared and returned cheques from the bank were missing from their files

In general the quality of filing was poor, there being no reliable system.

Recommendation No.22

We recommend that:

- 22.1 the quality of document and file maintenance be improved,
- 22.2 the responsibility for developing and maintaining a suitable filing system be assigned to a specific individual. This system should enable an individual to locate a file at any time, and
- 22.3 records relating to the Kenya Health Care Financing Program be kept in a secure location and filed on a systematic basis.

Auditee comments (KNH)

We agree with the recommendation that the quality of document and file maintenance should be improved. We are in the process of establishing a proper accounts registry which will be responsible for this task. In future, all KHCFP files will be kept in a secure location and filed in a systematic basis.

USAID comments

The Mission agrees that document and file maintenance should be improved. The Mission will require that KHCFP files be properly maintained.

Auditors' response

Accepted.



THE KENYA HEALTH CARE FINANCING PROGRAM (KHCFF)

IV COMPLIANCE WITH GRANT PROVISIONS AND APPLICABLE LAWS AND REGULATIONS

4.1 INDEPENDENT AUDITOR'S REPORT ON COMPLIANCE WITH GRANT AGREEMENT TERMS AND APPLICABLE LAWS AND REGULATIONS

We have audited the Fund Accountability Statement of the Kenya Health Care Financing Program No. 615-0245 for the period August 28, 1989 to June 30, 1992 and have issued our report thereon dated February 15, 1993.

We conducted our audit in accordance with generally accepted auditing standards and Government Auditing Standards, issued by the Comptroller General of the United States (1988 revision), with the exception that we have not been subject to a quality control review by a non Price Waterhouse firm. Such reviews are not required or available to professional firms in Kenya. We do not believe that this departure has affected our audit. We were subject to a quality control review in July 1992 undertaken by a Price Waterhouse firm independent of our firm.

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 the terms of the agreement is the responsibility of the management of MOH and KNH. As part of obtaining reasonable assurance about whether the Fund Accountability Statement is free of material misstatement, we performed tests of MOH's and KNH's compliance with certain provisions of the grant agreement. However, our objective was not to provide an opinion on overall compliance with such provisions. Accordingly, we do not express such an opinion.

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 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:

- . MOH has not provided USAID with timely, reliable and accurate financial information
- . failure to maintain adequate records to show the receipt and use of goods and services acquired under the grant as required by the program agreement standard provisions resulting in \$347,168 in ineligible costs and \$431,536 in unsupported



- . failure of MOH and KNH to demonstrate transparency of funds expended under the program (including lack of separate bank accounts to account for project funds).

We considered these material instances of non-compliance in forming our opinion on whether the KHC FP Fund Accountability Statement is presented fairly, in all material aspects, and this report does affect our report dated February 15, 1993 on this statement.

Except for matters described above, results of our tests indicate that, with respect to the items tested, MOH and KNH complied, in all material respects, with the provisions referred to in paragraph 4 of this report. With respect to items not tested, based upon the high incidence of questioned costs observed in the tested items, we are unable to conclude that MOH and KNH has complied, in all material respects, with those provisions.

Financial information contained in this final report may be privileged. The restrictions of 18 USC 1905 should be considered before any information is released to the public.

This final report is intended solely for the information of the United States Embassy, Kenya and the Agency for International Development but is not intended to limit the distribution of the report, if a matter of public record.

*Pricewaterhouse*

February 15, 1993

#### 4.2 INTRODUCTION

USAID requires all grantees, regardless of the country of legal entity, to comply with the terms and conditions included in the grant agreement and its attached provisions and referenced procurement regulations.

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

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

#### 4.3 FINDINGS AND RECOMMENDATIONS

##### 4.3.1 Finding on reconciliation of report on the expenditures of tranche one and ledger accounts

A requirement of the grant agreement is for the grantee to meet USAID's reasonable requests for reports and information relating to use of grant funds.

USAID requested from MOH, in a first letter dated February 14, 1991 and in a reminder letter dated May 28, 1991, a brief report on the utilization of funds of tranche one of the grant. We observe that there were considerable differences between the values of the ledger accounts and those reported to USAID on June 14, 1991 and September 3, 1991 by KNH and MOH respectively.

##### Recommendation No. 23

We recommend that financial information be submitted to USAID on a timely basis and should reconcile with the ledger accounts.

##### Auditee comments (MOH)

The Ministry accepts the recommendation in whole and will strictly adhere to them while making expenditures on Tranche II.

**Auditee comments (KNH)**

We agree that financial information should be submitted promptly to USAID and should reconcile with the Ledger Accounts. The Senior Accountant we have recruited will be responsible for the preparation of quarterly reports in respect of each project.

**USAID comments**

The Mission concurs and as mentioned in the response to Recommendation No. 19 will require quarterly reporting.

**Auditors' response**

Accepted.

**4.3.2 Finding on record keeping**

The grant agreement requires books and records to be maintained, in accordance with duly accepted accounting principles, to show without limitation the receipt and use of funds from the Special Local Currency Account.

Contrary to this agreement the books and records maintained by MOH are considered unsatisfactory for the period under review. This is evidenced by the high incidence of ineligible and unsupported costs, incorrect classification of costs, lack of accounting reconciliations, and poor filing and document maintenance.

Our recommendations in this respect are set out in Sections 2 and 3 of this report, together with responses from the Ministry, Kenyatta National Hospital and USAID.

**4.3.3 Finding on bank accounts**

Contrary to principles contained in the grant agreement, the auditees have not promoted the transparency of funds disbursed from USAID. Whilst the Republic of Kenya has met its obligation under the project agreement to establish a separate local currency account for receipt of USAID funds under the program, the transparency of use of these funds is clouded from there onwards for the following reasons:

MOH and KNH do not maintain a separate bank account for USAID funds under the program. This makes it difficult to reconcile USAID funds, particularly where bank reconciliations are over twelve months out of date

- . at the MOH recurrent costs and costs related to other donor programs were included in the KHCFP ledger account. All development funds and expenditures are deposited and drawn from the same bank account. This clouds the accountability trail, particularly where bank reconciliations are not kept up to date and are not project-specific
- . an analysis of the development bank account used by KNH showed that all funds received from tranche one were deposited in that account. However, some of the funds were then immediately transferred to the recurrent bank account. This makes reconciliations difficult, particularly where such reconciliations are not project specific.

Our recommendations in this respect are set out in Sections 2 and 3 of this report, together with responses from the auditees and USAID.

**EXHIBITS**

<b>SAMPLE PROFILE</b>	<b>1</b>
<b>SCHEDULE OF THE INELIGIBLE COST AT KNH</b>	<b>2</b>
<b>SCHEDULE OF INELIGIBLE COSTS AT MOH</b>	<b>3</b>
<b>SCHEDULE OF THE UNSUPPORTED COST AT KNH</b>	<b>4</b>
<b>SCHEDULE OF UNSUPPORTED COSTS AT MOH</b>	<b>5</b>

**SAMPLE PROFILE**  
**KENYA HEALTH CARE FINANCING PROGRAM**  
**GRANT AGREEMENT NO. 615-0245**  
**FOR THE PERIOD AUGUST 26, 1989 THROUGH JUNE 30, 1992**

	MOH		KNH		COMBINED	
	KSh.	US \$	KSh.	US \$	KSh.	US \$
Costs per Ledgers	67,896,675	3,020,530	45,717,652	1,999,765	113,614,327	5,020,295
Limitation of Scope (1)	6,385,000	284,050	0	0	6,385,000	284,050
Amount Able to Audit	61,511,675	2,736,480	45,717,652	1,999,765	107,229,327	4,736,245
Amount Tested	61,380,730	2,730,654	45,717,652	1,999,765	107,098,382	4,730,419
% of total expenditure	90.40		100.00		94.26	
% of amount able to audit	99.79		100.00		99.88	
Amount not Tested (1)	6,515,945	289,876	0	0	6,515,945	289,876
% of total expenditure	9.60		0.00		5.74	
% of amount able to audit	0.21		0.00		0.12	

## Notes:

(1) Expenses incurred upcountry for which documentation is not kept in Nairobi. Refer to section 1.2.3.

**KENYA HEALTH CARE FINANCING PROGRAM**  
**SCHEDULE OF INELIGIBLE COST AT KNH**

Date	Supplier/Payee	Amount Shs	Amount US \$	Payment Voucher	Cheque #	Reason
22.10.90	P.S. – MOH	1,275,734.85	55,802.76	2102	215 583	Cancelled cheque and entry not reversed in accounting records

**KENYA HEALTH CARE FINANCING PROGRAM  
SCHEDULE OF INELIGIBLE COSTS AT MOH**

Date	Supplier/Payee	Amount Shs	Amount US \$	Payment Voucher	Cheque #	Reason
31.07.90	Three Rhinos Construction	117,118.70	5,210.28	0115	678 444	Renovations and repairs of Kithyoko, Kithimani and Wamunyu dispensaries
31.07.90	Three Rhinos Construction	275,098.30	12,238.34	0115	678 440	Renovations and repairs of Kithyoko, Kithimani and Wamunyu dispensaries
01.08.90	Ngwani Construction	163,400.00	7,269.20	0116	678 453	Renovations and repairs of Mitaboni, Matungulu and Mbiuni dispensaries
16.08.90	Mr B B O Korrodoh	5,055.00	224.88	0001	Cash	Allowance to supervise construction of district hospital
17.08.90	Capital Construction Co.	1,655,468.00	73,647.06	0003	029 205	Construction project of district hospital
01.10.90	Capital Construction Co.	2,339,382.80	104,072.48	0002	200783 200784	Construction project of district hospital
17.10.90	Ngwani Construction	61,320.00	2,727.95	1751	680 892	Renovations and repairs of Mitaboni, Matungulu and Mbiuni dispensaries
23.11.90	Marshalls E.A.	100,831.00	4,485.68	0592	009 377	Final payment for purchase of a 504 Estate for the division of planning
07.12.90	?	16,000.00	711.79	0682	?	Wrong station code and source code – Misallocation
07.12.90	?	16,000.00	711.79	0683	?	Wrong station code and source code – Misallocation
07.12.90	?	18,000.00	800.77	0684	?	Wrong station code and source code – Misallocation
19.12.90	Ngwani Construction	145,280.00	6,463.09	2785	710 681	Renovations and repairs of Mitaboni, Matungulu and Mbiuni dispensaries
24.12.90	G G Gachara Construction	874,951.00	38,924.08	7158	158 149	Construction of Lodwar School of Nursing
30.01.91	Three Rhinos Construction	16,350.00	727.36	3431	683 519	Renovations and repairs of Kithyoko, Kithimani and Wamunyu dispensaries
06.03.91	Ngwani Construction	41,850.00	1,861.79	4575	684 152	Renovations and repairs of Mitaboni, Matungulu and Mbiuni dispensaries

Continued next page

**KENYA HEALTH CARE FINANCING PROGRAM  
SCHEDULE OF INELIGIBLE COSTS AT MOH (CONT.)**

Date	Supplier/Payee	Amount Shs	Amount US \$	Payment Voucher	Cheque #	Reason
11.04.91	Three Rhinos Construction	268,999.30	11,967.01	4808	684 950	Renovations and repairs of Kisau and Ngwata Health Centres
06.05.91	Three Rhinos Construction	263,320.20	11,714.37	5238	685 709	Renovations and repairs of Kisau and Ngwata Health Centres
07.05.91	Kenya Airways	27,586.00	1,227.22	1071	009 968	One way ticket to the USA – Sponsored by USAID but for other program
07.05.91	Continental Beach Cottages, Mbsa	70,670.00	3,143.91	1090	009 969	Full board accommodation for 30 participants to attend a seminar on control of diarrhoeal diseases
10.06.91	Mr G F Wekesa	5,000.00	222.44	1415	Cash	Overpayment to a staff member who was issued an advance and subsequently paid again on production of an expense report
08.03.91	Kenya Airfreight	1,046.00	46.53	0905	Cash	Freight handling charges for printed matter from Switzerland
30.04.91	Kenya Airways	36,426.00	1,620.49	1048	009 961	Air fares to the USA to attend courses for USAID/Kenya Family Planning & Child Survival Program
14.02.91	Kenya Airways	30,286.00	1,347.34	0856	009 567	First class air fare to USA
<b>TOTAL INELIGIBLE COSTS</b>		<b>6,549,438.30</b>	<b>291,365.85</b>			

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**KENYA HEALTH CARE FINANCING PROGRAM  
SCHEDULE OF UNSUPPORTED COST AT KNH**

Date	Supplier/Payee	Amount Shs	Amount US \$	Payment Voucher	Cheque #	Reason
16.08.91	Commissioner – Customs & Excise	4,830.00	211.27	3215	215 624	L.P.O.  Original invoice for rental charge of container of MRC bottles  Copy of receiving document for consignment of MRC bottles

**KENYA HEALTH CARE FINANCING PROGRAM  
SCHEDULE OF UNSUPPORTED COSTS AT MOH**

Date	Supplier/Payee	Amount Shs	Amount US \$	Payment Voucher	Cheque #	Reason
17.04.90	Government Printers	6,600.00	293.62	0540	009 090	Payment Voucher Invoice L.P.O. Delivery Note
18.04.90	Government Printers	110,000.00	4,893.59	1053	009 102	Payment Voucher Invoice L.P.O. Delivery Note
15.05.90	Apricot Apple Promotions	137,900.00	6,134.78	0067	009 164	Payment Voucher Invoice L.P.O. Delivery Note
30.06.90	?	60.00	2.67	0657	?	Payment Voucher Invoice L.P.O. Delivery Note
30.06.90	?	200.00	8.90	0657	?	Payment Voucher Invoice L.P.O. Delivery Note
29.05.90	Kenya Airfreight	20,802.00	925.42	0119	009 227	Payment Voucher Invoice L.P.O. Delivery Note
15.06.90	Min. of Foreign Affairs	2,534,304.65	112,744.00	1494	009 641	Inv. # HB/90/2792 Hilbro PVT Ltd. Inv. # HB/90/2992 Hilbro PVT Ltd. Inv. # HBL-0709026 Bashmir Jamil & Bros. PVT Ltd. Inv. # EXP/90/4138 Oayum & Elahisons Inv. # 76/1029 Falcon Surgical Co. Inv. # 76/1058 Falcon Surgical Co. Inv. # 76/1060 Falcon Surgical Co. Inv. # 76/2029 Falcon Surgical Co.  Delivery note from Oayum & Elahisons Delivery note from Surgical Co.
15.06.90	Apricot Apple Promotions	967,500.00	43,041.32	1521	009 614	Delivery note for 18 duplicating machines
12.07.90	?	19,987.50	889.19	1292	?	Payment Voucher Invoice L.P.O. Delivery Note
01.02.91	Government Printers	2,194,803.80	97,640.57	0584	009 556	Delivery notes for 3,135,434 out-patient cards
27.08.90	?	(2,882.50)	(128.23)	0280	?	Payment Voucher Invoice L.P.O. Delivery Note

Continued next page

**KENYA HEALTH CARE FINANCING PROGRAM**  
**SCHEDULE OF UNSUPPORTED COSTS AT MOH (CONT.)**

Date	Supplier/Payee	Amount Shs	Amount US \$	Payment Voucher	Cheque #	Reason
26.10.90	Simba Construction Company	344,000.00	15,303.58	0520	009 876	Payment Voucher Invoice L.P.O. Delivery Note
26.10.90	Kinuthia Elect. Construction	56,000.00	2,491.28	0520	009 877	Payment Voucher Invoice L.P.O. Delivery Note
26.10.90	Simba Construction Company	410,751.20	18,273.15	0521	009 878	Payment Voucher Invoice L.P.O. Delivery Note Tender Board Authority
26.10.90	Kinuthia Elect. Construction	68,314.00	3,039.10	0521	009 879	Payment Voucher Invoice L.P.O. Delivery Note
26.10.90	Bimach Engineers Limited	25,300.00	1,125.52	0521	009 880	Payment Voucher Invoice L.P.O. Delivery Note
26.10.90	Kensmetal Ltd.	2,371.05	105.48	0521	009 881	Payment Voucher Invoice L.P.O. Delivery Note
16.05.91	?	208,518.70	9,276.40	9380	?	Payment Voucher Invoice L.P.O. Delivery Note
30.06.91	John G Kariuki	70.00	3.11	0967	Cash	Missing receipt to expense report
28.06.91	Mrs Mudavadi	200.00	8.90	1178	Cash	Missing receipt to expense report
17.06.91	?	28,000.00	1,245.64	1223	?	Payment Voucher Invoice L.P.O. Delivery Note
27.06.91	Mr Osanya	120.00	5.34	1275	Cash	Missing receipt to expense report
30.06.91	?	66,719.95	2,968.18	0313	?	Payment Voucher Invoice L.P.O. Delivery Note
30.06.91	?	12,500.00	556.09	1038	?	Payment Voucher Invoice L.P.O. Delivery Note
30.06.91	?	560,000.00	24,912.81	1039	?	Payment Voucher Invoice L.P.O. Delivery Note Tender Board Authority
08.03.90	Crown Agents	1,923,364.00	85,564.99	1014	008 980	Invoices from Harrison & Sons Limited
<b>TOTAL UNSUPPORTED COSTS</b>		<b>9,695,504.35</b>	<b>431,325.40</b>			

SS

**APPENDIX I**

**MISSION COMMENTS TO REPORT**

UNITED STATES OF AMERICA  
AGENCY FOR INTERNATIONAL DEVELOPMENT  
USAID MISSION TO KENYA



UNITED STATES POSTAL ADDRESS  
US AID MISSION TO KENYA  
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NAIROBI, KENYA

6 MAY 1993

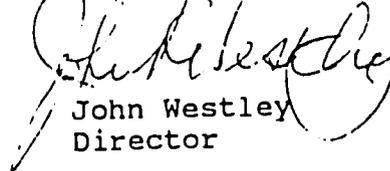
Mr. Andrew Hagger  
Audit Manager  
Price Waterhouse  
P.O. Box 41500  
Nairobi

**Subject: USAID Contracted Audit of the Kenya Health Care  
Financing Program: Draft Report dated February  
15, 1993**

Dear Mr. Hagger:

Further to our letter dated April 28, 1993 providing the Mission's response to the recommendations of the subject audit report, and your acknowledgement of receipt dated April 29, 1993, the Mission concurs with Recommendation Numbers 1.1 and 1.2, which stated that: 1) implementing institutions should be kept accountable by USAID for the cash balances on hand at June 30, 1992 and 2) that the Ministry of Health should reconcile the expenses in the ledger with the funds provided by USAID respectively.

Sincerely,



John Westley  
Director

Cc: Mr. Daniel Mbiti  
Permanent Secretary  
Ministry of Health  
P.O. Box 30016  
Nairobi

Prof. Julius Meme  
Director  
Kenyatta National Hospital  
P.O. Box 20723  
Nairobi

E. Cecile Adams, Mission Controller  
Everette Orr, RIG/A/N

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UNITED STATES OF AMERICA  
AGENCY FOR INTERNATIONAL DEVELOPMENT  
U.S.A.I.D. MISSION TO KENYA

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APO AE 09831 - 4102

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POST OFFICE BOX 30261  
NAIROBI, KENYA

28 APR 1993

Mr Andrew Hagger  
Price Waterhouse  
Management Consultants  
Rattansi Education Trust Building  
P.O. Box 43963  
Nairobi, Kenya

**Subject: USAID Contracted Audit of the Kenya Health Care Financing Program (KHCFP) Draft Report dated February 15, 1993**

Dear Mr. Hagger:

USAID/Kenya provides the following comments on the subject audit report as requested in your letter dated February 15, 1993. For more detailed clarification these comments should be read in conjunction with the Ministry of Health's (MOH's) and the Kenyatta National Hospital's (KNH's) comments which were forwarded to you directly by MOH and KNH.

**A. Recommendations for MOH:**

1. Recommendation No. 1 is missing so the Mission comments start from Recommendation No. 2 which requests the Mission to consider seeking reimbursement for the ineligible expenditures, subject to the netting of amounts outlined in Section 2.3.3.

**Response:** The summary of Audit Results schedule on page 10 (Section 2.3.3) shows \$ 740,634 as ineligible costs. However, the Mission requests that the following MOH expenditures classified as ineligible be reclassified as eligible in the final audit report:

1. Payment on 15.06.90 to Teva Pharmaceutical (\$234,999.37) for supply of blood taking sets.

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2. Payment on 12.11.90 to Thunder and Associates (\$59,704.20) for conducting computer training course for senior management.

The MOH Program Implementation Letter (PIL) Number 8, and the corresponding Action Memo to the USAID/Kenya Mission Director (copies attached), approved use of MOH's tranche one funds for three categories, one of which was:

"Procurement and supply of items supportive to the cost-sharing policy and institutional goals of the Health Care Financing Program with particular reference to health care delivery in lower-level facilities. The focus will be on those supplies critical to ensuring both quality and efficiency of services in these facilities, thereby reducing the demand for secondary care."

An adequate and safe supply of blood to the health system is critical for both the "quality and efficiency of services" and thus qualifies as an eligible item for use of tranche one funds.

Further, computer training of senior managers to strengthen the computerized Management Information System within the MOH supports monitoring of the MOH's Health Care Financing Program, one of its institutional goals. Such a system is providing routine monitoring information for assessing the impact of the Program. Consequently, the training of senior management in computers is also an eligible cost item for use of tranche one funds.

The Mission therefore requests that a total of \$294,703.57 be accepted as eligible.

2. Recommendation No. 3 requests the Agency to consider seeking reimbursement for these unsupported expenditures, subject to adjustment for appropriate documentation located after the date of the draft report and the netting of amounts outlined in Section 2.3.3.

**Response:** A total of \$1,076,287 is unsupported as per the draft audit report analysis on page 10. However, the Auditors are recommending that \$707,198 being an overstatement of the ledger expenditures be netted off from this amount leaving a balance of \$369,089 as unsupported. The Mission concurs with this recommendation and will recover the balance of \$369,089 of the unsupported costs from the Government of Kenya/Ministry of Health (GOK/MOH) after netting off any other expenditures which MOH can support and which have been located after the date of the audit report.

3. Recommendation No. 4 requests that responsibility for designing a suitable accounting system which incorporates written procedures be assigned to a specific individual with corresponding authority and capability. In addition, the implementation of stronger management reporting systems and direct supervisory controls, are required in order to ensure policies and procedures are appropriately followed.

**Response:** The Mission is not clear on what is required in this recommendation because during the USAID/Price Waterhouse exit conference held in early February, the auditors indicated that the GOK has accounting systems but the problem is that these systems are not being followed properly. Is the GOK expected to design additional accounting systems? Please clarify this recommendation.

During the exit conference meeting held on March 23, 1992, the MOH confirmed that the Head of the HCF Secretariat will be made the AIE holder for all KHICFP funds effective GOK fiscal year 1993/94. Since the HCF Secretariat is now staffed with an accountant, among other staff, this action will greatly strengthen the accountability of HCF funds.

In addition, it was agreed that MOH will henceforth be reporting on the expenditures to USAID on a quarterly basis.

4. Recommendation No. 5 requests that each specific grant be monitored by a clearly designated official (a grant co-ordinator) whose responsibility should include making all other relevant parties aware of the limits of the grant and enforcing its provisions. This individual should possess skills, experience and authority to satisfy the grant requirements.

**Response:** The Mission agrees that there should be an individual designated as a grant co-ordinator for each donor-funded projects. In the case of the KHICFP, the Head of the Secretariat will be designated the grant co-ordinator. However, the Mission has no authority in designating grant co-ordinators for other grants funded by other donors. We request this recommendation be revised accordingly.

5. Recommendation No. 6 recommends that the accounting system should be modified to promote the reporting of KHICFP expenditures to a greater level of detail. This may be achieved by the implementation of logical sub-ledger codes consistent with the programs budget line items.

**Response:** The accounting system in the GOK is universal for all GOK Ministries and can not therefore be modified. However, the Mission together with the KHICFP Technical Assistance team will work with MOH on the reporting formats and requirements of USAID. The implementation of "logical sub-ledger codes" will be reviewed with the GOK to see if it will aid reporting.

6. Recommendation No. 7 recommends that accounting system should be revised to promote the correct coding of transactions made by MOH. This would include the enforcement of tighter controls over the authorization of vouchers and data input, including independent checks and reconciliations. In addition, a review should be undertaken of MOH's current account code balances to bring reconciliations up to date and to reclassify expenses charged to incorrect projects.

**Response:** The Mission is not clear on how the accounting systems revision will correct the codings. Please clarify. However, if the recommendation has to do with correction of current miscodings and updating of bank reconciliations, the Mission will require MOH to correct its miscodings and update its reconciliations. The Mission expects that there will be an improvement in account codings for the KHCFP once the control of the funds is shifted to the HCF Secretariat.

7. Recommendation No. 8 recommends that USAID should discuss with MOH the merits for establishment of a separate bank account to account for revenues and expenditures under the program, in light of the findings detailed in this report.

**Response:** Under the GOK Exchequer Act, GOK Ministries are not allowed to open separate bank accounts in commercial banks. However, since the HCF Secretariat will be the AIE holder, different set of accounting books will be maintained which will be separate from the other MOH accounting records.

8. Recommendation No. 9 recommends that project reporting should be increased in frequency and consistency.

**Response:** The Mission and MOH have already agreed that quarterly reporting to USAID by MOH will henceforth be required. This action should close this recommendation.

9. Recommendation No. 10 recommends that steps should be taken to adopt and implement the relevant recommendations made within this report. Management procedures should be strengthened to ensure accounting staff carry out their duties.

**Response:** This recommendation is redundant and should therefore be deleted.

10. Recommendation No. 11 recommends that bank reconciliations should be updated as a matter of priority, and should address the accountability of funds on an individual project basis. Outstanding cheques should be investigated, and either reissued or reversed as appropriate.

**Response:** As mentioned in response to Recommendation No.7, the Mission will require the MOH to update all reconciliations.

11. Recommendation No. 12 recommends that controls enforced by internal audit should be tightened to ensure that no expenditures are incurred without correct supporting documentation, accurate coding and appropriate departmental authorization.

In respect of the absence of a project audit, we appreciate that internal audit must designate its own priorities and direct its limited resources appropriately. However, in view of the findings of this report, internal audit may wish to schedule project audits of this program in future.

**Response:** The Mission agrees that the internal audit function should be tightened. However, it is not within the Mission's power to make this happen. We request this recommendation be deleted.

12. Recommendation No. 13 recommends that the quality of document and file maintenance should be improved. The responsibility for developing and maintaining a suitable filing system should be assigned to a specific individual. This system should enable an individual to locate a file at any time. In addition, records relating to the KHCFP should be kept in a secure location and filed on a systematic basis.

**Response:** The Mission agrees that file and document maintenance should be improved by the MOII. Mission will require that KHCFP files and documents be properly maintained.

13. Recommendation No. 14 recommends that journal entries should be supported and provide more information such as what transactions and amounts were involved and why the entry was required.

**Response:** The Mission concurs.

**B: Recommendations for KNH:**

14. Recommendation No. 15 recommends that each specific grant should be monitored by a clearly designated official ( a grant co-ordinator) whose responsibility should include making all other relevant parties aware of the limits of the grant and enforcing its provisions. This individual should possess the skills, experience and authority to satisfy the grant requirements.

**Response:** The Mission agrees that there should be a grant co-ordinator for each donor funded grant. The Mission will encourage KNH to designate an official to be the KHCFP grant co-ordinator. The Mission has very little influence on the other donor funded projects and we request this recommendation be revised accordingly.

15. Recommendation No. 16 recommends that the positions of chief and senior accountants should be filled as soon as possible by individuals who possess the necessary qualifications and experience.

**Response:** The Mission concurs.

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16. Recommendation No. 17 recommends that the accounting system should be revised to incorporate cost center costs for each donor funded program to avoid the potential to claim an expenditure under more than one program. Cost center codes would also enhance the quality and usefulness of the financial information generated.

**Response:** The Mission will discuss the revision of the accounting system to incorporate cost center costs for each donor funded program.

17. Recommendation No. 18 recommends that KNH should discuss with USAID the merits for establishment of a separate bank account to account for revenues and expenditures under the program, in light of the findings detailed in this report.

**Response:** The Mission together with KNH will explore the possibility of KNH opening a separate bank account assuming now that it is acceptable under the Exchequer Act since KNH is a parastatal and not a GOK Ministry.

18. Recommendation No. 19 recommends that KNH should prepare periodic budget variance analysis reports in order to improve control over expenditures. In addition, an individual should be responsible for monitoring grant expenditures and in particular ensuring that funds are available for the budget line item prior to the authorization of a purchase order.

For future tranches, we recommend USAID consider a more specific approach to PILs concerning the allocation of funds. This will facilitate expenditure monitoring.

**Response:** The Mission agrees that periodic budget variance analysis is important to improve control over expenditures. As in the case for MOH, the Mission will henceforth require quarterly financial reporting from KNH showing actual as compared to budgeted expenditures.

However, the Mission does not concur with a more specific approach to PILs. As you are aware, USAID together with KNH programs the "general" uses of the HCF tranche funds. The use of these funds is not meant to be specific so as to allow flexibility. We ask that this part of the recommendation be deleted.

19. Recommendation No. 20 recommends that monthly bank reconciliations should be further analyzed to distinguish funds available on a project by project basis, and in any event a separate bank account should be opened for each project.

**Response:** The Mission will encourage KNH to update its bank reconciliations and will request KNH to explore the possibility of opening separate bank accounts for each project/donor.

20. Recommendation No. 21 recommends that controls be enforced by internal audit should be tightened to ensure that no expenditures are incurred without correct supporting documentation, accurate coding and appropriate departmental authorization.

In respect of the absence of a project audit, we appreciate that internal audit must designate its own priorities and direct its limited resources appropriately. However, in view of the findings of this report, internal audit may wish to schedule project audits of this program in future. The claims of under-staffing should be investigated and rectified if appropriate.

**Response:** The Mission agrees that the internal audit function should be tightened. However, the Mission has very little control of making this happen. We request that this recommendation be deleted.

21. Recommendation No. 22 recommends that the quality of document and file maintenance should be improved. The responsibility for developing and maintaining a suitable filing system should be assigned to a specific individual. This system should enable an individual to locate a file at any time. In addition, records relating to the KHCFP should be kept in a secure location and filed on a systematic basis.

**Response:** The Mission agrees that document and file maintenance should be improved. The Mission will require that KHCFP files be properly maintained.

22. Recommendation No. 23 recommends that financial information should be submitted promptly to USAID and should reconcile with the ledger accounts.

**Response:** The Mission concurs and as mentioned in the response to Recommendation No.19 will require quarterly reporting from KNH.

23. Recommendation No. 24 recommends that the implementing institutions should take steps to improve the quality of books and records associated with the project, including the adoption of relevant recommendations made within this report. Such improvement should be capable of being demonstrated to USAID should it be so required.

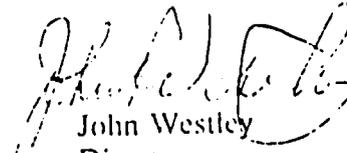
**Response:** The Recommendation is redundant and should therefore be deleted.

24. Recommendation No. 25 recommends that USAID should discuss with the implementing institutions the merits of establishment of separate bank accounts for program revenues and expenditures, to promote the transparency of use of funds. Should it be agreed by both USAID and the implementing institutions that such accounts are not required, then alternative steps to improve the reconciliation and accountability process should be agreed and enforced.

**Response:** This recommendation is similar to Recommendation Nos 18 and 20. It is therefore redundant and should be deleted upon issuance of the final report.

The assistance of Price Waterhouse in finalizing the KIICFP Audit is greatly appreciated.

Sincerely,



John Westley  
Director

CC: Mr. Daniel Mbiti  
Permanent Secretary,  
Ministry of Health  
P.O. Box 30016  
Nairobi

Prof. Julius Meme  
Director  
Kenyatta National Hospital  
P.O. Box 20723  
Nairobi

E. Cecile Adams, Mission Controller

Everette Orr RIG/A/N

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**APPENDIX II**

**MINISTRY OF HEALTH COMMENTS TO REPORT**

MINISTRY OF HEALTH

Telegrams: "MINIHEALTH, Nairobi

Telephone: Nairobi 718870

When replying please quote

Ref. No. IB/11/2/1/VCL.35/40  
and date



AFYA HOUSE  
CATHEDRAL ROAD  
P.O. Box 30016  
NAIROBI

30th April, 1993

Price WaterHouse  
P.O. Box 41500  
NAIROBI

(Attention: Andrew Hagger)

USAID TRANCHE 1 AUDIT REPORT

I have gone through your audit report and would like to make the following clarifications.

(a) I confirm that we received all the stamps paid for to the Crown Agents. Some of these stamps have since been issued to the districts for the use in the cost-sharing programme.

At hand, I have 31 boxes stored at MSCU and 9 boxes at our cash office of which 3 are partly used. Of the opened boxes one contains 600,000 stamps and the other 2 contains 700,000 stamps each.

Physical verification can be done by your office.

I have also contacted Crown Agents who will provide to us a complete listing of stamps delivered to this Ministry.

(b) Purchase of Blood Taking Sets - Pv. No. 0341

To avert an acute shortage of these life saving sets in our hospitals, the Ministry used Tranche one funds to make the payment. This expenditure falls under the category on "Procurement and Supply of items Supportive to the Cost-Sharing Policy and Institutional goals." Expenditures falling under this category are acceptable since they are in line with the agreed plan of expenditure on tranche one between USAID/MoH.

Attached is a Debit note issued to the Ministry by the Central Bank after honouring our Payment Authority (PA) No. 027152 of KSh.5,282,409.90 payable to Teva Pharmaceuticals.

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c) **Payment to Establievens Lanckman, Brussel**

On this payment, you had requested further supporting documents to show that the firm was paid KSh.6,852,730.00. A Central Bank of Kenya Debit Note dated 26th February, 1991 honouring the Ministry's PA No. 027195 is attached as a proof that Establievens Lanckman was paid for services rendered.

d) **Payment to China National Medicines and Health Products**

You had requested for supporting documentation to show that the firm was paid KSh.1,042,511.00.

A Central Bank of Kenya Debit Note dated 17th May, 1991 honouring the Ministry's PA No. 030609 is attached as evidence that the firm was paid for services rendered.

e) **District Expenditure**

AIE's totalling KSh.6,515,945 were issued to the district for safe construction, training of DHMTS on cost-sharing principles etc. In your report you have indicated that these were not audited and hence non-committal on their acceptance. I confirm that the activities detailed in the AIE's were undertaken and you may wish to confirm through sampling of a few districts.

I therefore consider the explanation provided above as satisfactory for you to accept these expenditures.

On the recommendation detailed in your audit report, the Ministry accepts them in whole and will strictly adhere to them while making expenditures on Tranche II.



**D.M. Mbiti**  
**PERMANENT SECRETARY**



MINISTRY OF HEALTH

Telegrams: "MINIHEALTH, Nairobi"  
Telephone: Nairobi 718870  
When replying please quote  
Ref. No. ....



AFYA HOUSE  
CATHEDRAL ROAD  
P.O. Box 30016  
NAIROBI

7th May. 1993

Price waterhouse,  
P.O. Box 41500,  
NAIROBI  
(Att: Mr. Andrew Hagger)

RE: USAID TRANCHE I AUDIT REPORT

This is further to our letter Ref. No. IB/11/2/1 VOL.35/40 dated 30th April, 1993 on the above subject.

Please find attached the packing list indicating the number of stamps contained in each of the 40 boxes received by the Ministry from the Crown Agents. The total number of stamps received amount to 27,000,000.

I hope this information will clarify the issue of stamps received.

A handwritten signature in black ink, appearing to be 'G.K. Githae', written over a circular stamp.

G.K. Githae  
for: PERMANENT SECRETARY

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12.71.07

**APPENDIX III**

**KENYATTA NATIONAL HOSPITAL COMMENTS TO  
REPORT**

Telegrams: "MEDSUP", Nairobi  
Telephone: Nairobi 726300  
When replying please quote



KENYATTA NATIONAL HOSPITAL  
P.O. Box 20723  
NAIROBI

Ref. No. ....

and date

**KNH/FIN/AUD/VOL. I**

.....19.....  
**12th May, 1993.**

Price Waterhouse,  
P. O. 41500,  
NAIROBI.

Att: Mr. Andrew Hagger

Dear Sir,

RE: USAID TRANCHE I AUDIT REPORT

The following is a brief update on the recommendations contained in your Audit Report on the utilisation of Tranche I funds from USAID.

1. Recommendation No. 15 - Project responsibility.

We entirely agree with this recommendation. All future grants will be monitored by our Planning Manager, who shall be the Grant Co-ordinator, and will be assisted by one Senior Accountant who will be responsible for all financial matters, as the Project Accountant. ✓

2. Recommendation No. 16 - Chief Accountant and Senior Accountant Positions

We agree with this proposition. Since the audit, we may wish to report that the two positions are already filled and the officers are in place. Infact, one Senior Accountant will be responsible for Donor Financing. ✓

3. Recommendation No. 17 - Accounting approach

The revision of the accounting system to incorporate cost centre codes for each donor funded program, is already at an advanced stage. Our Planning Manager has already initiated this concept in the Hospital, but we may wish to state that since this is quite a new concept, and our accounting system (Accruals) being at its infancy stages (having just changed from the central government cash accounting), we may beg to be allowed some more time, to study and introduce the system. However, we may also wish to state that by allocating different accounting codes for each donor funded program, there is very little possibility of claiming an expenditure under more than one program. ✓

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4. Recommendation No. 18 - Bank Account not separate

Since Kenyatta National Hospital is a parastatal, the issue of establishment of a separate Bank Account for the program, would, if the Donor so wishes, be presented to the Board of Management for approval. This would be after deliberations with USAID. ✓

5. Recommendation No. 19 - Control over expenditures

We agree that periodic budget variance analysis reports are necessary in order to improve control over expenditure. We have now designated one of our recently recruited Senior Accountants as the Accountant responsible for Donor financing. One of his responsibilities will be to ensure that funds are available for the budget line item prior to the authorisation of a purchase order. ✓

6. Recommendation No. 20 - Bank Reconciliation

We agree that our bank reconciliation is normally behind schedule but all concerted effort has been put to ensure that it is upto date. We may wish to report that as of now, the reconciliation for April, 1993 is ready. In future, when we have a separate bank account for each project, and with a Senior Accountant in place, we hope the situation will not be the same again. ✓

7. Recommendation No. 21 - Internal Audit function

We agree that controls should be enforced by Internal Audit in order to ensure that no expenditures are incurred without correct supporting documentation, accurate coding and appropriate departmental authorization. Since we do not have an independent project audit, this task will be undertaken by our Internal Audit Department, which we are in the process of strengthening. We have already advertised for the post of Senior Internal Auditor, which we hope to fill soon.

8. Recommendation No. 22 - Document and File maintenance

We agree with the recommendation that the quality of document and file maintenance should be improved. We are in the process of establishing a proper accounts registry which will be responsible for this task. In future, all KHCFF files will be kept in a secure location and filed in a systematic basis. ✓

9. Recommendation No. 23 - Reconciliation of Report on the Expenditures of Tranche One and Ledger Accounts

We agree that financial information should be submitted promptly to USAID and should reconcile with the Ledger Accounts. The Senior Accountant we have recruited will be responsible for the preparation of quarterly reports in respect of each project. u

10. Recommendation No. 24 - Record Keeping

With qualified personnel manning the project, the quality of books and records associated with the project, will greatly improve. u

11. Recommendation No. 25 - Bank Account

The issue of a separate bank account has been addressed under recommendation No. 18. u

We hope the brief will be to your satisfaction and look forward to the receipt of Tranche Two, soonest.

Yours sincerely,



✓ PROF. J. S. MEME,  
DIRECTOR.  
JSM/jas.



ATTACHMENT II

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