

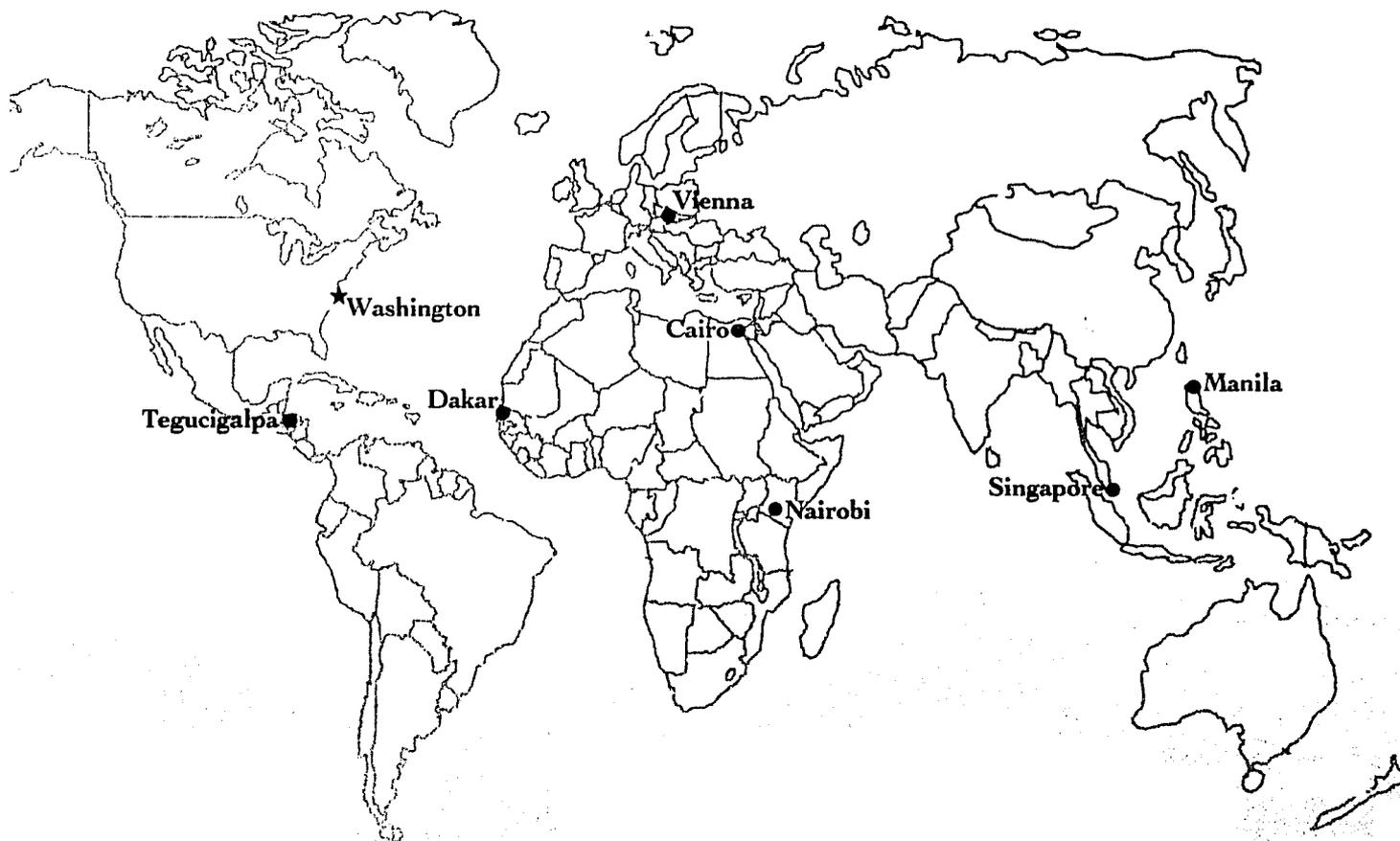
Regional Inspector General for Audit  
Nairobi, Kenya

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Audit of  
The Kenya Agricultural Research Institute  
Under the National Agricultural Research  
Project No. 615-0229

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Report No. 3-615-93-26-N  
July 20, 1993



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INSPECTOR  
GENERAL

U.S. AGENCY FOR INTERNATIONAL DEVELOPMENT



U.S. AGENCY FOR  
INTERNATIONAL  
DEVELOPMENT

July 20, 1993

**Memorandum**

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

FROM: *For* RIG/A/Nairobi, *Everette B. Orr*

*Regional  
Inspector General  
for Audit/Nairobi*

SUBJECT: Agency-contracted Audit of Kenya Agricultural Research Institute, under the National Agricultural Research Project No. 615-0229. Audit Report No. 3-615-93-26-N

Attached are five copies of an Agency-contracted audit of Kenya Agricultural Research Institute under the National Agricultural Research Project. The accounting firm of Bellhouse Mwangi Ernst & Young, Kenya, performed the audit.

The grant agreement for the National Agricultural Research Project (NARP) was signed on August 29, 1986 with a scheduled completion date of June 30, 1993. Initially, the grant was for \$15.3 million but was later amended to a new total of \$17.3 million. Project assistance completion date was amended to September 30 1997. The project is part of a multi-donor effort to assist the Government of Kenya to implement the reorganization of its agricultural research system. The purpose of NARP was to develop a well-managed national agricultural research system providing the agricultural sector with appropriate technologies to increase productivity on a continuing basis. The project had the following components: technical assistance, training, commodity acquisition, construction administration and the Agricultural Research Fund. The Kenya Agricultural Research Institute (KARI) was responsible for the implementation of the project. The University of Missouri, through the Mid-American Agricultural Consortium (MIAC) was responsible to KARI for technical, managerial, training and procurement requirements of the project. As of March 31, 1992 total funds obligated under the project amounted to \$15.2 million out of which \$13.2 million had been disbursed. The audit covered only two elements of the grant: the commodity acquisition element and the Agricultural Research Fund. These were the only elements for which KARI was responsible for expending and accounting for project funds disbursed by USAID. The MIAC was responsible for the rest of the project funds and accounting documents are kept in the United States of America. The commodity acquisition element represents commodities procured by USAID for the project while the Agricultural Research Funds element presents funds disbursed to private or university researchers to conduct research needed to supplement KARI Programs or alternatively to fund innovative, problem-oriented research.

The audit covered disbursements by A.I.D. of \$86,938 to the Agricultural Research Fund for the period April 16, 1991 through December 31, 1992. Funds expended as of the same date totalled \$66,922. The audit also validated the existence of commodities of \$267,150 out of \$454,844 of commodities procured by USAID. The objectives of the audit were to:

- audit the Agricultural Research 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;
- consider the auditee'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 auditee's 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; and
- validate the existence of commodities procured under the project and ensure that they are recorded in KARI's records.

The auditors issued a qualified opinion on the Fund Accountability Statement. The auditors found that the equivalent of \$19,887 of expenditures were unsupported. This amount included disbursements of \$4,589 of imprest funds not surrendered, and \$15,298 of Agricultural Research Fund monies disbursed to the universities. In regard to the internal controls, the auditors reported material weaknesses that included lack of adequate accounting books to support expenditures from the Agricultural Research Fund. Further, the audit found that operating statements were not prepared regularly and certain internal controls were not implemented. In regard to compliance, the auditors reported that the Government of Kenya was required to make contributions of \$274,900 to the Agricultural Research Fund. The Government had made contributions on an in-kind basis. However, the contributions had not been quantified, and thus the auditors could not ascertain whether the Government complied or was in the process of complying with this provision. In addition, adequate records were not maintained resulting to the unsupported costs. As regards validation over the existence and recording of commodities, the auditors reported that they physically validated the existence of fixed assets totalling \$267,150. However, the auditors found that the asset register was not properly updated with all the commodities procured under the project.

The draft report was submitted to KARI and USAID/Kenya for comments. Their comments are incorporated in the final report (Exhibit I and Exhibit II respectively). The auditee and the Mission generally agreed with the audit findings and recommendations. In their comments, the auditee stated that documents supporting expenditure on research grants by the University of Nairobi were not made available due to a backlog in updating grant records. The records have now been updated and outstanding imprest surrendered and accounted for. RIG/A/N position is that the Mission must determine whether the total questioned costs are allowable because the auditors did not verify whether the questioned amounts are now supported.

We are including the following recommendations in the Office of the Inspector General audit recommendation follow-up system.

**Recommendation No. 1:** We recommend that, USAID/Kenya determine the allowability, and recover as appropriate, unsupported disbursements to the Universities of \$19,887 from the Kenya Agricultural Research Institute.

**Recommendation No. 2:** We recommend that, USAID/Kenya obtain a plan of action from the Kenya Agricultural Research Institute for ensuring that the internal control structure is sufficient to support the Agricultural Research Fund so that:

- 2.1 adequate documentation is kept to support expenditures;
- 2.2 operating statements are prepared regularly and sent to A.I.D.; and
- 2.3 all assets procured under the project are properly recorded in the accounting records.

**Recommendation No. 3:** We recommend that USAID/Kenya obtain from the Kenya Agricultural Research Institute a quantified list of contributions made to the National Agricultural Research Project and determine whether the government of Kenya has made the required contributions of \$274,900.

We consider all recommendations to be unresolved. Recommendation No. 1 will be resolved when the Mission makes a final determination concerning the allowability of the questioned amounts. The recommendation will be closed when the Mission takes action appropriate to the determination. Recommendation No. 2 will be resolved when the Mission obtains from KARI a written agreement that KARI will prepare a plan of action for improving the internal control structure of the Agricultural Research Fund. The recommendation will be closed upon implementation of corrective action. Recommendation

No. 3 will be resolved when KARI agrees to quantify contributions made to the project. The recommendation will be closed on determination whether the Government of Kenya has made the required contributions to the project. Please respond to this report within 30 days indicating action planned or already taken to implement the recommendation.

Thank you for the cooperation extended to Bellhouse Mwangi Ernst & Young auditors and the Regional Inspector General for Audit representatives during the audit.

Attachments: a/s.

**AUDIT OF  
KENYA AGRICULTURAL RESEARCH INSTITUTE  
UNDER THE NATIONAL AGRICULTURAL  
RESEARCH PROJECT NO. 615-0229**

**ATTACHMENTS**

**AUDIT OF GRANT TO  
THE KENYA AGRICULTURAL  
RESEARCH INSTITUTE UNDER USAID  
KENYA'S NATIONAL AGRICULTURAL RESEARCH  
PROJECT NO. 615-0229**

**GRANT TO THE KENYA AGRICULTURAL RESEARCH INSTITUTE UNDER USAID  
KENYA'S NATIONAL AGRICULTURAL RESEARCH PROJECT NO. 615-0229**

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KENYA'S NATIONAL AGRICULTURAL RESEARCH PROJECT NO. 615-0229**

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**EXHIBIT 2: USAID/KENYA RESPONSE**

**GRANT TO THE KENYA AGRICULTURAL RESEARCH INSTITUTE UNDER USAID  
KENYA'S NATIONAL AGRICULTURAL RESEARCH PROJECT NO. 615-0229**

**GLOSSARY OF TERMS**

**USAID : UNITED STATES AGENCY FOR INTERNATIONAL DEVELOPMENT**

**US : UNITED STATES**

**\$ : US DOLLARS**

**Kshs : KENYA SHILLINGS**

**RFMC : USAID REGIONAL FINANCIAL MANAGEMENT CENTER**

**GRANT TO THE KENYA AGRICULTURAL RESEARCH INSTITUTE UNDER USAID  
KENYA'S NATIONAL AGRICULTURAL RESEARCH PROJECT NO. 615-0229**

**1 INTRODUCTION**

**1.1 Background**

The National Agricultural Research Project is part of a multi-donor effort to assist the Government of Kenya in the reorganization of its agricultural research activities. It was signed on August 29, 1986 with a scheduled completion date of June 30, 1993. As of March 31, 1992 total funds obligated under the project amounted to \$ 15.2 million out of which \$ 13.2 million had been disbursed as follows:-

	\$ million
i) Technical Assistance	5.79
ii) Training	3.76
iii) Commodity acquisition	2.23
iv) Construction	0.41
v) Administration	0.74
vi) Evaluation	0.07
vii) Agricultural Research Fund	<u>0.20</u>
	13.20
	===

The agency responsible for the implementation of the project is the Kenya Agricultural Research Institute. The University of Missouri through the Mid-American Agricultural Consortium was responsible to the Kenya Agricultural Research Institute for technical, managerial, training and procurement requirements of the project.

Our audit was limited to the following:-

- (a) Commodity acquisition element - this represents commodities directly procured by USAID totaling \$ 454,844. We were required to track these procurements from USAID records to the records maintained by the Kenya Agricultural Research Institute and to validate their existence.
- (b) Agricultural Research Fund element - this represents funds disbursed to private or university researchers to conduct research needed to supplement Kenya Agricultural Research Institute programs or alternatively to fund innovative, problem-oriented research. The Agricultural Research Fund has its own management and accountancy structure within the Kenya Agricultural Research Institute and is independent of it. As of December 31, 1992 the fund had received \$ 86,938.

**GRANT TO THE KENYA AGRICULTURAL RESEARCH INSTITUTE UNDER USAID  
KENYA'S NATIONAL AGRICULTURAL RESEARCH PROJECT NO. 615-0229**

**1.2 Audit Objectives and Scope**

**1.2.1 Objectives and Scope**

Bellhouse Mwangi Ernst & Young were appointed under contract No. 623-0000-I-00-2006-00 to perform a non-federal audit of the Kenya Agricultural Research Institute's National Agricultural Research Project. The audit was restricted to the commodity acquisition and the Agricultural Research Fund elements of the project as the Kenya Agricultural Research Institute was only responsible for expending and accounting for part of the disbursements under these two elements. The Mid-American Agricultural Consortium was responsible for the rest of the project funds and the related original documents and records are kept in the United States of America. This audit was conducted in accordance with generally accepted auditing standards and the US Comptroller General's "Government Auditing Standards" (1988 Revision), with the exception that we did not comply with sections 3.46 and 3.6 on External Quality Assurance Review and Continuing Professional Education.

The objectives of this engagement were to:

- audit the Agricultural Research 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;
- consider the auditee'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;
- test the auditee's 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, and
- ensure that commodities acquired by USAID on behalf of the Kenya Agricultural Research Institute exist and are recorded in its records.

## **1.2.2 Methodology**

We performed an initial survey from August 9, 1992 for two weeks. After reporting our findings to the United States Agency for International Development (USAID) and Regional Inspector General/Audit/Nairobi (RIG/A/N), we were instructed to audit only the funds and expenditure under the Agricultural Research Fund element of the National Agricultural Research Project. The Mid-American Agricultural Consortium was responsible for expending, accounting for and maintaining records relating to other elements of the project.

## **1.2.3 Limitations of Scope**

Our audit was limited to:-

- i) the Agricultural Research Fund element from April 16, 1991 to December 31, 1992.
- ii) tracking the commodities directly procured by USAID on behalf of the Kenya Agricultural Research Institute to the records maintained by the Institute and validating the existence of the assets.
- iii) a general review of the Kenya Agricultural Research Institute accounting system, in as far as it concerns the Agricultural Research Fund.

## **1.3 Summary of Audit Results**

### **1.3.1 Fund Accountability Statement**

The disbursements from the Agricultural Research Fund can be classified as follows:-

- i) Direct disbursements for expenditure incurred by the Agricultural Research Fund in the course of its day to day operations.
- ii) Grant disbursements by the Agricultural Research Fund to universities for their subsequent expenditures on research.

Total funds disbursed by USAID to the Agricultural Research Fund was Kshs. 2,347,329 (\$ 86,938). Of this amount the Agricultural Research Fund expended Kshs. 1,806,941 (\$ 66,922) of which Kshs. 1,146,746 (\$ 42,472) was on research grants and the balance of Kshs. 660,195 (\$ 24,450) was on administration of the fund.

The audit identified unsupported costs of Kshs. 536,950 (\$ 19,887) being unsurrendered imprests of Kshs. 129,300 (\$ 4,589) and research grant expenditures of Kshs. 413,050 (\$ 15,298)

### **1.3.2 Internal Control Structure**

The internal control structure of the Agricultural Research Fund involves outside institutions such as Universities who control the disbursement of the research grants to their scientists. This constitutes around 80% of the Agricultural Research Fund expenditures. One of the Universities receiving funds did not maintain adequate documentation to support expenditure from the Fund. The books of account, kept by the Agricultural Research Fund were not adequate. Operating statements are not prepared regularly and some internal controls were not implemented.

### **1.3.3 Compliance with grant or related provisions**

We were unable to verify that the Government of Kenya's in kind contribution to the Agricultural Research Fund was in accordance with that required by the grant agreement of \$ 274,900 as it had not been quantified.

### **1.3.4 Commodity Tracking**

The commodities classified as fixed assets and directly procured by USAID for the Kenya Agricultural Research Institute amounted to \$ 454,844 and these were tracked to the assets register maintained by the Kenya Agricultural Research Institute. Certain assets did not appear in the assets register whereas some could not be easily identified in the assets register as their descriptions were not precise. Assets totalling \$ 267,150 were physically verified for existence and a motor vehicle previously written off following an accident still appeared in the assets register

### **1.3.5 Summary of Auditee's response**

#### **(i) Fund Accountability Statement**

Outstanding imprests at December 31, 1992 have now been surrendered and accounted for. Procedures and regulations are now strictly enforced to ensure that imprests are surrendered and accounted for within the specified period.

Unsupported expenditures in one of the universities is due to the backlog in updating records and filing. This is attributable to the volume of grants handled as this is the centralized accounting office of all colleges under the university. The decentralization of grant administration was approved on March 2, 1993.

**(ii) Internal Control Structure**

The recommended books of account to ensure a self balancing accounting system are now in place. Funds from different donors are now maintained, expenditures are appropriately coded to avoid mixing up of the same and statements of expenditures prepared regularly. Quarterly management reports will now include monthly accountability statements.

The secretariat now requests for certified copies of all documents supporting expenditure by Principal Investigators and returns must be made using the Agricultural Research Fund "form 4".

Guidelines, procedures and regulations of the Agricultural Research Fund are now being revised to include more detailed financial procedures.

**(iii) Compliance with grant or related provisions**

The Government of Kenya's contribution to the Agricultural Research are full-time and part-time staff, office space and maintenance facilities for the same. These contributions are estimated to cost Kshs. 1,462 million (approximately \$ 32,480) annually.

**(iv) Commodity Tracking**

All items except those with values below \$ 500 were entered in the assets register at the time of audit and this is available for inspection and verification.

**1.3.6 Summary of USAID/Kenya's response**

**(i) Fund Accountability Statement**

Kenyan regulations requires that the original documents be kept by the implementing institution to ensure that all expenditure returns are prepared by the accounts department of the institution, thus the original documents or the accounting functions of the participating institutions cannot be taken over by the Agricultural Research Fund.

Quarterly expenditure reports by Investigators should be reconciled to funds disbursed from the Agricultural Research Fund and a system implemented to ensure that imprests are surrendered after one month of issue.

**(ii) Internal Control Structure**

A financial procedures manual should be prepared for the Agricultural Research Fund and a general ledger introduced into the accounting system incorporating all transactions and balances to enable regular preparation of statements of actual expenditures and monitoring of different donor funds. Separate books of account should be maintained for USAID funds.

Bank reconciliations should be checked and approved and returns of expenditures by scientists submitted using the Agricultural Research Fund "form 4". These returns should be reconciled to the funds disbursed by the Agricultural Research Fund and the balance of funds held by the university.

**(iii) Compliance With Grant Provisions**

The Kenya Agricultural Research Institute will provide USAID with quarterly updates of the Government of Kenya's contributions.

**(iv) Commodity Tracking**

The Kenya Agricultural Research Institute and the project contractor will use the inspection and receiving documents to update the assets register.

**GRANT TO THE KENYA AGRICULTURAL RESEARCH INSTITUTE UNDER USAID  
KENYA'S NATIONAL AGRICULTURAL RESEARCH PROJECT NO. 615-0229**

**2. FUND ACCOUNTABILITY STATEMENT**

**2.1 Independent Auditors Report**

We have audited the Fund Accountability Statement for the Agricultural Research Fund element of National Agricultural Research Project No. 615 - 0229 for the period April 16, 1991 through December 31, 1992. This statement is the responsibility of the Agricultural Research Fund. Our responsibility is to express an opinion on this statement based on our audit.

We conducted our audit in accordance with generally accepted auditing standards and Government Auditing Standards (1988 revision) issued by the Comptroller General of the United States of America with the exception that we did not comply with sections 3.46 and 3.6 on External Quality Assurance Review and Continuing Professional Education. These standards required 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 statement.

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

The Fund Accountability Statement was prepared on the basis of cash receipts and disbursements which is a basis of accounting other than the U.S. Generally Accepted Accounting Principles.

Imprests amounting to Kshs. 123,900 (\$ 4,589) remained outstanding as at December 31, 1992 and are considered to be unsupported as documents to justify this expenditure have not been submitted. Furthermore, an amount of Kshs. 413,050 (\$ 15,298) disbursed by the Universities on behalf of the Agricultural Research Fund was also not supported.

Except for the matters noted above, in our opinion the Fund Accountability Statement referred to above presents fairly, in all material respects, the financial position of the Agricultural Research Fund element of the National Agricultural Research Project at December 31, 1992 and the results of its fund balances for the period then ended.

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

This report is intended solely for the information of the Government of Kenya through the Kenya Agricultural Research Institute and the United States Agency for International development but this is not intended to limit the distribution of the report if a matter of public record.

*Bernice Mwangi Ernst 6/30/93*

**BELLHOUSE MWANGI ERNST & YOUNG,  
NAIROBI**

**June 30, 1993**

## 2.2 FINDINGS AND RECOMMENDATIONS

### 2.2.1 Introduction

The Fund Accountability Statement was prepared from the records kept by the Agricultural Research Fund management and is included in this report together with the notes thereon. The scope of the audit included examining the disbursements made from the grant under the Agricultural Research Fund element from April 16, 1991 through December 31, 1992.

### 2.2.2 Sample Selection Criteria

We examined all the disbursements by the Agricultural Research Fund as well as the disbursement of two research grants made to two universities. This provided a 100% coverage on disbursements by the Agricultural Research Fund and a 55% coverage on disbursements to the universities.

### 2.2.3 Fund Accountability Statement

We set out below the Fund Accountability statement

**NATIONAL AGRICULTURAL RESEARCH PROJECT  
AGRICULTURAL RESEARCH FUND  
FUND ACCOUNTABILITY STATEMENT  
FOR THE PERIOD APRIL 16, 1991 THROUGH DECEMBER 31, 1992**

	\$	Kshs
<b>Revenue:</b>		
Grants from USAID	86,938	2,347,329
<b>Expenditure:</b>		
Subsistence	6,626	178,914
Transport	4,011	108,296
Honoraria	7,018	189,500
Expendable supplies	1,612	43,526
Postage	159	4,289
Printing	262	7,080
Miscellaneous	170	4,600
Research grants	42,472	1,146,746
Bank charges	3	90
Unsurrendered imprests	4,589	123,900
	-----	-----
Total expenditure	66,922	1,806,941
	-----	-----
Fund balance	20,016	540,388
	=====	=====
<b>Represented by:</b>		
Cash at bank	19,274	520,388
Office cash float	742	20,000
	-----	-----
	20,016	540,388
	=====	=====

## **Notes to the Fund Accountability Statement:-**

### **Currency Translation**

United States dollar amounts are expressed at the average of the actual rates used for the amounts received over the period.

### **Basis of Accounting**

The Fund Accountability Statement is prepared on the basis of cash receipts and disbursements which is a basis of accounting other than U.S. Generally Accepted Accounting Principles

### **Cash at Bank and Cash Float**

The balances above have been isolated by the management of the Agricultural Research Fund as being USAID funds. Although funds have been received from other donors, only USAID has approved expenditure from the fund. The balances above represent USAID grants less expenditures to December 31, 1992.

#### **2.2.4 Audit results**

All receipts were duly authorized and supported. Unsurrendered imprests of KShs. 123,900 (\$ 4,589) were considered to be unsupported, as the only documents available were those creating the imprest.

A sample of research grants disbursed by the Agricultural Research Fund was selected for examination. The actual expenditure of these grants was KShs. 673,946 (\$ 24,961), as reported in the respective grant progress reports. However, KShs. 413,050 (\$ 15,298) of this expenditure was unsupported; the original support documents were not available. The questioned costs, can be analyzed as follows:-

**AMOUNTS RECOMMENDED TO BE**

**Questioned**

	<b>Claimed</b>	<b>Accepted</b>	<b>Ineligible</b>	<b>Unsupported</b>	<b>Notes</b>
	<b>KShs.</b>	<b>KShs.</b>	<b>KShs.</b>	<b>KShs.</b>	
Subsistence	178,914	178,914	-	-	
Transport	108,296	108,296	-	-	
Honoraria	189,500	189,500	-	-	
Expendable supplies	43,526	43,526	-	-	
Postage	4,289	4,289	-	-	
Printing	7,080	7,080	-	-	
Miscellaneous	4,600	4,600	-	-	
Research grants	1,146,746	733,696	-	413,050	2.2.5 (i)
Bank charges	90	90	-	-	
Unsurrendered imprests	123,900	-	-	123,900	2.2.5 (ii)
<hr/>					
Total expenditures	1,806,941	1,269,991	-	536,950	
	=====	=====	=====	=====	
	<b>\$ 66,922</b>	<b>\$ 47,035</b>	<b>-</b>	<b>\$ 19,887</b>	

**2.2.5 Unsupported costs**

**i) Research grants**

We set out below the unsupported research grant expenditures:

<b>Project Number</b>	<b>Amount</b>	<b>Remarks</b>
	<b>KShs.</b>	
ARF/CSWP/RG-USAID/ 1112/1	96,053	A quarterly expenditure report has not been submitted by the investigator, thus it is not possible to analyze this amount. However, the records of the universities disbursing the funds indicates that these amounts are wages.
ARF/LSKP/RG-USAID/ 1111/1	316,997	Original supporting documents were not made available by the university during our visit.
Total	----- 413,050 =====	(\$ 15,298)

ii) **Unsurrendered Imprests**

We set out the unsupported imprests below:-

<b>Imprest Date</b>	<b>Voucher Number</b>	<b>Designated Expenditure</b>	<b>Amount KShs</b>
24.09.91	46	Subsistence Transport	7,500 3,500
03.12.91	56	Subsistence	5,000
28.01.92	5897	Transport	3,000
06.03.92	63	Expendable supplies	1,400
10.06.92	76	Subsistence Transport Honorarium	15,000 12,000 4,200
27.07.92	121	Subsistence Transport Honorarium Miscellaneous	3,000 13,000 12,000 1,000
12.11.92	140	Subsistence Transport Miscellaneous	19,800 6,500 2,000
18.11.92	145	Subsistence	10,000
19.11.92	146	Subsistence	5,000
		<b>Total</b>	<b>123,900</b>
			<b>(\$ 4,589)</b>

**Recommendation No. 1**

We recommend that the Agricultural Research Fund management obtain the original documents or certified copies, supporting expenditure of Kshs.413,050 (\$ 15,298) from the research grants and original documents supporting imprests of Kshs.123,900 (\$ 4,589).

**Auditee response**

The documents supporting expenditure on research grants by the University of Nairobi were not made available due to a backlog in updating grant records. The records are now up to date. The outstanding imprests at the time of audit have now been surrendered and accounted for.

### **USAID/Kenya's response**

The USAID mission states that they believe that the recommendation as drafted is not feasible as Kenya Government regulations require that original documentation be kept at the implementing institutions. They recommend that it is changed to require that the Agricultural Research Fund obtain and maintain certified copies of supporting documents which must accompany expenditure reports.

### **Auditors' comments**

The recommendation has been be changed to require either original documentation or certified copies.

### **Recommendation No. 2**

As the universities receiving funds are unable to provide supporting documents on a timely basis, the Agricultural Research Fund should carry out quarterly audits of the institution to determine the availability of documents and ensure that records are kept up to date and missing documents are found.

### **Auditee response**

The administration of grants is being decentralized as from March 2, 1993 and partly due to the intervention of the Agricultural Research Fund secretariat following the audit concerns.

### **USAID/Kenya's response**

The USAID mission states that the Agricultural Research Fund under the Kenya Agricultural Research Institute cannot take over the accounting function for institutions which cannot provide original support documents on a timely basis, as the Kenya Agricultural Research Institute is required by law to ensure that all expenditure returns are prepared by the accounts department of the participating institution. The mission requests that the recommendation be deleted.

### **Auditors' comments**

The Agricultural Research Fund needs to ensure that the accounting records maintained by the institution are adequate to meet its legal obligations and its obligations to USAID. We have therefore changed the recommendation to require that the Agricultural Research Fund check and carry out audits of the accounting information provided by the institutions.

### **Recommendation No. 3**

Expenditures reported in the research grants quarterly expenditure reports should be reconciled to the funds disbursed by Agricultural Research Fund.

**Auditee response**

Not addressed by Auditee.

**USAID/Kenya's response**

The USAID mission concurs with this recommendation

**Recommendation No. 4**

The Agricultural Research Fund management should implement a system to ensure that imprests are accounted for or surrendered, after one month of issue, to ensure that a potential area for abuse of Agricultural Research Fund resources is closed.

**Auditee response**

Not addressed by Auditee.

**USAID/Kenya's response**

The USAID mission concurs with this recommendation and will require that the Agricultural Research Fund ensure that imprests are surrendered or accounted for one month after issue.

**GRANT TO THE KENYA AGRICULTURAL RESEARCH INSTITUTE UNDER USAID  
KENYA'S NATIONAL AGRICULTURAL RESEARCH PROJECT NO. 615-0229**

**3. INTERNAL CONTROL STRUCTURE**

**3.1 Independent Auditors Report**

We have audited the Fund Accountability Statement of the, Agricultural Research Fund element of the National Agricultural Research Project of No. 615 - 0229 for the period April 16, 1991 through December 31, 1992 and have issued our report thereon dated June 30, 1993.

We conducted our audit in accordance with generally accepted auditing standards and Government Auditing standards (1988 revision) issued by the Comptroller General of the United States. These standards required 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 we considered the internal control structure established by the Kenya Agricultural Research Institute for the Agricultural Research Fund in so far as it relates to grant funds, 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 the Agricultural Research fund is responsible for establishing and maintaining an internal control structure. In fulfilling this responsibility estimates and judgments 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 reasonable, but not absolute assurance that the assets are safeguarded against loss from unauthorized use or disposition and that transactions are executed in accordance with the Kenya Agricultural Research Institute'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 conditions or that the effectiveness of the design and operation of policies may deteriorate.

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

### **Control Environment**

- written procedures
- personnel
- third party control over funds

### **Accounting System**

accounting records and reporting

### **Control Procedures**

- disbursements
- fund management
- third party management involvement

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

We noted certain matters involving the internal control structure and its operation that we consider to be reportable condition under the 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 organizations ability to record, process, summarize and report financial data consistent with the assertion of management in the Fund Accountability Statement.

The following reportable conditions were observed:

- a) Adequate books of account are not kept by the Agriculture Research Fund
- b) Some controls were found to be ineffective, as errors detected or the failure to follow laid down procedures, were not investigated or corrected.
- c) Fund Accountability Statements on the operations of the fund were not prepared on a regular basis.

A material weakness is a condition in which the design or operation of one or more of the internal control structure elements does not reduce to a relatively low level, the risk that errors or irregularities in amounts that would be material in relation to the Fund Accountability Statement being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions.

Our consideration of the internal control structure would not necessarily disclose all matters in the internal control structure that might be reportable conditions and, accordingly, would not necessarily disclose all reportable conditions that are considered to be material weaknesses as defined above. However, we believe the reportable conditions described above constitute a material weakness in view of the fact that expenditures of Kshs. 536,950 (\$ 19,887) were unsupported.

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 for the information of the Government of Kenya through the Kenya through the Agricultural Research Institute and the United States Agency for International Development but this is not intended to limit the distribution of the report if it is a matter of public record.



**BELLHOUSE MWANGI ERNST & YOUNG,  
NAIROBI**

**June 30, 1993**

### **3.2 Work Performed**

We reviewed the internal control structure of the Agricultural Research Fund element of the USAID grant to National Agricultural Research Project. We obtained an understanding of the design of relevant procedures and we assessed control risk. Our review considered the significant internal control structure policies and procedures categorized as follows:-

#### **Control Environment**

- written procedures;
- personnel; and
- third party control over funds.

#### **Accounting System**

- accounting records and reporting of the Agriculture Research Fund and other institutions receiving funds

#### **Control Procedures**

- disbursements;
- fund management; and
- third party control over funds.

The Agriculture Research Fund is independent from Kenya Agricultural Research Institute in that it is managed by a separate committee and not subject to the Kenya Agricultural Research Institute management below the level of Director.

### **3.3 Findings and Recommendations**

#### **3.3.1 Control Environment**

Written guidelines, procedures and regulations for the Agriculture Research Fund exist but are biased toward the operations of the fund rather than financial procedures. The financial procedures and regulations

**Recommendation No.5**

We recommend that in view of the independence of the Agriculture Research Fund, a separate financial procedures manual should be prepared.

**Auditee response**

The guidelines, procedures and regulations are now being revised to include more detailed financial procedures. It may be necessary to have a separate financial procedures manual as the fund grows.

**USAID/Kenya's response**

USAID concurs with this recommendation

**Recommendation No.6**

The original documents supporting research expenditures should be sent to the Agricultural Research Fund together with the quarterly expenditure reports and the universities should retain photocopies of the same for their records, as some of the contracting national universities do not have adequate filing systems.

**Auditee response**

The secretariat now requests for certified copies of all supporting documents which must accompany expenditure reports to the Agricultural Research Fund.

**USAID/Kenya's response**

See response under recommendation No.1.

**Auditors' comments**

See comments under recommendation No.1.

**3.3.2 Accounting System**

An accounting system exists and is complemented by the Kenya Agricultural Research Institute's accounting system. Only two books of account, an expense ledger and a cashbook are maintained, a double entry bookkeeping system is not possible with these records. This system of bookkeeping is adequate, in view of the current size of the Agricultural Research Fund. However, problems may arise if the fund grows as anticipated.

There are no requirements to report to USAID other than annual budgets. During the period under review, accountability statements have been prepared only twice.

**Recommendation No.7**

We recommend that the Agricultural Research Fund Management introduce a general ledger into the accounting system to incorporate all transactions and balances. This will ensure a self-balancing bookkeeping system based on the double entry concept.

**Auditee response**

A general ledger and other books of prime entry have been introduced to ensure a self-balancing accounting system.

**USAID/Kenya's response**

The mission concurs with this recommendation.

**Recommendation No. 8**

We recommend that the Agricultural Research Fund management prepare Fund Accountability Statements of actual expenditures regularly, and these statements be sent to USAID at least quarterly for USAID to ensure their completeness and correctness.

**Auditee response**

Fund Accountability Statements will be prepared monthly and annexed to the quarterly management reports. These will be made available to USAID and other donors supporting the fund.

**USAID/Kenya's response**

USAID concurs with this recommendation.

**3.3.3 Control Procedures**

Adequate controls exist over disbursements from the fund. However, instances were noted where imprests were maintained for unreasonably long periods after the task for which they were disbursed had been completed; contrary to the Kenya Agricultural Research Institute requirement that they be surrendered within 48 hours of personnel returning to the work station.

A multi-donor bank account is maintained, separate from those of the Kenya Agricultural Research Institute, for the Agricultural Research Fund. The use of the funds are currently based on USAID approved budgets and only the USAID funds have been used to date. Bank reconciliations are prepared on a monthly basis, however this control is not effective as they are not checked or approved. An instance was noted where a clerical error (a cheque misposting between the Agricultural Research Fund cashbook and the Kenya Agricultural Research Institute cashbook), was detected in the bank reconciliations, but has not been corrected to date.

Institutions such as the National Universities have their own controls over the research grants disbursed by Agricultural Research Fund. They submit monthly returns of these expenditures and retain the documents supporting them. These funds are then disbursed by the university to the scientists who conduct the research. However, in some instances the expenditure returns (prepared by the scientists as part of their research progress reports), were inconsistent with the Agricultural Research Fund report format. Furthermore, these reports were prepared without the participation of the finance department of the university. As a result some grants reported expenditures in excess of the funds disbursed by the Agricultural Research Fund which indicates the use of mainstream university funds instead of grant funds.

**Recommendation No. 9**

We recommend that the Agricultural Research Fund Management ensure that imprests are surrendered immediately and accounted for once the intended purpose is accomplished, in accordance with the procedures of the Kenya Agricultural Research Institute.

**Auditee response**

Not addressed by Auditee.

**USAID/Kenya's response**

This recommendation is the same as recommendation no 4 and should be incorporated therein.

**Auditors' comments**

Our recommendation still stands as this is also an internal control procedure as opposed to only being an accounting procedure.

**Recommendation No. 10**

We recommend that a system of monitoring the different donor funds is implemented, such as the vote book system utilized by Kenya Agricultural Research Institute. Bank reconciliations are an important control over funds and these should be checked and approved at a responsible level, and such checks and approvals evidenced. Any errors noted should be immediately investigated and corrected.

**Auditee response**

Funds from different donors are now maintained in separate votes and expenditures have appropriate codes to avoid mixing up funds from different donors.

**USAID/Kenya's response**

The mission concurs with this recommendation. They will require that separate books of account are maintained for USAID funds.

**Auditors' comments**

Accepted. However, our recommendation on bank reconciliations still stands.

**Recommendation No.11**

Returns of expenditures by scientists are prepared by the accountants of the university having custody and controlling the grant expenditure. We recommend that these returns should be in the form required by the Agricultural Research Fund "Form 4" and that reconciliations should be performed, between the funds disbursed by the Agricultural Research Fund, the expenditures incurred by the scientists and the balance of funds held by the university.

**Auditee response**

All employing institutions and Principal Investigators are required to use ARF form 4, in making expenditure returns to the Agricultural Research Fund, with the participation of the accounts department of the institution. Adequate copies of ARF form 4 have been sent to the relevant institutions.

**USAID/Kenya's response**

USAID concurs with this recommendation.

**GRANT TO THE KENYA AGRICULTURAL RESEARCH INSTITUTE UNDER USAID  
KENYA'S NATIONAL AGRICULTURAL RESEARCH PROJECT NO. 615-0229**

**4. COMPLIANCE WITH GRANT PROVISIONS  
AND US GOVERNMENT REGULATIONS**

**4.1 Independent Auditors Report**

We have audited the Fund Accountability Statement for the Agricultural Research Fund element of the National Agricultural Research Project No.615 - 0229 for the period April 16, 1991 through December 31, 1992 and have issued our report thereon dated June 30, 1993.

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

Compliance with laws, regulations, contracts, grants and binding policies and procedures applicable to the project funds is the responsibility of the management of the Agricultural Research Fund. As part of our audit we performed tests of the Agricultural Research Fund compliance with certain provisions of laws, regulations, grants and binding policies and procedures. However, it should be noted that we performed those tests of compliance as part of obtaining reasonable assurance about whether the financial statements are free of material misstatement; our objective was not to provide an opinion on compliance with such provisions.

Material instances of non compliance are violations of laws, regulations, contracts, grants and binding policies and procedures that cause us to conclude that the aggregation of misstatements resulting from those violations is material to the Fund Accountability Statement.

The results of our tests of compliance disclosed the following instances of non compliance:

- a) Failure to maintain adequate records to show the receipt and use of goods and services acquired under the grant, as required under the project grant standard provisions, resulting in Kshs. 536,950 (\$ 19,887) in unsupported costs.
- b) Failure to provide quantified evidence of the Government of Kenya's contribution towards the project as stipulated in the grant standard provisions.

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

This report is intended for the information of the Government of Kenya through the Kenya Agricultural Research Institute and the United States Agency for International Development but this is not intended to limit the distribution of the report if a matter of public record.

*Reviewed by Ernst & Young*

**BELLHOUSE MWANGI ERNST & YOUNG,  
NAIROBI**

**June 30, 1993**

## **4.2 Work Performed**

Our audit of National Agricultural Research Project of the Kenya Agricultural Research Institute included obtaining assurances that the Government of Kenya complied with grant provisions and US Government regulations. Procedures performed to test such compliance included the following:

- (i) a review of grant provisions and related regulations to identify those provisions and regulations which could have a material effect on the Fund Accountability Statement; and
- (ii) audit procedures including detailed testing to confirm the Government of Kenya's compliance with these provisions and regulations, through its implementing agency the Kenya Agricultural Research Institute.

## **4.3 Findings and Recommendations**

Our findings and recommendation on compliance issues are set out in the following paragraphs:-

The agreement stipulated that the Government of Kenya was to contribute an amount of Kshs. 7,422,300 (\$ 274,900) to the Agricultural Research Fund by the project completion date. According to Kenya Agricultural Research Institute officials, the Government of Kenya had contributed in kind by the provision of office space, telephone facilities and other related services. This expense has been not quantified, thus it cannot be ascertained whether the Government of Kenya complied with or is the process of complying with this provision.

### **Recommendation No.12**

We recommend that the Agricultural Research Fund Management should ensure that, in kind contributions are quantified and regularly updated during the life of the project to ensure that such contributions are adequate and are in accordance with the grant agreement

### **Auditee response**

Currently, the Government of Kenya's clear contributions to the Agricultural Research Fund are full-time staff, part-time staff, office facilities and related services. These contributions are estimated to cost Kshs. 1,462,000 (approximately \$ 32,480) annually. The Deputy Director (finance and administration) of the Kenya Agricultural Research Institute will update the contributions by the Government of Kenya annually.

### **USAID/Kenya's response**

The mission concurs with this recommendation and will require the Kenya Agricultural Research Institute to update the Government of Kenya's contribution on a quarterly basis and report the same to USAID.

**GRANT TO THE KENYA AGRICULTURAL RESEARCH INSTITUTE UNDER USAID  
KENYA'S NATIONAL AGRICULTURAL RESEARCH PROJECT NO. 615-0229**

**5. COMMODITY TRACKING**

**5.1 Work Performed**

We obtained a P04 tracking report and copies of vendor invoices with descriptions of commodities directly procured by USAID for the National Agricultural Research Project and tracked assets totaling \$ 454,844 to the fixed assets register maintained by the Kenya Agricultural Research Institute. We also physically verified the existence of assets totaling \$ 267,150 (59%) which represents commodities and motor vehicles located at the Kenya Agricultural Research Institute's headquarters in Nairobi and motor vehicles in other research stations of the Institute countrywide.

**5.2 Findings and Recommendations**

Our findings are set out below:-

<b>Vendor</b>	<b>Commodities</b>	<b>Comments</b>
i) Motor Vehicles:-		
Marshalls (E.A.)	10 Peugeot 504 saloons	one vehicle registration number KZX451 did not appear in the assets register whereas another vehicle registration number KZX 445 appeared in the register even though it was written-off in 1991 following a road accident. The cost of the motor vehicle was Kshs. 298,750 (\$ 14,253). Five of these vehicles whose total cost was \$ 74,209 were physically verified, found to exist and are assigned to the project.
Trackspa Ltd	4 Peugeot 504 saloons	None of these appeared in the assets register, however a physical verification of three of these vehicles whose total cost was \$ 43,497, revealed that they existed and are used for the project.
Airoquip Ltd	5 Toyota Double Cab 4x4 pick ups.	None of these appeared in the assets register, however a physical verification of two of these vehicles whose total cost was \$ 37,503, revealed that they existed and are used for the project.

Vendor	Commodities	Comments
ii) Equipment:-		
Eurafric Trading Co. Ltd	20 CS2635 "SHARP" calculators and 8 SF8100 "SHARP" photocopiers	8 photocopiers of the same brand name ("SHARP") appear in the assets register. We could not trace the calculators in the register. We physically verified and found seven copiers and ten calculators which cost \$ 36,822.
Amee Exim Ltd	10 Microcomputers IBM 8550-021 2 printers LQ 2500 8 printers LQ 2500	A number of computers and printers financed by USAID appeared in the assets register.  They have different model numbers from those purchased from Amee Exim Ltd. The computers and printers were merely described as "Epson Printer". We physically verified and found the computers and printers which cost \$ 72,783.
M. S. Altantis	3 Ibico binding machines.	None of these appeared in the the assets register however we physically verified and found these machines which cost \$ 2,336.

These assets were acquired by open market tender through the Kenya Agricultural Research Institute. On further enquiry of the supplies department of the Kenya Agricultural Research Institute, it was noted that the vehicles were under the custody of the Kenya Agricultural Research Institute and that a sub-register was maintained showing to which stations and sub-stations these vehicles were allocated. This record had not been used to update the main assets register.

#### **Recommendation No.13**

We recommend that the Kenya Agricultural Research Institute and the Mid-American Agricultural Consortium obtain details of all assets donated by USAID from the inspection and receiving reports issued by USAID and update the main assets register. The assets register should have a detailed description of the assets such as make, model and where necessary the manufacturer's serial number for the item.

**Auditee response**

All assets reported as missing on the assets register have all along been in the assets register. We are of the opinion that the auditors did not use the supplies information and supplementary related documents held by the Kenya Agricultural Research Institute to reconcile their report. Receiving and inspection reports are not detailed enough and this has been taken note of and necessary action taken.

**USAID/Kenya's response**

The mission agrees that the Kenya Agricultural Research Institute should update its register to reflect all assets donated by USAID and the Mid-American Agricultural Consortium. The Kenya Agricultural Research Institute and the Mid-American Agricultural Consortium will use the inspection and receiving reports to update the assets register maintained by the Kenya Agricultural Research Institute.

**Auditors' comments**

The assets register provided at the time of audit did not contain the information as reported above. The information from the supplies department of the Kenya Agricultural Research Institute which included tender correspondence was utilized in order to reach the conclusion that the assets existed, but they did not appear in the assets register.

**Recommendation No.14**

We recommend that the Kenya Agricultural Research Institute account for any amounts received from the insurers of the motor vehicle registration number KZX445 and that it be removed from the fixed assets register.

**Auditee response**

Not addressed.

**USAID/Kenya's response**

Not addressed.



**KENYA AGRICULTURAL RESEARCH INSTITUTE**  
**HEADQUARTERS:**  
 P.O. BOX 57811 TEL: 444144/444029/32  
 TELEX: 25287 KARI HQ. KE FAX: 440771  
 NAIROBI



When replying please quote:

Our Ref: KARI/4/088/121

Your Ref: \_\_\_\_\_

Date: 7th April 1993

Bellhouse Mwangi Erust & Young,  
 Certified Public Accountants,  
 P. O. Box 44286,  
NAIROBI

Dear Sir,

**RESPONSE TO THE AUDIT OF THE AGRICULTURAL RESEARCH FUND**  
**AND COMMODITIES**

Please find enclosed detailed responses to the audit of the Agricultural Research Fund (ARF) and commodities, 16 April, 1991-31 December, 1992.

Let me take this opportunity to thank you for the issues raised on the financial management of the fund. The audit was quite timely, particularly at this infancy stage of the fund, and it has helped us rectify the identified flaws in the financial management of the fund within and outside KARI. We are now in a better position for the expansion of the fund.

With regard to commodities, all items, except items whose value was below US\$500, were entered in the Assets Register at the time of the audit. The assets register is available for inspection and verification of items.

Looking forward to your future cooperation and assistance.

Yours sincerely,

C. G. Ndiritu (Dr)  
DIRECTOR KARI

cc. Dr. Maria Mullei - USAID Kenya

Dr. Bender - MIAC

RESPONSE TO THE AUDIT OF THE AGRICULTURAL RESEARCH FUND:

16 APRIL, 1991 - 31 DECEMBER, 1992

FUND ACCOUNTABILITY

a) Unsurrendered Imprests

The outstanding imprests amounting to Kshs.123,900.00 at the time of the audit have now been surrendered and accounted for.

The Secretariat operates imprests according to financial regulations and procedures in KARI. These are now strictly enforced to ensure that imprests are surrendered or accounted for within the specified period.

b) Unsupported Expenditure: University of Nairobi

By the time of the audit, documents supporting expenditure of Kshs.413,050.00 on ARF research contracts by the University of Nairobi were not made available to the audit team. While the Officer familiar with grants records was on leave, the major reason was that there was a backlog in updating all grant records in the computer and the respective files. The records are now upto date.

The university handles over one thousand grants at any one time and experiences backlogs in updating records. To minimize delays in making expenditure records and supporting

documents available to audit teams, there are plans to have a separate accounting system (but linked to the central accounting system) for all grants. In fact the administration of grants is being decentralized so that each college will handle its own grants. This is as per internal communication from the Chief Internal Auditor to the Deputy Vice-chancellor Finance and Administration of 26/2/93. The DVC (F & A) approved the decentralization on 2/3/93. The decentralization is partly due to the intervention by the ARF Secretariat following the audit concerns.

#### INTERNAL CONTROL STRUCTURE

a) Books of Accounts

The ARF uses the same books of accounts as KARI which were found to be inadequate. To ensure self balancing, the following are now in place:

- Petty cash book
- Cashbook
- Journal
- General ledger

b) Fund Accountability Statements

The fund accountability statements will now be made on a monthly basis and will appear in quarterly management reports. The statements will be made available to USAID and other

donors supporting the fund.

The fund accountability book-keeping statements of actual expenditures are now being prepared regularly and records entered into the computer according to the expenditure items. Funds from different donors are maintained in separate votes and expenditures have appropriate codes to avoid mixing up funds from different donors.

#### CONTROL ENVIRONMENT

a) Financial Procedures for ARF

As pointed out in the audit report, the existing ARF guidelines, procedures and regulations are biased towards the operations of the fund rather than financial procedures. The guidelines, procedures and regulations are now being revised to include more detailed financial procedures. As the fund grows it may be necessary to have a separate financial procedures manual.

b) Filing System at the University of Nairobi

The current central filing system at the University of Nairobi is cumbersome as it leads to backlogs in updating of expenditure records and makes retrieval of documents difficult. The university is now decentralising grants accounting and management systems and this should lead to easy

availability of expenditure records and supporting documents. While the decentralized systems are being put in place, the ARF Secretariat will keep constant monitoring to ensure that records are kept to date, particularly with regard to ARF contracts. The Secretariat now requests for certified copies of all supporting documents which must accompany expenditure reports to ARF.

c) Submission of Returns

All employing institutions and Principal Investigators are required to use ARF Form 4 in making expenditure returns to the ARF. They are also required to ensure that all expenditure returns are prepared with the participation of the accounts department of the institution, as the institution is responsible for the administration of the research contract. Adequate copies of ARF Form 4 have been sent to relevant institutions. The expenditure reports must be signed by the Head of Institution/Department and must bear official stamp.

**COMPLIANCE WITH GRANT RELATED PROVISIONS**

Government of Kenya Contribution

Currently the GOK clear contributions to the ARF are:

- a) Full-time Staff:
- Secretariat
  - Secretary
  - Accounts Assistant

- Driver
- Messenger

b) Part-time Staff:

- Director
- Deputy Director (F & A)
- Deputy Director (CSW)
- Deputy Director (L)
- Chief Accountant
- Senior Accountant
- Research Officer (biometrics - computer services)

c) Facilities: Two offices

d) Services:

- postage
- telephone, fax and telex
- water and electricity
- procurement of supplies
- maintenance of vehicle and equipment

Currently the in kind Kenya Government contribution are estimated to cost Kshs.1,462,000.00 (approximately US\$32,480.00) annually. As the fund grows, more full-time staff and facilities will be made available. In fact the services of the part-time Research Officer I will soon be full-time. The Deputy Director (F & A) will update the Kenya Government in kind contributions annually.

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## COMMODITY TRACKING

1. Vehicle registration No. KZX 451 was bought and recorded in the Asset register along with other 9 No. similar vehicles. The location details are as follows:

<u>Description</u>	<u>Location</u>
KZX 446 Peugeot 504 s/w -	Njoro
KZX 447 Peugeot 504 s/w -	Kekamega
KZX 448 Peugeot 504 s/w -	Kisii
KZX 449 Peugeot 504 s/w -	HQ
KZX 450 Peugeot 504 s/w -	Kitale
KZX 451 Peugeot 504 s/w -	Mtwapa
KZX 452 Peugeot 504 s/w -	NARL, Kabete
KZX 453 Peugeot 504 s/w -	NVRC, Muguga
KZX 455 Peugeot 504 s/w -	Kiboko
KZX <del>455</del> 445 Peugeot 504 s/w -	Embu W/ff 1990 Nov Accident

The supplier - Marshalls E.A. Ltd.

2. Motor vehicles (4 No - s/w) reported missing on the asset register are not s/w but Peugeot 504 saloons and are actually in the asset register. Following is the registration and location.

<u>Description</u>	<u>Location</u>
KZG 254 Peugeot 504 saloon -	KARI HQ
KZG 255 Peugeot 504 saloon -	NARL, Kabete
KZG 256 Peugeot 504 saloon -	Katumani
KZG 257 Peugeot 504 saloon -	KARI HQ

Supplier: Tracspa

3. 5 No. Toyota Double cab 4x4 were also reported missing from the register which is not correct. These vehicles appear on asset register.

<u>Description</u>	<u>Location</u>
KZG 905 Toyota Double cab -	Embu
KZG 906 Toyota Double cab -	Katumani
KZG 920 Toyota Double cab -	Kitale
KZG 922 Toyota Double cab -	Mtwapa
KZG 921 Toyota Double cab -	Kakamega

Supplier: Airoquip

4. The 23 No. Sharp Calculators reported missing on the register were below US\$ 500 in value each and hence they did not appear. However, their record is maintained in the stock ledger cards (S<sub>3</sub>).

5. Explanation given under # 4 also applies to the Ibico bin machines.
6. All micro computers and printers (Epson) purchased from Exim were retained at the HQ and appear on the asset register separately as follows:
  - 10 No. Computer comprising of CPU, Monitor and Key Board
  - 8 No. Epson printers LQ1050
  - 2 No. Epson printers LQ2500 - were bought from Micro Ltd but not Ameer Exim Ltd.

Note:

1. The vehicles have all along been in the asset register. Copies of relevant pages of asset register print-out attached as annex.
2. The Receipt & Inspection forms are not detailed enough. However, this has been taken note of and necessary action taken.
3. The auditors did not use the supplies information to reconcile their report.
4. We are of the opinion that the audit exercise was based on form PO4 which was obtained from USAID. This should have been supplemented with related documents that are held by KARI, example tender correspondence.

KARI 1

KARI FIXED ASSETS REGISTER  
ASSETS BY CENTRE BY DONOR  
USAID FUNDED ASSETS

Period: 01/70  
To: 06/93

BALANCE

CARS-TOYOTA HILUX 4WD 45235

NARC - KITALE 03

TOYOTA F/U D/CAB KZG 920 550,000 D

TOTAL NARC - KITALE 550,000 D

NDFRC - KATUMANI 14

TOYOTA F/U D/CAB KZG 906 550,000 D

TOTAL NDFRC - KATUMANI 550,000 D

RRC - KAKAMEGA 21

TOYOTA DELUXE F/U KZG 921 320,000 D

TOTAL RRC - KAKAMEGA 320,000 D

RRC - EMBU 23

TOYOTA HILUX 4WD KZG 905 550,000 D

TOTAL RRC - EMBU 550,000 D

RRC - MTWAPA 25

TOYOTA F/U D/CAB KZG 922 550,000 D

TOTAL RRC - MTWAPA 550,000 D

TOTAL CARS-TOYOTA HILUX 4WD 2,520,000 D

REPORT TOTAL 2,520,000 D

END OF REPORT

1. ARE 2

USAID FIXED ASSETS REGISTER  
 ASSETS BY CENTRE BY DONOR  
 USAID FUNDED ASSETS

Period: 01/70  
 To: 06/93

BALANCE

CARS-PEUGEOT 504 SAL (5) 45218

KARI/HQ. 02

PEUGEOT 504 SALOON KAF 928B 458,520 D

PEUGEOT 504 SALOON KEG 254 281,419 D

PEUGEOT 504 SALOON KZG 257 281,419 D

TOTAL KARI HQ 1,021,358 D

NAL - KADETE 11

PEUGEOT 504 SALOON KZG 255 281,419 D

TOTAL NAL - KADETE 281,419 D

NDFRC - KATUMANI 14

PEUGEOT 504 SALOON KZG 256 281,420 D

TOTAL NDFRC - KATUMANI 281,420 D

TOTAL CARS-PEUGEOT 504 SAL 1,584,197 D

CARS-PEUGEOT 504 S/W (10) 45226

KARI HQ 02

PEUGEOT 504 S/W KZX 449 307,005 D

TOTAL KARI HQ 307,005 D

NARC - KITALE 03

PEUGEOT S/W KZX 450 307,005 D

TOTAL NARC - KITALE 307,005 D

NFRC - NJORO 07

PEUGEOT 504 S/W KZX 446 307,006 D

TOTAL NFRC - NJORO 307,006 D

NARC - MUGUGA 10

PEUGEOT 504 S/W KZX 430 307,005 D

TOTAL NARC - MUGUGA 307,005 D

VARI 3

KAFI FUNDED ASSETS REGISTER  
 ASSETS BY CENTRE BY DDNDP  
 USAID FUNDED ASSETS

Period: 01/70  
 To: 06/93

BALANCE

NAL - KABETE 11

PEUGEOT 504 S/W KZX 452 307,005 D

TOTAL NAL - KABETE 307,005 D

NVRC - MUGUGA 15

PEUGEOT 504 S/W KZX 453 307,005 D

TOTAL NVRC - MUGUGA 307,005 D

RRC - KAKAMEGA 21

PEUGEOT 504 S/W KZX 447 307,005 D

TOTAL RRC - KAKAMEGA 307,005 D

RRC - KISII 22

PEUGEOT 504 S/W KZX 448 307,005 D

TOTAL RRC - KISII 307,005 D

RRC - EMBU 23

PEUGEOT 504 S/W KZX 445 307,005 D

TOTAL RRC - EMBU 307,005 D

RRC - MWAFA 25

PEUGEOT 504 S/W KZX 451 1 D

TOTAL RRC - MWAFA 1 D

TOTAL CARS-PEUGEOT 504 S/W 2,763,047 D

REPORT TOTAL 4,347,244 D

END OF REPORT

USAID FUNDED ASSETS

Period: 01/70  
To: 06/73

BALANCE

PRINTER-LQ1050/2500 30618

Office Equipment 2

EPSON LQ 1050 PRINTER	12573	41,678 D
EPSON LQ 1050 PRINTER	13096	33,995 D
(8) EPSON LQ 1050 PRINTER	13095	33,995 D
EPSON LQ 1050 PRINTER	13096	33,995 D
EPSON LQ 1050 PRINTER	13097	33,995 D
EPSON LQ 1050 PRINTER	14015	33,995 D
EPSON LQ 1050 PRINTER	16275	1 D
EPSON LQ 1050 PRINTER	16280	1 D
(2) EPSON LQ 2500 PRINTER	16365	1 D
EPSON LQ 2500 PRINTER	4164	50,000 D

TOTAL Office Equipment 301,656 D

TOTAL PRINTER-LQ1050/2500 301,656 D

REPORT TOTAL 301,656 D

END OF REPORT

1991 5

NARI FINED ASSETS REGISTER  
ASSETS BY CENTER BY QUARTER  
USAID FUNDED ASSETS

Period: 01/78  
to: 03/78

BALANCE

COMPUTER-IBM 50 PS/2 30508

Office Equipment 2

10

IBM PS/2 MODEL 50	16242	1 D
IBM PS/2 MODEL 50	16247	1 D
IBM PS/2 MODEL 50	16271	1 D
IBM PS/2 MODEL 50	16275	1 D
IBM PS/2 MODEL 50	16277	1 D
IBM PS/2 MODEL 50	16285	1 D
IBM PS/2 MODEL 50	16288	1 D
IBM PS/2 MODEL 50	16292	1 D
IBM PS/2 MODEL 50	16294	1 D
IBM PS/2 MODEL 50	16306	1 D

TOTAL Office Equipment 10 D

TOTAL COMPUTER-IBM 50 PS/2 10 D

REPORT TOTAL 10 D

END OF REPORT

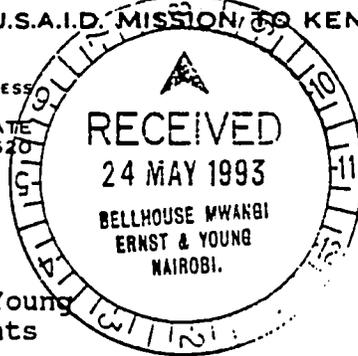
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**UNITED STATES OF AMERICA** EXHIBIT II  
**AGENCY FOR INTERNATIONAL DEVELOPMENT**  
**U.S.A.I.D. MISSION/ KENYA**

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 NAIROBI, KENYA



May 21, 1993

Bellhouse Mwangi Ernst & Young  
 Certified Public Accountants  
 P.O. Box 44286  
 Nairobi.

**Re: Response to the Non-Federal Audit of the Agricultural Research Fund**

Dear Sir:

We are submitting the USAID/Kenya Mission response to the non-Federal audit of the Agricultural Research Fund (ARF) and commodities of April 16, 1991 through December 31, 1992.

On the whole, the issues raised on the financial management of the Fund are critical to the effective implementation of the National Agricultural Research Project (NARP).

Regarding the organization of the report, we request that the issues and the recommendations be clearly numbered to allow easy reference.

The following is the USAID/Kenya response to specific audit issues:

**A: FUND ACCOUNTABILITY STATEMENT**

**1. Recommendation:**

That the Agricultural Research Fund Management obtain the original documents supporting actual expenditures of research.

**Response:**

This recommendation is not feasible because Kenyan regulations requires that the original documents be kept at the implementing institutions/agencies. KARI will obtain and maintain certified copies of all supporting documents which must accompany expenditure reports. We request that the recommendation be amended accordingly.

**2. Recommendation:**

That KARI/ARF take over the accounting function for Institutions which cannot provide original supporting documentation on a timely basis.

**Response:**

KARI/ARF cannot take over the accounting functions for institutions which cannot provide original supporting documents because they are required by law to ensure that all expenditure returns are prepared by the accounts department of the participating institutions. We request that the recommendation be deleted.

**3. Recommendation:**

Expenditures reported by KARI/ARF in the quarterly expenditure reports should be reconciled to the funds disbursed by the ARF for research grants.

**Response:**

USAID concurs with the recommendation.

**4. Recommendation:**

That KARI/ARF implement a system to ensure that imprests are accounted for or surrendered after one month of issue.

**Response:**

USAID concurs with the recommendation. USAID will require KARI to ensure that imprests are surrendered or accounted for after one month of issue.

**B. INTERNAL CONTROL STRUCTURE**

**5. Recommendation:**

In view of the independence of the ARF, a separate financial procedures manual be prepared.

**Response:**

USAID concurs with the recommendation.

**6. Recommendation:**

A general ledger be introduced into the accounting system to incorporate all transactions and balances.

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**Response:**

USAID concurs with this recommendation.

7. **Recommendation:**

Fund accountability statement of actual expenditures be prepared regularly.

**Response:**

USAID concurs with this recommendation.

8 **Recommendation:**

- i. Imprests be surrendered immediately once the intended purpose is accomplished.

**Response:**

This recommendation is the same as recommendation 4 under Fund Accountability Statement. We request that it be incorporated in recommendation 4.

**Recommendation:**

- ii. A system of monitoring the different donor funds be implemented.

**Response:**

USAID concurs with this recommendation. USAID will require that separate books of accounts be maintained for A.I.D. funds.

**Recommendation:**

- iii. Bank reconciliations should be checked and approved.

**Response:**

USAID concurs with the recommendation.

**Recommendation:**

- iv. Returns of expenditures by scientists be prepared by the accountant of the University having custody and controlling the grant expenditure. These returns be in the ARF "Form 4". Reconciliations be performed,

between the funds disbursed by the ARF, the expenditures incurred by the scientists and the balance of funds held by the university.

**Response:**

USAID concurs with the recommendation.

**C. COMPLIANCE WITH GRANT PROVISIONS**

**9. Recommendation:**

In kind contributions be quantified and regularly updated during the life of the project.

**Response:**

USAID concurs with the recommendation. KARI will update the GOK in kind contributions quarterly and report the same to A.I.D.

**D. COMMODITY TRACKING**

**10. Recommendation:**

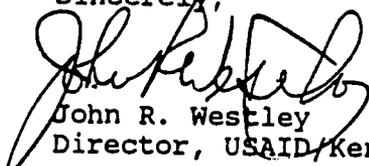
KARI to obtain details of all assets donated by USAID, physically verify the existence of the assets and update the main asset register. Asset Register should have a detailed description of the assets such as make, model and where necessary the manufacturers serial number for the item.

**Response:**

USAID/Kenya and not USAID/RFMC manages the KARI Project. USAID/Kenya agrees that KARI update it's asset register to reflect all assets donated by USAID directly or by the main contractor (MIAC) to assure compliance with contract and grant provisos on commodity management. It has been agreed that KARI and the project contractor will use the inspection and receiving reports to update the assets register. This recommendation should be amended accordingly.

We look forward to receiving the final report.

Sincerely,



John R. Westley  
Director, USAID/Kenya

ATTACHMENT II

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REDSO/RCO	1
REDSO/RFMC	1
REDSO/Library	1
IG	1
AIG/A	1
IG/A/PPO	2
IG/LC	1
IG/RM/C&R	5
IG/RM/GS (Unbound)	1
AIG/I&S	1
IG/I/NFO	1
IG/A/PSA	1
IG/A/FA	1
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