

Regional Inspector General for Audit
Nairobi, Kenya

Audit of the
Government of Kenya's Ministry of Finance Under
USAID/Kenya's Structural Adjustment Program, Fertilizer/Commodity
Import Program, and Fertilizer Pricing and Marketing Program
Grant Nos. 615-0213, 615-0240 and 615-0243

Report No. 3-615-94-02-N
November 5, 1993



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THE PUBLIC.

INSPECTOR
GENERAL

U.S. AGENCY FOR INTERNATIONAL DEVELOPMENT



November 5, 1993

U.S. AGENCY FOR
INTERNATIONAL
DEVELOPMENT

Memorandum

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

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

SUBJECT: Agency-contracted Audit of the Government of Kenya's Ministry of Finance Under USAID/Kenya's Structural Adjustment Program, Fertilizer/Commodity Import Program, and Fertilizer Pricing and Marketing Program, Grant Nos. 615-0213, 615-0240 and 615-0243. A.R. No 3-615-94-02-N

*Regional
Office for General
Audit/Nairobi*

Attached are five copies of an Agency-contracted audit of the Kenya Structural Adjustment Program, Fertilizer/Commodity Import Program, and Fertilizer Pricing and Marketing Program, Grant Nos. 615-0213, 615-0240 and 615-0243. The accounting firm of Bellhouse Mwangi Ernst & Young, Nairobi, Kenya, performed the audit.

The programs' purposes were to: provide critical balance of payment funding to support the economic adjustment program of the Government of Kenya (Government), and develop a more extensive and responsive fertilizer marketing and pricing system rooted in the private sector. The programs consist of the following components: a Commodity Import Program (CIP) for the Kenyan private sector, consultant services to help the Kenyan Government to implement structural adjustment policies and to monitor the CIP, and a program to generate local currency from the CIP and fertilizer sales. The local currency revenues were to be used for development activities in the public and private sectors.

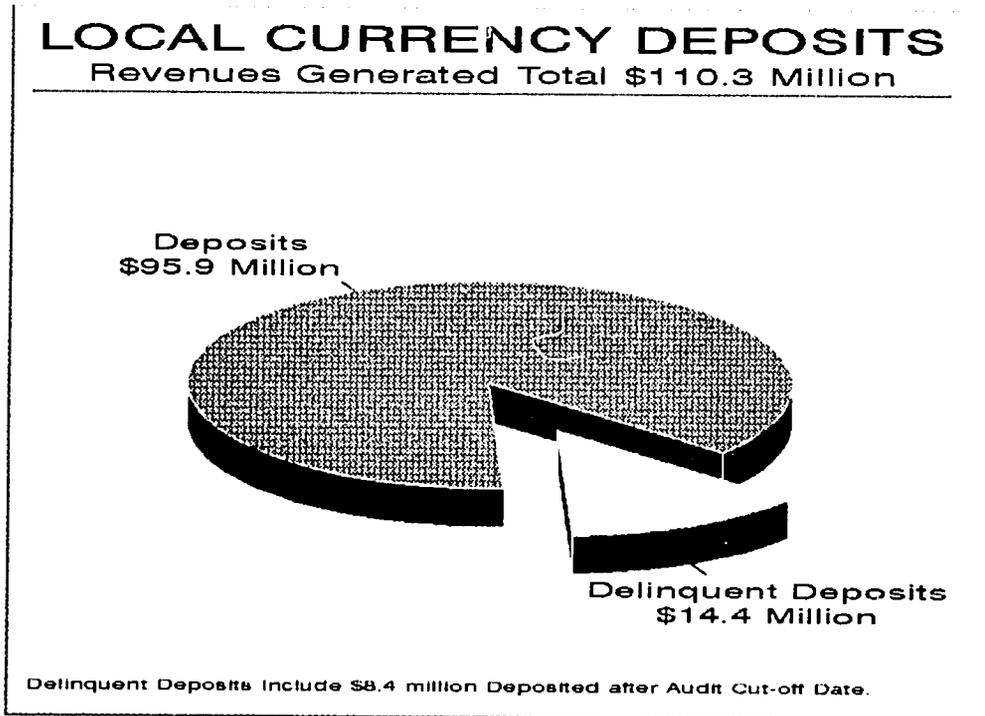
The audit objective was to examine the Government of Kenya's Fund Accountability Statement (Statement) and express an opinion as to whether the Statement presents fairly the use of funds in accordance with the grant agreements. To answer the objective, the auditors considered the auditee's internal control structure to determine the auditing procedures necessary for expressing an opinion on the Statement. The auditors were required to report on significant internal control deficiencies. As part of obtaining reasonable assurance about whether the Statement was free of material misstatement, the auditors were required to test the auditee's compliance with the terms of the grant agreements and report on any identified material instances of noncompliance. The audit covered the period June 1, 1983 to June 30, 1992.

The auditors issued an adverse opinion on the Statement based on (1) significant delinquent deposits to the special accounts of amounts generated, and (2) questioned disbursements as discussed below.

LOCAL CURRENCY DEPOSITS

During the period audited, the programs generated total revenues of Ksh.2,340,140,778 (\$110,308,608) all of which should have been deposited to the special accounts. At the time of audit only Ksh.2,063,042,177 (\$95,952,994) was actually deposited. The balance of Ksh.277,098,601 (\$14,355,614) represented delinquent deposits owed to the special accounts. The delinquent deposits included several bad checks totalling Ksh.31,092,875 (\$1,627,303) which had been paid to the special accounts but were returned by the clearing banks.

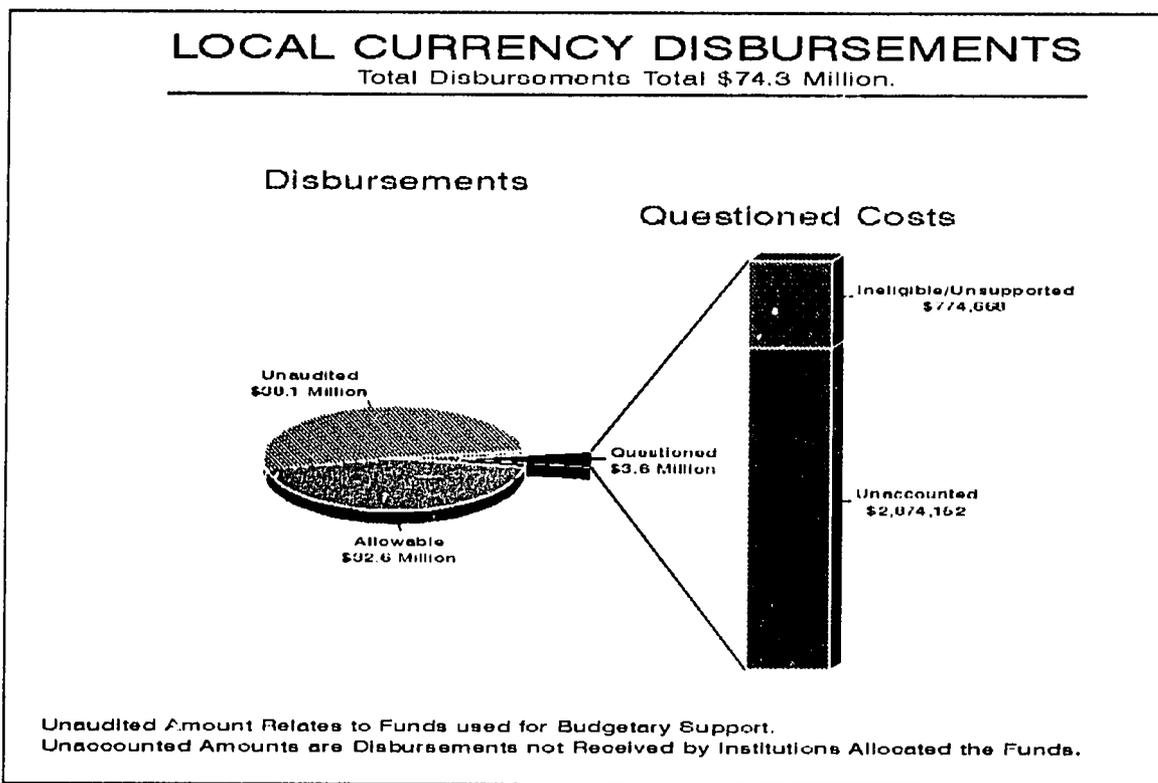
Subsequent to the audit cut-off date, deposits totalling Ksh.212,716,251 (\$8,368,066) were made to the special accounts, thereby reducing the delinquent amount to Ksh.64,382,350 (\$5,987,548). Accordingly, our recommendation No. 1. is to recover the Ksh.64,382,350 (\$5,987,548) still outstanding (see page 4).



LOCAL CURRENCY DISBURSEMENTS

A total of Ksh.1,629,750,011 (\$74,345,400) was disbursed from the special accounts in the period covered by the audit. Of the total disbursed, Ksh.839,831,095 (\$38,104,859) was given

to the Government of Kenya for budgetary support, and was therefore not audited. Of the Ksh. 789,918,916 (\$36,240,541) disbursed and audited, the auditors considered Ksh. 715,239,805 (\$32,591,721) to be allowable while Ksh. 74,679,111 (\$3,648,820) was questioned. The questioned amount included Ksh. 46,242 (\$2,478) spent on ineligible items and Ksh. 14,352,869 (\$772,190) that was not supported by documentation. *The remaining questioned amount of Ksh. 60,280,000 (\$2,874,152) was allocated to three Government of Kenya entities which did not get the funds. Though the amount was disbursed from the special accounts to the Government's exchequer for onward release to the three Institutions, the amounts were not received by the said Institutions.*



INTERNAL CONTROL STRUCTURE

The auditors reported significant weaknesses in the auditee's internal control environment and

procedures. The Government Coast Agency (GCA¹) did not segregate duties while the Treasury did not properly keep books and records. Further, for the period March 1991 to April 1993 invoices received by GCA were not recorded in the invoice control register. The check register was also incomplete and did not provide payee details. The cashbook showed no evidence of review and approval by the chief accountant and the internal auditor.

COMPLIANCE

The auditors identified several instances of significant non compliance with the A.I.D. agreements. These included the auditee's:

- failure to pay fertilizer dues on time,
- allocation of fertilizer to ineligible distributors, and
- exceeding of the stipulated period for clearing goods from ports of reception.

The draft report was submitted to the Mission and the Ministry of Finance for comments. While the Ministry did not provide comments, Mission comments are incorporated as Appendix I. The Mission generally agreed with the audit findings and recommendations.

The auditors made recommendations to address all the questioned costs, weaknesses in internal controls and noncompliance issues reported above. We are including the following recommendations in the Office of the Inspector General's audit recommendation follow-up system.

Recommendation No. 1: We recommend that USAID/Kenya determine the allowability and recover as appropriate from the Government of Kenya Ksh.64,382,350 (\$5,987,548) generated from the agreements but not deposited to the special accounts.

Recommendation No. 2: We recommend that USAID/Kenya determine the allowability and recover as appropriate from the Government of Kenya questioned unsupported costs of Ksh.14,352,869 (\$772,190).

Recommendation No. 3: We recommend that USAID/Kenya determine the allowability and recover as appropriate from the Government of Kenya questioned ineligible costs of Ksh.46,242 (\$2,478).

¹ GCA was the clearing agent on behalf of the Government under the programs.

Recommendation No. 4: We recommend that USAID/Kenya determine the allowability and recover as appropriate from the Government of Kenya Ksh.60,280,000 (\$2,874,152) of the special accounts funds not received by the institutions for which the funds were released.

Recommendation No. 5: We recommend that USAID/Kenya obtain from the Ministry of Finance a plan to improve its internal control structure and compliance with grant agreement requirements which would include ensuring:

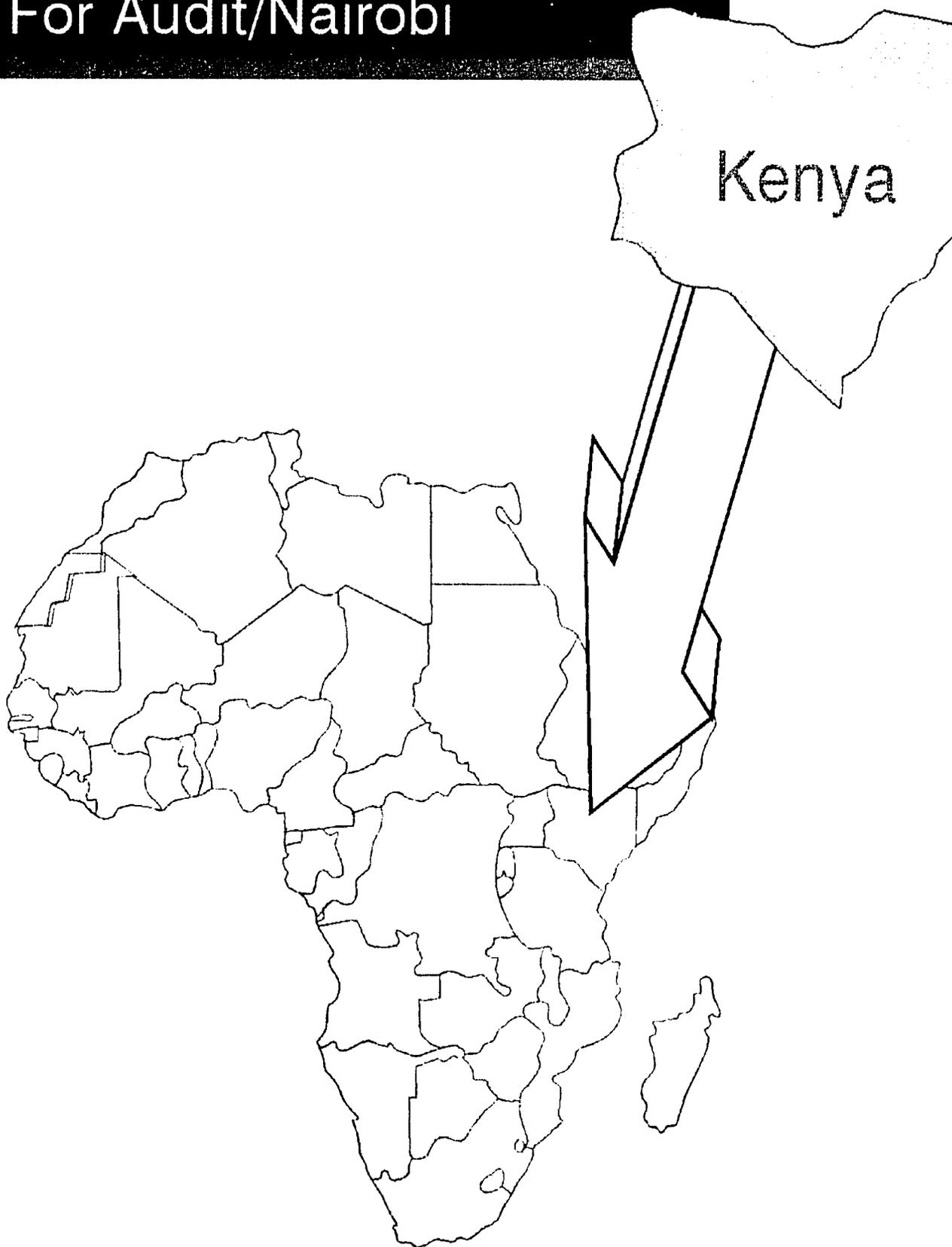
- 5.1** that Government Coast Agency's cash book is maintained by an individual separate from the one handling cash and checks; and
- 5.2** proper custody of books and records, maintenance of an invoice register, and evidence of review and approval of the cashbook by the chief accountant and the internal auditor.

We consider all recommendations to be unresolved. Recommendation Nos. 1, 2, 3 and 4 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. Recommendation 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 Bellhouse Mwangi Ernst & Young auditors and the Regional Inspector General for Audit representatives during the audit.

Attachments: a/s.

Regional Inspector General For Audit/Nairobi



**AUDIT OF
GOVERNMENT OF KENYA'S MINISTRY OF FINANCE
UNDER USAID/KENYA'S STRUCTURAL ADJUSTMENT
PROGRAM, FERTILIZER/COMMODITY IMPORT
PROGRAM, AND FERTILIZER PRICING
AND MARKETING PROGRAM**

ATTACHMENTS

**AUDIT OF THE GOVERNMENT OF KENYA'S
MINISTRY OF FINANCE
UNDER USAID/KENYA'S STRUCTURAL
ADJUSTMENT PROGRAM,
FERTILIZER/COMMODITY IMPORT
PROGRAM AND FERTILIZER PRICING
MARKETING PROGRAM
GRANTS NOS. 615-0213, 615-0240,
AND 615-0243**

**AUDIT OF THE GOVERNMENT OF KENYA'S MINISTRY OF FINANCE
UNDER USAID/KENYA'S STRUCTURAL ADJUSTMENT PROGRAM,
FERTILIZER/COMMODITY IMPORT PROGRAM AND FERTILIZER PRICING AND
MARKETING PROGRAM UNDER GRANTS NOS.615-0213, 615-0240 AND 615-0243**

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APPENDICES

- Appendix I: Mission response
- Appendix II: Auditee response : (Not received by the date of
this report).
: Letter from Treasury
- Appendix III: Fund Accountability Statement
- Appendix IV: Schedule of unsupported GCA expenses
- Appendix V: Analysis of Expected Fertilizer Proceeds and Bankings in
special accounts.
- Appendix VI: Fertilizer Shipments
- Appendix VII: A.I.D. Bill for collection number CO-615-82637

ABBREVIATIONS IN THE REPORT

USAID:	United States Agency for International Development
GOK:	Government of Kenya
MACS:	Mission Accounting Control System
\$:	US Dollars
KSHS:	Kenya Shillings
PMG	Paymaster General
ERD	External Resources Department
RIG/A/N	Regional Inspector General/Audit/Nairobi
GCA	Government Coast Agency
SAS	Statements on Auditing Standards
CIP	Commodity Import Program
PS	Permanent Secretary

**AGENCY-CONTRACTED AUDIT OF THE GOVERNMENT OF
KENYA'S MINISTRY OF FINANCE UNDER USAID/KENYA'S STRUCTURAL
ADJUSTMENT PROGRAM, FERTILIZER/COMMODITY IMPORT PROGRAM
AND FERTILIZER PRICING AND MARKETING PROGRAM UNDER GRANTS
NOS. 615-0213, 615-0240 AND 615-0243**

I. INTRODUCTION AND BACKGROUND

1.1 Background

The three Programs:-

- a) the Structural Adjustment Program ("SAP");
- b) the Fertilizer/Commodity Import Program ("CIP"); and
- c) the Fertilizer Pricing and Marketing Program ("FPM")

were created in order to:

- a) Provide critical balance of payment requirements and to support the economic adjustment program of the Government of Kenya ("GOK"); and
- b) develop a more extensive and responsive fertilizer marketing and pricing system rooted in the private sector.

The programs consist of the following components:-

- a) a CIP for the Kenya private sector;
- b) consultant services to help the GOK to implement the SAP policies and in monitoring the CIP; and
- c) a program for local currency generation, from the CIP and fertilizer sales, to be used for mutually agreed upon development activities in the public and private sectors.

The inception date of the programs was June 1, 1983. The proceeds generated from sale of fertilizer and the local currency equivalent of US\$ disbursements under CIP were to be banked in special accounts. The three programs generated KShs.2,340 million (US\$110.3 m) out of which a total of KShs.2,063 million (US\$95.9m) was deposited in the special accounts. Of the deposited amount, KShs.1,630m (US\$74 m) was expended as at June 30, 1992.

The implementing agent for the Government of Kenya was the Ministry of Finance. The accounting records were maintained at the Ministry's offices at the Treasury Building. Expenditure under these grants is accounted for through special accounts operated by Government of Kenya's Ministry of Finance under the responsibility of the Paymaster General ("PMG").

In 1985 the United States Agency for International Development, Kenyan office, ("USAID") contracted Price Waterhouse and, in 1990 KPMG Peat Marwick to monitor commodity arrivals, end-use of commodities and the deposit of local currencies into the special accounts. We have used information contained in the resultant reports in performing this assignment.

1.2 AUDIT OBJECTIVES

1.2.1 OBJECTIVES

Bellhouse Mwangi Ernst & Young were appointed under contract No.623-0000-I-00-2006-00 to perform an Agency contracted audit of USAID grant to Government of Kenya's Ministry of Finance under USAID/Kenya's structural adjustment program, fertilizer/commodity import program and fertilizer pricing and marketing program.

The audit was to be performed in accordance with United States generally accepted auditing standards and United States Government Auditing Standards issued by the United States Comptroller General (1988 Revision). We were required to adhere to guidelines contained in the guide for Financial Related Audits of AID financed agreements and the Guidelines for Audit of Federal Awards to Non-Profit Institutions.

The audit objectives were:

- a) Audit Government of Kenya'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;
- b) Consider the Government of Kenya's internal control structure in order to determine the auditing procedures necessary for the purpose of expressing an opinion on the Fund Accountability Statement and to report on significant internal control deficiencies and material weaknesses; and
- c) 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 to report on any identified material instances of noncompliance.

1.2.2 SCOPE

Our audit covered all funds generated under Project Nos.615-0213, 615-0240 and 615-0243 amounting to KShs.2,340,140,779 (US\$110,308,608) for the period June 1, 1983 to June 30, 1992. Of the amount generated, KShs.2,063,042,177 (US\$95,952,994) was collected and banked in special accounts in the period audited out of which KShs.1,630 million (US\$74 million) was expended; these are the amounts addressed in the Fund Accountability Statement. KShs.212,716,251 (US\$8,368,067) was collected and banked after the audit period and has therefore not been included in our recommendation relating to the unbanked amounts. The difference between the amount generated and that collected has been addressed in section 2.2.3 (a).

In carrying out our audit we did not comply with Government Auditing Standard No. 3.4.6 and 3.6 regarding External Quality Control Review and Continuous Professional Education respectively. It is our opinion that non-compliance with these standards did not impair our ability to perform the audit.

We performed a survey on Government of Kenya records which revealed the following scope limitations:-

- a. USAID controllers office had instructed us to vouch the receipt of local currency from PMG to the ministries, parastatal or private organizations that were supposed to receive such funds. We were not required to audit these transactions at the sub-recipient level but only to verify that a mutually agreed project existed for the use of such funds.
- b. Expenditure for General Budgetary Support is viewed as government revenue by the Government of Kenya, thus it is pooled with other government and donor funds. This led to loss of audit trail over the use of such funds which totalled KShs.839,831,095 (US\$38,101,859). We agreed with USAID that we will audit the transfer of funds to the pool and no further.
- c. We did not receive a Representation Letter from the Government of Kenya.

1.2.3 AUDIT METHODOLOGY

We were required to carry out to US Government auditing standards and generally accepted auditing standards an audit of all funds and commodities received by Government of Kenya under USAID grants No's 615-0213, 615-0240 and 615-0243 and the disbursement of the local currency generated under these projects for the period June 1, 1983 to June 30, 1992. We performed our audit using the Ernst & Young audit approach as modified by the Public Sector Services Manual Supplement.

Our detailed audit work was conducted at the Treasury building, Government Coast Agency (GCA) and at the relevant ministries, parastatals and private organizations that received commodities or local currency. Government Coast Agency was the clearing agent on behalf of the Government of Kenya under the programs.

The principal audit steps carried out in performing our audit were as follows:-

a. Fund Accountability Statement

Receipts:

We obtained details of all fertilizer shipments from June 1, 1983 to June 30, 1992 noting quantities shipped from United States, quantities received in Mombasa, amounts allocated to various distributors and the prices charged. From these details we computed the total local currency generated and compared these to the total amounts received and banked in the special accounts.

For the CIP proceeds, we obtained details of all commodities shipped into the country noting the dollar and Kenya Shilling value. We compared these with the total banked in the CIP accounts.

Withdrawals:

Budgetary Support expense amounting to KShs.839,831,095 (US\$38,104,859) was traced upto the records maintained by the Exchequer.

We selected a sample from the remaining expenditure as noted in section 2.2.2 and vouched these to letters of authorization from USAID and Government of Kenya. Where applicable we vouched to the original invoices.

We selected a sample of institutions which benefitted from the scheme and visited them to ensure the amounts disbursed according to the Treasury records were received by these institutions.

We reviewed the correspondence files for disputed amounts, legal and other matters of audit significance.

b) Internal Control Structure

We performed the following:-

- i) Obtained and studied the:
 - Chart of accounts
 - Accounting system documentation
 - Organization charts and systems notes
 - Audit reports by internal and external auditors and reports from Price Waterhouse and KPMG Peat Marwick who were contracted by USAID to monitor Fertilizer and CIP imports
 - Relevant statements on Auditing standards, US and local laws and regulations.
- ii) Determined and documented the adequacy and effectiveness of the internal control system in relation to:
 - Control environment
 - The accounting system
 - Control procedures adopted by the Ministry of Finance
 - Performed walk through tests to ensure controls identified were working as stated.
- iii) Examined the financial management capability of Government of Kenya staff assigned to the management of the grant funds and the project.
- iv) Examined bank reconciliations of all accounts over the period of the grant and tested these for performance, accuracy and approval.

c) Compliance with agreement terms and applicable laws and regulations

Examined the terms and conditions of the grant, applicable standard provisions, implementation letters and correspondence, noting:

- goals and objectives of the project and grants
- activities being financed by USAID noting specifically activities excluded
- types of costs
- all reporting, accounting and compliance structures required
- results of completed financial reviews and
- conditions precedent and whether they were met.

We also examined and identified relevant US and local laws ensuring Government of Kenya compliance therewith and examined all relevant statements of accounting standards ensuring compliance.

1.3 SUMMARY OF AUDIT RESULTS

1.3.1 FUND ACCOUNTABILITY STATEMENT

Revenue

Fertilizer Proceeds

The grant agreement required the US government to procure fertilizer in the US and meet its cost and freight charges (C&F) up to the port of Mombasa. The Government of Kenya was required to pay the handling and freight costs to the warehouses.

We found that out of 14 shipments of fertilizer, Government of Kenya should have collected a total of KShs.1,545,573,715 (US\$74,257,471) (See appendix VI). However, only a total of KShs.1,266,703,604 (US\$59,821,479) was banked in the special accounts leaving KShs.278,870,110 (US\$14,435,992) outstanding.

Of the outstanding amount KShs.212,716,251 (US\$8,368,067) was received into the special accounts after June 30, 1992, leaving a balance of KShs.66,153,859 (US\$6,067,925) outstanding (see appendix V).

CIP Proceeds

Our audit determined that the CIP programs generated KShs.794,567,064 (US\$36,051,135). However, the amount banked was KShs.796,338,573 (US\$36,131,515). This implies that a total of KShs.1,771,509 (US\$80,378) was over banked.

Withdrawals

As stated in paragraph 1.2.2 Budgetary Support expense was traced up to the records maintained by the Exchequer. We tested 84% of the remaining expenditure and noted the following:-

- 1) Expenditure totalling KShs.12,771,652 (US\$ 684,436) was not supported by invoices.
- 2) Expenditure of KShs.1,581,217 (US\$ 84,738) was supported by photocopy invoices.
- 3) A total of KShs.46,242 (US\$ 2,478) expended was ineligible.
- 4) A total of KShs.60,280,000 (US\$2,874,152) paid by Treasury was not received by the institutions concerned. This money was transferred from PMG to the Exchequer and had not been released. This amount has been used to reduce the Government of Kenya's budget deficit.

1.3.2 INTERNAL CONTROL STRUCTURE

In our examination of internal controls, we noted the following deficiencies:-

- 1) A segment of the check register maintained by Budgetary Support department was missing. In this register were recorded all checks received from the fertilizer distributors for the period June 30, 1983 to March 1989.
- 2) Control over invoices in Government Coast Agency is poor. Government Coast Agency records all invoices in an invoice register. However, this procedure was only performed up to March 1991. We consider this to be an important control over payment of invoices to ensure it is done on a timely basis to avoid excess port charges.
- 3) At the Government Coast Agency reimbursement claims are not approved by the chief accountant and internal auditor as required by internal procedures.
- 4) The control over check payments at the Government Coast Agency is not adequate. All checks paid are not recorded in the check register and are not signed for by the recipient.
- 5) There is lack of proper segregation of duties in the cash area of Government Coast Agency's accounts department as a single person is responsible for cash and check payments as well as maintaining the cashbook.

1.3.3 COMPLIANCE WITH GRANT PROVISIONS AND APPLICABLE LAWS AND REGULATIONS.

We noted the following departures:-

- 1) A number of fertilizer distributors were not paying within the required period.
- 2) Some ineligible agencies were allocated fertilizer.
- 3) Fertilizer bags were not made to the required specifications set to the manufacturers.
- 4) Fertilizer proceeds were banked in CIP special accounts.
- 5) In some cases clearance of goods through customs took longer than was agreed.
- 6) One participant of CIP contravened USAID regulations.

1.3.4 GOVERNMENT OF KENYA'S RESPONSE

We had not received the Government of Kenya's responses to the audit findings at the date of this report. This was after the expiry of the 30-day period within which the Government of Kenya was expected to respond.

1.3.5 USAID MISSION COMMENTS

The mission generally concurs with our recommendations.

**AGENCY-CONTRACTED AUDIT OF THE GOVERNMENT OF
KENYA'S MINISTRY OF FINANCE UNDER USAID/KENYA'S STRUCTURAL
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AND FERTILIZER PRICING AND MARKETING PROGRAM UNDER GRANTS
NOS. 615-0213, 615-0240 AND 615-0243**

2 FUND ACCOUNTABILITY STATEMENT

2.1 Independent Auditor's Report.

We have audited the Fund Accountability Statement of the Government of Kenya Projects Nos. 615-0213, 615-0240 and 615-0243 for the period, June 1, 1983 through June 30, 1992. This statement is the responsibility of the Government of Kenya. 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 issued by the Comptroller General of the United States (1988 Revision) with the exception of 3.4.6 and 3.6 on External Quality Assurance Review and Continuing Professional Education. It is our opinion that non-compliance with 3.4.6 and 3.6 did not impair our ability to perform the audit. These 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 statement.

An audit also includes assessing the accounting principles used and significant estimates made by the management, as well as evaluating the overall financial statements presentation. We believe that our audit 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.

The costs reported in the Fund Accountability Statement include costs amounting KShs.839,831,097 (US\$38,104,859) which were pooled together with other Government of Kenya and donor funds. This led to loss of audit trail over the use of the funds. Consequently, this amount was excluded from the audit.

Our audit disclosed that an amount of KShs.66,153,859 (US\$6,067,925) representing local counterpart funds due to the special accounts had not been received (see section 2.2.3 finding (a)). Withdrawals amounting to KShs.14,352,869 (US\$772,190) were either not supported at all, or by original documentation as required by both USAID and Government of Kenya regulations. Further transfers of KShs.60,280,000 (US\$2,874,152) from the special accounts were not received by the targeted recipients, and KShs.46,246 (US\$2,478) was expended on activities not covered by the grant.

In performing our audit we were unable to physically confirm that all goods paid for under the programs were received in the quantities and conditions shipped, reason being that the goods had already been despatched to various users by the time of our being contracted to perform the audit.

In view of the significance of the matters mentioned in the preceding paragraphs in our opinion the Fund Accountability Statement does not present fairly, in all material respects the projects' receipts and expenditures by the Government of Kenya, in conformity with the basis of accounting described in the fourth paragraph above.

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 this is not intended to limit distribution of the report if it is a matter of public record.



BELLHOUSE MWANGI ERNST & YOUNG
NAIROBI

18 October 1993

**AGENCY-CONTRACTED AUDIT OF THE GOVERNMENT OF
KENYA'S MINISTRY OF FINANCE UNDER USAID/KENYA'S STRUCTURAL
ADJUSTMENT PROGRAM, FERTILIZER/COMMODITY IMPORT PROGRAM
AND FERTILIZER PRICING AND MARKETING PROGRAM UNDER GRANTS
NOS. 615-0213, 615-0240 AND 615-0243**

2.2 Findings and Recommendations

2.2.1 Introduction

We extracted the Fund Accountability Statement from the memorandum account, maintained by Paymaster General, Treasury and it was agreed with the Government of Kenya officials as a correct recording of the receipts and expenditures under the grants. The Fund Accountability Statement covers the period June 1, 1983 to June 30, 1992.

This statement is reproduced in summary on page 13, and in detail in Appendix III.

2.2.2 Sample Selection Criteria

(a) Fertilizer Proceeds

We performed an overall review to test whether all fertilizer proceeds were banked in the special accounts and reflected in the Fund Accountability Statement. We obtained details of the amount of fertilizer allocated to distributors for all the shipments and using the price per metric tonne charged by Government of Kenya calculated the expected proceeds on a shipment basis.

The total expected proceeds from all shipments were compared with the actual proceeds banked in the special accounts.

(b) CIP Proceeds

We summarised KPMG Peat Marwick reports on CIP proceeds for project No. 615-0240. The proceeds obtained were denominated in both US dollars and Kenya Shillings.

For project No.615-0213, we summarized all the individual transactions (purchases) recorded in the Foreign Exchange Application Licences (FEAL) maintained by the CIP private sector department in USAID mission office.

We compared the total expected proceeds in Kenya Shillings with actual bankings in the special accounts.

(c) Withdrawals

A total of KShs.1,630 million (US\$74 million) counterpart funds was expended out of which KShs.840 million (US\$38 million) was spent on Government of Kenya Budgetary support. As stated in section 1.2.2 there was a loss of audit trail over this amount; hence we concentrated on the remaining amount of KShs.790 million (US\$36 million).

A planning materiality of KShs.14,000,000 (US\$ 635,209) was used which gave us a key item coverage of 63%.

We additionally tested a random sample of withdrawals using monetary unit sampling (with a bias towards the Government Coast Agency where expenses amounted to KShs.198 million). We computed our random sample taking into account the key item coverage. The random sample gave us an additional coverage of 21% of expenditure making it a total of 84%. We considered this coverage to be adequate to enable us form our opinion.

(d) Dollar-Kenya Shillings Reconciliation

We performed an overall comparison of Kenya Shillings and US dollar proceeds for CIP to see if the exchange rate was reasonable.

FUND ACCOUNTABILITY STATEMENT
FOR THE PERIOD JUNE 1, 1983 TO JUNE 30, 1992

	TOTAL Kshs	Amounts accepted Kshs	Questioned Ineligible Kshs	Amounts Unsupported Kshs	Notes
REVENUE:					
Fertiliser	1,266,703,604	1,266,703,604			
CIP	796,338,573	796,338,573			
TOTAL REVENUE	<u>Kshs 2,063,042,177</u>	<u>2,063,042,177</u>			
	<u>US\$ 95,952,994</u>	<u>95,952,994</u>			
WITHDRAWALS:					
U.S.A.I.D	219,702,504	219,702,504			
MINISTRIES & GOK AGENCIES:					
Budgetary Support	839,831,095	839,831,095			(i)
Government Coast Agency & Suppliers on behalf of GCA	197,614,013	183,214,902	46,242	14,352,869	(ii)
Refunds	360,317	360,317			
Transfers to NON-AID accounts	4,158,615	4,158,615			
PROJECTS IN PARASTATALS AND PRIVATE SECTOR:					
Development Finance Company of Kenya	32,000,000	32,000,000			
Kenya College of Insurance	20,000,000	20,000,000			
Kenya Commercial Bank Exchange losses	32,302,887	16,302,887		16,000,000	(iii)
Kenya Com. Finance Company Exch losses	20,000,000	20,000,000			
Kenya Agricultural Research Institute	64,840,000	55,840,000		9,000,000	(iii)
Egerton University / IDAT	50,100,000	50,100,000			
Essential Drugs Programme	12,000,000	12,000,000			
African Medical Research Foundation	15,000,000	15,000,000			
Low Cost Housing Program	18,000,000	18,000,000			
Kenya Forestry Research Institute	5,000,000	5,000,000			
Investment Promotion Centre	4,000,000	4,000,000			
Rehabilitation Advisory Services	12,000,000	12,000,000			
Capital Markets Authority	2,500,000	2,500,000			
Directorate of Personnel Management	1,109,580	1,109,580			
Family Planning Services & Support	8,871,000	8,871,000			
Population Census	35,280,000	0		35,280,000	(iii)
Health Information System	13,000,000	13,000,000			
KEPI	10,400,000	10,400,000			
Control of Diarrhoea Disease	9,000,000	9,000,000			
National Environment Secretariat	2,680,000	2,680,000			
TOTALS	<u>1,629,750,011</u>	<u>1,555,070,900</u>	<u>46,242</u>	<u>74,632,869</u>	
	<u>US\$ 74,345,400</u>	<u>70,696,580</u>	<u>2,478</u>	<u>3,646,342</u>	
FUND BALANCE: JUNE 30, 1992	<u>Kshs 433,292,166</u>				
	<u>US\$ 21,607,594</u>				

Notes:

(i)- See section 1.2.2 (b) and the audit report on the Fund Accountability Statement.

(ii)- For ineligible costs of Kshs 46,242 see finding (d) in section 2.2.3 of report.

(ii)- The unsupported amount of Kshs 14,352,869 comprises of :

	Kshs	
Supported by copies	1,581,217	finding (c) in section 2.2.3
Unsupported	12,771,652	finding (b) in section 2.2.3
	<u>14,352,869</u>	

(iii)-See finding (e) in section 2.2.3 of report.

2.2.3 Audit Results

Our findings and recommendations are as follows:-

(a) Findings

Grant agreement No.615-0213 article 2 section 2.1 stated that the total proceeds of fertilizer sales were to be banked in the special accounts. Amendment 1 of same agreement, sections 5.17, 5.23 and 5.28 also stated this. Grant agreement 615-0240 article 2 section 2.1 and grant agreement 615-0243 sections 5.6 and 5.14 had the same requirement. Our review noted that the Government had distributed fertilizer worth KShs.1,545,573,715 (US\$74,257,471). However, only a total of KShs.1,266,703,604 (US\$59,821,479) was banked in the special accounts leaving KShs.278,870,110 (US\$14,435,992) outstanding.

Of the outstanding amount KShs.212,716,251 (US\$8,368,067.) was received into the special accounts after June 30, 1992, leaving a balance of KShs.66,153,859 (US\$6,067,925) outstanding (see appendix V).

Part of this shortfall of KShs.66,153,859 (US\$6,067,925) is due to the following checks returned unpaid by the clearing banks:

Account Number	Transactions Date	Drawer Check	Amount KShs	Amount US\$
136	Sept. 26, 1988	Jermay Ltd	3,967,000	(212,594)
136	Jan. 18, 1989	Quality Vegfruit	700,000	(37,513)
150	Jan. 09, 1989	Mea Ltd	6,910,425	(370,334)
150	May 15, 1989	E.A.H.Chem.	2,746,000	(147,159)
150	Aug. 02, 1989	Journal Voucher	276,000	(14,791)
150	Nov. 1989	Mea Ltd	13,758,200	(737,310)
166	Jan. 04, 1991	Devji Meghi	<u>2,735,250</u>	<u>(107,602)</u>
TOTAL			31,092,875	(1,627,303)

A.I.D. Bill for collection number CO-615-82637 dated April 23, 1992 was issued by the mission for the unpaid checks, however, as of the time of the audit the KShs.31,092,875 (US\$1,627,303) had not been deposited in the special accounts. The amount plus interest has therefore been included as part of our recommendation.

The CIP program generated KShs.794,567,064 (US\$36,051,137) out of which KShs.796,338,573 (US\$36,131,515) was banked. The overbanking of KShs.1,771,509 (US\$80,378) has been netted of against the amount due on the fertilizer program in our recommendation below.

Recommendation No. 1

We recommend that the Government of Kenya collect and deposit into the special account KShs.64,382,350 (US\$5,987,548). The amount to be collected and banked should include KShs.31,092,875 (US\$1,627,303) relating to unpaid checks plus interest as reflected in A.I.D. Bill for Collection number CO-615-82637 (copy in Appendix VII).

USAID mission comments

USAID/Kenya concurs.

(b) Finding:

A total of KShs.12,771,652 (US\$684,436) spent by Government Coast Agency in handling fertilizer is not supported by invoices (see details in Appendix IV). The Agency's management states that these invoices were destroyed after the 5 year document retention period expired (as per Government of Kenya requirements). Grant agreement No 615-0213 required the Government of Kenya to maintain documents for three years after the last disbursement by A.I.D.

In this particular case the unsupported expenses were met from special accounts 136 and 150 whose last disbursements were made on June 1991. This implies that documents should have been maintained until June 1994.

Recommendation No. 2

We recommend that the Government of Kenya redeposit KShs.12,771,652 (US\$684,436) in the A.I.D. special account if the Government Coast Agency fails to produce the supporting documentation.

USAID mission comments

USAID/Kenya concurs.

(c) Finding

Expenditure of KShs.1,581,217 (US\$87,754) by Government Coast Agency was supported by photocopy invoices. The details are as follows:

Photocopy invoices:

	Voucher No.	Date	KShs.	US\$
Port release order	811	5/6/89	1,524,931	84,738
Storage charges	316	25/4/88	<u>56,286</u>	<u>3,016</u>
			1,581,217	87,754
			=====	=====

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USAID requires that all expenses be supported by original invoices. Regulations of Government of Kenya also require every payment to be supported by originals, and if the original is not available, a certified copy of the original. However, this was not the case for these two payments.

Recommendation No. 3

We recommend that the Government of Kenya provide original supporting documents or certified copies for payments of KShs.1,581,217 (US\$87,754). If they cannot be provided Government of Kenya should redeposit KShs.1,581,217 into the A.I.D. special account.

USAID mission comments

USAID/Kenya concurs.

(d) Finding:

Amendment No.1 of the grant agreement No. 615-0213 states that local proceeds shall be used in mutually agreed upon development activities of the Government of Kenya in the areas of agriculture, health, nutrition and family planning, education, social services, water development, environment and natural resources, energy and regional resources. In the same amendment, Annex 1,II,C (2) states that expenses incurred by a clearing agent to clear, forward and store fertilizer are allowable. However these should be expenses directly related to these particular imports. The expenses stated below do not fall in any of the categories specified.

Ineligible expenses:

	Voucher No	Date	KShs.	US\$
Motor Vehicle Repairs	582	05/03/90	4,600	247
Service on Government of Kenya Vehicles	478	31/02/88	9,992	535
Stationery	597	31/03/88	21,650	1,160
Stationery	99	31/01/88	<u>10,000</u>	<u>536</u>
			46,242	2,478

Recommendation No.4

We recommend that USAID/Kenya determine the allowability of ineligible expenses of KShs.46,242 (US\$2,478).

USAID mission comments

USAID/Kenya concurs.

(e) **Finding:**

KShs.60,280,000 was allocated to the institutions indicated below:-

	Voucher No.	Date	KShs.	US\$
KARI	94	27/3/91	9,000,000	354,052
KCB/KCFC	2560	28/6/91	16,000,000	629,425
Central Bureau Statistics	96	26/4/90	<u>35,280,000</u>	<u>1,890,675</u>
			<u>60,280,000</u>	<u>2,874,152</u>

Funds were released from PMG special accounts to the Exchequer. However these amounts were not subsequently released by the Exchequer to the institutions.

Recommendation No.5

We recommend that Government of Kenya redeposit KShs.60,280,000 (US\$ 2,874,152) in the A.I.D. special accounts.

USAID mission comments

USAID/Kenya concurs.

**AGENCY-CONTRACTED AUDIT OF THE GOVERNMENT OF
KENYA'S MINISTRY OF FINANCE UNDER USAID/KENYA'S STRUCTURAL
ADJUSTMENT PROGRAM, FERTILIZER/COMMODITY IMPORT PROGRAM
AND FERTILIZER PRICING AND MARKETING PROGRAM UNDER GRANTS
NOS. 615-0213, 615-0240 AND 615-0243**

3. INTERNAL CONTROL STRUCTURE

3.1 Independent Auditor's Report

We have audited the Fund Accountability Statement for the Government of Kenya Project Nos.615-0213, 615-0240 and 615-0243 for the period from June 1, 1983 to June 30, 1992 and have issued our report thereon dated 18 October 1993.

We conducted our audit in accordance with generally accepted auditing standards, and United States Government Auditing Standards issued by the Comptroller General of the United States (1988 Revision). These 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 we considered the internal control structure of the Government of Kenya's Ministry of Finance in order to determine our auditing procedures for the purpose of expressing our opinion on the Fund Accountability Statement and not to provide assurance in the Internal Control Structure.

The Ministry of Finance is responsible for establishing and maintaining an internal control structure. In fulfilling this responsibility, estimates and judgement are required to assess the expected benefits and related costs of internal control policies and procedures. The objectives of an internal control structure are to provide the Ministry with reasonable, but not absolute assurance that the assets are safeguarded against loss from unauthorized use or disposition and that authorization is executed in accordance with Government of Kenya's authorization procedures 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, projections 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 and procedures 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
- Custody of goods and documents

Accounting System

- Accounting records and Kenya Government reporting
- Reconciliation to independently generated information

Control Procedures

- Disbursements
- Cash management

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

We noted certain matters involving the control structure and its operations that we consider to be reportable conditions 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 organization'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:

- Some documents in the PMG and Budgetary departments were missing. Details were not available in the Ministries of Finance and Agriculture to support the computations of fertilizer prices.
- At the Government Coast Agency cashbook summaries were not approved by the chief accountant and the internal auditors as required by the Agency's accounting procedures.
- Both Invoice and Check Registers at Government Coast Agency were not properly maintained.
- At the Government Coast Agency there is lack of proper segregation of duties in the cash area as a single person is responsible for cash and check payments as well as maintaining the cashbook.

A **material weakness** is a reportable condition in which the design or operation of the specific internal control structure elements does not reduce to a relatively low level, the risk that errors or irregularities in amounts that would be material in relation to the 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 also considered to be material weaknesses as defined above. However, we believe the reportable conditions described above constitute material weaknesses.

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 for the information of the Kenya Government 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**

18 October 1993

3.2 Work Performed

We reviewed the internal control structure of Government of Kenya's Ministry of Finance, (Treasury) and the Government Coast Agency in relation to those elements which concerned the receipt and disbursement of grant funds. We obtained an understanding of the design of relevant procedures and assessed the control risk. Our review considered the significant internal control structure policies and procedures categorised as follows:-

Control environment

- written procedures
- custody of goods and documents

Accounting system

- Accounting records and Government of Kenya reporting
- Reconciliation to independently generated information

Control Procedures

- Disbursements
- Cash Management

3.3 Findings and Recommendations:

3.3.1 Control environment

Our review indicated that established procedures exist for the management of Kenya Government funds which includes management of all special accounts. Accounting records are maintained in a memorandum account and the General Ledger. These records are kept by the Paymaster General.

Our review extended to Government Coast Agency (Mombasa) where the fertilizer was handled from the ships to the allottees.

Our review resulted in the following findings:-

(a) Finding:

In the accounting section of the Government Coast Agency, there is lack of segregation of duties. In particular, the cashier handles all the cash and check transactions and maintains the cash book. Even though the cash book is reviewed by internal and external auditors, it is possible that this weakness could lead to intentional manipulation and possible fraud. This lack of segregation of duties is also a breach of Government of Kenya accounting regulations.

Recommendation No.6

We recommend that Government Coast Agency's cash book be maintained by another member of staff who does not handle cash or checks.

USAID mission comments

USAID/Kenya concurs.

(b) Finding:

We noted that some documents were missing in the Treasury. Grant agreement No 615-0213 article 5, section 5.3 (b) requires Government of Kenya to maintain its books and records in accordance with United States Generally Accepted Accounting Principles. Documents should be available for inspection by A.I.D. or A.I.D.'s authorized representatives. We noted that a check register maintained by the Budgetary Department for the period from June 1983 to March 1989 was missing. All checks received from fertilizer distributors in this period were recorded in this register. We were therefore unable to verify whether the information obtained on fertilizer proceeds was complete and accurate.

Recommendation No. 7

We recommend that proper custody of books and records be established. Government of Kenya should find the missing documents or use alternative methods to reconstruct the check register.

USAID mission comments

USAID/Kenya concurs.

3.3.2 Accounting System

The accounting operations of Government of Kenya special accounts are processed at the Treasury by the PMG section.

All checks are received through Budgetary Support Department where they are recorded in a register and forwarded to the PMG section.

PMG maintains a register of all checks received. They are recorded in a memorandum account. A ledger is also maintained for all bank accounts.

3.3.3 Control Procedures

Our findings on control procedures are as follows:-

(a) Finding:

For the period March 1991 up to April 1993, invoices received by the Government Coast Agency were not recorded in the invoice control register. Such a register was maintained up to February 1991. According to our assessment this control is necessary to enable quick payment of invoices by Government Coast Agency. The department does not comply with Government Coast Agency accounting procedures.

Recommendation No. 8

We recommend that an Invoice Register be maintained by Government Coast Agency. The register would include details such as: Supplier, Date of Receipt, Date of Payment and the Check Number.

USAID mission comments

USAID/Kenya concurs.

(b) Finding:

Although an outward check register is maintained at the Government Coast Agency, it is incomplete as not all checks are recorded by the accountant. Further there are unexplained breaks in the sequence of check numbers and details of the payee/recipient are incomplete.

Recommendation No. 9

We recommend that all checks be recorded in the register. The register should include details such as payee name, date of payment, name of check recipient and identification number. There should be documented explanations for the breaks in sequence of check numbers.

USAID mission comments

USAID/Kenya concurs.

(c) **Finding:**

Government Coast Agency operates an imprest fund. All cash/check transactions are recorded in the cashbook and when the imprest is exhausted, a summary of expenditure, receipts, cash bank balances and reimbursement required is prepared. Government accounting regulations require this summary to be approved by the:

- Chief Accountant
- Internal Auditor (from Provincial Commissioner's office)
- External auditor (from Controller and Auditor General)

Our cashbook review indicated that there was no evidence of the Chief Accountant's and Internal Auditor's approval.

Recommendation No. 10

We recommend that the Chief Accountant and the Internal Auditor sign summary of cash/check transactions to show evidence of review and approval.

USAID mission comments

USAID/Kenya concurs.

AGENCY-CONTRACTED AUDIT OF THE GOVERNMENT OF KENYA'S MINISTRY OF FINANCE UNDER USAID/KENYA'S STRUCTURAL ADJUSTMENT PROGRAM, FERTILIZER/COMMODITY IMPORT PROGRAM AND FERTILIZER PRICING AND MARKETING PROGRAM UNDER GRANTS NOS. 615-0213, 615-0240 AND 615-0243

4. COMPLIANCE WITH GRANT PROVISIONS AND APPLICABLE LAWS AND REGULATIONS.

4.1 Independent Auditor's Report

We have audited the Fund Accountability Statement of Kenya Government Project Nos. 615-0213, 615-0240 and 615-0243 for the period June 1, 1983 to June 30, 1992, and issued our report thereon dated 18 October 1993.

We conducted our audit in accordance with generally accepted auditing standards and United States Government Auditing Standards issued by the Comptroller General of the United States (1988 Revision). These 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 and applicable laws and regulations is the responsibility of the Kenya Government. As part of obtaining reasonable assurance about whether the Fund Accountability Statement is free of material misstatement we performed tests of the Kenya Government compliance with certain provisions of the agreement terms and applicable laws and regulations. However, our objective was not to provide an opinion on overall compliance with such provisions. Accordingly we do not express an opinion.

Our findings were as follows:

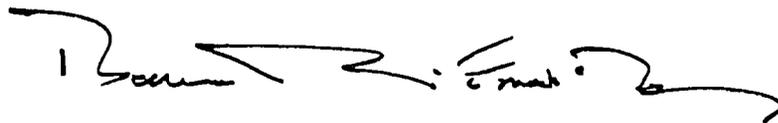
- Some fertilizer distributors were not paying the amounts due within the required period.
- One participant in the CIP private sector contravened USAID regulations.
- Ineligible distributors were allocated fertiliser with some companies not remitting money to the Ministry on time.
- Some goods were taking longer to clear from the port than the required period.
- Bags used for fertiliser were of poor quality leading to losses of fertiliser during transportation and bagging processes.

Material instances of non-compliance are failures to follow requirements, violations of agreement terms and applicable laws and regulations that cause us to conclude that the aggregation of misstatements resulting from those failures of violations are material to the Fund Accountability statement. The above instances of non-compliance are material.

Except as described above, the result of our tests of compliance indicate that, with respect to the items tested the Kenya Government complied, in all material aspects, with the provisions referred to in the third paragraph of this report. With respect to items not tested, nothing came to our attention that caused us to believe that the Government of Kenya had not complied, in all material respects, with those provisions.

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 for the information of the Kenya Government 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**

18 October 1993.

4.2 Work Performed

Our audit of Government of Kenya's Project Nos.615-0213, 615-0240 and 615-243 included obtaining assurances that the Government of Kenya complied with grant agreements and applicable laws and regulations.

Procedures performed to test such compliance include:-

- (a) A review of the grant agreement and related regulations to identify those provisions and regulations which could have material effect on the Fund Accountability Statement and:-
- (b) Detailed testing to confirm Government of Kenya's compliance with those provisions.

4.3 Findings and Recommendations

Here below are our findings and recommendations on compliance. The mission did not provide any comments on these:-

(a) Findings

A distributor, Ka-mex Four Ltd did not pay the amounts due within the required period of 180 days (as required by grant agreement 615-213 amendment 1 section 5.27). They had a bank guarantee issued on March 22, 1988 and they did not pay until November 11, 1988; an elapsed time of 237 days.

Recommendation No.11

We recommend that the Government of Kenya takes measures to ensure that all amounts receivable are collected within the required period.

(b) Finding:

Ineligible agencies were allocated fertilizer. Between 1990-1992 three allocations were made inappropriately thus:-

- Sams Systems had failed to meet the eligibility criteria as required by amendment 1 to grant agreement 615-0213 section 5.26, by not carrying on a genuine wholesale business in agriculture products.
- Trade Booms received a further allocation of 700 M/T when they had not paid for 1000 M/T previously allocated as required by amendment 1 to grant agreement 615-0213 section 5.26. The total of 1700 metric tonnes worth KShs.10,062,780 (US\$456,568.97) has not been paid for.
- Three allocations were made by the Ministry of Finance 18 months after arrival of the fertilizer. This is in breach of section 3.7 a(ii) of grant agreement 615-0240 (which required that allocation be made within 3 months of the fertilizers' arrival).

Recommendation No.12

We recommend that the Government of Kenya should comply with the requirements of the grant agreement relating to agency eligibility. Agencies not meeting these requirements should be removed from the list. Government of Kenya should also provide sufficient documents to evidence receipt of monies due or claim the amounts outstanding from Trade Booms, and other distributors.

(c) Finding:

We have seen evidence to suggest that fertilizer bags were not made to the specifications provided to the manufacturers. USAID had given specifications on:-

- i) Outer bags
 - fabric
 - test methods
- ii) Liner (inner bag)
 - fabric
 - test methods
- iii) Closure
- iv) Testing
 - impact resistance
 - sifting
- v) Markings
- vi) Cost estimates

Reports from contractors contracted to monitor the fertilizer program stated that inner linings were not sewn to the outer bags at the top. This led to:-

- slowing of bagging process
- fertilizer getting spoiled due to lack of inner lining.

Bags were supplied by three different manufacturers Rai Plywoods, Polysack and Packaging Africa Ltd. Bags supplied by Polysack and Packaging Africa Ltd for bagging fertilizer shipped via MV Star of Texas in October 1988 did not meet the required specifications.

Recommendation No.13

We recommend that Government of Kenya introduces checks to ensure compliance. A monitoring unit should be set up to ensure goods supplied meet the required standards before purchase. Purchases should also be made from reputable companies who can guarantee quality.

(d) Finding:

Some goods were taking more than 90 days to be cleared through customs. Grant agreement No. 615-0293 section 3.6 (1) required that goods be cleared through customs within 90 days.

We noted that a consignment belonging to Zetgo Enterprises arrived on November 11, 1988 and it took 130 days to clear through customs. These goods were delayed due to lack of transport to Nairobi.

Recommendation No.14

We recommend that participants in the Commodity Import Program (CIP) comply with the grant agreement and that the Government of Kenya should monitor and delete those who do not comply.

(e) Finding:

One participant in the Commodity Import Program (CIP) was breaking USAID regulations. Caltex Oil had imported goods aboard a non US carrier contrary to CIP regulations. A waiver by USAID was granted after the importation of the goods.

Recommendation No.15

USAID regulations require that a waiver is issued in advance. We therefore recommend that the Government of Kenya institute procedures to ensure that it is notified of the use of non-US carriers on the program so that the necessary request for waivers are made in time.

APPENDIX I



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

UNITED STATES POSTAL ADDRESS
 US AID MISSION TO KENYA
 BOX 201
 APO NEW YORK, NEW YORK 09675

INTERNATIONAL POSTAL ADDRESS
 POST OFFICE BOX 30261
 NAIROBI, KENYA

August 16, 1993

Mr. C. A. Otolo
 Bellhouse Mwangi Ernst & Young
 P.O. Box 44286
 Nairobi, Kenya

Subject: USAID Contracted Audit of C.I.P : Draft Audit Report dated June 28, 1993.

Dear Mr. Otolo:

USAID/Kenya provides the following comments on the subject audit report as requested in your letter dated June 28, 1993. For more detailed clarification, these comments should be read in conjunction with the Ministry of Finance's (MOF's) comments which will be forwarded to you directly by MOF.

During the exit conference of June 21, 1993 on the subject, the MOF officials stated that the term "UNDER-BANKINGS" in Appendix V could be construed to mean that the GOK Treasury received the entire amount of the local currency due from fertilizer distributors but did not bank the total amount, which is not the case, in the A.I.D. special accounts. We request that this term be substituted by "UNDER-COLLECTIONS". ✓

The Mission would like you to give an opinion on the following per the scope of work:

1. Whether the GOK is capable to manage local currencies generated under the three programs that you audited.
2. Whether the KShs.839,831,095 used for Budgetary Support was traceable up to the Exchequer and therefore would be an acceptable cost. Mission recommends that you include this amount in the Funds Accountability Statement.

The Mission's detailed response to your recommendations is as follows:

Recommendation No. 1 requests the GOK to reconcile the amounts due and ensure that all amounts are collected and unpaid checks replaced by distributors and banked in the special accounts.

Response: USAID/Kenya concurs with this recommendation. However, the Mission requests that you amend the recommendation to state that the unpaid checks should be replaced as requested in the A.I.D. Bill for Collection number CO-615-82637 (copy attached).

Recommendation No. 2 requires the GOK to provide supporting documentation or refund to USAID a total of KShs.12,771,652 spent by GCA which is not supported by invoices.

Response: USAID/Kenya concurs with this recommendation. However, the recommendation should be amended to require the MOF to redeposit this amount in the A.I.D. special account if GCA fails to produce the supporting documents.

Recommendation No. 3 requests the GOK to provide original supporting documents for KShs.1,581,217 which was not supported by originals or certified copies.

Response: The Mission requests that the recommendation be amended to require the GOK to provide original documents or certified copies. If not, the GOK should redeposit KShs.1,581,217 into the A.I.D. special accounts.

Recommendation No. 4 requests the Mission to determine the allowability of the ineligible cost of KShs.46,242.

Response: USAID/Kenya concurs.

Recommendation No. 5 requires the GOK Exchequer to account for KShs.60,280,000 that was not released by the Exchequer to the final recipients. The recommendation also requests the Mission to determine the allowability of the expenditure.

Response: USAID/Kenya requests that you amend the recommendation to require the GOK to redeposit KShs.60,280,000 in the A.I.D. special accounts.

Recommendation No. 6 requires the Cash book at the GCA to be maintained by a member of staff who does not handle cash or checks.

Response: USAID/Kenya concurs.

Recommendation No. 7 requires Treasury to establish proper custody of books and records and find the missing check register.

Response: USAID/Kenya concurs. However, we request that you amend the recommendation to require the GOK to find the missing documents or use alternative methods to reconstruct the check register.

Recommendation No. 8 requests the GCA to continue maintaining an invoice register.

Response: USAID/Kenya concurs.

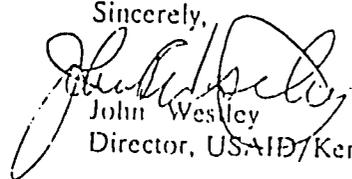
Recommendation No. 9 requires the GCA to maintain an up to date check register.

Response: USAID/Kenya concurs.

Recommendation No. 10 requires the GCA Chief Accountant and the Internal Auditor to be signing a summary statement on expended imprests, receipts, cash balances and required reimbursements to show evidence of review and approval.

Response: USAID/Kenya concurs.

Sincerely,



John Wesley
Director, USAID/Kenya

CC: The Permanent Secretary
Ministry of Finance
P.O. BOX 30007
Nairobi.

E. Cecile Adams, Mission Controller

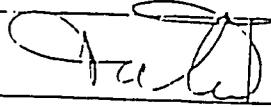
Everette Orr, RIG/A/N

AGENCY FOR INTERNATIONAL DEVELOPMENT BILL FOR COLLECTION		Billing Date 4/23/92	Bill Number CO - 615-82637
THE DEPARTMENT SECRETARY MINISTRY OF FINANCE PO BOX 30007 NAIROBI, KENYA		Please make remittance in the amount of Sh. 31,092,875 plus prospective interest through the date of payment, and other charges, if applicable (see Import note below) and payable to Agency for International Development, no later than <u>5/23/1992</u> with attached copy to: Agency for International Development Cashier's Office Box 30261 NAIROBI, KENYA	

IMPORTANT NOTE:

1. If remittance is not received by AID on/before the due date, as indicated above, interest will be charged from the billing date through the date of payment at an annual rate of 2 1/8 percent on the total amount of this bill, or the unpaid balance if partial payments are made before the due date.
2. If full payment is not received by AID within 90 days from the due date, the following additional charges will be assessed: (A) charges to cover the costs of processing and handling this delinquent bill, and (b) a penalty charge of 5 per cent per annum on the unpaid balance of this bill.
3. The above interest and penalty charges should be calculated by you and included in your remittance. You will receive an amendment to this bill from AID covering any costs of processing and handling the delinquent bill.

EXPLANATION OF BILLING	AMOUNT DUE
UNPAID CHECKS FROM SEVERAL FERTILIZER DISTRIBUTORS PER CIP/PNG ACCOUNTS 136, 150 & 166	KSII 31,092,875
TOTAL AMOUNT OF THIS BILL 	KSII 31,092,875

Billing Official: **THOMAS A. TOMINO**

 Title and Organization: **COMPTROLLER, USAID/KENYA**

APPENDIX II

REPUBLIC OF KENYA
MINISTRY OF FINANCE

APPENDIX II

Telegraphic Address: 22921
FINANCE-NAIROBI
FAX No 330428
Telephone: NAIROBI 331111
When replying please quote



THE TREASURY
P.O. Box 30007
NAIROBI

Ref. No. EA/FA 9/03/ANZ
and date

KENYA

1st September 1993

Mr. C. A. Otolo,
Bellhouse Mwangi Ernst & Young,
P.O. Box 44286,
NAIROBI.

Dear *Mr. Otolo,*

RE: AUDIT OF USAID GRANT TO THE GOVERNMENT OF KENYA'S MINISTRY OF FINANCE
UNDER USAID/KENYA'S STRUCTURAL ADJUSTMENT PROGRAM, FERTILIZER/COMMODITY
IMPORT PROGRAM FERTILIZER PRICING AND MARKETING PROGRAM UNDER GRANTS
NOS. 615-0213, 615-0240 AND 615 - 0243

This has reference to your reminder No. 21022/25/fg dated 19th August, 1993
on the above subject.

We note with great regret that we were not able to communicate the Government
of Kenya's reaction to the draft audit report within the time specified due to
circumstances beyond our control.

Notwithstanding that, we wish to state the Government of Kenya is not in a
position to give its comment on the draft audit report at this time because there
are certain pertinent issues we as a Government wish to address ourselves fully.
To say the least, some of the programs have undergone our external audit process
and certain key raised in your report are undergoing clarification. We are
hesitant to pre-empt the outcome at this stage until the matters under investigation
are fully established. While this exercise goes on and I believe it will be completed
very soon, we are appealing for more time in which case the Government of Kenya will
be able to file their comments to be incorporated in the final report with USAID/Kenya
Mission to Kenya for transmission to USAID/Washington to form an annex to the final
report.

Please let us know if our request for more time is acceptable to you and the USAID
Mission Controller, to whom I have copied this letter.

Yours *Sincerely,*

D.B. KIMUTAI
FINANCIAL SECRETARY/TREASURY

APPENDIX III

APPENDIX III

FUND ACCOUNTABILITY STATEMENT
FOR THE PERIOD JUNE 1, 1983 TO JUNE 30, 1992

	FERTILIZER PROCUREMENT				CIP PRIVATE SECTOR			TOTAL KSHS
	A/C 136 PRJ NO.213 KSHS	A/C 139 PRJ NO.213 KSHS	A/C 150 PRJ NO.240 KSHS	A/C 166 PRJ NO.243 KSHS	A/C 120 PRJ NO.213 KSHS	A/C 152 PRJ NO.240 KSHS	A/C 153 PRJ NO.240 KSHS	
REVENUE	167,964,779	34,076,326	422,712,269	541,728,861	702,677,914	115,791,847	72,619,681	2,057,571,677
TRANSFER TO A/C 136	13,076,326	-13,076,326						0
TRANSFER TO A/C 166				94,750,869		-94,750,869		0
TRANSFER FROM A/C 162				5,470,500				5,470,500
TOTAL REVENUE	Kshs 181,041,105	21,000,000	422,712,269	641,950,230	702,677,914	21,040,978	72,619,681	2,063,042,177
	US\$ 9,702,095	1,125,402	22,653,390	26,340,592	31,881,938	954,673	3,294,904	95,952,994
WITHDRAWALS:								
U.S.A.I.D	28,800,000	21,000,000	31,340,800	104,583,350	33,978,354	0	0	219,702,504
MINISTRIES & GOK AGENCIES:								
Budgetary Support	100,592,782	0	159,865,273	60,365,589	517,821,786	1,185,665	0	839,831,095
Government Coast Agency & Suppliers on behalf of GCA	41,648,323	0	98,775,196	57,190,494	0	0	0	197,614,013
Refunds					360,317			360,317
Transfers to NON-AID accounts					4,158,615			4,158,615
PROJECTS IN PARASTATALS AND PRIVATE SECTOR:								
Development Company of Kenya	0	0	32,000,000	0	0	0	0	32,000,000
Kenya College of Insurance	0	0	20,000,000	0	0	0	0	20,000,000
Kenya Com. Bank Exchange losses	0	0	0	32,302,887	0	0	0	32,302,887
Kenya Commercial Fin. Co. Ex. losses	10,000,000	0	0	0	10,000,000	0	0	20,000,000

APPENDIX III

Kenya Agricultural Research Institute	0	0	0	55,840,000	9,000,000	0	0	64,840,000	
Egerton University / IDAT	0	0	0	45,700,000	4,400,000	0	0	50,100,000	
Essential Drugs Programme	0	0	0	12,000,000	0	0	0	12,000,000	
African Medical Research Foundation	0	0	0	15,000,000	0	0	0	15,000,000	
Low Cost Housing Program	0	0	0	18,000,000	0	0	0	18,000,000	
Kenya Forestry Research Institute	0	0	1,500,000	3,500,000	0	0	0	5,000,000	
Investment promotion Centre	0	0	0	4,000,000	0	0	0	4,000,000	
Rehabilitation Advisory Services	0	0	0	12,000,000	0	0	0	12,000,000	
Capital Markets Authority	0	0	0	2,500,000	0	0	0	2,500,000	
Directorate of Personnel Management	0	0	0	1,109,580	0	0	0	1,109,580	
Family Planning Services & Support	0	0	8,871,000	0	0	0	0	8,871,000	
Population Census	0	0	35,280,000	0	0	0	0	35,280,000	
Health Information System	0	0	13,000,000	0	0	0	0	13,000,000	
KEPI	0	0	10,400,000	0	0	0	0	10,400,000	
Control of Diahoreal Disease	0	0	9,000,000	0	0	0	0	9,000,000	
National Environment Secretariat	0	0	2,680,000	0	0	0	0	2,680,000	
TOTALS	Kshs	181,041,105	21,000,000	422,712,269	424,091,900	579,719,072	1,185,665	0	1,629,750,011
	US\$	9,702,095	1,125,402	22,653,390	14,369,283	26,422,284	72,946	0	74,345,400
FUND BALANCE: JUNE 30, 1992	Kshs	0	0	0	217,858,330	122,958,842	19,855,313	72,619,681	433,292,166
	US\$	0	0	0	11,971,309	5,459,654	881,727	3,294,904	21,607,594

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NOTES TO THE FUND ACCOUNTABILITY STATEMENT

1. Basis of Accounting:

The Fund Accountability Statement is prepared on a cash basis.

2. Revenue:

Revenues represent proceeds from fertilizer sales and the commodity import program.

3. Fund Balance:

As the Government of Kenya does not operate one bank account purely for USAID purposes and as relevant expenditure are made out of various special accounts, it is not possible to reconcile the fund balance to particular bank balances.

4. Exchange Rates Used:

The exchange rates used in this report are based on the average rates during the period of the grants:

- From June 1983 to September 1990 - US\$1 = Kshs. 18.66
- From October 1990 onwards - US\$1 = Kshs. 25.42.
- For transactions whose dates are unknown we have used an average of the two rates above - US\$1 = Kshs. 22.04 .

APPENDIX IV

PAYMENTS BY GOVERNMENT COAST AGENCY
NOT SUPPORTED BY INVOICES
Finding (b) section 2.2.3

EXPENSE	PAYEE	DATE	VOUCHER NUMBER	AMOUNT KSHS
Freight Charges	Signion Freight	10/11/88	314	656,417
Freight Charges	Kenya Railways	19/9/88	142	517,758
Freight Charges	Kenya Railways	19/9/88	39	295,301
Freight Charges	Kenya Railways	14/4/89	84/108	131,948
Fertiliser off-loading	Signion Freight	10/11/88	315	446,186
Fertiliser off-loading	Signion Freight	31/5/88	264	84,378
Storage Charges	Signion Freight	10/11/88	118	662,193
Labour-Off-loading MV Sue Lykes		13/5/88	185	29,256
Storage Charges	Signion Freight	27/6/88	604	54,972
Storage Charges	Signion Freight	27/6/88	607	40,150
Preparing Railway Wagons	M/S Downell Shipping co.	13/5/88	159	1,020,493
Survey Charges	Toplis & Harding	27/6/88	621	38,950
Storage Charges	Signion Freight	19/10/88	83	376,976
Storage Charges	Signion Freight	21/11/88	614	555,057
Freight Charges	Kenya Railways	15/12/89	871	807,361
Freight Charges	Kenya Railways	15/12/88	243	25,616
Hired Labour		15/12/88	879	81,489
Hired Labour		21/11/88	615	47,679
Hired Labour		15/12/88	877	7,728
Survey Charges	Toplis & Harding	16/12/88	956	119,206
Transport	Ahadi Transporters	6/1/89	67	65,000
Transport	Ahadi Transporters	4/1/89	30	68,000
Transport	Kenya Haulage Agency	4/1/89	36	20,000
Transport	Nyidem Transporters	30/12/88	10	60,000
Transport	Nyidem Transporters	24/1/89	258	19,850
Transport	Nyidem Transporters	20/1/89	203	18,500
Handling Charges	Akiba Storage Ltd	1/12/87	827	2,173,843
Handling Charges	Akiba Storage Ltd	1/12/87	819	2,547,359
Handling Charges	Akiba Storage Ltd	15/12/87	877	420,495
Foam strips, Fencing wire		1/12/87	593	41,100
Foam strips, Fencing wire		1/12/87	538	27,400
Foam strips, Fencing wire		1/12/87	553	58,500
Foam strips, Fencing wire		1/12/87	774	15,000
Foam strips, Fencing wire		1/12/87	766	21,250
Foam strips, Fencing wire		1/12/87	705	19,500
Foam strips, Fencing wire		31/12/87	8	65,000
Foam strips, Fencing wire		31/12/87	995	75,000
Foam strips, Fencing wire		31/12/87	989	68,500
Insurance	Kenya National Assurance	15/12/87	896	163,441
Foam strips, Fencing wire		9/10/87	264	98,550
Foam strips, Fencing wire		31/10/87	433	48,750
Foam strips, Fencing wire		9/10/87	242	102,750
Foam strips, Fencing wire		31/10/87	391	34,250
Foam strips, Fencing wire		31/10/87	501	40,500
Deposit for Railway Wagon	Kenya Railways	31/10/87	502	500,000
TOTAL			KSHS	<u>12,771,652</u>
			US\$	<u>684,436</u>

APPENDIX V

ANALYSIS OF EXPECTED FERTILISER PROCEEDS AND BANKINGS
IN SPECIAL ACCOUNTS

YEAR	FERTILISER SALES KSHS	BANKINGS IN SPECIAL A/CS KSHS	(OVER)/UNDER- BANKINGS KSHS
1986/87	69,419,545	64,568,755	4,850,790
1987/88	250,721,035	136,491,181	114,229,854
1988/89	293,296,351	258,246,817	35,049,534
1989/90	324,775,969	235,738,692	89,037,277
1990/91	296,861,708	287,045,454	9,816,254
1991/92	310,499,107	284,612,706	25,886,401
TOTAL Kshs	<u>1,545,573,715</u>	<u>1,266,703,605</u>	<u>278,870,110</u>
US\$	<u>74,257,471</u>	<u>59,821,479</u>	<u>14,435,992</u>

Of the undercollections of Kshs 278,870,110 (US\$ 14,435,992) above Kshs 212,716,251 (US\$ 8,368,067) was collected and banked in the special accounts after June 30, 1992.

APPENDIX VI

FERTILIZER SHIPMENTS UNDER PROGRAMS 615-0213, 615-0210 AND 615-0213

PERIOD	NAME OF SHIP	QUANTITY RECEIVED AND ALLOCATED M/T	PRICE PER M/T TENDERED KSHS	AMOUNT PAYABLE KSHS
1986	Brinton Lykes	9,545	3,586.10	34,228,518
1986	Leslie Lykes	9,813	3,586.10	35,191,027
1987	Omi Sacramento	19,609	4,958.75	97,236,426
1988	Haritas	15,656	4,958.75	77,633,050
1988	Sue Lykes	4,407 (NKU)	4,958.75	21,852,715
		11,721 (MSA)	4,606.95	53,998,844
1988	Star of Texas	18,775 (MSA)	5,492.00	102,935,710
		1,300 (NKU)	5,588.00	7,264,385
1989	Pride of Texas	28,299 (MSA)	5,492.00	155,424,480
		4,952 (NKU)	5,588.00	27,671,776
1989	Star of Texas	17,000 (MSA)	5,491.00	96,248,880
		4,018 (NKU)	5,588.00	22,452,584
1990	Pride of Texas	31,055	5,562.55	172,744,990
1990	John Lykes	6,687	5,562.55	39,299,479
1991	Overseas Marilyn	22899*	6,560.40	150,225,109
1991	Maestro Georgis	21,824	6,560.40	140,666,635
1992	Treana	21,941	7,172.00	155,440,835
1992	Spirit of Texas	22,035	7,172.00	155,058,272
TOTAL			KSHS	<u>1,545,573,715</u>
			US\$	<u>74,257,471</u>

* Includes excess fertilizer 1040 M/T left over from the past shipments worth shs. 6,822,816

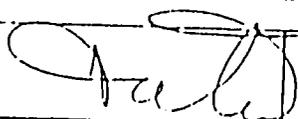
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APPENDIX VII

AGENCY FOR INTERNATIONAL DEVELOPMENT BILL FOR COLLECTION	Billing Date 4/23/92	Bill Number CO - 615-82637
THE PERMANENT SECRETARY MINISTRY OF FINANCE PO BOX 30007 NAIROBI, KENYA	Please make remittance in the amount of KSh. 31,092,875 plus prospective interest through the date of payment, and other charges, if applicable (see Importation note below) and payable to Agency for International Development, no later than <u>5/23/1992</u> with attached copy to: Agency for International Development Cashier's Office Box 30261 NAIROBI, KENYA	

IMPORTANT NOTE:

1. If remittance is not received by AID on/before the due date, as indicated above, interest will be charged from the billing date through the date of payment at an annual rate of 21% percent on the total amount of this bill, or the unpaid balance if partial payments are made before the due date.
2. If full payment is not received by AID within 90 days from the due date, the following additional charges will be assessed: (A) charges to cover the costs of processing and handling this delinquent bill, and (b) a penalty charge of 5 per cent per annum on the unpaid balance of this bill.
3. The above interest and penalty charges should be calculated by you and included in your remittance. You will receive an amendment to this bill from AID covering any costs of processing and handling the delinquent bill.

EXPLANATION OF BILLING	AMOUNT DUE
UNPAID CHECKS FROM SEVERAL FERTILIZER DISTRIBUTORS PER CIP/PNG ACCOUNTS 136, 150 & 166	KSH 31,092,875
TOTAL AMOUNT OF THIS BILL 	KSH 31,092,875
Billing Official THOMAS A. TUJINO	 Title and Organization CONTROLLER, USAID/KENYA

ATTACHMENT II

REPORT DISTRIBUTION

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