

Regional Inspector General for Audit
Nairobi, Kenya

Audit of
the Private Enterprise Development Assistance
to the Investment Promotion Centre (IPC)
Under USAID/Kenya Project No. 615-0238

Report No. 3-615-94-013-N
August 25, 1994



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INSPECTOR
GENERAL

U.S. AGENCY FOR INTERNATIONAL DEVELOPMENT

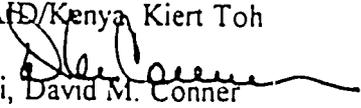


U.S. AGENCY FOR
INTERNATIONAL
DEVELOPMENT

August 25, 1994

Memorandum

To: Acting Director, USAID/Kenya, Kiert Toh

From: Acting RIG/A/Nairobi, David M. Conner 

Subject: Agency-contracted Audit of the Private Enterprise Development Assistance to the Investment Promotion Centre (IPC) Under USAID/Kenya Project No. 615-0238, A.R. No. 3-615-94-013-N

*Regional
Inspector General
for Audit/Nairobi*

Attached are five copies of the subject audit report. The non-Federal accounting firm of Bellhouse Mwangi Ernst & Young, Nairobi, Kenya performed the audit.

In a project grant agreement with the Government of Kenya, signed June 29, 1987, USAID/Kenya was to provide assistance to the Investment Promotion Centre as a part of USAID/Kenya's Private Enterprise Development (PED) Project. The goal of USAID's funding to IPC was to support IPC's activities in order to:

- (1) increase IPC's capacity to analyze the impact of proposed reforms, suggest additional reforms and work out implementation plans, and facilitate a reasoned and informed dialogue between the private sector and government institutions;
- (2) assist IPC to develop promotional materials, prepare promotional activities and promote both local and foreign investment; and
- (3) provide support to the resource center; fund training in the investment approvals process; and finance a number of sector, regional and industry-specific feasibility studies.

The grant to IPC was incrementally funded to a total of \$2,713,245, although only \$1,015,040 was actually disbursed. USAID/Washington adopted a worldwide policy ceasing funding to institutions which may cause American firms to relocate. As a result, USAID's support to the IPC under PED was suspended on October 4, 1993 and is in the process of being terminated.

The objective of the audit was to examine IPC's Fund Accountability Statement (Statement) and to express an opinion as to whether the Statement presents fairly the use of funds in accordance with the grant agreement. To answer the objective, the auditors were asked to consider IPC's internal control structure to determine the auditing procedures necessary to express an opinion on the Statement, and to report on significant internal control weaknesses. As part of obtaining reasonable assurance the Statement was free of material misstatement, the auditors were required to test IPC's compliance with terms of the grant agreement and to report any identified material instances of non-compliance.

This audit covered all of the \$1,015,040 in USAID funds disbursed to the IPC under the PED for the period June 29, 1987 through September 30, 1993. The auditors selected an audit sample of \$740,011 which constituted 73 percent of the audit universe. The scope of the audit was limited by the auditors' reliance on USAID/Kenya's representations and photocopies of supporting documentation for expenditures amounting to \$422,880.

The auditors issued a qualified opinion on IPC's Fund Accountability Statement since the audit identified \$2,847 in questioned unsupported costs. The audit identified three instances of noncompliance with the grant agreement and the report on the internal control structure identified five areas that the auditors considered to be material weaknesses. Weaknesses identified can be summarized as follows:

- inadequate document retention to support project expenditures, and
- lack of reconciliation between USAID and IPC project records.

The draft report was submitted to IPC and to USAID/Kenya for comments and their comments were taken into consideration in the preparation of the final report. IPC and USAID/Kenya comments are included in the final report as Appendix I and II, respectively. USAID/Kenya generally agreed with the audit findings and recommendations included in the audit report but declared that \$422,880 in costs originally questioned as unsupported should be considered allowable costs as USAID had either placed the original supporting documentation in its archives or had them destroyed. IPC provided comments concerning some of the reported internal control weaknesses; particularly that it had submitted original invoices or receipts to USAID. The auditors and USAID/Kenya agree that some of the original invoices were not submitted to USAID and these costs are properly questioned.

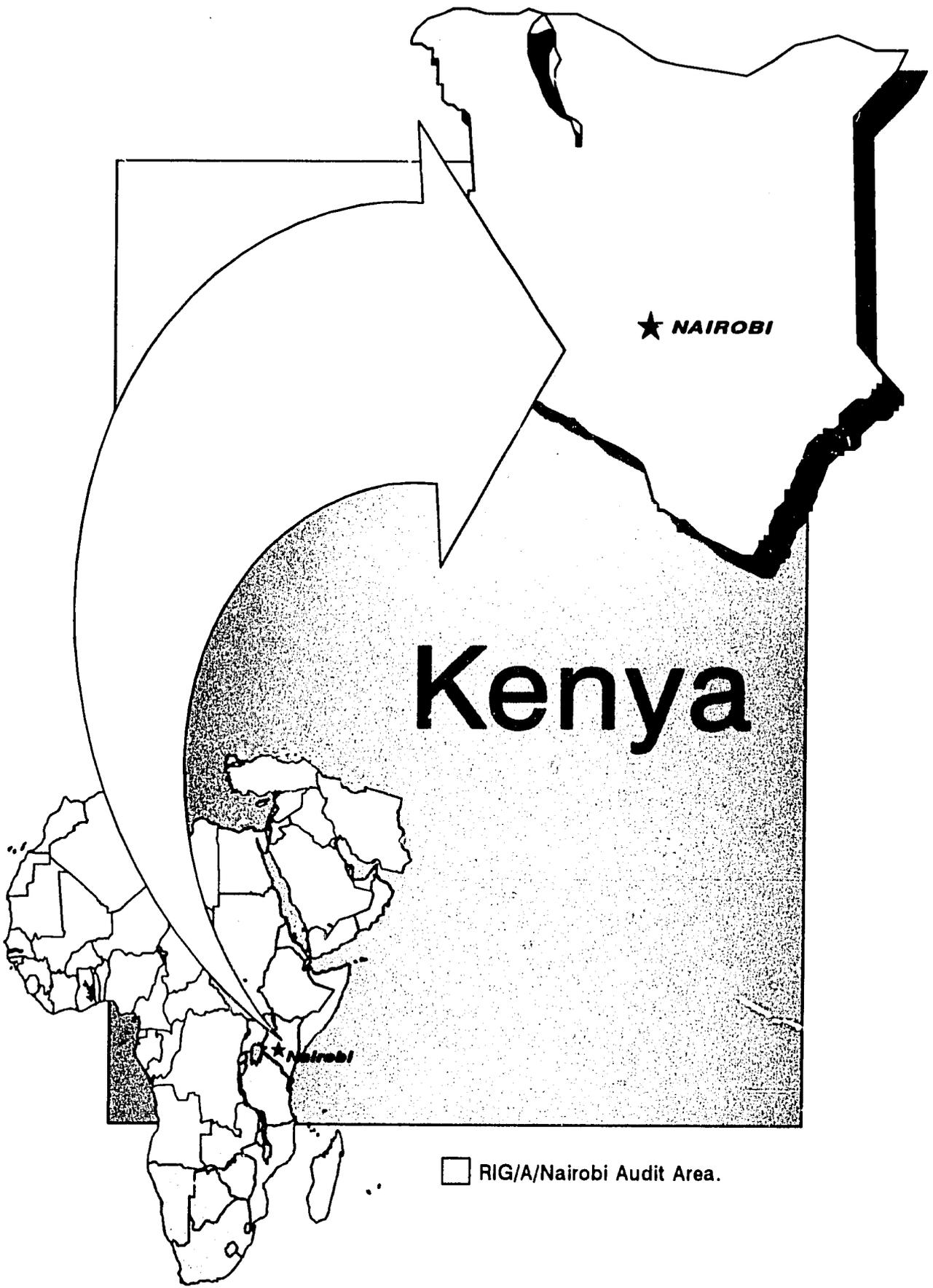
The report contains six recommendations covering the questioned costs and internal controls. It is USAID/Kenya's responsibility to ensure appropriate action is taken on all the recommendations. Because project funding for IPC has already been discontinued, we are only including the following recommendation 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's Investment Promotion Centre, questioned unsupported costs of \$2,84%.

We consider the recommendation to be unresolved. The recommendation will be resolved when USAID/Kenya makes a final determination as to the allowability of the questioned amount and it can be closed when USAID/Kenya takes action appropriate to the determination. Please respond to this report within 30 days indicating action planned or 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.



★ **NAIROBI**

Kenya

★ *Nairobi*

□ RIG/A/Nairobi Audit Area.

**Audit of
Private Enterprise Development Assistance to the
Investment Promotion Centre (IPC)
Under USAID/Kenya Project No. 615-0238**

A.R. No. 3-615-94-013-N

ATTACHMENTS

**Audit of
Private Enterprise Development Assistance to the
Investment Promotion Centre (IPC)
Under USAID/Kenya**

Project No. 615-0238

**THE AGENCY-CONTRACTED
AUDIT OF THE PRIVATE ENTERPRISE
DEVELOPMENT ASSISTANCE TO THE INVESTMENT
PROMOTION CENTRE UNDER USAID/KENYA
PROJECT NO. 615-0238**

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**THE PRIVATE ENTERPRISE DEVELOPMENT ASSISTANCE TO
THE INVESTMENT PROMOTION CENTRE UNDER USAID/KENYA
PROJECT NO. 615-0238**

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**THE PRIVATE ENTERPRISE DEVELOPMENT ASSISTANCE TO
THE INVESTMENT PROMOTION CENTRE UNDER USAID/KENYA
PROJECT NO. 615-0238**

GLOSSARY OF TERMS

USAID	:	UNITED STATES AGENCY FOR INTERNATIONAL DEVELOPMENT
US	:	UNITED STATES OF AMERICA
\$:	US DOLLARS
KShs	:	KENYA SHILLINGS
IPC	:	THE INVESTMENT PROMOTION CENTRE
GOK	:	GOVERNMENT OF KENYA
PED	:	PRIVATE ENTERPRISE DEVELOPMENT PROJECT

**THE PRIVATE ENTERPRISE DEVELOPMENT ASSISTANCE TO
THE INVESTMENT PROMOTION CENTRE UNDER USAID/KENYA
PROJECT NO. 615-0238**

1. INTRODUCTION

1.1 Background

USAID/Kenya assistance to the Investment Promotion Centre (IPC) is part of the Private Enterprise Development (PED) project whose purpose is to strengthen institutions that can improve Kenya's business environment and to encourage growth of businesses directly through the financial and advisory services those institutions provide. The Project Grant Agreement was authorized on June 29, 1987 for an initial grant amount of \$1,714,000 to the Government of Kenya (GOK) with an estimated completion date of September 30, 1994. The grant was incrementally funded to a total of \$2,713,245, although only \$1,015,040 was actually disbursed. The funding was to directly support the activities of the IPC, which was the implementing agent, in order to:

1. increase IPC's capacity to analyze the impact of proposed reforms, suggest additional reforms and work out implementation plans, and facilitate a reasoned and informed dialogue between the private sector and government institutions;
2. assist IPC to develop promotional materials, prepare promotional activities and promote both local and foreign investment; and
3. provide support to the resource center; fund training in the investment approvals process; and finance a number of sector, regional and industry-specific feasibility studies.

USAID/Washington adopted a worldwide policy ceasing funding to institutions which may cause American firms to relocate. As a result, USAID's support to the IPC under the PED was suspended on October 4, 1993 and is in the process of being terminated.

1.2 Audit Objectives and Scope

1.2.1 Objectives

Bellhouse Mwangi Ernst & Young were appointed by USAID under Contract No. 623-0000-1-00-2006-00 to carry out the audit of the Private Enterprise Development Assistance to IPC for the period June 29, 1987 through September 30, 1993.

The objectives of this engagement were to:

- a. Audit IPC'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 Project Grant Agreement;

- b. Consider the IPC's internal control structure in order to determine the auditing procedures for purposes of expressing an opinion on the Fund Accountability Statement and to report on significant internal control deficiencies and material weaknesses; and
- c. Test IPC's compliance with the terms of the Project Grant Agreement, as part of obtaining reasonable assurance as to whether the Fund Accountability Statement is free of material misstatement, and to report on any identified material instances of noncompliance.

The audit was undertaken in accordance with generally accepted auditing standards and the Government Auditing Standards issued by the US Comptroller General (1988 Revision). We were required to adhere to guidelines contained in the "Guide for Financial Audits Contracted by AID" and "Guidelines for Audits of Federal awards to Non-Profit Institutions".

1.2.2 Scope

Our audit covered all USAID funds disbursed to the IPC under Project No. 615-0238 amounting to \$1,015,040, for the period June 29, 1987 through September 30, 1993.

The scope of our audit was limited by the fact that we relied on USAID/Kenya's representations and photocopies of supporting documentation for expenditures amounting to US\$422,880.

In carrying out our audit, we did not comply with Government Auditing Standards 3.46 and 3.6 regarding External Quality Control Reviews and Continuing Professional Education respectively. It is our opinion that noncompliance with those standards did not impair our ability to perform the audit.

1.2.3 Methodology

The audit was performed using the Ernst & Young audit approach as modified by the Public Sector Services Manual Supplement. It was performed in accordance with:

- a. US Generally Accepted Auditing Standards;
- b. US Comptroller General's Government Auditing Standards (1988 Revision); and
- c. The Grant Agreement and Amendments.

We performed an initial survey on November 23, 1993, after which an audit program was prepared for the approval of the Regional Inspector General/Audit/Nairobi (RIG/A/N). The actual audit fieldwork commenced immediately thereafter.

1.3 Summary of Audit Results

1.3.1 Fund Accountability Statement

Of the total expenditures for the period of \$1,015,040 our sample for verification covered \$740,011 (72.9%). Costs amounting to \$2,847 (0.2%) were questioned; all of which were considered unsupported.

1.3.2 Internal Control Structure

The following weaknesses were noted in the Internal Control Structure:

- i. Household furniture and equipment were acquired for the technical advisor without following IPC's tendering procedures.
- ii. Copies of original documents supporting project expenditures were not always maintained when originals were submitted to USAID for reimbursement. IPC did not have any details of payments made directly to vendors by USAID.
- iii. Lack of reconciliation between IPC financial records and USAID paytrack reports.
- iv. Failure to continue specific financial reporting on the project.
- v. Failure to record commodities in the books of account.

1.3.3 Compliance with Project Grant Agreement Provisions and Applicable Laws and Regulations

The following instances of noncompliance were noted:

- i. Lack of quarterly financial reporting to USAID.
- ii. Incurrence of expenditure on airfares without prior USAID approval.
- iii. Failure to maintain complete accounting records on the project.

1.3.4 Investment Promotion Centre's Response

i. Fund Accountability Statement

IPC had to submit all the original documentation supporting project expenditures to USAID, the term unsupported expenditures should therefore not arise in the report.

ii. Internal Control Structure

The technical advisor wanted furniture to his specifications and said he was authorized to procure these by USAID, therefore IPC could not tender through normal procedures. All assets procured with USAID funds were recorded in the books except the technical advisor's furniture which were later repossessed by USAID.

IPC continued submitting progress reports on USAID funded activities upto September 1992 though most did not include a financial report as required.

1.3.5 USAID/Kenya Comments

i. Fund Accountability Statement

Original supporting documents in respect of expenditures were received and retired by USAID/Kenya according to applicable procedures. Questioned expenditures amounting to US\$422,880 classified as unsupported in the draft audit report should therefore be treated as allowable.

ii. Internal Control Structure

USAID/Kenya concurs with the recommendations.

**THE PRIVATE ENTERPRISE DEVELOPMENT ASSISTANCE TO
THE INVESTMENT PROMOTION CENTRE UNDER USAID/KENYA
PROJECT NO. 615-0238**

2. FUND ACCOUNTABILITY STATEMENT

2.1 Independent Auditor's Report

We have audited the Fund Accountability Statement of the Private Enterprise Development Assistance to the Investment Promotion Centre under Project No. 615-0238, for the period June 29, 1987 through September 30, 1993. This statement is the responsibility of the Investment Promotion Centre. 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 U.S. Comptroller General with the exception that we did not comply with sections 3.46 and 3.6 on External Quality Control Reviews 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. Our audit included examining, on a test basis, evidence supporting the amounts and disclosures in the Fund Accountability Statement.

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

As discussed in Note 2 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 scope of our audit was limited by our reliance on photocopies of supporting documentation and USAID/Kenya's representations for expenditures amounting to US\$422,880.

With respect to incurred expenditures, the results of our audit include questioned costs of \$2,847 considered to be unsupported.

Subject to the foregoing, in our opinion, the Fund Accountability Statement presents fairly, in conformity with the basis of accounting described in the fourth paragraph above, the revenues and expenditures of the Private Enterprise Development Assistance to the Investment Promotion Centre under Project No. 615-0238 for the period June 29, 1987 to September 30, 1993.

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 Investment Promotion Centre, 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.



**BELLHOUSE MWANGI ERNST & YOUNG
NAIROBI**

March 4, 1994

**THE PRIVATE ENTERPRISE DEVELOPMENT ASSISTANCE
TO THE INVESTMENT PROMOTION CENTRE UNDER USAID/KENYA
PROJECT NO. 615-0238
FUND ACCOUNTABILITY STATEMENT
FOR THE PERIOD JUNE 8, 1987 THROUGH SEPTEMBER 30, 1993**

	US \$	KShs
Revenue	1,015,040	26,985,111
Expenditures:		
Salaries	144,974	3,971,218
Accommodation expenses	32,160	1,025,094
Residential rent	22,891	662,134
Travelling expenses	50,295	1,452,921
Promotional materials	56,535	1,376,845
Seminar and library expenses	69,773	2,317,378
Consultancy fees - Seminar and Training Assistance	605,415	15,448,054
Commodities	30,917	672,222
Shipping costs	677	34,765
Advertising	1,403	24,480
	-----	-----
Total Expenditure	1,015,040	26,985,111
	-----	-----
Fund balance	NIL	NIL
	=====	=====

Notes to the Fund Accountability Statement

1. Currency translation

United States dollar amounts are expressed at the actual rate of exchange applied on the amounts received and expended over the period.

2. Basis of Accounting

The Fund Accountability Statement is prepared on the basis of cash receipts and disbursements which is a comprehensive basis of accounting other than U.S. generally accepted accounting principles.

3. Costs supported by photocopies and USAID/Kenya representations

Expenditures amounting to \$422,880 were accepted on the basis of USAID/Kenya representations and photocopies of supporting documentation.

2.2 Findings and Recommendations

2.2.1 Introduction

The Fund Accountability Statement was prepared from the P04 paytrack records maintained by USAID/Kenya and is shown on page 7 of this report.

2.2.2 Sample Selection Criteria

For expenditures incurred under the project, we established a key item value of \$7,523 and tested all transactions whose value was equal to or greater than this amount. This gave us a coverage of 72.9% (\$740,011) of the total project expenditures for the period. We considered this coverage to be adequate to enable us to form our opinion.

2.2.3 Audit Results

Of the disbursements tested, costs amounting to \$ 2,847 were questioned. These costs can be analysed as follows:-

	Claimed	Accepted	Amount Recommended To be Unsupported Ineligible	Notes
	\$	\$	\$	\$
Salaries	144,974	144,974	-	
Accommodation expenses	32,160	29,313	2,847	2.2.4(a)
Residential rent	22,891	22,891	-	
Travelling expenses	50,295	50,295	-	
Promotional Materials	56,535	56,535	-	
Seminar & Library expenses	69,773	69,773	-	
Consultancy fees - Seminars and technical assistance	605,415	605,415	-	
Commodities	30,917	30,917	-	
Shipping costs	677	677	-	
Advertising	1,403	1,403	-	
	<u>1,015,040</u>	<u>1,012,193</u>	<u>2,847</u>	<u>-</u>
	=====	=====	===	==

2.2.4 Unsupported Costs

a. Finding: Unsupported accommodation expenses

We noted the following unsupported accommodation expenses:

Date	Details	Amount \$	Remarks
9/30/92	Ms. Koimett - Train tickets, meals and bank commissions	1,192	No supporting documents
	Ms. Koimett - per diem	1,252	No supporting documents
	Mr Musyimi - bank commissions, tips and miscellaneous expenses	403	No supporting documents
		<hr/>	
		2,847	
		===	

Recommendation No. 1

We recommend that USAID/Kenya determine the allowability of the above amounts in view of the fact that such payments could not have been made without original support documentation.

Auditee's Response

The report should not term these expenditures as unsupported since the original supporting documents were sent to USAID.

USAID/Kenya Comment

USAID/Kenya concurs with the recommendation.

**THE PRIVATE ENTERPRISE DEVELOPMENT ASSISTANCE TO
THE INVESTMENT PROMOTION CENTRE UNDER USAID/KENYA
PROJECT NO. 615-0238**

3. INTERNAL CONTROL STRUCTURE

3.1 Independent Auditors' Report

We have audited the Fund Accountability Statement of the Private Enterprise Development Assistance to the Investment Promotion Centre under Project No. 615-0238 for the period June 29, 1987 through September 30, 1993 and have issued our report thereon dated March 4, 1994.

We conducted our audit in accordance with generally accepted auditing standards and Government Auditing Standards (1988 Revision) issued by the U.S. Comptroller General. 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 Investment Promotion Centre 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 Investment Promotion Centre 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 management's authorization and recorded properly to permit the preparation of the Fund Accountability Statement in accordance with generally accepted accounting principles. Because of inherent limitations in any internal control structure, errors or irregularities may nevertheless occur and not be detected. Also projection of any evaluation of the structure to future periods is subject to the risk that procedures may become inadequate because of changes in 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

- financial management capabilities
- familiarity with USAID rules
- method of assigning authority and responsibility.

Accounting System

- budgeting and funds management
- general record keeping
- reporting to USAID

Control Procedures

- authorization of transactions and activities
- written procedures

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 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 assertion of management in the Fund Accountability Statement.

The following reportable conditions were observed:

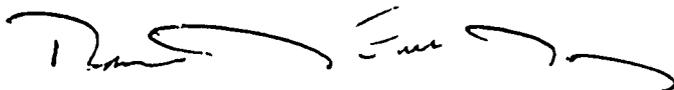
- a. Acquisition of commodities without following procurement procedures.
- b. IPC did not maintain copies of supporting documents submitted to USAID and did not keep records on expenditures paid for directly by USAID.
- c. Commodities not recorded by IPC in its books of account.
- d. Lack of specific financial reporting on the project.
- e. Lack of reconciliation between IPC and USAID financial records on the project.

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 that the reportable conditions described above are material weaknesses.

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 Investment Promotion Centre, 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**

March 4, 1994

3.2 Work Performed

We reviewed the internal control structure of the Investment Promotion Centre and obtained an understanding of the design, relevant procedures and we assessed control risk. Our review considered the significant internal control structure and procedures categorized as follows:

Control environment

- financial management capabilities
- familiarity with USAID rules.
- methods of assigning authority and responsibility.

Accounting systems

- budgeting and funds management
- general record keeping
- reporting to USAID

Control procedures

- authorization of transactions and activities
- written procedures

3.3 Findings and Recommendations

3.3.1 Control Environment

The overall control environment was found to be acceptable as far as the project is concerned, mainly due to USAID's close involvement in the project activities, except for the following weakness:

a. Finding: Non-adherence to procurement control procedures

We noted an instance where the technical advisor to the project directly procured household furniture worth KShs.245,098 (\$10,638) that was charged to the project, without following IPC procurement procedures. The prices paid for the furniture items, however, seemed reasonable.

Recommendation No. 2

We recommend that the management of IPC ensure that procurement procedures as set forth in the organization's finance and accounting regulations, are adhered to at all times and on all future projects.

Auditee's Response

The technical advisor wanted his furniture to be made to his specification and he informed us verbally that he had been authorised to do so by USAID. Our procurement procedures were therefore not followed in this case.

USAID/Kenya Comments

USAID/Kenya concurs with the recommendation.

3.3.2 Accounting Systems

The accounting systems in use at the IPC are more detailed and better than those in use in government departments and bodies. However, the following weaknesses were noted:

a. Finding: Inadequate document retention

As required by USAID, original payment documents supporting expenditures incurred on the project by IPC were to be submitted to USAID for reimbursement, however, IPC did not retain copies of all such documents. In addition to this, IPC did not maintain accounting records of project expenditures settled directly by USAID to vendors.

Recommendation No. 3

We recommend that the IPC obtain and retain all copies of documents supporting expenditures reimbursed by USAID. IPC should also maintain records of all expenditures settled directly by USAID.

Auditee's Response

Copies of original documents supporting project expenditures were all maintained in our files.

USAID/Kenya Comments

USAID/Kenya concurs with the recommendation.

Auditor's Response

There were cases where no copies of supporting documents were maintained. Refer to section 2.2.4 (a) on page 9 (nine) of this report.

b. Finding: Inadequate accounting control over USAID - Funded Commodities

Of the USAID - funded commodities under the project, some household furniture were not accounted for in IPC's books of account. These commodities were later transferred to another USAID-funded project.

Recommendation No. 4

We recommend that IPC should in the future record and account for all commodities.

Auditee's Response

All assets procured by USAID funds were recorded in our assets books and appeared in our accounts apart from the Technical Advisor's furniture of which we had not taken physical stock.

USAID/Kenya Comments

USAID/Kenya concurs with the recommendation.

c. Finding: Lack of project financial reports

The IPC previously prepared specific financial reports on the project, however, this ceased from September 30 1990, thus the Centre could not ensure the completeness and accuracy of the project's accounting records.

Recommendation No. 5

We recommend that, being the project implementing agency, the IPC should in future prepare regular specific financial reports on projects to ensure complete and accurate financial records.

Auditee's Response

We continued to submit progress reports on USAID funded activities up to September 1992. Our last report was dated 30 October 1992, though most of the reports did not include a financial report since there were no expenditures incurred related to the project.

USAID/Kenya Comments

USAID/Kenya concurs with the recommendation.

3.3.3 Control Procedures

The main control procedure over the project which was evaluated as effective, was the requirement by USAID that every project activity be approved through a project implementation letter. The following weakness was however noted:

a. Finding: Lack of reconciliation between USAID and IPC project records

Financial information on the project as maintained by IPC was not reconciled to that of USAID. This resulted in the failure to detect omissions of transactions as noted under Section 3.3.2 (a).

Recommendation No. 6

We recommend that being the project implementing agency, the IPC should reconcile its financial information to that of USAID, and make the necessary adjustments in conjunction with our Recommendation Nos 3 and 4 in order to have complete records on the project.

Auditee's Response

There was no response relating to this recommendation.

USAID/Kenya Comments

USAID/Kenya concurs with the recommendation.

**THE PRIVATE ENTERPRISE DEVELOPMENT ASSISTANCE TO
THE INVESTMENT PROMOTION CENTRE UNDER USAID/KENYA
PROJECT NO. 615-0238**

**4. COMPLIANCE WITH PROJECT GRANT AGREEMENT PROVISIONS
AND APPLICABLE LAWS AND REGULATIONS**

4.1 Independent Auditors' Report

We have audited the Fund Accountability Statement of the Private Enterprise Development Assistance to the Investment Promotion Centre under Project No. 615-0238 for the period June 29, 1987 through September 30, 1993 and have issued our report thereon dated March 4, 1994.

We conducted our audit in accordance with generally accepted auditing standards and Government Auditing Standards (1988 Revision) issued by the U.S. Comptroller General. 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 laws, regulations, contracts, grants and binding policies and procedures applicable to the project funds is the responsibility of the management of the Investment Promotion Centre. As part of our audit we performed tests of the Investment Promotion Centre's 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 Fund Accountability Statement is free of material misstatement; our objective was not to provide an opinion on compliance with such provisions.

Our testing of transactions, and records selected disclosed instances of noncompliance with those laws and regulations. All instances of noncompliance that we found are identified in the accompanying section of findings and recommendations.

The results of our audit tests of compliance indicated that, with respect to the items tested, the Investment Promotion Centre complied, in all material respects, 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 Investment Promotion Centre had not complied, in all material respects, with those provisions.

Financial information contained in this report may be privileged. The provisions 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 Investment Promotion Centre, 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**

March 4, 1994

4.2 Work Performed

Our audit of the Private Enterprise Development Assistance to the Investment Promotion Centre included obtaining assurances that the IPC complied with grant provisions and US Government regulations. Procedures performed to test such compliance included the following:

- i. a review of the Project Grant Agreement 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 IPC's compliance with these provisions and regulations.

4.3 Findings and Recommendations

Our findings and recommendations on compliance issues are set out below:

a. Finding: Financial reporting to USAID

As stipulated in the Project Grant Agreement, the IPC was required to submit quarterly financial reports to USAID. Such reports were submitted up to the quarter ended September 1990, and none thereafter were prepared.

b. Finding: Unauthorized Airtravel

We noted an instance whereby the IPC contracted for international travel airfares under the project prior to USAID approval, contrary to US Government regulations.

c. Finding: Incomplete project accounting records

As noted in section 3.3.2 (a), the IPC did not maintain complete project accounting records as required by the standard provisions of the grant agreement.

Recommendation No. 7

As a result of the termination of further funding to the IPC we make no recommendations on the above findings.

APPENDIX I
INVESTMENT PROMOTION CENTRE'S RESPONSE



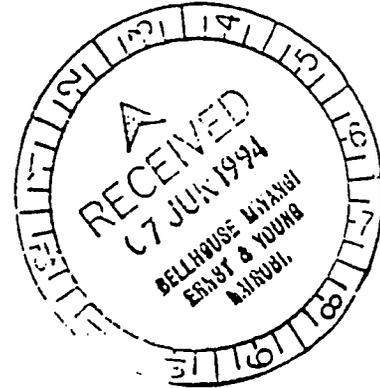
INVESTMENT PROMOTION CENTRE
PROMOTING INVESTMENT IN KENYA

Our Ref: IPC/0166

June 6, 1994

Your Ref:

BellHouse Mwangi Ernst & Young
Alico House
Mamlaka Road
P.O. Box 44286
NAIROBI



Dear Sir,

RE: CONTRACT NO 623 -0000-1-00-2006-00 DELIVERY ORDER NO. 12
- AUDIT OF THE INVESTMENT PROMOTION CENTRE PROJECT
NO. 615-0238

We acknowledge receipt of your letter dated 13th May 1994 on the above subject. Below are our comments on the same.

1.3.1. FUNDS ACCOUNTABILITY STATEMENTS

(1) UNSUPPORTED EXPENDITURE

We had to submit original invoices or receipts to USAID of all expenditures we incurred whether on reimbursement on what we had spent from our funds or direct payment to supplier. The only document which we remained with in our files were photocopies of the same. In this connection we feel that the report should not term these expenditures as unsupported since original copies were sent to USAID.

1.3.2. INTERNAL CONTROL STRUCTURE

(i)

The technical advisor wanted his furniture to be made to his specification and he informed us verbally that he had been authorised to do so by USAID. We could in this case therefore not tender as per our procurement procedures.

(ii)

Copies of original documents supporting project expenditures were all maintained in our files.

...../2

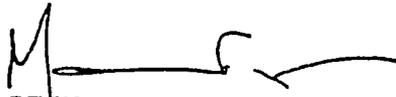
(iii)

We continued to submit progress reports on USAID funded activities up to September 1992. Our last report was dated 30th October 1992, though most of the reports did not include a financial report since there were no expenditures incurred from USAID fund.

(iv)

All assets procured by USAID funds were recorded in our Assets books and appeared in our Accounts apart from the Technical Advisor's furniture which we had not taken physical stock. Please note that all these furniture were repossessed by USAID.

Yours faithfully,



MARTIN P. KUNGURU
EXECUTIVE CHAIRMAN

APPENDIX II
USAID/KENYA COMMENTS



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
UNIT 64102
APO AE 09831 - 4102

INTERNATIONAL POSTAL ADDRESS

POST OFFICE BOX 30261
NAIROBI, KENYA
TEL: 254-2-331160
FAX: 254-2-337305

July 6, 1994

Bellhouse Mwangi Ernest & Young
Alico House
P.O. Box 44286
Nairobi

Attention: Mr. C.A. Otolu

Dear Sir,

Subject: Response to the Draft Audit Report of the Investment Promotion Centre

Thank you for the draft audit report of the Investment Promotion Centre (IPC) which was received in our office on May 16, 1994. The Mission wishes to make the following comments:

Recommendation No. 1

The Mission concurs.

Recommendations Nos. 2 to 5

Grant funds were directly disbursed by USAID/Kenya to suppliers of commodities and services after IPC submitted original documentation (invoices, receipts etc) requesting USAID/Kenya to make the payments. The original documents were later remitted by the Mission to USAID/W for storage as was required by AID retirement policy which was effective until July 1990. Original documentation for the disbursements after this date were retired to the USAID/Kenya warehouse for archiving and subsequent shredding.

Based on this, the Mission has determined that unsupported costs amounting to \$422,880 which were questioned in the draft audit report are allowable and should be reflected as such in the final audit report.

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Recommendation 6 to 10

The mission concurs

Finally, we request amendment of the last paragraph of "Introduction page, No. 1.1 Background" to read as follows; "USAID/Washington adopted a worldwide policy ceasing funding to institutions which may cause American firms to relocate. As a result USAID's support to the IPC under the PED was suspended on October 4, 1993 and is in the process of being terminated."

We look forward to receiving the final audit report.

Yours sincerely,



Roger Simmons
Acting Director
USAID/KENYA

APPENDIX III
COSTS SUPPORTED BY PHOTOCOPIES
AND USAID/KENYA REPRESENTATIONS

APPENDIX III

COSTS SUPPORTED BY PHOTOCOPIES AND USAID/KENYA REPRESENTATIONS

a. Promotional Material Expenses

Date	Details	Amount \$
1/08/91	Media Productions Ltd.- third installment	15,056
4/21/92	Colourprint Ltd. - 10,000 copies of EPZ booklets	<u>7,285</u>
		22,341

b. Seminar and Library Expenses

Date	Details	Amount \$
12/07/89	Payment on completion of draft report on investors tracking system	30,000

c. Consultancy fee

Date	Details	Amount \$
12/08/89	The Services Group Inc. - Study of the Export Processing Zone (EPZ)	60,180
03/08/90	The Services Group Inc. - Study of Export Processing Zone (EPZ)	90,270
09/12/90	K.K. Consultants - implementation of resource center	9,313
10/02/91	K.K. Consultants - 50% payment on policy studies	8,735
10/02/91	K.K. Consultants - 50% payment on policy studies	8,735
04/13/92	K.K. Consultants - 50% payment on study of chemical and biochemical industry	14,836
06/23/92	Organizing of S.E. Asia Seminar	50,000
11/05/92	E.A. Financial Consultants - payment on study of electrical and electronic industry	15,486
10/02/92	NIEDA Inc. - assistance to Kenyan exporters	<u>99,900</u>
		357,455

d. Commodities expenses

Date	Details	Amount \$
09/13/88	Cost of Isuzu Saloon Registration No. KYF 942	<u>13,084</u>
	Total Costs	422,880 =====

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M/MPI	1
REDSO/ESA	1
REDSO/ESA/RCO	1
REDSO/ESA/RFMC	1
REDSO/ESA/Library	1
IG	1
AIG/A	1
D/AIG/A	3
IG/A/FA	1
IG/A/PSA	1
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IG/RM/C&R	5
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RIG/A/Singapore	1
RIG/A/San Jose	1

ATTACHMENT III

Major Contributors to this Report

**Regional Inspector General
for Audit, Nairobi, Kenya**

John Burns, Audit Manager
Richard Cain, Auditor-in-Charge

