

Regional Inspector General for Audit  
Nairobi, Kenya

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Audit of the  
Private Enterprise Development Assistance to the  
Kenya National Chamber of Commerce and Industry  
Under USAID/Kenya Project No. 615-0238 and  
Grant No. 615-0238-G-00-8023-00

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Report No. 3-615-95-001-N  
November 15, 1994



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U.S. AGENCY FOR INTERNATIONAL DEVELOPMENT



S. AGENCY FOR  
INTERNATIONAL  
DEVELOPMENT

November 15, 1994

Memorandum

To: Acting Director, USAID/Kenya, Kiert Toh

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

Subject: Agency-contracted Audit of the Private Enterprise Development Assistance to the Kenya National Chamber of Commerce and Industry Under USAID/Kenya Project No. 615-0238 and Grant No. 615-0238-G-00-8023-00, A.R. No. 3-615-95-001-N

*Regional  
Inspector General  
for Audit/Nairobi*

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

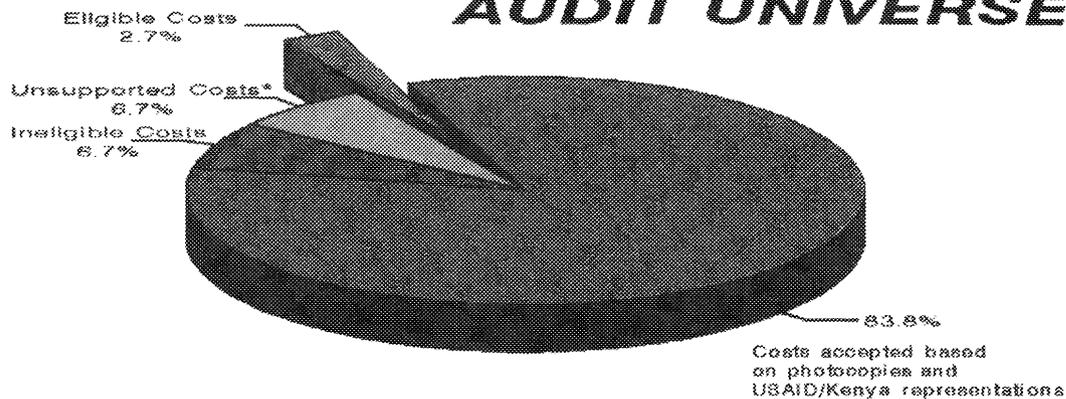
The Kenya National Chamber of Commerce and Industry (KNCCI) is an important network and forum for indigenous Kenyans and a significant factor to the strategies of both the Government of Kenya and USAID/Kenya. The KNCCI provides advisory services to a wide range of Kenyan entrepreneurs and its principal objectives closely replicate those of USAID/Kenya's private enterprise development interests. USAID/Kenya provided funding directly to the KNCCI as part of the Private Enterprise Development Project No. 615-0238. The purpose of the project was to strengthen institutions, such as KNCCI, that can improve Kenyan businesses directly through the financial and advisory assistance these institutions provide. USAID provided Kshs. 8,000,563 (\$312,950) to KNCCI to procure micro computers, printers, photocopiers, vehicles, technical assistance, and training during the period April 15, 1988, through July 31, 1991 (life of the USAID grant).

The objective of this audit was to examine KNCCI'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 KNCCI's internal control structure to determine 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 KNCCI's compliance with terms of the grant agreement and to report any identified material instances of non-compliance.

*BEST AVAILABLE COPY*

Kenya National Chamber of Commerce and Industry

## AUDIT UNIVERSE



Total audited amount - \$312,950 - covering audit period April 15, 1988 to July 31, 1991.  
\*Includes unspent USAID funds.

SOURCE: Audit Report

obtaining reasonable assurance the Statement was free of material misstatement, the auditors were required to test KNCCI's compliance with terms of the grant agreement and to report any identified material instances of non-compliance.

This audit covered all USAID funds disbursed to the KNCCI under Project No. 615-0238 amounting to \$312,950 for the period April 15, 1988, through July 31, 1991. 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 \$262,266. In addition, KNCCI did not provide the auditors with a letter of representation and this was also presented as a scope limitation.

The auditors issued an adverse opinion on KNCCI's Statement since the audit identified \$41,629 in questioned ineligible and unsupported costs. The audit identified two material instances of noncompliance with the grant agreement. The report on the internal control structure identified five areas that the auditors considered to be material weaknesses. Weaknesses and problem areas identified in the report can be summarized as follows:

- inadequate accounting records and a lack of written financial and accounting procedures,
- incomplete project records with missing supporting documentation for project expenditures,

- **failure to maintain a separate bank account for grant funds, and**
- **absence of an inventory control system for non-expendable equipment and property.**

The draft report was submitted to KNCCI and to USAID/Kenya for comments. KNCCI did not comment on the contents of the draft report. USAID/Kenya's comments were taken into consideration in the preparation of the final report and included in the final report as Appendix I. USAID/Kenya generally agreed with the audit findings and recommendations included in the audit report.

The report contains 12 recommendations concerning the questioned costs, internal control weaknesses, and compliance issues. It is USAID/Kenya's responsibility to ensure appropriate action is taken on all the recommendations. 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 Kenya National Chamber of Commerce and Industry, questioned ineligible costs of Shs. 539,294 (\$21,095) which is the value of equipment stolen in 1989.

**Recommendation No. 2:** We recommend that USAID/Kenya determine the allowability, and recover as appropriate from the Kenya National Chamber of Commerce and Industry, questioned unsupported costs of Shs. 524,950 (\$20,534).

**Recommendation No. 3:** We recommend that USAID/Kenya collect from the Kenya National Chamber of Commerce and Industry unspent USAID advance funds of Shs. 12,041 (\$471).

**Recommendation No. 4:** We recommend that USAID/Kenya obtain from the Kenya National Chamber of Commerce and Industry a plan to improve its internal control structure which would include:

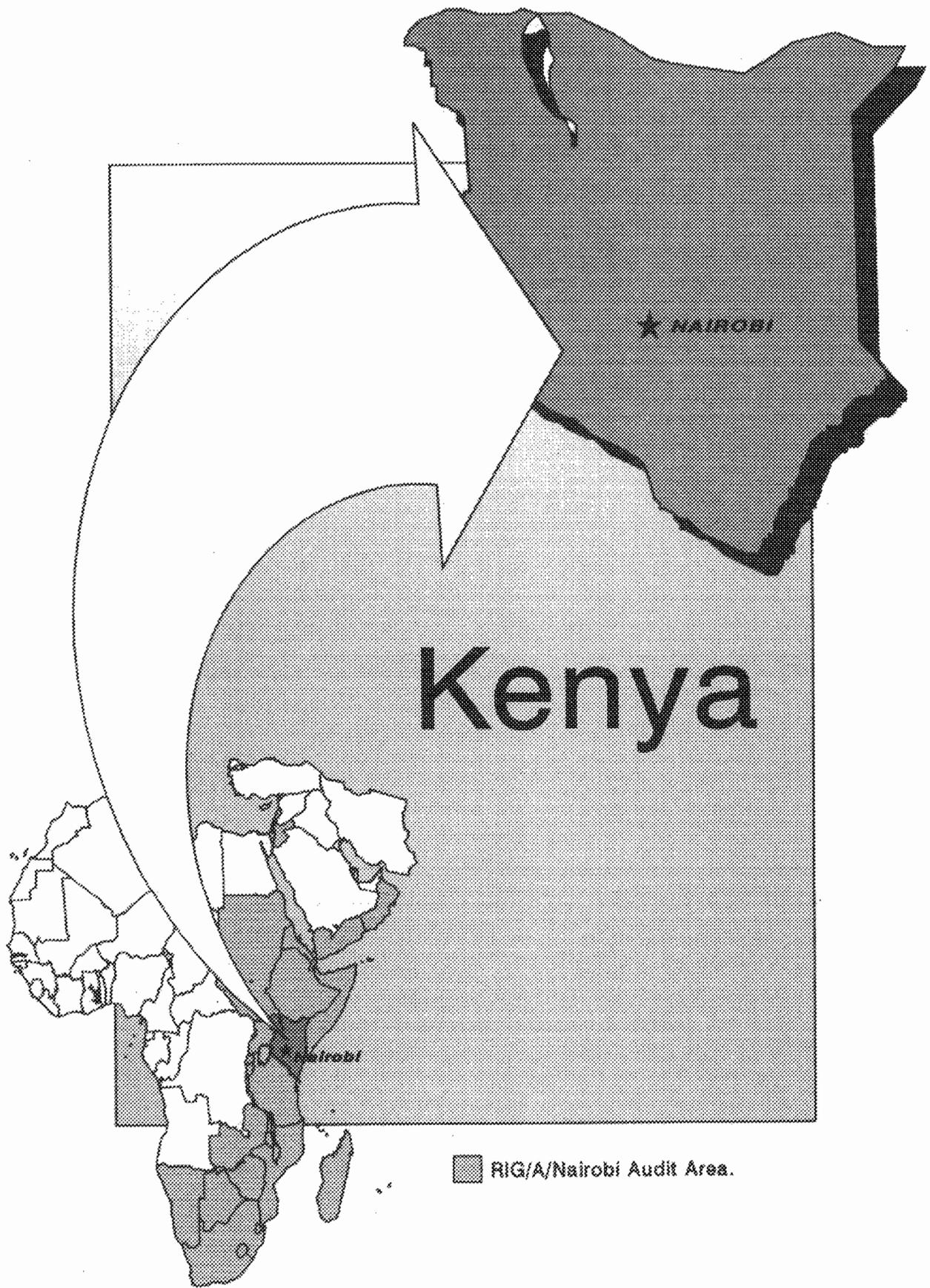
- 4.1 **ensuring financial and accounting procedures are established;**
- 4.2 **ensuring supporting documentation is maintained for all expenditures;**  
**and**

**4.3 establishing a fixed asset register for recording all non-expendable equipment and property.**

We consider the recommendations to be unresolved. Recommendation No. 1 and 2 will be resolved when USAID/Kenya makes a final determination as to the allowability of the questioned costs. It can be closed when USAID/Kenya takes action appropriate to the determination. Recommendation No. 3 will be resolved when USAID/Kenya requests the return of the unspent funds and can be closed when the funds are collected or collection action is initiated. Recommendation No. 4 will be resolved when RIG/A/N receives an acceptable plan for corrective action and can be closed upon implementation of the corrective action. Please respond to this report within 30 days indicating action planned or 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.



Audit of  
the Private Enterprise Development Assistance  
to the Kenya National Chamber of Commerce and Industry  
under USAID/Kenya Project No. 615-0238

A.R. No. 3-615-95-001-N

**ATTACHMENTS**

**Audit of  
the Private Enterprise Development Assistance  
to the Kenya National Chamber of Commerce and Industry**

**USAID/Kenya Project No. 615-0238**

**THE AGENCY-CONTRACTED  
AUDIT OF THE PRIVATE ENTERPRISE  
DEVELOPMENT ASSISTANCE TO THE KENYA NATIONAL  
CHAMBER OF COMMERCE AND INDUSTRY  
UNDER USAID/KENYA  
PROJECT NO. 615-0238**

**THE PRIVATE ENTERPRISE DEVELOPMENT ASSISTANCE TO  
THE KENYA NATIONAL CHAMBER OF COMMERCE AND INDUSTRY  
UNDER USAID/KENYA  
PROJECT NO. 615-0238**

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**THE PRIVATE ENTERPRISE DEVELOPMENT ASSISTANCE TO  
THE KENYA NATIONAL CHAMBER OF COMMERCE AND INDUSTRY  
UNDER USAID/KENYA  
PROJECT NO. 615-0238**

**GLOSSARY OF TERMS**

<b>USAID</b>	<b>:</b>	<b>UNITED STATES AGENCY FOR INTERNATIONAL DEVELOPMENT</b>
<b>US</b>	<b>:</b>	<b>UNITED STATES OF AMERICA</b>
<b>\$</b>	<b>:</b>	<b>US DOLLARS</b>
<b>KShs</b>	<b>:</b>	<b>KENYA SHILLINGS</b>
<b>KNCCI</b>	<b>:</b>	<b>THE KENYA NATIONAL CHAMBER OF COMMERCE AND INDUSTRY</b>
<b>PED</b>	<b>:</b>	<b>PRIVATE ENTERPRISE DEVELOPMENT PROJECT</b>

**THE PRIVATE ENTERPRISE DEVELOPMENT ASSISTANCE TO  
THE KENYA NATIONAL CHAMBER OF COMMERCE AND INDUSTRY  
UNDER USAID/KENYA  
PROJECT NO. 615-0238**

**1. INTRODUCTION**

**1.1 Background**

Established in 1965, the Kenya National Chamber of Commerce and Industry (KNCCI) is an important network and forum for indigenous Kenyans - a significant factor to the strategies of both the Government of Kenya and USAID/Kenya. The KNCCI provides advisory services to a wide range of Kenyan entrepreneurs. It is the only membership organization in Kenya which aspires to reach the entire business community and its principal objectives closely reflect those of USAID/Kenya's private enterprise development interests.

USAID/Kenya provided funding directly to the KNCCI as part of the Private Enterprise Development Project No. 615-0238. The purpose of the project was to strengthen institutions that can improve Kenya's business directly through the financial and advisory assistance those institutions provide. The initial amount authorized was \$60,000 and was incrementally funded to \$327,220. The estimated expiration date of the Grant was July 31, 1991.

As at July 31, 1991, the USAID Mission in Kenya had provided funds to KNCCI to procure micro computers, printers, photocopiers, vehicles, technical assistance and training amounting to Kshs.8,000,563 (\$312,950).

**1.2 Audit Objectives and Scope**

**1.2.1 Objectives**

Bellhouse Mwangi Ernst & Young were appointed by USAID under Contract No. 623-0000-I-00-2006-00 to carry out the audit of the Private Enterprise Development Assistance to KNCCI for the period April 15, 1988 through July 31, 1991.

The objectives of this engagement were to:

- a. Audit KNCCI'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 KNCCI'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 KNCCI's compliance with the terms of the Grant Agreement and related regulations, 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 KNCCI under Project Agreement No. 615-0238 amounting to KShs.8,000,563 (\$312,950), for the period April 15, 1988 through July 31, 1991.

On request by USAID we relied on copies of original documents to support disbursements amounting to KShs.6,704,832 (\$262,266) made under the original and first three amendments of the Grant. The disbursements were made directly by USAID to suppliers of commodities and services on receipt of supporting documentation from KNCCI. The original documents were remitted to USAID/Washington for storage and were therefore not available for audit. This was a limitation in scope of the audit.

We did not receive a Letter of Representation from the Kenya National Chamber of Commerce and Industry.

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 these 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 in February 1994, during which an audit program was prepared for the approval of the Regional Inspector General/Audit/Nairobi (RIG/A/N). Fieldwork commenced in April 1994 after clarification by RIG/A/N and USAID/Kenya on the acceptability of copies of original supporting documents as mentioned in paragraph 2 of 1.2.2 above.

### **1.3 Summary of Audit Results**

#### **1.3.1 Fund Accountability Statement**

Of the total expenditures for the period of KShs.7,988,522 (\$ 312,479), costs amounting to KShs.1,064,244 (\$ 41,629) were questioned, of which KShs.524,950 (\$ 20,534) were classified as unsupported and KShs. 539,294 (\$ 21,095) as ineligible. The total questioned costs represent 13% of the total project expenditures for the period audited.

#### **1.3.2 Internal Control Structure**

The following weaknesses were noted in the Internal Control Structure:

- i. Lack of written financial and accounting procedures.
- ii. Failure to retain copies of supporting project expenditure documents.
- iii. Lack of reconciliations between KNCCI's and USAID financial records.
- iv. Lack of segregation of duties in the accounts department.
- vi. Lack of evidence of review and approval of bank reconciliations.

#### **1.3.3 Compliance with Grant Agreement and Related Provisions**

The following instances of noncompliance were noted:

- i. Failure to maintain complete records on the project.
- ii. Failure to submit yearly audit reports to USAID.
- iii. Failure to establish an inventory control system for non expendable equipment and property.
- iv. Delay in the submission of financial returns to USAID.
- v. Failure to maintain a separate bank account for grant funds.

#### **1.3.4 Kenya National Chamber of Commerce and Industry's Response**

We had not received the KNCCI's response to the audit findings as at August 29, 1994.

This was after the 30 day period within which the Kenya National Chamber of Commerce and Industry was expected to respond.

### **1.3.5 USAID/Kenya Comments**

#### **i. Fund Accountability Statement**

- a. USAID/Kenya concurs with the recommendations requiring KNCCI to provide supporting documentation to unsupported costs amounting to KShs.524,950 (\$20,534) or refund the same to USAID/Kenya.
- b. The mission will review the available documents and make a determination on the allowability of KShs.539,294 (\$21,095) which is the value of equipment stolen from the KNCCI office on the night of September 9/10, 1989.

#### **ii. Internal Control Structure**

USAID/Kenya concurs with the recommendations.

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**THE PRIVATE ENTERPRISE DEVELOPMENT ASSISTANCE TO  
THE KENYA NATIONAL CHAMBER OF COMMERCE AND INDUSTRY  
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 Kenya National Chamber of Commerce and Industry, Project Agreement No. 615-0238, for the period April 15, 1988 through July 31, 1991. This statement is the responsibility of the Kenya National Chamber of Commerce and Industry. 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 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 scope of our audit was limited by the following:

- i. We relied on copies of original documents to support disbursements amounting to KShs.6,704,832 (\$262,266) made under the original and first three amendments of the Grant. The disbursements were made directly by USAID to suppliers of commodities and services on receipt of supporting documentation from KNCCI. The original documents were remitted to USAID/Washington for storage and were therefore not available for audit. (See appendix II)
- ii. We did not receive a Letter of Representation from the Kenya National Chamber of Commerce and Industry.

With respect to incurred expenditures, the results of our audit disclosed questioned costs amounting to KShs.1,064,244 (\$ 41,629) of which KShs.524,950 (\$ 20,534) were unsupported and KShs.539,294 (\$ 21,095) ineligible.

In our opinion, in view of the significance of the questioned costs referred to in the preceding paragraph, the Fund Accountability Statement does not present fairly, in conformity with the basis of accounting described in the fourth paragraph above, the revenues and expenses of the Private Enterprise Development Assistance to the Kenya National Chamber of Commerce and Industry, Project Agreement No. 615-0238 for the period April 15, 1988 to July 31, 1991.

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 Kenya National Chamber of Commerce and Industry, 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**

**June 3, 1994**

**THE PRIVATE ENTERPRISE DEVELOPMENT ASSISTANCE  
TO THE KENYA NATIONAL CHAMBER OF COMMERCE AND  
INDUSTRY UNDER USAID/KENYA  
FUND ACCOUNTABILITY STATEMENT  
FOR THE PERIOD APRIL 15, 1988 THROUGH JULY 31, 1991**

	US \$	KShs
<b>Revenue</b>	<u>312,950</u>	<u>8,000,563</u>
<b>Expenditures:</b>		
Salaries	12,680	324,154
Indirect costs	2,376	60,744
Consultancy services	119,415	3,052,845
Travel and Transport	7,225	184,716
Expendable items	23,166	592,246
Non expendable items	140,475	3,591,243
Operation expenses	5,008	128,034
Other costs	2,134	54,540
	<hr/>	<hr/>
<b>Total Expenditure</b>	312,479	7,988,522
	<hr/>	<hr/>
<b>Fund balance</b>	471	12,041
	=====	=====

**Notes to the Fund Accountability Statement**

**1. 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.

**2. Currency translation**

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

**3. Branch Assistance Costs**

Included under the expendable line item is an amount of \$10,231.57 (KShs.294,260) being cost of cabinets, desks, chairs, office space rental, post office boxes, personnel, telephone installations and other miscellaneous assistance to the branches of the Kenya National Chamber of Commerce and Industry (KNCCI).

**Notes to the Fund Accountability Statement (continued)**

**4. Costs Supported by Photocopies and USAID/Kenya Representations**

Expenditures amounting to KShs.6,704,832 (\$262,266) included under indirect costs, consultancy services and non expendable items were accepted on the basis of USAID/Kenya Representations and photocopies of supporting documentations (See appendix II).

**5. Fund Balance**

The Fund balance represents cash advanced by USAID in excess of actual expenditures for the month of July 1991. This amount could not be traced to a specific bank balance due to commingling of funds.

## 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 KShs.83,598 (\$ 3,270) and tested all disbursements whose value was equal to or greater than this amount. In addition, all disbursements under amendment No. 4 to the Grant Agreement were tested, thus achieving an overall coverage of 94.6% KShs.7,557,781 (\$295,630) of the total project expenditures for the period.

### 2.2.3 Audit Results

Of the disbursements tested, costs amounting to KShs.1,064,244 (\$ 41,629) were questioned. These costs can be analyzed as follows:-

	Claimed KShs.	Accepted KShs.	QUESTIONED Unsupported KShs.	Ineligible KShs.	Notes
Revenue	8,000,563 (\$ 312,950)	8,000,563 (\$ 312,950)	- -	- -	
<b>EXPENDITURE</b>					
Salaries	324,154	272,591	51,563	-	2.2.4a
Indirect costs	60,744	60,744	-	-	
Consultancy	3,052,845	3,052,845	-	-	
Travel and Transport	184,716	7,000	177,716	-	2.2.4b
Expendable Items	592,246	445,490	146,756	-	2.2.4c
Non expendable Items	3,591,243	3,051,949	-	539,294	2.2.4f
Operational expenses	128,034	20,401	107,633	-	2.2.4d
Other costs	<u>54,540</u>	<u>13,258</u>	<u>41,282</u>	<u>-</u>	2.2.4e
	7,988,522	6,924,278	524,950	539,294	
	=====	=====	=====	=====	
	\$312,479	\$270,850	\$20,534	\$21,095	
	=====	=====	=====	=====	

## 2.2.4 Unsupported Costs

### a. Finding: Unsupported Salaries Expenses

We noted the following unsupported salaries expenses:

Details	Amount KShs.
- Amount disbursed by USAID (based on budget)	324,154
- Actual Salaries per payroll	<u>272,591</u>
	51,563 (\$2,017)
	===

### Recommendation No. 1

We recommend that KNCCI provide supporting documentation for the unsupported expenses or refund the amount to USAID.

### USAID/Kenya Comments

USAID/Kenya concurs with the recommendation.

### b. Finding: Unsupported Travel and Transport Expenses.

Details	Amount KShs.	Remarks
Cheque No. 316974 - imprest given to Mr Itebete to travel to Kitui	1,000	Not supported.
PV/USAID/20/91 - Travelling imprest for F N Macharia, Torome, Kiongo, Ngatia and Driver	24,000	Not supported.
PV/USAID/23/91 - Expenses incurred by National Chairman while visiting branches	4,574	Not supported.
PV/USAID/24/91 - Travel expenses for Mr T Torome to Namanga	2,200	Not supported.
PV/USAID/28/91 - Travelling allowance for Mr Ruhui and Mr Muiruri to Mombasa	7,500	Not supported.
PV/USAID/51/91 - Imprest to L.W. Ngethe for the Eldoret FNF seminar	13,000	Not supported.
Cheque No. 3170783 - Amount to F. Kiongo	900	Not supported.
Other unsupported travel expenses	124,542	
(Balance of amount claimed from USAID that could not be allocated to specific transactions)	<u>177,716</u> (\$6,952)	
	===	

**Recommendation No. 2**

Our recommendation No. 1 applies to this finding.

**USAID/Kenya Comments**

USAID/Kenya concurs with the recommendation.

**c. Finding: Unsupported expendable items costs.**

Details	Amount KShs.	Remarks
Rent payment for space occupied by the South Nyanza branch PV/USAID/32/91	4,200	Not supported
Cheque No. 3170754 - KP&TC	1,555	Not supported.
KNCCI - Kisii branch Cheque No. 3170756	15,650	Not supported.
Other unsupported expenses (Balance of amount claimed from USAID that could not be allocated to specific transactions)	125,351 <u>146,756</u> =====	(\$ 5,740)

**Recommendation No. 3**

Our recommendation No. 1 applies to this finding.

**USAID/Kenya Comments**

USAID/Kenya concurs with the recommendation.

**d. Finding : Unsupported operation expenses**

Details	Amount KShs.	Remarks
Telephone connection charges for South Nyanza branch	1,711	Supported by a photocopy.
Cheque No. 3170786 - S K Murage	3,500	Not supported.
Other unsupported expenses (Balance of amount claimed from USAID that could not be allocated to specific transactions)	102,422 <u>107,633</u> =====	(\$ 4,210)

**Recommendation No. 4.**

Our recommendation No. 1 applies to this finding.

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**USAID/Kenya Comments**

USAID/Kenya concurs with the recommendations.

**e. Finding : Unsupported other costs**

<b>Details</b>	<b>Amount KShs.</b>	<b>Remarks</b>
L. Ngethe Cheque No. 316957	22,000	Not supported
PV/USAID/43/91	1,445	Not supported
S K Nginyo - Entertainment expenses for branch officials	1,200	Not supported
L Ngethe - PV/USAID/47/91 Amount required for Eldoret trip	1,600	Not supported.
Other unsupported expenses (Balance of amount claimed from USAID that could not be allocated to specific transactions)	15,037 <hr/> 41,282 (\$ 1,615) =====	

**Recommendation No. 5**

Our recommendation No. 1 applies to this finding.

**USAID/Kenya Comments**

USAID/Kenya concurs with the recommendation.

**f. Finding : Ineligible Non expendable items costs**

The ineligible amount relates to equipment stolen from the KNCCI's offices on September 9/10, 1989 as follows:

<b>Details</b>	<b>Amount KShs.</b>
1 copier Nashua - Model 7125	302,946
1 Tandy 3000 HL computer processor and printer - 80286/16 Bit data	236,348
	<hr/> 539,294 (\$21,095) =====

**Recommendation No. 6**

We recommend that USAID determine the allowability of these costs in light of the facts established from the investigations on the theft and considering that this is a loss of project funds.

**USAID/Kenya Comments**

The Mission will review the available documents and make a determination on the allowability of \$21,095.

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**THE PRIVATE ENTERPRISE DEVELOPMENT ASSISTANCE TO  
THE KENYA NATIONAL CHAMBER OF COMMERCE AND INDUSTRY  
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 Kenya National Chamber of Commerce and Industry Project Agreement No. 615-0238 for the period April 15, 1988 through July 31, 1991 and have issued our report thereon dated June 3, 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 Kenya National Chamber of Commerce and Industry 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 Kenya National Chamber of Commerce and Industry 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

**Accounting System**

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

**Control Procedures**

- reconciliation of KNCCI's records to those of USAID
- authorization of transactions and activities
- written procedures
- bank reconciliations

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. Lack of written financial and accounting procedures.
- b. Failure to retain copies of project expenditure documents.
- c. Lack of reconciliations between KNCCI and USAID financial records.
- d. Lack of segregation of duties in the accounts department.
- e. Lack of evidence of review and approval of bank reconciliations.

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 constitute material weaknesses in view of the fact that expenditures amounting to KShs.1,064,244 (\$ 41,629) were questioned.

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 National Chamber of Commerce and Industry, and the United States Agency for International Development but this is not intended to limit the distribution of the report if it is a matter of public record.



**BELLHOUSE MWANGI ERNST & YOUNG,  
NAIROBI**

**June 3, 1994**

### **3.2 Work Performed**

We reviewed the internal control structure of the Kenya National Chamber of Commerce and Industry 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.

#### **Accounting systems**

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

#### **Control procedures**

- reconciliation of KNCCI's records to those of USAID.
- authorization of transactions and activities
- written procedures
- bank reconciliations

### **3.3 Findings and Recommendations**

#### **3.3.1 Control Environment**

**a. Finding: Lack of segregation of duties in the accounts department.**

Most of the accounting functions were performed by the Chief Accountant which meant that errors would have gone undetected.

**Recommendation No. 7**

We recommend that the management of KNCCI strengthen the accounts department by employing more staff.

#### **USAID/Kenya Comments**

USAID/Kenya concurs with the recommendation.

#### **3.3.2 Accounting Systems**

The accounting systems in use at the KNCCI are still manual despite the USAID-financed installation of a computerized system in 1991. The following weaknesses were noted:

**a. Finding: Failure to retain copies of project expenditure documents**

The Management did not maintain complete accounting records of project expenditures settled either directly by USAID or by KNCCI to suppliers.

**Recommendation No. 8**

We recommend that the KNCCI obtain and retain copies of all documents supporting expenditures funded by USAID.

**USAID/Kenya Comments**

USAID/Kenya concurs with the recommendation.

**3.3.3 Control Procedures**

The main control over the project, evaluated to be effective, was the requirement by USAID, to approve every project activity through project implementation letters. The following weaknesses were however noted:

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

Financial information on the project as maintained by KNCCI is not reconciled to USAID records. Regular reconciliations would assist in the detection of errors in the two sets of record.

**Recommendation No. 9**

We recommend that in future the management of KNCCI obtains USAID paytrack records on the project and reconcile these to its own records.

**USAID/Kenya Comments**

USAID/Kenya concurs with the recommendation.

**b. Finding: Lack of written financial and accounting procedures**

The KNCCI does not have written financial and accounting procedures.

**Recommendation No. 10**

We recommend that KNCCI establish accounting and financial procedures and have these written as a permanent record for reference.

**c. Finding: Lack of evidence of review and approval of bank reconciliations**

Reconciliations were done for the USAID-designated bank account but there was no evidence of review and approval by a senior official.

**Recommendation No. 11**

We recommend that all bank reconciliations be reviewed regularly for correctness by an independent senior official of KNCCI.

**THE PRIVATE ENTERPRISE DEVELOPMENT ASSISTANCE TO  
THE KENYA NATIONAL CHAMBER OF COMMERCE AND INDUSTRY  
UNDER USAID/KENYA  
PROJECT NO. 615-0238**

**4. COMPLIANCE WITH 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 Kenya National Chamber of Commerce and Industry, Project Agreement No. 615-0238 for the period April 15, 1988 through July 31, 1991 and have issued our report thereon dated June 3, 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 Kenya National Chamber of Commerce and Industry. As part of our audit we performed tests of the Kenya National Chamber of Commerce and Industry'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.

Material instances of noncompliance are failures to follow requirements, or violations of agreement terms and referenced laws and regulations that cause us to conclude that the aggregation of misstatements resulting from those failures or violations is material to the Fund Accountability Statement. The results of our tests of compliance disclosed the following material instances of noncompliance:

- o failure to maintain a separate bank account for the proper receipt, processing and disbursement of funds provided under the agreement as required by mandatory standard provisions for non-U.S., non-Governmental grantees. As a result, we were unable to reconcile the unexpended fund balance of KShs.12,041 (\$471) to a particular bank account balance; and
- o failure to maintain adequate records to show the receipt and use of goods and services acquired under the grant as required by the project grant standard provisions resulting in unsupported costs amounting to KShs.524,950 (\$20,534).

We considered these material instances of noncompliance in forming our opinion on whether KNCCI's Fund Accountability Statement is presented fairly, in all material respects, in conformity with the basis of accounting described in Note 1 to the Fund Accountability Statement, and this report does not affect our report on the Fund Accountability Statement dated June 3, 1994.

We also noted certain immaterial instances of noncompliance that we have reported in the accompanying section of findings and recommendations.

Except as described above, the results of our tests of compliance indicate that, with respect to the items tested, KNCCI 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 (KNCCI) 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 Kenya National Chamber of Commerce and Industry, and the United States Agency for International Development, but this is not intended to limit the distribution of the report if it is a matter of public record.



**BELLHOUSE MWANGI ERNST & YOUNG,  
NAIROBI**

**June 3, 1994**

## 4.2 Work Performed

Our audit of the Private Enterprise Development Assistance to the Kenya National Chamber of Commerce and Industry included obtaining assurances that the KNCCI complied with grant provisions and US Government regulations. Procedures performed to test such compliance included the following:

- i. A review of the 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. Detailed testing to confirm the KNCCI'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: Commingling of funds

Contrary to mandatory standard provisions for non-U.S., non-Governmental grantees, KNCCI did not maintain a separate bank account in respect of the grant. As a result, it was not possible to reconcile the unexpended fund balance of KShs.12,041 (\$471) to a particular bank account balance.

### b. Finding: Missing documents

Contrary to the requirements of "Accounting, Audit and Records" Section of mandatory standard provisions for non-U.S., non-Government grantees, KNCCI did not maintain adequate records to show the receipt and use of goods and services acquired under the agreement. Documents to support payments totalling KShs. 524,950 (\$20,534) could not be located during the audit. These costs are shown as unsupported in the Fund Accountability Statement.

### c. Finding: Failure to submit yearly audit reports to USAID

Copies of all audited accounts for KNCCI completed in the normal course of operations were not submitted to USAID as required by the Grant Agreement.

### d. Finding: Failure to establish an inventory control system for non expendable equipment and property

We noted that KNCCI did not have an asset register, or vehicle usage policy as stipulated in the Grant Agreement for easier control of the assets.

### e. Finding: Financial reporting to USAID

As stipulated in the Grant Agreement, amendment No. 4, the KNCCI was required to submit quarterly financial reports to USAID. Such reports were not being submitted on time especially during the last quarter when the report was late by ten months.

### Recommendation No. 12

As a result of the expiration of the project, we make no recommendations on the above findings.



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

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July 11, 1994

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

Attention: Mr. C.A. Otolo

Subject: Response to KNCCI Draft Audit Report

Dear Sir:

Thank you for the draft audit report of the Kenya National Chamber of Commerce and Industry (KNCCI) which was received in our office on June 16, 1994. USAID/Kenya has the following comments on the various recommendations.

Recommendations Nos. 1 to 5

USAID/Kenya concurs with the recommendations one (1) through five (5) requiring KNCCI to provide supporting documentation to unsupported costs amounting to \$20,729 or refund the same to USAID/Kenya.

Recommendation No. 6

USAID/Kenya will review the available documents and make a determination on the allowability of \$21,095 which is the value of equipment stolen from the KNCCI office on the night of September 9/10, 1989.

Recommendation Nos. 7 to 9

The Mission concurs.

Finally we have noted numerical error on page 7 paragraph 2.2.3 Audit Results. According to the analysis given, the total of the unsupported cost is \$20,729 and not \$207,729. Please correct the error in the final report.

USAID/Kenya awaits your final audit report.

Yours sincerely,

A handwritten signature in cursive script, appearing to read "Roger Simmons".

Roger Simmons  
Acting Director  
USAID/Kenya

REGIONAL INSPECTOR GENERAL FOR AUDIT  
NAIROBI, KENYA

APPENDIX II



P.O. BOX 30261  
NAIROBI, KENYA  
TELEPHONE : 254-2-211436  
FACSIMILE : 254-2-213551

*F.C.*  

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*Low*

USAID/RIG/A  
UNIT 64102  
APO AE 09831

TO :	Bellhouse Mwangi Ernst & Young, Otolo	NUMBER : 716271
THRU :		Date : Apr 13, 1994
FROM :	RIG/A/Nairobi, <i>John J. Burns</i> John J. Burns	PAGES : 1
SUBJECT :	Agency-contracted Audit of Kenya National Chamber of Commerce and Industry (KNCCI)	

REFERENCE :

MESSAGE :

The Mission has advised us that grant funds under the original and the first three amendments to cooperative agreement were directly disbursed by USAID/Kenya to suppliers of commodities and services. Direct disbursements were made after KNCCI submitted original documentation (invoices, receipts etc) requesting USAID/Kenya to make payments. Copies of the supporting documents are in the Mission files. The original documents were remitted by the Mission to USAID/W for storage and will therefore not be available for audit. Mission cannot retrieve these documents.

Mission has therefore requested that for the original grant agreement and amendments one, two and three, you audit to photocopies. The photocopies should be provided by either the KNCCI or the Mission.

We have got no problem with this request. However you should disclose in the audit report that for the original grant and amendments 1 - 3 you relied on copies of original supporting documents. You should not classify the costs supported by copies as unsupported as is the normal practice. Please note that for any other amendments after amendment No. 3 you should question any costs supported by photocopies.

Should you have questions contact me or Sam Kariuki of our office. Regards.

*Scope limitation*

APPENDIX II

**COSTS SUPPORTED BY PHOTOCOPIES AND  
USAID/KENYA REPRESENTATIONS**

	US\$	KShs
Indirect costs	2,376	60,744
Consultancy services	119,415	3,052,845
Non expendable items	<u>140,475</u>	<u>3,591,243</u>
	262,266	6,704,832
	====	=====

These were the amounts disbursed directly by USAID to suppliers of commodities and services on receipt of supporting documentation from KNCCI under the original and first three amendments of the Grant.

The original documents were remitted by USAID Kenya to USAID/Washington for storage.

## ATTACHMENT II

### *Report Distribution*

U.S. Ambassador to Kenya	1
Director, USAID/Kenya	5
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**ATTACHMENT III**  
*Major Contributors to this Report*

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

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

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