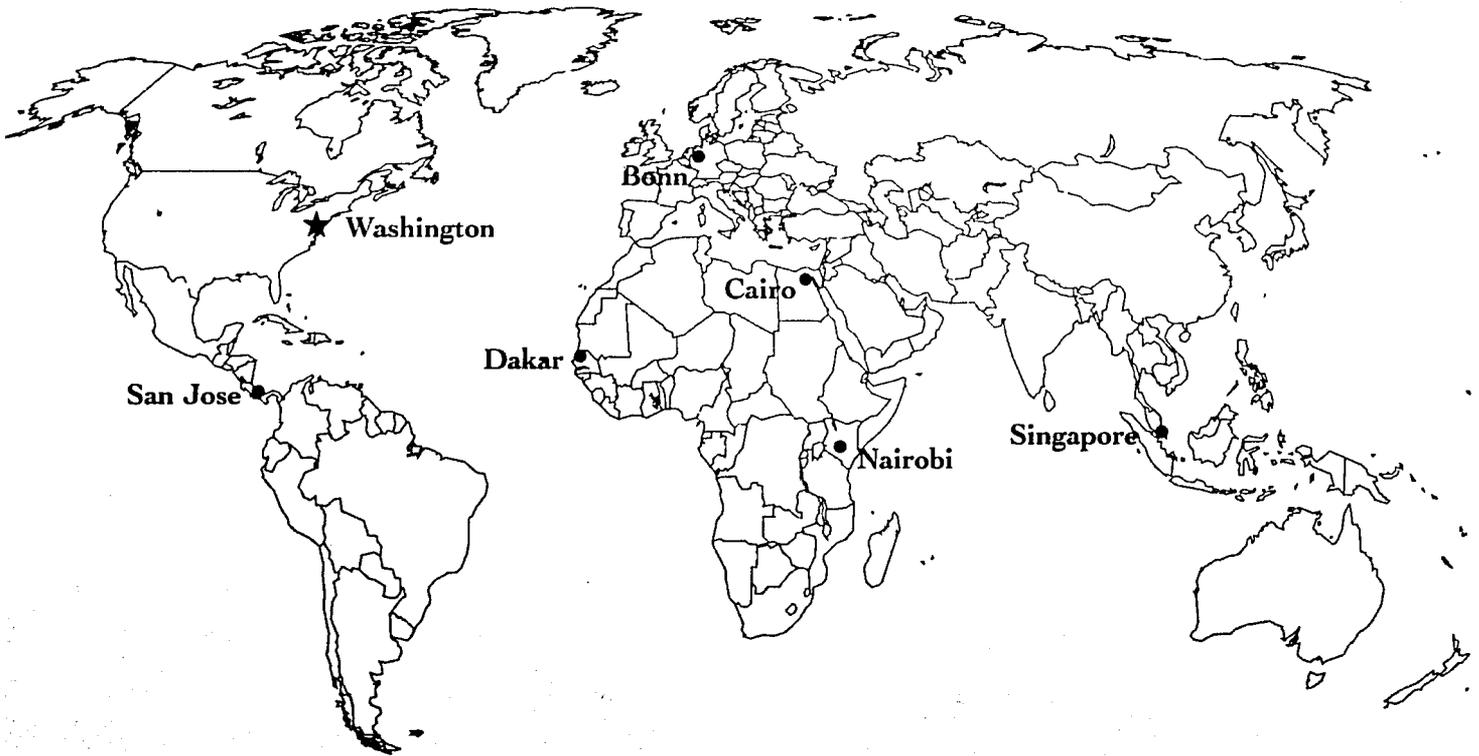


Regional Inspector General for Audit
Nairobi, Kenya

Audit of Grant
to the National Agricultural Research
Project No. 615-0229

Report No. 3-615-96-003-N
January 19, 1996



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.

INSPECTOR
GENERAL



January 19, 1996

U.S. AGENCY FOR
INTERNATIONAL
DEVELOPMENT

Memorandum

TO: Director, USAID/KENYA, George Jones

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

SUBJECT: Agency-contracted Audit of Grant to the National Agricultural Research Project No. 615-0229. Audit Report No. 3-615-96-003-N

*Regional
Inspector General
for Audit/Nairobi*

Attached are three copies of an Agency-contracted audit of the National Agricultural Research Project performed by the accounting firm of Ernst & Young, Nairobi, Kenya.

The grant agreement for the National Agricultural Research Project (NARP) was signed on August 29, 1986 with a scheduled completion date of September 30, 1987. The project is part of a multi-donor effort to assist the Government of Kenya to implement the reorganization of its agricultural research system. The purpose of NARP was to develop a well-managed national agricultural research system providing the agricultural sector with appropriate technologies to increase productivity on a continuing basis. The Kenya Agricultural Research Institute (KARI) is responsible for the implementation of the project. The University of Missouri, through the Mid-American Agricultural Consortium (MIAC) is responsible to KARI for technical, managerial, training and procurement requirements of the project.

An important focus of NARP is the Agricultural Research Fund (ARF). The ARF represents funds disbursed to private or university researchers to conduct research needed to supplement KARI programs or to fund innovative problem-oriented research. For the period January 1, 1993 to December 31, 1994 KARI received from USAID \$380,528 for research purposes. In addition, for the period July 1, 1992 through March 31, 1995, KARI received Ksh. 60 million (\$1 million) in USAID-generated counterpart funds for research planning and management, commodity research and human resource development.

The objectives of the audit were to:

- audit the Fund Accountability Statements and express an opinion as to whether the Statements presents fairly, in all material respects and in conformity with the basis of accounting described in the report, the use of funds in accordance with the grant agreement;
- consider the auditee's internal control structure in order to determine the auditing procedures for the purposes of expressing an opinion on the Fund Accountability Statement and to report on significant internal control deficiencies and material weaknesses; and
- test the auditee's compliance with the terms of the grant agreement as part of obtaining reasonable assurance about whether the Fund Accountability Statement is free of material misstatement, and report on any identified material instances of noncompliance; and
- validate the existence and utilization of commodities procured under the project and ensure that they are recorded in KARI's records.

The audit covered expenditures of the ARF from January 1, 1993 through December 31, 1994 and KARI's expenditure of counterpart funds from July 1, 1992 to December 31, 1994.

The auditors issued qualified opinions on the Fund Accountability Statements. In regard to the ARF the auditors identified questioned unsupported costs of Ksh. 14,123 (\$235) and ineligible costs of Ksh. 27,424 (\$457). For the counterpart fund, the auditors identified unsupported costs of Ksh. 880,691 (\$14,678). Further, the auditors stated that USAID records indicated Ksh. 61.5 million (\$1.025 million) was disbursed to KARI through the Ministry of Finance from the special accounts. However, only Ksh 60 million (\$1 million) was received by KARI. The auditors were unable to establish what happened to Ksh. 1.5 million (\$25,000).

The auditors identified no material internal control weaknesses nor material instances of noncompliance. As regards validation over the existence and recording of commodities, the auditors reported that they physically validated the existence of fixed assets totalling \$479,447 and traced the items to the fixed assets register kept by KARI. The auditors found that commodities which cost at least \$4,225 were missing from the research centres. In addition, commodities which cost \$39,150 were not being utilized because they were incomplete, incompatible or damaged. Finally, commodities at various centres which cost \$105,529 could not be traced to the fixed assets register.

The draft report was submitted to KARI and USAID/Kenya for comments. Their comments were taken into consideration when preparing the final report and are also incorporated in the final report as Appendix I and Appendix II respectively. Auditee comments included additional information regarding the questioned costs. Mission's comments generally concurred with the audit findings and recommendations.

The report contains 12 recommendations concerning questioned costs, internal controls compliance and commodities. It is the responsibility of USAID/Kenya to ensure appropriate action is taken on all recommendations. We are, however, 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 Agricultural Research Institute, questioned unsupported costs of Ksh. 14,123 (\$235).

Recommendation No. 2: We recommend that, USAID/Kenya determine the allowability, and recover as appropriate from the Kenya Agricultural Research Institute, questioned ineligible costs of Ksh. 27,424 (\$457).

Recommendation No. 3: We recommend that, USAID/Kenya determine the allowability, and recover as appropriate from the Kenya Agricultural Research Institute, questioned unsupported costs of Ksh. 880,691(\$14,678).

Recommendation No. 4: We recommend that, USAID/Kenya require the Government of Kenya to deposit into the special accounts Ksh. 1.5 million (\$25,000) which was withdrawn from the special accounts for Kenya Agricultural Research Institute but was not received by the beneficiary.

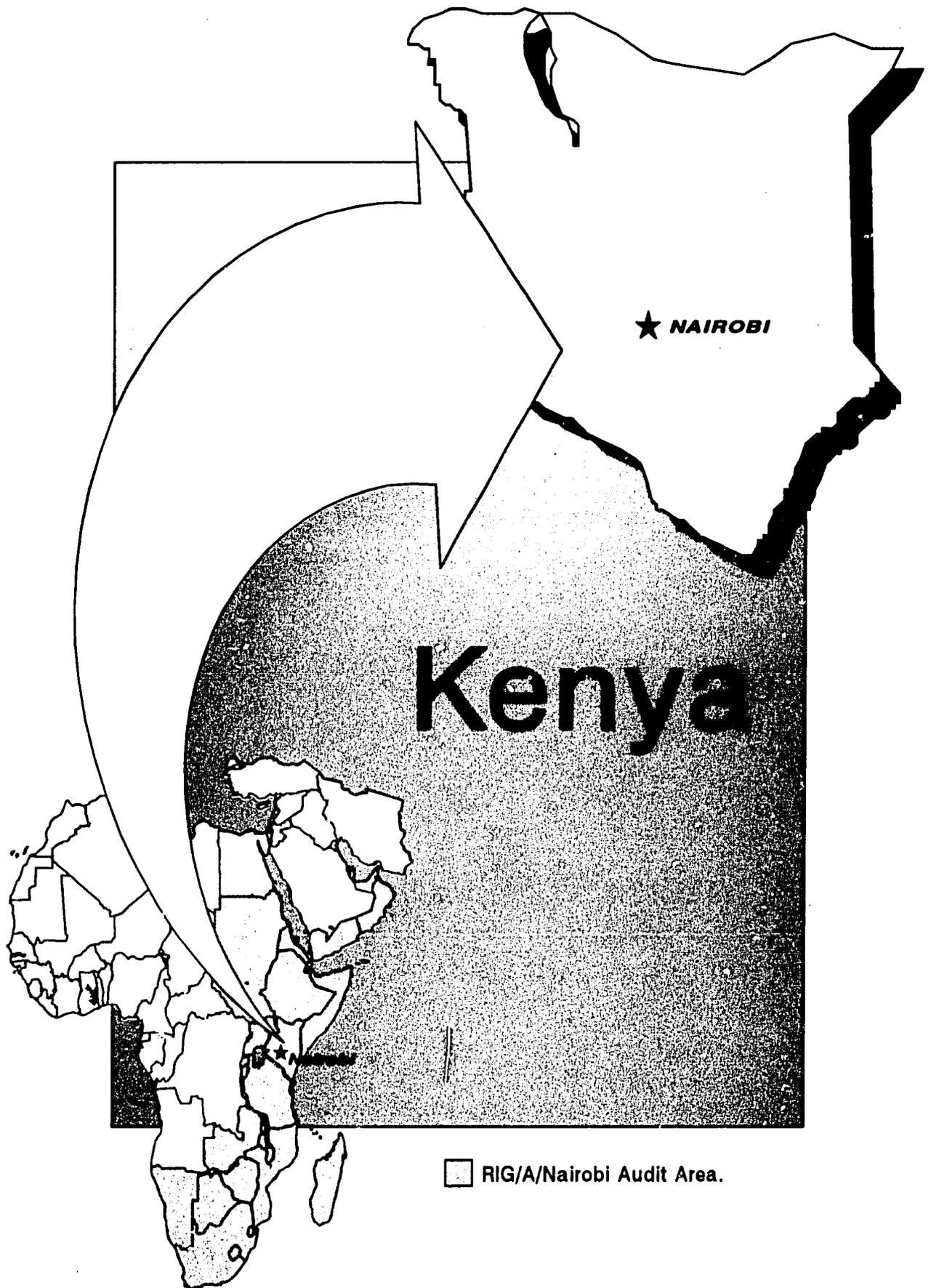
Recommendation No. 5: We recommend that, USAID/Kenya obtain a plan of action from the Kenya Agricultural Research Institute for ensuring that commodities exist, are useful, and accounted for in the fixed assets register.

We consider all recommendations to be unresolved. Recommendations 1, 2, and 3 may be resolved when the Mission makes a final determination concerning the allowability of the questioned amounts. The recommendations may be closed when the Mission takes action appropriate to the determinations. Recommendation No. 4 may be resolved when the Mission requests the Government to make deposits to the special accounts and may be

closed when the deposits are made into the special accounts. Recommendation No. 5 may be resolved when the Mission requests a plan from KARI for corrective action and may be closed when the plan is in place. Please advise me of actions planned or taken to resolve and close the audit 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 NATIONAL AGRICULTURAL RESEARCH
PROJECT NO. 615-0229**

ATTACHMENTS

**FINAL REPORT ON THE AGENCY
CONTRACTED AUDIT OF GRANT
TO THE NATIONAL AGRICULTURAL RESEARCH
PROJECT UNDER USAID/KENYA
PROJECT NO.615-0229**

7'

**AGENCY-CONTRACTED AUDIT OF GRANT TO THE
NATIONAL AGRICULTURAL RESEARCH PROJECT
UNDER USAID/KENYA PROJECT NO. 615-0229**

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**AGENCY-CONTRACTED AUDIT OF GRANT TO THE
NATIONAL AGRICULTURAL RESEARCH PROJECT
UNDER USAID/KENYA PROJECT NO. 615-0229**

GLOSSARY OF TERMS

| | | |
|--------|---|--|
| ARF | : | AGRICULTURAL RESEARCH FUND |
| CPF | : | COUNTERPART FUND |
| KARI | : | KENYA AGRICULTURAL RESEARCH INSTITUTE |
| USAID | : | UNITED STATES AGENCY FOR INTERNATIONAL DEVELOPMENT |
| MIAC | : | MID-AMERICAN AGRICULTURAL CONSORTIUM |
| NARP | : | NATIONAL AGRICULTURAL RESEARCH PROJECT |
| US | : | UNITED STATES |
| \$ | : | US DOLLARS |
| KSHS | : | KENYA SHILLINGS |
| PV NO. | : | PAYMENT VOUCHER NUMBER |
| GoK | : | GOVERNMENT OF KENYA |

**AGENCY-CONTRACTED AUDIT OF GRANT TO THE
NATIONAL AGRICULTURAL RESEARCH PROJECT
UNDER USAID/KENYA PROJECT NO. 615-0229**

1 INTRODUCTION

1.1 Background

The National Agricultural Research Project (NARP) is part of a multi-donor effort to assist the Government of Kenya to re-organize its agricultural research system.

NARP agreement was signed on August 29, 1986 and has been amended to end on September 30, 1997.

An important focus of NARP is the Agricultural Research Fund (ARF). ARF represents funds disbursed to private or university researchers to conduct research needed to supplement KARI programs or alternatively to fund innovative problem-oriented research. As at December 31, 1994 ARF had received from USAID a grant of \$545,050 for research purposes.

KARI has also received KShs.60 million (\$1.0 million) in USAID-generated counterpart funds for research planning and management, commodity research and human resource development.

The agency responsible for the implementation of the project is the Kenya Agricultural Research Institute (KARI).

The University of Missouri, through the Mid-American Agricultural Consortium (MIAC) is responsible to KARI for technical, managerial, training and procurement requirements of the project.

1.2 Audit Objectives and Scope

1.2.1 Objectives

Ernst & Young were appointed under contract No. 623-0510-1-00-4118-00 to perform a non-federal audit of NARP's Agricultural Research Fund and Counterpart Fund.

The objectives of this engagement were to:

- i. audit the Fund Accountability Statements and express an opinion as to whether the statements present fairly, in all material respects and in conformity with the basis of accounting described in the reports and the use of funds in accordance with the grant agreement;

**AGENCY-CONTRACTED AUDIT OF GRANT TO THE
NATIONAL AGRICULTURAL RESEARCH PROJECT
UNDER USAID/KENYA PROJECT NO. 615-0229**

- ii. consider the Agricultural Research Fund's internal control structure in order to determine the auditing procedures for the purpose of expressing an opinion on the Fund Accountability Statement and to report on significant internal control deficiencies and material weaknesses;
- iii. test the auditee's compliance with the terms of the grant agreement, as part of obtaining reasonable assurance whether the Fund Accountability Statement is free of material misstatement, and report on any identified material instances of non-compliance and;
- iv. validate existence and utilization of commodities procured under the project and ensure that they are recorded in KARI's records.

1.2.2 Scope

Our audit scope was limited to:

- i. expenditure of the Agricultural Research Fund (direct USAID funding) from January 1, 1993 through December 31, 1994.
- ii. KARI's expenditure of Counterpart funds from July 1, 1992 through March 31, 1995.
- ii. determining recording, existence and utilization of commodities purchased by MIAC with project funds for KARI.

1.3 Summary of Audit Results

1.3.1 Fund Accountability Statements

a) Counterpart Fund

Out of the total funds of KShs.60,000,000 (\$1,000,000) received from USAID, disbursements from the fund were KShs.55,362,256 (\$922,704). KShs.880,691 (\$14,678) were considered unsupported.

b) Agricultural Research Fund

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

- i. Direct disbursements for expenditure incurred by ARF for its day to day operations.

**AGENCY-CONTRACTED AUDIT OF GRANT TO THE
NATIONAL AGRICULTURAL RESEARCH PROJECT
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- ii. Disbursements by ARF to institutions for their subsequent expenditures on research.

Out of the total funds of KShs.22,831,708 (US\$380,528) received from USAID, disbursements by ARF were KShs.18,387,487 (\$306,458). KShs.14,123 (\$235) were considered unsupported and KShs.27,424 (\$457) ineligible.

1.3.2. Internal Control Structure

The internal control structure of ARF incorporates outside institutions who control disbursements of research grants to their scientists.

Three of the institutions could not provide adequate documentation, within a reasonable time frame, to support expenditure from the fund.

The books of account, kept by ARF were considered adequate. Financial statements were prepared regularly and submitted to USAID upon request. However, some basic internal controls were not in operation.

1.3.3 Compliance with grant agreement and related provisions

The Management of Agricultural Research Fund complied with laws, regulations, procedures and policies applicable to the program funds.

1.3.4 Commodities audit

KARI lacks an adequate system for accounting for and safeguarding commodities procured by MIAC.

Some commodities were missing from designated research centres, others are unutilized and incomplete.

KARI assets register is not complete. Some commodities existing at research centres and KARI headquarters have not been included in the fixed assets register.

1.4 Management comments

KARI management has agreed with all of our findings and recommendations.

1.5 Mission comments

The Mission concurs with the findings and recommendations of this audit.

2. FUND ACCOUNTABILITY STATEMENT

COUNTERPART FUND

2.1 Independent Auditors' Report

We have audited the Fund Accountability Statement of the Counterpart Fund of the National Agricultural Research Project for the period July 1, 1992 through March 31, 1995. This statement is the responsibility of the Management of the National Agricultural Research Project. 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 (1994 revision) issued by the Comptroller General of the United States of America. These standards required that we plan and perform the audit to obtain reasonable assurance about whether the Fund Accountability Statement is free of material misstatement. An audit includes examining on a test basis, evidence supporting the amounts and disclosures in the statement.

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

As discussed in Note 2.3.1 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 U.S. General Accepted Accounting Principles.

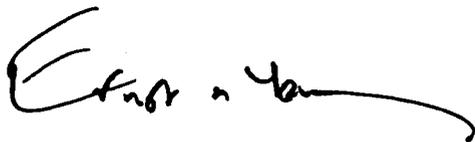
Our audit disclosed questioned costs amounting to KShs.880,691 (\$14,678) which were unsupported. This represents approximately 1.5% of the total expenditure, per the Fund Accountability Statement.

Due to the commingling of funds between different donors, we were unable to reconcile the unexpended fund balance of KShs.1,867,429 (\$31,124) as at March 31, 1995, to the corresponding cash balance.

In our opinion, except for the matters referred to above, the Fund Accountability Statement presents fairly, in conformity with the basis of accounting described in the fourth paragraph above, the financial position of the Counterpart Fund of the National Agricultural Research Project at March 31, 1995 and the results of its operation and its fund balances for the period then ended.

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

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



**ERNST & YOUNG
NAIROBI**

November 17, 1995

**AGENCY-CONTRACTED AUDIT OF GRANT TO THE
NATIONAL AGRICULTURAL RESEARCH PROJECT
UNDER USAID/KENYA PROJECT NO. 615-0229**

**NATIONAL AGRICULTURAL RESEARCH PROJECT
COUNTERPART FUND**

**2.2 FUND ACCOUNTABILITY STATEMENT FOR
THE PERIOD JULY 1, 1992 THROUGH MARCH 31, 1995**

| | Notes | KShs | US \$ |
|---------------------------------|-------|-------------------|------------------|
| Revenue: | | | |
| Grants from USAID | | <u>60,000,000</u> | <u>1,000,000</u> |
| Expenditure: | | | |
| Operations | | 45,518,805 | 758,647 |
| Horticulture Program | | 1,226,363 | 20,439 |
| Sorghum and Millet Program | | 1,849,956 | 30,833 |
| National Maize Program | | 5,507,261 | 91,788 |
| National Coordination | | 535,762 | 8,929 |
| Maize Streak Program | | 242,130 | 4,035 |
| Small Ruminant Program | | 481,979 | 8,033 |
| | | <u>55,362,256</u> | <u>922,704</u> |
| Fund balance | | <u>4,637,744</u> | <u>77,296</u> |
| Represented by: | | | |
| Advance to MIAC Socio-Economics | | 2,770,315 | 46,172 |
| Cash at Bank | 2.3.3 | <u>1,867,429</u> | <u>31,124</u> |
| | | <u>4,637,744</u> | <u>77,296</u> |

**AGENCY - CONTRACTED AUDIT OF GRANT
TO THE NATIONAL AGRICULTURAL RESEARCH PROJECT
UNDER USAID/KENYA PROJECT NO.615-0229**

2.3 NOTES TO THE FUND ACCOUNTABILITY STATEMENT

2.3.1 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 US Generally Accepted Accounting Principles.

2.3.2 Currency Translation

United States dollar amounts are expressed at US\$ 1 = KShs.60, the average exchange rate for the period.

2.3.3 Bank Account

The bank balance in KARI's multi-donor account as at March 31, 1995 was KShs.8,485,272 (\$141,421).

**AGENCY - CONTRACTED AUDIT OF GRANT
TO THE NATIONAL AGRICULTURAL RESEARCH PROJECT
UNDER USAID/KENYA PROJECT NO.615-0229**

2.4 AUDIT RESULTS

2.4.1 Sample Selection

For expenditure incurred under the project, we established a key item value of KShs.10,000 (US\$ 167) and tested all expenditure whose value was equal to or greater than this amount. This provided a 97% coverage of total disbursements.

2.4.2 ANALYSIS OF EXPENDITURE

| | Amount Recommended to be | | | Reference Notes |
|------------------------|--------------------------|-------------------|---------------------|--------------------|
| | Claimed KShs | Accepted KShs | Unsupported KShs | |
| Operations | 45,518,805 | 44,638,114 | 880,691 | 2.5.2 |
| Horticulture | 1,226,363 | 1,226,363 | | |
| Sorghum and millet | 1,849,956 | 1,849,956 | | |
| National Maize Program | 5,507,261 | 5,507,261 | | |
| National Coordination | 535,762 | 535,762 | | |
| Maize Streak Program | 242,130 | 242,130 | | |
| Small Ruminant Program | <u>481,979</u> | <u>481,979</u> | <u> </u> | |
| | <u>55,362,256</u> | <u>54,481,565</u> | <u>880,691</u> | |
| | <u>\$922,704</u> | <u>\$908,026</u> | <u>\$14,678</u> | |

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**AGENCY - CONTRACTED AUDIT OF GRANT
TO THE NATIONAL AGRICULTURAL RESEARCH PROJECT
UNDER USAID/KENYA PROJECT NO.615-0229**

2.5 FINDINGS AND RECOMMENDATIONS

2.5.1 Finding on Grant revenue received from USAID

According to the disbursements report provided by USAID, KShs.61,500,000 (\$1,025,000) was disbursed to KARI through the Ministry of Finance in the period July 1992 to June 1994. KARI's records indicate that only KShs.60,000,000 (\$1,000,000) was received in the period under review. We have not been able to establish what happened to KShs.1,500,000 (\$25,000) disbursed from the special accounts.

Recommendation No.1

KARI management and USAID should liaise with the Ministry of Finance to reconcile the KShs.1,500,000 (\$25,000) difference.

Auditee comments

The KARI Management has already written to the Ministry of Research Technical Training and Technology to establish the correct amount which was to be disbursed to KARI. The balance of KShs.1,500,000.00 due to KARI will be determined once Treasury respond to our letter.

USAID comment

Mission requested the auditors to confirm directly with Treasury the amount disbursed to KARI from Treasury. If the discrepancy still exists, we will review and make a determination.

Auditee comment

The Treasury have not responded to our letter of September 15, 1995 and subsequent reminders.

2.5.2 Finding on unsupported operations expenditure

Operations expenditure includes the following unsupported expenses:

| PV No | Description/Payee | Amount KShs | Remarks |
|--------------|----------------------------------|--------------------|----------------|
| 011446 | Kenya Posts & Telecommunications | 32,429.45 | Unsupported |
| 60386 | J K Rutto - Travel | 23,980.00 | Unsupported |
| 001077 | J P Mwaura - subsistence | 15,404.55 | Unsupported |
| 008466 | Allowances | 58,500.00 | Unsupported |
| 006062 | KPTC | 25,000.00 | Unsupported |

**AGENCY - CONTRACTED AUDIT OF GRANT
TO THE NATIONAL AGRICULTURAL RESEARCH PROJECT
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| PV No | Description/Payee | Amount KShs | Remarks |
|--------------|--------------------------|--------------------------|--------------------------|
| 003290 | H C Kinyanjui | 14,619.00 | Unsupported |
| 013653 | Zakuna Printers | 148,600.00 | Unsupported |
| 05694 | M/s McIntyre Associates | 50,000.00 | Supported by photocopies |
| 1336 | K P T C | 26,418.15 | Unsupported |
| 1325 | " | 53,962.10 | " |
| 1319 | " | 107,282.50 | " |
| 1320 | " | 42,973.00 | " |
| 1324 | K P T C | 16,173.40 | " |
| 11737 | Matunda services | 14,000.00 | Unsupported |
| 15688 | Printing Innovation | 75,000.00 | Supported by photocopies |
| 2753 | Albert Muturi | 12,800.00 | " |
| 1322 | K P T C | 35,032.45 | Unsupported |
| 1335 | " | 18,350.05 | " |
| 8443 | Travel | 21,850.00 | Supported by photocopies |
| 001334 | K P T C | 21,201.50 | Unsupported |
| 010594 | Indent Ltd | <u>67,115.00</u> | Supported by photocopies |
| | | <u>880,691.15</u> | |

Recommendation No. 2

We recommend that KARI management obtain acceptable documents supporting KShs.880,691.15 (\$14,678) of operations expenditure.

Auditee's comment

We have obtained the supporting documents for KShs.10,729,719.70, the balance of KShs.880,691.15 is supported with photocopies of the payment vouchers. The Management confirms once more that the payment were duly authorized and paid on behalf of the project.

USAID's comment

Mission concurs.

Auditors comments

Out of KShs.880,691.15 questioned above, KShs.213,965 was supported by photocopies. KShs.666,726.15 are unsupported.

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**3. FUND ACCOUNTABILITY STATEMENT
AGRICULTURAL RESEARCH FUND**

3.1 Independent Auditors' Report

We have audited the Fund Accountability Statement of the Agricultural Research Fund for the period January 1, 1993 through December 31, 1994. This statement is the responsibility of the Agricultural Research Fund. Our responsibility is to express an opinion on this statement based on our audit.

We conducted our audit in accordance with generally accepted auditing standards and government auditing standards (1994 revision) issued by the Comptroller General of the United States of America. These standards required that we plan and perform the audit to obtain reasonable assurance about whether the Fund Accountability Statement is free of material misstatement. An audit includes examining on a test basis, evidence supporting the amounts and disclosures in the statement.

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

As discussed in Note 3.3.1 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.

Our audit disclosed questioned costs amounting to KShs.14,123 (\$235) which were unsupported and KShs.27,424 (\$457) which were ineligible. This represents approximately 0.2% of the total expenditure, per the Fund Accountability Statement.

Due to commingling of funds between different donors, we were unable to reconcile the unexpended fund balance of KShs.4,444,221 (\$74,070) as at December 31, 1994, to corresponding cash balance.

In our opinion, except for the matters referred to above, the Fund Accountability Statement presents fairly, in conformity with the basis of accounting described in the fourth paragraph above, the financial position of the Agricultural Research Fund at December 31, 1994 and the results of its operation and its fund balances for the period then ended.

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

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



**ERNST & YOUNG
NAIROBI**

November 17, 1995

AGENCY-CONTRACTED AUDIT OF GRANT TO THE
 NATIONAL AGRICULTURAL RESEARCH PROJECT
 UNDER USAID/KENYA PROJECT NO. 615-0229

3.2 FUND ACCOUNTABILITY STATEMENT

FOR THE PERIOD JANUARY 1, 1993 THROUGH DECEMBER 31, 1994

| | Notes | KShs | US \$ |
|--------------------------|-------|-------------------|----------------|
| Revenue | 3.3.2 | <u>22,831,708</u> | <u>380,528</u> |
| Expenditure: | | | |
| Subsistence | | 234,334 | 3,906 |
| Transport | | 394,091 | 6,568 |
| Honoraria | | 408,778 | 6,813 |
| Expendable supplies | | 123,509 | 2,059 |
| Postage | | 2,608 | 44 |
| Publicity | | 28,320 | 472 |
| Seminars | | 469,516 | 7,825 |
| Maintenance of equipment | | 35,480 | 591 |
| Miscellaneous | | 150,629 | 2,510 |
| Research Grants | | 11,540,222 | 192,337 |
| Advance | 3.3.4 | <u>5,000,000</u> | <u>83,333</u> |
| | | <u>18,387,487</u> | <u>306,458</u> |
| Fund balance | 3.3.5 | <u>4,444,221</u> | <u>74,070</u> |

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**AGENCY-CONTRACTED AUDIT OF GRANT TO THE
NATIONAL AGRICULTURAL RESEARCH PROJECT
UNDER USAID/KENYA PROJECT NO. 615-0229**

3.3 NOTES TO THE FUND ACCOUNTABILITY STATEMENT

3.3.1 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 US Generally Accepted Accounting Principles.

3.3.2 Revenue

Revenue Represents:

- a. Fund balance brought forward as at January 1, 1993 of KShs.540,388 (\$9,006).
- b. Advances and reimbursable received from USAID in period from January 1, 1993 through December 31, 1994.

3.3.3 Currency Translation

United States dollar amounts are expressed at the rate of US\$ 1 = KShs.60, the average of the actual rates used on the amounts received over the period.

3.3.4 Advance

ARF advanced KARI KShs.5,000,000 (\$83,333) of research funds in August 1994. This advance was refunded in July 1995.

3.3.5 Fund Balance

Fund Balance is represented by cash at bank, however we could not isolate USAID funds as the funds are commingled with other donors.

**AGENCY-CONTRACTED AUDIT OF GRANT TO THE
NATIONAL AGRICULTURAL RESEARCH PROJECT
UNDER USAID/KENYA PROJECT NO. 615-0229**

3.4 AUDIT RESULTS

3.4.1 Sample Selection

We examined all revenue received from USAID and direct disbursements by Agricultural Research Fund as well as disbursements of research grants made to four institutions.

This provided a 72% coverage of total disbursements.

3.4.2 ANALYSIS OF EXPENDITURE

| | Amount Recommended to be | | | | Reference Notes |
|---------------------|--------------------------|-------------------|--------------------|---------------------|--------------------|
| | Claimed KShs | Accepted KShs | Ineligible KShs | Unsupported KShs | |
| Subsistence | 234,334 | 234,334 | | | |
| Transport | 394,091 | 394,091 | | | |
| Honoraria | 408,778 | 408,778 | | | |
| Expendable Supplies | 123,509 | 123,509 | | | |
| Postage | 2,608 | 2,608 | | | |
| Publicity | 28,320 | 28,320 | | | |
| Seminars | 469,516 | 469,516 | | | |
| Maintenance of | | | | | |
| Equipment | 35,480 | 35,480 | | | |
| Miscellaneous | 150,629 | 128,205 | 22,424 | | 3.5.1 |
| Research Grants | 11,540,222 | 11,521,099 | 5,000 | 14,123 | 3.5.2,3 |
| Advance | <u>5,000,000</u> | <u>5,000,000</u> | — | — | |
| | <u>18,387,487</u> | <u>18,345,940</u> | <u>27,424</u> | <u>14,123</u> | |
| | <u>\$ 306,458</u> | <u>\$ 305,766</u> | <u>\$ 457</u> | <u>\$ 235</u> | |

**AGENCY-CONTRACTED AUDIT OF GRANT TO THE
NATIONAL AGRICULTURAL RESEARCH PROJECT
UNDER USAID/KENYA PROJECT NO. 615-0229**

3.5 FINDINGS AND RECOMMENDATIONS

3.5.1 Finding on ineligible miscellaneous expenses

Miscellaneous expenditure includes the following ineligible item:

| Date | Description | Amount KShs | Remark |
|-------------|-----------------------|------------------------|--|
| 31.8.94 | Interest on overdraft | <u>22,424</u> | ARF advanced KShs.500,000 of research funds to KARI. The advance resulted in an unauthorized overdraft which attracted interest charge of KShs.22,424. |

Recommendation No. 3

USAID should determine the allowability and recover as appropriate, ineligible expenses of KShs.22,424 (\$374).

Auditee comments

The KARI Management has already paid KShs.22,424.00 to the ARF. The necessary documents in relation to this are available for further verification.

USAID's comment

Mission Concurs.

Auditors comment

We have verified banking deposit slip for cheque number 455722 for KShs.22,424 (\$374).

**AGENCY-CONTRACTED AUDIT OF GRANT TO THE
NATIONAL AGRICULTURAL RESEARCH PROJECT
UNDER USAID/KENYA PROJECT NO. 615-0229**

3.5.2 Finding on ineligible research grants

Research grants expenditure includes the following ineligible item:

| PV No. | Date | Description | Amount KShs | Remark |
|---------------|-------------|---------------------------|--------------------|--|
| 1152320 | 15.6.94 | Advance to Moi University | <u>5,000</u> | Advance from Moi University research (ARF) account to open a bank account for Moi University Library |

Recommendation No. 4

USAID should determine the allowability and recover as appropriate, ineligible expenses of KShs.5,000 (\$83).

Auditee comments

Moi University has paid to the Research Account KShs.5,000.00 which had been borrowed to facilitate opening of a library bank account. The ARF Secretariat has the necessary documents for verification.

USAID's comment

Mission concurs.

Auditors comment

We have verified banking deposit slip for cheque number 78597, dated 26 January 1995 for KShs.5,000 (\$83).

**AGENCY-CONTRACTED AUDIT OF GRANT TO THE
NATIONAL AGRICULTURAL RESEARCH PROJECT
UNDER USAID/KENYA PROJECT NO. 615-0229**

3.5.3 Finding on unsupported research grants expenditure

Research grants included the following unsupported expenditure:

| PV No. | Date | Description/Payee | Amount KShs |
|-------------------------------------|-------------|--------------------------|------------------------|
| i. Project No. ARF/CSWP/1134 | | | |
| 566130 | 31.5.93 | Subsistence travel | 14,123.25 (\$235) |

Recommendation No. 5

We recommend that the management of Agricultural Research Fund obtain documents supporting KShs.14,123.25 (\$235) of research grants expenditure.

Auditee's comment

Documents supporting KShs.14,123.25 of research grants expenditure (Project No. ARF/CSWP/1134/1) will be made available soon.

USAID's comment

USAID concurs.

4. INTERNAL CONTROL STRUCTURE

4.1 Independent Auditors' Report

We have audited the Fund Accountability Statement of the Agricultural Research Fund for the period January 1, 1993 through December 31, 1994 and have issued our report thereon dated November 17, 1995.

We conducted our audit in accordance with generally accepted auditing standards and Government Auditing standards (1994 revision) issued by the Comptroller General of the United States. These standards required that we plan and perform the audit to obtain reasonable assurance about whether the Fund Accountability Statement is free of material misstatement.

In planning the performing of our audit of the Fund Accountability Statement, we considered the internal control structure established by the Kenya Agricultural Research Institute for the Agricultural Research Fund in so far as it relates to grant funds, in order to determine our auditing procedures for the purpose of expressing our opinion on the Fund Accountability Statement and not to provide assurance on the internal control structure.

The management of the Agricultural Research Fund is responsible for establishing and maintaining an internal control structure. In fulfilling this responsibility estimates and judgements by management are required to assess the expected benefits and related costs of internal control structure policies and procedures. The objectives of an internal control structure are to provide management with 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 Agricultural Research Fund authorization and recorded properly to permit the preparation of the Fund Accountability Statement in accordance with generally accepted accounting principles. Because of inherent limitations in any internal control structure, errors or irregularities may nevertheless occur and not be detected. Also projection of any evaluation of the structure to future periods is subject to the risk that procedures may become inadequate because of changes in conditions or that the effectiveness of the design and operation of policies may deteriorate.

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

Control Environment

- written procedures
- financial management capabilities
- third party control over funds

Accounting System

- accounting records
- reporting

Control Procedures

- disbursement of USAID funds
- authorization of transactions
- third party management involvement.

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

We noted certain matters involving the internal control structure and its operation that we consider to be reportable conditions under the standards established by the American Institute of Certified Public Accountants. Reportable conditions involve matters coming to our attention relating to significant deficiencies in the design or operation of the internal control structure that in our judgement could adversely affect the organizations ability to record, process, summarize and report financial data consistent with the assertion of management in the Fund Accountability Statement. The following reportable conditions were observed:-

- Bank reconciliations were not regularly prepared;
- Some institutions controlling research grants do not appear to have adequate accounting system to keep documents supporting their expenditure.

Our consideration of the internal control structure would not necessarily disclose all matters in the internal control structure that might be material weaknesses under standards established by the American Institute of Certified Public Accountants. A material weakness is a 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. We noted no matters involving the internal control structure and its operation that we consider to be material weakness as defined 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 information of the Government of Kenya through the Kenya Agricultural Research Institute and the United States Agency for International Development but this is not intended to limit the distribution of the report if a matter of public record.



**ERNST & YOUNG
NAIROBI**

November 17, 1995

**AGENCY-CONTRACTED AUDIT OF GRANT TO THE
NATIONAL AGRICULTURAL RESEARCH PROJECT
UNDER USAID/KENYA PROJECT NO. 615-0229**

4.2 WORK PERFORMED

We reviewed the internal control structure of the Agricultural Research Fund and obtained an understanding of the design of relevant procedures and we assessed control risk.

Our review considered the significant internal control structure policies and procedures categorized as follows:-

Control Environment

- written procedures
- financial management capabilities
- third party control of funds

Accounting System

- accounting records
- reporting

Control Procedures

- disbursement of USAID funds
- authorization of transactions
- third party management involvement.

The Agricultural Research Fund is managed by a committee which is independent of management of Kenya Agricultural Research Institute.

4.3 FINDINGS AND RECOMMENDATIONS

4.3.1 Control Environment

Written procedures, guidelines and regulations for the Agricultural Research Fund exist. Financial procedures and regulations used by Agricultural Research Fund are borrowed from Kenya Agricultural Research Institute's manual. These are considered adequate.

Personnel charged with the responsibility for the day to day operations of the fund are capable and experienced.

**AGENCY-CONTRACTED AUDIT OF GRANT TO THE
NATIONAL AGRICULTURAL RESEARCH PROJECT
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Institutions such as Universities have their own controls over research grants disbursed by Agricultural Research Fund. However, three of these institutions could not avail to us, within reasonable time frame, documents supporting substantial expenditures.

Institutions controlling research grants do not appear to have adequate accounting systems to keep documents supporting expenditure from research grants.

Public institutions are required by law to keep original accounting documents in their main office.

Recommendation No. 6

We recommend that certified photocopies supporting research expenditure be sent to Agricultural Research Fund for their control and records.

Auditee comments

The ARF Secretariat has advised all Principal Investigators and employing/collaborating institutions to submit certified copies of all accounting documents when accounting for research grants expenditure. This has now been included as a requirement in the revised ARF Financial Regulations and procedures, copies of which will be made available to investigator and employing/collaborating institutions.

USAID's comment

Mission concurs.

4.3.2 Accounting System

We examined the auditee's accounting records so as to make a conclusion on their condition and ability to follow the transactions through the accounting system to the billing to USAID.

Only two books of account, a vote book and a cashbook, are maintained. These are adequate considering the size of the fund.

Accountability statements are prepared quarterly and submitted to USAID only upon request.

Recommendation No. 7

Accountability Statements should be submitted to USAID quarterly to enable USAID to check their completeness and correctness.

**AGENCY-CONTRACTED AUDIT OF GRANT TO THE
NATIONAL AGRICULTURAL RESEARCH PROJECT
UNDER USAID/KENYA PROJECT NO. 615-0229**

Auditee comments

The ARF Secretariat will ensure that financial statements are submitted to USAID on a quarterly basis. For internal use and records, bank reconciliation and financial statements are prepared on a monthly basis.

USAID's comment

Mission is not clear on what the audit findings were. We request further clarification from the auditors.

Auditors comment

The finding has been amended. Accountability statements are prepared quarterly and submitted to USAID only when requested for.

4.3.3 Control Procedures

Our review established that adequate controls exist over disbursements from the fund. However, we noted instances where KShs.5,000,000 and KShs.5,000 was advanced to Kenya Agricultural Research Institute and Moi University respectively, for over 10 months. These advances were, however, refunded to ARF.

We examined disbursement documents to ensure that payments under the project are used for authorized purposes. All transactions were duly authorized. Signatories of this fund include non ARF officials.

USAID regulations require that a separate bank account be maintained for their funds. A multi-donor bank account is maintained for Agricultural Research Fund. Use of funds is based on a separate vote book for each donor. Currently this system is effective. However, as more donors join the Agricultural Research Fund, it may be difficult to control funds by use of vote books.

Our examination of bank statements for ARF bank account indicated that bank reconciliations were not prepared for four months and one did not show evidence of approval.

Quarterly returns were submitted by institutions controlling research grants. These returns conformed to the requirements of Agricultural Research Fund.

**AGENCY-CONTRACTED AUDIT OF GRANT TO THE
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Recommendation No. 8

To enable proper monitoring of USAID funds, a separate bank account should be maintained. Bank reconciliations should be performed every month, checked and approved to allow timely corrective action.

Auditee comments

The KARI Management has opened a new account for other donors leaving the original account for USAID funds. As indicated in response to recommendation No. 7, bank reconciliations are prepared, checked and approved.

USAID's comment

Mission concurs.

5 COMPLIANCE WITH GRANT PROVISIONS AND US GOVERNMENT REGULATIONS

5.1 Independent Auditors' Report

We have audited the Fund Accountability Statement of the Agricultural Research Fund for the period January 1, 1993 through December 31, 1994 and have issued our report thereon dated November 17, 1995.

We conducted our audit in accordance with generally accepted auditing standards and government auditing standards (1994 revision) issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the Fund Accountability Statement is free of material misstatement.

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

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

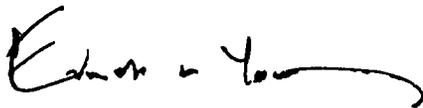
We noted the following immaterial instances of noncompliance:-

- (a) Accountability statements were not submitted to USAID quarterly;
- (b) A separate bank account was not maintained for USAID funds.

Except as described above, the results of our tests of compliance indicate that, with respect to all items tested, the management of Agricultural Research Fund complied, in all material respects, with the provisions referred to in the third paragraph of this report, and with respect to items not tested, nothing came to our attention that caused us to believe that the management of the Agricultural Research Fund 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 solely for the information of the Government of Kenya through the Kenya Agricultural Research Institute and the United States Agency for International Development but this is not intended to limit the distribution of the report if a matter of public record.



**ERNST & YOUNG
NAIROBI**

November 17, 1995

**AGENCY-CONTRACTED AUDIT OF GRANT TO THE
NATIONAL AGRICULTURAL RESEARCH PROJECT
UNDER USAID/KENYA PROJECT NO. 615-0229**

5.2 WORK PERFORMED

Our audit of Agricultural Research Fund included obtaining assurances that Government of Kenya complied with grant provisions and US government regulations.

Procedures performed to test such compliance included the following:-

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

5.3 Finding

The grant agreement stipulates that the Government of Kenya was to contribute an amount of US\$ 274,900 to the Agricultural Research Fund by the project completion date.

According to Kenya Agricultural Research Institute, GoK had contributed in kind by provision of office space, salaries to ARF personnel and utilities. This contribution was quantified for the period under review.

**AGENCY-CONTRACTED AUDIT OF GRANT TO THE
NATIONAL AGRICULTURAL RESEARCH PROJECT
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6. COMMODITIES AUDIT

6.1 WORK PERFORMED

We obtained a list of commodities procured under the project by MIAC and;

- determined their existence and utilization.
We physically verified existence and utilization of commodities totalling \$479,447, and
- traced them to the fixed assets register maintained by Kenya Agricultural Research Institute.

6.2 Findings and Recommendations

6.2.1 Existence

- i. The following equipment procured by MIAC for respective research centres were missing at the time of our visit:

| Station | Equipment | Cost (\$) |
|----------------|--|------------------|
| Mtwapa | 1. Mechanics tools set | 1,067 |
| | 2. Alphacon Sprinter Printer | 455 |
| | 3. Moldboard Spare parts | 321 |
| | 4. Replacement oxygen connect (for calorimeter) | 201 |
| | 5. Tip markers | 14 |
| | 6. Tube lubricant (for Rotor) | 11 |
| | 7. Replacement bulbs (for counter colony) | <u>1</u> |
| | | <u>2,070</u> |
| Kitale | 1. Mechanics tools set | <u>1,067</u> |
| Embu | 1. Accessories for compound microscope | unknown |
| | 2. Fisher Top loading balance | <u>1,088</u> |

**AGENCY-CONTRACTED AUDIT OF GRANT TO THE
NATIONAL AGRICULTURAL RESEARCH PROJECT
UNDER USAID/KENYA PROJECT NO. 615-0229**

- ii. Our discussions with KARI and MIAC personnel further indicated that the following commodities are missing from Kakamega Research Centre.
1. Fisher Top load electronic balance
 2. Clinical centrifuge
 3. Cambridge compound microscope
 4. Colony counter.

This indicates that KARI lacks an adequate system for accounting for and safeguarding commodities procured by MIAC.

Recommendation No. 9

- KARI supplies personnel should investigate and establish where the missing commodities are and report to USAID.

Auditee comments

The KARI Management (Supplies Department) will investigate the whereabouts of the missing commodities and give a report to USAID.

USAID's comment

Mission concurs.

Recommendation No. 10

- To safeguard assets, KARI personnel should regularly determine existence of commodities procured for the project.

Auditee comments

The KARI Management will ensure that periodic verifications of assets at project level is done.

USAID's comment

Mission concurs.

6.2.2 Utilization

All MIAC-procured commodities are being utilized for authorized program purposes.

The following commodities are not being utilized for reasons indicated:

| Station | Commodity | Cost \$ | Remarks |
|---------|--|------------|---|
| Embu | Laboratory equipment: Autoclave, Bomb calorimeter Deionizer, etc | 9,235 | Laboratory incomplete |
| Mtwapa | Clinical centrifuge | 621 | Incompatible parts |
| | Countertop Digester | 4,016 | Equipment incomplete |
| | Spore sampling equipment | 300 | Not useful to the |
| | Vacuum pump and assemblies | 550 | the station |
| Kitale | Calorimeter | 6,219 | Equipment incomplete |
| | Countertop Digester | 4,016 | Equipment incomplete |
| | Cyclone sample mill | 1,558 | Out of order |
| | Push cone plot planter | 2,195 | Spacing of seeds not possible with this equipment |
| | Irrigation System | 9,335 | Motor damaged after attempted robbery |
| KARI | Headquarters Desoldering Station | 1,105 | Out of order. |

Recommendation No. 11

- We recommend that KARI request MIAC to procure accessories and parts for the incomplete equipment. Unutilized commodities in some centres should be transferred to needy centres. KARI officials should inspect equipment delivered and return to supplier if incomplete or defective.

Auditee comments

The additional accessories and parts on the equipments that were purchased by MIAC is a matter that MIAC would look into. However, we have requested our Supplies to liaise with Centre Directors in order to transfer some equipment to centres where they could be utilized.

**AGENCY-CONTRACTED AUDIT OF GRANT TO THE
NATIONAL AGRICULTURAL RESEARCH PROJECT
UNDER USAID/KENYA PROJECT NO. 615-0229**

USAID's comment

Mission Concur. Mission has already requested KARI to take appropriate action.

6.2.3 Accounting System

- iii. Various commodities procured by MIAC for Centres countrywide have not been recorded in KARI's fixed assets register.

We could not trace the following commodities in existence at Centres visited to the fixed assets register:-

| Station | Equipment | Cost \$ |
|----------------|---------------------------------|--------------------|
| Embu | Overhead irrigation system | 10,914 |
| | Bomb Calorimeter | 6,219 |
| | Table Top Autoclave | 2,062 |
| | Clinical Centrifuge | 621 |
| | Analytical Balance | 1,477 |
| | Mechanics tool set | 1,067 |
| | Cyclone sample mill | 1,558 |
| | Dust Collector Cabinet | <u>619</u> |
| | | <u>24,537</u> |
| Mtwapa | Table Top Autoclave | 2,062 |
| | Top Loading Balance | 1,088 |
| | Calorimeter | 6,219 |
| | Clinical Centrifuge | 621 |
| | Polaroid Camera Kit & Sterezoom | 1,330 |
| | Selective Ionizer | 954 |
| | Air conditioners | <u>715</u> |
| | | <u>12,989</u> |
| Tigoni | Photocopier | 3,090 |
| | IBM Computer | 1,709 |
| | Pumping Plant | 8,730 |
| | Drip Irrigation System | 7,500 |
| | Grading Shed | <u>15,118</u> |
| | | <u>36,147</u> |

| Station | Equipment | Cost (\$) |
|---------------------|------------------------------|---------------|
| Kitale | Irrigation System | 9,335 |
| | Top loading Balance | 1,088 |
| | Clinical Centrifuge | 621 |
| | Mechanics tool set | 1,067 |
| | Vacuum pump & assemblies | 550 |
| | Alphacon Sprinter Printer | 455 |
| | Polaroid Camera kit | <u>1,330</u> |
| | | <u>14,446</u> |
| KARI | | |
| Headquarters | | |
| | 2 Desoldering stations | 2,210 |
| | 2 Soldering stations | 912 |
| | Precision Vacuum pump | 433 |
| | Oscilloscope HP 54581A | 2,772 |
| | Logic trouble shooting kit | 2,360 |
| | Logic Analyzer | 7,800 |
| | 54 piece Electronic tool set | 490 |
| | Air conditioner service kit | <u>433</u> |
| | | <u>17,410</u> |

Recommendation No. 12

- We recommend that KARI put identification codes on all MIAC procured commodities. The identification code should clearly show the type of the commodity (motor vehicle, farm, office or laboratory equipment) its location and year of purchase. This information should be recorded in KARI's assets register together with a complete update of the assets register.

Auditee's comment

The KARI Management has already started coding their commodities indicating the types of equipment, the location and the year of purchase which will be reflected into the Fixed Asset Register.

USAID's comments

Mission concurs.

APPENDICES

APPENDIX I

AUDITEE COMMENTS



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

When replying please quote:

Our Ref: KARI 1/101 Vol.IX/(22)

Your Ref: _____

6th November, 1995
Date: _____

M/s Ernst & Young,
Certified Public Accountants,
ALICO House,
P.O. Box 44286,
NAIROBI.

Re: Audit of National Agricultural Research Project
No. 615 - 0229

Thank you for your draft audit report. The following are our comments:-

Recommendation No. 1

The KARI Management has already written to the Ministry of Finance (Treasury) to establish the correct amount which should have been disbursed to KARI.

Recommendation No. 2

We have obtained substantial original supporting documents from centres amounting to Ksh. 10,729,719.70.

Recommendation No.3

We have obtained the original supporting documents to Ksh.788,031.20

...../2

Recommendation No.4

We have obtained all the original supporting documents from centres amounting to Ksh. 1,685,734.90

Recommendation No. 5

We have obtained original supporting documents from centres amounting to Ksh.136,306.75.

Recommendation No.6

We have obtained all the original supporting documents amounting to Ksh.332,142.60.

Recommendation No.15

The KARI Management (Supplies Department) will investigate the whereabouts of the missing commodities and give a report to USAID. The KARI Management will ensure that periodic verifications of assets at Project level is done.

Recommendation No. 16

The KARI Management has requested MIAC to produce additional accessories and parts for the incomplete equipment. The coding of all assets will be done to agree to Fixed Asset Register.

Recommendation No. 17

The KARI Management has requested MIAC to procure additional accessories and parts for the incomplete equipment. The coding of all assets will be done to agree with Fixed Asset Register.

Audit Report

We request you to amend the audit report as regards to No proper books of accounts are kept. The Institute maintains proper books of Accounts.

The Final Balance C.P.F.

The unexpended balance of 4.6m is represented by an advance to MIAC of 3 million for Social Economics and of balance in the bank account at the closure of the period.

Letter of Representation

We hope that any issue which was not adequately covered is included in the letter of representation.

We thank your staff who were involved in the audit assignment.



R. L. Ole Odupoy
for: DIRECTOR, KARI

cc. USAID,
P.O. Box 30261,
NAIROBI.

1/8



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

When replying please quote:

Our Ref: KARI/1/101/Vol. 1X

Your Ref: _____

Date: 6th November, 1995

Earnst & Young,
Certified Public Accountant,
Alico House,
Mamlaka Road,
P. O. Box 44286,
NAIROBI

Dear Sirs,

**AUDIT OF GRANT TO THE NATIONAL AGRICULTURAL
RESEARCH PROJECT NO.615-0229**

Please find below responses to the audit recommendations on the Agricultural Research Fund (ARF). The letter of representation is attached.

Recommendation No.7

The KARI Management has already paid Kshs.22424.00 to the ARF. The necessary documents in relation to this are available for further verification.

Recommendation No.8

Moi University has paid to the Research Account Kshs.5000.00 which had been borrowed to facilitate opening of a library bank account. The ARF Secretariat has the necessary documents for verification.

Recommendation No.9

The borrowing of Kshs. 5million from the ARF account by KARI Management did not affect the ARF operations as there were adequate funds in the account. KARI Management refunded the borrowed funds in July, 1995. In future internal borrowing from ARF account will only be done in very exceptional cases and will be referred to USAID for advice and/or approval.

Recommendation No.10

The ARF Secretariat has obtained documents supporting Kshs.890,680.75 of research grants expenditure. Documents supporting Kshs.14,123.25 of research grants expenditure (Project No. ARF/CSWP/1134/1) will be made available soon.

Recommendation No.11

The ARF Secretariat has advised all Principal Investigators and employing/collaborating institutions to submit certified copies of all accounting documents when accounting for research grants expenditure. This has now been included as a requirement in the revised ARF Financial Regulations and procedures, copies of which will be made available to investigator and employing/collaborating institutions.

Recommendation No.12

The ARF Secretariat will ensure that financial statements are submitted to USAID on a quarterly basis. For internal use and records, bank reconciliation and financial statements are prepared on a monthly basis.

Recommendation No.13

It was difficult to liquidate funds to USAID within 90 days as the advances were made for a months starting October, 1994. However, the last advance received from USAID is in the process of being liquidated and the necessary documents should reach USAID by 13/11/95.

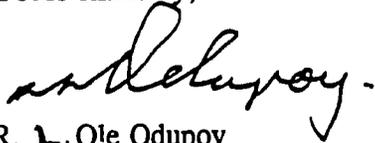
With regard to research grants, liquidation of funds within 90 days of receiving the advance is not practical. We are requesting that USAID waives this requirement.

Recommendation No.14

The KARI Management has opened a new account for other donors leaving the original account for USAID funds. As indicated in response to recommendation No.12, bank reconciliations are prepared, checked and approved monthly.

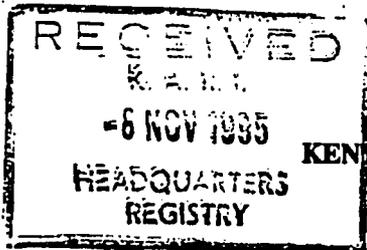
Thank you for your understanding and guidance.

Yours sincerely,



R. L. Ole Odupoy
For Director KARI

cc. USAID
P. O. Box 30261
NAIROBI



1/101

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

When replying please quote:

Our Ref: KARI 1/101 Vol.IX/(23)

Your Ref: _____

7th November, 1995
Date: _____

M/s Ernst & Young,
Certified Public Accountants,
ALICO House,
P.O. Box 44286,
NAIROBI.

Re: Audit of National Agricultural Research Project No.615-0229

This is an additional clarification on the recommendations as per letter ref. No.1/101 Vol.IX(22) dated 6th November, 1995.

Recommendation No.15

The KARI management (Supplies Department) will investigate the whereabouts of the missing commodities and give a report to USAID.

Recommendation No. 16

The KARI Management will ensure that periodic verifications of assets at project level is done.

Recommendation No.17

The KARI management has requested MIAC to procure additional accessories and parts for the incomplete equipment

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Recommendation No.18

The coding of all assets will be done to agree with Fixed Asset Register.


J.M. Weindaba,
for DIRECTOR, KARI

cc. USAID,
P.O. Box 30261,
NAIROBI.

Recommendation No. 3 - 6

We have obtained all the original supporting documents.

Recommendation No. 15

The KARI Management has already started coding their commodities indicating the types of equipment, the location and the year of purchase which will be reflected into the fixed Asset Register.

Recommendation No. 16

The additional accessories and parts on the equipments that were purchased by MIAC is a matter that MIAC would look into. However, we have requested our Supplies and to liaise with Centre Directors in order to transfer some equipment to centres where they could be utilized.

Ag.  Chief Accountant,
for: DIRECTOR, KARI

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APPENDIX II

MISSION 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

September 25, 1995

Bellhouse Mwangi Ernst & Young
ALICO House
P.o. Box 44286
Nairobi.



Attention: Mr. Mengi

Subject: Response to the Draft Audit Report of the
National Agricultural Research Project (NARP)
Project No. 615-0229

Dear Sir:

Thank you for the Draft Audit Report of the National Agricultural Research Project which is implemented by KARI. The Mission wishes to make the following comments:

Recommendation No. 1:

KARI management and USAID should liaise with the Ministry of Finance to reconcile KShs. 1,500,000 difference.

Per our fax dated 9/18/95, Mission requested the auditors to confirm directly with Treasury the amount disbursed to KARI from Treasury. If the discrepancy still exists, we will review and make a determination.

Recommendation No. 2 to 6:

We recommend that KARI management obtain acceptable documents supporting KShs. 14,570,895.60 of operations expenditure.

Mission concurs. Mission has received a response from KARI indicating that documents supporting the KShs. 14,570,897 are now available at KARI. Mission requests the auditors to verify these documents and modify the recommendation in light of their findings.

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Recommendation No. 7 and 8:

USAID should determine the allowability and recover as appropriate, ineligible expenses of KShs. 27,424.

Mission Concur.

Recommendation No. 9:

USAID should determine the impact this advance had on the operations of the ARF and confirm its subsequent liquidation.

Although KARI has not liquidated the KShs. 5.0 million advance, Mission is following up on it. (See response to recommendation No. 13). This is therefore within Mission control. On the impact, Mission has determined that although the advancing of the KShs. 5.0 million was irregular, the project activities were implemented on schedule. Mission requests that this recommendation be dropped from the final Audit Report.

Recommendation No. 10:

We recommend that the management of Agricultural Research Fund obtain documents supporting KShs. 904,804 of research grants expenditure.

USAID concurs. Please note amount unsupported adds up to KShs. 911,184 and not KShs. 904,804 as reported.

Recommendation No. 11:

As institutions controlling research grants do not appear to have adequate accounting systems to keep documents supporting expenditure from research grants, we recommend that certified photocopies supporting research expenditure be sent to Agricultural Research Fund for their control and records.

Mission concurs.

Recommendation No. 12:

Accountability Statements should be submitted to USAID quarterly to enable USAID to check their completeness and correctness.

Mission is not clear on what the audit findings were. We request further clarification from the auditors.

Recommendation No. 13:

USAID require a period of 90 days period of time upon which funds disbursed to Agricultural Research Fund are liquidated. Agricultural Research Fund should be required to refund to USAID unliquidated funds on expiry of period provided.

Mission maintains a tracking system for all the outstanding advances given to the grantees KARI being one of them. We therefore request that this recommendation be removed from the final audit report.

Recommendation 14:

To enable a proper monitoring of USAID funds, a separate bank account should be maintained. Bank reconciliations should be performed every month, checked and approved to allow a timely corrective action if any.

Mission concurs.

Recommendation No. 15:

KARI supplies personnel should investigate and establish where the missing commodities are and report to USAID.

Mission Concurr.

Recommendation No. 16:

To safeguard assets, KARI personnel should regularly determine existence of commodities procured for the project.

Mission Concurr.

Recommendation No. 17:

KARI should request MIAC to procure accessories and parts for the incomplete equipment. Unutilized commodities in some centers should be transferred to nearby centers. KARI officials should inspect equipment delivered and return to supplier if incomplete or defective.

Mission Concurr. Mission has already requested KARI to take appropriate action.

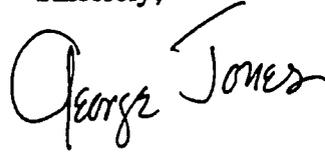
Recommendation No. 18:

KARI should put identification code on all MIAC procured commodities. the identification code should clearly show the type of commodity (motor vehicle, farm, office or laboratory equipment) its location and year of purchase. This information should be recorded into KARI's asset register together with a complete update of assets register.

Mission concurs.

We look forward to receiving the Final Audit Report.

Sincerely,

A handwritten signature in black ink that reads "George Jones". The signature is written in a cursive style with a large, prominent "G" and "J".

George Jones, Ph.D
Mission Director