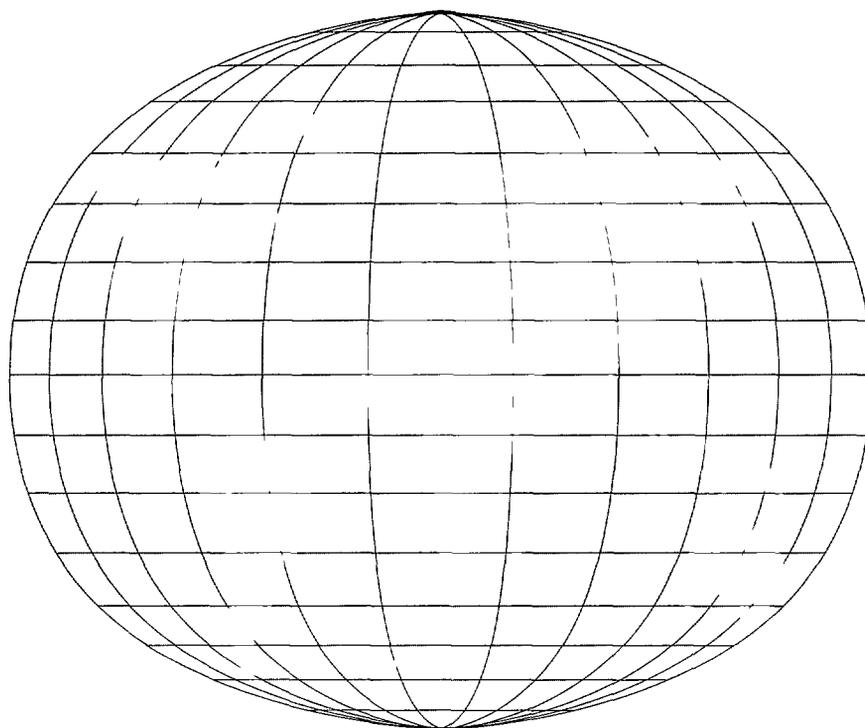


Report of Audit

**Audit of the Kenya Association of Manufacturers
under Cooperative Agreement No. 623-0249-A-00-
7012 for the Period January 8, 1997 to
June 30, 1998**

**Report No. 4-623-99-006-N
May 24, 1999**



**REGIONAL INSPECTOR GENERAL/PRETORIA
OFFICE OF INSPECTOR GENERAL
U.S. AGENCY FOR INTERNATIONAL DEVELOPMENT**

PD-ABR-415

**Audit of the Kenya Association of Manufacturers
under Cooperative Agreement No. 623-0249-A-00-
7012 for the Period January 8, 1997 to
June 30, 1998**

**Report No. 4-623-99-006-N
May 24, 1999**

REGIONAL INSPECTOR GENERAL/PRETORIA



Regional Inspector General

May 24, 1999

MEMORANDUM FOR MISSION DIRECTOR, USAID/KENYA

FROM Regional Inspector General/Pretoria, Joseph Farinella

SUBJECT Agency-contracted Audit of the Kenya Association of Manufacturers under Cooperative Agreement No 623-0249-A-00-7012, for the Period January 8, 1997 to June 30, 1998, Report No 4-623-99-006-N

Attached is a report of an Agency-contracted Audit of USAID's cooperative agreement with the Kenya Association of Manufacturers (KAM) The audit was performed by Price Waterhouse, Certified Public Accountants, Nairobi, Kenya

The principal objectives of the above agreement were to increase Kenya's non traditional exports, particularly in food and agro-processing industries, and strengthen KAM's export marketing capabilities This was to be done by (i) establishing an export database, (ii) undertaking market surveys, (iii) analyzing Government export policies, and (iv) developing export promotion strategies

The audit covered the period from January 8, 1997 to June 30, 1998 As of the latter date, USAID had disbursed funds totaling Kenyan Shillings 15,578,864 (\$259,648) to KAM Expenditures reported during the above period totaled Kenyan Shillings 13,440,317 (\$224,005)

The audit scope and objectives included

- performing an audit in accordance with generally accepted auditing standards and the standards of the U S Comptroller General's Government Auditing Standards, and expressing an opinion on KAM's Fund Accountability Statement,
- evaluating KAM's internal controls in order to assess control risk and identify significant internal control deficiencies, and
- testing KAM's compliance with applicable laws, regulations and agreements and report on any material instances of non-compliance

The auditors issued a qualified opinion on the Fund Accountability Statement The report identified questioned unsupported costs totaling Kenyan Shillings 6,959,329

(\$115,989) The questioned costs were principally comprised of expenditures without proper approvals, adequate support, or in excess of budget

The report on internal controls identified many significant weaknesses. These included (i) ineffective role of KAM's accountant, (ii) non payment of of statutory deductions, (iii) non compliance with USAID procurement procedures, and (iv) lack of reconciliations between the general ledger and cash account balances

The report on compliance also disclosed several material deficiencies. For example, the auditors reported unauthorized use of USAID funds and improper accounting of project income

Subsequent to the issuance of the audit report in September 1998, USAID/Kenya retroactively approved and/or recovered the entire amount of the questioned costs of Kenyan Shillings 6,959,329 (\$115,989) reported by the auditors. Furthermore, on September 9, 1998, the Mission terminated its assistance to KAM for unsatisfactory compliance with the terms of the cooperative agreement. Therefore, we are not making any recommendation

Price Waterhouse



10 September 1998

Beth Paige
USAID
Parklands
NAIROBI

Dear Beth

KAM ASSOCIATION OF MANUFACTURERS – KEDS PROJECT

Please find enclosed four copies of our financial report on the KAM-KEDS project

An audit inevitably reflects the control structure in place up to a point in time. We are pleased to note that since the instigation of the audit in July 1998 KAM has made significant efforts to improve the internal control structure. In particular we are aware that Jane Were, the accountant funded by USAID, has now been put in her correct post and that she is now actively working to improve the control environment. Furthermore, there appears to be a genuine concern by a number of directors of KAM to improve the internal control systems and to be aware of the financial control within the organisation. A follow-up to this audit could be necessary to assess these improvements.

Please feel free to contact me if we can be of any further assistance in this matter.

Yours sincerely

Philip Kinisu



**AGENCY - CONTRACTED AUDIT OF THE
KENYA ASSOCIATION OF MANUFACTURERS
UNDER REDSO/ESA COOPERATIVE
AGREEMENT NUMBER 623-0249-A-00-7012-00**

SEPTEMBER 1998

**AGENCY - CONTRACTED AUDIT OF THE KENYA ASSOCIATION OF
MANUFACTURERS UNDER REDSO/ESA COOPERATIVE
AGREEMENT NUMBER 623-0249-A-00-7012-00**

SEPTEMBER 1998

	TABLE OF CONTENTS	PAGE
1	INTRODUCTION	1
	1 1 BACKGROUND	1
	1 2 AUDIT OBJECTIVES, SCOPE AND METHODOLOGY	1
	1 3 RESULTS OF THE AUDIT	2
2	REPORT ON FUND ACCOUNTABILITY STATEMENT	4
	2 1 INDEPENDENT AUDITORS REPORT	4
	2 2 FUND ACCOUNTABILITY STATEMENT	5
	2 3 COUNTERPART CONTRIBUTIONS	9
3	INTERNAL CONTROL STRUCTURE	11
	3 1 INDEPENDENT AUDITORS' REPORT ON INTERNAL CONTROLS	11
	3 2 INTRODUCTION	13
	3 3 FINDINGS AND RECOMMENDATIONS	14
4	REPORT ON COMPLIANCE WITH TERMS AND APPLICABLE LAWS AND REGULATIONS	20
	4 1 INDEPENDENT AUDITORS' REPORT	20
	4 2 WORK PERFORMED	21
	4 3 FINDING AND RECOMMENDATIONS	21
5	REPORT ON GENERAL PURPOSE FINANCIAL STATEMENTS	24
	<u>APPENDICES</u>	
I	QUESTIONED COSTS – USAID GRANT	
II	QUESTIONED COSTS – COUNTERPART CONTRIBUTION	
III	FOLLOW UP OF RECOMMENDATIONS	
IV	EMPHASIS AREAS FOR AUDIT	

**AGENCY - CONTRACTED AUDIT OF THE KENYA ASSOCIATION OF
MANUFACTURERS UNDER REDSO/ESA COOPERATIVE
AGREEMENT NUMBER 623-0249-A-00-7012-00**

AUGUST 1998

1 INTRODUCTION

1.1 BACKGROUND

The United States Government represented by the Agency for International Development (USAID) authorised funding to Kenya Association of Manufacturers (KAM) of US\$ 1,277,122 on January 7, 1997. This was authorised under Co-operative Agreement No 623-0249-A-00-7012-00. The Co-operative Agreement covers a period of two years with an estimated completion date of December 31, 1998. This Co-operative Agreement is to be incrementally funded to a total of US\$ 1,277,122.

The main aim of this agreement is to provide support for a program in Kenya Export Development Support, KEDS. The general objective of KEDS is to increase non-traditional exports particularly in food and agro-processing industries.

A second objective is to strengthen the ability of Kenya Association of Manufacturers Secretariat in handling complicated export marketing activities like establishing an export database, undertaking market surveys, analysing Government export policies and giving quality service to exporters in areas of export promotion strategies.

These objectives will be achieved through implementation of two main project components namely:

- Firm Level Assistance
- Institutional strengthening of KAM

A pre-award evaluation of the project by USAID was done on November 14, 1996. Several recommendations were made. Implementation of these recommendations is in progress. A follow up on these recommendations is included in appendix 3.

As at 30 June 1998, USAID had disbursed funds amounting to Kshs 15,578,864 (US\$ 259,648 at the rate of US\$ 1 = Kshs 60) to KAM.

1.2 AUDIT OBJECTIVES, SCOPE AND METHODOLOGY

AUDIT OBJECTIVES

Price Waterhouse were appointed by USAID to carry out an audit of USAID's Co-operative Agreement with the Kenya Association of Manufacturers (KAM) for the period January 8, 1997 to June 30, 1998.

The audit covered both the funds advanced from USAID and the KAM supporting (contributory) expenditure required under the grant agreement.

The objectives of this audit were to:

- Audit the Fund Accountability Statement (FAS) of USAID grant to KAM 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 utilisation of funds in accordance with the grant agreements.

- Consider the Internal Control Structure in order to determine the auditing procedures for the purpose of expressing an opinion on the Fund Accountability Statements and to report on significant internal control deficiencies and material weaknesses, and
- Test KAM's compliance with the terms of the grant agreement and applicable laws and regulations, as part of obtaining reasonable assurance as to whether the Fund Accountability Statement is free from material misstatement, and report on any identified material instances of non-compliance

The audit was undertaken in accordance with generally accepted auditing standards and the Government Auditing Standards issued by the US Comptroller General (1994 Revision) We were required to adhere to guidelines contained in the "Guide for Financial audits Contracted by the Agency of International Development" and "Guidelines for Audits of Federal awards to Non-Profit Institutions"

AUDIT SCOPE

Our audit covered funds received and disbursed by KAM under Co-operative Agreement No 623-0249-A-00-7012-00 for the period January 8, 1997 to June 30, 1998 and consisted of the following

- A review of expenditure for the whole period
- A review and evaluation of KAM's internal control structures
- A review of KAM s compliance with grant terms and conditions

AUDIT METHODOLOGY

The audit was performed using the Price Waterhouse audit approach Work was carried out in the following distinct stages

- Initial survey which included familiarisation with grant conditions, documentation and initial assessment of KAM records identifying particular areas of risk
- Preparation of detailed work plan
- Approval of the detailed work plan by partner in charge
- Discussion of detailed work plan with USAID and carrying out of detailed audit tests
- Discussion of draft report with KAM
- Issue of draft report to both KAM and USAID
- Incorporation of comments from both KAM Management and USAID

1 3 RESULTS OF THE AUDIT

1 3 1 Fund Accountability Statement

Of total spending of Kshs 13 4 million we questioned Kshs 7 million for one or more of the following reasons

- Expenditure was not approved by USAID (Kshs 5,104,730)

- Expenditure was not approved by KAM Director (Kshs 5,940,021)
- Procurement procedures were not correctly followed (Kshs 4,563,593)
- Expenditure was not supported (Kshs 170,852)
- Expenditure was in excess of budget (Kshs 1,741,155)

In addition we questioned Kshs 5.7 million of the total of Kshs 8.3 million of claimed counterpart contributions

Internal control

We identified many significant weaknesses with KAMs structure of internal control. The most fundamental of these is that the accountant funded by USAID does not play an effective role in managing financial transactions within KAM. As a result there is a lack of segregation of duties between the preparation, review and approval of transactions. In addition the accountant should have a key role in ensuring that KAM complies with USAID requirements, and in preventing fraud within the organisation. This does not occur at present. Without the deployment of an accountant in this key role we would not consider it appropriate for USAID funding to continue.

Other key issues raised within our report are

- Non payment of statutory deductions
- Non compliance with USAID procurement procedures
- Reconciliations between the general ledger and both cash balances and expenditure statements were not performed

Compliance with Cooperative Agreement and related provisions

Overall compliance with the Cooperative Agreement was weak. We found that

- There was use of USAID funds for non-approved activities. Whilst these funds were repaid this adversely impacted on funded project activities
- Expenditure was incurred without prior USAID approval
- Income from the sale of market surveys was not credited to the project account

Follow up on the pre-award survey

We found that many of the recommendations from the pre-award survey have not been implemented. We recommend that an action plan for these recommendations be completed as soon as possible.

Financial viability of KAM

KAM's financial statements as at 31 December 1997, show a deficit for the year of Kshs 2.4 million, and a bank overdraft of Kshs 7.5 million. Given that current assets include a balance of Kshs 1.7 million for the staff provident fund and Kshs 6 million of USAID funds for the KEDS project, actual current assets are Kshs 1.3 million and net current liabilities Kshs 10.6 million. It is in this context that KAM used USAID funds to clear other liabilities.

With an interest expense of Kshs 2.2 million per year KAM needs to take urgent action to put itself on a sound financial footing. This should involve a complete review of income and expenditure to clear the deficit and possibly, the disposal of assets in order to clear part of the bank overdraft.

Price Waterhouse



2 REPORT ON FUND ACCOUNTABILITY STATEMENT

2.1 INDEPENDENT AUDITORS REPORT

We have performed a financial audit of the Co-operative Agreement Fund Accountability Statement of Kenya Association of Manufacturers (KAM) for the period January 8, 1997 to June 30, 1998. The Fund Accountability Statement is the responsibility of KAM management. Our responsibility is to express an opinion on the Fund Accountability Statement based on our audit.

We conducted our audit in accordance with the generally accepted auditing standards and the standards contained in the Government Auditing Standards, issued by the Comptroller General of the United States (1994 Revision), with the exception that we have not been subject to a quality control review by a non Price Waterhouse firm. Such reviews are not required or available to professional firms in Kenya. We do not believe that this departure from Government Auditing Standards has affected our audit. We were subject to an external quality control review in July 1995 undertaken by a Price Waterhouse firm independent of our firm.

The standards require that we plan and perform the audit to obtain reasonable assurance as to 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 financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

The results of our tests disclosed that expenditure amounting to Kshs 6,959,329 (equivalent to US\$ 115,989) was questioned.

In our opinion, except for the effects of the questioned costs as discussed in the preceding paragraph, the Fund Accountability Statement referred to above presents fairly, in all material respects, project revenues, costs incurred and reimbursed, and commodities and technical assistance directly procured by A I D for the eighteen months period then ended in accordance with the terms of the agreements and in conformity with the basis of accounting described in note 2.

This report is intended for the information of KAM and the US Agency for International Development (A I D). However, upon acceptance by A I D Office of the Inspector General, this report is a matter of public record and its distribution is not limited.


Certified Public Accountants

10 9 1998

**FUND ACCOUNTABILITY STATEMENT
FOR THE PERIOD JANUARY 1997 TO 30 JUNE 1998**

	<u>Budget</u> US\$	<u>Budget</u> Kshs	<u>Actual</u> Kshs	<u>Accepted</u> Kshs	<u>Unsupported</u> <u>Costs</u> Kshs
REVENUE					
GRANT 623-0249-A-00-7012-00	1,277,122	70,241,710	15,578,864	15,578,864	
EXPENDITURE					
INSTITUTIONAL SUPPORT DEVELOPMENT					
Staff Training	-	-	-	-	-
Study Tours	32,882	1,808,510	418,401	239,249	179,152
In-House Training	3,295	181,225	187,500	-	187,500
*Volunteer * Leader	8,120	446,600	60,000	-	60,000
Technical Workshops	-	-	-	-	-
Staff Salaries	65,520	3,603,600	1,545,500	1,472,900	72,600
	109,817	6,039,935	2,211,401	1,712,149	499,252
PROGRAM SUPPORT					
International Trade Shows	39,915	2,195,325	873,627	238,166	635,461
Market Information	16,772	922,460	8,790	-	8,790
Buyer Missions	5,796	318,780	33,000	-	33,000
Market Surveys	215,495	11,852,225	3,227,795	19,702	3,208,093
Policy Studies	76,171	4,189,405	-	-	-
	354,149	19,478,195	4,143,212	257,868	3,885,344
INFRASTRUCTURE SUPPORT					
Computers	9,284	510,620	665,000	-	665,000
Computer Upgrades	4,996	274,780	107,000	-	107,000
STTA System Specialist	1,500	82,500	660,000	-	660,000
Slide Projector	1,000	55,000	58,000	-	58,000
Vehicle maintenance	8,400	462,000	244,481	39,488	204,993
	25,180	1,384,900	1,734,481	39,488	1,694,993
FIRM LEVEL ASSISTANCE					
Export Development Fund	645,176	35,484,680	2,341,223	1,593,483	747,740
Technical Assistance	3,600	198,000	-	-	-
Export Development Advisor	109,200	6,006,000	3,010,000	2,878,000	132,000
	757,976	41,688,680	5,351,223	4,471,483	879,740
AUDIT	30,000	1,650,000	-	-	
TOTAL	1,277,122	70,241,710	13,440,317	6,480,988	6,959,329
EXCESS OF REVENUE OVER EXPENDITURE			2,138,547	9,097,876	

**AGENCY – CONTRACTED AUDIT OF THE KENYA ASSOCIATION OF
MANUFACTURERS UNDER REDSO/ESA COOPERATIVE AGREEMENT
NUMBER 623-0249-A-00-7012-00**

NOTES TO THE FUND ACCOUNTABILITY STATEMENT

1 CURRENCY TRANSLATION

Grants are recorded at the actual Kenya Shillings received from USAID. Expenditure is recorded in actual Kenya Shillings incurred. The budget is expressed in the grant agreement in US Dollars. It is translated into Kenya Shillings at an exchange rate of 1 US\$ = Kshs 55.

2 BASIS OF ACCOUNTING

The Fund Accountability Statement is prepared on the basis of cash receipts and disbursements.

3 REVENUES

Revenues represent amounts received under the grant from USAID in the period from January 1997 through 30 June 1998. No interest income is earned on the grants since they are banked in a current account.

4 COUNTERPART CONTRIBUTIONS

Under REDSO/ESA Co-operative Agreement number 623-0249-A-00-7012-00, KAM is expected to make counterpart contributions of 35% towards the project.

5 DEFINITION OF QUESTIONED COSTS

The guidelines for Financial Audits contracted by Foreign Recipients defines questioned costs in two separate categories:

- Questioned costs that are explicitly ineligible because they are not program related, unreasonable or prohibited by the agreements or applicable laws and regulations and
- Unsupported costs that are not supported with adequate documentation or did not have the required prior approvals or authorisations.

No ineligible costs were noted in the expenditure vouched.

2 2 FINDINGS AND RECOMMENDATIONS

2 2 1 Sample selection criteria

100% of the revenue was verified We vouched 100% of the USAID expenditure as reported

2 2 2 Audit results

Our detailed testing of transactions revealed the following

- a) Cheques received from USAID are banked in KAM's main account before they are transferred to KAM project account There was an unexplained difference (excess) of Kshs 4,972 between KAM's records and bank statement as at 30 June 1998
- b) Total expenditure reviewed amounted to Kshs 13,440,317 of this expenditure Kshs 6,959,329 was questioned
- c) Export development fund expenditure includes Kshs 880,822 relating to promotion costs
- d) Expenditure on some activities has already exceeded the budget

2 2 3 Questioned expenditure

Finding

As more fully analysed at Appendix 1 questioned costs totalling Kshs 6,959 329 summarise as follows

	Kshs
Expenses not fully supported	170 852
Expenditure not approved by USAID	5,104,730
Expenditure not approved by KAM Director	5,940,021
Procurement procedures not correctly followed	4,563,593
Expenditure in excess of budget	741,155

Note that certain expenses fall in more than one category of questioned costs

Recommendation No 1

- a) Supporting documents in respect of expenditure amounting to Kshs 170,852 should be located If this is not possible, KAM should refund this amount to USAID
- b) KAM should obtain USAID approval for Kshs 5,104,730 questioned
- c) The KAM Director should retrospectively approve Kshs 5,940,021 of questioned costs
- d) KAM should retrospectively provide evidence that appropriate procurement procedures were followed in respect of expenditure totalling Kshs 4,563,593
- e) KAM should retrospectively obtain USAID approval of Kshs 741 155 expenditure over budget If the approval cannot be obtained, KAM should refund the amount to USAID

KAM comments

- a) This refers to 21% salary increase for KEDS staff in January 1998. The budget provided for only 10% increase. KAM should have sought prior approval from USAID before implementation. The additional increase was intended to pay for the Team's change of contract to include payment of statutory deductions.

Solution

KAM is to seek retroactive approval for this expenditure from USAID

- b) KAM is already seeking retroactive approval of Kshs 6,994,636 from USAID
- c) Expenditure not approved by KAM Chief Executive of Kshs 5,940,021. This was an unprocedural case where the Chief Executive, instead of approving, verified the payment vouchers. He in fact verified and approved at the same time. This violates accepted internal control checks for approving payments.

Solution

The Finance sub-committee authorised Mr David Percival, Board Member, to counter approve all the expenditure under question. A stamp for KAM Director is being made to speed this up.

- d) KAM is in the process of seeking retroactive approval for the procurements covering Kshs 4,563,593 from USAID. All background data to each transaction is being put together before Mr Percival approves.
- e) KAM has already, in June 19, 1998 sought approval of Kshs 734 880 expenditure over budget. Still awaiting USAID's response.

Auditors' response

Agreed. However (a) refers to other unsupported expenditure. See Appendix 1

2 2 4 Promotion expenditure

Finding

Export Development Promotion costs were charged to the Export Development Fund instead of being classified as Technical Assistance.

Recommendation No 2

Reclassify Export Development Promotion costs

KAM comments

KAM and USAID should agree on the matter taking into account the budget provision on this line item.

**KAM COUNTERPART CONTRIBUTION
FUND ACCOUNTABILITY STATEMENT FOR THE PERIOD
JANUARY 8 1997 TO JUNE 30 1998**

	<u>Budget</u> US\$	<u>Budget</u> Kshs	<u>Actual</u> Kshs	<u>Accepted</u> Kshs	<u>Unsupported</u> Kshs
INSTITUTIONAL SUPPORT DEVELOPMENT					
a) Technical Workshops 3 per year i) Nairobi seminar ii) Eldoret seminar iii) Mombasa seminar iv) WTO seminar – Nairobi Serena v) VAT seminar – Nairobi safan club	15,120	831,600	282,617	-	282,617
b) Policy Dialogue lunch meetings	7,560	415,800	-	-	-
c) Office space 265 7 sq ft @ Kshs 45 per sq ft	3 818	209 990	167 391	167 391	-
d) Staff salanes • KAM Executive officer • Secretary (100%) • Dnver (100%)	27 489 13,746 9,164	1 511,895 756,030 504,020	564,240 349,692 117,530	556,276 312,892 117 530	7,964 36,800 -
e) KAM direct expenditure	-	-	1,041,131	55,896	985,235
f) KAM members participation at International Trade Fair	39,915	2,195,325	64 285	-	64,285
g) Training in Export promotion by other donors	-	-	1,120,320	-	1,120,320
UB-TOTAL	116,812	6,424,660	3,707,206	1,209,985	2,497,221
FIRM LEVEL ASSISTANCE					
a) Export Development Fund	645,176	35,484,680	4,635,926	1 452 402	3,183,524
UB-TOTAL	645,176	35,484,680	4,635,926	1,452,402	3,183,524
GRAND TOTAL	761,988	41,909,340	8,343,132	2,662,387	5,680,745

2 3 FINDINGS AND RECOMMENDATIONS

2 3 1 Sample selection criteria

We vouched 100% of the expenditure reported to USAID as KAM counterpart contribution

2 3 2 Audit results

- Total expenditure reviewed amounted to Kshs 8,343,132 of this expenditure Kshs 5,680,745 was questioned
- There was no clear definition of cost that constituted the 35% KAM's counterpart contribution

2 3 3 Questioned costs

The expenditure recorded in Appendix II was not fully supported

Recommendation No 3

We recommend that KAM claim for counterpart contributions in accordance with the agreement. Further it should be able to fully support all expenditure which is claimed in this respect.

KAM comments

USAID has a clear idea that KAM's contribution must exactly follow agreed budget items. However, KAM did not realise how much they could be forced to spend where budget line items have not been set out in the original budget. This is a flaw in the original project request. KAM is requesting that these items that KAM spent which supported KEDS Project can be considered as part of the KAM's contribution in compliance with the Co-operative agreement provision on page 37.

Price Waterhouse



3 INTERNAL CONTROL STRUCTURE

3.1 INDEPENDENT AUDITORS' REPORT ON INTERNAL CONTROLS

We have audited the Fund Accountability Statement of KAM as of and for the eighteen months period from January 8 1997 to June 30, 1998 and have issued our report thereon dated August 1998

We conducted our audit in accordance with the generally accepted auditing standards and the standards contained in the Government Auditing Standards, issued by the Controller General of the United States (1994 Revision), with the exception that we have not been subject to a quality control review by a non Price Waterhouse firm. Such reviews are not required or available to professional firms in Kenya. We do not believe that this departure from Government Auditing Standards has affected our audit. We were subject to an external quality control review in July 1995 undertaken by a Price Waterhouse firm independent of our firm.

The standards require that we plan and perform the audit to obtain reasonable assurance as to whether the Fund Accountability Statement is free of material misstatement.

In planning and performing our audit of the Fund Accountability Statement of KAM we considered the internal control structure related to the AID funded programs and projects 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 KAM 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 assets are safeguarded against loss from unauthorised use or disposition, and that transactions are executed in accordance with management's authorisation and recorded properly to permit the preparation of financial statements in accordance with the basis of accounting described on Note 2 to the Fund Accountability Statement. 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 operations of policies and procedures may deteriorate.

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

Control Environment

- financial management capabilities
- personnel policies and practices
- familiarity with USAID rules and guidelines

Accounting System



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

Control Procedures

- authorisation of transactions and activities
- written procedures
- bank reconciliations

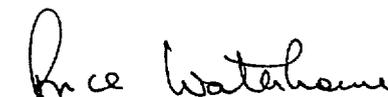
For all of the control categories listed above, we obtained an understanding of the design or relevant policies and procedures and whether they have been placed in operation and we assessed control risk

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 organisation's ability to record, process, summarise and report financial data consistent with the assertion of management in the Fund Accountability Statement.

A material weakness is a reportable condition in which the design or operation of the specific internal control structure elements does not reduce to a relatively low level the risk that errors or irregularities in amounts that would be material in relation to the 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 internal control structure would not necessarily disclose all matters in the internal control structure that might be reportable conditions and, accordingly, would not necessarily disclose all reportable conditions that are also considered to be material weaknesses as defined above. However, we believe that of the reportable conditions described above, the only material weakness was that

- payment vouchers were prepared by the accounts clerk and approved by the Director. The Accountant was not involved in transactions processing, thus significantly reducing segregation of duties and the scrutiny of payments. This created a significant risk of fraud to the organisation.

This report is intended for the information of KAM, and the US Agency for International Development (AID). However, upon acceptance by the AID office of the Inspector General, this report is a matter of public record and its distribution is not limited.


Certified Public Accountants

10 9 1998

3 2 INTRODUCTION

Definition

The American Institute of Certified Public Accountants (AICPA) Codification of Auditing Standards Section 319, defines an organisation's internal control structure as consisting of the policies and procedures established to provide reasonable assurance that a specific entity's objective will be achieved. The internal control structure comprises three elements:

- the control environment
- the accounting system
- control procedures

The control environment reflects the overall attitude, awareness and actions of management. The accounting system consists of methods and records established to identify, assemble, analyse, classify, record and report transactions. Control procedures are those policies and procedures in addition to the control environment and accounting system that management has established to safeguard the organisation's resources.

In section 3.3 below, we have classified our findings and recommendations by these categories as they apply to the respective auditee's internal control structure.

Work performed

We reviewed the internal control structure of KAM and obtained an understanding of the design relevant procedures and assessed control risk. Our review considered the significant internal control structure and procedures categorised as follows:

Control Environment

- financial management capabilities
- personnel policies and practices
- familiarity with USAID rules and guidelines

Accounting System

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

Control Procedures

- authorisation of transactions and activities
- written procedures
- bank reconciliations

3 3 FINDINGS AND RECOMMENDATIONS

3 3 1 Control Environment

The overall control environment was considered to be moderate. The qualified staff employed for the project were rarely involved in the financial management of the project. The responsibility was assigned to technical staff who were not very familiar with USAID rules and regulations concerning its grants.

The following weaknesses were noted:

Obtaining prior USAID approval on expenditure not budgeted for

Finding

KAM had incurred expenditure amounting to Kshs 5,104,730 without prior approval from USAID. This could lead to USAID rejecting the payment of the amounts.

Recommendation

Refer to recommendation 1

Segregation of duties

Finding

Currently the accounts clerk involved in the preparation of cheques delivers them to the Chief Executive Officer and other directors for signature. He then despatches the cheques to the payees. The accountant employed by USAID is not involved in transaction processing. There is a risk of alteration of the amount payable without the knowledge of management, and that inadequate scrutiny of payments will be made.

Recommendation No. 4

There should be a segregation of duties in the preparation of cheques for payment delivery to various directors for signatures and the despatch of the same to the payee.

KAM comments

KAM agrees to the segregation of duties in the preparation of cheques for payment, delivery to various bank signatory directors and dispatch of the same to the payee. All payments shall be prepared by the accounts staff, checked for accuracy, purpose and coding by the Accountant before approval by the chief executive who is the 1st cheque signatory followed by any of the designated bank signatory.

Auditors Response

KAM has since taken action to ensure that there is now adequate segregation of duties.

Checking of payment vouchers

Finding

Payment vouchers are prepared by the accounts clerk and approved by the Chief Executive Officer.

Recommendation No. 5

The accountant should review payment vouchers after their preparation and before approval by the Chief Executive Officer.

KAM comments

As in Recommendation No 4 above, all payment vouchers shall be reviewed by the Accountant before approval by the Chief Executive

3 3 2 Accounting system

KAM was using a manual accounting system. However, with effect from January 1998, KAM is computerising the accounting system. Hogia Accounting Package is being used which includes a budgeting system.

A separate bank account is maintained for USAID funds.

Overall, we found controls over accounting systems to be weak. The following weaknesses were noted:

Preparation of incorrect expenditure reports

Finding

Quarterly reports prepared and submitted to USAID were rejected for incorrectness. A detailed report for the project expenditure for eighteen months was prepared and submitted to USAID. Our review of this report revealed an omission error amounting to Kshs 175 339. Submission of wrong reports could lead to suspension of aid by USAID.

Recommendation No 6

Expenditure reports submitted to USAID should be reviewed for correctness by a responsible official.

KAM comments

KAM agrees that the Accountant shall review the expenditure reports submitted to USAID for correctness.

Stamping of supporting documents

Finding

We noted that invoices, payment vouchers and their supporting documents were neither stamped "Paid" nor cancelled. Such documents may be fraudulently represented for multiple payments.

Recommendation No 7

Supporting documents should be stamped "Paid" or cancelled upon payment.

KAM comments

KAM, through the Accountant is going to ensure that all supporting documents are stamped PAID or CANCELLED upon payment.

Acknowledgement of cheque receipts by payees

Finding

Although a cheque despatch register is maintained, there was no evidence of the payee collecting the cheque. Duly signed cheque register could be used as evidence of despatch in case of a dispute arising.

Recommendation No 8

The recipient of payment cheques should acknowledge receipt by signing the cheque despatch register

KAM comments

Henceforth all recipients of payment cheques shall acknowledge receipt by signing the cheque despatch register

Attachment of supporting documents to payment voucher and review by cheque signatories

Finding

We noted that supporting documents are not attached to payment vouchers and reviewed before payment is processed

Fictitious payments could go undetected

Recommendation No 9

Supporting documents should be attached to the payment vouchers and reviewed by cheque signatories before signing the cheques

KAM comments

Henceforth supporting documents shall be attached to the payment vouchers and reviewed by the cheque signatories before signing the cheques

Beneficiary evaluation forms should be initialled

Finding

We noted that the beneficiary evaluation forms are not initialled or signed by both KAM officials carrying out the field visits and the applicants
Initialling or signing of the beneficiary evaluation forms will create a sense of responsibility and an avenue of future follow up

Recommendation No 10

Beneficiary evaluation forms should be initialled and signed by both the evaluator and the beneficiary acknowledging the authenticity of the information therein

KAM comments

The beneficiary evaluation forms shall be signed by the evaluator. The beneficiary signs on the Application form for Assistance and also on the Grant Agreement between KAM and the beneficiary. Evaluation form is an internal working document which helps the evaluator know more about the applicant

3 3 3 Control procedures

Adequate control procedures exist at KAM to ensure the organisation's resources are safeguarded. We however noted several weaknesses

Cash Balances Reconciliations

Finding

Our review of income, expenditure and cash balances as at 30 June 1998 recorded an unexplained difference of Kshs 4,972

The reconciliation will help to counter check the correctness of income and expenditure

Recommendation No. 11

USAID cash balances should be reconciled to the expenditure and income on a regular basis

KAM comments

The monthly review of cash balances to income and expenditure is currently being performed

Prompt banking of cheques received

Findings

We noted that the cheques receipt register only records the date the cheque is received, the drawer and the amounts. There was no evidence of independent review against the banking. Review of the cheque receipt register against banking slips will ensure that cheques are promptly banked.

Recommendation No. 12

The cheque receipt register should be independently reviewed

KAM comments

KAM is enforcing the independent review of cheque Receipt Register by the Accountant

Tagging and recording of Fixed Assets

Findings

Some project fixed assets have no identification. Misappropriation of such assets could therefore go undetected. Adequate tagging, preferably including the use of an indelible ultra violet pen, will also assist recovery in the event of theft. In addition we noted that some assets delivered to KAM by USAID in 1992 were not recorded anywhere. Misappropriation of these assets may occur without the knowledge of management.

Recommendation No. 13

All fixed assets should be tagged and recorded in the fixed assets register

KAM comments

KAM is to tag and record in the Fixed Assets register all the fixed assets. The register is currently being updated by the accounts staff

Disposal of idle assets

Findings

The following unused project assets were noted

- Computer Dynex 386
- Okidata Wire Printer 500
- Canon Portable Typewriter

Recommendation No.14

Idle, old, obsolete or damaged assets should be disposed of with approval from USAID

KAM comments

KAM is to list all idle, old obsolete or damaged USAID funded assets and seek USAID's approval to dispose the same assets if there is a USAID disposal process this will be followed

Use of project assets

Finding

We found that a vehicle, Mazda KAC 332W, funded and still owned by USAID was not being used solely for the project

Recommendation No. 15

The project vehicle should be used solely for the project

KAM comments

On December 19, 1997, one KAM vehicle allocated to a KAM Officer was stolen. At the time, KAM had a fleet of 5 vehicles 4 allocated to Officers' use and one was used as a pool car. Consequently, after the theft, the fleet was reduced to 4. The KEDS vehicle was then allocated to the Officer whose vehicle was stolen. Since the vehicle that was stolen was insured, the money has so far been paid but KAM is in a financial problem and was not able to replace the stolen vehicle immediately. However, the KAM Finance sub-committee is currently discussing a car loan scheme which will enable all officers to own vehicles and maintain them. This will enable the transfer of KEDS vehicle back to only project related activities

Reconciliation of the General ledger

Finding

We noted that the schedule of expenses submitted to USAID did not agree with the postings made in the analysis book. The differences resulted from the fact that the amounts and/or the account was not correct

The schedule of expenses was prepared on the basis of the payment of vouchers only

In order to have control over cost, the analysis books should reflect the true amounts and accounts resulting from the vouchers

Recommendation No. 16

The cash analysis book (general ledger) should be reconciled to the payment vouchers and the schedule of expenses submitted to USAID and any resulting differences promptly investigated

KAM comments

The cash analysis book (general ledger) shall be reconciled to the payment vouchers and the schedule of expenses submitted to USAID. However, KAM is introducing computerized ledger which will ensure that payments are regularly processed, posted and automatically updates the ledger. Differences will be promptly investigated

Payment of VAT

Finding

We noted that KAM was paying input VAT on the supplier invoices

Given the nature of KAM's activities, it is possible that VAT exemption may be granted by the relevant authorities

Recommendation No. 17

KAM should apply for VAT exemption in order to minimise cost

KAM comments

The Acting chief Executive is in the process of applying for VAT exemption from the Treasury

Price Waterhouse



4 REPORT ON COMPLIANCE WITH TERMS AND APPLICABLE LAWS AND REGULATIONS

4.1 INDEPENDENT AUDITORS' REPORT

We have audited the fund accountability statement of the KAM for the eighteen months period from January 8, 1997 to June 30, 1998 and have issued our report thereon dated August 1998

We conducted our audit in accordance with the generally accepted auditing standards and the standards contained in the Government Auditing Standards, issued by the Controller General of the United States (1994 Revision), with the exception that we have not been subject to a quality control review by a non Price Waterhouse firm. Such reviews are not required or available to professional firms in Kenya. We do not believe that this departure from Government Auditing Standards has affected our audit. We were subject to an external quality control review in July 1995 undertaken by a Price Waterhouse firm independent of our firm.

Those standards require that we plan and perform the audit to obtain reasonable assurance as to whether the Fund Accountability Statement is free of material misstatement.

Compliance with agreement terms and laws and regulations applicable to KAM is the responsibility of KAM management. As part of our obtaining reasonable assurance about whether the fund accountability statement is free of material misstatement, we performed tests of KAMs compliance with certain provisions of agreement terms and laws and regulations. However, our objective was not to provide an opinion on overall compliance with such provisions. Accordingly, we do not express such an opinion.

Material instances of non-compliance are failures to follow requirements or violations of agreement terms and 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 test of compliance disclosed no material instances of non-compliance. The effects of insignificant instances of non-compliance are shown as questioned costs in KAM fund accountability statement for the eighteen months, from January 8, 1997 to June 30, 1998.

The results of our test of compliance indicate that KAM complied, in all material respects, with the provisions referred to in the third paragraph of this report.

This report is intended for the information of KAM and the US Agency for International Development (AID). However, upon acceptance by AID office of Inspector General, this report is a matter of public record and its distribution is not limited.


Certified Public Accountants

10 9 1998

4.2 WORK PERFORMED

Our audit of the Kenya Association of Manufacturers (KAM) included obtaining assurance that the KAM complied with grant provisions. Procedures performed to test such compliance included the following:

- a review of the Co-operative Agreement provisions and related regulations to identify those provisions and regulations which could have a material effect on the Fund Accountability Statement
- audit procedures including detailed testing to confirm the KAM compliance with these provisions and regulations

4.3 FINDING AND RECOMMENDATIONS

Non adherence to procurement of goods and services procedures

Finding

We noted that KAM was not following USAID procurement of goods and services guidelines. Expenditure amounting to Kshs 4,563,593 was incurred without following the guidelines. Non adherence to the guidelines may deny KAM value for its money and create the risk of a fraud occurring within the procurement arrangements.

Recommendation No. 18

KAM should adhere to USAID requirements for procurement of goods and services.

KAM comments

Agreed

KAM's counterpart contribution

Finding

We noted that the provision on "Debarment, suspension, ineligibility and voluntary exclusion", was not included in the subcontracts entered.

We also noted that the provision on "Investment Promotion" was not included in the subcontracts.

Non-compliance with USAID rules could lead to the suspension of the grant agreement.

Recommendation No. 19

Subcontracts should include all provisions stated in the grant agreement.

KAM comments

Agreed

Banking of USAID Funds

Finding

We noted that when cheques are received from USAID, they are first banked into KAM's main account and later transferred to the project account. The USAID agreement requires that USAID money be banked into a separate account and all disbursements made from the same account.

Recommendation No. 20

Cheques received from USAID should be banked promptly into the project account.

KAM comment

Agreed

Export Development Fund Payments

Finding

USAID had advanced funds to KAM to reimburse manufacturers under expenditure for the Export Development Fund. Due to KAM using these funds for unapproved purposes, they had insufficient funds to reimburse manufacturers as appropriate. The value that was not advanced on a timely basis was Kshs 3.2 million.

Recommendation No. 21

Claims made by beneficiaries should be reimbursed on a timely basis.

KAM comments

KAM shall reimburse EDF claims on a timely basis. Only in one case KAM was not advanced and in this case the EDF Grant was not given.

Auditors response

KAM had been advanced sufficient funds but had used them for unapproved purposes.

Banking of cheques received from USAID

Finding

Funds received from USAID are banked in a current account with Barclays Bank of Kenya. No interest is earned on the fund balances.

Recommendation No. 22

Funds received from USAID should be banked in an interest earning bank account. KAM should negotiate with their current bankers to pay interest on the fund balances or transfer the funds to an interest earning account.

KAM comments

KAM will directly bank refunds received from USAID in the KEDS Project Account and will negotiate with Barclays Bank to regularly earn interest on fund balances.

Income from publications

Finding

Our review revealed that the sales proceeds arising from the sale of the market surveys was not put into the project account but was put into KAM's main account

Recommendation No 23

Income arising from USAID funded activities should be considered as part of the USAID contribution

KAM comments

Agreed

Employees statutory deductions

Finding

The employment contract entered between KAM and the project employees imply that statutory deductions should be borne by the employer. However, with effect from January 1998, the employer is deducting PAYE from the employees salaries. This has led to a dispute between the two parties

Recommendation No 24

Employment contracts entered between project employees and KAM should clearly define who is responsible for the payment of statutory deductions

KAM comments

KAM has made the employees pay at source all statutory deductions

Payment of PAYE and statutory deductions to the relevant authority

Finding

Contrary to the regulations PAYE for the period May to December 1997 and NHIF, NSSF and service charge from May 1997 to date were neither deducted nor submitted to the relevant authorities. KAM is exposed to penalties at 3% of the amounts outstanding compounded monthly, if discovered by the income tax department

Recommendation No 25

Statutory deductions should be deducted from all employees and submitted to the relevant authorities on time

KAM comments

As in Recommendation 24 above

**AGENCY CONTRACTED AUDIT OF THE
KENYA ASSOCIATION OF MANUFACTURERS
REDSO/EAS COOPERATIVE AGREEMENT
NUMBER 623-0249-A-00-7012-00**

5 REPORT ON GENERAL PURPOSE FINANCIAL STATEMENTS

We have reviewed the accounts of KAM as at 31 December 1997, which were audited by Gill & Johnson, part of Deloitte & Touche Tohmatsu International. The accounts do not include the finances of the project. The accounts show for 1997 an operating deficit of Kshs 2.4 million, and net current liabilities of Kshs 4.6 million.

Given that current assets include a balance of Kshs 1.7 million for the staff provident fund and Kshs 6 million of USAID funds for the KEDs project, actual current assets are Kshs 1.3 million and net current liabilities therefore Kshs 10.6 million.

We consider that KAM is in significant financial difficulty and that there is a risk it will not be able to meet its obligations under the project.

USAID requires that its funds be banked in separate bank accounts and used only for approved purposes. It is in the context of this poor financial position, and in particular a bank overdraft of Kshs 7.5 million that KAM used USAID funds to clear other liabilities. Whilst these funds have been repaid, this resulted in funds not being available for their intended purpose.

KAM is currently incurring bank overdraft interest charges of Kshs 2.2 million per annum. This represents a large proportion of its deficit. KAM needs to take urgent action to put itself on a sound financial footing. This should involve a complete review of income and expenditure to clear the deficit, and ideally the disposal of assets to clear part of the bank overdraft. We note that KAM is currently selling a plot of land for Kshs 2.5 million to this effect.

Other income for KAM

These issues do not directly affect the project but the overall financial viability of KAM.

Finding

As at 30 June 1998, the outstanding subscription fees from members amounted to Kshs 5,278,050. There is no employee who is assigned to follow up and collect outstanding subscriptions. Any employee can collect the fees from members, and is paid a commission of 2% of the collected fees.

Improving subscription fees collection will ensure that KAM has adequate funds to use in their daily running, thereby reducing the overdraft balances.

Recommendation No. 26

Collection of outstanding subscription fees from members should be improved. A responsible official may be appointed to follow up the outstanding fees.

KAM comments

KAM has now selected a firm to collect outstanding subscriptions for 1997 from members to improve the Association's cash flow situation. The Accountant will be responsible for following up collection of current outstanding subscription fees.

Recommendation No 27

KAM management should recharge part of the costs incurred in organising for members' seminars and symposiums to participating members

KAM comments

Currently, all seminar costs are being funded by the participating members

APPENDICES

**USAID CONTRIBUTION
QUESTIONED COSTS**

DATE	ACTIVITY	AMOUNT	Expenses not supported	Expenses not approved by USAID	Expenses not appropriately approved by C E O	Expenses not properly procured
04/09/97	Study tour	105 840		105 840	105 840	
04/30/97	Study tour	45 255		45 225	45 255	
08/14/97	Study tour	5 332			5,332	
07/18/97	Study tour	58 389			58 389	
06/25/98	Study tour	(35 664)		(35 664)		
07/31/97	In-house training	187 500		187 500	187,500	187 500
06/18/97	Volunteer Leader	60 000	60 000			60,000
06/30/97	Staff salaries	72 600		72 600		
04/09/97	Intern Trade Show	101 520		101 520	101,520	
04/30/97	Intern Trade Show	22 815		22 815	22 815	
05/28/97	Intern Trade Show	136,524			136 524	
06/12/97	Intern Trade Show	63,010			63,010	
07/18/97	Intern Trade Show	34,440			34,440	
07/22/97	Intern Trade Show	6 860			6,860	
08/08/97	Intern Trade Show	159		159	159	
10/02/87	Intern Trade Show	50 645			50,645	
10/30/97	Intern Trade Show	93,215		93 215	93 215	
11/27/97	Intern Trade Show	7,846			7,846	
12/08/97	Intern Trade Show	27 845		27 845	27 845	
02/17/98	Intern Trade Show	72 912		72 912	72 912	
03/13/98	Intern Trade Show	17 670		17 670		
05/12/97	Market Information	8,790			8 790	

APPENDIX 1

DATE	ACTIVITY	AMOUNT	Expenses not supported	Expenses not approved by USAID	Expenses not appropriately approved by C E O	Expenses not properly procured
03/25/98	Buyer Mission	33,000		33 000	33 000	33 000
04/30/97	Market Surveys	349 800		349 800	349 800	349 800
05/07/97	Market Surveys	542 160		542 160	542 160	542 160
06/25/97	Market Surveys	140 452		140 452	140 452	140 452
06/12/97	Market Surveys	144 779		144 779	144 779	144 779
06/26/97	Market Surveys	23 050		23 050		23 050
07/02/97	Market Surveys	3 852	3 852	3 852		3 852
10/08/97	Market Surveys	349,800		349 800		349 800
11/12/97	Market Surveys	446 400		446 400	446 400	446,400
12/05/97	Market Surveys	124 000		124 000	124 000	124 000
01/15/98	Market Surveys	884 800		884 800	884 800	884,800
01/27/98	Market Surveys	186 000		186 000	188 000	186 000
03/13/98	Market Surveys	13 000		13 000	13 000	13 000
10/08/97	Computers	250 000		250 000		250 000
12/19/97	Computers	207,500			207,500	
03/09/98	Computers	207 500			207,500	
07/03/97	Computer Upgrades	107 000	107,000	107 000	107 000	107 000
04/09/97	STTA Systems Specialist	364 000		364,000	364,000	364 000
10/05/97	STTA Systems Specialist	146,000		146 000		146 000
11/12/97	STTA Systems Specialist	150,000		150 000	150 000	150 000
04/09/97	Slide Projector	58 000		3 000	58 000	58,000
05/12/97	Vehicle Maintenance	99 182			99 182	
10/21/97	Vehicle Maintenance	66 010			66 010	
10/30/97	Vehicle Maintenance	24 851			24 851	
10/30/97	Vehicle Maintenance	14,950			14 950	

APPENDIX 1

	ACTIVITY	AMOUNT	Expenses not supported	Expenses not approved by USAID	Expenses not appropriately approved by C E O	Expenses not properly procured
07/02/97	Export Developm Fund	137,836			137,836	
12/02/97	Export Developm Fund	4,397			4,397	
12/05/97	Export Developm Fund	209,662			209,662	
12/11/97	Export Developm Fund	69,275			69,275	
12/11/97	Export Developm Fund	228,569			228,569	
01/22/98	Export Developm Fund	1,500			1,500	
02/03/98	Export Developm Fund	96,501			96,501	
06/30/98	Export Developm Advisor	132,000		132,000		
TOTAL		6,959,329	170,852	6,104,730	5,940,021	4,563,593

**KAM/KEDS COUNTERPART CONTRIBUTION
QUESTIONED COSTS**

DATE	ACTIVITY	AMOUNT	Expenses not supported	Expenses not approved by USAID	Expenses not adequately approved by C E O	Expenses not adequately procured
04/21/97	Technical Workshops	79 202			79,202	
05/29/97	Technical Workshops	42 973			42 973	
04/21/97	Technical Workshops	33 698			33 698	
06/16/97	Technical Workshops	57 719	57 719		57,719	
05/12/97	Technical Workshops	19 460			19 460	
06/30/98	Technical Workshops	49,565	49,564			
04/30/97	KAM Direct Expenses	150 000			150 000	150 000
04/11/97	KAM Direct Expenses	45,602			45 602	45 602
04/25/97	KAM Direct Expenses	1,000			1 000	
05/12/97	KAM Direct Expenses	20 050			20,050	
05/12/97	KAM Direct Expenses	10 500			10 500	10 500
06/16/97	KAM Direct Expenses	20 050			20 050	
07/01/97	KAM Direct Expenses	27 355			27 355	
07/03/97	KAM Direct Expenses	15,900			15,900	15 900
07/30/97	KAM Direct Expenses	19 600			19,600	19 600
08/07/97	KAM Direct Expenses	68 450			68 450	68,450
08/14/97	KAM Direct Expenses	57,155			57,155	
08/14/97	KAM Direct Expenses	10 770			10 770	
08/21/97	KAM Direct Expenses	112 000			112 000	112 000
10/21/97	KAM Direct Expenses	2 000			2 000	
10/30/97	KAM Direct Expenses	63 385			63,385	63 385
10/30/97	KAM Direct Expenses	34,807			34 807	
11/22/97	KAM Direct Expenses	9 600			9 600	
12/02/97	KAM Direct Expenses	16 617			16 617	
12/19/97	KAM Direct Expenses	31,400			31,400	
12/19/97	KAM Direct Expenses	31 220			31 220	
12/19/97	KAM Direct Expenses	9 512			9 512	9 512
12/19/97	KAM Direct Expenses	10 168			10 168	

APPENDIX II

DATE	ACTIVITY	AMOUNT	Expenses not supported	Expenses not approved by USAID	Expenses not adequately approved by C E O	Expenses not adequately procured
12/19/97	KAM Direct Expenses	7,816			7 816	
06/12/97	KAM Direct Expenses	18 000			18 000	
01/06/98	KAM Direct Expenses	78 364			78 364	
02/05/98	KAM Direct Expenses	2 000	2 000		2,000	
02/05/98	KAM Direct Expenses	3 750			3 750	
02/06/98	KAM Direct Expenses	16 163			16,163	
01/06/98	KAM Direct Expenses	31 095			31 095	
07/24/97	KAM Direct Expenses	4 500	4 500		4 500	
08/25/97	KAM Direct Expenses	4 500	4,500		4 500	
09/25/97	KAM Direct Expenses	4 500	4 500		4 500	
10/24/97	KAM Direct Expenses	4 500	4 500		4 500	
11/24/97	KAM Direct Expenses	4 500	4 500		4 500	
01/26/98	KAM Direct Expenses	4 500	4 500		4 500	
02/26/98	KAM Direct Expenses	5 000	5 000		5,000	
10/03/97	KAM Direct Expenses	28 906			28 906	
10/02/97	KAM Members Particip	64 285			64 285	
06/30/97	Training paid by donors	1 120 320	1 120 320			
06/30/98	Staff Salaries	36 800	36 800			
06/30/98	Staff Salaries	7 964	7 964			
06/30/98	Export Development Fund	3 183 524	3,183 524			
TOTAL		5,680,745	4,489,891	-	1,282 572	494,949

**FOLLOW UP ON IMPLEMENTATION OF THE PROPOSED PRE-AWARD AUDIT
RECOMMENDATION PROPOSED BY DELOITTE AND TOUCHE**

CHAPTER	RECOMMENDED ACTION	REQUIRED ACTION FROM KAM	STATUS
	USAID Kenya should include a provision in any agreement executed with Kenya Association of Manufacturers (KAM) requiring them to implement all the recommendations made on the improvement of the financial management system, property management system, procurement system, personnel policies and travel policies as a condition of continued USAID funding	No action from KAM required	USAID included the provision in the Co-operative Agreement Number 623-0249-A-00-7012-00 between them and KAM
FINANCIAL MANAGEMENT SYSTEM	(1) Production of monthly management accounts on accrual basis	(a) Employment of a fully qualified Chief Accountant (b) Setting up the System of an accrual basis of accounting	Implemented A Chief Accountant Mrs Were was recruited in May 1997 Not implemented KAM accounts are still maintained on a cash basis
	(2) Preparation of Annual Financial Statement to incorporate project activities	Current accounting staff to start this activity	Partially implemented Audited accounts for the year ended 31 December 1997 only included the outstanding cash and bank balances from USAID, and fixed assets, but did not include the expenses incurred under the project

CHAPTER	RECOMMENDED ACTION	REQUIRED ACTION FROM KAM	STATUS
		<ul style="list-style-type: none"> • Stepping up Recruitment of new members and speedy recovery of subscriptions from existing members • Policy shift from immediate settlement of supplies accounts in order to enjoy some credit period • Organising for Seminars and Symposiums for members and charging a reasonable fee for them 	<p>Not implemented The number of members has not changed significantly over the last one and a half years The amount of uncollected subscription fees is accumulating every day We have included this in our report</p> <p>Now implemented KAM enjoys 30 days credit period from the suppliers</p> <p>Not implemented Although seminars and symposiums for members are being held, the amount of fee collected from them is minimal We have put a recommendation of how this can be improved in our report</p>
	(3) Putting into place a proper fixed assets register	To be implemented	Partially implemented The Chief Accountant is in the process of compiling one
	(4) Transactions Recording System	<ul style="list-style-type: none"> • Dispensing of the main cash book since the information is contained in the cash receipts book 	Not implemented Both books are still maintained

22

CHAPTER	RECOMMENDED ACTION	REQUIRED ACTION FROM KAM	STATUS
	<p>Posting of nominal ledger from quarterly to monthly to enable monthly management accounts to be produced</p>	<ul style="list-style-type: none"> • Choosing between the Cash Receipts Book and the Cash Payments Analysis Book so that total monthly receipts can be set against total monthly payments instead of using two books at the same time • Eliminating the main cash book so that cheque payments will only be recorded in the cash payments analysis book • Discontinuation of process of transferring Petty Cash expenses from Petty Cash Book to the cash payments analysis book before posting to the nominal ledger Petty Cash Book will be used in future to record petty expenses • Accounting staff to start this activity 	<p>Not implemented</p> <p>Not implemented</p> <p>Not implemented</p>

34

CHAPTER	RECOMMENDED ACTION	REQUIRED ACTION FROM KAM	STATUS
	<p>(5) Expand KAM Secretariat by filling vacant positions and creating other necessary positions e.g. of information/data analyst, so as to enhance operational and financial control environment</p>	<ul style="list-style-type: none"> • Identify vacant posts • Identify other posts that should be created • Work out the necessary remuneration package for various posts • Fit the costs of remuneration package within the KAM Annual Budget • Advertise for vacant posts 	<p>Not implemented</p>
	<p>(6) (a) Opening a Cheques received Register separate from other mail received</p> <p>(c) Regular review to ensure that cheques received are recorded in the Cash Receipts Book</p>	<p>As per recommendation</p> <p>As per recommendation</p>	<p>A cheque received register has now been opened</p> <p>Not implemented</p>

35

CHAPTER	RECOMMENDED ACTION	REQUIRED ACTION FROM KAM	STATUS
	<p>(7) (a) Discontinuation of the current payment voucher numbering system and introduction of a pre-printed number system to control use of payment vouchers</p> <p>(b) Attaching of LPOs and GRNS to the invoice before payment is made</p>	<p>Implement the recommended system</p>	<p>Not implemented KAM is still using the old numbering system despite having pre-numbered vouchers</p>
	<p>(8) Improve on the control over petty cash</p> <ul style="list-style-type: none"> • Using of Petty Cash Vouchers each time petty cash is withdrawn and obtaining appropriate authorisation • Obtaining receipts with supplier's letterheads or stamp, e.g. from supermarkets Alternatively, use of an explanatory note from Senior KAM Officer as 	<p>As per recommendation</p> <p>As per recommendation</p>	<p>None of the proposed controls over petty cash have been implemented. KAM management needs to implement these recommendations to ensure that cash is not misappropriated. An imprest system should be introduced.</p>

CHAPTER	RECOMMENDED ACTION	REQUIRED ACTION FROM KAM	STATUS
	<p>to why an official receipt could not be obtained</p> <ul style="list-style-type: none"> • Conducting surprise petty cash counts and reconciliation with petty cash book balance • Revising of petty cash float to an appropriate level 	<p>As per recommendation</p> <p>As per recommendation</p>	
	<p>(9) Review and initialling of monthly bank reconciliations by the Chief Executive</p>	<p>As per recommendation</p>	<p>Not implemented The Chief Accountant reviews the bank reconciliation for KEDS account</p>
	<p>(10) (a) Maintaining of debtors accounts (for unpaid members) and following up collections by Secretanat</p> <p>(b) Introducing a credit period of 30 days and surcharging subscriptions not paid within this period</p>	<p>As per recommendation</p> <p>KAM Executive Committee to consider and approve</p>	<p>Not implemented</p>

CHAPTER	RECOMMENDED ACTION	REQUIRED ACTION FROM KAM	STATUS
PROPERTY MANAGEMENT SYSTEM	(11) Operating permanent fixed asset register giving specific details of assets e.g. date of acquisition, cost, location, serial number, accumulated depreciation, net book value and details of disposal (when disposed)	KAM to implement this system	Partially implemented The Chief Accountant is in the process of compiling one
	(12) Operating of motor vehicle usage log book for each KAM vehicle and keeping records of cost per vehicle	KAM to consult other companies/employers on system used	Implemented
	(13) Maintaining office equipment on a regular basis (e.g. computers, photocopiers, telephones etc) in order to guard against serious cases of equipment breakdowns. This will be implemented by opening a	<ul style="list-style-type: none"> • KAM to tender to a maintenance contract for its equipment • Signing of a service/maintenance Contract with the firm which wins the tender based on cost and service 	Implemented Several contracts have been entered between KAM and third parties with effect from April 1998

38

CHAPTER	RECOMMENDED ACTION	REQUIRED ACTION FROM KAM	STATUS
	<p>a maintenance account for office equipment with reliable maintenance firms</p>		
<p>PROCUREMENT SYSTEM</p>	<p>(14) Implement the recently documented procurement systems manual</p>	<ul style="list-style-type: none"> • Opening of a register of suppliers (both local and foreign) • Attaching receipts to petty cash vouchers as an indication of purchases made and for accounting purposes • Starting a serially pre-numbered LPOs System • Starting purchases by tender procedures especially for capital goods (e.g. equipment) annual suppliers of office stationery, and establishing a tendering committee NB KAM Executive Committee had agreed to implement the new procurement procedures as documented 	<p>KAM maintains a file containing information of all their suppliers</p> <p>Not implemented On going with effect from July 1998</p> <p>Implemented with effect from May 1997</p> <p>Implemented</p>

CHAPTER	RECOMMENDED ACTION	REQUIRED ACTION FROM KAM	STATUS
	(15) Opening of credit facilities with main suppliers	Negotiate for Credit facility and open credit accounts with suppliers after going through the tendering procedures This will be implemented on annual basis	Implemented
	(16) (a) Introduction of Goods Received Notes (b) All LPOs to bear KAM name, Preparation of LPOs in triplicate and attaching a copy of LPO to payment vouchers during cheque preparation (c) Reconciling physical stocks with books of account at the year end	As per recommendation As per recommendation As per recommendation	Implemented with effect from May 1997 Implemented All LPOs bear KAM name However, LPOs are not attached to payment vouchers in cheque preparation Not implemented
PERSONNEL POLICY	(17) Preparation of job descriptions detailing the qualifications reporting time, duties and responsibilities of each position	As per recommendation (However due to KAM being a small organisation, some responsibilities may overlap)	Not implemented

APPENDIX III

CHAPTER	RECOMMENDED ACTION	REQUIRED ACTION FROM KAM	STATUS
	(18) Review of KAM Organisation Structure to identify vacant positions and paths for promotion, development of criteria of promotions, and implementation of personnel manual procedures	Review to be implemented	A review was implemented with effect from March 1998 KAM should however, further consider the structure of staffing within the finance department
	(19) Staff performance appraisal as the basis of salary reviews and promotions be re-introduced	As per recommendation Re-introduction of annual staff appraisal forms	Not implemented
	(20) Confirmation of Chief Executive and Senior Chief Executive	As per recommendation	The Chief Executive was confirmed but later suspended Currently KAM has only an acting Chief Executive

17

EMPHASIS AREAS FOR AUDIT

REQUIREMENTS	COMMENTS
SUB-AWARDS	
Recipients are required to obtain prior approval of the grant officer before making any subawards (subcontracts, subawards, memorandum of understanding)	KAM did not obtain prior approval of the grant officer of expenditure amounting to KShs 4,448,593 in relation to subawards Subgrants are properly approved by the grant officer
Did the grantee adequately compete subawards or justify lack of competition in accordance with the recipient policies and procedures?	Expenditure amounting to KShs 4 316 093 was not adequately competed However with effect from December 1997 KAM has in place a tender committee
Subaward costs should be allowable, allocable and reasonable Are the cost justified?	For the expenditure vouched all the cost was found to be allowable allocable and reasonable
Are subawards drafted in a legally sufficient manner? Do the subawards include all required clauses in accordance with the terms and conditions of agreement?	Subawards made to KACH Management for computers and Ponn Limited for market surveys were not drafted in a legally sufficient manner They did not include all required clauses in accordance with the terms and conditions of the agreement
TRAVEL	
In accordance with OMB Circ A-122, prior grant officer approval is required for all international travel Was prior approval obtained for each foreign trip?	Travel to Zimbabwe, South Africa Rwanda and Ethiopia did not obtain prior approval from the grant officer The total amounted to KShs 451 537
Was travel conducted in accordance with the recipient's travel policies and procedures?	Travel expenditure amounting to KShs 832 607 was not adequately approved by KAM officials
Are all international and travel costs allocable, allowable and reasonable? Are these costs adequately supported?	All international and travel cost vouched was found to be allocable, allowable and reasonable They were adequately supported
Was all travel conducted in accordance with the terms and conditions of the agreement	All travel was not conducted in accordance with the terms and conditions of the agreement Travel to Zimbabwe, South Africa Rwanda and Ethiopia was not approved by the grant officer
PERSONNEL	
<p>Are salaries in accordance with the recipient's personnel policies and procedures?</p> <p>Are the salaries reasonable given the requirements of the positions and the local market conditions?</p> <p>Are the salaries reasonable with respect to overall salaries of the organisation?</p>	Although the salaries are reasonable given the requirements of the position and the local market conditions they are high compared to overall salaries of the organisation The highest paid employee in KAM gets a gross pay of KShs 75 698
<p>What is the legal requirement for payment of severance pay in Kenya?</p> <p>Are staff hired under this cooperative agreement entitled to severance pay?</p> <p>Has any severance pay been paid during this period?</p>	<p>The staff hired under the cooperative agreement are not entitled to severance pay</p> <p>No severance pay was made</p>
Do any salary payments (either prime or subaward) constitute salary supplements as	The salary payments did not constitute any salary supplements as defined by OMB Circ A -122

REQUIREMENTS	COMMENTS
defined by OMB Circ A-122?	
<p>What are the tax requirements for staff hired under this cooperative agreement?</p> <p>Were these regulations complied with?</p>	<p>Employees hired under the cooperative agreement should pay all statutory deductions</p> <p>This was not complied with NHIF, NSSF and service charge are not deducted from employees salaries</p> <p>KAM started deducting PAYE with effect from January 1998</p>
PROPERTY MANAGEMENT	
Is all property purchased under this award accounted for?	All property purchased was properly accounted for
Is property being used in accordance with OMB Circ A-122 and the terms of the agreement?	The project vehicle was used as pool car for KAM
Were vehicle logs kept to account for the use of the vehicle? Is personal use documented?	Vehicle logs were kept to account for use of the motor vehicle
Was the property accounted for in accordance with the recipient's policies?	The property was accounted for according to KAM's policies