



## MEMORANDUM

**DATE:** August 23, 2018

**TO:** USAID/Kenya and East Africa, Mission Director, Mark Meassick

**FROM:** Regional Inspector General/Pretoria, Robert Mason /s/

**SUBJECT:** Agency-Contracted Audit of USAID Resources Managed by Common Market for Eastern and Southern Africa in Multiple Countries Under the Integrated Partnership Assistance Agreement 623-AA-09-001-00-EA, Through Implementation Letters 7, 8, 9, 10, and 11, January 1 to December 31, 2016 (Report No. 4-623-18-012-N)

This memorandum transmits the final audit report on USAID resources managed by Common Market for Eastern and Southern Africa (COMESA). USAID/Kenya and East Africa contracted with the independent certified public accounting firm KPMG, Nairobi, Kenya to conduct the audit. The contract required the audit firm to perform the audit in accordance with generally accepted government auditing standards (GAGAS).

The audit firm states that it performed its audit in accordance with generally accepted government auditing standards except that the audit firm did not have an external quality control review program that fully satisfied the requirements set forth in GAGAS. The audit firm is responsible for the enclosed report and the conclusions expressed in it. We do not express an opinion on COMESA's fund accountability statement; the effectiveness of its internal control; or its compliance with the award, laws, and regulations.<sup>1</sup>

The audit objectives were to (1) express an opinion on whether the fund accountability statement for the period audited, was presented fairly, in all material respects; (2) evaluate the COMESA's internal controls; (3) determine whether COMESA complied with award

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<sup>1</sup> We reviewed the audit firm's report for conformity with professional reporting standards. Our desk reviews are typically performed to identify any items needing clarification or issues requiring management attention. Desk reviews are limited to review of the audit report itself and excludes review of the auditor's supporting working papers; they are not designed to enable us to directly evaluate the quality of the audit performed.

terms and applicable laws and regulations; (4) review the indirect cost rate; (5) determine whether COMESA complied with member states taxation of goods and services regulations; (6) review the implementation status of the prior period recommendations; and (7) determine how specific mission concerns were addressed.

To answer the audit objectives, KPMG (1) audited the fund accountability statement for the award including the budgeted amounts by category and major items and the revenues received from USAID for the period covered by the audit and the costs reported by COMESA as incurred from January 1 to December 31, 2016; (2) evaluated the control environment, the adequacy of the accounting systems, and control procedures that pertain to COMESA's ability to report financial data consistent with the assertions embodied in each account of the fund accountability statement; (3) identified the award terms and pertinent laws and regulations and determined which of those, if not observed, could have a direct and material effect on the fund accountability statement; (4) determined that the review of the indirect cost rate was not applicable; (5) reviewed a sample of payments for goods and services and verified that no VAT was paid during the year under review; (6) reviewed the implementation status of the prior period recommendations; and (7) reported on the status of specific mission concerns. COMESA reported expenditures of \$2,440,262 in USAID funds during the audited period.

The audit firm concluded the fund accountability statement presented fairly, in all material respects, program revenues and costs incurred under the award for the period audited, except for \$73,027 in unsupported questioned costs included in the fund accountability statement. The audit firm also identified five material weaknesses in internal control and seven instances of material noncompliance.

During our desk review, we noted several minor issues which the audit firm will need to address in future audit reports. We presented these issues in a memo to the controller, dated August 23, 2018.

To address the issues identified in the report, we recommend that USAID/Kenya and East Africa:

**Recommendation 1.** Determine the allowability of \$73,027 in unsupported questioned costs on page 22 of the audit report and recover any amount that is unallowable.

**Recommendation 2.** Verify that Common Market for Eastern and Southern Africa corrects the five material weaknesses in internal control detailed on pages 31 to 39 of the audit report.

**Recommendation 3.** Verify that Common Market for Eastern and Southern Africa corrects the seven instances of material noncompliance detailed on pages 31 to 39 of the audit report.

We ask that you provide your written notification of actions planned or taken to reach management decision. We appreciate the assistance extended during the engagement.

OIG does not routinely distribute independent public accounting reports beyond the immediate addressees because a high percentage of these reports contain information restricted from release under the Trade Secrets Act, 18 U.S.C. 1905 and Freedom of Information Act Exemption Four, 5 U.S.C. 552(b)(4) (“commercial or financial information obtained from a person that is privileged or confidential”).