



## MEMORANDUM

**DATE:** April 16, 2018

**TO:** M/OAA/CAS/CAM, Branch Chief, David McNeil

**FROM:** Regional Inspector General/Pretoria, John Vernon /s/

**SUBJECT:** Audit of USAID Resources Managed by KPMG East Africa Limited Under the Global Resilience Partnership Agreement AID-OAA-A-14-00022, October 1, 2015, to September 30, 2016 (Report No. 4-000-18-081-R)

This memorandum transmits the final audit report on USAID resources managed by KPMG East Africa Limited under the Global Resilience Partnership. KPMG East Africa Limited contracted with the independent certified public accounting firm Ernst & Young, Nairobi, Kenya to conduct the audit. The audit firm stated that the contract required to perform the audit in accordance with generally accepted government auditing standards (GAGAS) and USAID OIG Guidelines for Financial Audits Contracted by Foreign Recipients.<sup>1</sup>

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 peer review and a continuing education 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 KPMG East Africa Limited's fund accountability statement; the effectiveness of its internal control; or its compliance with the award, laws, and regulations.<sup>2</sup>

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<sup>1</sup> On June 30, 2017, USAID OIG rescinded its Guidelines for Financial Audits Contracted by Foreign Recipients, recognizing the Agency's role to impose requirements on its implementing partners and contractors as a management function. This contracted audit, however, was initiated before that date and follows the Guidelines.

<sup>2</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.

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 KPMG East Africa Limited's internal controls; and (3) determine whether KPMG East Africa Limited complied with award terms and applicable laws and regulations, specifically regarding Government of Kenya taxation law on goods and services acquired, and (4) review the implementation status of the prior period recommendations.

To answer the audit objectives, the audit firm (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 KPMG East Africa Limited as incurred from October 1, 2015 to September 30, 2016; (2) evaluated the control environment, the adequacy of the accounting systems, and control procedures that pertain to KPMG East Africa Limited' 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; and (4) determined three of the four prior period recommendations were implemented. KPMG East Africa Limited spent \$3,694,552 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 \$35 in ineligible questioned costs and four instances of material noncompliance. OIG does not make recommendations if questioned costs are less than \$1,000. However, we encourage the mission to follow up on this item and recover any amount due to USAID.

The audit firm issued a management letter including certain matters regarding internal control to KPMG East Africa Limited.

To address the issues identified in the report, we recommend that M/OAA/CAS/CAM:

**Recommendation 1.** Verify that KPMG East Africa Limited corrects the four instances of material noncompliance detailed on pages 18 to 21 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").