



MEMORANDUM

DATE: April 16, 2018

TO: Mission Director, USAID/Kenya and East Africa, Tina Dooley-Jones

FROM: Regional Inspector General/Pretoria, John Vernon /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, January 1, 2014, to December 31, 2015 (Report No. 4-623-18-005-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 Kenya to conduct the audit. The audit firm stated that the contract required the audit firm to perform the audit in accordance with generally accepted government auditing standards and USAID OIG Guidelines for Financial Audits Contracted by Foreign Recipients.¹

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 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.²

¹ On June 30, 2017, USAID OIG rescinded its Guidelines for Financial Audits Contracted by Foreign Recipients, recognizing the Agency's role to impose requirements on its implementing partners and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.

² 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 respect; (2) evaluate COMESA's internal controls; (3) determine whether COMESA complied with award terms and applicable laws and regulations; (4) review the indirect cost rate; (5) review the implementation status of the prior period recommendations; and (6) determine how other mission concerns were addressed by COMESA.

To answer the audit objectives, KPMG Kenya (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, 2014, to December 31, 2015; (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; and (5) reviewed the implementation status of the prior period recommendations. COMESA spent \$5,753,734 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 \$141,107 in total questioned costs (\$7,697 ineligible and \$133,410 unsupported); ten material weaknesses in internal control; and ten instances of material noncompliance.

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

Recommendation 1. Determine the allowability of \$141,107 in questioned costs (\$7,697 ineligible, \$133,410 unsupported) on pages 19 to 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 ten material weaknesses in internal control detailed on pages 31 to 42 and 44 of the audit report.

Recommendation 3. Verify that Common Market for Eastern and Southern Africa corrects the ten instances of material noncompliance detailed on pages 31 to 41 and 43 to 44 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”).