



## MEMORANDUM

**DATE:** November 20, 2018

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

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

**SUBJECT:** Financial Audit of USAID Resources Managed by KPMG East Africa Limited in Multiple Countries Under Cooperative Agreement AID-OAA-A-14-00022, October 1, 2016, to September 30, 2017 (Report No. 4-000-19-019-R)

This memorandum transmits the final audit report on USAID resources managed by KPMG East Africa Limited in the Sahel, Horn of Africa, and South and Southeast Asia under the Global Resilience Partnership. KPMG East Africa Limited contracted with the independent certified public accounting firm Ernst & Young LLP (EY), 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 GAGAS, except that the audit firm did not have external peer review and continuing education programs 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>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 KPMG East Africa Limited's internal controls; (3) determine whether KPMG East Africa Limited complied with award terms and applicable laws and regulations; and (4) review the implementation status of prior period recommendations.

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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.

To answer the audit objectives, EY (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, 2016, to September 30, 2017; (2) evaluated the control environment, the adequacy of the accounting systems, and control procedures that pertain to KPMG East Africa Limited'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; and (4) reviewed the implementation status of prior period recommendations. KPMG East Africa Limited reported expenditures of \$5,874,575 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 \$123,749 in ineligible questioned costs. The audit firm also reported two instances of material noncompliance.

The audit firm reported that one instance of material noncompliance from prior years remained uncorrected. This instance pertained to the cumulative excess interest from the first two years of the project that had not yet been remitted to USAID. The excess interest from the initial year was part of Recommendation 2 from Report No. 4-969-16-088-R. Since this recommendation was closed on April 30, 2018 and the auditors' report was dated June 29, 2018, we are making a new recommendation to solve this recurring item.

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

**Recommendation 1.** Determine the allowability of \$123,749 in ineligible questioned costs on page 11 of the audit report and recover any amount that is unallowable.

**Recommendation 2.** Verify that KPMG East Africa Limited corrects the two instances of material noncompliance detailed on pages 17 to 19 of the audit report.

**Recommendation 3.** Verify that KPMG East Africa Limited corrects the one instance of material noncompliance emanating from prior periods and detailed on page 20 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”).