



Ref. KA/C/AU/A/04

5 April 2004

The Regional Authorizing Officer
AU/IBAR
P.O. Box 30786
Nairobi

Dear Sir,

RE: DRAFT PERIODIC AUDIT REPORT NO. 4 ON 4TH WP&CE

COVERING PERIOD 01/11/2003 TO 31/12/2003

FITCA KENYA

FINANCING AGREEMENT NO. 5682/KE

We submit Draft periodic Audit report No. 4 on the 4th WP&CE covering the above period in seven (7) copies.

The report incorporates the Management's comments and Auditor's response.

Yours faithfully,
For KIGATHI & ASSOCIATES

George M. Kigathi
ENGAGEMENT PARTNER

PERIODIC AUDIT SERVICES CONSULTANCY

GoK/EC FARMING IN TSETSE CONTROLLED AREAS

FOURTH WORK PROGRAMME AND COST ESTIMATE

FINANCING AGREEMENT NO. 5682/KE

DRAFT AUDIT REPORT NO. 4

FOR THE PERIOD 1 NOVEMBER 2003 TO 31 DECEMBER 2003

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PERIODIC AUDIT SERVICES CONSULTANCY

GoK/EC FARMING IN TSETSE CONTROLLED AREAS

FOURTH WORK PROGRAMME AND COST ESTIMATE

FINANCING AGREEMENT NO. 5682/KE

1. INTRODUCTION

1.1 Background

This is the EDF imprest account audit of Farming in Tsetse controlled Areas (FITCA) project, Kenya component, which is part of a regional program of African Union/Inter African Bureau for animal resources project funded by the European Union. This is a four year programme funded from the European Development Fund (EDF) vii under the financing agreement No. 5682/KE between the commission of the European Communities and the Republic of Kenya.

The overall objective in Kenya Component of FITCA program is to improve the welfare of the people in the region through sustainable rural development. This goal is consistent with the Government of Kenya (GoK) economic reform framework and in line with the main goal of the Lome IV Revised Indicative Programme for Kenya. Through FITCA the project seeks to increase livestock production by improving animal health by control of trypanosomiasis using simple appropriate methods of tsetse control involving no sophisticated technologies and through the education of the livestock keepers in improved nutrition and management practices. The long-term aim of the project is sustainable rural development with tsetse control organised and financed by the livestock keepers.

This is the fourth work programme and cost estimate covering the period from 1/2/2003 to 31/12/2003.

The budget was revised on 16/12/2003 under addendum I transferring Kshs. 3,000,000/- from budget line 2.4 to budget line 2.5 Kshs. 550,400/- and budget line 4.2 Kshs. 2,449,600/-.

During the period the commission of the European Communities disbursed Kshs. 11,999,677/-. Bank interest received was Kshs. 1,333/45.

The audit of fourth work programme and cost estimate imprest expenditure financed from the funds covered is as follows:

	Kshs
Audit No. 1	6,140,126/25
Audit No. 2	11,999,677/40
Audit No. 3	8,712,955/80
Audit No. 4	<u>12,084,125/75</u>
Total	<u>38,936,885/20</u>

1.2 **AUDIT OBJECTIVES, SCOPE AND METHODOLOGY**

Audit Objectives

Kigathi & Associates was contracted to conduct quarterly periodic audits of the imprest account for four years.

The objectives of the current periodic Audit No. 4 which covers 2 months instead of the usual 3 months, were to perform a financial audit of FITCA Kenya EDF Imprest Account financial statements for the period 1 November 2003 to 31 December 2003, in accordance with the Terms of Reference for periodic audit services consultancy (TOR), and in context of the International Standards on Auditing issued by the International Federation of Accountants (IFAC). The key terms of reference are;

- a) Ensure transparency and prudent management of EDF funds in accordance with the WP & CE signed.
- b) Provide a regular audit verification and certification of all local disbursements so as to ensure that such disbursements fully respect the EDF financial regulations and procedures.
- c) Ensure the replenishment of the imprest account for the work plan budget after certification of compliance with financial agreement and regulations.

In addition, to provide independent advice to the Regional Authorising Officer (RAO) on the design and implementation of the project internal financial control procedures.

In the FITCA Kenya EDF Imprest context, audited financial statements for the period comprise:

- Fund Accountability statement
- Fixed Assets Inventory statement
- Notes to the financial statement

Audit Scope

The audit addressed the above stated objectives for the period 1 November 2003 to 31 December 2003.

Audit tests were carried out at the FITCA head office in Nairobi. The audit covered a 100% of the expenditure for the period.

Audit Methodology

The audit followed the detailed methodology set out in section 4 of our proposal for this periodic audit consultancy assignment, viz:

- Pre-audit survey and planning. Reviewing all relevant WP & CE documents available and meeting(s) with FITCA management.
- Review of the current working paper files.
- Preparations of a detailed work plan and updated audit programs.
- Carry out detailed tests.
- Discussing of draft audit report with FITCA management.
- Issuance of draft report to RAO.
- Incorporating of comments from RAO and FITCA management.

Sampling Methodology

We conducted our audit in accordance with the Terms of Reference and in context of the International Standards on Auditing issued by the International Federation of Accountants (IFAC), which require an examination on sample test basis of the evidence supporting the amounts and disclosures in the financial statements.

However, we did a 100% detailed audit testing on all expenditure incurred during the period from 1 November 2003 to 31 December 2003.

1.3.0 SUMMARY OF AUDIT RESULTS

The summary of audit results highlights the significant findings only. The full findings, recommendations and observations are to be found in the appropriate sections of the main report.

1.3.1 Financial statements

There were no reportable audit findings under this heading.

1.3.2 Internal control structure

Our key audit findings under this heading include;

- a) Follow up on significant audit queries.
- b) Failure to record the stores document.
- c) Alternation of accountable documents without countersigning.
- d) Lack of approval by Project Manager and Financial Controller.
- e) Delay of payments to suppliers.
- f) Payment to third parties without written authority.

1.3.3 Compliance with Agreement Terms, Applicable laws and regulations

- a) There was no key audit finding under this heading.

2. FINANCIAL STATEMENTS

2.1 Independent Auditors' Report

DRAFT PERIODIC AUDIT REPORT NO. 4 TO THE REGIONAL

AUTHORISING OFFICER AU/IBAR FITCA KENYA EDF IMPREST

1. We have performed a periodic audit of the FITCA Kenya EDF imprest for the period 1 November 2003 to 31 December 2003. The preparation of the financial statements is the responsibility of the FITCA management. Ours is to express an opinion on the financial statements based on our audit.
2. We conducted our audit in accordance with the Terms of Reference of the FITCA projects in Kenya, and in the context of the International Standards on Auditing issued by the International Federation of Accountants (IFAC), which requires that we plan and perform the audit to obtain reasonable assurance that the financial statements are free from material misstatements. 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 presentation of the statements. We believe that our audit provides a reasonable basis for our opinion.
3. The expenditure for the period was Kshs. 12,084,125/75 forming 100% of the total expenditure.
4. In our opinion, the FITCA EDF imprest financial statements present fairly in all materials respects all receipts and payments incurred for the period in accordance with the terms of the Financing Agreement No. 5682/KE and in conformity with the basis of accounting described in Note 1 to the financial statements.

Kigathi & Associates
Certified Public Accountants of Kenya
Nairobi

Date.....2004

FITCA (KENYA) PROJECT
FUND ACCOUNTABILITY STATEMENT
FOR THE PERIOD 1 NOVEMBER TO 31 DECEMBER 2003

ACCT CODE	BUDGET ITEM	APPROVED BUDGET 1-2-2003 to 31-12-2003 Kshs	BUDGET REVISION ON 16 -02-2003 Kshs	REVISED BUDGET 1-2-2003 to 31-12-2003 Kshs	ACTUAL 2 MONTHS 1-11-2003 to 31-12-2003 Kshs	ACTUAL CUMULATIVE 1-2-2003 to 31-12-2003 Kshs	BUDGET BALANCE As at 31-12-2003 Kshs
	Budget amount	56,517,654.00	0.00	56,517,654.00	0.00	39,160,011.00	17,357,643.00
	Balance b/f						
	Cash in hand (PMU)				158,068.40		
	Cash in hand (NLO)				7,548.55		
	Cash at Bank (SCB)				154,860.60		
	Cash at Bank (KCB)				3,342.65		
	Receipts						
	Replenishment from EU				11,999,677.00		
	Received from 3rd WP & CE				34,725.65	34,725.65	
	Bank interest received	0.00	0.00	0.00	1,333.45	17,579.10	0.00
	Total	56,517,654.00	0.00	56,517,654.00	12,359,556.30	39,212,316.75	17,357,643.00
	PAYMENTS						
1	Equipment & Infrastructure						
1.1	Equipment & Furniture	1,500,000.00	0.00	1,500,000.00	288,380.00	1,474,560.00	25,440.00
2	OPERATIONS						
2.1	Improved animal health service delivery system	10,553,400.00		10,553,400.00	2,521,857.70	7,118,054.75	3,435,345.25
2.2	Cattle development	2,470,700.00		2,470,700.00	1,040,454.95	1,782,573.95	688,126.05
2.3	Poultry development	1,840,450.00		1,840,450.00	129,971.70	680,489.70	1,159,960.30
2.4	DAI/promotion of crop/livestock production	6,466,500.00	(3,000,000.00)	3,466,500.00	544,137.70	2,103,839.20	1,362,660.80
2.5	Optimisation of control Strategies against Gff	4,267,500.00	550,400.00	4,817,900.00	1,082,088.00	1,718,453.00	3,099,447.00
		25,598,550.00	(2,449,600.00)	23,148,950.00	5,318,510.05	13,403,410.60	9,745,539.40
3	PROJECT ADMINISTRATION: Personnel						
3.1	Liaison Officer	1,270,500.00		1,270,500.00	231,000.00	1,270,500.00	0.00
3.2	Financial Controller	981,750.00		981,750.00	132,435.50	935,685.50	46,064.50
3.3	Administrative Assistant	730,543.00		730,543.00	132,826.00	730,543.00	0.00
3.4	NLO Driver	519,750.00		519,750.00	94,500.00	519,750.00	0.00
3.5	Finance and Administration Officer	929,775.00		929,775.00	159,775.00	929,775.00	0.00
3.6	Project Sociologist	808,500.00		808,500.00	147,000.00	808,500.00	0.00
3.7	Agricultural -Economist	750,750.00		750,750.00	129,583.90	750,750.00	0.00
3.8	Livestock Production Specialist	577,500.00		577,500.00	99,177.50	577,500.00	0.00
3.9	Training Officer	577,500.00		577,500.00	89,177.50	577,500.00	0.00
3.11	Data Manager	577,500.00		577,500.00	101,855.00	577,500.00	0.00
3.12	Project Secretary	664,125.00		664,125.00	120,750.00	664,125.00	0.00
3.13	PMU - Field Technician/Driver	577,500.00		577,500.00	101,855.00	577,500.00	0.00
3.14	PMU - Mechanic/Driver	334,950.00		334,950.00	57,755.00	334,950.00	0.00
3.15	Pmu Drivers (3)	796,950.00		796,950.00	135,015.00	796,950.00	0.00
3.16	PMU Stores Officer	265,650.00		265,650.00	45,155.00	265,650.00	0.00
3.17	Project Receptionist	288,750.00		288,750.00	49,355.00	288,750.00	0.00
3.18	Orderly Clerk	211,750.00		211,750.00	35,355.00	211,750.00	0.00
3.19	Short term staff employment	987,613.00		987,613.00	217,967.00	644,027.00	343,586.00
3.21	Annual Bonus	987,613.00	0.00	987,613.00	983,894.25	983,894.25	3,718.75
		12,838,969.00	0.00	12,838,969.00	3,064,431.65	12,445,599.75	393,369.25
	PROJECT ADMINISTRATION: Logistics						
3.22	Motocycle licences & insurance	100,000.00		100,000.00	63,421.00	67,171.00	32,829.00
3.23	Project vehicles/cycle - fuel, repairs & maintenance	1,200,000.00		1,200,000.00	248,981.60	1,179,858.50	20,141.50
3.24	Project vehicles - Insurance and licences	1,200,000.00		1,200,000.00	93,101.00	809,706.00	390,294.00
3.25	Office running costs	2,200,000.00		2,200,000.00	510,569.75	2,199,003.45	996.55
3.26	Office insurance, service and maintenance	770,000.00	0.00	770,000.00	392,011.00	746,595.20	23,404.80
		5,470,000.00	0.00	5,470,000.00	1,308,084.35	5,002,334.15	467,665.85

ACCT CODE	BUDGET ITEM	APPROVED BUDGET 1-2-2003 to 31-12-2003 Kshs	BUDGET REVISION ON 16 -02-2003 Kshs	REVISED BUDGET 1-2-2003 to 31-12-2003 Kshs	ACTUAL 2 MONTHS 1-11-2003 to 31-12-2003 Kshs	ACTUAL CUMULATIVE 1-2-2003 to 31-12-2003 Kshs	BUDGET BALANCE As at 31-12-2003 Kshs
4	TRAVEL & ALLOWANCES						
4.1	Foreign travel & allowances on Project activities	1,500,000.00		1,500,000.00	221,908.70	831,236.70	668,763.30
4.2	Allowances for stakeholders on Project activities	2,000,000.00	2,449,600.00	4,449,600.00	536,189.00	2,262,652.00	2,186,948.00
4.3	Projet staff <i>per diem</i> while outside w/station	1,500,000.00		1,500,000.00	210,900.00	1,190,595.00	309,405.00
4.4	Local flights for Project staff on project activities	600,000.00		600,000.00	225,120.00	501,075.00	98,925.00
4.5	PM,LO allowances in Kenya outside Project area	768,000.00		768,000.00	232,000.00	666,000.00	102,000.00
4.6	ISCTRC Meeting	775,000.00	0.00	775,000.00	274,450.00	748,050.00	26,950.00
		<u>7,143,000.00</u>	<u>2,449,600.00</u>	<u>9,592,600.00</u>	<u>1,700,567.70</u>	<u>9,199,608.70</u>	<u>3,392,991.30</u>
5	CONTINGENCY						
5.1	Contingency	3,967,135.00		3,967,135.00	404,152.00	411,372.00	3,555,763.00
	TOTAL	<u>56,517,654.00</u>	<u>0.00</u>	<u>56,517,654.00</u>	<u>12,084,125.75</u>	<u>38,936,885.20</u>	<u>17,580,768.80</u>
	Balance <i>c/f</i> (Note 1)				<u>275,430.55</u>	<u>275,430.55</u>	<u>(223,125.80)</u>
	Represented by						
	Cash in hand (PMU)				2,214.70	2,214.70	
	Cash in hand (NLO)				33,454.25	33,454.25	
	Cash in hand (UNEP) fuel deposit				4,933.70	4,933.70	
	Cash at bank - 4th WP&CE (Note 2)				234,827.90	234,827.90	
					<u>275,430.55</u>	<u>275,430.55</u>	

NOTES

1	Surplus on budget balance	
	Bank & cash balance as at 31/12/03	275,430.55
	Less: Received from 3rd WP & CE	(34725.65)
	Less: Bank interest income	(17,579.10)
		<u>223,125.80</u>
2	Bank balance	
	Cash at bank - SCB - 4th WP&CE	1,890,172.80
	Less unrepresented cheques	(1,872,635.15)
	Cash at bank - KCB	409,762.65
	Less unrepresented cheques	(192,472.40)
	Total Bank Balance	<u>234,827.90</u>
3	Bank Balance 3rd WP&CE:	
	Balance as at 31st October 2003 - SCB - 3rd WP&CE	7,815,311.50
	Add Interest Received - Nov '03 to Dec '03	113.50
	Less : Refund to European Union	(7,779,899.35)
	Transfer to 4th WP & CE	(34,725.65)
	Bank charges: Nov '03 to Dec '03	(800.00)
	Balance as at 31 December 2003	<u>0.00</u>
	This Bank Account is now closed.	

PERIODIC AUDIT SERVICES CONSULTANCY

GoK/EC FARMING IN TSETSE CONTROLLED AREAS

FINANCING AGREEMENT NO. 5682/KE

2.3 FIXED ASSETS INVENTORY

	Notes Paragraph 2.4	Balance b/f 1/11/2003 Kshs	Additions Kshs	Balance C/f 31/12/2003 Total Kshs
Office buildings	(f)	5,651,143.00	-	5,651,143.00
Office equipment, Computers & peripherals	(f)	1,725,820.00	120,000	1,845,820.00
Furniture & Fittings	(f)	757,978.10	-	757,978.10
Other equipment	(f)	2,837,151.00	-	2,837,151.00
Storage container	(f)	122,121.00	-	122,121.00
Generators	(f)	272,856.00	-	272,856.00
Motor vehicle	(f)	1,695,000.00	-	1,695,000.00
GIS Equipment	(f)	4,030,997.00	-	4,030,997.00
Motor cycles	(f)	990,000.00	-	990,000.00
Total		18,083,066.10	120,000	18,203,066.10

2.4 NOTES TO THE FINANCIAL STATEMENTS
1 NOVEMBER 2003 TO 31 DECEMBER 2003

1. Principal Accounting Policies

a) Basis of Accounting

The fund accountability statement is prepared on the basis of actual cash receipt and expenditure payment transactions incurred during the accounting period under audit, which is a comprehensive basis of accounting other than the generally accepted accrual basis of accounting under which receipt and payments are recorded when they fall due and not when they are received/paid.

b) Currency translation

The amounts of the budget are translated at the exchange rates as per second work programme and cost estimate. Those rates are Kshs. 70.1562 to 1 Euro.

c) Accounting periods

The audit has been subdivided into (2) two months cycle, which is different from others, which were three months. This is the fourth audit from 1 November 2003 to 31 December 2003 of the 4th work programme and cost estimate.

d) Definition of Questioned Expenditure

In the terminology of FITCA Kenya, questioned expenditure may fall into any one or more of the following three categories:

- Costs that are explicitly ineligible because they are not programme related, are unreasonable, or are prohibited by the agreements or applicable laws and regulations.
- Costs that did not have the required prior approvals or authorisations, or exceeded the budget provisions, and
- Costs that are not supported with adequate documentation, or are not supported at all.

e) Financial Statements

The financial statements comprise of: -

- Fund Accountability Statement - paragraph 2.2
- Fixed Assets inventory - paragraph 2.3
- Notes to the financial statements - paragraph 2.4

f) Depreciation

Fixed assets are recorded at cost, and are not depreciated.

g) Taxation

FITCA is exempted from Corporation tax.

2.5 FINANCIAL STATEMENTS

FINDINGS & RECOMMENDATIONS

There were no reportable findings under this heading.

3.0 INTERNAL CONTROL STRUCTURE

3.1 INDEPENDENT AUDITORS' REPORT

to the

**Regional Authorising officer
AU/IBAR FITCA Kenya
EDF Imprest**

We conducted our audit in accordance with the Terms of Reference of the FITCA Kenya, and in the context of the International Standards on Auditing issued by the International Federation of Accountants (IFAC), that require that we plan and perform the audit to obtain reasonable assurance as to whether the financial statements are free of material misstatement.

In planning and performing our audit of the financial statements, we reviewed both the internal control structure pertaining to the FITCA Kenya to improve the management and performance of the project.

The objective of our review of the internal control structure was to determine our auditing procedures for the purpose of expressing our opinion on the financial statements to be audited, and not to provide assurances on the internal control structures.

The management team of FITCA Kenya is responsible for establishing and maintaining internal control structures. In fulfilling this responsibility, estimates and judgment by management are required to assess the expected benefits and related cost 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 in the notes to the Financial Statements.

The reportable conditions that came to our attention are covered in the remainder of this section of our report.

Kigathi & Associates
Certified Public Accountants of Kenya
Nairobi

Date2004

3.2 OUR FINDINGS, COMMENTS AND MANAGEMENT COMMENTS
ON THE INTERNAL CONTROL SYSTEM

3.2.1 Follow up on significant audit issues

(a) Institutional strengthening of Kshs. 6,870,035/- on assets for KETRI ALUPE.

FITCA management were to ensure that the assets are incorporated on the Fixed Assets Register of KETRI, and tagged with identification stickers on them to ease differentiation with those from other sources.

We have not received any response on this issue to date.

Management comments

The new Project Manager has been requested to visit KETRI Alupe and ensure that the relevant assets have been tagged and entered into the KETRI asset register.

Auditor's Response

This is taking too long. It should be done immediately and reported in the next audit.

(b) Approval of payment vouchers with wrong information

i) PV 8172/73

A technician was paid for 13 days instead of the 12 days worked this being an overpayment of Kshs 1,500/-.

No evidence has been availed that this money was recovered.

Management comments

While paying the technician in November she signed for Kshs. 25,000/= but the actual cash given was Kshs. 23,500/=. By doing this the Kshs. 1,500/= was recovered.

Auditor's Response

This issue is now resolved.

ii) PV 9090

A Private veterinary was overpaid by Kshs 3,000/- because of an additional error.

After this was pointed out by the Auditor the management started recovery measures from the payees.

Confirmed that this was repaid and therefore, this issue is now resolved.

(c) Differences between Air tickets and invoices from the travel Agent

We noted differences between the amount as indicated on the air ticket and the invoices from the travel agent.

Total amount as per air ticket	Kshs	99,740
Total amount as per travel agents	Kshs	<u>103,340</u>
Difference (15 air tickets x kshs. 240)	Kshs	<u>3,600</u>

It is a difference of Kshs. 240/- on each air ticket.

The travel agent informed the management that this is the cost of insurance per air ticket.

We have however not received a letter as earlier promised. The excess charges during the current audit amount to Kshs. 7,955/- as tabulated below.

	<u>Transaction</u>	<u>Date</u>	<u>Description</u>	<u>Qty</u>	<u>Amount as</u>	<u>Amount as</u>	<u>Variance</u>
	<u>Invoice No.</u>			<u>tickets</u>	<u>per ticket</u>	<u>per invoice</u>	<u>(Tax)</u>
1	11509	2/9/03	KIS-NBI	5	15,475	16,675	1,200
2	11516	3/9/03	KIS-NBI	1	3,095	3,335	240
3	11493	4/9/03	KIS-NBI	2	6,180	6,670	495
4	11505	4/9/03	NBI-KIS	1	3,095	3,335	240
5	11530	5/9/03	NBI-KIS	6	18,560	20,010	1,450
6	11537	8/9/03	NBI-KIS	1	3,095	3,335	240
7	11788	16/9/03	NBI-KIS	1	3,095	3,335	240
8	11801	18/9/03	KIS-NBI	1	3,095	3,830	735
9	11810	18/9/03	NBI JNB NBI	7	312,069	313,749	1,680
10	11836	23/9/03	KIS-NBI	3	10,785	11,505	720
11	11857	27/9/03	NBI-KIS	3	9,870	10,590	720
	Total				<u>388,414</u>	<u>396,369</u>	<u>7,955</u>

Management comments

The travel agents letter is now with you.

Auditor's Response

A letter from Kenya Association of Travel Agents (KATA) is now evident and the issue is now resolved.

3.2.2 Minister's trip

We have noted that there was no communication as regards imprests /allowances and motor vehicle expenses prior to the trip for the government officers, but this was paid after the trip. This should have been known in advance and official communication obtained to avoid duplication of allowances i.e. where Government officers would obtain allowances from GoK and also FITCA.

We have noted that one officer collected allowances on behalf of three others without written authority.

Recommendation

Official communication should be obtained well in advance as regards to allowances and expenses for any trip.

No person should collect funds on behalf of another without written authority.

Management comment

The Minister's Personal Assistant collected allowances for the Minister, the driver and the bodyguard; this we understand is normal procedure.

Auditor's response

The comment from Management is not convincing. No comment from management on the official communication on advances prior to the trip.

3.2.3 Stores documents

- Purchase of stationery under voucher No. 11084 for Kshs. 59,580/- was not posted to the stores ledger, this being stationery for field work.
 - Delivery notes were not initialed on receipt of the goods.
 - Stationery worth Kshs. 5,190/- was ordered with a letter instead on an L.P.O.
- Under voucher No. 12040 for Kshs. 37,760/- some items purchased have not been entered on the stores ledger e.g.
 - 3 packets of diskettes
 - 12 pieces of loose pads
 - The following items were posted on the stores ledger on 22/12/2003 instead of 19/12/2003.
 - 1 dozen pritt glue
 - 24 pieces box files
 - Delivery note was not initialed by the person receiving them.

Under such circumstances it is possible to lose stationery or any other item purchased as there is no audit trail.

Recommendation

Management should ensure that all the procedures are followed and regular review of stores documents against the supplies invoices, surprise and routine stock counts are in place always.

Management comment

This was an oversight and we will ensure that it does not recur in future.

Auditor's response

This has been a persistent weakness which, the management should ensure does not recur.

3.2.4 Alteration of accountable documents without countersigning

Several schedules supporting the names and payments to target attendants e.g. Voucher No.s 11272, 11285 & 11286 have been altered without any countersigning. Some attendants have signed on the blank spaces and no explanations are given.

This makes such schedules misleading as it is not known who did the alteration. In future such documents will be disallowed and expenditure questioned.

Recommendation

Any alterations on accounting documents must always be countersigned.

Management comment

Comments have been noted.

Auditor's response

Comments noted for follow up in the next audit.

3.2.5 Expenditure on telephone (Email)

The expenditure on the telephone line No. 22067 used for email was Kshs. 176,754/35 for about three months.

This kind of expenditure is excessive, although we have noted that the management realized this and discontinued the use of email till later when they connected to a leased line.

Recommendation

The management should consider the cost aspects before incurring any expenditure i.e. by having professional advise to avoid unnecessary expenditure in future.

Management comment

We have noted your recommendation.

Auditor's response

Comment noted.

3.2.6 Approval by project Manager/Financial Controller

We noted that several payments made in the months of December 2003 were not initialed by the Project Manager, and also the financial Controller, but the Project Manager has approved others on the same dates e.g. voucher No. 12035. No reason is given for this.

Recommendation

The authorized officers should approve any expenditure and where any changes occur this should be adjusted accordingly.

Management comment

There were staff changes and leave taken during this period.

Auditor's response

Staff changes and leave should not create a vacuum, which can jeopardize the internal control system.

3.2.7 Delay on payment to suppliers

We noted voucher No. 11008 payable to ABS TCM limited is supported by an invoice dated 17/6/2003 and stamped as received on 19/6/2003, the LPO is dated 13/6/2003. The original invoice is not attached but is supported by a copy, confirmed to be true copy of the original.

However payment was made on 14/11/2003 i.e. five months later. No explanation for this delay is available.

Delay on payment to suppliers could have a negative effect to the programme.

Recommendation

Payment to suppliers should be made in time to avoid any negative effect on the programme.

Management comment

Funds were not available to make the payment on time.

Auditor's response

The comment is not true and therefore not acceptable. Several payments were made in millions between 17/6/2003 and October 2003, and therefore non availability of funds was not the cause.

3.2.8 Payment to third parties

Some farmers collected lunch allowances on behalf of others without written authority, for example under vouchers No. s 12138, 12140 & 12141. The ID card numbers of the farmers whose allowance is collected on their behalf is missing and instead only the ID card number of the ones collecting is inserted.

Recommendation

Payments to third parties should be discouraged and where it is unavoidable written authority should be sought.

Management comment

Comments have been noted.

Auditor's response

Comment noted.

4.0 COMPLIANCE WITH AGREEMENT TERMS, APPLICABLE LAWS & REGULATIONS

4.1.0 INDEPENDENT AUDITORS REPORT

COMPLIANCE AUDIT REPORT NO. 4

To the

**Regional Authorising officer
AU/IBAR FITCA Kenya
EDF Imprest**

We have audited the financial statements of the EDF Imprest from 1 November 2003 to 31 December 2003 and have issued our report thereon.

We conducted our audit in accordance with the Terms of Reference and in context of the International Standards on Auditing issued by the International Federation of Accountants (IFAC), which require that we plan and perform the audit to obtain reasonable assurance as to whether the financial statements are free of material misstatement.

Compliance with Financing Agreement terms, laws and regulations applicable is the responsibility of the management of FITCA Kenya.

As part of our obtaining reasonable assurance about whether the financial statements are free of material misstatement, we performed tests of compliance with the provisions of agreement terms, laws and regulations. However, our objective was not to provide an opinion on the 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 would cause us to conclude that the aggregation of misstatements resulting from those failures or violations is material to the financial statements.

The results of our tests of compliance disclosed no instance of non-compliance.

Kigathi & Associates
Certified Public Accountants of Kenya
Nairobi

Date 2004

4. **COMPLIANCE WITH AGREEMENT TERMS, APPLICABLE LAWS &
REGULATIONS**

4.2 **FINDINGS AND RECOMENDATIONS**

There were no audit findings on this section.