

United Nations Development Programme (UNDP) Kenya

Project Title: PSDS Donor Coordination Unit Support
Implementing Partner: Ministry of Trade and Industry

Atlas Project Number: 00059637-2KEN05204
Atlas Award Number: 00049100

Audit Report
1 January 2010 to 31 December 2010

Ernst & Young

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1. INTRODUCTION

1.1 Background

The Government of Kenya (GoK) in collaboration with the private sector in Kenya has, with the support from a number of Development Partners (DPs), developed a Private Sector Development Strategy (PSDS) including the programme Implementation Plan 2007 - 2012. The overall goal of the PSDS was to enhance private sector growth and competitiveness that would contribute to the country's medium term objectives as outlined in the Economic Recovery Strategy (ERS) for wealth and employment creation. The PSDS gives priority to sectors defined in Vision 2030.

The PSDS covered five main goals namely:

- Improving Kenya's business environment
- Accelerating institutional transformation
- Economic growth through trade expansion
- Improving productivity and competitiveness
- Supporting entrepreneurship and Medium and Small Enterprise (MSE) development

The project established a Donor Co-ordination Unit (DCU) to facilitate funds flows, initial activities and reviews. The DCU was expected to reduce the transaction costs for contributing DPs, and support the work of the PSDS Secretariat.

The GoK seeks to ensure that the DP support to Kenya was well coordinated with the country's needs and with Government priorities. It also seeks to minimize transactions cost by taking a sectoral approach to development linking external resource provision to the medium term expenditure framework (MTEF) and the annual budget cycle.

The project document was signed on 18 December 2007 with project duration of three years (2008 to 2010).

1.2 AUDIT OBJECTIVES

The objective of the audit was to obtain assurance on the adequacy of management and oversight of the project and on the use of resources. Specifically, the audit was to provide assurance to UNDP, the project management, and other interested parties that project resources are being managed in accordance with:

- ≡ The financial regulations, rules, policies and procedures that applied to and have been prescribed for the projects;

- ≡ The project document and the work plans, including activities, management arrangements, expected results, monitoring, evaluation and reporting provisions;
- ≡ The key considerations for management in the areas of management, administration and finance.

1.3 SCOPE OF AUDIT

We conducted our audit in accordance with International Standards on Auditing. The scope of the audit was limited to the implementing partner expenditures which are defined as including all disbursements listed in the quarterly financial reports submitted by the implementing partner and the direct payments processed by UNDP at their request. The audit covered the period 1 January 2010 to 31 December 2010.

Our audit covered the following areas:-

a) Audit of the Combined Delivery Report (CDR)

Our review of the combined delivery report entailed the following:-

- ≡ Verified the mathematical accuracy of the CDR by ensuring that the expenditures described in the supporting documentation (the quarterly financial reports, the list of direct payments processed by UNDP at the request of the implementing partner, the list of disbursements made by UNDP as part of support services and the UN agency expenditure statements) are reconciled to the expenditures in the CDR.
- ≡ Reviewed the quarterly financial reports submitted by the implementing partner and agreed them to the underlying records
- ≡ Agreed direct payments processed by UNDP at the request of the implementing partner to support documents on a sample basis and checked that they were adequately supported, authorized and correctly allocated.

b) Review of the overall management of the project's implementation, monitoring and supervision

The audit included the review of work plans, progress reports, project resources, project budgets, project expenditure, project delivery, recruitment, operational and financial closing of projects (if applicable), and disposal or transfer of assets. To this effect, the scope covered the following areas as they were performed at the level of the project:

Human resources

We reviewed the competitiveness, transparency and effectiveness of the recruitment and hiring of personnel. Our review included performance appraisal, attendance control, calculation of salaries and entitlements, payroll preparation and payment, and management of personnel records.

Finance

We reviewed the adequacy of the accounting and financial operations and reporting systems. Our review included budget control, cash management, certification and approval authority, receipt of funds, and disbursement of funds, recording of all financial transactions in the expenditure reports, record maintenance and control.

Procurement

We reviewed the competitiveness, transparency and effectiveness of the procurement activities of the project in order to ensure that the equipment and services purchased met the requirement of either the implementing partner or UNDP. Our review included the following:

- ≡ As applicable, delegations of authorities, procurement thresholds, call for bids and proposals, evaluation of bids and proposals and approval/signature of contracts and purchase orders;
- ≡ Receiving and inspection procedures to determine the conformity of equipment with the agreed specifications and, when applicable, the use of independent experts to inspect the delivery of highly technical and expensive equipment;
- ≡ Evaluation of the procedures established to mitigate the risk of purchasing equipment that do not meet specifications or is later proven to be defective;
- ≡ Management and control over the variation orders.
- ≡ The review of the use of consulting firms and the adequacy of procedures to obtain experienced personnel and assessment of their work before final payment is made.

Asset Management

We reviewed the equipment (typically vehicles and office equipment) purchased for use of the project. Our review included the procedures for receipt, storage, and disposal of the equipment.

Cash management

We reviewed all cash held by the project and procedures for cash safeguarding.

General Administration

Our review included travel activities, vehicle management, shipping services, office premises and lease management, office communications, and records maintenance.

Information system

We reviewed the information and communication systems and control and security of equipment and data.

1.4 AUDIT METHODOLOGY

The audit was performed using the Ernst & Young Global audit methodology (GAM), which requires general planning and identification of areas of audit significance, as well as evaluating risk inherent in significant accounts. This approach addresses the established internal control standards of UNDP and International Standards of Auditing (ISA).

1.5 EXECUTIVE SUMMARY

- a) **Statement of expenditure**
We verified the expenditure reported in the Combined Delivery Report (CDR) and the direct payments processed by UNDP at the request of the Implementing Partner.
- b) **Statement of assets and equipment**
We agreed the assets purchased on a sample basis to the supporting documents and physically verified some of the material assets purchased.
- c) **Statement of cash position**
No advances were given to the Implementing Partner. All expenditure was incurred through direct payments processed by UNDP at the request of the Implementing Partner.
- d) **Management letter**
There were no reportable issues during the period under audit.
- e) **Follow up on prior period audit recommendations**
There are no follow up actions from prior year audit.

2. AUDIT REPORT WITH OVERALL OPINION

Auditor's report to:
The Resident Representative, UNDP Kenya and;
The Permanent Secretary, Ministry of Trade and Industry

a) Certification of Statement of Expenditure - Combined Delivery Report (CDR)

We have audited the accompanying UNDP Statement of Expenditure ("the CDR") of the UNDP, Award Number 49100 and project number 59637-2KEN05204 for the period 1 January 2010 to 31 December 2010.

The CDR is the responsibility of the UNDP Country Office. Our responsibility is to express an opinion on the CDR based on our audit.

We conducted our audit in accordance with International Standards of Auditing (ISA). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the CDR is free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the CDR. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall presentation of the CDR. We believe our audit provides a reasonable basis for our opinion.

In our opinion, the CDR presents fairly, in all material respects the expenditure of US\$ 519,824 incurred by the project and audited by us for the period 1 January 2010 to 31 December 2010 in accordance with UNDP accounting requirements.

b) Certification of Statement of Assets and Equipment

We have audited the accompanying Statement of Assets and Equipment ("the statement") of the UNDP, Award Number 49100 and project number 59637-2KEN05204 as at 31 December 2010.

The statement is the responsibility of the management of the project. Our responsibility is to express an opinion on the statement based on our audit.

We conducted our audit in accordance with International Standards of Auditing. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the statement is free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the statement. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall presentation of the statement. We believe our audit provides a reasonable basis for our opinion.

In our opinion, the statement of assets and equipment presents fairly, in all material respects the inventory balances of the project amounting to US\$ 19,576 as at 31 December 2010 in accordance with UNDP requirements.

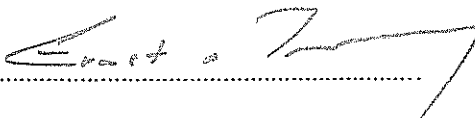
c) Certification of Statement of Cash Position

We did not give an opinion on cash position as at 31 December 2010 since no advances were given to the Implementing Partner. All expenditure was incurred through direct payments processed by UNDP at the request of the Implementing Partner.

This report is intended solely for the information and use of UNDP and the Government of Kenya.

Date of Issuance: 16th May 2011

AUDITOR'S NAME: Ernst & Young

AUDITOR'S SIGNATURE: 

STAMP AND SEAL OF AUDIT FIRM:

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3. STATEMENT OF EXPENDITURE
FOR THE PERIOD ENDED 31 DECEMBER 2010

Programme
CE143

01

KEN10
Jan-Dec (2010)
Id : 00049100
Code : ALL

049100 1KEN07110 - PSDS Donor Coordin	Period :	Jan-Dec (2010)
059637 1KEN07110 - PSDS Donor Coordin	Impl. Partner :	01726 National Execution
	Location :	Kenya

Govt Disb	UNDP Disb	UN Agencies	Total Disb
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0 (TRAC (Lines 1.1.1 and 1.1.2))

5 - Security-related Costs	0.00	326.53	0.00	326.53
3 - Personal Security Measures	0.00	329.68	0.00	329.68
5 - Contribution to Security	0.00	3,619.09	0.00	3,619.09
5 - Payroll Mgt Cost Recovery ATLA	0.00	192.36	0.00	192.36
5 - Salaries - ALD	0.00	72,143.48	0.00	72,143.48
5 - Medical Insurance - ALD	0.00	1,452.00	0.00	1,452.00
5 - Contr to Jt Staff Pens Fd-ALD	0.00	15,355.69	0.00	15,355.69
5 - Mission Allowance - ALD	0.00	4,158.03	0.00	4,158.03
5 - Appoint/Sep Cost Incl Trvl-ALD	0.00	11,657.92	0.00	11,657.92
5 - Other Personnel costs ALD(A&T)	0.00	23,670.16	0.00	23,670.16
- Local Consult.-Sht Term-Tech	0.00	38,148.58	0.00	38,148.58
- Service Contracts-Individuals	0.00	1,803.92	0.00	1,803.92
- Travel Tickets-Local	0.00	373.19	0.00	373.19
- Daily Subsistence Allow-Intl	0.00	813.26	0.00	813.26
- Daily Subsistence Allow-Local	0.00	935.76	0.00	935.76
- Travel - Other	0.00	56.81	0.00	56.81
- Svc Co-Trade and Business Serv	0.00	7,834.72	0.00	7,834.72
- Hospitality-Special Events	0.00	2,250.37	0.00	2,250.37
- Hospitality-Vouchered Expenses	0.00	818.23	0.00	818.23
- Acquis of Computer Hardware	0.00	1,691.36	0.00	1,691.36
- Sundry	0.00	16,377.53	0.00	16,377.53
- Land Transport	0.00	561.28	0.00	561.28
- Realized Loss	0.00	0.39	0.00	0.39
- Realized Gain	0.00	-23.91	0.00	-23.91
04000	0.00	204,546.43	0.00	204,546.43

Programme Cost Sharing)

- Local Consult.-Sht Term-Tech	0.00	111,979.34	0.00	111,979.34
- Local Consult.-Short Term-Supp	0.00	42,408.17	0.00	42,408.17
- Service Contracts-Individuals	0.00	3,999.47	0.00	3,999.47
- Svc Co-Construction & Engineer	0.00	429.48	0.00	429.48
- Svc Co-Trade and Business Serv	0.00	-205.50	0.00	-205.50
- Grants to Instit & other Benef	0.00	37,359.90	0.00	37,359.90
- Hospitality-Special Events	0.00	16,572.11	0.00	16,572.11
- Facilities & Admin - Implement	0.00	10,545.74	0.00	10,545.74
- Realized Gain	0.00	-57.06	0.00	-57.06
0000	0.00	223,031.65	0.00	223,031.65

EUROPEAN COMMISSION)

Local Consult.-Sht Term-Tech	0.00	32,868.90	0.00	32,868.90
Service Contracts-Individuals	0.00	12,773.10	0.00	12,773.10
Daily Subsistence Allow-Local	0.00	1,074.70	0.00	1,074.70
Svc Co-Trade and Business Serv	0.00	1,007.53	0.00	1,007.53
Grants to Instit & other Benef	0.00	37,037.04	0.00	37,037.04
Rent - Meeting Rooms	0.00	806.35	0.00	806.35
Facilities & Admin - Implement	0.00	5,010.66	0.00	5,010.66
Facilities & Admin - Services	0.00	1,707.07	0.00	1,707.07
Realized Gain	0.00	-39.28	0.00	-39.28
1079	0.00	92,246.07	0.00	92,246.07

Combined Delivery Report

Development Programme
UNGL143

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: 00049100 IKEN07110 - PSDS Donor Coordin	Period :	Jan-Dec (2010)
: 00059637 IKEN07110 - PSDS Donor Coordin	Impl. Partner :	01726 National Execution
	Location :	Kenya

	Govt Disb	UNDP Disb	UN Agencies	Total Disb
Project : 00059637	0.00	519,824.14	0.00	519,824.14
Total :	0.00	519,824.14	0.00	519,824.14

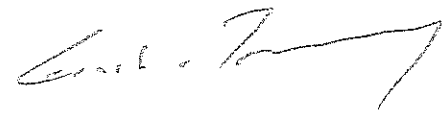
FOR PERMANENT SECRETARY
MINISTRY OF TRADE
P. O BOX 30430-00100
NAIROBI



G.M. KIONANO

14/3/2011

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3.1 ACCOUNTING POLICIES

The principal accounting policies adopted by the project management in the preparation of the combined Delivery Report (CDR) are set below:-

i. Basis of accounting

The statement of expenditure (CDR) has been prepared on a cash basis of accounting. Under this basis of accounting, expenditure is recognized when paid for rather than when incurred

ii. Foreign currency translation

Transactions denominated in currencies other than the reporting currency are converted into the US dollars at the UN official exchange rate ruling at the date of the transaction. The balance of the cash position at the end of the period is translated into the US dollars at the UN official exchange rate ruling at the period end. Exchange differences arising on the conversions are dealt with in the CDR.

iii. Capital expenditure

Assets and equipments are expensed in the year of acquisition.

4. STATEMENT OF ASSETS AND EQUIPMENT
AS AT 31 DECEMBER 2010

Statement of Assets and Equipment
as of 31 December 2010



Country Office: UNDP KENYA CO
Project Title: PSDS Donor Coordination Unit
Award ID: 00049100
Project ID: 00069537
Period covers: 2010

For asset value of a minimum of 1000\$
per item

ACQUISITION DATE	TAG NO.	ITEM DESCRIPTION/MAKE/MODEL	PROJECT NO.	DC/DISE CODE	FUND	ACCOUNT	ACTIVITY	RESPONS. PERSON	ITEM LOCATION	MANUFACTURER	COUNTRY KEYS	USE VALUE SERIAL NUMBER	DOCTOR	REMARKS
Jan-09		103 NY (NEER) TCSA 541 (057)	62059337	05012	04-000	727115	5	LAEDI KAGWA	UNEP-UNEP/2.CO	DT DORRIS & CO LTD	NAIROBI	105776	105776	

Signed by: *Lynette Lwin*
Name: *Lynette Lwin*
Title: National Project Director
FOR PERMANENT SECRETARY
MINISTRY OF TRADE
P.O. BOX 30430-00100
NAIROBI

Certified by: *[Signature]*
Name: *W. M. C. Lwin*
Title: Senior Partner
Name of the Audit Firm: *Audit firm*

[Signature]
G. M. KIONANO

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P. O. BOX 64260 - NAIROBI
NAIROBI, KENYA

5. MANAGEMENT LETTER

A) BACKGROUND

We have set out issues identified during the course of our normal audit work and have not attempted to indicate all possible improvements which a special review might develop. The management letter covers the following topics/issues.

A general review of a project's progress and timeliness in relation to progress milestones and the planned completion date, both of which should be stated in the project document or Annual Work Plan (AWP)

An assessment of a project's internal control system with equal emphasis on:

- i) the effectiveness of the system in providing the project management with useful and timely information for the proper management of the project; and
- ii) the general effectiveness of the internal control system in protecting the assets and resources of the project.

A description of any specific internal control weaknesses noted in the financial management of the project and the audit procedures followed to address or compensate for the weaknesses. Recommendations to resolve/eliminate the internal control weaknesses noted have been included.

B) CLASSIFICATION OF POSSIBLE CAUSES

Lack of/or inadequate policies/procedures/guidelines
Lack of/or inadequate guidance/supervision at the project level
Inadequate guidance/monitoring at UNDP country office level
Lack of/or insufficient resources (financial, human or, technical resources)
Inadequate Planning
Inadequate Training
Human Error
Intentional Overriding of Internal Controls
Inadequate Management Structure

Risk Severity

The audit observations have been categorised by risk severity as high, medium or low. These categories have are described below:

High: Action that is considered imperative to ensure that UNDP is not exposed to high risks (i.e. failure to take action could result in major consequences and issues).

Medium: Action that is considered necessary to avoid exposure to significant risks (i.e. failure to take action could result in significant consequences).

Low: Action that is considered desirable and should result in enhanced control or better value for money.

C) SUMMARY OF POINTS ARISING FROM CURRENT PERIOD'S AUDIT

Ref	Summary of the findings	Risk Severity (High/Medium/Low)
5.1	Review of Project Progress	
	No exceptions noted	

Ref	Summary of the findings	Risk Severity (High/Medium/Low)
5.2	Assessment of Internal Control System	
5.2.1	Human Resources	
	No exceptions noted	
5.2.2	Finance	
	No exceptions noted	
5.2.3	Procurement	
	No exceptions noted	
5.2.4	Asset Management	
	No exceptions noted	
5.2.5	Cash Management	
	No exceptions noted	
5.2.6	General Administration	
	No exceptions noted	
5.2.7	Information System	
	No exceptions noted	