MAJI NA UFANISI

MANAGEMENT LETTER

FOR PERIOD JANUARY 2016 to 31 DECEMBER 2016 (24 MONTHS)

2nd February 2018

The Directors,
Maji na Ufanisi
Nairobi, Kenya

Dear Sirs,

The management of Maji na Ufanisi is responsible for establishing and maintaining an internal control structure. In fulfilling this responsibility, estimates and judgments by management are required to assess the expected benefits and related costs 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 unauthorized use or disposition and that transaction are executed in accordance with management's authorization and recorded properly to permit the preparation of Financial Statements in accordance with International Financial Reporting Standards.

The report set out below is based on information availed to us and observations made during our visit to your premises. For this reason, our audit was based on a sample basis necessary to enable us to reach reasonable conclusion on which to base our opinion.

We observed that the internal control systems in place at the time were being followed with inadequacies in some areas as highlighted in this report. However, despite this we were able to obtain sufficient information to enable us draw reasonable conclusions as to the state of the entity's records and whether such information can be relied upon.

We are therefore pleased to provide this report and its recommendations on internal controls, accounting procedures and other matters, which came to our attention during our audit. This report is intended solely for the information and use of the management of Maji na Ufanisi, and others in the organization.

Yours faithfully,

Warren and Associates
Certified Public Accountants
P.O. Box 1496-00200,
Nairobi

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.

Classification

The identified issues have been classified into the following categories in this management letter:

a) Issues identified during the 24 months' audit for the period; 01/01/2016 to 31/12/2017.

Ranking

The issues identified have been ranked as high, moderate or low risk using the criteria described below:

High	This indicates an issue we consider high risk and is critical. The management should pay particular attention to this area to ensure that the issue is given high priority to be addressed and resolved.
Moderate	This indicates a moderate level of risk, where we felt there is some scope of a material misstatement in this area and therefore the management should review it carefully.
Low	Any issues in this area are regarded as having a low level of risk. Whilst not critical, the management should be aware of this issue and monitor it to ensure it does not become moderate or high risk.

1. Follow up on issues raised in the 2015 management Letter

Observations

i. The following issues highlighted in the 2015 Management letter were not addressed;

- The dormant Barclays bank Accounts N0.229881and 3541059 had not been closed: - *Follow has been made with Barclays Bank of Kenya and there no existing records of such accounts with the Bank. Efforts to have the Barclays Banks confirm this in writing have been futile with the bank arguing that with no records on their side it is difficult to back up the confirmation.*
- Staff evaluations were yet to be done: - *Most of the staff who would have been evaluated had their contract terminated on 30 September 2015 and thus evaluations could not have occurred at the end of the year*
- Incomplete staff files were yet to be properly constituted: - *This issue was noted and regularized in 2016*
- Incomplete documentation on purchase of Motor Vehicle KCC 436N were yet to be followed up: - *This was regularized in 2016*
- Single sourcing: - *Prequalification of suppliers has conducted in 2016 and currently MnU has a list of those suppliers*
- Incomplete documentation for transfer of assets from Maji Na Ufanisi to CSUDP: - *This was done in May of 2016 where MnU entered into an agreement with CSUDP on the transfer of assets. A copy of the agreement has been availed to the auditors for their records*
- Late submission of returns to the NGO Coordination Board: - *This was occasioned to the late commencement of the audit of 2015 and in future MnU will endeavor to comply with the statutory timelines*
- Failure to withhold and pay withholding tax on consultancy fee on time: - *MnU management will endeavor to always to be tax compliant at all time in future.*
- Failure to pursue tax exemption certificate for the organization: - *It has been very difficult for Non-profit organizations to get a blank tax exemption certificate. The certificates are issued on a case by case basis. However, to avoid penalties imposed by KRA, MnU should always file the monthly income tax returns.*

Implications

i. The failure to implement and follow up on audit recommendations points to a general weakness in governance.

Recommendations

We urge management to quickly follow up and implement any pending recommendations from previous management letters and draw up an implementation matrix for any pending issues that requires continuous follow up.

Management Comments

The management have noted the the concerns raised by the auditors in relations to the management issues of 2015 and wishes to state on how the issues were addressed as responded against each issue above.

Ranking	Responsible	Implementation Time Lines
High	*MnU senior management (Executive Director and Finance Manager)*	*By December of 2016*

Auditors Subsequent Comments

Management is urged to draw up an implementation matrix for all highlighted issues to aid in the tracking and follow up of implementation.

2. Compliance to Statutory Provisions.

Observations

i. We noted that returns to the NGOs coordination Board for the Financial year ended 31st December, 2016 were submitted late i.e. January 2018. Subsequently returns for the financial year ended 31.12 2017 have also not been filled and are still outstanding as at the date of this report.

ii. We noted that annual tax returns to the Kenya Revenue Authority (KRA) for the two financial years in the period under review were not filled.

iii. We noted that NHIF and NSSF deductions for the year 2017 amounting to KES 11,800 and 81,300 respectively were not remitted.

iv. We noted that PAYE for the months of March 2017 and July 2017 was remitted late i.e. 9th May 2017 and 16th August 2017 respectively.

v. We noted that withholding tax was not deducted and remitted from a consultant engaged by the organization in 2016 to undertake research.

Implications

i. This omission is in contravention of the provisions of the NGO's Non-Governmental Organizations Co-ordination Act (Cap 19) of 1990 that requires all registered NGOs to file annual returns by (31st March) 3 month following the end of the organization`s financial year. Noncompliance comes with hefty penalties and fines to the organization.

ii. Failure to file with the tax authorities annual tax returns attracts punitive penalties and fines to the organization.

iii. Failure to remit include late submission of statutory deductions including taxes attracts fines and penalties to the organization.

Recommendations

We urge management to quickly work to resolve the above noncompliance issues by addressing the various gaps mentioned including making any payments due and filling the due returns.

Management Comments

i. *This is the true position and the management and the Board takes full responsibility since this was occasioned by the late procurement of Audit services leading to late audit for 2016*

ii. *Management and the Board has noted this issues which was occasioned by the assumption that not for profit organizations are not obligated to file income tax returns*

As management we have noted all compliance issues raised by the auditors and taken them very seriously and moving forward MnU will engage with the respective government bodies to ensure compliance

Ranking	Responsible	Implementation Time Lines
High	*MnU Board of Directors and management through the ED's Office*	*By December 2018*

Auditors Subsequent Comments

3. Cash and Bank Management

Observations

i. We noted that cash count certificates for the period under review were not signed by the preparer and for authorization.

ii. We noted a huge cash payment amounting to Kshs.1, 299,260 made on 15/02/2017 where cash was withdrawn and deposited into the landlord`s account.

Implications

i. Without being signed off, responsibility for preparation and authorization is not evidenced hence no responsibility can be attached in the event the documents are inaccurate or erroneous.

ii. Though we confirmed that the Landlord did receive the funds, this is an irregular procedure contrary to the organizational cash management procedures and good practice given the huge risks involved in cash handling.

Recommendations

i. Management is urged to ensure that cash count certificates which form an integral part of the internal controls system are always signed by the preparer and for authorization.

ii. Management is urged to comply with own policies and procedures and consider the high risks involved in cash handling.

Management Comments

i. Due to the decrease in the staffing levels during the period under audit the few remaining staff found themselves handling all the tasks which at times compromised the role of segregation of duties.

ii. Even though the circumstances that lead to this have been explained in the SIDA special audit report, MnU management agrees that this was a major deviation from the established norms and in future every effort will be made to ensure compliance with MnU finance policies and procedures on cash management.

As stated above MnU management will make every effort to ensure that all financial policy guidelines are adhered to and followed to the letter

Ranking	Responsible	Implementation Time Lines
High	*MnU management (Finance Manager with his team)*	*This should be a continuous process to ensure adherence at all times*

Auditors Subsequent Comments

4. Value for money not realized.

Observations		
We noted that the organization made a payment of KES 580,000.00 to a data recovery company however the services paid for thereof were not satisfactorily delivered i.e. the sought after data was not recovered.		
Implications		
There was no value for money as the services sought after were not realized.		
Recommendations		
Management is urged to ensure that the organization always realizes value for money for any payments made and that services and / or goods paid for are delivered and satisfactory.		
Management Comments		
The supplier delivered the services (data) partially even after all efforts were made to have them deliver the rest of the data delivery of the remaining data. The contract terms were that payment were to be made upfront and the services delivered later. The recommendations above from the auditor are well noted and will inform all future MnU engagements with service providers.		
Ranking	**Responsible**	**Implementation Time Lines**
High	*MnU management*	*Immediate*
Auditors Subsequent Comments		

5. Un reconciling Fund Balances

Observations		
Our review on Sweden Grant No.51110049 indicated that the fund balance Kshs. 418,515 as at 31 December 2015 had not been reconciled to the cash and bank balance as at 30 November 2017.		
Implications		
This may imply that the fund balances reported are in accurate.		
Recommendations		
Management is urged to ensure that any fund balances are correctly reconciled to the reported cash and bank balances and any discrepancies thereof explained.		
Management Comments		
This was rectified during the SIDA special audit report		
Ranking	**Responsible**	**Implementation Time Lines**
Moderate.	*Finance Manager*	*This was rectified during the SIDA special audit report*
Auditors Subsequent Comments		

6. Governance

Observations

i. We noted that the organization has not held any Annual General Meetings (AGM) since the year 2015 contrary to Article XVII Section 1 of its own constitution and the Non-Governmental Organizations Co-ordination Act (Cap 19) of 1990.

ii. Annual institutional audits for years 2016 and 2017 were not executed with the justifiable times.

Implications

i. Failure to hold AGMs is in contravention with own governance instruments and points to a weak governance structure and denies the organization the much needed oversight.

ii. Where institutional audits are not conducted and concluded within agreeable timelines the organization may not be able to meet the various statutory compliance returns deadlines as prescribed by the relevant authorities i.e. KRA and The NGOs Coordination Board.

Recommendations

Management is urged to ensure that there is strict adherence to own governance instruments and that the requisite oversight is offered. Timelines for institutional audits should also be strictly observed.

Management Comments

i. *This is noted and the matter will be handled by the Board of Directors to ensure that the AGM as the apex body of MnU is held in 2018.*

ii. *The delay in commissioning the audit for the two years on time was occasioned by lack of funds to pay for the audit services. The Board has noted this anomaly and all efforts to secure audit funds will in future be put in place to ensure that audits are conducted regularly and at the right time*

These recommendations are noted and the board of directors and management of MnU will ensure that compliance on the organization's own constitution is strictly adhered to.

Ranking	Responsible	Implementation Time Lines
High.	*Board of Directors and and management*	*Immediate with the AGM conducted by December of 2018*

Auditors Subsequent Comments

7. Other Key Disclosures

Observations		
i. We noted that the organization is engaged in a protracted rental dispute with her former landlord arising out of an unfulfilled promise from the former landlord to reimburse the organization costs of officer partitions amounting to close to KES 2,000,000. ii. We noted that in 2016 and 2017 there were staff that worked for the organization without pay without pay. iii. Over the years we have noted a consistent decline in the organizations income from grants and other sources. iv. We noted that the organization disposed of some of its assets however; the requisite documents to support these disposals were not availed for audit.		
Implications		
i. Unrealized deposits owed to the organization. ii. Management is urged to ensure that there are sufficient guidelines where staff decide to offer their services "probono" and that this is clearly documented to avoid any future claims from the concerned staff. iii. May negatively impact on the organizations going concern status thus putting its continuity into question. iv. May imply procedural disposal of assets		
Recommendations		
Management is urged to pick up the highlighted issues and follow up.		
Management Comments		
i. *As noted in the various correspondences between Methodist Church of Kenya and MnU, there was no formal commitment on the side MCK to reimburse MnU the residual costs of the office partition but rather there was a gentleman's agreement that in the event that MCK gets a tenant willing to pay for the partitioning MnU will be informed to enter into negotiations. This was a glaring oversight on MnU's side since it has now become extremely difficult to commit MCK to pay for the partitions that their new tenant is enjoying.* ii. *The staff contracts for all MnU staff were terminated in October 2015 when the funding from the Embassy of Sweden (SIDA) come to an end. Those staff who were willing to work pro-bono were allowed to continue with a clear understanding that there will be no compensation whatsoever that was to accrue retrospectively. This situation continued until February 2017 when one of MnU's donor (DPA) agreed to fund a skeleton staff to enable MnU finish implementation of the remaining components of the DPA project. Those staff were then issued with staff contracts running from March 2017 to February 2018 when the project came to a close.* iii. *This has been a concern to the management and the Board of Directors of MnU and currently all effort being made to normalize the situation by expanding MnU revenue base and reduce over reliance on one or two main partners. The organization is also exploring other opportunities on generating its own resources.* iv. *This is noted and the board of directors will make a follow up on this matter and avail the documentation as requested* *As indicated in the comments above the Board and the management of MnU have noted the recommendations from the auditors and will take the necessary action to ensure implementation of the same is done*		
Ranking	**Responsible**	**Implementation Time Lines**
Low	*Board of Directors and MnU management*	*Before December 2018*
Auditors Subsequent Comments		
Management is urged to draw up an implementation matrix for all highlighted issues to aid in the follow up of implementation.		