

PD-ADD-679

UNITED STATES
AGENCY FOR INTERNATIONAL DEVELOPMENT

THE
INSPECTOR
GENERAL



Regional Inspector General for Audit
NAIROBI

PD-ABD-679

ISA 75389

**AUDIT OF
LOCAL CURRENCY GENERATIONS UNDER
USAID/ZIMBABWE GRANT NO. 613-K-604**

**AUDIT REPORT NO. 3-613-91-15-N
September 16, 1991**

The audit disclosed that of \$32,546,269 in local currency generated, there was an unreconciled underdeposit into the special account of the equivalent of \$203,731. Further, the audit identified weaknesses in the internal controls of the auditee.

**FINANCIAL INFORMATION IN THIS REPORT MAY BE
PRIVILEGED. THE RESTRICTIONS OF 18 USC 1905
SHOULD BE CONSIDERED BEFORE ANY
INFORMATION IS RELEASED TO THE PUBLIC.**

UNITED STATES OF AMERICA
AGENCY FOR INTERNATIONAL DEVELOPMENT
REGIONAL INSPECTOR GENERAL/AUDIT

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September 16, 1991

MEMORANDUM

TO: Ted D. Morse, Director, USAID/Zimbabwe

FROM: Toby L. Jarman, RIG/A/Nairobi 

SUBJECT: Audit of Local Currency Generations Under USAID/Zimbabwe Grant No. 613-K-604

Attached are five copies of a non-Federal financial audit report of local currency generations under USAID/Zimbabwe Grant No. 613-K-604. The accounting firm of Deloitte and Touche, Zimbabwe performed the audit.

A.I.D. signed grant agreement No. 613-K-604 with the Government of Zimbabwe in September 1982 to provide budgetary support under the Zimbabwe Agricultural Sector Assistance Program (ZASA). The overall goal of this grant was to improve the economic status of Zimbabwe's smallholder farmer. The grant was to finance procurement of specialized commodities, technical services and training. Zimbabwe dollars to support the program were to be generated under a commodity import program component, deposited into a special account and used to finance mutually agreed upon project activities. As of June 30, 1989 grant funding totalled \$45 million under the ZASA program, and local currency generated totalled the equivalent of \$32,546,269.

The objectives of the audit were to:

- review and express a written opinion on the Fund Accountability Statement;
- evaluate the Government of Zimbabwe's internal control structure relating to local currency generations under the program; and
- determine the Government of Zimbabwe's compliance with the grant agreement terms and applicable U.S. laws and regulations.

Deloitte and Touche reported that the Fund Accountability Statement fairly presented the status of the funds authorized under grant No. 613-K-604, except that there was an unreconciled underdeposit into the special account of the equivalent of \$203,731. The auditors also reported that the funds in the special account were not deposited in an interest bearing account from June 1985 through September 1986. Consequently, this inadequate investment policy resulted in lost earnings of Zimbabwe Dollars 1,282,500 (\$773,476). However, we are not making a formal recommendation concerning the non interest-bearing account, as this matter was covered in A.I.D./IG Audit Report No.3-613-90-06, dated March 23, 1990 and the Mission took corrective action.

In its report on the internal control structure, the auditors noted that the Government of Zimbabwe was not reconciling its special account financial records to A.I.D. records. The auditors reported, however, that the Government of Zimbabwe complied in all material respects with the grant agreement terms and applicable U.S. laws and regulations.

The draft report was submitted to the auditee and USAID/Zimbabwe for comment, and their comments were taken into consideration in the preparation of the final report by Deloitte and Touche.

We are including the following recommendations in the office of the Inspector General audit recommendation follow-up system:

Recommendation No. 1: We recommend that the Director, USAID/Zimbabwe make a determination on the unsupported difference of the equivalent of \$203,731 between what A.I.D.'s accounting records showed should have been deposited in the special account and what was actually deposited, and collect all amounts due to the special account.

Recommendation No. 2: We recommend that the Director, USAID/Zimbabwe ensure that the Government of Zimbabwe institute appropriate procedures to reconcile their financial records for the commodity import program with A.I.D. records.

We consider Recommendation Nos. 1 and 2 unresolved pending USAID/Zimbabwe's agreement on the specific amount to be deposited into the special account and our receipt of a specified plan for corrective actions. Please respond to this report within 30 days indicating action planned or underway to implement these recommendations.

Thank you for the cooperation and courtesy extended to Deloitte and Touche and Regional Inspector General for Audit representatives during the audit.

Attachments: a/s

**AUDIT OF
LOCAL CURRENCY GENERATIONS
UNDER USAID/ZIMBABWE GRANT NO. 613-K-604**

ATTACHMENTS

FINANCIAL ADDET
OF LOCAL CURRENCY GENERATIONS UNDER
USAID/ZIMBABWE GRANT NO. 613-K-604

JANUARY 1991

FINANCIAL AUDIT
OF LOCAL CURRENCY GENERATIONS UNDER
USAID/ZIMBABWE GRANT NO. 613-K-604

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EXECUTIVE SUMMARY

This document records the findings of the financial audit of local currency generations under USAID/Zimbabwe Grant No. 613-K-604.

The report is divided as follows:-

- o **Introduction**

This summarises our approach and methodology

- o **Audit Reports**

This section contains three separate audit reports on:-

- Fund Accountability
- Compliance with laws
- Internal Controls

and the respective audit findings

The audit was conducted between March 1990 and January 1991.

1. INTRODUCTION

BACKGROUND

In 1988/89 the United States Agency for International Development (USAID) requested Deloitte and Touche (DT) to evaluate the systems and procedures utilised by the Government of Zimbabwe to account for income and expenditure on USAID funded grants. The conclusion reached was that the systems were adequate but that laid down accounting and administrative procedures were often not complied with.

As a result of this in 1990 the USAID/Zimbabwe requested an audit of each USAID funded grant agreement.

By agreement between the RIG/A/N, USAID and DT the audits were divided into local currency generation (income audits) and expenditure audits for selected projects. The income audits cover the generation of local currency funds from the CIP programs and the transfer from the special accounts in which the funds are deposited to the GOZ Exchequer account once approval for project expenditure has been given. The expenditure audits cover the receipt of funds by each of the implementing ministries from the Exchequer account and the expenditure incurred for selected development projects by the implementing ministries. This report concerns local currency generations under USAID/Zimbabwe Grant No. 613-K-604.

AUDIT OBJECTIVES AND SCOPE

The objectives and scope of the audit were governed by the following:-

- o CFR-41 1-15-2 (Contracts with Commercial Organisations).
- o Federal Acquisition Regulations (FAR) (Contract Cost Principles and Procedures).
- o AID Handbook 11 (Host country contracts).
- o American Auditing Standards.
- o Audit Contract.
- o Generally Accepted Auditing Standards.
- o American Government Auditing Standards.

In terms of the above, the objectives of the audit were:-

- o To issue an opinion on the fund accountability statement.
- o To report on compliance with the grant agreement, U.S. laws and regulations.
- o To report on Government of Zimbabwe's system of internal controls.

The audit was performed under the guidance of the Regional Inspector General/Audit/Nairobi.

The scope of the audit consisted of the following:-

- o One hundred percent checking of all transactions. This was done because an accurate fund accountability statement from GOZ was not available.
- o Reconciliation of GOZ records to USAID records.
- o Review of transactions for compliance with grant agreement and applicable laws and regulations.
- o An evaluation of internal accounting controls and practices as a part of the transaction audit. It should be noted here that because of the one hundred percent checking, reliance was not placed on internal controls.
- o A review of all relevant documentation.

The Fund Accountability Statement shows the following:-

	<u>US\$</u>
o Amounts obligated directly from USAID/Zimbabwe	11 909 785
o Uncommitted balance still in the hands of AID/Washington	340 215
o Deposited into the special account for the grant	32 546 269
o A difference between the above two amounts and the total grant amount of US\$45 000 000 (underdeposit)	203 731

SYSTEMS DESCRIPTION

The USAID Commodity Import Programs (CIP) have been designed to aid Zimbabwe in two ways:-

- o Provide foreign currency to the private sector in Zimbabwe for the importation of U.S. goods.
- o Generate Zimbabwe dollars from the sale of the above foreign currency for use in public sector development programs.

The organisations who administer the programs are as follows:-

o USAID

USAID acts on behalf of the donor and is responsible for ensuring the correct administration of the foreign funds.

o **GOZ**

- **MFEPD**

The Ministry of Finance, Economic Planning and Development (MFEPD) is responsible for receipting all local currency generations, refunding the government account from the special grant account for expenditure incurred by the implementing ministries and reporting to USAID.

- **Implementing Ministries**

The implementing ministries incur, control and report to MFEPD on all expenditure of development projects.

o **Reserve Bank of Zimbabwe (RBZ)**

RBZ maintains the government special and investment grant accounts.

o **Commercial Banks (CB)**

CBs act on behalf of the importers

o **Importers**

Importers purchase foreign currency made available under the grant.

The implementation of the CIP was as follows:-

- o An agreement was signed between the United States Government and the Government of Zimbabwe.
- o On the basis of a request from the Ministry of Finance, Economic Planning and Development (MFEPD), USAID arranges a letter of commitment to be issued by AID in Washington to the U.S. bank designated by the MFEPD. This letter advises the U.S. bank of the program and the amount of the agreement.
- o The nature, terms and conditions of the CIP agreement are advertised. In response to this, Zimbabwean companies submit applications for foreign exchange to the Industrial or Commercial Import Controller of the Ministry of Industry and Commerce.

The application includes a proforma invoice from the U.S. supplier indicating that the required items can be sourced from the U.S. and the estimated cost thereof.

- o The Ministry of Industry and Commerce vets the applications in terms of the USAID Commodity Eligibility Listing and their own priorities and allocates funds accordingly. The Ministry provides USAID with details of all approved allocations.

USAID prepares the allocation letters using stationery provided by the Ministry of Industry and Commerce.

- o The importer upon receipt of the Allocation letter obtains an import licence before requesting an approved Zimbabwean bank to open a letter of credit in favour of the designated U.S. supplier. The local bank provides USAID with a copy of the letter of credit and advises the U.S. supplier that a letter of credit has been opened.
- o The U.S. supplier ships the goods. Copies of the shipping documents and invoices are submitted to USAID in Zimbabwe and to the U.S. bank.
- o The U.S. bank makes the necessary payments to the U.S. supplier from their own funds and forwards an advice of payment to the bank in Zimbabwe with which a letter of credit was opened.

AID/Washington reimburse the U.S. bank.

- o The Zimbabwean bank collects the full value of the letter of credit (in Zimbabwean dollars) from the importer.
- o The Zimbabwean bank transfers the funds to the MFEPD. MFEPD deposits the money into a special CIP account at the Reserve Bank.
- o MFEPD usually maintains separate accounts with RBZ for each grant.
- o Where there are funds excess to requirements in the RBZ current account, these are transferred to an investment account under instructions from MFEPD.

This completes the income segment of the cycle. Implementing Ministries incurring expenditure on approved development projects and submit expenditure returns to MFEPD. In order to refund this expenditure, MFEPD instructs RBZ to transfer funds from the grant special account to the Government's Consolidated Revenue Fund.

AUDIT PROGRAMME

For the purposes of this audit, income comprises the local currency generated from the sale of U.S. dollars to the private sector and expenditure is the money transferred from the special account into the Government account. Actual expenditure will be audited under the expenditure audits done at the various implementing ministries. (See report on Financial Audit of Selected Government of Zimbabwe Projects Funded by Local Currency Generated Under USAID/Zimbabwe Grant Nos 613-K-603 to 613-K-606).

The audit programme has been designed to cover all steps in the audit contract signed between USAID and Deloitte and Touche (Refer Scope of Work APPENDIX ONE). The only exceptions to this are steps 8 and 16 in the audit contract.

Step 8

As described above actual expenditure from the CIP account is covered in a separate audit. Expenditure for this contract will represent the drawdowns from the special account.

Step 16

As explained above expenditure is covered in a separate audit.



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AUDIT REPORT ON FUND ACCOUNTABILITY STATEMENT

Independent Auditors Report

We have audited the fund accountability statement for local currency receipts of Grant No. 613-K-604 as at and for the years ended June 30, 1989. This fund accountability statement is the responsibility of the Government of Zimbabwe. Our responsibility is to express an opinion on this fund accountability statement based on our audit.

We conducted our audit in accordance with generally accepted auditing standards and Government Auditing Standards issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance that the fund accountability statement is free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the fund accountability statement. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial report presentation. We believe that our audit provides a reasonable basis for our opinion.

The fund accountability statement includes:-

an amount of US\$11 909 785 representing money committed directly by AID which has not been audited, and

an amount of US\$203 731 representing an unexplained underdeposit difference. This amount represents a shortage of funds disbursed in terms of the grant by AID/Washington and the uncommitted funds remaining. USAID is unable to explain the difference as the official accounting records are maintained in Washington. Reports generated by USAID are inadequate to identify the reason(s) for the discrepancy (refer note 3 of Fund Accountability Statement).

The fund accountability statement has been prepared using the receipts and payments basis of accounting.

Subject to the effect of the above amounts, in our opinion the fund accountability statement fairly presents the status of all funds authorised under Grant Agreement No. 613-K-604.

Information contained in this report may be privileged. The restrictions of 18 USC 1905 should be considered before any information is released to the public. The report is intended solely for the use of the Government of Zimbabwe and USAID and should not be used for any other purpose.

Deloitte & Touche

DELOITTE & TOUCHE

31 January 1991

GRANT 613-K-604

FUND ACCOUNTABILITY STATEMENT FOR THE PERIOD ENDED 30 JUNE 1989
(All amounts in United States Dollars)

REVENUE

Amount granted per agreement US\$45 000 000

EXPENDITURE

<u>Category</u>	<u>Accepted</u>	<u>Not Audited</u>	<u>Unsupported</u>	<u>Claimed</u>	<u>Notes</u>
Amount obligated directly		11 909 785		11 909 785	1.
Local Currency Generation	32 546 269			32 546 269	2.
Uncommitted Balance		340 215		340 215	3.
Unexplained difference (underdeposit)			203 731	203 731	4.
	<u>US\$32 546 269</u>	<u>US\$12 250 000</u>	<u>US\$203 731</u>	<u>US\$45 000 000</u>	

Basis of Accounting

This statement was prepared using the receipts and payments basis of accounting.

GRANT 613-K-604

NOTES TO THE FUND ACCOUNTABILITY STATEMENT

1. Amounts obligated directly US\$11 909 785

This amount was taken directly from USAID/Zimbabwe's records and represents United States Dollars committed to finance the foreign exchange cost of procurement of specialised commodities. No audit work has been performed on this amount.

2. Local Currency Generation US\$32 546 269

2.1 Introduction

This represents the amount of funds made available to local importers. The total local currency generated from those importers amounts to Z\$46 686 586.

An analysis of the funds is as follows:-

RECEIPTS

Local Currency Received	46 686 586
Interest earned	5 519 034
	<u>Z\$52 205 620</u>

PAYMENTS

Chibero Furniture	36 000
Chibero College Expansion	1 059 648
Chibero Irrigation Scheme	65 000
Facility of Agriculture	6 210 000
Coop Marketing Supply Consultancy	2 000
Large Diameter Wells - Wedza	100 000
Rutenga Mapping Study	380 055
Model River Project (Model D Farm)	500 000
Underground Water Investigation	400 000
Agritex Radio Equipment	1 300 675
Cooperative Union Input Loans	2 000 000
Cooperative Union Development Loans	500 000
Animal Waste Investigation	32 000
Rushinga Kotwa Tsetse Camps	611 443
Gokwe Peasant Farm Research	114 000
Irrigation Development	523 700
Mahuwe Primary Marketing	470 000
Murimi/Ullimi Magazine	25 000
Tawona Irrigation Scheme	138 815
Nenhowe/Nyanyadzi Irrigation Scheme	1 465 229
Coffee Storage Chipinge	162 868
Mutare Bag Depot	1 350 000
Additional Stackers for GMB Depots	240 000
Rural Depots	1 260 000
Henderson Aquaculture	37 000
Heartwater Vaccines	753 094
Farmers Coop Ltd Training	490 920
Rural Dip Tanks	442 630
Henderson National Dairy Project	76 500
Farm Irrigation Development	205 000

Controlled Environment Building	132 987
Cotton Research Scholarships	225 000
Inspan Sheds - Middle Sabi	75 885
Anti Poaching Activities - Zambezi Valley	577 047
Audit of Coops Union Account	185 000
Strengthening of Internal Account	44 000
Cleveland Dam Groundnut Depot	1 300 000
Norton Bag Depot	1 703 000
Blood Transfusion Services	1 573 450
Locust Control	50 000
Agricultural Data Analysis	20 000
Education Extension	140 000
Training of Trainers for Agricultural Rural Development Course	19 340
Vehicles - Rural Milk Distribution	300 000
Pig Production Training Centre	200 000
Coffee Milling Equipment	5 916 636
Kapenta Fishing Coop	180 000
ZASA Evaluation Fund	2 625
Gwebi College Expansion	1 000 000
Other Payments	418
	<hr/>
	34 596 965
EXCESS OF RECEIPTS OVER PAYMENTS REPRESENTING FUNDS STILL AVAILABLE FOR DISTRIBUTION AT 30 JUNE 1989	<hr/> <u>Z\$17 608 655</u>

The payments will be reconciled to the project audits. At present no work has been performed on these items.

2.2 Audit Work

In order to arrive at this analysis we had to perform the following reconciliations:-

- o Reconcile the GOZ cashbook for Grant No. 613-K-604 to the USAID records.
- o Analyse the GOZ cashbook.
- o Reconcile the GOZ cashbook to the Reserve Bank Statements.

2.3 Reconciliation of GOZ Cashbook to USAID Printout

The reconciliation of the GOZ cashbook to USAID printout revealed the following:-

Balance per USAID records	46 324 007
Add : Receipts in cashbook not in printout (APPENDIX THREE)	407 439
Less : Invoice incorrectly punched (APPENDIX FOUR)	(49 154)
Add : Adjustments to printout (APPENDIX FIVE)	2 167
Add : Unreconciled difference	2 127
CORRECT RECEIPTS TOTAL	<u>Z\$46 686 586</u>
Balance per GOZ cashbook	46 780 218
Less : Transfers to 603 Cashbook (APPENDIX SIX)	(98 981)
Add : Receipts in printout not in cashbook (APPENDIX SEVEN)	5 349
CORRECT RECEIPTS TOTAL	<u>Z\$46 686 586</u>

Appendices three to five represent adjustments to be made to the USAID records and appendices six to eight represent adjustments to be made to the GOZ cash book.

2.4 Analysis of Cashbook

The analysis of the cashbook confirmed the local currency receipts balance and identified a further Z\$5 519 034 earned in interest on invested funds.

2.5 Reconciliation of Cashbook to Reserve Bank Statement

The reconciliation of the GOZ cashbook to bank statement identified actual funds on hand of Z\$17 702 287 made up as follows:-

Held on behalf of 613-K-603 (APPENDIX SIX)	98 981
613-K-604 Funds still available for distribution (Note 2.1 of fund accountability statement)	17 608 655
604 receipts not located	(5 349)
ACTUAL FUNDS ON HAND	<u>Z\$17 702 287</u>

The amount of \$98 981 does not form part of the local currency generated under the 604 CIP Program. This amount should be withdrawn from the 604 special account and deposited in the 603 special account. The amount of \$5 349 when located should be withdrawn from the relevant account and deposited in the 604 special account. The amount of \$17 608 655 therefore represented the balance held in the 604 special account from the generations of local currency under the 604 CIP Program.

3. Uncommitted Balance US\$340 215

This amount represents the cash balance which is in the hands of AID/Washington. The amount has been confirmed by USAID/Zimbabwe and no further work has been performed on it.

4. Unexplained Difference (underdeposit) US\$203 731

This amount represents the difference between the identified components of the grant and the total grant amount of US\$45 000 000. USAID is unable to explain this difference as the official accounting records are maintained in Washington. As a result no audit work has been performed on this figure and accordingly it has been classified as unsupported. A summary of such differences for grants 613-K-603 and 613-K-606 is detailed in Appendix nine.

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ADDET REPORT ON COMPLIANCE WITH LAWS, REGULATIONS AND PROGRAMS

Independent Auditors Report

We have audited the fund accountability statement for local currency generations of Grant Agreement No. 613-K-604 as at and for the years ended June 30, 1989 and have issued our report there on dated January 31, 1991.

We conducted our audit in accordance with generally accepted auditing standards and Government auditing standards, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance that the fund accountability statement is free of material misstatement.

Compliance with laws, regulations, contracts, and grants applicable to Grant No. 613-K-604 is the responsibility of the Government of Zimbabwe. As part of the work conducted to obtain reasonable assurance that the fund accountability statement is free of material misstatement we performed tests of Government of Zimbabwe's compliance with certain provisions of laws, regulations, contracts and grants. However, our objective was not to provide an opinion on the overall compliance with such provisions.

The results of our tests indicate that, with respect to the items tested, Government of Zimbabwe complied, in all material respects, with the provisions referred to in the preceding paragraph. With respect to items not tested, nothing came to our attention that caused us to believe that Government of Zimbabwe had not complied in all material respects, with these provisions.

Information contained in this report may be privileged. The restrictions of 18 USC 1905 should be considered before any information is released to the public. The report is intended solely for the use of the Government of Zimbabwe and USAID and should not be used for any other purpose.

Deloitte & Touche

DELOITTE & TOUCHE

31 January 1991

Member
DAT International

COMPLIANCE WITH LAWS

1. INTRODUCTION

The following terms and conditions were tested for compliance:-

- o Whether the report submitted to USAID was on an accrual or cash basis.
- o Whether the actual amount was compared to the allocation.
- o The existence of a systematic method of ensuring timely and appropriate resolution of audit findings and recommendations.
- o Whether the grantee made available all records.
- o That no member of the U.S. Congress or resident U.S. Commissioner shared in any part of the grant.
- o That no air travel or transportation costs were funded by the grant.
- o US\$35 million was used to generate local currency
- o No letter of commitment had a date later than 1 March 1988.
- o The minimum size of foreign currency allocation should be ten thousand US dollars.

2. ITEMS OF NON COMPLIANCE

The following item of non compliance was noted:-

Minimum Foreign Currency Allocation

In terms of the grant the minimum foreign currency allocation allowed was ten thousand US dollars.

The instances of non compliance noted are listed in appendix eight:-

Recommendation

Government of Zimbabwe must identify all important terms and conditions of the grant agreement before initiation of funding and ensure all staff are aware of them.

Department Comment

The allocations of foreign currency to the private sector is the responsibility of the Ministry of Industry and Commerce and USAID. The above amounts probably arose through changing exchange rates and prices.

Accountant General's Comment

Agreed.



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ADDIT REPORT ON INTERNAL CONTROL STRUCTURE

Independent Auditor's Report

We have audited the fund accountability statement for local currency generations of Grant Agreement No. 613-K-604 as at and for the years ended June 30, 1989 and have issued our report there on dated January 31, 1991.

We conducted our audit in accordance with generally accepted auditing standards and Government auditing standards, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance that the fund accountability statement is free of material misstatement.

In planning and performing our audit of the fund accountability statement for Grant No. 613-K-604 of Government of Zimbabwe for the year ended June 30, 1989, we considered the GOZ internal control structure in order to determine our auditing procedures for the purpose of expressing our opinion on the fund accountability statement but not to provide assurance on the internal control structure.

Government of Zimbabwe is responsible for establishing and maintaining an internal control structure. 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 authorisation and recorded properly to permit the preparation of financial statements in accordance with generally accepted accounting principles. Because of inherent limitations in any internal control structure, errors or irregularities may nevertheless occur and not be detected. Also, projection of any evaluation of the structure to future periods is subject to the risk that procedures may become inadequate because of changes in conditions or that the effectiveness of the design and operation of policies and procedures may deteriorate.

For the purpose of this report, we have classified the significant internal control structure policies and procedures in the following categories:-

- o Invoicing and receipting
- o Grant Debtors
- o Cash Book
- o Project Cards
- o Payments to the Exchequer

- o Investment Account
- o VOC Transfers

For all internal control structure categories listed above, we obtained an understanding of the design of relevant policies and procedures and whether they are in operation and we have assessed internal control risk.

We noted certain matters involving the internal control structure and its operation that we consider to be reportable conditions under standards established by the American Institute of Certified Public Accountants. Reportable conditions involve matters coming to our attention relating to significant deficiencies in the design or operation of the internal control structure that in our judgement, could adversely affect the entity's ability to record, process, summarise and report financial data consistent with the assertions of management in the financial statements.

The reportable conditions noted were:-

- o Reconciliations of Government of Zimbabwe and United States Agency for International Development records were not performed.
- o Reconciliations of money received by Government of Zimbabwe to that due in terms of the grant agreement were not performed.

A material weakness is a reportable condition in which the design or operation of the specific internal control structure elements does not reduce to a relatively low level the risk that errors or irregularities in amounts that would be material in relation to the fund accountability statement being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions.

Our consideration of the internal control structure would not necessarily disclose all matters in the internal control structure that might be reportable conditions and accordingly, would not necessarily disclose all reportable conditions that are also considered to be material weaknesses as defined above. We believe the above reportable conditions constitute material weaknesses.

Information contained in this report may be privileged. The restrictions in 18 USC 1905 should be considered before any information is released to the public. The report is intended solely for the use of the Government of Zimbabwe and USAID and should not be used for any other purpose.



DELOITTE & TOUCHE

31 January 1991

INTERNAL CONTROL

1. INTRODUCTION

In 1988 Deloitte and Touche was requested to investigate and document the accounting and control systems used by GOZ to monitor and control the use of counterpart funds for public sector projects.

Compliance testing was performed and compliance deviations and system recommendations identified. Auditor General Reports on the various systems were also obtained and reviewed.

2. USAID COMMODITY IMPORT PROGRAMME ACCOUNTING AND CONTROL SYSTEMS 1988

The relevant section of the above report is included in a separate report as an appendix.

3. FOLLOW UP OF ACCOUNTING AND CONTROL SYSTEMS REPORT

The relevant comments are recorded in the audit report of local currency generations for Grant No. 613-K-606 and are not repeated here.

4. CURRENT EVALUATION

The following comments from the audit report of Grant No. 613-K-606 are applicable to this audit as well:-

- o Reconciliation of money received to money due
- o Reconciliation of GOZ to USAID records
- o Payment Computation schedule.

The following comments have the same concepts as those in the report on 613-K-606 but slightly different financial facts.

Investment of Surplus Funds

An inadequate investment policy for surplus funds resulted in the loss of investment income.

An additional Z\$1 282 500 in interest could have been earned from the following investments:-

					<u>LOST</u> <u>INTEREST</u>
o	June 1985	2 000 000	@ 9%	360 days	180 000
o	September 1985	6 000 000	@ 9%	270 days	405 000
o	December 1985	4 000 000	@ 9%	180 days	180 000
o	March 1986	4 000 000	@ 9%	90 days	90 000
o	June 1986	4 000 000	@ 9%	360 days	360 000
o	September 1986	1 000 000	@ 9%	270 days	67 500
	TOTAL				<u><u>Z\$1 282 500</u></u>

Recommendation

A more detailed review of surplus funds must be performed by the Chief Accountant to ensure optimum investment earnings. A report on fund movements should be submitted to the Deputy Accountant General and USAID on a quarterly basis.

Department's Comment

An agreement is now in place whereby current account balances are offset against the Government of Zimbabwe's overdraft. GOZ pay the special accounts 8% interest for use of their funds.

Account General's Comment

Agreed.

Payments to the Exchequer

In terms of government procedures payments to the exchequer are meant to be made on a quarterly basis. During the period August 1983 to June 1989 only 14 of a possible 23 such payments were made. This delay in the transfer of funds from the special account to refund expenditure incurred by GOZ will have cost GOZ in terms of additional overdraft interest or lost investment income. The reason being GOZ would have had to use their own resources to fund USAID projects.

Recommendation

Payments to the Exchequer should be calculated and processed on a quarterly basis. Responsibility for this function should be assigned to a single person who should be supervised by a senior official to ensure the process is performed. A quarterly report should be submitted to the Deputy Accountant General listing all important functions and date of performance.

Department's Comment

The method of payment allows payment in advance based on yearly VOC transfer certificates. GOZ is therefore satisfied with the above payments.

Accountant General's Comment

Agreed.

Payment Computation Schedule

The following errors were found to be recorded on the payment computation schedule:-

	<u>Recorded</u> <u>Cumulative</u> <u>Payment</u> Z\$	<u>Actual</u> <u>Cumulative</u> <u>Payment</u> Z\$	<u>Difference</u> Z\$
Rushinga Kotwe Tsetse Camps	511 443	611 443	(100 000)
Gokwe Peasant Farm Research	57 000	114 000	(57 000)
Heartwater Vaccines	687 142	753 094	(65 952)
Rural Depots	960 000	1 260 000	(300 000)
Farmers Coop Training	385 183	490 920	(105 737)
Audit of Coops Union Account	200 000	185 000	15 000
			<hr/> <u>613 689</u>

The above differences arose from casting and carry forward errors, of figures on the payment computation schedules.

This position arose because there was no reconciliation of the payment computation schedule to the cash or now discontinued cash position cards. This could have resulted in a direct financial loss of USAID funds had USAID/Zimbabwe not maintained a separate record of allocations.

Recommendations

The cashbook payment must be reconciled to the payments to the exchequer per the payment computation schedule each time the schedule is prepared. In addition all carry forward of totals and castings on the payment schedule must be checked by a person independent of the preparer. This task should be signed for.

Department's Comment

Agreed. These functions will be carried out in future.

Accountant General's Comment

Agreed.

APPENDIX THREE - RECEIPTS TO BE ADDED TO THE USAID PRINTOUT

L/C	DATE	ALLOCATION NUMBER	NAME OF IMPORTER	Z\$	US\$
84/022	13/1/84	-	MH Goldschmidt	33 592,38	30 018,15
40/86	11/7/84	-	Datatonic Computer	81 339,02	48 657,00
-	20/1/87	C504	CF Tulley	83 072,08	49 153,75
2128/8/87	6/4/88	-	William Bain & Co	44 573,21	25 625,14
4016/8/63	16/4/88	-	Alberto Alves	211,53	187,14
2128/5/87	18/7/88	-	William Bain & Co	144 681,36	79 256,45
2128/5/87	21/9/88	-	William Bain & Co	13 489,31	7 239,71
175/86	17/11/86	C504	CF Tulley	6 481,09	3 817,36
				<u>407 439,98</u>	<u>243 954,70</u>

APPENDIX FOUR : RECEIPT TO BE REMOVED FROM USAID PRINTOUT

L/C	DATE	ALLOCATION NUMBER	NAME OF IMPORTER	Z\$	US\$
BCC2118/86	21/9/86	C504	CF Tulley	49 153,75	29 084,27

APPENDIX FIVE : ADJUSTMENTS TO BE MADE TO USAID PRINTOUT

ALLOCATION NUMBER	NAME OF IMPORTER	OLD US\$	NEW US\$	OLD Z\$	NEW Z\$
C057	Smith and Benette	244 854,47	245 109,32	281 928,00	282 211,44
C057	Smith and Benette	277 104,21	277 393,71	317 816,50	318 148,54
C057	Smith and Benette	2 077,91	2 277,51	2 312,38	2 534,51
C057	Smith and Benette	24 240,13	24 347,13	27 476,91	27 598,20
C057	Smith and Benette	3 346,01	3 451,01	3 952,29	4 076,23
C057	Smith and Benette	3 349,24	3 549,24	4 748,69	4 396,43
C077	BAT Zimbabwe	42 963,90	43 065,90	48 612,69	48 731,50
C077	BAT Zimbabwe	271 564,94	271 877,50	308 561,46	308 916,60
C077	BAT Zimbabwe	81 639,72	81 765,15	93 677,25	93 821,17
C079	Prodorite	30 780,00	30 838,38	34 276,17	34 341,18
C079	Prodorite	32 216,40	32 216,40	37 950,76	38 100,36
C079	Prodorite	14 883,00	14 988,00	18 935,00	19 068,70
C092	Olivine Industries	89 219,50	89 219,50	129 622,98	130 260,21
C504	Datatronics	18 376,50	18 376,50	32 643,73	32 628,73
C504	Datatronics	23 232,00	23 232,00	39 688,91	39 678,91
C504	CF Tulley	8 140,18	8 140,18	13 577,45	13 562,45
C504	CF Tulley	27 689,08	27 689,08	47 025,32	47 010,32
C503	Cold Storage	20 219,16	20 219,16	34 125,16	34 278,95
C503	Cold Storage	37 542,61	37 542,61	58 697,01	58 848,98
C165	Turnpan	28 042,97	28 042,97	47 732,71	47 329,91
C504	CF Tulley	29 304,25	29 304,25	48 871,70	48 856,70
		<u>1 310 786,18</u>	<u>1 312 645,50</u>	<u>1 632 233,07</u>	<u>1 634 400,02</u>

Old Z\$ Amount 1 632 233,07

New Z\$ Amount 1 634 400,02

Difference 2 166,95

**APPENDIX SIX : RECEIPTS TO BE TRANSFERRED FROM 604 CASHBOOK TO 603
CASHBOOK**

L/C	DATE	ALLOCATION NUMBER	NAME OF IMPORTER	Z\$	US\$
5173/848	6/1/84	-	Field Technical Services	41 371,83	31 748,74
2144/84	8/9/84	-	Cellophane Packaging	57 609,42	52 349,68
				<u>98 981,25</u>	

APPENDIX SEVEN : RECEIPTS TO BE ADDED TO CASHBOOK

L/C	DATE	ALLOCATION NUMBER	NAME OF IMPORTER	Z\$	US\$
5173/761	27/7/84	C057	Smith and Benette	1 340,50	1 052,29
5173/881	11/12/84	C124	Smith and Benette	450,84	306,80
2132/10/84	13/11/84	C034	Willard Foods	3 548,92	2 497,02
5173/016	30/1/85	C502	Cotton Marketing	8,96	5,68
				<u>5 349,22</u>	

APPENDIX EIGHT

LOCAL CURRENCY GENERATIONS LESS THAN US\$10 000

All No	L/C No.	Account of	Payments	Bank Rate	Z Dollars	Converted Actual (DATE)	Computed Exchange Rate	
306	C502	5173/016	Cotton Marketing	\$5.68	0.63	\$8.96	30-Jan-85	0.63
367		4016/8/631	Alberto Alves	\$187.14	0.88	\$211.53	16-Apr-84	0.88
210	C011	4016/83/631	Alberto Alves P/L	\$187.14	0.88	\$211.83	22-Feb-84	0.88
250	C057	5173/761	Smith & Bennett	\$240.34	0.71	\$339.12	27-Nov-84	0.71
275	C124	5173/881	Smith & Bennett	\$306.80	0.68	\$450.84	11-Dec-84	0.68
88	C120	DX/929978	Colcom Central Coop	\$306.80	0.69	\$442.01	21-Nov-84	0.69
273	C117	5173/896	ABM Equipment	\$306.80	0.70	\$453.51	14-Dec-84	0.68
305	C502	5173/016	Cotton Marketing	\$306.80	0.62	\$495.16	17-Jan-85	0.62
202	C188	2112/US1/87	Dulys	\$309.00	0.59	\$522.49	04-Aug-87	0.59
83	C097	DX/929664	J W Searcy Ltd	\$309.08	0.86	\$357.53	29-Apr-84	0.86
234	C181	D.8349	Electronic Data	\$352.60	0.63	\$560.21	17-Mar-86	0.63
79	C089	DX/929721	Colcom Central Coop	\$420.78	0.76	\$554.90	04-Sep-84	0.76
64	C170	85/9695	Dunlop Zimbabwe	\$424.59	0.60	\$711.44	10-Oct-85	0.60
104	C175	DX/930800	Imtec Sales	\$524.13	0.61	\$864.33	07-May-86	0.61
51	C142	85/9434	Field Aircraft	\$573.65	0.59	\$975.59	21-Oct-85	0.59
200	C186	2112/US2/87	Doublero Braham	\$664.80	0.59	\$1 124.11	04-Aug-87	0.59
178	C146	2197/21/85	NCR	\$695.52	0.59	\$1 183.86	19-Dec-86	0.59
87	C111	DX929955	Colcom Central Coop	\$697.71	0.63	\$1 099.62	02-May-85	0.63
278	C124	5173/881	Smith & Bennett	\$720.85	0.60	\$1 122.99	28-Mar-85	0.64
16	C042	84/8378	Triple Jay Equipment	\$813.16	0.62	\$1 312.40	17-Jan-85	0.62
20	C053	83/6132	ZEMCO	\$817.87	0.96	\$949.58	05-Jun-84	0.86
171	C136	2144/41/85	Field Aircraft	\$986.73	0.65	\$1 519.45	26-Jul-85	0.65
249	C057	5173/761	Smith & Bennett	\$1 052.29	0.79	\$1 340.50	27-Jul-84	0.78
25	C055	83/6157	Realtime (Pvt) Ltd	\$1 094.21	0.72	\$1 523.54	18-Sep-84	0.72
203	C108	2112/US1/87	Dulys	\$1 191.19	0.59	\$2 014.19	08-Jul-87	0.59
173	C136	2144/43/85	Field Aircraft	\$1 213.40	0.63	\$1 931.55	24-May-85	0.63
337	C067	84049	Turnpan	\$1 446.82	0.86	\$1 673.59	08-May-84	0.86
299	C189	5152/990	Smith & Bennett	\$2 010.46	0.59	\$3 423.81	28-Aug-87	0.59
175	C136	2144/45/85	Field Aircraft	\$2 190.00	0.59	\$3 690.60	12-Dec-85	0.59
280	C124	5173/081	Smith & Bennett	\$2 203.99	0.63	\$3 461.04	26-Apr-85	0.64
244	C057	5173/761	Smith & Bennett	\$2 277.51	0.90	\$2 534.51	04-Apr-84	0.90
19	C034	2132/10/84	Willards Foods	\$2 497.02	0.70	\$3 548.92	13-Nov-84	0.70
19	C053	83/6132	ZEMCO	\$2 562.38	0.91	\$2 830.11	01-Mar-84	0.91
101	C147	2197/22/85	NCR	\$2 648.49	0.57	\$4 632.66	30-Jun-86	0.57
348	C165	85243	Turnpan	\$2 696.20	0.61	\$4 433.08	17-Jan-86	0.61
167	C132	2144/24/85	Field Aircraft	\$2 803.55	0.61	\$4 609.59	03-Feb-86	0.61
53	C142	85/9435	Field Aircraft	\$3 256.49	0.60	\$5 454.76	11-Oct-85	0.60
336	C067	84049	Turnpan	\$3 292.17	0.88	\$3 723.33	17-Apr-84	0.88
246	C057	5173/761	Smith & Bennett	\$3 451.01	0.85	\$4 076.23	31-May-84	0.85
176	C136	2144/65/85	Field Aircraft	\$3 497.76	0.59	\$5 883.53	07-Nov-85	0.59
248	C057	5173/761	Smith & Bennett	\$3 549.24	0.81	\$4 396.43	18-Jul-84	0.81
247	C057	5173/761	Smith & Bennett	\$3 596.40	0.85	\$4 249.05	31-May-84	0.85
334	C067	84049	Turnpan	\$3 687.90	0.89	\$4 142.78	28-Feb-84	0.89
331	C065	84067	Turnpan	\$3 743.53	0.84	\$4 432.84	26-Jun-84	0.84
339	C098	84291	Turnpan	\$3 804.98	0.71	\$5 393.31	23-Oct-84	0.71
370	C504	175/86	C F Tulley	\$3 817.36	0.59	\$6 481.09	17-Nov-86	0.59
180	C147	2197/22/85	NCR	\$3 897.25	0.60	\$6 479.22	12-May-86	0.60
14	C042	84/8422	Triple Jay Equipment	\$3 911.82	0.60	\$6 517.53	08-Mar-85	0.60
286	C155	5173/518	B.A.T. Zimbabwe	\$3 996.30	0.60	\$6 724.38	06-Sep-85	0.59
318	C504	BCCZ/IRE/USAID/10Data	General Corp.	\$4 248.39	0.60	\$7 011.70	13-Feb-87	0.61

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LOCAL CURRENCY GENERATIONS LESS THAN US\$10 000

All No	L/C No.	Account of	Payments	Bank Rate	Z Dollars	Converted Actual (DATE)	Computed Exchange Rate	
292	C167	5173/562	Zimb. Cotton Corp	\$4 298.00	0.60	\$7 201.04	23-Oct-85	0.59
328	C065	84067	Turnpan	\$4 321.46	0.89	\$4 852.85	04-Apr-84	0.89
344	C123	85110	Turnpan	\$4 346.08	0.61	\$7 117.72	07-Apr-86	0.61
330	C065	84067	Turnpan	\$4 365.01	0.85	\$5 135.91	29-May-84	0.85
329	C065	84067	Turnpan	\$5 592.95	0.88	\$6 364.30	26-Apr-84	0.88
164	C128	2128/173/85	Zimbabwe Farm	\$5 836.05	0.61	\$9 562.59	30-Jan-86	0.61
352	C165	85251	Turnpan	\$6 238.15	0.57	\$10 877.33	22-Jul-86	0.57
174	C136	2144/44/85	Field Aircraft	\$6 260.15	0.64	\$9 763.18	19-Jun-85	0.64
350	C165	85245	Turnpan	\$6 446.60	0.60	\$10 873.00	30-Dec-85	0.59
223	C126	D.7554	Stewart & Lloyds	\$6 609.36	0.56	\$10 655.25	17-May-85	0.63
5	C004	03/6084	G.North & Son	\$6 748.47	0.94	\$7 167.03	24-Oct-83	0.94
182	C147	2197/22/85	HCR	\$6 856.03	0.60	\$11 375.53	07-Oct-86	0.60
39	C081	2112/00/84	Datronics Comput	\$6 960.80	0.61	\$11 368.28	19-Mar-85	0.61
369		2128/5/87	William Bain + Co	\$7 239.71	0.54	\$13 489.31	21-Sep-88	0.54
179	C147	2197/22/85	HCR	\$7 429.81	0.61	\$12 096.73	03-Jan-86	0.61
140	C081	2112/170/83	Datronics Comput	\$7 443.00	0.90	\$8 307.85	29-Mar-84	0.90
169	C134	2132/9/85	EAC Graphics	\$7 455.00	0.63	\$11 806.16	13-Jun-85	0.63
211	C133	G4016/5021	McDonald Scientific	\$7 982.70	0.60	\$13 344.55	16-Dec-85	0.60
315	C504	BCC2/HRE/USAID/1	Data General Corp.	\$8 140.18	0.60	\$13 562.45	16-Oct-86	0.60
183	C147	2197/22/85	HCR	\$8 237.48	0.59	\$13 954.73	01-Dec-86	0.59
215	C151	4016/85/25	National Foods	\$8 863.94	0.60	\$14 852.45	10-Oct-85	0.60
133	C071	2112/136/83	Duly & Company	\$8 865.04	0.87	\$10 223.78	10-Jan-84	0.87
194	C163	2128/2/86	William Bain	\$9 120.08	0.63	\$14 476.32	10-Mar-86	0.63
141	C081	2112/38/83	Datronics Comput	\$9 364.00	0.86	\$10 901.05	02-May-84	0.86
168	C132	2144/46/85	Field Aircraft	\$9 438.68	0.60	\$15 802.24	13-Dec-85	0.60
302	C195	5152/268	Farmers Co-op Ltd	\$9 996.00	0.60	\$16 913.71	02-Sep-87	0.59

APPENDIX NINE -- DIFFERENCES BETWEEN AMOUNTS DUE IN TERMS OF GRANT AGREEMENTS AND LOCAL CURRENCY GENERATION

GRANT NO.	AMOUNTS PER AID/WASHINGTON RECORDS US\$			LOCAL CURRENCY GENERATION US\$	DIFFERENCE US\$
	TOTAL GRANT	UNCOMMITTED BALANCE	DISTRIBUTION		
613-K-603	50 000 000	27 284	49 972 716	50 246 087	273 371
613-K-604	45 000 000	340 215	44 659 785	44 456 054*	(203 731)
613-K-605	47 000 000	126 030	46 873 970	47 038 625	164 655
613-K-606	44 869 000	306 096	44 562 904	44 115 840*	(447 064)
NET UNDERDEPOSIT					<u>(212 769)</u>

This amount is the total of amounts obligated directly and local currency generations

REPORT DISTRIBUTION

American Ambassador to Zimbabwe	1
Mission Director, USAID/Zimbabwe	5
AA/AFR	2
AFR/SA/ZZMS	2
AFR/CONT	1
XA/OD	1
XA/PR	2
AA/LEG	1
GC	1
AA/FA	2
FM/FPS	2
AA/S&T	1
PPC/CDIE	3
MS/AS	1
REDSO/ESA	1
REDSO/RFMC	1
REDSO/Library	1
IG	1
AIG/A	1
D/AIG/A	1
IG/A/PPO	2
IG/LC	1
IG/RM	5
IG/I	1
RIG/I/N	1
IG/A/PSA	1
IG/A/FA	1
RIG/A/C	1
RIG/A/D	1
RIG/A/M	1
RIG/A/S	1
RIG/A/T	1