

UNITED STATES
AGENCY FOR INTERNATIONAL DEVELOPMENT

THE
INSPECTOR
GENERAL



Regional Inspector General for Audit
NAIROBI

PD-ABD-683

ISN 75393

**AUDIT OF
LOCAL CURRENCY GENERATIONS
UNDER USAID/ZIMBABWE
GRANT NO. 613-K-606**

**AUDIT REPORT NO. 3-613-91-13-N
September 16, 1991**

The audit of this \$44,869,000 Commodity Import Program determined that deposits into a special account were less than should have been deposited by the local currency equivalent of \$447,064.

CONTRACTOR 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

UNITED STATES POSTAL ADDRESS
BOX 232
APO N.Y. 09075

INTERNATIONAL POSTAL ADDRESS
POST OFFICE BOX 30261
NAIROBI, KENYA

September 16, 1991

MEMORANDUM

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

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

SUBJECT: Audit of Local Currency Generations Under USAID/Zimbabwe Grant No. 613-K-606, Audit Report No. 3-613-91-13-N

This report presents the results of a non-Federal financial audit of local currency generations under USAID/Zimbabwe Grant No. 613-K-606. The accounting firm of Deloitte & Touche, Zimbabwe performed the audit.

A.I.D. Grant No. 613-K-606 provided budgetary support to the Government of Zimbabwe to implement planned reforms under the Basic Education and Skills Training Sector Assistance (BEST) Program No. 613-0208. Zimbabwe dollars to support the program were to be generated under a commodity import program (CIP) component, for deposit into a special account. As of June 30, 1989 the total amount obligated under the BEST program was \$44,869,000. The funds granted were earmarked for technical assistance, training, and commodities (\$15,869,000) and a private/public sector commodity import program (\$29,000,000).

The audit objectives were to:

- review and express an opinion on the Fund Accountability Statement;
- evaluate the Government of Zimbabwe's internal accounting controls concerning local currency generations under the program; and
- determine compliance with terms of the grant agreement and applicable U.S. laws and regulations.

Deloitte & Touche reported that the Fund Accountability Statement fairly presented the status of funds authorized under Grant No. 613-K-606, except that the amount deposited in the special account was \$447,064 less than should have been deposited according to A.I.D.'s financial records. The auditors also reported that the funds in the special account were not deposited in an interest-bearing account from January 1985 through June 1987. Consequently, this inadequate investment policy resulted in lost earnings of Zimbabwe Dollars 2,600,000 (\$1,568,000). 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 internal controls, the auditors noted that the Government of Zimbabwe was not reconciling its records to A.I.D. records. The auditors concluded that such reconciliations would disclose unexplained differences between amounts granted and deposited. The auditors reported, however, that the Government complied in all material respects with provisions of the grant and with applicable laws and regulations.

A copy of the draft report was provided to USAID/Zimbabwe. Their comments (Appendix 1) were taken into consideration in the preparation of the attached final report. USAID/Zimbabwe suggested certain word changes which were incorporated in the final report. Also, USAID/Zimbabwe suggested that Recommendation No. 1 be directed to AID/Washington.

We disagreed with USAID/Zimbabwe that Recommendation No. 1 should be re-directed to AID/Washington. In our opinion, USAID/Zimbabwe, as the office responsible for the program, should coordinate with AID/Washington in order to implement Recommendation No. 1. Regarding Recommendation No. 2, we consider the recommendation resolved since USAID/Zimbabwe stated that it had installed a tracking system to reconcile local currency deposits with listings provided by the Government of Zimbabwe. The recommendation will be closed upon receipt of documentary evidence that recommended actions have been implemented.

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 \$447,064 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 commodity import programs with A.I.D. records.

We consider Recommendation No. 1 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 action. However, Recommendation No. 2 is resolved at report issuance. We will close the recommendation upon receipt of documentary evidence that recommended actions have been implemented. 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 & Touche and Regional Inspector General for Audit representatives during the audit.

FINANCIAL ADDET
OF LOCAL CURRENCY GENERATIONS UNDER
USAID/ZIMBABWE GRANT NO. 613-K-606

DECEMBER 1990

**FINANCIAL AUDIT
OF LOCAL CURRENCY GENERATIONS UNDER
USAID/ZIMBABWE GRANT NO. 613-K-506**

INDEX

<u>CONTENTS</u>	<u>PAGE</u>
EXECUTIVE SUMMARY	
I. INTRODUCTION	1
o Background	1
o Audit Objectives and Scope	1
o Systems Description	2
o Audit Programme	4
II. AUDIT REPORTS	5
o Audit Report on Fund Accountability Statement	5
- Fund Accountability Statement	7
- Notes to the Fund Accountability Statement	8
o Audit Report on Compliance with Laws, Regulations and Programs	11
- Introduction	12
- Items of Non Compliance	12
o Audit Report on Internal Control Structure	15
- Introduction	17
- USAID Commodity Import Programme Accounting and Control Systems 1988	17
- Follow Up of Accounting and Control Systems Report	17
- Current Evaluation	19
 <u>APPENDICES:</u>	
APPENDIX ONE	: Audit Contract Scope of Work (See separate report)
APPENDIX TWO	: USAID Commodity Import Programme Accounting and Control Systems Report (See separate report)
APPENDIX THREE	: Receipts to be Added to USAID Printout
APPENDIX FOUR	: Receipts to be Removed from 606 Printout and Transferred to 605 Printout
APPENDIX FIVE	: Receipts to be Transferred from 606 Cashbook to 605 Cashbook
APPENDIX SIX	: Receipts to be Transferred from 605 Cashbook to 606 Cashbook
APPENDIX SEVEN	: Receipts to be Removed from 606 Cashbook
APPENDIX EIGHT	: Receipts to be added to 606 Cashbook
APPENDIX NINE	: Differences between amounts due to terms of grant agreements and local currency generations.

EXECUTIVE SUMMARY

This document records the findings of the financial audit of local currency generations for the USAID Grant No. 613-K-606.

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 December 1990.

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-606.

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.

- 2 -

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 Amount obligated directly by USAID/Zimbabwe	15 704 071
o Deposited into the special account for the grant	28 411 769
o Amount still in the hands of AID/Washington	306 096
o A difference between the above three items and the total grant amount of US\$44 869 000. (underdeposit)	447 064

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 is 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/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.

- 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 reimburses 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, submit expenditure returns to MFEPD. In order to refund this expenditure, MFEPD instructs RBZ to transfer funds from the grant special account to the Governments Consolidated Revenue Fund.

AUDIT PROGRAMME

For the purposes of this audit, income comprises the local currency generated from the sale of US 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 Generations 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.



Chartered Accountants (Zimbabwe)

1 Kenilworth Gardens	Telephone	739922/8
Kenilworth Road		792384 & 720965
Highlands	Facsimile	700949 & 739929
P O Boxes 2824 & 267	Telex	22453 TR ZIMB ZW
Harare		24370 ZW
Zimbabwe		

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-606 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\$15 704 071 representing money committed to contractors in the United States which has not been audited, and
- an amount of US\$447 064 representing an unexplained underdeposit difference. This amount represents a shortage of funds disbursed in terms of grant by AID/Washington and the uncommitted balance remaining. USAID is unable to explain this difference as the official accounting records are maintained in Washington. Reports received by USAID are inadequate to identify the reason(s) for the discrepancy (refer note 4 of the Fund Accountability Statement).

The fund accountability statement has been prepared using the cash 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-606.

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 December 1990

GRANT 613-K-606

FUND ACCOUNTABILITY STATEMENT FOR THE PERIOD ENDED 30 JUNE 1989

(All amounts in United States Dollars)

REVENUE

Amount granted per agreement

US\$44 869 000

EXPENDITURE

<u>Category</u>	<u>Accepted</u>	<u>Not Audited</u>	<u>Unsupported</u>	<u>Claimed</u>	<u>Notes</u>
Amount obligated directly		15 704 071		15 704 071	1.
Local Currency Generation	28 411 769			28 411 769	2.
Uncommitted balance		306 096		306 096	3.
Unexplained difference - underdeposit			447 064	447 064	4.
	<u>US\$28 411 769</u>	<u>US\$16 010 067</u>	<u>US\$447 064</u>	<u>US\$44 869 000</u>	

Basis of Accounting

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

GRANT 613-K-606

NOTES TO THE FUND ACCOUNTABILITY STATEMENT

1. Amounts obligated directly US\$15 704 071

This amount was taken directly from USAID/Zimbabwe's records and represents United States Dollars committed to contractors. No audit work has been performed on this amount.

2. Local Currency Generation US\$28 411 769

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\$40 923 677.

An analysis of the funds is as follows:-

RECEIPTS

Local Currency Received	40 923 677
Interest earned	<u>3 049 606</u>
	<u>Z\$43 973 283</u>

PAYMENTS

Belvedere Equipment	480 000
Belvedere Tractor	29 000
Distance Education Materials	2 088 037
Training Examiners and Markers	1 021 134
Secondary School Kits	4 361 947
Staff Development - Planning	23 000
Staff Development - Teacher Education	100 000
Upgrading Secondary School Kits	89 000
National Vocation Training Centre (Belvedere Teachers Training College)	2 000 000
Boreholes - Teachers College	45 000
Examination Automation	100 000
Education Service Centre (Examination Branch)	1 600 000
Masvingo Technical College	5 365 331
Mutare Technical College	9 050 000
Research and Evaluation	20 000
Brothers' Brother Book Programme	20 000
Computerisation of regions	1 492 117
National Education Centre	3 094 747

Z\$30 979 313

EXCESS OF RECEIPTS OVER PAYMENTS REPRESENTING
FUNDS STILL AVAILABLE FOR DISTRIBUTION AT 30 JUNE 1989 Z\$12 993 970

The payments will be reconciled to the project audits. At present no work has been done 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-606 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	40 022 971
Add : Receipts in cashbook not in printout (APPENDIX THREE)	981 001
Less : Transfer to 605 printout (APPENDIX FOUR)	(83 925)
Add : Unreconciled difference	3 630
CORRECT RECEIPTS TOTAL	<u>Z\$40 923 677</u>
Balance per GOZ cashbook	41 066 036
Less : Transfers to 605 Cashbook (APPENDIX FIVE)	(475 632)
Add : Transfers from 605 Cashbook (APPENDIX SIX)	263 222
Less : Error - overreceipt (APPENDIX SEVEN)	(3 042)
Add : Receipts in printout not in Cashbook (APPENDIX EIGHT)	73 093
CORRECT RECEIPTS TOTAL	<u>Z\$40 923 677</u>

Appendices three and four represent adjustments to be made to the USAID records and appendices five 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\$3 049 606 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\$13 136 329 made up as follows:-

Held on behalf of 613-K-605	475 632
613-K-606 Funds (Note 2.1 of Fund Accountability Statement)	12 730 748
Receipts not located (APPENDIX EIGHT)	(73 093)
Error - overreceipt (Appendix Seven)	3 042
ACTUAL FUNDS ON HAND	<u>Z\$13 136 329</u>

The amounts of \$475 633 and \$3 042 do not form part of the local currency generated under the 606 CIP Program. These amounts should be withdrawn from the 606 special account and deposited in the 605 special accounts. The amount of \$12 657 654 therefore represented the balance held in the 606 special account from the generations of local currency under the 606 CIP Program.

The amount of Z\$73 094 represents receipts listed in the USAID printout which were not banked into any GOZ special account. We recommend that the USAID director make a decision on the course to be taken with regard to this amount.

There is an amount of \$263 222 which represents 606 local currency generations deposited in the 605 special account. This amount should be transferred from the 605 special account to the 606 special account. The balance of funds from local currency generated under the 606 CIP Program is therefore made up as follows:-

The 606 funds were then reconciled to include:-

Amounts in 605 cashbook	263 222
613-K-606 Funds	12 730 748
BALANCE WHICH SHOULD BE IN 606	<u>Z\$12 993 970</u>

3. Uncommitted Balance US\$306 096

This amount represents the cash balance which should still be in the hands of AID/Washington. It has been confirmed in writing by USAID/Zimbabwe but no further audit work has been performed on the amount.

4. Unexplained Difference - underdeposit US\$447 064

This amount represents the difference between the identified components of the grant and the total grant amount of US\$44 869 000. It has not been possible to perform audit work on this figure and accordingly we have classified it as unsupported.

USAID has been unable to explain this difference as the official accounting records are maintained in Washington.

A summary of such differences for grants 613-K-603 to 613-K-606 is detailed in Appendix nine.

Deloitte & Touche



Chartered Accountants (Zimbabwe)

1 Kenilworth Gardens	Telephone	739922/8
Kenilworth Road		792384 & 720985
Highlands	Facsimile	700949 & 739929
P O Boxes 2824 & 287	Telex	22453 TR ZIMB ZW
Harare		24370 ZW
Zimbabwe		

AUDIT 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-606 as at and for the years ended June 30, 1989 and have issued our report thereon dated December 31, 1990.

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-606 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 those 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 December 1990

Member
DTT 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\$37 million was used to generate local currency
- o No letter of commitment had a date later than 3 November 1988.
- o The minimum size of foreign currency allocation should be ten thousand US dollars.

2. ITEMS OF NON COMPLIANCE

The following items of non compliance were noted:-

Minimum Foreign Currency Allocation

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

The following instances of non compliance were noted:-

Date	L/C No	Importer	US\$
15.4.87	D196	Diesel + Pump	9 999,76'
21.8.85	D113	Helio Textiles	9 999,36
4.7.85	D126	Mobil Oil	9 993,89
13.8.87	D143	Bell Inn P L	9 942,85
15.5.86	D122	Gec Zimbabwe	9 892,74
20.8.85	D084	Electronic	9 850,63
28.1.88	D216	Chinamora Trading	9 759,63
2.11.89	D207	Intech Solar	9 754,31
25.9.84	D047	Boart Zimbabwe	9 750,01
4.9.85	D087	ABM Equipment	9 738,03
24.7.84	D023	Datronics	9 659,12
15.5.85	D036	MH Goldschmidt	9 331,69
24.6.85	D086	Office Mech	8 927,50
29.11.84	D016	Hubert Davies	8 742,11
6.5.86	D079	Zemco	8 604,49
5.11.85	D105	Universal Furniture	8 270,40
6.12.85	D133	Refrigeration	8 114,02
12.10.84	D034	Johnston & Fletcher	7 948,47
9.7.85	D085	Datronics	7 905,52
13.1.86	D135	John Evans	7 877,20
17.10.85	D111	Nu Style Furniture	7 796,68
23.1.85	D057	Ames Engineering	7 726,27
17.6.86	D141	Turnpan	7 095,64
10.12.84	D024	Protea Medical	6 820,81
15.11.84	D016	Hubert Davies	6 786,59
19.5.86	D185	Samual Osborn	6 642,00
9.5.86	D125	Mercantile Trading	6 544,19
26.9.84	D019	Non Feros	6 472,95
18.5.87	D171	United Air	6 274,90

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.

Resolution of Audit Findings

The GOZ Auditor General noted on 30 June 1985 that project cards were not being updated. These project cards have now been discontinued.

This is not a satisfactory resolution of this item in the audit report as there is no evidence to suggest that the Auditor General was approached to discuss whether the project cards should be discontinued.

Recommendation

Recommendations by the Comptroller and Auditor General should be implemented timeously.

Department Comment

The Comptroller and Auditor General is aware of the change in system. The decision to drop the cards was made because of staff shortages and the fact that the information was available from other sources. The purpose of the cards was simply to consolidate it.

Accountant General's Comment

Agreed.

Deloitte & Touche



Chartered Accountants (Zimbabwe)

1 Kenilworth Gardens	Telephone	739922/8
Kenilworth Road		792364 & 720965
Highlands	Facsimile	700989 & 739929
P O Boxes 2824 & 267	Telex	22453 TR ZIMB ZW
Harare		24370 ZW
Zimbabwe		

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-606 as at and for the years ended June 30, 1989 and have issued our report thereon dated December 31, 1990.

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-606 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 judgment, 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

DELOITTE & TOUCHE

INTERNAL CONTROL

1. INTRODUCTION

In 1988 Deloitte & 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 from the above report is attached as an appendix (See APPENDIX TWO).

3. FOLLOW UP OF ACCOUNTING AND CONTROL SYSTEMS REPORT

The following system changes were noted:-

Debtors System

The preparation of invoices, invoice register and importers debtors system has been discontinued. We do not believe that this represents a system weakness because recording is done on a cash receipts basis. The receipt and the invoice are prepared at the same time. There is therefore no reason to maintain a debtors ledger.

The following system weaknesses were noted:-

Project Cards

The project cards system was discontinued in the 85/86 financial year. This system provided management information on a project basis for the following:-

- o VOC transfers
- o Expenditure
- o Allocations
- o Payments to the Exchequer
- o Project name and number

It also forms the basis for the preparation of the USAID reports.

The reason given by MFEPD staff for discontinuing the project ledgers is that the expenditure ledger provides the same function. The expenditure ledger only provides expenditure information and is used to summarise implementing ministry returns and ensure that returns for all projects have been submitted.

The purpose of the project cards is to provide management with all the information for each project on a monthly basis. We believe that it is important to maintain the project cards so that management may monitor project expenditure against the amounts allocated for each project.

Recommendation

We recommend the project cards be recommenced.

Department Comment

The Comptroller and Auditor General is aware of the change in system. The decision to drop the cards was made because of staff shortages and the fact that the information was available from other sources. The purpose of the cards was simply to consolidate it.

Accountant General's Comment

Agreed.

4. CURRENT EVALUATION

The current audit revealed the following system weaknesses.

Reconciliation of money received to money due

No attempt had been made to reconcile the money converted to local currency with the money due in terms of the grant agreement.

Recommendation

All money received in terms of grant agreements should have been reconciled on a regular basis to the money due. AID Washington should have been requested to confirm any unexpended balance remaining in the USA.

For future projects the form of the reconciliation should be as follows:-

Funds converted to Z Dollars	x xxx
Funds in hands of AID Washington	x xxx
Allocated to:-	
- ABC Ltd	
- Unallocated funds	
FUNDS AVAILABLE UNDER GRANT	===== =====

This could initially be prepared from the Allocation list and updated quarterly according to cash book receipts.

Responsibility for its preparation should be assigned to the Chief Accountant of GOZ. It should be reviewed by the Assistant Accountant General and USAID.

Department's Comment

A list of local currency generations had not been received from USAID. In future projects this recommendation will be implemented.

Account General's Comment

Agreed.

Reconciliation of GOZ to USAID records

A reconciliation of the records maintained at GOZ and those maintained at USAID was not prepared. As a result large adjustments were required for USAID and GOZ records. This indicated a lack of control and could have resulted in material financial loss.

Recommendation

For future projects USAID should supply a copy of their printout listing all local currency generations to allow GOZ to reconcile this to the cashbook. This reconciliation should be prepared monthly by the chief accountant for GOZ, and reviewed by the Assistant Accountant General and USAID.

Department's Comment

A list of local currency generations had not been received from USAID. In future projects this recommendation will be implemented.

Accountant General's Comment

Agreed.

Auditor Response

For all current projects this recommendation has been implemented. Reconciliations are carried out accurately and timeously.

Investment of Surplus Funds

- An inadequate investment policy for surplus funds resulted in
- an average balance of Z\$18 000 000 remaining in the 'special account from January 1985 to June 1987.

If the following investments had been made during that period the additional interest income would have amounted to Z\$2 600 000:-

					<u>INTEREST LOST</u>
o	January 1985	10 000 000 @ 9%	365 days		940 000
o	July 1985	8 000 000 @ 9%	180 days		360 000
o	January 1986	10 000 000 @ 9%	365 days		940 000
o	July 1986	4 000 000 @ 9%	180 days		180 000
o	September 1986	4 000 000 @ 9%	180 days		180 000
					<hr/>
					Z\$2 600 000
					US\$1 568 000

This has resulted in a material financial loss.

Recommendation

This should be preformed by the Chief Accountant and a report on fund movements submitted to the Assistant 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 the government procedures payments to the exchequer are meant to be made on a quarterly basis. During the period March 1984 to June 1989 only 11 out of a possible 21 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 Assistant 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.

Invoice Approval

During our audit we noted the following instances where MFEPD invoices had not been approved by the Senior Accountant.

Invoice Number	Supplier	US\$
F0300	Hemisphere	10 075,70
6475	Harbon Ltd	17 443,00

Recommendations

All invoices must be signed to indicate approval by the Senior Accountant.

Departments Comment

Accepted.

Accountant General's Comment

Accepted.

Remittance Register

We noted the following cases where the receipt and cheque numbers were inaccurately recorded in the remittance register.

Receipt No.	Name of Importer	Z\$
408496	Harrison and Hughson	15 834,69
592466	Stakold Refrigeration	103 591,16

Recommendation

All receipt and cheque numbers must be accurately recorded in the remittance register.

Department's Comment

Accepted.

Account General's Comment

Accepted.

APPENDIX THREE - RECEIPTS TO BE ADDED TO USAID PRINTOUT

<u>L/C</u>	<u>DATE</u>	<u>ALLOCATION NUMBER</u>	<u>NAME OF IMPORTER</u>	<u>RECEIPT NUMBER</u>	<u>Z\$</u>	<u>US\$</u>
BCCZ007/84	20/5/85	D006	Dee Bee Trust & P.L	408435	59 530,42	37 908,97
85211	26/8/85	D131	H.R. Kuttner P.L	408485	30 382,10	18 754,87
86/3142	23/2/87	D177	Mercantile Trade Finance	590838	79 610,05	48 180,00
87132	2/9/87	D213	Aluminum Industries	592455	64 647,55	38 316,60
DX932283	9/9/87	D167	Footwear & Rubber Ind.	592459	29 594,50	17 443,00
87/4382	1/10/87	D211	Field Aircraft Services	592462	24 009,16	14 151,00
D524	13/10/87	D208	Sylvester's Kitchen	592463	51 108,46	29 970,00
G4011/6219	2/11/87	D163	Prof. Engineering P.L	592464	103 860,14	60 000,00
DX932697	2/11/87	D207	Hotel Sales	592465	16 549,56	9 754,31
2190/6/87	9/11/87	D204	Stakold Refrigeration	592466	103 591,16	60 000,00
84/7704	9/11/87	D033	J. Mann & Co	592467	30 249,34	17 520,42
DX932771	24/11/87	D212	Macol Agencies P.L	592468	28 931,63	17 214,32
5173/337/85	6/1/88	D083	Beverley Building Society	592469	60 269,52	35 854,34
2190/18/86	18/1/88	D143	Bell Inn P.L	592470	7 761,47	4 636,70
86/2944	26/1/88	D159	James North Zimbabwe	592471	49 722,30	28 679,82
SMBZ 258/87	28/1/88	D215	Chimamora Trade Suppliers	592473	16 763,45	9 759,68
BCCZ 11/87	9/6/87	D154	R.K. Footwear Man.	592432	29 228,73	17 885,06
87057	17/6/87	D157	G & D Shoes	592435	28 652,65	17 142,88
04017/7067	17/10/88	D214	Hamish Cameron	592479	57 118,64	29 993,00
641/88/2/29/88	4/5/89	D193	Goda Zimbabwe	592482	36 326,62	17 919,92
D7341	13/3/88	-	Steward & Lloyds		24 051,81	24 051,81
DX929954	10/1/88	-	Protea Medical		49 042,06	49 042,06
					<u>981 001,32</u>	<u>604 178,76</u>

-25-

APPENDIX FOUR - RECEIPTS TO BE REMOVED FROM 606 PRINTOUT AND TRANSFERRED TO 605 PRINTOUT

<u>L/C</u>	<u>DATE</u>	<u>ALLOCATION NUMBER</u>	<u>NAME OF IMPORTER</u>	<u>RECEIPT NUMBER</u>	<u>Z\$</u>	<u>US\$</u>
DX930268	3/12/85	D024	Protea Medical		83 924,98	55 499,57

APPENDIX FIVE - RECEIPTS TO BE TRANSFERRED FROM 606 CASHBOOK TO 605 CASHBOOK

<u>L/C</u>	<u>DATE</u>	<u>ALLOCATION NUMBER</u>	<u>NAME OF IMPORTER</u>	<u>RECEIPT NUMBER</u>	<u>Z\$</u>	<u>US\$</u>
	6/2/85		Protea Medical	407275	49 042,06	
	22/2/85		Protea Medical	407289	24 561,52	
	2/5/85		Modus Publications	408430	179 966,35	
	20/6/85		Cellophane Packaging P.L	408448	65 881,76	
85030	6/2/85	F015	National Tyre Services	402277	43 259,95	27 716,65
4011/84/140	2/5/85	B230	Prof. Engineering P.L	408428	34 949,75	22 147,64
85/9519	13/12/85	B263	ZEMCO	410937	61 265,66	36 428,56
84308 & 85030	6/2/85	F015	K. Nording & Co P.L		<u>16 705,21</u>	10 350,55
					<u>475 632,26</u>	

APPENDIX SIX - RECEIPTS TO BE TRANSFERRED FROM 605 CASHBOOK TO 606 CASHBOOK

<u>L/C</u>	<u>DATE</u>	<u>ALLOCATION</u>	<u>NAME OF IMPORTER</u>	<u>RECEIPT</u>	<u>Z\$</u>	<u>US\$</u>
		<u>NUMBER</u>		<u>NUMBER</u>		
4001/84/48	31/5/85	D053	Plessey Zimbabwe		134 318,85	84 352,24
G4001/5056	11/6/85	D089	Schweppes C.A. Ltd		100 286,55	63 000,00
2112/8/85	2/7/85	D085	Datatronics		<u>28 616,82</u>	<u>18 103,00</u>
					<u>263 222,22</u>	<u>165 455,24</u>

APPENDIX SEVEN - RECEIPTS TO BE REMOVED FROM 606 CASHBOOK

<u>L/C</u>	<u>DATE</u>	<u>ALLOCATION</u> <u>NUMBER</u>	<u>NAME OF IMPORTER</u>	<u>RECEIPT</u> <u>NUMBER</u>	<u>Z\$</u>	<u>US\$</u>
DX929287	18/5/84		Zimbank	761032	3 042,14	2 661,26

APPENDIX EIGHT - RECEIPTS TO BE ADDED TO 606 CASHBOOK

<u>L/C</u>	<u>DATE</u>	<u>NAME OF IMPORTER</u>	<u>Z\$</u>	<u>US\$</u>
D7341	13/3/85	Steward & Lloyds	24 051,81	31 421,25
DX929984	10/1/85	Protea Medical	<u>49 042,06</u>	<u>15 387,79</u>
			<u>73 093,87</u>	<u>46 809,04</u>

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-505	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

**AUDIT OF
LOCAL CURRENCY GENERATIONS
UNDER USAID/ZIMBABWE GRANT NO. 613-K-606**

APPENDICES

UNITED STATES

memoranda

DATE: March 28, 1991
REPLY TO
ATTN OF: Stephen G. Spielman, Acting Director
SUBJECT: Audit Report No. 3-613-XX-N, Audit of Local Currency
Generations Under USAID/Zimbabwe Grant No. 613-K-606
TO: Toby L. Jarman, RIG/A/N

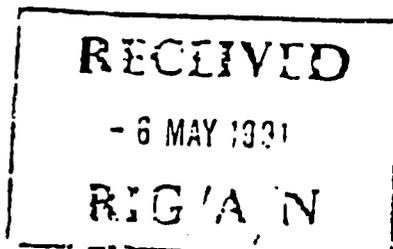
USAID has reviewed the transmittal memorandum for the subject audit. Following are our comments:

Page 1: We suggest the last sentence in paragraph 2 be re-written to reflect:

"The total amount obligated under the BEST project was \$44,869,000. The funds granted were earmarked for technical assistance, training, and commodities (\$15,869,000) and a private/public sector commodity import program (\$29,000,000)".

Page 2: The audit report implies that funds were never invested. This is not correct. In fact, the auditors reported that the Government of Zimbabwe had followed an inadequate investment policy which resulted in lost earnings of Zimbabwe Dollars Z\$2,520,000,000 (\$943,820). *Since March, 1990 all funds on deposit have earned interest."

* Auditor's Note: Z\$2,520,000 (misquoted above as Z\$2,520,000,000) was later 2/... revised to Z\$2,600,000 in final report. U.S. dollar equivalent increased from \$943,820 to \$1,568,000 due to a different exchange rate used by the CPA firm.



-2-

Recommendation No. 1

Page 3: - We suggest that the recommendation be re-worded and to be directed to AID/Washington. BEST is a sector assistance program. As such, the official accounting records are maintained by AID/Washington. In order for a complete reconciliation to be effected, USAID would require:

- 1) Detailed listing of all payments effected by the U.S. bank which managed the AID/Washington issued Letter of Credit.
- 2) Detailed listing of expenditures as recorded by AID/Washington.

AID/Washington does not generate and send any report to the Mission which would allow for a reconciliation to be performed without significant input from them.

In fact, the Mission tried to effect a reconciliation of the AID/Washington reported disbursements, U.S. bank disbursements, and corresponding deposits without success in 1988-89. According to AID/Washington at that time, the records were not available and the bank no longer had the detailed records available. See 89 Harare 06116; 89 Harare 01282; and Telex dated May 18, 1988.

USAID/Zimbabwe suggests that recommendation be re-written to require AID/Washington to provide Mission with an itemized list of disbursements by date and by supplier which can be used to reconcile AID/Washington recorded disbursements with local currency deposits.

It should be noted that if the recommendation does not include a requirement for AID/Washington to provide the necessary information to effect a reconciliation, the Mission will be unable to take any action to close the recommendation and it will remain open indefinitely.

3/...

34

-3-

Recommendation No. 2

We suggest that Recommendation No.2 be deleted or stated as closed. The Government of Zimbabwe and USAID/Zimbabwe have instituted procedures to reconcile financial records no less than quarterly. As noted above, it was impossible to reconcile the Government of Zimbabwe and AID records previously as all payments were effected through a letter of credit and detailed disbursement records were not provided to the Mission or Government of Zimbabwe by AID/Washington. As such, in the past, no reconciliation could be performed.

Effective in 1989, the Mission assumed responsibility for making payments under a direct L/Comm for all new CIPs. This affords the Mission first-hand information on payments effected from the CIP and minimizes reconciliation problems. USAID also installed a tracking system to record local currency deposits due and/or outstanding based upon foreign exchange payments made. In addition, the Government of Zimbabwe now provides a monthly listing of deposits by importer. The Government of Zimbabwe listing is reconciled by USAID to the USAID tracking system to ensure all deposits are made promptly and in the proper amount.

Copies of this reconciliation are forwarded to the Government for their use.

35

REPORT DISTRIBUTION

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