

Regional Inspector General for Audit
Nairobi, Kenya

Audit of the
Co-operative and Rural
Development Bank Under USAID/Tanzania
Project No. 621-0165

Report No. 3-621-92-15-N
(Volume I)
July 31, 1992



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GENERAL**

U.S. AGENCY FOR INTERNATIONAL DEVELOPMENT

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July 31, 1992

memorandum

TO: Dale B. Pfeiffer, Director, USAID/Tanzania

FROM: Joseph Farinella, Acting RIG/A/Nairobi 

SUBJECT: Mission-contracted Audit of The Co-operative and Rural Development Bank Under USAID/Tanzania Project No. 621-0165, Audit Report No. 3-621-92-15-N

Attached are five copies of a Mission-contracted audit of the Co-operative and Rural Development Bank (CRDB) Under USAID/Tanzania Project No. 621-0165. The accounting firm of KPMG Peat Marwick, Nairobi performed the audit.

The Transport Sector Policy Reform Program Project is part of the African Economic Policy Reform Program. The purpose of the project is to assist the Government of Tanzania in its efforts to improve the transportation sector and the condition of Tanzanian roads. The agreement provided \$12 million to be used to import road construction equipment and spare parts. The amount provided was released in two tranches of \$6 million each which were deposited into two Special Dollar Accounts. The funds in the Special Dollar Accounts were used to pay suppliers of specific imported commodities. Tanzanian importers were required to make Tanzania Shilling deposits into a Special Local Currency Account at the CRDB for payment of the imported commodities. The funds in the Special Local Currency Account are used to rehabilitate and maintain roads in rural agricultural areas.

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KPMG Peat Marwick was contracted to perform a Mission-contracted audit of the CRDB Special Local Currency Account for the period September 21, 1987 to December 31, 1991. The amount audited was Tanzanian Shillings 2,865,151,000 (\$15,434,767) plus accrued interest. The difference between the amount provided by the project and the amount audited is the subject of Recommendation No. 1.

The audit objectives were to:

- **examine and express an opinion on CRDB's Fund Accountability Statement;**
- **perform an evaluation and report on the CRDB's internal control structure;**
- **perform an evaluation and report on the CRDB's compliance with the grant agreement and applicable laws and regulations;**
- **perform a review to ensure that the correct amount of interest had been earned and credited to the Special Dollar Accounts at the Morgan Guaranty Bank and Bankers Trust;**
- **verify the accuracy of all withdrawals from the Special Dollar Accounts; and**
- **verify the accuracy of all deposits to and withdrawals from the Special Local Currency Account.**

The auditors disclaimed an opinion on the Fund Accountability Statement due to an unreconciled over-deposit in the Special Local Currency Account. The auditors identified an unreconciled over-deposit of \$2,615,492 between the amount that was deposited into the Special Local Currency Account and the amount that should have been deposited. The auditors also reported that CRDB under-credited \$412 of interest in the Special Local Currency Account and failed to transfer \$74,660 from the Special Local Currency Account to the Mission Trust Fund Account. In addition, the audit determined that interest of \$188,572 was not earned on the Special Dollar Account due to an unauthorized transfer of the account to another bank. The report on internal controls identified reportable conditions concerning controls over the issuing of letters of credit, cash cover deposits and controls over interest credited to the Special Local Currency Account. The report noted that CRDB did not comply with the grant agreement requirement to maintain adequate books and records.

The draft report was submitted to the CRDB and USAID/Tanzania for comments. Their comments are incorporated in the final report as Appendix I and Appendix II.

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

Recommendation No. 1: We recommend that USAID/Tanzania request the Co-operative and Rural Development Bank to reconcile the difference of \$2,615,492 over-deposited into the Special Local Currency Account.

Recommendation No. 2: We recommend that USAID/Tanzania determine the allowability and recover, as appropriate, from the Co-operative and Rural Development Bank:

- 2.1 123,000 Tanzanian Shillings (U.S. \$412) of under-credited interest in the Special Local Currency Account; and
- 2.2 22,248,000 Tanzanian Shillings (U.S. \$74,660), the amount not transferred to the Mission Trust Fund Account.

Recommendation No. 3: We recommend that USAID/Tanzania determine the allowability and recover, as appropriate, from the Bank of Tanzania, unearned interest of \$188,572 for deposit to the Special Dollar Account.

Recommendation No. 4: We recommend that USAID/Tanzania obtain from the Cooperative and Rural Development Bank a plan of action to improve the internal controls structure regarding the issuance of letters of credit, comparison of draw-downs on the letters of credit, deposit of cash-cover by importers, and controls over interest credited to the Special Local Currency Account.

We consider Recommendation Nos. 1, 2, 3 and 4 unresolved . Please respond to this report within 30 days indicating action planned or already taken to implement the recommendations.

Thank you for the cooperation extended to KPMG Peat Marwick and Regional Inspector General for Audit representatives during the audit.

Attachments: a/s.

**AUDIT OF THE
CO-OPERATIVE AND RURAL DEVELOPMENT
BANK UNDER USAID/TANZANIA
PROJECT NO. 621-0165**

ATTACHMENTS

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MISSION-CONTRACTED AUDIT OF THE
CO-OPERATIVE AND RURAL DEVELOPMENT BANK
UNDER USAID/TANZANIA PROJECT NO. 621-0165
VOLUME I

MISSION-CONTRACTED AUDIT OF THE
CO-OPERATIVE AND RURAL DEVELOPMENT BANK (CRDB)
UNDER USAID/TANZANIA PROJECT NO. 621-0165
VOLUME I

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**AUDIT OF THE
CO-OPERATIVE AND RURAL DEVELOPMENT
BANK UNDER USAID/TANZANIA
PROJECT NO. 621-0165**

ATTACHMENTS

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1. INTRODUCTION

1.1. Background

The Transport Sector Policy Reform Program Project No.621-0165 is part of the Africa Economic Policy Reform Program (AEPRP). The purpose of the Project is to assist the Government of Tanzania (GOT) in its efforts to improve the transportation sector and the condition of Tanzanian roads. The Transport Sector Policy Reform Program Grant Agreement between the Governments of the United Republic of Tanzania and the United States of America was signed on September 21, 1987. This Grant provided \$12,000,000 to be used to import road construction equipment and spare parts. Local currencies generated from the cash transfer are programmed by the GOT to construct and rehabilitate rural roads to improve transportation serving key agricultural areas.

The programme was implemented in the following manner. The US\$12,000,000 was advanced in two tranches of US\$6,000,000 as follows:-

Tranche 1: US\$6,000,000

Bank of Tanzania (BOT) had responsibility for opening letters of credit and monitoring foreign currency transactions.

The first tranche of US\$6,000,000 was deposited in a Special Dollar Account with Morgan Guaranty Trust Company, New York, (MG), controlled by BOT. Responsibility for opening letters of credit passed from BOT to the National Bank of Commerce (NBC), and accordingly the US\$6,000,000 was transferred to Berliner-Handels und Frankfurter Bank in Frankfurt, under the control of NBC, and then transferred back to a Special Dollar Account with MG in New York, again controlled by NBC.

Tranche 2: US\$6,000,000

The second tranche of US\$6,000,000 was deposited in a Special Dollar Account at Bankers Trust Company in London, an account controlled by the Co-operative and Rural Development Bank (CRDB).

The funds in these Special Dollar Accounts are used to pay suppliers of specified imported commodities. The Tanzanian importers make a Tanzania shilling deposit, which should be the Tanzania shilling equivalent of the value of the US dollar letter of credit opened at the exchange rate existing at the date of deposit, into a Special Local Currency Account at the CRDB in payment for the imported commodities. The importer makes an application to either the NBC or CRDB who obtain approval, from BOT and USAID/ Tanzania, for the letter of credit to pay for the commodities. The funds in the Special Local Currency Account, administered by the Tanzanian Ministry of Works, are used to rehabilitate and maintain roads in the rural agricultural areas.

Unused funds in the Special Dollar Accounts and Special Local Currency Accounts should earn interest which is credited to the respective accounts.

1.2. Audit Objectives

Peat Marwick was contracted under its Indefinite Quantity Contract (No. 623-0000-I-00-2005-00) to perform a Mission-contracted audit of the CRDB Special Local Currency Account under Project Grant No.621-0165 from inception of the Grant, September 21, 1987 to December 31, 1991 in accordance with generally accepted auditing standards and the U.S. Comptroller General's "Government Auditing Standards", (1988 Revision).

Peat Marwick was requested to perform:

- an examination and to express an opinion on the CRDB's Fund Accountability Statement;
- an evaluation and report on the CRDB's internal control structure;
- an evaluation and report on the CRDB's compliance with the Project Grant agreement and applicable laws and regulations.

In addition, Peat Marwick was requested to perform:

- a review to ensure that the correct amount of interest has been earned and credited to the Special Dollar Accounts at the Morgan Guaranty Bank and Bankers Trust, and the Special Local Currency Account at the CRDB;
- a verification of the accuracy of all withdrawals from the Special Dollar Accounts;
- a verification of the accuracy of all deposits to, and withdrawals from, the Special Local Currency Account;

- a review to ensure that the transfer of the first tranche of US\$6,000,000 from the BOT controlled Special Dollar Account at MG in New York to the NBC controlled Special Dollar Account at Berliner Handels - und Frankfurter Bank, and the transfer back to the NBC controlled Special Dollar Account at MG was performed correctly, and that there was no loss of principal or interest during the transaction.

1.3. Audit Scope

(a) Audit Report on the Fund Accountability Statement

The audit covered transactions through the Special Local Currency Account during the period from September 21, 1987 to December 31, 1991.

(b) Audit Report on the auditee's internal control structure

The audit reviewed the internal control structure in force at the CRDB relevant to the recording of transactions under the Grant.

(c) Audit Report on auditee's compliance with laws, regulations and the Grant Agreement

The audit report covered only the auditee's compliance in respect of the Fund Accountability Statement under the USAID/Tanzania Grant.

1.4. Restrictions on Audit Scope

Within the parameters stated above, there were no restrictions on our audit scope with the exception that we have not complied with Government Auditing Standards 3.46 regarding external quality control review and 3.6 in respect of continuing education and training requirements in subjects directly related to the US government environment and to US government auditing. We do not however believe that these scope limitations had an adverse effect on our audit.

1.5. Audit Methodology

Peat Marwick conducted an initial survey of the accounting records from December 8, 1991 to December 12, 1991, at which time the selection of transactions for detailed testing was completed. Peat Marwick subsequently prepared its audit programme for approval by RIG/A/N, secured approval and performed the detailed field work from March 1, 1992 to May 22, 1992.

The principal audit steps performed included:

- a review of the terms and conditions of the Project Grant agreement, applicable standard provisions and regulations and other project documents as deemed necessary;
- a review of the auditee's internal control structure in order to assess the auditee's significant internal control policies and procedures;
- performance of detailed compliance, internal controls, and errors and irregularities (SAS 53 and 54) audit procedures to evaluate the auditee's compliance with grant and applicable provisions, adequacy of accounting system and internal controls, and to obtain reasonable assurance of detecting errors, irregularities and illegal acts;
- testing of entries in the Special Dollar Accounts, and subsequent matching of the entries to equivalent entries in the Special Local Currency Accounts;
- testing of deposit entries in the Special Local Currency Account, and matching to the Special Dollar Accounts noted above;
- re-computation of interest on the Special Dollar Account and Special Local Currency Account;
- testing of payments from the Special Local Currency Account to the USAID/Tanzania Trust Fund account, and to the Ministry of Works;

1.6. Summary of Audit Results

1.6.1. Review of Internal Control Structure

Our review of CRDB's internal control structure is set out in section 3. Our report notes that CRDB's accounting systems are inadequate in the following respects:-

- Control over issuing of letters of credit, and subsequent receipt of cash cover.
- Control over cash cover deposited.
- Control over interest credited.

1.6.2. Audit Report on the Fund Accountability Statement

As noted in Section 2.2.1., cash cover deposited in Tanzanian shillings against letters of credit translated at exchange rates ruling at date of deposit, amount to US\$15,434,767. Total US dollar disbursements under letter of credit amount to US\$12,819,275. The difference of US\$2,615,492 has not been reconciled. As a result, we are unable to express an opinion on the Fund Accountability Statement for the period from September 21, 1987 to December 31, 1991.

1.6.3. Review of Grant Compliance

Our review of CRDB's compliance with the Grant Agreement and applicable US laws and regulations is set out in section 4. Our report indicates that CRDB failed to comply with section 3.2(d) of the Grant Agreement, concerning maintenance of adequate books and records.

1.7. Summary of Recommendations

A summary of our recommendations is set out below:-

	<u>Recommendation Number</u>	<u>Page Number</u>
CRDB to reconcile the US\$2,615,492 difference between Tanzanian shilling cash cover deposits to US dollar disbursements under letter of credit.	1	16
NBC to provide explanations for the US\$131,096 excess of US dollar disbursements over face value of letters of credit.	2	17
NBC to obtain explanations for transactions noted in Appendix IV.	3	17
CRDB to obtain explanations as to the nature of deposits in Appendix VI.	4	17
USAID/Tanzania to issue a bill for collection against CRDB for TShs.123,000 being interest under-credited.	5	18
USAID/Tanzania to issue a bill for collection against CRDB for TShs.22,248,000 being deficits on transfers to USAID/Tanzania Trust Fund.	6	22
CRDB should maintain a register of letters of credit analyzed by funding source. The register should be checked regularly by CRDB internal audit function.	7	26
CRDB should record all disbursements against letters of credit on the register of letters of credit.	8	27
CRDB should immediately implement control schedules for each letter of credit file.	9	28
CRDB should include copies of all cash cover deposit slips, and bank guarantees on letter of credit files.	10	28
CRDB should translate all cash cover deposits at the rate of exchange prevailing at date of deposit.	11	28

	<u>Recommendation Number</u>	<u>Page Number</u>
CRDB should transfer to the credit of the Special Local Currency Account all transport program deposits, deposited at other branches.	12	29
Special Local Currency Account interest calculations should be checked by CRDB internal audit department.	13	30
USAID/Tanzania to request Bank of Tanzania to obtain a detailed breakdown of US\$199,748 transferred to Federal Reserve Bank. USAID/Tanzania to recover any shortfall in interest from BOT if legally entitled. USAID/Tanzania to recover amounts accruing to the Transport program from US\$199,748 transferred to Federal Reserve.	14	37
USAID/Tanzania to recover interest of US\$188,572 from NBC, if legally entitled.	15	37

1.8. Summary of Auditee Management Comments

The response of Auditee management to our report is included in Appendix I. In general, CRDB Management agree with our recommendations, and are implementing procedures which should ensure an improvement in the systems of internal control. The individual response to individual recommendations is included in the appropriate section.

1.9. Summary of USAID/Tanzania Management Comments

The response of USAID/Tanzania management to our report is included in Appendix II. In general, USAID/Tanzania management agree with our report.

However, they disagree with Recommendation No.6, regarding the applicability of Trust Fund claims against interest earned on the Special Local Currency Account. The Mission interpretes the grant agreement and project implementation letters as applying Trust Fund claims only against the value of deposits made to the local currency account. The mission advise that this issue will be referred to the regional legal officer for a final opinion on the interpretation of the grant provisions and applicable project implementation letters.

KPMG Peat Marwick

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2.

INDEPENDENT AUDITOR'S REPORT ON THE FUND
ACCOUNTABILITY STATEMENT OF CRDB UNDER
USAID/TANZANIA PROJECT NO. 621-0165
(THE STATEMENT)

We have audited The Fund Accountability Statement for the period from September 21, 1987 to December 31, 1991. This financial statement is the responsibility of the management of CRDB. Our responsibility is to express an opinion on this financial statement based on our audit.

We conducted our audit in accordance with generally accepted auditing standards and the Government Auditing Standards (1988 Revision) issued by the Comptroller General of the United States with the exception that we did not comply with Government Audit Standards Sections 3.46 regarding external quality control review and 3.6 regarding continuing education and training requirements. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statement is free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in The Financial Statement. An audit also assesses the accounting principles used and significant estimates made by the management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

As discussed in note 1 to the Fund Accountability Statement, this financial statement was prepared on a cash basis which is a comprehensive basis of accounting other than generally accepted accounting principles.

As noted in Section 2.2.1., cash cover deposited against letters of credit translated at exchange rates ruling at date of deposit, amount to US\$15,434,767. Total disbursements under letter of credit amount to US\$12,819,275. The difference of US\$2,615,492 has not been reconciled. As a result, we are unable to express an opinion on the Fund Accountability Statement for the period from September 21, 1987 to December 31, 1991.

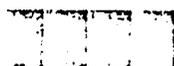
Financial information contained in this report may be privileged. The restrictions of 18 USC 1905 should be considered before any information is released to the public. This report is intended solely for the information of CRDB and The Agency for International Development but this is not intended to limit the distribution of the report, if a matter of public record.

Peat Marwick

CERTIFIED PUBLIC ACCOUNTANTS

NAIROBI

Date: *May 25, 1992*



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2.1. Co-operative and Rural Development Bank
Special Local Currency Account
Fund Accountability Statement for the period
September 21, 1987 to December 31, 1991

	<u>Notes</u>	TShs.000's	TShs.000's
<u>Receipts</u>	2		
Deposits		2,865,151	
Interest earned		445,073	
		<hr/>	
			3,310,224
<u>Payments</u>	3		
Ministry of Works		1,430,348	
Trust Fund withdrawals		143,269	
Amount refunded to importer		1,300	
		<hr/>	
			1,574,917
			<hr/>
Balance on hand			1,735,307
			<hr/> <hr/>

2.1.1. Notes to the Financial Statement

1. Basis of Accounting

The Fund Accountability Statement is prepared on a cash basis. As noted in notes 2 and 3 below, receipts and payments are recorded when funds are physically received or expended.

2. Receipts

Revenues represent amounts deposited in the Special Local Currency Account by importers, together with interest credited to the account by CRDB.

3. Payments

Expenditures represent amounts actually debited to the account.

2.2. Co-operative and Rural Development Bank
Special Local Currency Account for the
period from September 21, 1987 to December 31, 1991

	Note	To be <u>deposited</u>	Actually <u>deposited</u>	<u>Difference</u>
Deposits				
	2.2.1.	US\$12,819,275 (See Note 2.2.1.)	US\$15,434,767 TShs2,865,151,968	US\$2,615,492 TShs779,416,616
Interest earned		To be <u>credited</u> TShs.000's	Actually <u>credited</u> TShs.000's	<u>Difference</u> TShs.000's
	2.2.2.	445,196	445,073	123
Funds remitted to the Ministry of Works		To be <u>remitted</u> TShs.000's	Actually <u>remitted</u> TShs.000's	<u>Difference</u> TShs.000's
	2.2.3.	1,430,348	1,430,348	-
Trust Funds remitted to USAID/Tanzania		To be <u>remitted</u> TShs.000's	Actually <u>Remitted</u> TShs.000's	<u>Difference</u> TShs.000's
	2.2.4.	165,517	143,269	22,248

2.2.1. Deposits

This represents cash cover deposited by importers against disbursements under letters of credit. Our analysis of cash cover deposited by importer in the Special Local Currency Account compared with amounts disbursed under letter of credit through the Special Dollar Accounts, is set out in Appendix III to this report.

Verification

1. We analyzed all transactions through the Special Dollar Accounts, and agreed them to letter of credit and importer.
2. We performed a detailed review of all amounts deposited to the Special Local Currency Account in order to agree amounts deposited back to disbursements against letters of credit. In order to compare deposits with disbursements, all deposits were translated into US dollars at the rate prevailing at the date of deposit.
3. We compared the results of 1 and 2 in order to conclude on the adequacy of cash cover deposited in the Special Local Currency Account.

Results

Our results are set out in Appendix III.

As noted in our review of CRDB's internal controls over the depositing of cash cover against amounts disbursed under letters of credit, the internal controls in this area are inadequate. It proved extremely difficult to match cash cover to amounts disbursed on an individual letter of credit basis, and our report has aggregated this analysis purely on an importer by importer basis.

Our main findings are as follows:-

1. Overall, cash deposits amounted to TShs.2,865,151,968, which, translated at exchange rates ruling at date of deposit, amounts to US\$15,434,767. Total US dollar disbursements against letters of credit amount to US\$12,819,275, representing a surplus of receipts equivalent to US\$2,615,492 (which at current exchange rates amounts to TShs.779,416,616). Exchange rates have depreciated from TShs.97; US\$1 to TShs.233; US\$1 during the period of the grant. Thus we have not expressed the amount to be deposited of US\$12,819,275 in Tanzania shillings, as this figure would be misleading.
2. For a number of importers, cash cover deposited is significantly less than amounts disbursed. Listed below are all importers where the deficit exceeds US\$10,000:-

<u>Importer</u>	<u>US\$</u>
A. Mdee	10,164
A.S. Dhiyebi	12,095
Autospares and Hardware	16,809
Bonite Bottlers	71,341
Casagrande	15,069
H. Dominic	14,194
Fazal Karmali	241,427
Zainabu/Japemwa/Sonata	241,810
Tradeco	93,708

	716,617
	=====

The principle explanations as to why these deficits have arisen are as follows:

- a number of importers pay initial cash cover of 20% on opening of a letter of credit, and the balance on release of shipping documents, the payment of the 80% balance being covered by a bankers guarantee. In a number of instances, it appears that the importer has tied in the exchange rate used to pay the 80% balance to the exchange rate prevailing at the opening of the letter of credit, rather than the exchange rate prevailing at payment of the balance of 80% and hence the US dollar equivalent does not equate to amounts disbursed under the letter of credit due to the constant devaluation of the Tanzania shilling.
- In a number of cases amounts disbursed from the Special Dollar Account exceed the letter of credit value. For example;

<u>Importer</u>	<u>Letter of Credit No.</u>	<u>Disbursed</u> US\$	<u>Letter of credit value</u> US\$	<u>Difference between disbursement and letter of credit value</u> US\$
General Tyre	344/88	115,145	111,709	3,436
Casagrande	35/3/89	20,960	10,589	10,371
Casagrande	35/50/89	79,229	71,524	7,705
UAC	304/89	80,646	68,345	12,301
Hai Investments	253/89	15,810	7,905	7,905
J.S. Khambaita	35/41/90	52,586	47,806	4,780
Ministry of Communications	491/90	238,355	188,072	50,283
Ministry of Communications	1083/90	57,138	53,697	3,441
Autospares & Hardware	606/90	24,258	12,820	11,438
A.S. Dhiyebi	149/90	92,413	80,788	11,625
CMC	188/90	<u>49,840</u>	<u>42,029</u>	<u>7,811</u>
		<u>826,380</u>	<u>695,284</u>	<u>131,096</u>

- in a number of instances the 80% to be paid on release of shipping documents is still outstanding.

3. For a number of cases, cash deposited exceeds amounts disbursed against letter of credit. An analysis by importer of surpluses over US\$10,000 is as follows:-

<u>Importer</u>	<u>US\$</u>
C.M.C.	764,423
Diesel & Auto-electric	67,019
G. Investment	21,705
Hai Investment	46,348
Incar Tanzania	203,584
K.J. Motors	20,460
Ministry of Communication and Works	356,099
Ministry of Energy & Water	26,176
Ngorongoro Conservation	306,374
Leyland DAF	10,502
Tanzania Road Haulage	38,343
U.A.C.	60,978
Urafiki	15,555
Total/Esso/Agip/BP	178,975
Yuassa Batteries	<u>41,404</u>
	<u>2,157,945</u>

The principal reasons for the excess of deposits over disbursements are as follows:

- a number of importers have paid 100% cash cover against letters of credit which, as of December 31 1991, had not yet been disbursed;
 - several importers pay cash cover against receipt of an import licence, rather than against individual letters of credit. Thus, surpluses in amounts deposited may represent amounts outstanding on import licenses, against which letters of credit have not yet been opened or disbursed;
 - several suppliers have paid cash cover against letters of credit which have later been revoked, with the importer overlooking recovery of cash cover;
 - several deposits represent cash cover against letters of credit raised and disbursed under the follow-up USAID/Tanzania "ATAP" grant. These deposits have been separately scheduled in Appendix V.
4. A number of transactions through the Special Dollar Account Number 650-01-447 at MG have not been identified with specific letters of credit due to lack of information. A schedule of these items is included at Appendix IV.
 5. A TShs.1,000,000 deposit has not been agreed to any known importer under the program. This item is included at Appendix VI.

Recommendation No.1

Tanzania shilling cash deposits translated at exchange rates ruling at date of deposit amount to US\$15,434,767. Total US dollar disbursements against letters of credit amount to US\$12,819,275 representing a surplus of receipts amounting to US\$2,615,492. Peat Marwick have been unable to confirm the validity of this surplus.

For each importer, USAID/Tanzania should request CRDB to reconcile individual deposits to disbursements under letters of credit as at December 31, 1991. The reconciliation should show, for each letter of credit disbursed, total cash cover received, together with an analysis of amounts remaining due from the importers and deposits outstanding against future disbursements.

Where, after reconciliation, closed-down letters of credit show a shortfall of cash cover from the importers, USAID/Tanzania should request CRDB to immediately recover the shortfall from the importer.

CRDB Management Comments

CRDB management advise that they intend to reconcile the Special Local Currency Account with the value of each Letter of Credit established. In addition, they request that USAID/Tanzania provide technical assistance in this exercise.

Recommendation No.2

For a number of letters of credit issued by NBC, total US dollars disbursed against the letter of credit exceeded the letter of credit value. The value of the excess, shown on page 15, amounted to US\$131,096.

USAID/Tanzania should request NBC to provide explanations for all letters of credit where amounts disbursed exceed letter of credit value. Where the excess is not satisfactorily explained, USAID/Tanzania should issue a bill for collection to NBC to recover the excess disbursements.

CRDB Management Comments

CRDB management did not address this recommendation.

Recommendation No.3

USAID/Tanzania should request NBC to obtain explanations from MG as to the transactions listed in Appendix IV. If these transactions do not relate to letters of credit disbursed under the transport program, USAID/Tanzania should issue a bill for collection to recover any shortfall identified.

CRDB Management Comments

CRDB management did not address this recommendation.

Recommendation No.4

USAID/Tanzania should request CRDB to obtain explanations as to the nature of the deposit for TShs.1,000,000 (US\$5,076) scheduled in Appendix VI. If this deposit does not relate to a letter of credit disbursed from USAID/Tanzania funds, this deposit should be transferred to the appropriate account.

CRDB Management Comments

CRDB management advise that the deposit of TShs.1,000,000 relates to letter of credit No.AZB/14/LC/198/90, opened in the name of Mr. A. Mdee, which is shown on Appendix III, Page 1. Accordingly, the deposit should be reallocated from Appendix VI to Appendix III.

2.2.2. Interest

Interest represents interest credited to the Special Local Currency Account at the rate of 16% per annum on the daily cleared balance on the account.

Verification

1. We recalculated the interest credited for the entire period using monthly deposit and withdrawal records provided by CRDB, and compared the results with interest actually credited to the special local currency account.

Results

The results of our testing are set out in Appendix VII to the report. The results show that CRDB has under-credited interest to the Special Local Currency Account by TShs.123,000. This has arisen due to a number of small calculation errors by CRDB, arising from the lack of controls noted in section 3.2.3.

Recommendation No.5

We recommend that USAID/Tanzania raise a bill for collection against CRDB for TShs.123,000 (approximately US\$412 at current exchange rates), being the interest under-credited on the account.

CRDB Management Comment

CRDB management advise that CRDB internal auditors and lawyers will review this recommendation.

2.2.3. Funds remitted to the Ministry of Works

This represents amounts transferred to the Ministry of Works for the funding of construction and rehabilitation of rural roads in the key agricultural areas.

Total funds remitted to the Ministry of Works is analyzed as follows:-

<u>Date</u>	<u>TShs.</u>
02/19/90	115,247,997
05/17/90	219,200,000
11/24/90	286,000,000
08/28/91	<u>809,900,000</u>
	<u>1,430,347,997</u>

A reconciliation of amounts remitted to the Ministry of Works, with amounts disbursed by the Ministry of Works to contractors, as at December 31, 1991 is as follows:-

	<u>TShs.000's</u>
<u>Total funds remitted</u>	1,430,348
<u>Payments to contractors</u>	
A.S. Dhiyebi	508,110
NEDCO	53,432
M Konsult	47,016
Tanzania Standard	54
Mecco	94,738
Godes Ltd.	126,495
Interconsult	7,737
Tanconsult	3,791
WHT	7,708
Becco	421,800
Nyanza	86,941
Ambicon Eng	7,211
Retentions	<u>65,061</u>
Total	<u>1,430,094</u>
Balance: Funds at GOT	<u>254</u>

Note 1

Funds at GOT are not maintained in a separate bank account but are commingled with other GOT funds at the Bank of Tanzania.

Verification

1. We agreed remittance of funds to signed GOT funding request forms, countersigned by USAID/Tanzania.
2. We agreed receipt of funds to GOT accounting records.
3. For a sample of payments by the Ministry of Works to construction contractors, we agreed payment to originating third party documentation, for example, construction certificates, and suppliers invoices.

Results

1. All remittances of funds were agreed to GOT funding request forms, and to GOT accounting records.
2. All payments to contractors sampled were agreed to originating third party documents.

2.2.4. Trust Funds remitted to USAID/Tanzania

Trust funds remitted to USAID/Tanzania represent amounts paid to USAID/Tanzania under Sections 3.2(b) and (g) of the Grant agreement. This represents 5% of all amounts deposited, and interest credited, to the Special Local Currency Account.

Verification

1. We calculated the amounts payable to USAID/Tanzania with reference to total deposits credited and interest earned on the account, after allowing for potential adjustments arising from section 2.2.2 above.
2. We compared actual amounts remitted to USAID/Tanzania with the figures calculated in 1 above.
3. We obtained confirmation from USAID/Tanzania that amounts remitted by CRDB have been received by USAID/Tanzania.

Results

1. A comparison between amounts remitted to USAID/Tanzania and amounts which we calculated should have been remitted, is as follows:-

	<u>TShs.</u> <u>000's</u>	<u>TShs.</u> <u>000's</u>
<u>Amounts to be remitted</u>		
Total deposits received	2,865,151	
Total interest credited	445,073	
Total adjustment to interest credited per section 2.2.2.	- 123	
	<u>3,310,347</u>	
Trust fund remittances at 5%		165,517
Less: Funds actually remitted		<u>(143,269)</u>
Difference		<u>22,248 *</u>

* (approximately US\$74,660 at current exchange rates).

Note

1. No adjustment has been made for differences on total deposits credited per section 2.2.1. as adjustments will require computation following the resolution of Recommendation 1.
2. The difference of TShs.22,248,000 arises for the following reason. CRDB has only calculated, and remitted, Trust Funds as being 5% of deposits credited to the Special Local Currency Account. CRDB has taken no account of the Trust Funds generated by interest credited to the account.

Recommendation No.6

USAID/Tanzania should issue a bill for collection to CRDB for TShs.22,248,000 (approximately US\$74,660 at current exchange rates), being the difference between amounts actually transferred to the Trust Fund, and the amount which we calculate should have been transferred.

CRDB Management Comment

CRDB management advise that CRDB internal auditors are currently reviewing this recommendation.

KPMG Peat Marwick

Certified Public Accountants

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3.

**INDEPENDENT AUDITOR'S REPORT ON INTERNAL
CONTROL STRUCTURE OF CRDB UNDER THE USAID/TANZANIA
PROJECT NO. 621-0165
(THE STATEMENT)**

We have audited the Fund Accountability Statement of CRDB for the period from September 21, 1987 to December 31, 1991 and have issued a report thereon dated May 25, 1992.

We conducted our audit in accordance with generally accepted auditing standards and the Government Auditing Standards (1988 Revision) issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statement is free from material misstatement.

In planning and performing our audit of the Financial Statement of CRDB we considered CRDB's internal control structure in order to determine our auditing procedures for the purpose of expressing our opinion on the Financial Statement and not to provide assurance on the internal control structure.

The management of CRDB is responsible for establishing and maintaining an internal control structure. In fulfilling this responsibility, estimates and judgements by management are required to assess the expected benefits and related costs of internal control structure policies and procedures. The objectives of an internal control structure are to provide management with reasonable, but not absolute assurance that the assets are safeguarded against loss from unauthorized use or disposition, and that transactions are executed in accordance with management's authorization 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:

- foreign exchange transactions;
- control over cash cover deposited;
- control over interest credited.



Member Firm of
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R.L.E. Kerr*
A.M. Potunderwalle

W.N. Murithi*
A.D. Gregorv*
A.W. Pringle*

P.J. Butler*
J.B. Barton*
R.V.J. Chadder*

(Breat*)

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

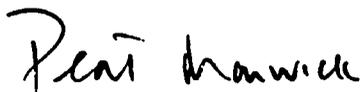
We noted certain matters involving the internal control structure and its operation that we consider to be reportable conditions under standards established by the American Institute of Certified Public Accountants. Reportable conditions involve matters coming to our attention relating to significant 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, summarize, and report financial data consistent with the assertions of management in the financial statements.

A description of reportable conditions is set out on pages 26 to 30 immediately following this report. In view of the significance of weaknesses identified, we consider that the system of internal accounting control of CRDB was inadequate for the purpose of properly identifying and accounting for expenditures to USAID/Tanzania.

A material weakness is a reportable condition in which the design or operation of the specific internal control structure element does not reduce to a relatively low level the risk that errors or irregularities in amounts that would be material in relation to the financial statements 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. In our opinion, the reportable conditions set out on pages 26 to 30 are material weaknesses.

Financial 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. This report is intended solely for the information of CRDB and The Agency for International Development, but this is not intended to limit the distribution of the Report, if a matter of public record.


CERTIFIED PUBLIC ACCOUNTANTS

NAIROBI

Date: May 25, 1992

3.1. INTRODUCTION

3.1.1. Definition

American Institute of Certified Public Accountants (AICPA) Codification of Auditing Standards, section 319, defines an organization's internal control structure as consisting of the policies and procedures established to provide reasonable assurance that a specific entity's objectives will be achieved. The internal control structure is composed of three elements:

- . the control environment;
- . the accounting system;
- . control procedures.

The control environment reflects the overall attitude, awareness and actions of management. The accounting system consists of methods and records established to identify, assemble, analyze, classify, record and report transactions. Control procedures are those policies and procedures in addition to the control environment and accounting system that management has established to safeguard the organization's resources.

We have classified the internal control structure of CRDB on a functional basis, relating to the administration of the grant as follows:-

- Foreign exchange transactions.
- Control over local deposits.
- Control over interest credited.

3.2. FINDINGS

3.2.1. Foreign Exchange Transactions

1. Control over Issuing of Letters of Credit

Observation

CRDB maintains a register to record all foreign currency Letters of Credit Opened. However, this register is not analyzed according to funding source (for example, AEPRP, ATAP), and was found to be inaccurate in a number of cases. This could lead to letters of credit issued against a single funding source, exceeding the value of funding.

Recommendation No.7

CRDB should maintain a register of letters of credit opened, analyzed by funding source. The register should be checked on a regular basis by the CRDB's branch operations manager and internal audit department to ensure its accuracy.

CRDB Management Comment

CRDB management agree that the organization should maintain a separate register for letters of credit opened using USAID funds. The register will be kept by the foreign exchange department and checked by the branch operations manager and internal auditors as part of the internal control on operations.

2. Comparison of amounts drawn-down on letter of credit, with letter of credit value

Observation

There is no evidence at CRDB that amounts drawn down from the Special Dollar Accounts at Bankers Trust are compared with the value of letters of credit established. This could lead to amount disbursed by Bankers Trust exceeding authorized letter of credit values or, potentially, other unauthorized transactions.

Recommendation No.8

We recommend that the register of letters of credit opened by funding source should record against each letter of credit the drawdowns against the letter of credit from the correspondent bank dollar account.

CRDB Management Comment

CRDB management accept our recommendation.

3. Control over receipt of cash cover

CRDB has no controls in place to ensure that importers deposit complete cash cover, at appropriate exchange rates, prior to release of shipping documents. From a review of a large number of letter of credit files, the following was noted:

- there is no control schedule on each file to record drawdowns against letter of credit, and receipt of cash cover;
- CRDB does not appear to have any follow up system for ensuring that cash cover is fully received before shipping documents are released;
- there are a number of files where 20% cash cover has been deposited at establishment of letter of credit, but where there is no evidence of receipt by CRDB of guarantees for the balance of 80% from the importers bank;
- from discussions at CRDB, there appears to be uncertainty as to the exchange rate to be used for calculating cash cover, in instances where cash cover is spread over a number of payments.

Recommendation No.9

CRDB should immediately implement a control schedule for each letter of credit file. This would record:

- letter of credit number, date and value;
- dates of all deposits of cash cover, together with a translation into US dollars at the rate existing on the date of deposit;
- a comparison between disbursements under letters of credit and the US dollar value of cash cover deposited, to ensure that each letter of credit is closed out correctly.

CRDB Management Comment

CRDB management accept our recommendation.

Recommendation No.10

Each letter of credit file should include copies of all deposit slips for cash cover deposited and bankers guarantees where appropriate, cross referenced to the control schedule implemented in recommendation No.9 above.

CRDB Management Comment

CRDB management advise that copies of all deposit slips will be filed on letter of credit files.

Recommendation No.11

All deposits of cash cover should be translated into US dollars at the date of deposit. Importers should not be able to fix the exchange rate by settling cash cover at release of shipping documents by reference to the exchange rate existing at establishment of letters of credit.

CRDB Management Comment

CRDB management advise that they have been instructed by USAID/Tanzania that all importers must in future pay 100% cash cover prior to establishment of letters of credit.

3.2.2. Control over cash cover deposited

Observation

CRDB has inadequate controls to ensure that cash cover deposited in branches other than Lumumba branch are credited to the Special Local Currency Account at Lumumba branch.

For example, it was noted that cash cover of TShs.1,150,000 deposited on by Autospares & Hardware against letter of credit number LC5/785/90 had been deposited at Kariakoo branch. There is no evidence that this has been transferred to the Special Local Currency Account at Lumumba.

Recommendation No.12

As part of the resolution of Recommendation No.1, all amounts identified as deposited at other CRDB branches should be transferred to the credit of the Special Local Currency Account at Lumumba branch. In the future, following implementation of Recommendations No.9 to 11, monitoring of the establishment of letters of credit and receipt of cash cover should be better controlled, and this situation should not recur.

CRDB Management Comment

CRDB management advise that the resolution to Recommendation No.1 will form the basis for resolution of this recommendation.

3.2.3. Control over interest credited to the Special Local Currency Account

Observation

From our recalculations of interest credited to the Special Local Currency Account by CRDB a number of small errors were noted, for example, using an incorrect number of days to calculate monthly interest. The net effect of the errors is shown in Recommendation No.5.

Recommendation No.13

Monthly interest calculations should be checked by a responsible third party. We recommend that the calculations are checked and authorized by CRDB internal audit department.

CRDB Management Comment

CRDB management advise that monthly interest calculations will be checked by the branch operations manager and the branch accountant.

KPMG Peat Marwick

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4. INDEPENDENT AUDITOR'S REPORT ON COMPLIANCE WITH LAWS, REGULATIONS AND THE GRANT AGREEMENT

We have audited the Fund Accountability Statement of CRDB under the USAID/Tanzania Project Grant Agreement No.621-0165 for the period from September 21, 1987 to December 31, 1991 and have issued our report thereon dated May 25, 1992.

We conducted our audit in accordance with generally accepted auditing standards and the Government Auditing Standards (1988 Revision) issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statement is free of material misstatement.

Compliance with laws, regulations, contracts and grants applicable to CRDB is the responsibility of CRDB management. As part of obtaining reasonable assurance about whether the financial statements are free of material misstatement, we performed tests of CRDB compliance with certain provisions of laws, regulations, contracts and grants. However, our objective was not to provide an opinion on overall compliance with such provisions.

The results of our tests indicate that, with respect to the items tested, which are identified in part 4.1. of this report, CRDB complied, in all material respects, with the provisions referred to in the preceding paragraphs. Part 4.2 identifies a case of non-compliance with the grant conditions. The case of non-compliance relates to the maintenance of adequate books and records. This item is considered to be a material non-compliance with standard provisions of the grant. With respect to items not tested, nothing came to our attention that caused us to believe that CRDB had not complied, in all material respects, with those provisions.

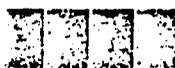
Contractor information contained in this report may be privileged. The restrictions of 18 USC 1905 should be considered before any information is released to the public. This report is intended solely for the use of CRDB and The Agency for International Development but this is not intended to limit the distribution of the Report, if a matter of public record.

Peat Marwick

CERTIFIED PUBLIC ACCOUNTANTS

NAIROBI

Date *May 25, 1992*



Member Firm of
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R L E Kerr*
A M Potundarwalla

W N Murthy
A D Gregoriv*
A W Pringle*

P J Butler*
J B Barton*
R V J Chackar*

(Breast)

4.1. Independent Auditors report on Compliance with laws, regulations and the Grant Agreement

Items of compliance

1. Deposition of Grant Funds

CRDB has deposited all US Dollar funds disbursed under this Grant into a Special Dollar Account. The funds deposited have not been commingled with any other funds.

2. Eligible transactions

The US Dollar funds disbursed under the Grant have been allocated to eligible transactions as defined by the Grant, subsequent amendments, and project implementation letters.

4.2. Independent Auditors report on Compliance with laws, regulations and the Grant Agreement

Item of non-compliance

1. Project grant standard provisions
Section 3.2(d): Books and Records

Section 3.2(d) requires that "the grantee will maintain, or cause to be maintained, in accordance with generally accepted accounting principles and practices consistently applied, such books and records relating to the Special Local Currency Account as are necessary to show adequately, without limitations, the receipt and use of funds from the Account by the grantee for agreed purposes". As noted in sections 2 and 3, we are of the opinion that adequate books and records have not been maintained.

5. REVIEW OF TRANSACTIONS ON THE SPECIAL DOLLAR ACCOUNT
RELATING TO THE FIRST TRANCHE OF US\$6,000,000

5.1. BACKGROUND

USAID/Tanzania is concerned that the first tranche of US\$6,000,000 did not earn interest from the date of deposit at Morgan Guaranty Trust Company, (MG), in New York. Peat Marwick was requested to perform a special review of transactions relating to this tranche, from date of initial deposit, to ascertain the true position.

5.1.1. Findings

1. Under instruction from USAID/Tanzania, the Federal Reserve Bank deposited US\$6,000,000 in account No.650-01-677 on March 3, 1988. From MG records, value date was March 9, 1988. The account name was "Bank of Tanzania/USAID", which was a non-interest bearing current account (see telex from MG to BOT, Appendix IX). The account was opened specifically for this transaction. The account opening instructions from Bank of Tanzania (GOT), dated November 2, 1987, requested that the credit balances on hand under this transaction "be eligible to earn interest" (see Appendix VIII). The reply from MG to BOT advised that BOT should instruct MG by tested telex to transfer funds to either interest bearing call accounts or fixed maturity time deposits if BOT require interest to be earned (see Appendix IX).
2. MG sent two telexes on March 10, 1988 and March 23, 1988 requesting BOT to instruct MG as to investment instructions (see Appendix X and XI).
3. The next communication available is a telex from MG to BOT dated June 22, 1988,-advising that the entire credit balance of US\$6,000,000 was deposited in an interest bearing call account entitled "Bank of Tanzania Special Investment Account". The interest earned to June 22, 1988 amounted to US\$70,289 (see Appendix XII).
4. The final communication available, dated March 10, 1989, was a telex from MG to BOT advising that US\$199,748 was transferred from account 650-01-677 to the Federal Reserve Bank, and that the account was being closed (see Appendix XIII).

5. At an indeterminate time between March 1988 and July 18, 1988, control over the first tranche of US\$6,000,000 passed from BOT to National Bank of Commerce (NBC). On July 18, 1988, US\$6,000,000 was transferred from MG to Berliner Handels-und Frankfurter Bank, Frankfurt, account No.400 724351. The transactions on this account were as follows:-

	US\$
Receipt from MG, July 18, 1988	6,000,000
Letter of credit transacted (L/C No.205/88)	(297,610)
Interest credited	<u>77,762</u>
Transferred back to MG account 650-02-447, September 21, 1988	<u>5,780,152</u>

The balance of funds were transferred back to MG account No.650-02-447, controlled by NBC, when USAID/Tanzania discovered that the funds had been transferred to a non-US bank and requested that this be corrected.

6. MG bank account No.650-02-447, was non-interest bearing from September 21, 1988 to April 13, 1989. On April 13, 1989, US\$4,400,000 was transferred to a Special Investment Account at MG, Nassau, Bahamas and from that date earned interest until the tranche was exhausted in October 1991.
7. The MG Vice President, Middle East, Africa and South East Europe region, Mr: Arthur J. Brown, has advised Peat Marwick that although no interest was earned on account No.650-02-447 during the period July 1988 to April 1989, this was to some extent compensated for later as MG allowed the account to operate without the minimum trading balance of US\$1,000,000 usually required by the bank. We have not been able to obtain any further information concerning the operation of this account.

CONCLUSION

1. Interest was earned on the Bank of Tanzania controlled tranche of US\$6,000,000 from an indeterminate date subsequent to March 23, 1988. As of June 22, 1988 this interest amounted to US\$70,289. The US\$6,000,000 remained in the hands of MG until July 18, 1988, which we estimate would have accrued a further US\$30,329 in interest. Our calculation is set out below:-

<u>Period</u>	<u>Days</u>	<u>Interest Rate %</u>	<u>Principal Sum US\$</u>	<u>Interest US\$</u>
June 22 - June 30, 1988	8	6.75	6,000,000	8,877
July 1 - July 18, 1988	18	7.25	6,000,000	<u>21,452</u>
				US\$ 30,329

2. Our calculation of interest earned from June 22, 1988 to July 18, 1988 of US\$30,329 may form part of the US\$199,748 transferred to Federal Reserve Bank in March 1989.
3. Interest was correctly earned on the US\$6,000,000 during the period it was maintained at Berliner-Handels and Frankfurter Bank (BHB).
4. No interest was earned on the amount transferred back from BHB to MG from September 21, 1988 to April 13, 1989. We calculate that interest of US\$188,572 would have accrued during this period. Our calculation is set out below:-

	<u>Days</u>	<u>Average Free Balance US\$</u>	<u>Average Interest Rate %</u>	<u>Interest US\$</u>
September 21, 1988 - April 13, 1989	205	3,950,000	8.5	188,572

Note 1: Average free balance takes into account a minimum of US\$1,000,000 retained in the non-interest bearing current account for working capital purposes.

Recommendation No.14

USAID/Tanzania should request Bank of Tanzania to obtain from MG a detailed breakdown of the US\$199,748 transferred to the Federal Reserve Bank. If USAID/Tanzania is able to confirm legally that the Grant required Bank of Tanzania to earn interest on amounts deposited at MG, then USAID/Tanzania should issue a bill for collection for any shortfall in interest earned. In any case, USAID/Tanzania should request that the Federal Reserve Bank refunds any amounts accruing to the Tanzania transport program.

CRDB Management Comment

CRDB management did not address this recommendation.

Recommendation No.15

If USAID/Tanzania is able to confirm that the Grant legally required NBC to earn interest on amounts deposited at MG, then USAID/Tanzania should issue a bill of collection for US\$188,572, to recover interest not accrued on MG account No.650-02-447, during the period September 21, 1988 to April 13, 1989.

CRDB Management Comment

CRDB management did not address this recommendation.



CO-OPERATIVE AND RURAL DEVELOPMENT BANK

HEAD OFFICE

Telephone : 26511 / 25850 / 46114

Telex : 41643

Fax : 26518

Ref. No. : CRDB/9/10/40

Date : 11th July, 1992

GENERAL MANAGER'S OFFICE

P.O. Box 268,
DAR ES SALAAM
Tanzania

The Project Controller,
United States Agency for
International Development,
P.O. Box 9130,
DAR-ES-SALAAM.

Dear Sir,

**RE: AUDIT REPORT ON THE FUND ACCOUNTABILITY STATEMENT
OF CRDB UNDER USAID/TANZANIA PROJECT NO. 621-0165**

Please refer to the above mentioned report.

We have gone through the above mentioned audit report and are in general agreement with its recommendations. However, we would like to make our observations/comments on the following specific areas:-

1. RECOMMENDATIONS NO. 1 - RECONCILIATION:

As agreed in the previous meetings, our Azikiwe Branch, Dar-es-salaam will reconcile the Special Local Currency account and indicate the cash deposits against each LC established. We kindly request the USAID to send us one officer with the requisite experience to assist our branch in the reconciliation exercise as earlier promised. The Bank is already set for the exercise.

2. Recommendations No. 2 and 3 concern the National Bank of Commerce

3. RECOMMENDATION NO. 4 - CASH DEPOSIT OF SHS. 1.0 MILLION:

The deposit of Shs. 1,000,000= dated 11/7/90 scheduled in appendix VI was a 20% deposit by Mr. A. Mdee. The drawer was TAG Mikocheni Hospital, who were paying 20% cash cover for Mr. A. Mdee, the allocatee, who established the letter of credit No. AZB/14/LC/198/90 for JYen 4,206,710.00 to import an ISUZU Tipper. The money should, therefore, be retained.

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15 JUL 1992

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4. RECOMMENDATION NO. 5 - UNDER CREDITED INTEREST
CRDB internal auditors and lawyers will check and verify the claim of undercredited interest of T.Shs. 123,000.00. We shall advise you of the outcome in due course.
5. RECOMMENDATION NO. 6
CRDB internal auditors are verifying the under transferred amount of T.Shs. 22,248,000.00.
6. RECOMMENDATION NO. 7 - LC REGISTERS
We agree with the recommendation and have accordingly instructed the Branch management of Azikiwe Street Branch to open a separate register for the USAID LCs indicating the date, LC number, name of the correspondent bank, confirmed/unconfirmed, correspondent bank Ref. No., reimbursing Bank, name of beneficiary, brief detail of Commodities, opening branch, accreditor's name, tenor, amount (Foreign currency), liability entries (T.Shs.) expiry date, last shipment date, Bank supervisor's initials and date credit extinguished. The register will be kept by foreign exchange department checked by the Branch Operations Manager and internal auditors and inspectors as part of the internal control on the operations.
7. RECOMMENDATION NO. 8 - RECORD KEEPING:
We concur with recommendation. Informations on the LC drawings could be obtained from the LC respective files, where all the LC documents and copies of the entries are kept/filed. The LC register kept at that time did not have enough columns to cater for such details. However, record keeping will be improved so that the informations/details required can easily be available from the LC files. In line with the normal banking practices, LC drawings are indicated in the respective LC files. As a lasting solution to the record-keeping problem the bank is planning to computerize the foreign exchange operations at the branch concerned.
8. RECOMMENDATION NO. 9 - INTERNAL CONTROL MEASURES:
We concur with the recommendation and control measures will be instituted by the bank as explained under recommendation no. 7 above.

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9. RECOMMENDATION NO. 9 - INTERNAL CONTROL MEASURES:

We agree with the recommendation. All copies of the pay-in-slip will be hence-forth be filed in the respective LC files.

10. RECOMMENDATION NO. 11:

USAID/Treasury have instructed the Bank that all importers under USAID programme will have to pay 100% cash deposit and we accordingly issued circular to all our branches to implement the construction. Hence, Bank guarantees will no longer be required. However, we will indicate the dollar equivalent on the vouchers in the LC files.

11. RECOMMENDATION NO. 12:

In order to implement this recommendation it will be necessary for us first to carry out a reconciliation at the two branches of all the deposits for the two programmes. USAID will then guide us how and where the money should be transferred.

12. RECOMMENDATION NO. 13:

Monthly interest rates will be checked by the Branch Accountant and the Operations Manager.

13. RECOMMENDATION NO. 14:

This refers to the Bank of Tanzania.

14. RECOMMENDATION NO. 15:

This refers to the National Bank of Commerce.

We trust that the above will assist you in finalizing the audit report and the overall improvement in the programme.

Assuring you of our co-operation and services at all times.

Sincerely yours,

CO-OPERATIVE AND RURAL DEVELOPMENT BANK



F.J. KIBONDE

GENERAL MANAGER

C.C: Peat Marwick,
Certified Public Accountants,
P.O. Box 40612,
NAIROBI,
KENYA

MEMORANDUM

DATE: July 9, 1992

TO: KPMG Peat Marwick, Certified Public Accountants

FROM: N. Keith Romwal, Controller, USAID/Tanzania

THRU: John Rose, Acting Director, USAID/tanzania

SUBJECT: Mission response to Audit Report on the Fund
Accountability Statement of CRDB under USAID/Tanzania
Project No. 621-0165

REF: Draft Independent Auditor's Report

The Mission is in general agreement with the findings and recommendation of the draft auditor's report on the Fund Accountability Statement of the CRDB for Project No. 621-0165. We do, however, disagree on the matter of Recommendation No. 6, regarding the applicability of Trust Fund claims against interest earnings of the Special Local Currency Account. It is the Mission's position that Trust Fund contributions should be from principal amounts of Local Currency deposited against Letters of Credit issued from Grant Funds. We do not agree that Trust Fund deposits should accrue from interest earned on the Local Currency account balance. This issue will be referred to the Regional Legal Officer for A.I.D. for an opinion on the interpretation of the Grant provisions and applicable Project Implementation Letters.

In light of the findings of the auditors the Mission has suspended further disbursements to the successor project (ATAP, Project No. 621-0166) pending remedial actions to correct deficiency in the CRDB accounting and internal control systems. The Mission has issued a work order under the Management Services IQC in Nairobi to address the recommendations of the auditors.

Clearances: Tom Driscoll, Acting PDO
Yohannes Mulugeta, Project Officer

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ATTACHMENT II

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