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Regional Inspector General for Audit  
Nairobi, Kenya

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Audit of  
Lesotho Ministry of Agriculture, Cooperatives  
and Marketing Local Currency Expenditures  
Under USAID/Lesotho Agricultural Policy Support  
Program No. 632-0224

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Report No. 3-632-93-17-N  
April 26, 1993



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INSPECTOR  
GENERAL

U.S. AGENCY FOR INTERNATIONAL DEVELOPMENT



April 26, 1993

U.S. AGENCY FOR  
INTERNATIONAL  
DEVELOPMENT

MEMORANDUM

TO: USAID/Lesotho Director, F. Gary Towery

FROM: RIG/A/Nairobi, Everette B. Orr

*Regional  
Inspector General  
for Audit/Nairobi*

SUBJECT: Audit of Lesotho Ministry of Agriculture, Cooperatives  
and Marketing Local Currency Expenditures Under  
USAID/Lesotho Agricultural Policy Support Program  
Project No. 632-0224, Audit Report No. 3-632-93-17-N

Attached are five copies of an Agency-contracted financial audit report of Local Currency Expenditures Under USAID/Lesotho Agricultural Policy Support Program Project No. 632-0224. The accounting firm of Price Waterhouse Meyernel in South Africa performed the audit.

A.I.D. authorized the Lesotho Agricultural Policy Support Program Project No. 632-0224 on June 14, 1988 to assist the Government of Lesotho to make more productive and efficient use of Lesotho's domestic resources in crop agriculture and in livestock through a process of policy reform and implementation. Under the Agricultural Policy Support Program, the Government of Lesotho was to provide the local currency equivalent to U.S. dollar disbursements and deposit it into a special account to finance project activities mutually agreed upon in writing by the Government of Lesotho and USAID/Lesotho.

This report covers project expenditures totalling Lesotho Maloti 1,418,322 (\$541,344) for the period June 14, 1988 through March 31, 1991.

The objectives of the audit were to:

- audit the auditee's Fund Accountability Statement and express an opinion as to whether the Fund Accountability Statement presents fairly, in all material respects and in conformity with the basis of accounting described in the report, the use of funds in accordance with the grant agreement;

- consider the auditee's internal control structure in order to determine the auditing procedures for the purpose of expressing an opinion on the Fund Accountability Statement and to report on significant internal control deficiencies and material weaknesses; and
- test the auditee's compliance with the terms of the grant agreement, as part of obtaining reasonable assurance as to whether the Fund Accountability Statement is free of material misstatement, and report on any identified material instances of noncompliance.

Price Waterhouse Meyernel reported that the Fund Accountability Statement fairly presented the local currency revenues and expenses for the period June 14, 1988 through March 31, 1991 under USAID/Lesotho Agricultural Policy Support Program Project No. 632-0224, except for ineligible costs of \$934 and unsupported costs of \$1,521. The report on internal control structure identified reportable non-material weaknesses. Further, the report on compliance noted two non-material instances of non-compliance.

The draft report was submitted to USAID/Lesotho and the auditee for comment and their comments (Appendix I and Appendix II, respectively) were taken into consideration in the preparation of the final report by Price Waterhouse Meyernel.

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/Lesotho determine the allowability of the following questioned costs and request the Government of Lesotho Ministry of Agriculture, Cooperatives and Marketing to make deposits to the special account for amounts determined to be unallowable:**

- 1.1 ineligible costs of Lesotho Maloti 2,447 (\$934); and**
- 1.2 unsupported costs of Lesotho Maloti 3,985 (\$1,521).**

**Recommendation No. 2: We recommend that USAID/Lesotho obtain from the Government of Lesotho, Ministry of Agriculture, Cooperatives and Marketing a plan of action for correction of internal control structure weaknesses and compliance procedures to ensure that:**

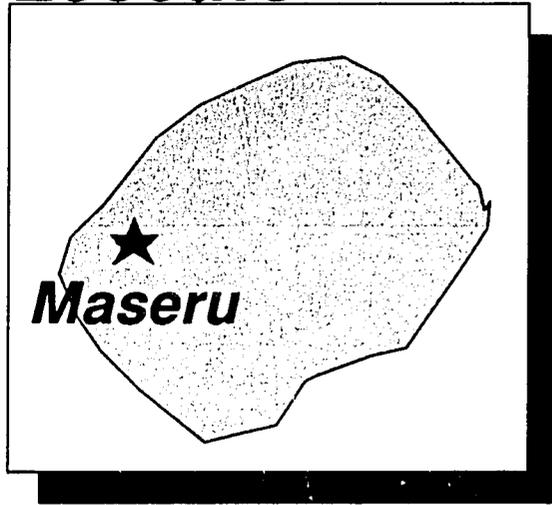
- 2.1 the project accounting system is capable of properly accounting for and reporting transactions;**
- 2.2 there are adequate and appropriate controls over bank account reconciliations;**
- 2.3 fixed assets are properly recorded in the fixed assets register;**
- 2.4 accurate quarterly reports are submitted to USAID/Lesotho; and**
- 2.5 a cash book is maintained for the special local currency account.**

We consider Recommendation Nos. 1 and 2 unresolved. Recommendation No. 1 will be resolved upon receipt of a final determination of the allowability of the questioned costs. The recommendation will be closed when the Mission takes action appropriate to its final determination. Recommendation No. 2 will be resolved upon receipt of a plan for corrective action. The recommendation will be closed when the Mission provides evidence that the corrective action has been implemented. Please respond to this report within 30 days indicating actions planned or already taken to implement the recommendations.

Thank you for the cooperation extended to Price Waterhouse Meyernel and Regional Inspector General for Audit representatives during the audit.

Attachments: a/s.

# ***Lesotho***



AUDIT OF  
LESOTHO MINISTRY OF AGRICULTURE, COOPERATIVES AND MARKETING  
LOCAL CURRENCY EXPENDITURES UNDER USAID/LESOTHO  
AGRICULTURAL POLICY SUPPORT PROGRAM PROJECT NO. 632-0224

ATTACHMENTS



USAID/LESOTHO

AGENCY-CONTRACTED AUDIT OF LESOTHO MINISTRY OF AGRICULTURE,  
COOPERATIVES AND MARKETING LOCAL CURRENCY EXPENDITURES UNDER  
USAID/LESOTHO AGRICULTURAL POLICY SUPPORT PROGRAM PROJECT  
NO. 632-0224

DATED SEPTEMBER 30, 1992

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**AGENCY-CONTRACTED AUDIT OF LESOTHO MINISTRY OF AGRICULTURE,  
COOPERATIVES AND MARKETING LOCAL CURRENCY EXPENDITURES UNDER  
USAID/LESOTHO AGRICULTURAL POLICY SUPPORT PROGRAM  
PROJECT NO. 632-0224**

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AGENCY-CONTRACTED AUDIT OF LESOTHO MINISTRY OF AGRICULTURE,  
COOPERATIVES AND MARKETING LOCAL CURRENCY EXPENDITURES UNDER  
USAID/LESOTHO AGRICULTURAL POLICY SUPPORT PROGRAM  
PROJECT NO. 632-0224

EXHIBITS

| <u>EXHIBIT NO</u> | <u>TITLE</u>                   |
|-------------------|--------------------------------|
| 1                 | LIST OF REPORT RECOMMENDATIONS |

APPENDICES

| <u>APPENDIX NO</u> | <u>TITLE</u>  |
|--------------------|---|
| 1                  | MISSION COMMENTS AND REPORT ON<br>ADDITIONAL PROCEDURES PERFORMED       |
| 2                  | LESOTHO MINISTRY OF AGRICULTURE,<br>COOPERATIVES AND MARKETING COMMENTS |

*PricewaterhouseCoopers*



**AGENCY-CONTRACTED AUDIT OF LESOTHO MINISTRY OF AGRICULTURE,  
COOPERATIVES AND MARKETING LOCAL CURRENCY EXPENDITURES UNDER  
USAID/LESOTHO AGRICULTURAL POLICY SUPPORT PROGRAM  
PROJECT NO. 632-0224**

**1 INTRODUCTION**

**1.1 BACKGROUND**

The Lesotho Agricultural Policy Support Program Project No. 632-0224 was undertaken on June 14, 1988 in a grant agreement between USAID/Lesotho and the Government of Lesotho. The Lesotho Ministry of Planning, Economics and Manpower Development is responsible for monitoring the overall performance in implementing the project and expending funds. The Lesotho Ministry of Agriculture, Cooperatives and Marketing is responsible for the daily management and implementation of the program.

The objective of the grant agreement is to assist the Government of Lesotho to make more productive use of Lesotho's domestic resources in crop agriculture and in livestock through a process of policy reforms and implementation thereof. The purpose of this program is to open up the agricultural input marketing system to facilitate more competition among suppliers and greater input availability to consumers and to reduce the overstocking of cattle, sheep and goats on fragile rangelands, thereby bringing into closer balance herd size and grazing potential.

The estimated project assistance completion date (PACD) is May 14, 1993. The total agreement funding is \$15,000,000 of which \$12,750,000 is obligated for local currency direct costs.

The scope of this agency-contracted audit included only local currency generated and local currency disbursements from the special local currency account.

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### **Background continued**

As of March 31, 1991 a total of \$1.7-million had been disbursed by USAID/Lesotho to the Government of Lesotho and the equivalent in local currency of Lesotho Maloti (M)4,480,700 was deposited in the special account at the Central Bank of Lesotho. The total deposits and interest accrued in the special account at the Central Bank of Lesotho amounted to \$2,005,995 (M5,255,707) and local currency disbursements from the special account amounted to \$541,344 (M1,418,322) for the period from June 14, 1988 through March 31, 1991. The local currency disbursements are incurred by the Lesotho Ministry of Agriculture, Cooperatives and Marketing, which maintains official and original accounting records together with supporting documentation of project expenditure.

The audit sample profile selected for detailed testing is included in Section 2.3.2. The most important terms of the grant agreement with respect to this audit include:

- the Government of Lesotho shall establish, in the Central Bank of Lesotho, a special local currency account for the deposit of local currency in an amount equivalent to the US Dollar disbursements to be provided under the grant
- no funds shall be released from the special local currency account until criteria and procedures for approving allocations to projects or activities determined to be eligible recipients of local currency financing have been mutually agreed in writing by the parties
- the grantee shall maintain and cause recipients of funds from the special local currency account to maintain, in accordance with generally accepted accounting principles and practices consistently applied, books and records relating to the special local currency account
- local currency deposited in the special local currency account shall not be used for police training or military or para military purposes



### Background continued

- accounting records must be adequate to show the receipt of goods and services acquired under the grant agreement, the nature and extent of solicitations of prospective suppliers of goods and services acquired, the basis of awards of contracts and orders, and the overall progress of the program towards completion. Such records and supporting documents should be retained for three years after the date of the last disbursement by USAID/Lesotho the agreement and the grant will be exempt from any taxation, duties or fees imposed under the laws in effect in Lesotho
- goods and services financed with local currency should not be used to assist a foreign aid project associated with a country not included in Code 935 of the A.I.D Geographic code book.

## 1.2 AUDIT OBJECTIVES AND SCOPE

### 1.2.1 Audit Objectives and Scope

#### Audit Objectives

Price Waterhouse was contracted under the Indefinite Quantity Contract (645-0000-I-00-1-53-00) to perform an agency-contracted audit of the local currency component of the Lesotho Agricultural Policy Support Program Project No. 632-0224 in accordance with generally accepted auditing standards and the US Comptroller General's "Government Auditing Standards" (1988 Revision). The principal objective was to determine whether the local currency funds generated and the local currency costs claimed by the auditee are adequately supported in accordance with the agreement and are allowable, allocable and reasonable.



### **Audit Objectives and Scope continued**

The objectives of this engagement were to:

- audit the auditee's Fund Accountability Statement and express an opinion as to whether the Fund Accountability Statement presents fairly, in all material respects and in conformity with the basis of accounting described in the report the use of funds in accordance with the contract/grant agreement;
- consider the auditee's internal control structure in order to determine the auditing procedures for the purpose of expressing an opinion on the Fund Accountability Statement and to report on significant internal control deficiencies and material weaknesses; and
- test the auditee's compliance with the terms of the contract/grant agreement, as part of obtaining reasonable assurance about whether the Fund Accountability Statement is free of material misstatement, and report on any identified material instances of noncompliance.

### **Scope**

The scope of the audit as established in the Price Waterhouse delivery order included a review of the Fund Accountability Statement, compliance with the provisions of the grant and applicable US laws and regulations and the internal control structure of the auditee. The total local currency generated amounted to \$2,005,995 (M5,255,707) and the total local currency disbursements amounted to of \$541,344 (M1,418,322) for the period from June 14, 1988 through March 31, 1991. The audit sample profile selected for detailed testing is included in Section 2.3.2.



### **Audit Objectives and Scope continued**

Due to Mission and Government of Lesotho concerns Price Waterhouse was also asked to perform:

- an examination of the financial management of two accounts - one holding funds that earn interest at the Central Bank of Lesotho and the second at the Lesotho Bank which disburses funds to specific project activities
  
- an examination of a sample selection of local currency activities where there had been significant financial activity. These activities were identified during the audit as the following:
  - Rangeland Adjudication Project
  - National Abattoir and Feedlot Complex (NAFC) Revolving Fund Project
  - Grazing Fee Administration Project
  - General Support Fund Project.

### **Scope limitation**

Price Waterhouse does not have an external quality control review by an unaffiliated audit organization as required by paragraph 46 of Chapter 3 of Government Auditing Standards since no such quality control review program is offered by professional organizations in South Africa. We believe that the effect of this departure from the financial audit requirements of Government Auditing Standards is not material because we participate in the Price Waterhouse Worldwide internal quality control program which requires the Price Waterhouse Johannesburg office to be subjected, every three years, to an extensive quality control review by partners and managers from other Price Waterhouse offices.

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### 1.2.2 Methodology

Price Waterhouse conducted the initial survey of the accounting records on August 31, 1992 at which time the identification and selection of transactions for detailed testing was completed. Price Waterhouse subsequently prepared its audit workplan for approval by RIG/A/N, secured approval and performed fieldwork from September 7, 1992 through September 30, 1992. The fieldwork was performed in Maseru at all of the project sites where there had been significant financial activity which included visits to the head office of the Lesotho Ministry of Agriculture, Cooperatives and Marketing, the Livestock and Crops Department and the National Abattoir and Feedlot Complex.

The principal audit steps performed included:

- an examination of the terms and conditions of the Lesotho Agricultural Policy Support Program grant agreement, amendments, project implementation letters, applicable standard provisions and regulations, project evaluations and other project documents as deemed necessary
- 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 revenue and cost transactions from the Fund Accountability Statement to determine the extent of non-compliance, unallowable or unallocable expenses and the effectiveness of internal controls
- reconciliation of the quarterly financial reports submitted by the Lesotho Agricultural Policy Support Program to USAID/Lesotho to the accounting records, in order to determine whether the financial submissions are accurate and supported by the accounting records



### Methodology continued

- reconciliation of the Central Bank of Lesotho's records of withdrawals from the special local currency account to deposits in the activity bank accounts kept at the Lesotho Bank
- a review of bank account and bank reconciliation procedures, including selected testing of the reconciliations.

Report preparation was performed at our office in Johannesburg.

## 1.3 BRIEF SUMMARY OF AUDIT RESULTS

### 1.3.1 Fund Accountability Statement

Our audit test revealed that of the total of \$360,597 local currency costs included in the Fund Accountability Statement and selected for testing, \$2,455 were questionable costs (\$934 were ineligible costs and \$1,521 were unsupported costs, see Section 2.3.3).

### 1.3.2 Internal Control Structure

Our evaluation of the internal control structure identified certain reportable conditions which are described in the Independent Auditor's Report (See Section 3.1) Areas requiring improvement include the accounting system which was not capable of properly accounting for and recording transactions, controls over bank reconciliations were weak and fixed assets were not properly recorded in the fixed asset register. We concluded that these reportable conditions were not material weaknesses.

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### **1.3.3 Compliance with Grant Agreement and Related Provisions**

Our evaluation of compliance with grant agreement and related provisions identified certain instances of non-compliance (See Section 4.1). These include the submission of inaccurate quarterly financial status reports to USAID/Lesotho and the failure to maintain a cash book for the special local currency account.

### **1.4 SUMMARY OF MISSION COMMENTS**

The USAID/Lesotho Mission agreed with the findings and recommendations in the report. Furthermore, the Mission requested Price Waterhouse to perform follow up work on the bank account reconciliations and the status of the accounting records for the period from March 31, 1991 to December 31, 1992. The Mission comments and the findings of our follow up work are set out in Appendix 1.

### **1.5 SUMMARY OF THE LESOTHO MINISTRY OF AGRICULTURE, COOPERATIVES AND MARKETING COMMENTS**

The Lesotho Ministry of Agriculture, Cooperatives and Marketing have indicated that they have already taken action to recover taxes paid on interest earned on grant funds. In addition, the Lesotho Ministry of Agriculture, Cooperatives and Marketing have agreed to implement all the other recommendations noted in this report. (See Appendix 2).



## 2. FUND ACCOUNTABILITY STATEMENT

### 2.1 INDEPENDENT AUDITORS REPORT

We have performed a financial audit of the Fund Accountability Statement of the Lesotho Ministry of Agriculture, Cooperatives and Marketing Local Currency Expenditures, under USAID/Lesotho Agricultural Policy Support Program Project No. 632-0224 for the period June 14, 1988 through March 31, 1991. This statement is the responsibility of the Lesotho Ministry of Agriculture, Cooperatives and Marketing. Our responsibility is to express an opinion on this statement based on our audit.

We conducted our audit in accordance with generally accepted auditing standards and in accordance with the Government Auditing Standards (1988 Revision) except as discussed in the next paragraph. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the Fund Accountability Statement is free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in this Statement. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall statement presentation. We believe that our audit provides a reasonable basis for our opinion.

We did not have an external quality control review by an unaffiliated audit organization as required by paragraph 46 of Chapter 3 of Government Auditing Standards since no such quality control review program is offered by professional organizations in South Africa. We believe that the effect of this departure from the financial audit requirements of Government Auditing Standards is not material because we participate in the Price Waterhouse Worldwide internal quality control program which requires the Price Waterhouse Johannesburg office to be subjected, every three years, to an extensive quality control review by partners and managers from other Price Waterhouse offices.

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**Independent auditors report continued**

As described in the Notes following the Fund Accountability Statement (See page 12) the Fund Accountability Statement was prepared on the basis of cash receipts and cash disbursements which is a comprehensive basis of accounting other than generally accepted accounting principles.

In our opinion, except for the questioned costs of \$2,455 (ineligible costs of \$934 and unsupported costs of \$1,521), the Fund Accountability Statement examined presents fairly in conformity with the basis of accounting described in the Notes following the Fund Accountability Statement, the local currency revenues and expenses for the Lesotho Agricultural Policy Support Program Project No. 632-0224 for the period June 14, 1988 through March 31, 1991.

Financial information contained in this report may be privileged. The restriction of 18 USC 1905 should be considered before any information is released to the public. This report is intended solely for the use of the United States Agency for International Development and the management of the Lesotho Ministry of Agriculture, Cooperatives and Marketing but this is not intended to limit the distribution of the report, if a matter of public record.

*Priscilla Whitehouse Meyers*

September 30, 1992

## 2.2 FUND ACCOUNTABILITY STATEMENT



LESOTHO MINISTRY OF AGRICULTURE, COOPERATIVES AND MARKETING  
 LOCAL CURRENCY EXPENDITURES FUND ACCOUNTABILITY STATEMENT  
 USAID/LESOTHO AGRICULTURAL POLICY SUPPORT PROGRAM  
 PROJECT NO. 632-0224

FOR THE PERIOD JUNE 14, 1988 THROUGH MARCH 31, 1991

|                                      | TOTAL<br>\$      | ACCEPTED<br>\$   | INELIGIBLE<br>\$ | UNSUPPORTED<br>\$ |
|--------------------------------------|------------------|------------------|------------------|-------------------|
| <b>CENTRAL BANK ACCOUNT</b>          |                  |                  |                  |                   |
| Revenues                             |                  |                  |                  |                   |
| • Deposit                            | 1,700,000        | 1,700,000        |                  |                   |
| • Interest                           | 305,995          | 305,995          |                  |                   |
| Expenditure                          |                  |                  |                  |                   |
| • Transfer to activity bank accounts | (541,344)        | (541,344)        |                  |                   |
| Balance \$                           | 1,464,651        | 1,464,651        |                  |                   |
| <b>ACTIVITY BANK ACCOUNTS</b>        |                  |                  |                  |                   |
| Revenues                             |                  |                  |                  |                   |
| • Transfer from Central Bank Account | 541,344          | 541,344          |                  |                   |
| • Interest                           | 5,647            | 6,223            | (576)            |                   |
| Expenditures                         |                  |                  |                  |                   |
| • General Support Fund               | (5,720)          | (5,720)          |                  |                   |
| • Rangeland Adjudication             | (145,687)        | (144,237)        | (358)            | (1,092)           |
| • Grazing Fee Administration         | (52,113)         | (51,684)         |                  | (429)             |
| • NAFC Revolving Fund                | (157,077)        | (157,077)        |                  |                   |
| Balance \$                           | 186,394          | 188,849          | (934)            | (1,521)           |
| <b>TOTAL BALANCE \$</b>              | <b>1,651,045</b> | <b>1,653,500</b> | <b>(934)</b>     | <b>(1,521)</b>    |



## NOTES TO THE FUND ACCOUNTABILITY STATEMENT

- 1 The basis for revenue and expenditure are the activity cash books maintained by the Lesotho Ministry of Agriculture, Cooperatives and Marketing which report costs on the basis of cash receipts and cash disbursements which is a comprehensive basis of accounting other than generally accepted accounting principles.
- 2 Revenues and expenditures reported in the Fund Accountability Statement cover the period June 14, 1988 through March 31, 1991 the scope of this audit.

### 2.3 FINDINGS AND RECOMMENDATIONS

#### 2.3.1 Introduction

The scope of this audit included only the local currency generated and local currency disbursements from the special local currency account under the Lesotho Agricultural Policy Support Program. The Lesotho Ministry of Agriculture, Cooperatives and Marketing which is responsible for the daily management and implementation of the project keeps all the official and original documentation and accounting records. Within the Lesotho Ministry of Agriculture, Cooperatives and Marketing are the following departments which are responsible for the management, accounting and implementation of the following project activities:

- Head office of the Lesotho Ministry of Agriculture, Cooperatives and Marketing
  - Local currency special account at the Central Bank of Lesotho
  - General Support Fund

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- Livestock and Crops Department
  - Rangeland Adjudication Project
  - Grazing Fee Administration Project
  
- National Abattoir and Feedlot Complex
  - NAFC Revolving Fund.

Conversion of local currency, Lesotho Maloti disbursements to US dollars for the purpose of this report is based upon the average monthly Dollar/Maloti exchange rate from June 14, 1988 through March 31, 1991 which was 1\$ to 2.62M. Conversion to Maloti of revenues generated by Dollar disbursements from USAID/Lesotho was based on the exchange rate at the date of such disbursement.

### 2.3.2 Sample Selection Criteria

The basis for our sample selection of local currency revenues and local currency expenditures was as follows:

#### **Revenues**

- All (100%) of the local currency (Maloti) equivalents of dollars disbursed by USAID/Lesotho to the Government of Lesotho were traced to the deposit in the special local currency account at the Central Bank of Lesotho
  
- All (100%) of the disbursements (transfers) of local currency from the special account at the Central Bank of Lesotho were traced to the deposit in the activities bank account at the Lesotho Bank
  
- All (100%) of the interest earned on local currency accounts was traced to the bank statements.



### Expenditure

- Our methodology for the selection of expenditures from the General Support Fund Project, Rangeland Adjudication Project and Grazing Fee Administration Project included the selection of all transactions above a predetermined amount and a judgemental selection of additional transactions based upon potential risk
- Our methodology for the selection of expenditures from the National Abattoir Feedlot Complex Revolving Fund, due to the nature of the transactions (large volume and small value) included the judgemental selection of a representative number of transactions from the NAFC Revolving Fund.

The sample profile was as follows:

|                 | Total<br>\$ | Sample<br>Selected<br>\$ | Percentage<br>Selected<br>% | Not<br>Reviewed<br>\$ |
|-----------------|-------------|--------------------------|-----------------------------|-----------------------|
| Revenues        |             |                          |                             |                       |
| • deposits      | 1,700,000   | 1,700,000                | 100%                        | -                     |
| • transfers     | 541,344     | 541,344                  | 100%                        | -                     |
| • interest      | 311,642     | 311,642                  | 100%                        | -                     |
| Expenditure     |             |                          |                             |                       |
| • Project costs | 360,597     | 258,178                  | 72%                         | 102,419               |



2.3.3 Summary Audit Results

Our audit results are summarized as follows:

|                 | Total        | Accepted  | Ineligible costs | Unsupported costs |
|-----------------|--------------|-----------|------------------|-------------------|
|                 | \$           | \$        | \$               | \$                |
| Revenues        |              |           |                  |                   |
| • deposits      | 1,700,000    | 1,700,000 | -                | -                 |
| • interest      | 311,642      | 312,218   | (576)            | -                 |
| Expenditure     |              |           |                  |                   |
| • project costs | (360,597)    | (358,718) | (358)            | (1,521)           |
| Balance         | \$ 1,651,045 | 1,653,500 | (934)            | (1,521)           |

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**2.3.4 Questioned Costs Findings Breakdown**

| <u>Description</u>  | <u>Cost</u>          |                       | <u>Finding No.</u> |
|---|----------------------|-----------------------|--------------------|
|   | <u>\$</u>            | <u>M</u>              |                    |
| <b>Interest Received</b><br>■ taxation paid on interest received                        | 576                  | 1,510                 | 2.3.5              |
| <b>Rangeland Adjudication Project</b><br>■ entertainment expense claimed as subsistence | 358                  | 937                   | 2.3.6              |
| <b>TOTAL</b>  | <b>\$ <u>934</u></b> | <b>M <u>2,447</u></b> |                    |

**2.3.5 Taxation paid on interest earned****Finding**

During the course of our audit we noted that taxes totalling \$576 (M1,510) were paid on interest earned in the local currency accounts. The grant agreement in paragraph 6.5(A) states that the agreement and the grant will be exempt from taxation in effect in the territory of the grantee. However, the grant agreement does not refer to interest earned on grant funds (See Section 4.3.2 regarding comments on the nature of the special local currency account). It is our understanding that grant funds and interest earned on these funds are normally exempt from taxes in Lesotho.

**Recommendation No. 1**

The Lesotho Ministry of Agriculture, Cooperatives and Marketing should obtain tax exemption from the Lesotho Ministry of Finance on interest earned on local currency accounts. In addition, the Ministry of Agriculture, Cooperatives and Marketing should also obtain, from the Ministry of Finance, a reimbursement of taxes already paid on interest earned.

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### 2.3.6 Entertainment expense claimed as subsistence

#### **Finding**

We noted that on April 17, 1990, a payment of \$358 (M937) was made for a cocktail party to mark the arrival of the first tranche of dollars disbursed by USAID/Lesotho to the Government of Lesotho. This entertainment expense was charged to subsistence costs in the Rangeland Adjudication Project cash book. The Rangeland Adjudication activity agreement makes no provision for any such entertainment expenses. The subsistence cost budget in the agreement was intended to cover subsistence costs incurred by Rangeland field operators.

#### **Recommendation No. 2**

The Lesotho Ministry of Agriculture, Cooperatives and Marketing should reimburse the Rangeland Adjudication Project for the entertainment expense of M937 (\$358) incurred on behalf of the Ministry.

### 2.3.7 Unsupported costs

#### **Finding**

Our audit tests revealed the following transactions which were not substantiated by adequate supporting documentation:

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| Date     | Check No | Description | Activity               | Amount \$ | Amount M | Explanation |
|----------|----------|-------------|------------------------|-----------|----------|-------------|
| 01/16/91 | 33401    | M Letsi     | Grazing Fee            | 429       | 1,125    | 1.          |
| 08/23/90 | 458 498  | P Mahlelebe | Rangeland Adjudication | 336       | 880      | 2.          |
| 08/23/90 | 458 497  | P Moeletsi  | Rangeland Adjudication | 336       | 880      | 2.          |
| 08/23/90 | 458 498  | T Mantutle  | Rangeland Adjudication | 420       | 1,100    | 2.          |
| TOTAL    |          |             |                        | 1,521     | 3,985    |             |

**Explanation:**

1. No supporting documentation for this transaction was available for our inspection.
2. Subsistence was claimed for a field trip. The subsistence claim form, however, gave no adequate description of the purpose of the field trip undertaken.

**Recommendation No. 3**

The Lesotho Ministry of Agriculture, Cooperatives and Marketing should provide adequate supporting documentation to substantiate the unsupported costs of M3,985 (\$1,521).



**3. INTERNAL CONTROL STRUCTURE**

**3.1 INDEPENDENT AUDITOR'S REPORT**

We have audited the Fund Accountability Statement for the Lesotho Ministry of Agriculture, Cooperatives and Marketing under USAID/Lesotho Agricultural Policy Support Program Project No 632-0224 for the period June 14, 1988 through March 31, 1991 and have issued our report thereon dated September 30, 1992.

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

In planning and performing our audit of the Fund Accountability Statement of the Lesotho Ministry of Agriculture, Cooperatives and Marketing for the period June 14, 1988 through March 31, 1991, we considered the project's internal control structure in order to determine our auditing procedures for the purpose of expressing our opinion on the Fund Accountability Statement and not to provide assurance on the internal control structure.

The management of the Lesotho Ministry of Agriculture, Cooperatives and Marketing is responsible for establishing and maintaining an internal control structure for the Lesotho Ministry of Agriculture, Cooperatives and Marketing. 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 assets are safeguarded against loss from unauthorized use or disposition and that transactions are executed 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 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.

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**INDEPENDENT AUDITOR'S REPORT (continued)**

For the purpose of this report we have classified the significant internal control structure policies as they relate to the Lesotho Ministry of Agriculture, Cooperatives and Marketing in the following categories:

- Control Environment
  - written accounting and control procedures
- Accounting System
  - identification, classification and recording of transaction
  - bank accounts and reconciliations
- Control Procedures
  - authorization of transaction
  - cash and check disbursement
  - asset management
  - personnel and payroll procedures.

For all of the internal control structure categories listed above, we obtained an understanding of the design of relevant policies and procedures and whether or not they have been placed in operation, and we assessed the 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, summarize and report financial data consistent with the assertions of management in the Fund Accountability Statement.



**INDEPENDENT AUDITOR'S REPORT (continued)**

The following reportable conditions were observed:

- the project accounting system was not capable of properly accounting for and reporting transactions
- controls over bank account reconciliations were weak
- fixed assets were not properly recorded in the fixed asset register

A material weakness is a reportable condition in which the design or operation of the specific internal control structure elements do 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 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. However, we believe none of the reportable conditions described above is a material weakness.

We also noted other minor matters involving the internal control structure and its operation that we have reported in a separate letter dated October 20, 1992 to the management of the Lesotho Ministry of Agriculture, Cooperatives and Marketing.

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 use of the Lesotho Ministry of Agriculture, Cooperatives and Marketing and the United States Agency for International Development but this is not intended to limit the distribution of the report, if a matter of public record.

*Paul W. Anderson, Principal*

September 30, 1992

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## 3.2 INTRODUCTION

### 3.2.1 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.

### 3.2.2 Work performed

Our review of the internal control structure was directed towards those elements which relate to the nature of project funding arrangements. The review encompassed the following:

#### **CONTROL ENVIRONMENT**

- written accounting and control procedures



## ACCOUNTING SYSTEM

- identification, classification and recording of transactions
- bank accounts and reconciliations

## CONTROL PROCEDURES

- authorization of transactions
- asset management
- check and cash disbursements
- personnel and payroll

### 3.3 FINDINGS AND RECOMMENDATIONS

#### \* ACCOUNTING SYSTEM \*

#### 3.3.1 The Project Accounting System was not capable of Properly Accounting for and Reporting Transactions

##### Finding

During the course of our audit it was noted that, apart from recording the payee and amount paid in the cash book, no other books or records were maintained to record and report on project activities. The payments cash book has no description or analysis of the cost incurred or a classification of the cost to an account for posting to a project ledger. The grant agreement in paragraph 5.3(c) states "The grantee shall maintain in accordance with generally accepted accounting principles and practice, correctly applied books and records relating to the local currency account".

- 31 -



**Recommendation No. 4**

The Lesotho Ministry of Agriculture, Cooperatives and Marketing should implement an integrated accounting system which can account for, record, process and report financial transactions by budget category for each activity. This system can be done manually or by a commercial accounting software package.

**3.3.2 Controls over Bank Account Reconciliations were weak**

**Finding**

During the course of our audit we noted the following weaknesses in controls over bank reconciliations:

- bank reconciliations were not prepared on a regular basis. Transactions recorded in the Rangeland Adjudication Project cashbook were not reconciled to the bank statement for the months of January 1991, February 1991 and March 1991
- bank reconciliations were not accurately prepared. The General Support Fund bank reconciliation for the month of January 1991 was found to be inaccurate
- bank reconciliations were not regularly reviewed by a senior official. There was no evidence that the LAPSP (Lesotho Agricultural Policy Support Program) accountant reviewed the project cash books and bank reconciliations on a regular basis. Such a review would identify any unusual transactions and long outstanding reconciling items.



**Recommendation No. 5**

To address the above weakness the LAPSP accountant should:

- ensure that bank reconciliations are prepared on a monthly basis for all project bank accounts
- periodically review the accuracy of bank reconciliations and sign these as evidence of such a review.

**\* CONTROL PROCEDURES \***

**3.3.3 Fixed Assets were not Properly Recorded in the Fixed Asset Register**

**Finding**

Our audit tests revealed that fixed assets purchased out of grant funds and used for project activities were not recorded in the fixed asset register which is being maintained for the purpose of the project.

The following fixed assets were found not to be recorded in the fixed asset register at the time of our audit:

| Description                 | Cost  |       |
|-----------------------------|-------|-------|
|                             | \$    | M     |
| HP Paint Jet Printer        | 1,677 | 4,395 |
| Omnitec 1 Kra UPS           | 1,486 | 3,895 |
| Okidata 391 Printer         | 1,143 | 2,995 |
| Epson FX 1050 Printer       | 857   | 2,246 |
| A-B-C- Printer Sharing Base | 107   | 280   |
| Homex2                      | 496   | 1,300 |



Generally accepted accounting practice requires that fixed assets be recorded in adequate detail in the fixed asset register for identification and control purposes. The LAPSP Project Accounting and Procedures Handbook in Section C.2 sets out the fixed asset register requirements.

**Recommendation No. 6**

The LAPSP Accountant should ensure that all items of a capital nature are recorded in adequate detail in the fixed asset register.



**4. COMPLIANCE WITH GRANT PROVISIONS AND US GOVERNMENT REGULATIONS**

**4.1 INDEPENDENT AUDITOR'S REPORT ON COMPLIANCE**

We have audited the Fund Accountability Statement of the Lesotho Ministry of Agriculture, Cooperatives and Marketing under USAID/Lesotho Agricultural Policy Support Program Project No 632-0224 for the period June 14, 1988 through March 31, 1991 and have issued our report thereon dated September 30, 1992.

We conducted our audit in accordance with generally accepted auditing standards and 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 statements are free of material misstatement.

Compliance with laws, regulations and grants applicable to the Lesotho Ministry of Agriculture, Cooperatives and Marketing is the responsibility of the management of the Lesotho Ministry of Agriculture, Cooperatives and Marketing. As part of obtaining reasonable assurance about whether the financial statement is free of material misstatement, we performed tests of the Lesotho Ministry of Agriculture, Cooperatives and Marketing's 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 of compliance indicate that, with respect to the items tested, the Lesotho Ministry of Agriculture, Cooperatives and Marketing complied, in all material respects, with the provisions referred to in the third paragraph of this report, and with respect to items not tested, nothing came to our attention that caused us to believe that the Lesotho Ministry of Agriculture, Cooperatives and Marketing had not complied, in all material respects, with those provisions.

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**Independent auditor's report on compliance (continued)**

The results of our test of compliance disclosed the following non-material instances of non-compliance:

- quarterly status reports submitted to USAID/Lesotho were inaccurate
- failure to maintain a cash book for the special local currency account.

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 use of the Lesotho Ministry of Agriculture, Cooperatives and Marketing and the United States Agency for International Development but this is not intended to limit the distribution of the report, if a matter of public record.

*Paul W. Anderson, Manager*

September 30, 1992



## 4.2 INTRODUCTION

USAID requires all grantees regardless of the country or legal entity to comply with the terms and conditions included in the grant agreement, attached provisions and referenced procurement regulations. In general, such compliance cannot be waived by mission or by AID/Washington.

Steps performed in this audit to test compliance with the agreement and related provisions included:

- a review of grant agreement provisions and related regulations to identify those provisions and regulations which could have a material affect on the financial statements
- audit procedures including detailed testing to evaluate compliance with these provisions and regulations.

## 4.3 FINDINGS AND RECOMMENDATIONS

### 4.3.1 Quarterly Financial Status Reports submitted to USAID/Lesotho were inaccurate

#### Finding

We noted that the quarterly financial status reports which were submitted to USAID/Lesotho were inaccurate. For example, we found the following differences between the accounting records and the quarterly financial status report for March 31, 1991:

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| Activity                   |    | Amount Spent per Cash book | Amount Spent per Status Report | Difference |
|----------------------------|----|----------------------------|--------------------------------|------------|
| Rangeland Adjudication     | \$ | 145,687                    | 142,401                        | 3,286      |
|                            | M  | 381,702                    | 373,091                        | 8,611      |
| Grazing Fee Administration | \$ |                            |                                |            |
|                            | M  | 52,113                     | 31,827                         | 20,286     |
| NAFC Revolving Fund        | \$ | 136,536                    | 83,387                         | 53,149     |
|                            | M  | 157,077                    | 132,816                        | 24,261     |
|                            |    | 411,543                    | 347,978                        | 63,565     |
| LAPSP                      |    |                            |                                |            |
| Accountant/Administrator   | \$ |                            |                                |            |
|                            | M  | 990                        | -                              | 990        |
|                            |    | 2,593                      | -                              | 2,593      |

#### **Recommendation No. 7**

The differences between the quarterly status report and the cash book should be reconciled by the LAPSP Accountant. For all future quarterly status reports submitted to USAID/Lesotho, the LAPSP accountant should ensure that they accurately report the summary of financial transactions recorded in the accounting records of each activity.

#### **4.3.2 Nature of special local currency accounts**

##### **Finding**

We noted that the grant agreement did not specify that the local currency accounts should be interest bearing or what was to happen to interest earned on these accounts. Interest earned on the special local currency accounts from June 14, 1988 through March 31, 1991 amounted to \$546,991 (M1,433,116). According to the Lesotho Ministry of Agriculture, Cooperatives and Marketing the unused funds in the local currency accounts have been placed in interest bearing accounts and the interest earned will eventually be used to fund ongoing project activities.



**Recommendation No. 8**

We suggest that USAID/Lesotho confirm the Lesotho Ministry of Agriculture, Cooperatives and Marketing policy with regard to interest earned on local currency special accounts.

**4.3.3 Failure to maintain a Cash Book for the Special Local Currency Account**

**Finding**

Since the project inception and deposit in the special local currency account of local currency equivalent to the first tranche of dollars disbursed by USAID/Lesotho in December 1989, the Lesotho Ministry of Agriculture, Cooperatives and Marketing has not maintained a cash book for the special local currency account kept at the Central Bank of Lesotho. The grant agreement in paragraph 5.3(c) states "The Grantee shall maintain and cause recipients of funds from the Special Local Currency Account to maintain in accordance with generally accepted accounting principles and practices correctly applied, books and records relating to the Special Local Currency Accounts".

**Recommendation No. 9**

The Lesotho Ministry of Agriculture, Cooperatives and Marketing should record all financial transactions relating to the special local currency account kept at the Central Bank of Lesotho in a cash book. This cash book should then be reconciled on a monthly basis to the bank statements.



## LIST OF REPORT RECOMMENDATIONS

| <u>No.</u> | <u>Description</u>  | <u>Section No.</u> |
|------------|---|--------------------|
| 1          | The Lesotho Ministry of Agriculture, Cooperatives and Marketing should obtain tax exemption from the Lesotho Ministry of Finance of interest earned on local currency accounts. In addition the Ministry should also obtain a reimbursement of taxes already paid.                                    | 2.3.5              |
| 2          | The Lesotho Ministry of Agriculture, Cooperatives and Marketing should consider reimbursing the Rangeland Adjudication Project for the entertainment expenses of M937 (\$358) incurred on behalf of the Ministry.   | 2.3.6              |
| 3          | The Lesotho Ministry of Agriculture, Cooperatives and Marketing should provide adequate supporting documentation to substantiate the unsupported payments.  | 2.3.7              |
| 4          | The Lesotho Ministry of Agriculture, Cooperatives and Marketing should implement an integrated accounting system which can account for, record, process and report financial transactions by budget category for each activity. This system can be done manually or by a commercial software package. | 3.3.1              |



LIST OF REPORT RECOMMENDATIONS (continued)

EXHIBIT 1  
Page 2 of 2

| <u>No.</u> | <u>Description</u>  | <u>Section No</u> |
|------------|---|-------------------|
| 5          | The LAPSP accountant should: <ul style="list-style-type: none"><li>- ensure that bank reconciliations are prepared on a monthly basis for all project bank accounts</li><li>- periodically review the accuracy of bank reconciliations and sign these as evidence of such a review.</li></ul>   | 3.3.2             |
| 6          | The LAPSP Accountant should ensure that all items of a capital nature are recorded in a fixed asset register.   | 3.3.3             |
| 7          | Differences between the quarterly status report and the cash book should be reconciled by the LAPSP Accountant. For all future quarterly status reports submitted to USAID/Lesotho, the LAPSP Accountant should ensure that they accurately report the summary of financial transactions recorded in the accounting records of each activity. | 4.3.1             |
| 8          | USAID/Lesotho should confirm the Lesotho Ministry of Agriculture, Cooperatives and Marketing policy with regard to interest earned on local currency special accounts.  | 4.3.2             |
| 9          | The Lesotho Ministry of Agriculture, Cooperatives and Marketing should record all financial transactions relating to the special local currency account kept at the Central Bank of Lesotho in a cash book. This cash book should then be reconciled on a monthly basis to the bank statements.   | 4.3.3             |



APPENDIX 1

MISSION COMMENTS AND REPORT ON  
ADDITIONAL PROCEDURES PERFORMED

# UNITED STATES A.I.D. MISSION TO LESOTHO

AMERICAN EMBASSY  
P.O. BOX 333  
MASERU 100  
LESOTHO

Telephone 313954  
Telex 4506 USAID LO  
Fax No. 310284

January 8, 1993.

Mr. Doug Frankie  
IQC Audit Partner  
Price Waterhouse Meyernel  
P.O. Box 8550  
Johannesburg, Republic of South Africa

Dear Mr. Frankie:

USAID/Lesotho has reviewed the draft audit report submitted by your organization as a result of the audit performed on the Lesotho Ministry of Agriculture, Cooperatives and Marketing local currency expenditures. The local currency is deposited by the Lesotho Government for purposes agreed upon by the Government of Lesotho and the United States Government under the Lesotho Agricultural Policy Support Program, Project Agreement No. 632-0224.

The audit report noted under reportable conditions in Section 3.1, that the project accounting system was not capable of properly accounting for and reporting transactions. In the Mission's opinion this is a significant finding of the audit that has implications relative to the accuracy of LAPSP financial reports. This may partially explain why LAPSP financial reports have been incomplete and frequently late.

USAID/Lesotho agrees with findings and recommendations stated in the draft report. Furthermore, as previously discussed in telephone conversation between my staff and you, we are requesting additional work to reconcile the four different bank accounts that receive funding from local currency deposited under the terms of the above-mentioned agreement. The Office of the Inspector General, Nairobi, has agreed to extend the audit activity to include the bank accounts reconciliation and your organization will issue an addendum to the audit report.

USAID/Lesotho wishes to express its appreciation for the expeditious and efficient execution of the audit.

Sincerely,

  
F. Gary Towery  
Mission Director

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*Princess Maseru Memorial*



1 February 1993

Mr G Towery  
Mission Director  
USAID/LESOTHO  
PO Box 333  
Maseru  
Lesotho

Dear Sir

**LESOTHO AGRICULTURAL POLICY SUPPORT PROGRAM**

In accordance with your request, we have performed certain procedures described below on the accounting records of the Lesotho Agricultural Policy Support Program to assist you in following up the weaknesses identified in our audit report dated 30 September 1992.

Our procedures are summarised as follows:

- We examined the status of the accounting records of all the Lesotho Agricultural Policy Support Program projects for the period up to 31 December 1992.
- We examined the movement of funds between the various components current accounts and call accounts.
- We examined those bank reconciliations which had been completed.
- We traced the transfer of funds from the central bank account to the various project bank accounts.

Our findings are summarised as follows:

- Status of the accounting records. Refer Appendix A.
- Findings on individual project bank accounts. Refer Appendix B.

In order to ensure that the accounting records are brought up to generally accepted accounting standards, we recommend that a three stage process be followed. The first stage would involve a reconstruction of the accounting records, the second stage a reconciliation of the accounting records to bank statements and the third stage a financial audit of the accounting records. The detailed procedures to be performed under each stage are set out in Appendix C.

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Should you require any further information then please do not hesitate to contact either myself on (0027 11 7802033) or Stephen Killick on (0027 12 3485502).

Yours faithfully

*in*  
*h*   
Doug Franke

USAID/IQC Audit Partner

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FINDING :

STATUS OF ACCOUNTING RECORDS AT 31 DECEMBER 1992

| Program activity              | Current Account<br>Cash Book                                      | Current Account<br>Bank Reconciliation                            | Call Account<br>Cash Book | Call Account<br>Bank Reconciliation | General<br>Ledger    |
|-------------------------------|---|---|---------------------------|-------------------------------------|----------------------|
| General Support Fund          | Completed up to December 1992<br>(but performed unsatisfactorily) | Completed up to December 1992<br>(but performed unsatisfactorily) | Not performed at all      | Not performed at all                | Not performed at all |
| Agricultural Inputs Component | Completed up to November 1992<br>(but performed inaccurately)     | Completed up to November 1992<br>(but performed inaccurately)     | Not performed at all      | Not performed at all                | Not performed at all |
| Livestock Component           | Last completed up to May 1991                                     | Last completed up to May 1991                                     | Not performed at all      | Not performed at all                | Not performed at all |
| NAFC Revolving Fund           | Completed up to December 1992                                     | Completed up to December 1992                                     | Not performed at all      | Not performed at all                | Not performed at all |

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## LIVESTOCK COMPONENT

## FINDINGS

- On 7 November 1991, M 37,000 was transferred from the Livestock call account and deposited in the account of WAU Swanepoel 01600-46593.
- On 22 May 1992, M 10,000 was withdrawn from the Livestock call account but this was not deposited in the corresponding current account.
- On 30 May 1992, M 10 000 was deposited in the Livestock call account from an unknown source.
- On 11 September 1991, M 80,941 was paid out of the Livestock current account to Rainbow Construction in respect of the FMU Project a non-LAPSP related project. This loan was later repaid on 13 November 1991.
- On 3 September 1991, M 65,702 was paid out of the Livestock current account in respect of Mphaki Project, a non-LAPSP related project. This loan was later repaid on 18 November 1991.
- The following cheques were recorded as being cancelled cheques in the cash book but they were later presented for payment: check number 27377, 27378 and 27360.
- Cheques are not written up in numerical sequence in the cash book making it difficult to control the sequence and ensure that all cheque payments are recorded.
- On numerous occasions the Livestock current account was overdrawn, this being so despite the arrangement with the bank to replenish the current account from the call account. For example the bank account was overdrawn by up to M 13,663 for a period of 10 days during October 1991.
- On 30 March 1992, M 10,000 was transferred from the Livestock call account to the Agricultural Input current account.
- On 2 April 1992, M 10,000 was transferred from the Livestock call account to the Agricultural Input current account.
- On 25 November 1992, M 6,000 was transferred from the Livestock call account to the Agricultural Input current account.
- On 9 October 1990, M 4,350 was deposited into the Livestock current account from an unknown source.

## AGRICULTURAL INPUTS

## FINDINGS

- On 12 February 1991, M 1,000 was transferred from the Agricultural Inputs call account to the National Abattoir and Feedlot Complex current account.
- On 30 March 1992, M 10,000 was deposited in the Agricultural Input current account from the Livestock component call account.
- On 2 April 1992, M 10,000 was deposited in the Agricultural Inputs current account from the Livestock component call account.
- On 27 April 1992, M 76,011 being monetised food aid funds were deposited in the Agricultural Inputs current account. This was later withdrawn.
- On 25 November 1992, M 6,000 was deposited in the Agricultural Inputs current account from the Livestock component call account.
- On 11 November 1992, M 76,011 was transferred from the Agricultural Inputs call account to the Agricultural Inputs current account and then transferred out of the current account. These transactions were not recorded in the cash book.
- Cheque no. 102038 of M 744,33 which was issued on 22 May 1991 and recorded in the May 1991 cash book only went through the bank on 23 July 1991. This cheque was however not recorded in the May 1991 and June 1991 bank reconciliations as an outstanding item.
- Cheque no. 162050 of M 73 was recorded in the cash book as M 48. This error has been carried forward in all the subsequent bank reconciliations.
- On 15 August 1992, M 40,000 was transferred from the Agricultural Inputs current account to the Agricultural Inputs call account implying that surplus funds were maintained in the current account.
- On 28 January 1992, M 7,533 was transferred from the Agricultural Inputs call account to the General Support call account to reimburse expenditures incurred by the General Support Fund on behalf of the Agricultural Inputs component.
- The following LAPSP capital expenditure were not recorded in the LAPSP fixed asset register:

M

|                      |        |
|----------------------|--------|
| • computer equipment | 6,712  |
| • office equipment   | 13,724 |
| • camera             | 2,394  |

- There was no evidence that the Agricultural Inputs cash book had been reviewed by the LAPSP accountant.

## GENERAL SUPPORT FUND

## FINDINGS

- On 30 November 1991, M 3,000 was transferred from the General Support call account to the National Abattoir and Feedlot Complex current account.
- On 25 May 1992 a cheque was made out to "cash" for M 150. No evidence of receipt of these cash funds was available for our inspection.
- On 22 June 1992 the LAPSP accountant was a co-signatory to a cheque for M 465 which was made out to himself.
- On 30 September 1992 General Support Fund money was loaned to the following individuals:
  - M Mpobale M 506,00
  - T Lesembo M 1811,56

These loans were subsequently repaid on 20 October 1992.

RECOMMENDED ACTION PLAN

**STAGE 1 - RECONSTRUCTION OF 4 YEARS OF ACCOUNTING RECORDS**  
(Estimated 4 weeks work)

- Centralise all the activity accounting records.
- Write up the cash book for the current accounts.
- Write up the cash book for the call accounts.
- Establish a chart of accounts for a general ledger.
- Post the current account cash books to the general ledgers.
- Post the call account cash books to the general ledgers.
- Prepare financial statements for each activity.

**STAGE 2 - RECONCILIATION OF 4 YEARS OF ACCOUNTING RECORDS**  
(Estimated 1 weeks work)

- Reconcile the current account cash book to the bank statements.
- Reconcile the call account cash book to the bank statements.
- Reconcile all inter-account transfers.

**STAGE 3 - AUDIT OF THE ACCOUNTING RECORDS (Estimated 2 weeks work)**

- Perform a USAID type audit of the reconstructed accounts and other project activities under US generally accepted auditing standards and US Government auditing standards.

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APPENDIX 2

**LESOTHO MINISTRY OF AGRICULTURE,  
COOPERATIVES AND MARKETING COMMENTS**

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Ministry of Agriculture,  
Cooperatives & Marketing  
P.O. Box 24  
Maseru - 100

AG/PRO/89

14 December, 1992

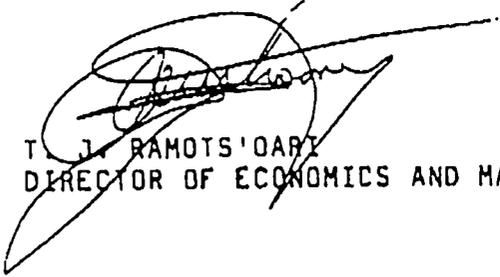
Messrs Price Waterhouse  
P.O. Box 35296  
Menlo Park  
PRETORIA  
0102

Dear Sirs,

RE: LESOTHO AGRICULTURAL POLICY SUPPORT PROGRAM - AUDIT REPORT

---- Please find enclosed herewith the Ministry of Agriculture, Cooperatives and Marketing responses to the LAPSP Audit Report as prepared and presented by your organization for the period from June 14, 1988 through March 31, 1991.

Sincerely,



T. J. RAMOTS'OARI  
DIRECTOR OF ECONOMICS AND MARKETING

CC: Controller USAID/L

MINISTRY OF AGRICULTURE, COOPERATIVES AND MARKETING  
RESPONSES TO THE LAPSP AUDIT REPORT

1. TAX EXEMPTION

Authority was requested from the Department of Income Tax to waive tax on interest earned by all LAPSP Accounts at the Lesotho Bank. Exemption was subsequently granted and formally communicated to Lesotho Bank. A claim for refund of tax already deducted was also made to the Department with all the supporting documents. The refund has not yet been effected and the matter is being attended to.

Please find enclosed herewith copies of the correspondence related to this issue.

2. REIMBURSEMENT - RANGELAND ADJUDICATION

The matter has been brought to the attention of the Director of Livestock Services, who is also the Chairman of the LAPSP Livestock Component.

3. SUPPORTING DOCUMENTS

The attention of the Activity Managers has been drawn to this problem and every effort is being taken to ensure that payments are fully supported.

4. INTEGRATED ACCOUNTING SYSTEM

The LAPSP Accountant is undertaking to implement the suggested integrated accounting system, which can account for, record, process and report financial transactions by budget category for each activity.

5. BANK RECONCILIATIONS

The LAPSP Accountant has been instructed to ensure that <sup>bank</sup> ~~both~~ reconciliations are prepared end of every month by all approved and operating activities. He has also been charged with the responsibility of periodically reviewing the accuracy of those bank reconciliations.

6. ASSET REGISTER

All efforts are being made to ensure that the LAPSP Accountant captures and records all items of a capital nature in a fixed asset register.

7. DIFFERENCES IN QUARTERLY STATUS REPORT

The LAPSP Accountant has been instructed to investigate the differences and to ensure that the report reflects the accurate summary of financial transactions recorded in the accounting records of each activity.

8. SPECIAL ACCOUNT - CASH BOOK

A cash book for the local currency account kept at the Central Bank has since been opened and the LAPSP Accountant will ensure that it is reconciled every month.

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(467)  
GP. 133

# SAVINGRAM

RECEIVED DATE STAMP

FROM: INCOME TAX

TO: LAPSP (ATTENTION: MR NTAI)

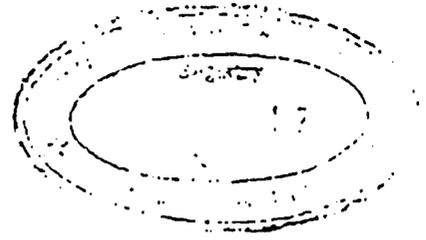
REF. NO. COM/CF 51 VOL. 2

SIGNED: *[Signature]*  
(Full Signature)

NAME: C.M. THAANE  
(Typed)

FILE NO.:  
(Receiving Min./Dept.)

DATE: 26TH MARCH 1991  
OPL



re: TAX ON INTEREST EARNED BY LAPSP

It is hereby confirmed that the abovementioned project is Governmental and as such exempt from taxation.

You may show this letter to your bankers as an authority not to tax any further interest by this project.

Tax already deducted will be refunded by this department.

55



**SAVINGRAM**

RECEIVED DATE STAMP

FROM: INCOME TAX

TO: SENAGRIC (LAPSP)

REF. NO. COM/CF 51 VOL. 2

SIGNED: [Signature]  
(Full Signature)

NAME: C.M. THASNE  
(Typed)

FILE NO.: \_\_\_\_\_  
(Receiving Min./Dept.)

DATE: 23RD APRIL 1991  
or

RE: NATIONAL ABATTOIR AND FEEDLOT COMPLEX A/C NO 1900-0611-8

This is to confirm that the abovementioned project is governmental and therefore not subject to taxation.

Please show this letter to your bankers as an authority not to deduct any tax on future interest earned by the project.

Any tax already deducted will be refunded in due course.

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ATTACHMENT II

REPORT DISTRIBUTION

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SM'