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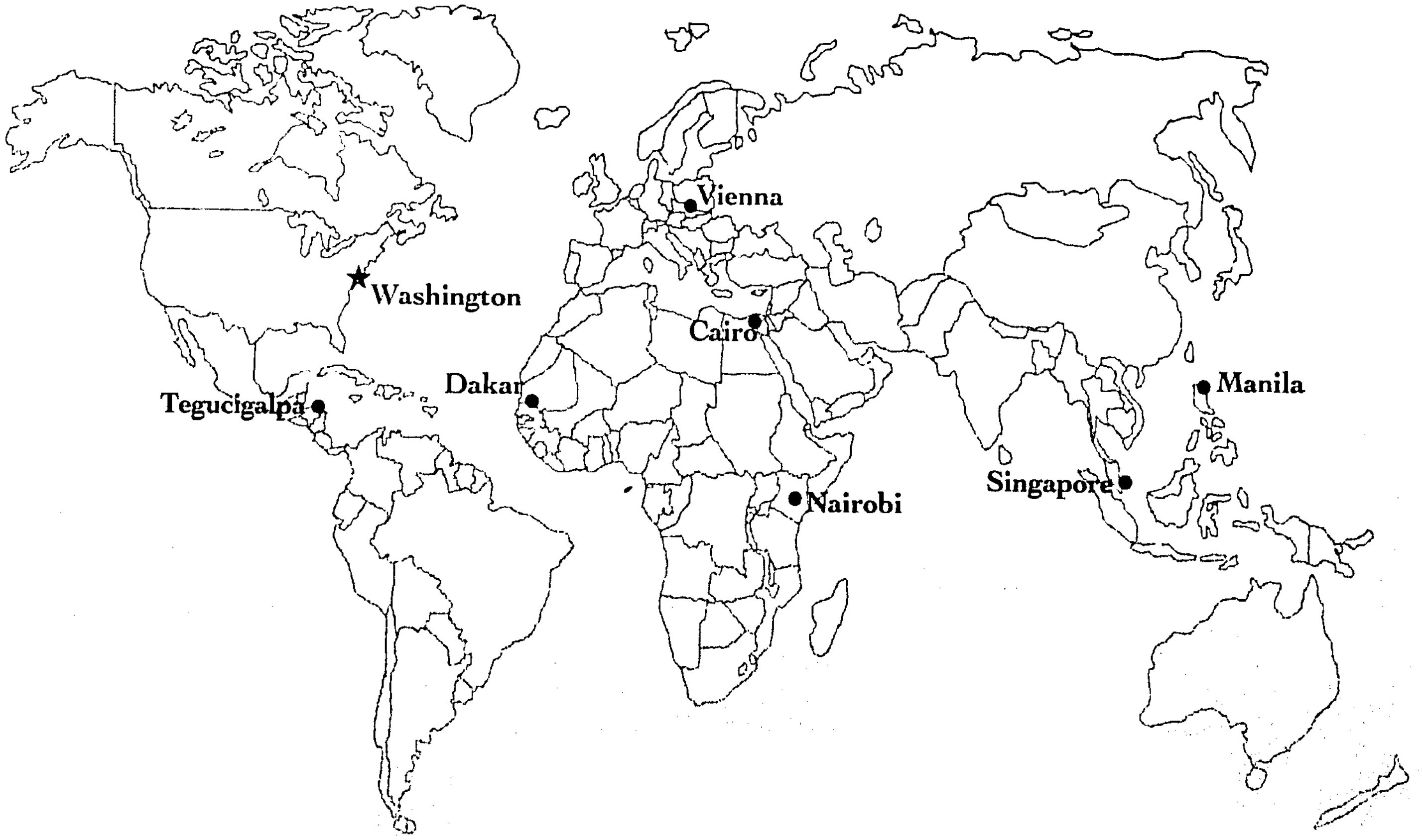
Regional Inspector General for Audit
Dakar

Audit of the Agency for Private Enterprise (ACEP) Under the Senegal Community Enterprise Development Project (No. 685-0260), Fiscal Years 1990, 1991 and 1992

Audit Report No. 7-685-93-10-N
September 24, 1993



UNITED STATES OF AMERICA
AGENCY FOR INTERNATIONAL DEVELOPMENT
OFFICE OF THE REGIONAL INSPECTOR GENERAL FOR WEST AFRICA

UNITED STATES ADDRESS
RIG/DAKAR
AGENCY FOR INTERNATIONAL
DEVELOPMENT
WASHINGTON, D.C. 20523

INTERNATIONAL ADDRESS
RIG/DAKAR
C/o AMERICAN EMBASSY
B.P. 49 DAKAR SENEGAL
WEST AFRICA

September 24, 1993

MEMORANDUM

To: Julius Coles, Director, USAID/Senegal

From: Thomas B. Anklewich, RIG/A/Dakar

Subject: Audit of the Agency for Private Enterprise (ACEP) under the Senegal Community Enterprise Development Project (No. 685-0260), Fiscal Years 1990, 1991 and 1992, Audit Report No. 7-685-93-10N dated September 24, 1993

The attached audit report, prepared by the non-Federal audit firm, Coopers & Lybrand, Dakar, presents the results of an audit of the financial statements submitted by the Credit Agency for Private Enterprise (ACEP) for fiscal years 1990, 1991 and 1992.

In January 1984, A.I.D. and the Government of Senegal signed an agreement to implement the Senegal Community Enterprise Development Project which had two principal components: assistance to private voluntary organizations and small scale enterprises. The life of project funding is $15 million of which the majority of this amount has been disbursed under a Cooperative Agreement to the New Transcentury Foundation (NTF) to carry out the project's activities. In order to achieve the objective of the small scale enterprise component, NTF established a revolving credit fund program which operated under the name of ACEP. The objective of ACEP is to provide short-term secured loans to small Senegalese private enterprises. Taking the institutional form of a credit union, ACEP will become a permanent institution prior to the project's end in December 1993. As of September 30, 1992, ACEP reported that it had made over 3,500 loans amounting to $12.5 million.

Coopers & Lybrand was engaged to perform a financial audit of ACEP's fiscal year 1990, 1991 and 1992 financial statements in accordance with U.S. Government Auditing Standards as set forth by the Comptroller General of the United States. The objectives of the audit were to determine whether the balance sheets and related statements of income for the fiscal years 1990, 1991 and 1992 were presented fairly and whether

ACEP complied with laws and regulations for transactions that may have had a material effect on the financial statements. In carrying out this financial audit, the non-Federal auditors obtained an understanding of ACEP's internal control structure to plan the audit and to determine the nature, timing, and extent of tests to be performed.

Coopers & Lybrand was unable to form an opinion as to whether the financial statements presented fairly ACEP's financial position and results of operations for the fiscal years 1990, 1991 and 1992 because ACEP did not have a system of accounts and records to which the financial statements could be traced. The audit did however identify questioned costs totalling $39,974 which consisted of ineligible tax payments of $20,677 (FCFA 5,686,204) and unsupported expenditures of $19,297 (FCFA 5,306,703). In obtaining an understanding of the internal control structure, Coopers & Lybrand noted certain reportable conditions. One of these conditions, the absence of an accounting system, was reported to be a material weakness. Finally, Coopers & Lybrand reported that ACEP complied in all material respects with applicable agreements, laws and regulations except for the payment of ineligible expenditures for taxes.

USAID/Senegal agreed with the auditor's finding that ACEP lacked an adequate accounting system but did not agree with the amount of the questioned costs. Regarding the questioned ineligible costs, USAID/Senegal agreed that taxes unduly paid by the project should be recovered. However, USAID/Senegal stated that taxes paid totaled FCFA 5,342,622 ($19,427) instead of FCFA 5,686,204 ($20,677) cited by the auditors. Regarding the questioned unsupported costs, USAID/Senegal did not agree with the auditors that the payment for goods in the amount of FCFA 5,306,703 ($19,297) should be questioned. The Mission stated that NTF advised it that supporting documentation is available to support the payments in question and that the documents were filed with exoneration documents in the payment files.

The non-Federal auditor maintained its position that these unsupported costs had to be questioned since the supporting invoices were not made available to them during their field work. Concerning the ineligible tax payments, the auditor maintained its position that the amount of FCFA 5,686,204 should be questioned as this amount is documented in their working papers and no evidence was provided to the contrary.

The following recommendations have been included in the Office of the Inspector General's recommendation follow-up system.

> **Recommendation No. 1: We recommend that USAID/Senegal resolve the questioned costs of $39,974 ($19,297 unsupported) and recover those costs determined to be unallowable or unsupported.**

Recommendation No. 1 is considered unresolved until we receive USAID/Senegal's determination along with supporting evidence of the amounts sustained or not sustained and can be closed when any amounts determined to be owed to A.I.D. are reimbursed.

<u>Recommendation No. 2</u>: We recommend that USAID/Senegal ensure that a comprehensive double entry accounting system unique to ACEP's operations is established prior to the institutionalization of ACEP.

USAID/Senegal concurred with recommendation No. 2. The recommendation is resolved upon report issuance based on the Mission's comments that ACEP (1) has recently acquired an accounting software package, and (2) is developing a double-entry accounting system unique to its operations. Recommendation No. 2 may be closed when we receive evidence that Mission has reviewed ACEP's accounting and financial reporting system and found it adequate for ACEP's operations prior to the institutionalization.

Please advise RIG/A/Dakar within 30 days of receipt of this report of any actions planned or taken to close the open recommendations.

UNITED STATES AGENCY FOR INTERNATIONAL DEVELOPMENT
(USAID)

AUDIT OF THE AGENCY FOR PRIVATE ENTERPRISE (ACEP) UNDER
THE SENEGAL COMMUNITY ENTERPRISE DEVELOPMENT PROJECT
(No. 685-0260)
FISCAL YEARS 1990, 1991 AND 1992

AUDIT OF THE CREDIT AGENCY FOR PRIVATE ENTERPRISE (ACEP) N° 685-0260

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Mr. Thomas ANKLEWICH
Regional Inspector General
USAID
- D A K A R -

5 April 1993

SUBJECT : AUDIT OF THE CREDIT AGENCY FOR PRIVATE ENTERPRISE (ACEP) N° 685-0260

Dear Mr. Anklewich :

The report on the above subject matter presents the results of our Audit of the Credit Agency for private Enterprise (ACEP) for the period from October 1, 1989 to September 30, 1992.

The background, audit objectives and scope as well as the results of the audit are contained in part I of this report.

Parts II, III and IV include our reports on the financial statements, the internal accounting controls and compliance with applicable laws, agreements and regulations.

I. BACKGROUND

In January 1984, A.I.D. and the Government of Senegal (GOS) signed a bilateral agreement to implement the Senegal Community Enterprise Development Project (C.E.D.). The project had two principal components:

i. A Private Voluntary Organization (PVO) component which assists village organizations (VOS) through U.S. and local PVO's to implement community oriented and agricultural productive activities ; and

ii. A Small Scale Enterprise (SSE) Component to assist small entrepreneurs in Senegal through a revolving fund credit program to expand their businesses and become more viable enterprises.

To implement the project, USAID and a U.S. contracting firm, the New Transcentury Foundation (NTF), signed an $8.6 million Cooperative Agreement on August 2, 1985. The Project Paper was amended four times to increase the life of project funding to $15,229,000. As of September 30, 1992, A.I.D. had made disbursements totalling $13,506,648 to NTF.

At the beginning of the project NTF created a Management Unit which was responsible for the management of the project's two components. The PVO component of the project was completed in December 1990 at which time the Management Unit ceased its activities. The project's primary focus is now the Small Scale Enterprise Component which is managed by the Credit Agency for Private Enterprise, known as ACEP, an NTF locally created organization which is based in Dakar. ACEP started its Dakar operations in August 1990.

ACEP's objective is to provide short term secured loans to small Senegalese private enterprises desiring to expand or modernize. In carrying out its mandate, ACEP was to remain a financially viable organization in order to become an institutionalized credit union at the end of the CED project in December 31, 1993. ACEP's target consists of entrepreneurs from all economic sectors who do not have access to bank credit. ACEP has opened branches in eight regions in Senegal.

As of September 30, 1992, ACEP reported that it made 3,589 loans to local entrepreneurs amounting to $12.5 million with a repayment rate close to 98%. ACEP's operating costs are funded by A.I.D. through the NTF Cooperative Agreement but reflows and retained earnings from the loans provide ACEP's working capital.

The CED project is scheduled to end in December 1993 and ACEP is supposed to become a permanent institution prior to that date taking the institutional form of a credit union. At the time of the audit, the legal context for credit unions did not yet exist in countries like Senegal which are members of the West African Monetary Union (WAMU). Efforts were underway to define the legal context and ACEP itself had begun drafting statutes of the future credit union which will keep the same acronym of ACEP but stand for the Alliance of Credit and Savings for Production (Alliance du Crédit et de l'Epargne pour la Production). If the legal context is not established by the time ACEP is ready to become a credit union, then ACEP plans to request a special protocol from the Ministry of Finance of Senegal to permit it to function as a legal credit union independent of A.I.D.

Under the Cooperative Agreement between A.I.D and NTF, NTF submits vouchers to A.I.D justifying the uses of A.I.D funds granted in accordance with the applicable cost principles for non-profit organizations. In addition, the cooperative agreement required NTF to use a double-entry accounting system and prepare monthly financial statements for the revolving credit fund known as ACEP. These monthly financial statements of ACEP were to include a balance sheet, a statement of profit and loss, a statement of cash flow, and an age-trial balance.

The financial audit to be performed under this Scope of Work examined ACEP's Financial Statements in fiscal years 1990, 1991, and 1992. These financial statements include the income statements for the years ending September 30, 1990, 1991, 1992 and the balance sheets as of September 30, 1990, 1991 and 1992.

ACEP receives its funding from NTF via a transfer account opened at Citibank/Dakar. Presently, NTF funding for the credit program has ended, and NTF funds only ACEP's operating costs. ACEP has opened three bank accounts with local banks for (1) the revolving credit fund, (2) the reimbursements made by the loan beneficiaries and (3) an account for ACEP's operating costs.

The NTF Chief of Party is the Project Director and has overall responsibility for ACEP management. He is assisted by a deputy Director, an accountant and an auditor. Additionally, ACEP has created a loan committee which makes loan decisions every month. The committee is composed of the ACEP Regional Managers, the Legal Officer, the Project Director and ACEP's Director General.

As planned in Grant Agreement Amendment No. 3, this audit was requested by USAID/Senegal because ACEP is on the verge of being institutionalized and USAID/Senegal wanted to know if the ACEP financial statements submitted by NTF were fairly presented and reflect the true financial position of ACEP.

II. THE AUDIT OBJECTIVES AND SCOPE

A. THE OBJECTIVES OF THIS AUDIT WERE TO:

i. Review ACEP's Financial Statements for the Fiscal Years ended 1990, 1991, 1992 to determine whether (a) these statements are fairly presented in all material respects, in conformity with generally accepted accounting principles and (b) determine if expenditures reported in fiscal years 1990, 1991 and 1992 are reasonable, allocable and allowable;

ii. Obtain a sufficient understanding of ACEP's internal control structure and then review and evaluate this structure to determine the nature, timing, and extent of tests to be performed in order to form an opinion on the financial statements and then report on the internal control structure identifying (a) the scope of the auditor's work in obtaining an understanding of the internal control structure and in assessing the control risk, (b) ACEP's significant internal controls including the controls established to ensure compliance with laws and regulations that have a material impact on the financial statements, and (c) the reportable conditions, including the material weaknesses identified as a result of the auditor's work in understanding and assessing the control risk; and

iii. perform tests of ACEP's compliance with applicable laws, regulations, binding policies and procedures, the Program Agreement and the Cooperative Agreement as part of obtaining reasonable assurance about whether the financial statements are free of material misstatement and then report on the results of the compliance testing. These tests are also performed to determine whether ACEP complied -- in all material respects -- with agreement terms, laws, binding policies, and regulations and express positive assurance on those items tested and negative assurance on those items not tested.

In testing compliance, specific steps and procedures were to be designed in accordance with AICPA Statements on Auditing Standards AU 316 and 317 (SAS Nos. 53 and 54) to provide reasonable assurance of detecting errors, irregularities, and illegal acts that could have a direct and material effect on the statements.

B. SCOPE

The Audit was to be conducted in accordance with U.S. Government Auditing Standards and was to cover the fiscal years 1990, 1991 and 1992 financial statements of ACEP submitted to A.I.D by NTF.

To achieve the audit objectives, we were to carry out audit procedures which included, the following steps.

A. Review of the project documents including :
   - the project Agreement and amendments
   - the Cooperative Agreement and amendments
   - Project implementation letters Nos. 1 through 5
   - Procedure Manual
   - ACEP's annual reports.

B. Review and evaluation of the internal accounting procedures of ACEP to the extent necessary to form an opinion on the Financial Statements.

C. Evaluation of ACEP's loan procedures to determine if the loans granted are well-managed.

D. Evaluation of ACEP's Asset Management procedures to determine if project assets are properly protected and safeguarded.

E. Review of project documents to determine compliance with the grant agreement and applicable laws and regulations.

F. Examination of the Financial Statements for fiscal years 1990, 1991, 1992 in order to express an opinion on the fairness of presentation in accordance with U.S Government on Auditing Standards.

The audit field work was carried out in ACEP's office in Dakar from February 18, 1993 to March 18, 1993.

III. AUDIT RESULTS

A. FINANCIAL STATEMENTS

The audit found that the ACEP financial statements submitted by NTF which were subject to audit did not have an underlying accounting system unique to the credit fund as required by the Cooperative Agreement between NTF and A.I.D. Instead, these financial statements were prepared from the cash books and books of NTF's monthly reports on the use of the A.I.D grant as well as a separate ledger kept on loan receivable. These cash books included certain expenditures which would not have been reflected in ACEP's operations. Also, these monthly reports did not include the income earned and loan repayments that should be reflected in ACEP's financial statements. There was no acceptable working trial balance or other records to show how NTF went from its cash accounting records for the A.I.D grant to the financial statements of the credit fund which were submitted by NTF for ACEP operations in accordance with the Cooperative Agreement. This condition created a scope limitation which prevented us from performing tests of accounts as required by generally accepted auditing standards and, as a result, the scope of our audit was not sufficient to warrant the expression of an opinion on ACEP's financial statements for fiscal years 1990, 1991 and 1992.

B. INTERNAL CONTROL FINDINGS

We found the following internal control weaknesses:

A. Recording of transactions

i. ACEP does not have an accounting system

B. Documentation

1. ACEP's Loan Information System Needs Strengthening ;

2. The Transfer of Non-Performing Loans To The Legal Department is not sufficiently documented ;

3. The Way of Determining The Repayment Rate Utilized By ACEP Does Not Conform With The Banking Practices In Effect.

C. Execution of the transactions

1. Payments to Suppliers are not Always Made on the Basis of Valid Invoices

D. Assets management and follow up

1. Inadequate Appraisal and Non-Registration of Collateral

C. COMPLIANCE WITH LAWS AND REGULATIONS

We have found the following instance of non-compliance :

- Tax Exoneration Status Was not Always Complied with

IV. MANAGEMENT COMMENTS

• Finding #1 Recommendation #1

(ACEP does not have an accounting system)

USAID/SENEGAL concurred with the recommendation that ACEP should install a comprehensive double entry accounting system to cover its operations. Mission assured that ACEP is currently developing a double-entry accounting system based on a recently acquired accounting software program.

• Finding #2 Recommendation #2

(ACEP's loan information system needs strengthening)

USAID/SENEGAL did not concur with the finding and the related recommendation. Mission stated that including a written loan request in the clients files was superfluous since ACEP's clients are mostly illiterate.

Regarding the correspondence with the attorneys concerning its clients, Mission stated that ACEP finds it more convenient to have the correspondence filed by attorneys rather than by client. Regarding the computerized loan tracking system, mission stated that the NTF advisor asserted it is an excellent system which provides all the information that management needs. Mission added that the NTF advisor stated that the auditors did not make any inquiries concerning the computer system, nor did they ask for a demonstration of a computerized loan tracking system. Finally regarding the collateral, ACEP did not agree that collateral be kept in the clients' files.

• Finding #3 Recommendation #3

(The transfer of non-performing loans to the legal department is not sufficiently documented)

Mission stated that for ACEP the system currently in use is satisfactory to ACEP and its attorneys. Because of the fact that, in ACEP's case, the files are simple and the reasons for default are similar, ACEP believes that there seems no need to burden its Regional Managers with requirements that the history of each client going into non-performing status be written up. Additionnaly, as to the issue of setting provisions for possible credit losses, ACEP did not agree with the system of automatic percentages by collateral category proposed by the auditors since the value of collaterals evolves.

• Finding #4 Recommendation #4

(The way of determining the repayment rate utilized by ACEP does not conform with the banking practices in effect).

ACEP believes that merely to assert that something is banking practice doesn't make it useful. Nevertheless both ACEP and the audit firm agree on the fact that the portfolio of the former performs flawlessly. The final recovery rate for ACEP and the audit firm is 98.4 % and 98.7 % respectively.

• Finding #5 Recommendation #5

(Payments to the suppliers are not always made on the basis of valid invoices).

Mission did not concur with this finding since it has been advised by NTF that the supporting documentation is available to support the payments in question.

• Finding #6 Recommendation #6

(Inadequate appraisal and non-registration of collateral)

ACEP disagrees with the audit firm and believes that its procedures are adequate.

• Finding #7 Recommendation #7

(Tax exoneration status was not always complied with).

Mission concurred with the auditor's finding that taxes included in billings for water and electricity should be refunded to the project. Mission believes however the amount cited by the auditors is not correct.

AUDITORS COMMENTS :

A/ In our draft report, we included the following findings and recommendations :

- ACEP's interest rate structure was not clearly defined ;
- Interest calculations do not respect the standard Banking Practices, and loan amortization tables are not kept.

Regarding the interest rate structure our finding was based, in addition to documentary evidence such as ACEP's FY 1991 annual report, on oral representations made to us by ACEP's Management that ACEP established its rate structure by adopting the central bank maximum or aligning its rate to the CNCA.

In its response to the draft report, USAID/SENEGAL stated that ACEP's rate structure was based on an extensive sensitivity analysis performed by ACEP and USAID. This sensitivity analysis was a key element in the Project Paper Amendment Nº 3. The project Paper recommended that ACEP charges 28 % APR. Based on this statement we drop the finding from the report.

Concerning the interest calculation in use at ACEP, we had further discussions with Mr. LOUM (ACEP's Director). Based on these discussions and additionnal work (see appendices A and B), we established that as stated in USAID/SENEGAL response to the draft report ACEP uses a 16 % "add-on" rate (i.e 16 % per year calculated on the total amount originally lent). The 16 % "add-on" rate corresponds effectively to a 28 % annual percentage rate (i.e 28 % calculated on the declining balance). This interest rate of 28 % is below the usury rate as defined by the Senegalese legislation.

Based on Mission's comments and additional information gathered, we delete this finding from the report. However, we would like to point out that when compared to the maximum rate authorized for banks in Senegal which is 18 %, the rate used by ACEP which is 28 % is too high.

B/ Below, we note our comments on findings and recommendations on which Mission did not agree :

- Finding #2 Recommendation #2

The audit firm maintains its finding and recommendation #2 regarding the loan information system. We opinion that, the fact that ACEP's clients are mostly illiterate should not prevent ACEP from asking for a loan request.

Our assignment was not to perform a review of ACEP's computer system. The data gathered from the hard copies available to us did not provide all the relevant information regarding the loans. As what regards the collaterals, we never stated in our recommendation that the collateral be kept in a client's file. We asked that the information related to the collateral be included in each file.

- Finding #3 Recommendation #3

(the transfer of non performing loans to the legal department is not sufficiently documented). We maintain our finding and recommendation nº 3.

The rates given in Recommendation #3 are applied to the cases submitted to the Legal department, but are not to be used eternally. They take into account the evolution of the refunds and the nature of the collateral provided. Based on the sample taken from the cases submitted to the Legal department, we realized that the rates used were underestimated.

The situation at ACEP as of September 30, 1992 is as follows :

Number of cases tested	Total value of cases submitted to legal Dept. from 1989 - 1992 FCFA	Amounts Paid FCFA	Unpaid amounts FCFA	Provision FCFA
35	29,849,574	8,578,423 28,7 %	21,271,151	10,423,965 49 %

This table shows that only 28,7 % of the cases submitted to the legal Department are paid. This tells us that the 49 % representing the provisions is low and therefore we recommend that the rates suggested in the report be used instead.

Moreover, in addition to the provision given above ACEP has considered 10,891,987 FCFA as lost (see table below).

Number of cases tested	Amount Lent	Amount considered as lost
23	29,535,875	10,891,871 36,9

• Finding #4 Recommendation #4

(The way of determining the repayment rate utilized by ACEP does not conform with the banking practices in effect)

We base our judgment on the standard practice and therefore maintain our finding and recommendation #4.

• Finding #5 Recommendation #5

(Payments to the suppliers are not always made on the basis of valid invoices)

During our audit, we performed a survey of the payments made without a valid invoice. We asked for the invoices without any success. The invoices were not available to us during our field work. We therefore maintain this finding and recommendation.

• Finding #6 and recommendation #6

(Inadequate appraisal and non-registration of collateral)

we maintain our finding and recommendation even though we understand that the manager's decision takes into consideration other factors such as costs. The fact that ACEP has won the case against an individual client should not prevent us from giving the best advice.

• Finding #7 recommendation #7

(Tax exoneration status not always complied with)

The amounts cited in our report is backed by the justification in our audit file. It is composed of :

- the employer's tax on salaries along with the employee's tax withheld at source ;
- taxes on telephone
- Electricity taxes
- Water taxes

We are not aware of the discrepancy mentioned in the memorandum of July 5, 1993. A complete copy of the memorandum from USAID/SENEGAL is given in Appendix of this report.

Coopers & Lybrand Dieye

March 18, 1993

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PART II

PART II

INDEPENDENT AUDITOR'S REPORT ON FINANCIAL STATEMENTS OCTOBER 1, 1989 TO SEPTEMBER 30, 1992

We were engaged to audit the accompanying balance sheets of ACEP as of September 30, 1990, 1991 and 1992 and the related statements of income for the years then ended. These financial statements are the responsibility of ACEP's management.

ACEP's management did not keep a separate set of accounts to record the transactions resulting in the financial position and results of operations of ACEP as presented in the accompanying financial statements. These financial statements were prepared from the books of entry for recording the expenditures under the A.I.D grant to the New Tran^^century Foundation. However, an adequate working trial balance was not prepared and, as a result, account balances on the accompanying financial statements could not be traced directly to the original books of entry. In our attempt to reconstruct certain accounts, we were not able to agree our calculations with the amounts on the accompanying financial statements.

Since ACEP did not have a system of accounts and records from which the financial statements were prepared and we were unable to apply other auditing procedures to satisfy ourselves as to the fairness of the financial statements, the scope of our work was not sufficient to enable us to express, and we do not express, an opinion on these financial statements.

Serigne Abdoul Aziz DIEYE
2, Place de l'Indépendance
DAKAR

Coopers & Lybrand Dièye

March 18, 1993

ACEP

BALANCE SHEET AS AT 30 SEPTEMBER 1990
CFAF

ASSETS	GROSS AMOUNTS	AMORTIZATIONS	NET AMOUNTS	LIABILITIES	AMOUNTS
Tangible fixed assets	39 869 314	3 761 699	36 107 615	Equity	253 287 799
Other fixed assets	312 193 983	11 177 500	301 016 483	External fund contributions	200 839 935
Stock	2 379 271	-	2 379 271		
Current Assets	**139 661 962**	-	**139 661 962**	**Profit**	25 037 597
TOTAL ASSETS	**494 104 530**	**14 939 199**	**479 165 331**	**TOTAL LIABILITIES**	479 165 331

INCOME STATEMENT
FISCAL YEAR 1989/1990
CFAF

ACCOUNT No	DENOMINATION	OPERATING EXPENSES	NON OPERATING EXPENSES	TOTAL	OPERATING INCOME	NON OPERATING EXPENSES	TOTAL	DENOMINATION	ACCOUNT No
		82-83. DETERMINATION OF OPERATING AND NON-OPERATING INCOME							
6200	Transportation and perdiem	3 959 395		3 959 395	6 649 591		6 649 591	Diverse revenues and profits	7400
6300	Rent and leasehold expenses	11 895 198		11 895 198	36 037 597		36 037 597	Interests earned	7700
6301	Post and telecommunication expenses	3 480 617		3 480 617	67 762 189		67 762 189	USAID Subvention	
6302	Repairs and maintenance expenses	3 630 155		3 630 155					
6303	Salaries and fringe benefits	43 380 067		43 380 067					
6800	Depreciation	3 092 585		3 092 585					
6900	Provisions	11 000 000		11 000 000					
	Miscellaneous	4 973 763		4 973 763					
	Profit	25 037 597		25 037 597					
	TOTAL	110 449 377		110 449 377	110 449 377		110 449 377		

ACEP

BALANCE SHEET AS AT 30 SEPTEMBER 1991
CFAF

ACCOUNT No	ASSETS	GROSS AMOUNT	AMORTIZ. AND PROV.	NET AMOUNT	ACCOUNT No	LIABILITIES	AMOUNT
220	Machinery and Equipment	7 139 372	2 102 613	5 036 759	1 000	Equity	406 515 939
2230	Office furniture	3 926 122	443 841	3 482 281	1 001	Capital increase	357 785 000
2231	Office equipment	3 934 000	535 462	3 398 538	1 200	Retained earnings	38 475 417
2232	Fixtures	3 561 620	613 927	2 947 693			
2240	Motor vehicles	21 308 200	6 327 209	14 980 991			
	FIXED ASSETS	**39 869 314**	**10 023 052**	**29 846 262**			
2520	Deposits	828 484		828 484			
					4 700	Reserves for unbilled expenses	1 435 959
	OTHER ASSETS	**828 484**		**828 484**			
3100	Supplies	1 583 696	158 370	1 425 326			
	INVENTORY	**1 583 696**	**158 370**	**1 425 326**			
						PROFIT	121 622 626
4200	Salaries and fringe benefits	29 834		29 834			
4800	Prepaid expenses	8 278 947		8 278 947			
5200	Loans (debtors)	718 837 486	21 000 000	697 837 486			
5600	Cash in the Bank	187 188 602		187 188 602			
	CASH IN HAND	**400 000**		**400 000**			
	CURRENT ASSETS	**914 734 869**	**21 000 000**	**893 734 869**			
	TOTAL ASSETS	**957 416 363**	**31 181 422**	**925 834 941**		**TOTAL LIABILITIES**	**925 834 941**

ACEP

INCOME STATEMENT
FROM 1 OCTOBER, 1990 TO 30 SEPTEMBER 1991
CFAF

ACCOUNT No	DENOMINATION	OPERATING EXPENSES	OPERATING INCOME	DENOMINATION	ACCOUNT No
		DETERMINATION OF THE PROFIT			
6100	Equipment	13 432 005	3 751 071	Diverse revenues and profits	7 401
6200	Transportation	802 570	3 191 140	other financial revenues	7 402
6300	General expenses	18 127 939	131 100 138	Interests earned	7 700
6400	Diverses expenditures and losses	12 675 850	11 000 000	Excess provisions	7 900
6500	Salaries and fringe benefits	56 553 456	101 652 518	USAID Subvention	
6600	Taxes	60 698			
6800	Depreciation	6 261 353			
6900	Provision	21 158 370			
	PROFIT	121 622 626			
	TOTAL	**250 694 867**	**250 694 867**		

INCOME STATEMENT
FISCAL YEAR 1991 - 1992
CFAF

EXPENDITURES				RECEIPTS			
ACCOUNT No	ACCOUNT NAME	OPERATING EXPENSES	NON OPERATING EXPENSES	NON OPERATING INCOME	OPERATING INCOME	ACCOUNT NAME	ACCOUNT No
6100	Supplies utilized	10 262 966		3 501 558		Expenses born by third parties	7320
6200	Transportation expenses	905 735			11 332 000	Loan-files opening expenses	7401
6300	General expenses	28 309 381		13 228 375	33 000	Other financial revenues	7402
6400	Diverse expenses and losses	1 609 066	13 135 976	2 390 196		Losses recovered	7410
6402	Losses/revenues		12 994 175		2 022 991	Other revenues received	7411
6403	Losses/fixed assets		26 267				
6500	Salaries and fringe benefits	81 983 152			2 119 610	Other revenues - Fiscal year 92	7413
6800	Depreciation	7 550 861					
					7 342 527	Subvention for equipment	7420
6900	Provisions	8 241 250			206 004 864	Operating subvention	7419
					179 880 794	Interests received	7700
					748 244	Interests on deposits	7701
					122 287	Interests on personnel loans	7702
					5 733	Excess depreciation	7800
					13 259 346	Excess provisions	7900
	TOTAL	**138 862 411**	**26 156 418**	**19 120 129**	**422 871 396**		
	PROFIT	284 008 985		7 036 289			
	GROSS TOTAL	**422 871 396**	**26 156 418**	**26 156 418**	**422 871 396**		

BALANCE SHEET AS AT 30 SEPTEMBER 1992
CFAF

ACCOUNT No	ASSETS	GROSS AMOUNT	AMORTIZ. AND PROV.	NET AMOUNT	ACCOUNT No	LIABILITIES	AMOUNT
2100	Land	1 600 000		1 600 000			
2220	Machinery	7 139 372	2 816 550	4 322 822	1 000	Equity	406 515 939
2230	Office furnitures	5 391 053	870 108	4 520 945	1 001	Capital increase	357 785 000
2231	Office equipment	10 977 247	1 300 200	9 677 047	1 200	Retained Earnings	54 259 396
2232	Fixtures	9 416 306	1 308 205	8 108 101	1 400	Subvention for Equipment	59 209 664
2240	Motor vehicles	42 149 394	11 070 516	31 078 878	1 480	Amortization of subvention for equipment	-7 342 527
	FIXED ASSETS	**76 673 372**	**17 365 579**	**59 307 793**			
					1 401	GOS subvention	65 000 000
2520	Deposits	1 287 197		1 287 197	1 402	Non amortized subv. (USAID)	12 311 463
						Retained earnings1991	101 652 606
	OTHER ASSETS	**1 287 197**		**1 287 197**			
					4 600	Diverse liabilities	428 016
3100	Supplies	7 700 362		7 700 362	4 700	Reserves for unbilled expenses	6 661 054
	INVENTORY	**7 700 362**		**7 700 362**			
4200	Personnel	3 444 015		3 444 015			
4800	Prepaid expenses	4 738 461		4 738 461			
4100	Accounts receivable	787 341 643		787 341 643			
4160	Doubtful accounts	28 276 523	16 140 274	12 136 249			
4600	Other debtors	2 220 880		2 220 880			
5600	Bank	456 075 041		456 075 041		PROFIT	278 171 030
5700	Cash in hand	400 000		400 000			
	CURRENT ASSETS	**1 282 496 563**	**16 140 274**	**1 266 356 289**			
	TOTAL ASSETS	**1 368 157 494**	**33 505 853**	**1 334 651 641**		**TOTAL LIABILITIES**	**1 334 651 641**

DETERMINATION OF CAPITAL GAINS
CFAF

ACCOUNT	DENOMINATION	AMOUNT	AMOUNT	DENOMINATION	ACCOUNT
	Purchase value	3 060 000	4 050 000	Disposal price	
	Capital gain	1 198 334	208 334	Amortization	
	TOTAL	**4 258 334**	**4 258 334**		

DETERMINATION OF PROFIT BEFORE TAX
CFAF

ACCOUNT	DENOMINATION	AMOUNT	AMOUNT	DENOMINATION	ACCOUNT
8300	Non operating loss	7 036 289	284 008 985	Operating profit	8 200
	Net profit	278 171 030	1 198 334	Capital gain	8 400
	TOTAL	**285 207 319**	**285 207 319**		

PART III

PART III

INDEPENDENT AUDITOR'S REPORT ON INTERNAL CONTROL

We were engaged to audit the balance sheets of ACEP as of September 30, 1990, 1991 and 1992 and the related statements of income for the years then ended and have issued our report thereon dated March, 18, 1993.

In planning and performing our audit of ACEP we considered its internal control structure in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide assurance on the internal control structure.

The management of ACEP is responsible for establishing and maintaining an internal control structure. In fulfilling this responsibility, estimates and judgments by management are required to assess the expected benefits and related costs of internal control structure policies and procedures. The objectives of an internal control structure are to provide management with reasonable, but not absolute, assurance that 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 : recording of transactions, documentation, execution of transactions, assets management and follow-up.

For all of the control 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 judgment, could adversely affect the organization's ability to record, process, summarize, and report financial data consistent with the assertions of management in the financial statements.

The weaknesses detected in the course of our audit work are regrouped under the following categories:

I. RECORDING OF TRANSACTIONS

II. ACEP DOES NOT HAVE AN ACCOUNTING SYSTEM

DOCUMENTATION

- The loan information system needs strengthening
- the transfer of non-performing loans to the legal department is not sufficiently documented

- the way of determining the repayment rate utilized by ACEP does not conform with the banking practices

II. EXECUTION OF THE TRANSACTIONS

- Payments are not always made on the basis of valid invoices

III. ASSETS MANAGEMENT AND FOLLOW-UP

- Inadequate appraisal and non-registration of collateral

A material weakness is a condition in which the design or operation of the specific internal control structure elements does not reduce to a relatively low level, the risk that errors or irregularities in amounts that would be material in relation to the 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 maters 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 only one of the reportable conditions described above is a material weakness : the absence of an accounting system.

This report is intended for the information of the audit committee, management, and others within the organization and AID. This restriction is not intended to limit the distribution of this report which is a matter of public record.

Coopers & Lybrand Dièye

March 18, 1993

Abdoul Aziz DIEYE
Expert Comptable
2, Place de l'Indépendance
DAKAR

REPORTABLE CONDITIONS AND RECOMMENDATIONS

I. RECORDING OF TRANSACTIONS

I.1. ACEP Does Not Have an Accounting System

ACEP does not have an accounting system into which its transactions are promptly and properly recorded and from which reliable financial statements can be prepared. The financial statements submitted to USAID/Senegal in ACEP's annual reports were based on the cash books of NTF's monthly reports on the use of the A.I.D grant as well as a separate ledger kept on loans receivable. These cash books included certain expenditures which would not have been reflected in ACEP's operations. Also, these monthly reports did not include the income earned and loan repayments that should be reflected in ACEP's financial statements. There was no adequate working trial balance or other records to show how NTF went from its cash accounting records for the A.I.D grant to the financial statements of the credit fund which were submitted by NTF for ACEP operations in accordance with the Cooperative Agreement. This condition created a scope limitation which prevented us from performing tests of accounts as required by generally accepted auditing standards and, as a result, the scope of our audit was not sufficient to warrant the expression of an opinion on ACEP's financial statements for fiscal years 1990, 1991, and 1992.

Accounting systems are established to ensure that revenues and expenditures are recorded and accounted for properly so that accounts and reliable financial and statistical reports may be prepared and accountability of the assets may be maintained. The cooperative agreement between NTF and A.I.D required NTF to use a double-entry accounting system and prepare monthly financial statements for the revolving credit fund.

These financial statements of ACEP were to include a balance sheet, a statement of profit and loss, a statement of cash flow, and an aged-trial balance of outstanding loans receivable.

According to the NTF Chief of Party, NTF believed that the double-entry accounting system kept at NTF headquarters met the requirement of the cooperative agreement. On the other hand, USAID/Senegal personnel has assumed that ACEP's annual financial statements submitted by the NTF Chief of Party were prepared from ACEP's own accounting system. In either case, there was a misunderstanding and a lack of communications on the part of both parties as to what was required and what was actually being done.

The lack of accounting system unique to ACEP's operations has resulted in the absence of reliable financial statements on which an opinion on the fairness of presentation can be rendered and from which financial analyses can be made to determine the future viability of ACEP.

Recommendation N°1

We recommend that ACEP install a comprehensive double-entry accounting system to cover its operations without any further delay.

II. DOCUMENTATION

II.1 ACEP's Loan Information System Needs Strengthening

ACEP's loan information system consists of individual loan files for each client as well a computerized loan receivable system. The following weakness were noted :

a. ACEP does not have a global system for consistent organization of individual loan files which contain all necessary information including the client's request for the loan, relevant correspondence, and a summary loan sheet on which all pertinent information regarding the loan is kept. In our review of 200 files representing 26% of the total loan amount i.e. F CFA 188,889,647 of ACEP's loan files we found that file organization and contents varied from one client to another. Files did not contain the clients' original request for a loan nor was all relevant information and correspondence available in the files.

b. The computerized system for loan tracking does not give all pertinent information regarding the loan nor is it organized in a logical order. For example, the balance payable by client is not broken down into interest, principal and arrears due to the absence of loan amortization tables (see finding II.2). In addition loans are not identified as performing, non-performing and/or bad. Finally, loans are not organized in a logical fashion such as alphabetical by client name.

Internal control standards require all pertinent aspects of transactions and significant events to be clearly documented. Also, the documentation must be available as well as easily accessible for examination. Documentation of transactions should be complete and accurate and should facilitate tracing the transaction and related information from before it occurs, while it is in process, to after it is completed. Furthermore, documentation of transactions should be purposeful and useful to managers in controlling operations and the auditors or others involved in analyzing operations.

Without a global system for keeping complete and well-organized loan files clearly documenting every aspect of the loan transaction, ACEP does not have reasonable assurance that its loan information system provides adequate and accurate data to file users. During our audit testing of loan files we found it difficult and time consuming to retrieve all of the information we were looking for. Moreover, a disorganized and incomplete computerized system for loan tracking does not serve the purpose of providing useful data to managers, auditors and other users of information.

Recommendation N°2

We recommend that ACEP design a loan information system and establish written procedures to ensure that the following objectives are met :

a. Loan files should be organized consistently and procedures should be developed to include the following information in each file:

1. a loan summary sheet which includes the personal information about the client ; the loan terms (principal, interest rate, period of repayment, amortization table, monthly installments) ; loan collateral received and date ; and signatures of the relevant officials,

2. all relevant correspondence including the clients' original requests for a loan.

b. the computerized system should contain detailed information concerning each loan to include the balance of interest and principal payable and amounts payable in arrears. Reports should be logically organized by client name and show the status of the loan such as performing, non performing and/or bad loans. In addition, reports should contain enough information to allow an analysis of the age of amounts due on loans receivable.

II.2. The Transfer of Non-Performing loans to the Legal Department is not Sufficiently Documented

In order to take legal action against non-performing loans, the Department Head or the Regional Manager transmits non-performing loans to the loan committee with a memorandum. At this time the loans are classified as bad debt:

Loans are considered non-performing on the basis of the following criteria :

- an unpaid installment during three months after due dates ;
- three unpaid installments ;
- use of a loan for a purpose other than it was intended or granted for.

The transmittal memorandum to the loan committee should contain :

- the reason why the transfer has been decided (unpaid installments or misuse of the loans) and

- the steps which have been taken previously to recover amounts due and the results achieved.

However, the transmittal memoranda to the Loan Committee do not give either the reasons for the transfers or the results of previous collection attempts.

Without properly documenting the collection history of a non-performing loan at the time of transfer for legal action, follow-up and collection through the judicial system takes place much slower than necessary. In the meantime the non-performing loans are classified as bad debts when indeed the actual status has not been officially determined through all available means.

Recommendation N°3

For all transfers of non-performing loans to the Legal Department, we recommend that the following system be adopted :

fill out a form on which will be written down :

- the personal information regarding the client
- the credit conditions
- the loan collaterals provided
- the attempts undertaken (by letters, amicable arrangements or agreements) and the results achieved

- the reason for the transfer to the Legal Department

- document in the files copies of all letters to the attorneys and courts

- keep notes to the file regarding all important measures taken or decisions made about the loans collection difficulties to allow a better follow-up on the status of loans

- According to the difficulties met in the collection of the credits, set up a system of provision for bad debts as delineated below :

• 100% for the credits secured on guarantors

• 75% for the loans secured on ledged motor vehicles or on other fixed assets such as equipment

• 50% for the loans secured on buildings, fixtures and fittings.

II.3. The way of determining the repayment rate utilized by ACEP does not conform with the Banking Practices in effect

The repayment rate calculated by ACEP is based on the following formula :

$$\frac{\text{healthy Loans + Doubtful loans}}{\text{Total Loans (1)}}$$

Standard practices of loan-granting institutions require the repayment rate to be determined on the basis of the healthy loans only compared to the total loans.

The repayment rate calculated by ACEP does not reflect the actual position of ACEP's portfolio. If calculated according to standard practices, ACEP's repayment rate as of 30/09/92 would be 94%.

<u>Recommendation N°4</u>

We recommend to ACEP to utilize henceforth the following formula in order to calculate the repayment rate :

$$\frac{\text{"Healthy" loans as of 30 September}}{\text{Total loans (1) as of 30 September}}$$

(1) Total loans = "healthy" loans + doubtful loans + bad loans (or losses)

III. EXECUTION OF THE TRANSACTIONS

III.1. Payments to the Suppliers are not Always Made on the Basis of Valid Invoices

ACEP has made certain payments to suppliers on the basis of pro-forma invoices or estimates. During our audit we found 10 examples of this practice for a total of F.CFA 5,306,703 in payments made (see appendix E).

Internal control standards require transactions to be authorized and executed only by persons acting within the scope of their authority. A control method in the case of payments to suppliers would be to require valid invoices to be presented prior to payment. Related control measures would involve the comparison of invoices to purchase orders and delivery orders.

The payment for goods in the absence of proper invoices runs the risk of payment for unauthorized purchases, undelivered goods and/or unauthorized amounts.

<u>Recommendation N°5</u>

We recommend that USAID/Sénégal question the payment for goods without invoices totaling F.CFA 5,306,703 as unsupported costs. Furthermore the requirement to present a valid invoice prior to payment should be implemented and consistently applied to all cases.

IV ASSETS MANAGEMENT AND FOLLOW-UP

IV.1. Inadequate Appraisal and Non-Registration of Collateral

ACEP's loans are guaranteed by individuals, life-insurance policies, and pledged fixed assets such as motor vehicles, buildings, fixtures and fittings. Seldom are loans secured by mortgages. ACEP does not rationally evaluate the pledges in order to make sure that their value is at least superior to the loans by 25%. The appraisal of the pledges, done by ACEP, is approximate and is not done in writing.

The collaterals have to be correctly evaluated and the evaluation must be supported by documents. As for the individual guarantors, their financial situation and solvency should be checked.

When the repayment of a loan becomes unlikely, the possibility of selling the pledges is very uncertain when collateral has not been properly evaluated and registered.

Recommendation No6

We recommend that ACEP, systematically :

- evaluate correctly, with documents, the collateral securities,

- ascertain that guarantors are actually solvent and creditworthy,

- have the pledges recorded by a notary.

PART IV

PART IV

INDEPENDENT AUDITOR'S REPORT ON COMPLIANCE WITH AGREEMENT TERMS AND APPLICABLE LAWS AND REGULATIONS

We were engaged to audit the balance sheets of ACEP as of September 30, 1990, 1991 and 1992 and the related statements of income for the years then ended and have issued our report thereon dated March 18, 1993.

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

Material instances of noncompliance are violations of laws, regulations, contracts, grants, or binding policies and procedures that cause us to conclude that the aggregation of misstatements resulting from those violations is material to the financial statements. The results of our tests of compliance revealed that ACEP did not always comply with the agreement terms and applicable laws and regulations governing the project's operations.

The non-compliance with the rules and regulations center around the following point:

Tax exoneration status was not always complied with

Our testing of transactions, and records disclosed instances of noncompliance with those laws and regulations. All instances of noncompliance that we found are identified in the accompanying schedule of findings.

Except as described above, the results of our tests of compliance indicate that with respect to the items tested, ACEP complied, in all material respects, with the provisions referred to in the third paragraph of this report. With respect to items not tested, nothing came to our attention that caused us to believe that ACEP had not complied, in all material respects, with those provisions.

This report is intended for the information of the audit committee, management and others within the organization and AID. This restriction is not intended to limit the distribution of this report which is a matter of public record.

Coopers & Lybrand Dièye

March 18, 1993

INSTANCES OF NON-COMPLIANCE WITH THE RULES AND REGULATIONS

IV.1. Tax-Exoneration Status Was Not Always Complied With

ACEP did not always comply with the tax exoneration granted to the Project. As a result, the Project did not fully benefit from the exoneration.

USAID financing of ACEP is tax-exempted, by virtue of the grant agreement signed between the Government of Senegal and USAID.

The fact that ACEP did not fully comply with the terms of the grant agreement resulted in the wrong payment of tax.

ACEP is paying at present the tax included in the bills of water and electricity. We found that F.CFA 883,851 has been paid for these taxes (see appendix D for details).

ACEP is also paying the employer's tax on salaries along with the withheld at source taxes supported by employees. We found that F.CFA 3,649,526 has been paid for such taxes from 1990 to 1992 (see appendix C for details).

Recommendation N°7

We recommend that ACEP take all the steps necessary in order to recover the tax unduly paid by the Project. USAID/Senegal should issue a bill of collection to recover the amount of F.CFA 5,686,203.

APPENDICES

APPENDIX A

AMORTIZATION SCHEDULE**A

Principal	:	1 000 000
Rate	:	28 %
Period	:	12 months

PERIOD	PAYMENT	INTEREST	PAYMENT OF PRINCIPAL	REMAINING BALANCE
1	96 506	23 333	73 173	926 827
2	96 506	21 626	74 880	851 947
3	96 506	19 879	76 627	775 320
4	96 506	18 091	78 415	696 905
5	96 506	16 261	80 245	616 660
6	96 506	14 389	82 117	534 543
7	96 506	12 473	84 033	450 509
8	96 506	10 512	85 994	364 515
9	96 506	8 505	88 001	276 515
10	96 506	6 452	90 054	186 461
11	96 506	4 351	92 155	94 306
12	96 506	2 200	94 306	0
	1 158 072	**158 072**	**1 000 000**	

The amortization schedule**A given above shows for a rate of 28% total interest of FCFA 158,072 which is close to the FCFA 160,000 ACEP charges.

APPENDIX B

AMORTIZATION SCHEDULE **B

Principal : 1 000 000
Rate : 29,16 %
Period : 12 months

PERIOD	PAYMENT	INTEREST	PAYMENT OF PRINCIPAL	REMAINING BALANCE
1	97,074.41	24,300.00	72,774.41	927,225.59
2	97,074.41	22,531.58	74,542.83	852,682.76
3	97,074.41	20,720.19	76,354.22	776,328.54
4	97,074.41	18,864.78	78,209.63	698,118.91
5	97,074.41	16,964.29	80,110.12	618,008.79
6	97,074.41	15,017.61	82,056.80	535,951.99
7	97,074.41	13,023.63	84,050.78	451,901.21
8	97,074.41	10,981.20	86,093.21	365,808.00
9	97,074.41	8,889.13	88,185.28	277,622.72
10	97,074.41	6,746.23	90,328.18	187,294.54
11	97,074.41	4,551.26	92,523.15	94,771.39
12	97,074.41	2,302.94	94,771.47	0,000.00
	1,164,892.9	**164,892.9**	**1,000,000.0**	

The amortization schedule**B shows a total interest charge of FCFA 164,892.9. Therefore, ACEP's rate is within the acceptable range applied by the banks. However, we still beleive that ACEP's interest calculations do not respect the standard banking practice.

APPENDIX C

SUMMARY OF PAYROLL TAX UNDULY PAID

PERIOD	1992 C.F.C.E	1991 C.F.C.E	1990 C.F.C.E
October 1991	113 495	106 732	-
November 1991	115 650	109 102	-
December 1991	117 549	112 476	-
January 1992	243 458	115 352	-
February 1992	134 592	?	-
March 1992	134 146	?	-
April 1992	133 457	?	-
May 1992	141 122	?	-
June 1992	146 118	?	-
July 1992	142 750	?	-
August 1992	142 300	?	-
September 1992	142 300	?	-
TOTAL	**1 706 937**	**1 090 741**	**851 848**
UNDULY PAID		**3 649 526**	

APPENDIX D

SUMMARY OF TAXES UNDULY PAID BY ACEP

DENOMINATION	1990	1991	1992	TOTAL
Water	111,748	956,757	1,016,661	2,085,166
Electricity	1,755,643	3,171,588	5,.614,060	10,541,291
Telephone	1,186,941	2,929,678	3,568,891	7,685,510

Taxes on revenues unduly paid :

on water (7 %) = 2 085 166 x 7 % =	145,961.02
on electricity (7%) = 10 541 291 x 7 % =	737,890.37
to SONATEL 15 % =	1,152,826.5
	2,036,678.49

The payments were made by check.
Our extrapolation does not take into account the small amounts (i.e less than 50 000 FCFA) which would be paid by petty cash.

APPENDIX E

ACEP

PAYMENTS TO SUPPLIERS ON THE BASIS OF PROFORMA INVOICES

DATE	TYPE OF PURCHASE	AMOUNTS	OBSERVATIONS
8.06.90	Travaux de jardinage avance 50%	244 310	Réglement sur devis
6.12.90	GOMES SANCHEZ	50 000	Réglement sur devis
31.12.90	GOMES SANCHEZ	40 000	Réglement sur devis
31.08.90	Ch 591738 Buhan & Teisseire	150 611	Réglement sur proforma
23.12.91	Société Industrielle du Fleuve	400 000	Avance
08.09.91	Ch 604468 Buhan & Teisseire	178 298	Réglement sur proforma
05.06.90	Achat Equipement Ets Redah ATTIEH	627 000	Réglement sur proforma
09.01.91	Fabrication et installation 10 unités de façade	1 500 000	Réglement sur proforma
12.07.90	Ch 208 179 acquisition meubles	1 991 000	Réglement sur proforma
26.02.91	Ch 230 349 Office Equipements A. FAYE	125 484	Réglement sur devis
		5 306 703	

APPENDIX F

MEMORANDUM

DATE: July 5, 1993

TO: Walter Shepherd, Acting RIG/A/Dakar

FROM: Julius E. Coles, Director, USAID/Senegal

SUBJECT: Response ~~to Draft~~ Audit Report on the Agency for Private Enterprise (ACEP) under the Senegal Community Enterprise Development Project (no. 685-0260), Fiscal Years 1990, 1991, and 1992

This memorandum is USAID/Senegal's official response to the draft report. We have discussed the findings with NTF's advisor to ACEP and incorporated his comments, as appropriate.

The auditors found that ACEP did not have a system of accounts and records to which the financial statements could be traced. This was the most significant finding of this report, and one which has generated the most research and debate among officials of USAID/Senegal, RIG/A/Dakar, the Grantee and the audit firm.

This matter has been given serious attention and, as indicated in the following comments, is in the process of being rectified.

1. RIG Recommendation no. 1:

RIG Recommendation no. 1 regarding questioned costs of $39,974 is supported by Aziz Dieye Recommendation nos. 6 ($19,297) and 8 ($20,677).

We concur with the audit firm's recommendation no. 8 that taxes included in billings for water and electricity should be refunded to the project. At the time of the audit, NTF had filed claims for reimbursement but had not yet succeeded in recovering these amounts. On the other hand the amount cited by the auditors is not correct. Taxes paid total 5,342,622 FCFA ($19,427) instead of 5,586,204 FCFA ($20,677) cited by the auditors.

The audit firm recommends (recommendation no. 6) that the Mission question the payment for goods without invoices in the amount of CFAF 5,306,703 (US $ 19,677). We cannot concur with this finding. NTF has advised us that

JUL 10 1993

supporting documentation is available to support the payments in question. The documents were filed with exoneration documents in the payment files. We ask that the audit firm verify the existence of these documents.

Recommendation no. 2:

USAID/Senegal ensure that a comprehensive double-entry accounting system unique to ACEP's operations is established prior to the institutionalization of ACEP.

We concur with this finding. ACEP has recently acquired an accounting software program, one that is widely used in Senegal and France. ACEP has also established its chart of accounts.

Based on the software, a comprehensive double-entry accounting system unique to ACEP's operations and based on generally accepted accounting principles consistent with Senegalese law is being developed and will be put into operation when ACEP ceases to be a component of the USAID project and becomes an independent financial institution.

ACEP has recently received approval to be established as a Credit Union under Senegalese law. The new accounting system will be ready to support ACEP's new operations.

Recommendation No.3
interest rate structure and interest income

Sub-part 3.1:

We agree with the recommendation but contend that ACEP has calculated its interest rate structure in accordance with the Central Bank regulations for finance companies.

ACEP was not established as a banking institution but rather as part of an AID project operating as a unique type of finance company.

One of the basic issues of the audit report is the perception that ACEP should function as a bank and the application of Senegalese banking management practices on ACEP. This is not necessarily advisable for the following reasons:

1. ACEP is not a bank and is not expected to become one. ACEP is a project and has been authorized to become a credit union.

APPENDIX F

2. ACEP's clients are very different from those served by banks and thus ACEP's lending policy, approach to collateral, manner of calculating interest rates and penalty fees must answer ACEP's management needs and be sufficiently simple so that they can be understood by ACEP's clients, who are, in the main, illiterate. ACEP's practices must conform to applicable laws or regulations and its lending practices must be sound. ACEP's interest rate structure and the manner in which it is expressed does not break any Senegalese law or regulation. Further, while different from banks, ACEP's approach to interest rates is not idiosyncratic, but one that is well known to finance companies and credit unions.

3. Central Bank regulations in WAMU countries presently apply only to banks and finance companies. According to the central Bank Directive No.1731 of November 9, 1992, the maximum lending annual percentage rate (APR) for banks presently stands at 17.5 % (12.5 % cost of capital using the Central Bank discount window + 5 % bank margin). The maximum lending APR for finance companies (établissement financier), cannot exceed the usury rate. The usury rate as defined by Senegalese law (Law No.81-25) is one that is higher than the maximum bank rate plus two-thirds. Since November 9, 1992, the usury rate has been 29.16 %, not 18% as stated in the audit report. The Central Bank remains silent on how these interest rates are expressed. The APR rates can be converted into "add-on" rates or discount rates.

Standard banking practice in Senegal is to charge the maximum interest rate allowed for banks (17.5 % APR) and to calculate it daily on the declining balance. Standard practice among finance companies, on the other hand, is to charge the maximum interest rate allowed for finance companies (29.16 % APR) and calculate it on a declining balance, or convert it into an "add-on" rate or into a discount rate. Standard practice among credit unions and credit projects in Senegal is to use the "add-on" rate. ACEP's interest rate is below that of finance companies and most credit unions, and ACEP's use of the "add-on" rate is not exceptional.

ACEP charges 28% APR , which is equivalent to a 16% "add-on" rate, i.e. 16% per year on the total amount originally lent. ACEP chose to express its rate as an "add-on" rate because it is extremely simple for ACEP clients to comprehend, far simpler than a rate calculated daily on a declining balance. With the "add-on" rate, the client knows at the signing of the contract exactly what the total interest charge will be. Thus CFA F 1,000,000 borrowed for one year and repaid in 12 monthly installments will cost CFA

F160,000 in interest. In the case of interest calculated daily on the declining balance, the total interest paid at the end of the amortization period will vary depending on the regularity of the reimbursements and whether the late payments occurred at the beginning of the amortization (when the outstanding balance is larger) or at the end.

In the beginning of the project, interest was calculated daily on the declining balance, and it produced endless arguments with the clients. Because they could not understand the calculations, they felt that they were being cheated. On March 31, 1990, ACEP converted to an "add-on" rate, and all the discussions have ceased.

Furthermore, using the "add-on" rate permits ACEP to have a clause in its loan contracts which states that interest is reimbursed first. Thus, clients know that once the total interest is paid, subsequent installments go toward the reimbursement of principal. This is important because in those cases where ACEP needs to turn to courts to recover on defaulted loans, it rarely needs to get into arguments concerning the amount owed in principal and interest. Because interest is reimbursed first, most often the amount in default is entirely constituted by principal. In the Senegalese legal context this clean distinction is a substantial advantage for the lending institution.

Finally, it should be noted that ACEP interest rates are approved by the National Project Committee whose members include several representatives of the Ministry of Finance who are familiar with regulations applicable to all financial institutions in Senegal.

On the issue of interest income, the same remarks apply. The method used to recognize interest income is related to the way interest is charged and collected. Finance companies and credit unions using discount rates, or those who allocate the first installments toward repayment of interest, recognize income differently from banks which calculate interest daily on the outstanding balance. The issue is whether ACEP's method of recognizing interest income presents fairly the portions of income earned and portions unearned.

Since ACEP allocates the first installments toward the reimbursement of interest, it is important to see how ACEP recognizes income over the life of the loan. The method used by ACEP is one used by most finance companies.

According to one authority in the field (Leonard Bernstein, <u>Financial Statement Analysis: Theory, Application, and Interpretation,</u> page 305), an acceptable method and one followed by the majority of finance companies is the "sum-of-the-months-digits method", in which larger amounts of income are recognized in the early part of the loan contract than in its later period. In the case of a 12 month loan, for example, the sum of the digits is 78. In the first month of the contract, 12/78th of the finance charge ($36 92) is taken into income; and the last month, 1/78th of the finance charge ($3.14) is taken up. Under this method, the interest earned bears a closer relationship to funds out at risk than it does under the "straight line method". That is also true of other methods that take up income in proportion to the decreasing balance of the loan outstanding. "

ACEP uses the "sum-of-the-months-digits" method of taking up income. This method of recognizing income gives practically the same results as the method used by banks which take up income in proportion to the decreasing balance of the loan outstanding.

3. COMMENTS ON AUDITORS' FINDINGS AND RECOMMENDATIONS

Finding #1 and Recommendation #1
(ACEP does not have an accounting system unique to ACEP's operations)

This recommendation is covered under RIG recommendation no. 2.

Finding #2 Recommendation #2
(The interest rate structure of interest charged on loans is not well defined)

We disagree with the finding and accompanying recommendation.

ACEP did not establish its rate structure by adopting the Central Bank maximum or aligning its rate to the CNCA National Agricultural Credit Fund (CNCA). ACEP's rate structure was based on an extensive sensitivity analysis performed by ACEP and USAID. This sensitivity analysis was a key element in the Project Paper Amendment No.3. The sensitivity analysis made projections using a wide set of variables for interest rates, average loan size, average loan life, default rates, and management costs (the analysis is for review if the auditors wish to do so). The project amendment paper, basing its conclusions on the sensitivity analysis, recommended that ACEP charge 28% APR or 16% "add-on".

Finding #3

APPENDIX F

(Amortization tables are not kept)

Amortization tables are useful when interest is calculated daily on the declining balance and the amount paid toward interest varies at each installment depending on the number of days for which interest is due and the amount of the outstanding balance. They are not necessary in ACEP's case because ACEP charges an "add-on" rate and interest is reimbursed prior to any payments toward the principal. The need for amortization tables depends how interest is calculated and repaid. In ACEP's case an amortization table for FCFA 1,000,000 loan payable in 12 installments would look thus:

Installment No. Installment amount
Reimbursed on Reimbursed on

Interest Principal

1	96,666		96,6660
2	96,666	63,334	33,332
3	96,666	0	96,666
4	96,666	0	96,666
5	96,666	0	96,666
6	96,666	0	96,666
7	96,666	0	96,666
8	96,666	0	96,666
9	96,666	0	96,666
10	96,666	0	96,666
11	96,666	0	96,666
12	96,674	0	96,674

Total 1,160,000
160,000 1,000,000

An amortization table in ACEP's case is not a necessary or useful document.

It is inaccurate to state that in the absence of an amortization table "if ACEP wanted to know the amount of interest receivable on its total loans as of a given date, it would have to calculate this amount for each loan". The computer loan tracking program maintained by ACEP is capable of producing all the data necessary concerning interest paid and interest payable, by loan, by branch, by region and for ACEP globally. The loan tracking system is written in a database management program, and contains over 70 different fields. Reports can be generated using any combination of the 70 different fields.

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Finding #9 Recommendation #9
(Loan Information System Needs Strengthening)

We do not concur with this finding and recommendation. We ask that the audit firm reassess this finding and related recommendation in view of the following information.

ACEP's loan information consists of individual loan files and a computerized loan tracking system.

A. The loan file.

Each loan file contains the following items:

1. The loan dossier, which describes in detail the loan request, its purpose and the amount requested. It also contains information concerning the client, his/her business experience, level of education, etc. The loan dossier contains a financial analysis of the client's enterprise. It contains information concerning the client's credit worthiness.

2. The loan contract.
3. The life insurance policy.
4. A description of the collateral offered (collateral documents are kept separately in a vault).
5. A follow up investment report which indicates whether the loan was used for the purpose intended.

The client file does not contain a written "loan request" from the client. ACEP's management judges such a loan request superfluous since its clients are mostly illiterate, and the loan request would need to be written by the ACEP Branch Manager. The loan dossier has all the information that any loan application would contain. There seems to be no reason to have the Branch manager prepare the loan dossiers and loan applications.

AT ACEP, the correspondence with attorneys concerning clients is filed separately by attorney. ACEP engages several attorneys to deal with non-performing loans, and ACEP's management meets monthly with each attorney to review his portfolio. They find it more convenient to file the correspondence by attorney rather than by client.

B. The Computerized Loan Tracking System

The NTF advisor states that neither the head of the audit team nor the auditor reviewing the loan portfolio made any inquiries concerning their computer system nor did they ask for a demonstration of the computerized loan tracking system. The advisor asserts the computer tracking system was designed by an expert well known in the field. The system has been demonstrated to an endless number of credit and finance experts. It is excellent and provides all the information that management needs.

For the loan portfolio analysis the auditor was provided, without delay, the following items:

a) the outstanding balances for current loans as of September 30, 1992 (1,500 loans for total of 787,341,643 FCFA) with a heading clearly indicating that these were performing "healthy" loans,

b) the outstanding balances for non performing loans as of September 30, 1992 (92 loans for a total of 28,276,523 FCFA) with a heading clearly indicating that these were non-performing loans,

c) the outstanding balances for loans charged-off in 1992 (61 loans for 13,100,976 FCFA) with a heading clearly stating that these were charge-offs,

d) a listing of loans from the non-performing portfolio for which provisions were made and the amount of the provision for each loan,

e) an interest income report for 1992 indicating total interest collected, the portion of the interest taken up as income in 1992 and the portion considered unearned. This report was by branch office and by loan. Furthermore, at the auditor's request, ACEP produced the listing desegregating the outstanding balances for 1992 into interest due and principal due. For the auditor's tests, over 200 individual client statements were produced .

The auditor reviewed 200 individual files for 26% of the portfolio's value: no instances were reported of discrepancies between contracts and client computer statements; no instances of discrepancies between reimbursement receipts and client statements; no instances of loans in the "healthy" portfolio which should be declared non-performing; no instances of loans in the non-performing portfolio which should be written-off; no instances of insufficient provisions.

It is correct that "non-performing" or "bad loan" is not written across the client's file. ACEP agrees to label them as "Non-performing" or "bad loans". ACEP found no need to do that since these files are tracked separately by their computer, the files are segregated from the healthy portfolio and are retained in the filing system of the legal department.

ACEP disagrees with the auditors' recommendation that collateral be kept in a client's file. The collateral constitutes ACEP's assets and thus should be secured. Banks in Senegal and other West African countries have had unpleasant experiences with collateral that has vanished or sold. Indeed, if there was any delay in providing the auditor information it came from the fact that for each loan file requested by the auditor, ACEP staff had to retrieve collateral from the vault in order to complete the file.

Finding # 4 Recommendation #4
(The transfer of non-performing loans to the legal department is not sufficiently documented).

The memorandum from Regional Managers to request that a particular loan be transferred to Non-Performing status is simply a way of informing Management (in particular those who are on the loan committee) that these are the loans which will need a review and a decision.

When management meets to analyze the request, the details concerning previous collections are given and examined. The legal department takes notes and transmits this information to ACEP's attorneys. This is satisfactory to ACEP and to their attorneys. There seems no need to burden the Regional Managers with requirements that the history of each client going into non-performing status be written up. Banks deal with clients whose enterprises are much more complex and the reasons for default can be complicated and varied, but in ACEP's case the files are simple and the reasons for default are similar.

As to the issue of setting provisions for possible credit losses, ACEP does not agree with the system of automatic percentages by collateral category proposed by the auditors. The value of collateral evolves (equipment can deteriorate, cars can have accidents, etc.), thus each case needs to be evaluated and provisions set according to the state of the collateral and ease of realization at the date when provisions are decided.

Finding #5 Recommendation #5
(The way of determining the repayment rate utilized by ACEP does not conform with the banking practices in effect).

Merely to assert that something is banking practice doesn't make it useful, and this is a case in point. Bank reports do not talk about recovery rates. In dealing with the quality

APPENDIX F

of assets, banks usually give the following information concerning the loan portfolio for a particular reporting period:

a) Total loans outstanding,
b) Total non-performing loans outstanding,
c) Charge-offs (for the reporting period),
d) Recoveries on previous charge-offs (during the reporting period),
e) Allowance for possible credit losses (ending balance for the period).

From this information the following key ratios for analyzing asset quality are examined:

a) Non-performing loans / total loans outstanding,
b) Charge-offs / total loans outstanding,
c) Net charge-offs (charge-offs - recoveries) / total loans outstanding,
d) Allowances for credit losses / total loans outstanding.

This is exactly the information which ACEP provided in its 1992 report:

a) Total loans outstanding: .... 815,618,166 FCFA
b) Total non-performing loans outstanding: .. 28,276,523 FCFA
c) Total charge-offs: .... 13,100,976 FCFA
d) Recoveries on previous charge-offs: 2,390,196 FCFA
e) Allowance for losses: ....16,140,274 FCFA

This gives the following rations for ACEP in 1992

Non-performing loans ....3.4% of loans outstanding

Charge-offs ....1.6% of loans outstanding

Net Charge -offs 1.3% of loans Outstanding

Allowance for credit losses ....2% of loans outstanding

The above are the standard ratios used in analyzing the quality of assets; these are the ratios that U.S. federal bank regulators use in their EWS (Early Warning System) and in their CAMEL (Capital adequacy, Asset Quality, Management, Earnings, Liquidity) bank rating system. There is no single formula to establish a portfolio's quality; rather, a set of ratios is examined. The ratio offered by the auditors shows the percentage of the portfolio which is performing flawlessly. We agree that 94% of ACEP's portfolio performs flawlessly.

ACEP's final recovery rate in 1992 remains 98.4% and their final net recovery rate remains 98.7%.

Finding # 6 Recommendation # 6
(Payments to the suppliers are not always made on the basis of valid invoices)

See comments under RIG recommendation 1.

Finding #7 Recommendation # 7

(Inadequate Appraisal and non-registration of collateral)

We believe ACEP's procedures are adequate. We disagree with recommendation no. 7. In view of the following explanation, we request that the finding and associated recommendation be reassessed.

Inadequate Appraisal

ACEP's average loan is CFA F 750,000 ($2,700). Most of ACEP's loan are secured by liens on equipment or vehicles or by co-makers. Co-makers are accepted only if they present an official salary statement which shows that they would have the ability to repay the loan in case of default. A copy of the latest salary statement is attached to the loan file. Thus, in the case of co-makers (guarantors), all the evidence of financial solvency is on file.

When equipment or vehicles are accepted as collateral, ACEP branch managers make the first assessment, this is followed by an assessment from the Regional Manager and finally by the legal department. The assessed value of the collateral is noted on the loan dossier. To demand that ACEP provide assessment documents for liens on vehicles and equipment would require that ACEP engage professional assessors.

This is not appropriate for two reasons: a) the costs of such assessments are high and not justified in view of the average loan size; b) professional assessors are notoriously corrupt in Senegal, and it is a widely held perception that their inflated assessments contributed to the bankruptcy of

Senegal's banking system.

Non-Registration of Collateral

All collateral is properly registered by ACEP. All liens are registered with a notary. In cases of liens on vehicles, ACEP registers the lien with a notary but does not require the full registry of the lien with the Motor Vehicles Department. The reason for not requiring a full registry is the high cost to the client.

In order to fully register the lien on a vehicle that the client intends to purchase, a transfer of title would be required from the original seller to ACEP and then from ACEP to the new buyer (ACEP's client). This procedure involves the payment of a 5% sales tax during the transfer of title from the seller to ACEP, plus other taxes (on average CFA F 30,000) at the moment the title is transferred to ACEP and again when the title is finally transferred to the client.

The procedure that ACEP uses fully protects ACEP even if, because the lien is not registered at the Motor Vehicles Department, the client should sell the vehicle. In such a case, ACEP on the basis of its notarized lien, can reclaim the vehicle from the new owner. This was established by Senegal's Court of Appeals on December 4, 1992 in the case of ACEP versus Medou Fall Ndiaye.

ACEP sees no reason to change its procedures. The organization serves a clientele different from the one served by banks and its procedures take into account the small size of the loans and the costs to the client.

Finding # 8 Recommendation # 8.

(Tax Exoneration Status not Always complied with).

See comments to RIG recommendation no. 1.

Finding # 9 and recommendation # 9

(Interest Calculations do not respect the standard Banking Practices)

The law on usury was amended in Senegal on June 25, 1981 (Loi No. 81-25 relative à la répression des opérations usuraires). This law defined the usury rate as being one that is higher than two thirds above the banking maximum rate. As an example the law stated " the maximum lending rate authorized for banks today is 15.5% ; therefore, it follows that usury would be any rate above 25.83%". In November 1992, the maximum bank rate was lifted to 17.5% and the usury rate to one above 29.16 % [(12.5 + 5) + 11.66] (copy of the law attached).

The balance of the issues in this finding have been addressed in our response to the Inspector General's Recommendation #3, and the auditors' finding # 3.

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