

Regional Inspector General for Audit
Nairobi, Kenya

Audit of
the Non-Project Assistance Program
to the Government of the Republic of Djibouti
Grant Nos. 603-K-601A,C,D,E and 603-K-602

Report No. 3-603-94-008-N
March 18, 1994



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UNCLASSIFIED
GENERAL

U.S. AGENCY FOR INTERNATIONAL DEVELOPMENT



U.S. AGENCY FOR
INTERNATIONAL
DEVELOPMENT

March 18, 1994

TO: Director REDSO/ESA, Fred C. Fischer

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

SUBJECT: Audit of the Non-Project Assistance Program to the Government of the Republic of Djibouti, Grant Nos. 603-K-601A,B,C,D and E and 603-K-602, A.R. No. 3-603-94-008-N

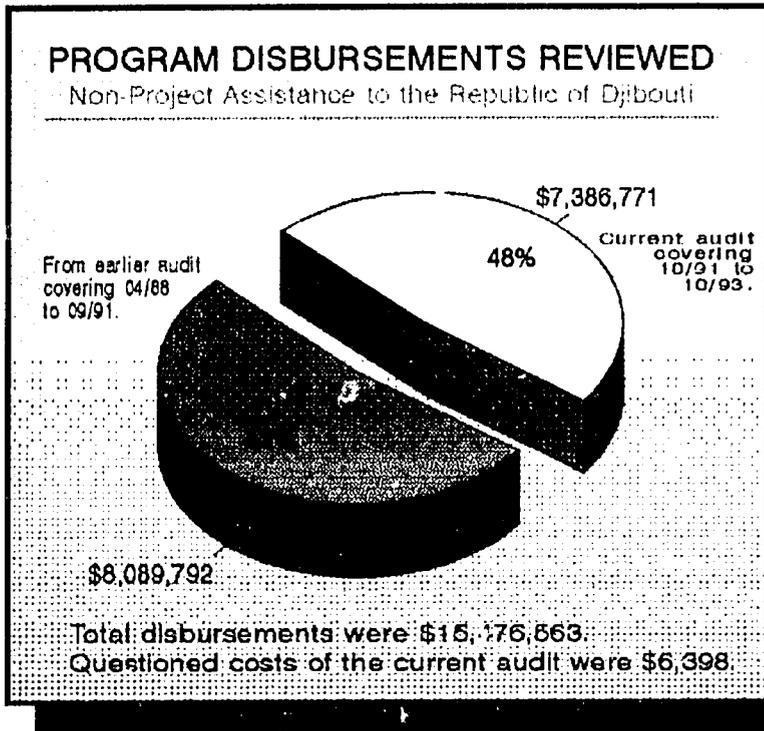
*Regional
Inspector General
for Audit/Nairobi*

Attached are five copies of an Agency-contracted Audit of the Non-Project Assistance Program to the Government of the Republic of Djibouti. The non-federal accounting firm of KPMG Peat Marwick, Nairobi, Kenya performed the audit.

The Non-Project Assistance (NPA) Program No. 603-0022 was initiated in April 1988 and consisted of a series of cash grants of approximately \$13 million to assist the Government of the Republic of Djibouti (GROD) in reducing its deficit, thereby supporting economic and political stability in the country. A new NPA Program No. 603-0024 was initiated on September 24, 1992, and obligated an additional \$2 million. Eligible uses of the cash grants under both Programs included:

- multilateral debt service payments;
- eligible bilateral debt service payments; and
- public sector imports of U.S. services and commodities.

As of October 31, 1993, \$15,476,563 had been disbursed by the GROD including all of the cash grants under both Programs and also interest earned by these funds. This audit covers the receipt and disbursement of grant funds during the period October 1, 1991 to October 31, 1993. Disbursements during the audit period totalled \$7,386,771. Earlier Program disbursements of \$8,089,792 were covered by a prior Agency-contracted audit (Audit Report No. 3-603-92-09-N, dated April 30, 1992). (See chart on the following page.)



The objective of the audit was to examine GROD's Fund Accountability Statements (Statements) and to express an opinion as to whether the Statements present fairly the use of funds in accordance with the grant agreements. To answer the objective, the auditors were asked to consider GROD's internal control structure to determine the auditing procedures necessary to express an opinion on the Statements, and to report on significant

internal control weaknesses. As part of obtaining reasonable assurance the Statements were free of material misstatement, the auditors were required to test GROD's compliance with terms of the grant agreements and to report any identified material instances of non-compliance.

The auditors issued a qualified opinion on the Fund Accountability Statement since the audit identified \$6,398 in questioned costs that were unsupported. The audit identified one instance of material noncompliance with the grant agreements and the report on the internal control structure identified five areas that the auditors considered to be material weaknesses. Some of these weaknesses were included in the prior audit of this Program. Weaknesses identified can be summarized as follows:

- failure to reconcile bank statements or check the calculation of interest credited to the Program's bank accounts,
- lack of proper authorizations for some Program payments, and
- Program payment documents not filed separately in a systematic basis.

The draft report was submitted to GROD and to REDSO/ESA for comments and their comments were taken into consideration in the preparation of the final report. GROD

- b -

and REDSO/ESA comments are included in the final report as Appendix I and II, respectively. REDSO/ESA generally agreed with the audit findings and recommendations included in the audit report. Although GROD agreed with most of the audit findings and recommendations, it disagreed with the auditors' assessment of certain supporting documentation and considered the questioned unsupported costs to be fully supported. RIG/A/N believes that the amounts are properly questioned.

The report contains six recommendations covering the questioned costs and internal controls. It is REDSO/ESA's responsibility to ensure appropriate action is taken on all the recommendations. We are including the following recommendations in the Office of the Inspector General's audit recommendation follow-up system:

Recommendation No. 1: We recommend that the Director, Regional Economic Development Services Office for East and Southern Africa determine the allowability, and recover as appropriate from the Government of the Republic of Djibouti, questioned unsupported costs of \$6,398.

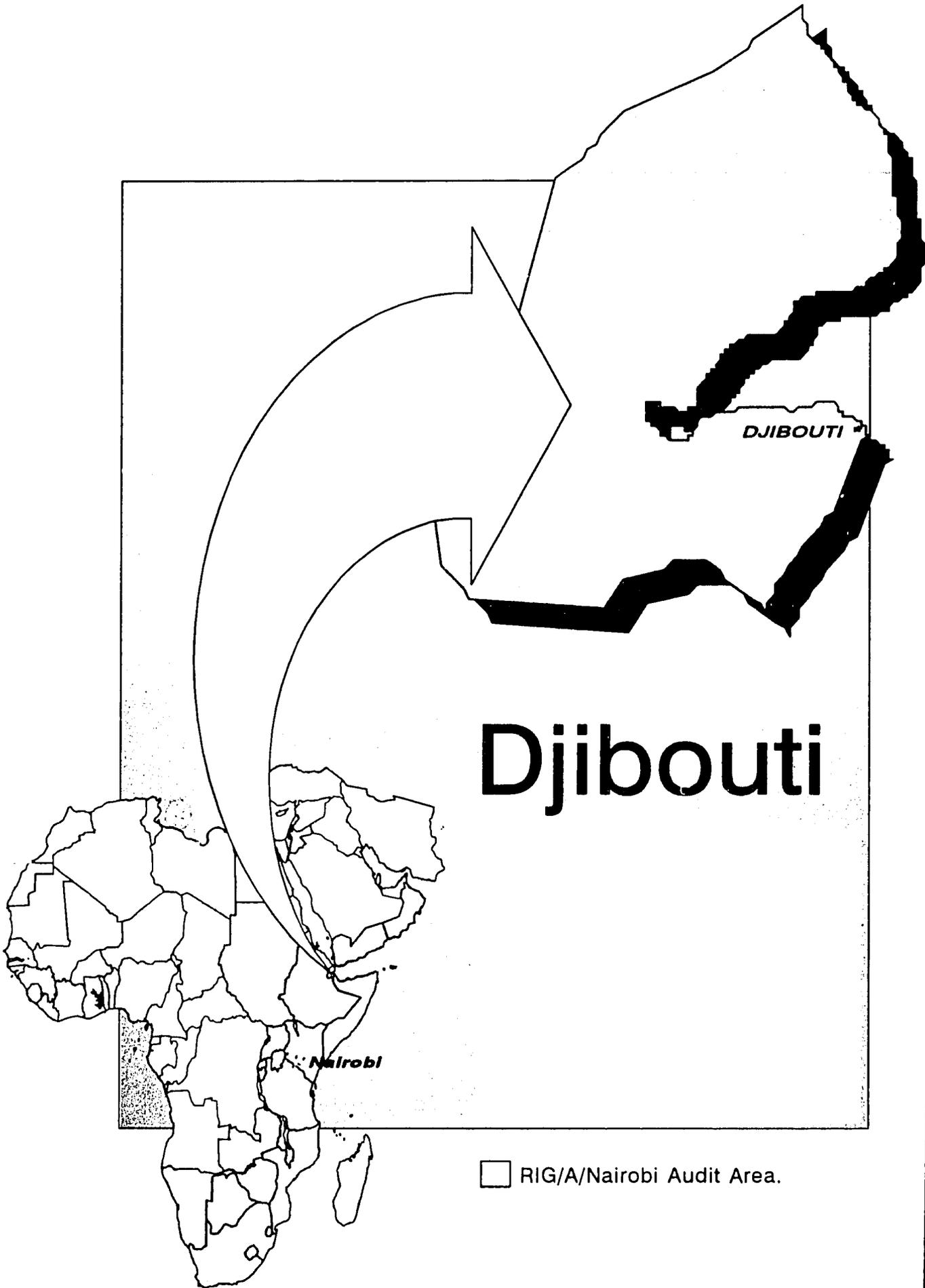
Recommendation No. 2: We recommend that the Director, Regional Economic Development Services Office for East and Southern Africa obtain from the Government of the Republic of Djibouti a plan to improve its internal control structure for USAID grant funds to include:

- 2.1 reconciling Program receipts and disbursements with monthly bank statements; and
- 2.2. filing all payments documents relating to the NPA Program in payment date order in a separate NPA File.

We consider both recommendations to be unresolved. Recommendation No. 1 will be resolved when REDSO/ESA makes a final determination as to the allowability of the questioned amount. The recommendation will be closed when REDSO/ESA takes action appropriate to the determination. Recommendation No. 2 will be resolved when RIG/A/N receives a copy of an acceptable plan for improving internal controls. The recommendation will be closed upon evidence of implementation of the corrective action. Please respond to this report within 30 days indicating action planned or already taken to implement the recommendations.

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

Attachments: a/s.



Djibouti

RIG/A/Nairobi Audit Area.

[Handwritten signature]

**Audit of the Non-Project Assistance Program
to the Government of the Republic of Djibouti,
Grant Nos. 603-K-601A,B,C,D and E and 603-K-602,**

A.R. No. 3-603-94-008-N

ATTACHMENTS

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**AGENCY-CONTRACTED AUDIT OF THE
GOVERNMENT OF THE
REPUBLIC OF DJIBOUTI
UNDER THE DJIBOUTI NON-PROJECT
ASSISTANCE PROGRAM**

PROJECT NOS. 603-0022 AND 603-0024

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**AGENCY-CONTRACTED AUDIT OF THE GOVERNMENT
OF THE REPUBLIC OF DJIBOUTI (GROD) UNDER
THE DJIBOUTI NON-PROJECT ASSISTANCE PROGRAM,
PROJECT NOS. 603-0022 AND 603-0024**

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- II Management Comments: USAID

1. INTRODUCTION

1.1 Background

The Djibouti Non-Project Assistance Program (NPA) No.603-0022 was a US dollar cash grant program to assist the Government of the Republic of Djibouti (GROD) to reduce its budget deficit, thereby supporting economic and political stability in the country. The eligible uses of the cash grants are as follows:-

- multilateral debt service payments;
- eligible bilateral debt service payments; and
- public sector imports of US services and commodities.

The program consisted of the following grants:-

<u>Grant No.</u>	<u>US\$</u>
603-K-601	3,000,000
603-K-601A	3,000,000
603-K-601B	1,742,000
603-K-601C	1,300,000
603-K-601D & E	<u>4,005,040</u>
	<u>13,047,040</u>

Out of Grant Nos. 603-K-601D & E, US\$40,000 was retained by USAID for the payment of audit fees.

A new NPA Program No.603-0024 was signed on September 24, 1992, which obligated US\$2,000,000 during USAID fiscal year 1992 under Grant No.603-K-602.

Bellhouse Mwangi Ernst & Young performed an agency-contracted financial audit (No.3-603-92-09-N, dated April 30, 1992) of the NPA covering the period from inception of the NPA to September 30, 1991. The Grants covered by the audit were as follows:-

<u>Grant No.</u>	<u>Revenue including Bank interest</u> <u>US\$</u>	<u>Expenditures/ Inter Account Transfers</u> <u>US\$</u>
603-K-601	3,079,490	3,079,490
603-K-601A	3,192,766	2,958,078
603-K-601B	1,763,171	1,763,171
603-K-601C	<u>1,355,340</u>	<u>289,053</u>
	<u>9,390,767</u>	<u>8,089,792</u>

1.2 Audit Objectives

Peat Marwick was contracted, under its Indefinite Quantity Contract (No. 623-0000-I-00-2005-00), to perform an agency-contracted audit of GROD under NPA Program Nos. 603-0022 and 603-0024 (the Grants) for the period October 1, 1991 to October 31, 1993, in accordance with generally accepted auditing standards and the U.S. Comptroller General's "Government Auditing Standards" (1988 Revision). The principal objective was to determine whether expenditures by GROD are adequately supported in accordance with the provisions of the Grants and are allowable, allocable and reasonable.

With respect to the costs claimed, the objectives of the engagement were to:

- audit GROD'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 Grants;
- consider GROD'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 GROD's compliance with the terms of the Grants, as part of obtaining reasonable assurance about whether the Fund Accountability Statement is free from material misstatement, and report on any identified material instances of non-compliance.

1.3 Audit Scope

The scope of our audit is set out below.

(a) Audit report on the Fund Accountability Statement

Our audit report covers the receipt and use of funds under the Grants during the period October 1, 1991 to October 31, 1993.

(b) Audit Report on GROD's internal control structure

The audit reviewed the internal control structure relevant to the recording of receipts and disbursements by GROD under the Grants.

(c) Audit Report on GROD's compliance with the Grants

The audit report covers only GROD's compliance in respect of the Fund Accountability Statement under the Grants.

1.4. Restrictions on Audit Scope

Within the parameters stated above, there were no restrictions on our audit scope with the exception that we have not complied with Government Auditing Standard 3.46 regarding external quality control review. We do not, however, believe that this scope limitation had an adverse effect on our audit.

1.5. Audit Methodology

Peat Marwick conducted an initial survey of the accounting records of USAID in Nairobi and GROD in Djibouti from November 8, 1993 to November 21, 1993, at which time the selection of transactions for detailed testing was completed. Peat Marwick prepared its audit work program for approval by RIG/A/N, secured approval and performed the field work from November 22, 1993 to December 5, 1993.

The principal audit steps performed included:

- a review of the terms and conditions of the Grants, applicable standard provisions and regulations and other project documents as deemed necessary;
- a review of GROD's internal control structure in order to assess the auditee's significant internal control policies and procedures, and the adequacy of GROD's accounting system and internal controls;
- performance of detailed compliance procedures to evaluate GROD's compliance with the Grants;
- performance of audit procedures to obtain reasonable assurance of detecting errors, irregularities and illegal acts, as defined by AICPA Statements of Auditing Standards 53 and 54;
- testing of receipt and disbursement transactions from the Fund Accountability Statement to determine the extent of non-compliance, unallowable or unallocable expenses and the effectiveness of internal controls. Due to the nature of the accounting records, we tested 100% of transactions.

1.6 Summary of Audit Results

1.6.1 Audit report on the US Dollar Fund Accountability Statement

Our audit report on the Fund Accountability Statement is set out in section 2. Our audit report states that the Statement is fairly stated with the exception of questioned costs of US\$6,398.

1.6.2 Review of GROD's internal control structure

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

- authorization of transactions;
- filing of accounting documents.

1.6.3 Review of compliance with the Grants

Our review of GROD's compliance with the Grants is set out in section 4. Our review indicated that GROD has not complied with the requirements of the Grant agreements concerning the maintenance of adequate books and records.

1.7 Summary of Recommendations

A summary of our recommendations is set out below.

	<u>Recommendation</u>	<u>Page</u>
USAID to resolve questioned costs of US\$6,398	1	10
GROD to check calculation of interest credited to project bank accounts	2	14
GROD to reconcile Project receipts and disbursements with bank statements on a monthly basis.	3	14
All project payments to be supported by third party documents authorized by the Ministry of Finance.	4	15
Combined Payment Orders to be supported by Payment Mandates authorized by the Director of Finance.	5	15
GROD to file all project payment documents by payment date in a separate project file.	6	16

1.8 Summary of GROD Management Comments

The response of GROD management to our draft report is included in Appendix I. GROD management accept our recommendation No's 2, 3, 5, 6. GROD management do not accept part of recommendation No.4, and advise that they consider all payments to be satisfactorily authorized and supported by original documents.

In relation to recommendation No.1, GROD management consider that the lending agencies interest payment request letters indicate correct interest payable and accordingly the questioned interest expenditures of US\$6,398 are fully supported.

1.9 Summary of USAID Management Comments

USAID management comments are included in Appendix II to this report. USAID consider that the report presents a fair assessment of GROD's accounting and internal control system.

KPMG Peat Marwick

Certified Public Accountants

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2. **AGENCY CONTRACTED AUDIT OF THE GOVERNMENT
OF THE REPUBLIC OF DJIBOUTI (GROD) UNDER
THE DJIBOUTI NON-PROJECT ASSISTANCE PROGRAM,
PROJECT NOS. 603-0022 AND 603-0024**

**INDEPENDENT AUDITOR'S REPORT ON THE FUND
ACCOUNTABILITY STATEMENT**

We have audited the Fund Accountability Statement of GROD's NPA program for the period October 1, 1991 to October 31, 1993. This financial statement is the responsibility of GROD. Our responsibility is to express an opinion on this financial statement based on our audit.

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

The Fund Accountability Statement was prepared on a cash receipts and payments basis which is a comprehensive basis of accounting other than generally accepted accounting principles.

In our opinion, the Fund Accountability Statement of the GROD Non-Project Assistance Program for the period October 1, 1993 to October 31, 1993 is fairly stated on the above accounting basis, with the exception of questioned costs of US\$6,398. Details of the questioned costs are set out in section 2.2.

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

Peat Marwick

CERTIFIED PUBLIC ACCOUNTANTS

NAIROBI

Date: *December 5, 1993*

2.1 **Fund Accountability Statement of the Djibouti Non-Project Assistance Program, Project Grant Agreement Nos. 603-0022 and 603-0024 for the period October 1, 1991 to October 31, 1993**

<u>Year</u>	<u>Notes</u>	<u>FY 1989</u>	<u>FY 1991</u>	<u>FY 1991</u>	<u>FY 1992</u>	<u>Total</u>
<u>Grant No.</u>		<u>603-K-601A</u>	<u>603-K-601C</u>	<u>603-K-601D&E</u>	<u>603-K-602</u>	
<u>Bank A/c.</u>		<u>BTA 59</u>	<u>BTD 62</u>	<u>BTE 63</u>	<u>BTF 64</u>	
		<u>US\$</u>	<u>US\$</u>	<u>US\$</u>	<u>US\$</u>	<u>US\$</u>
REVENUE 1						
Balance b/forward		234,688	1,066,287	-	-	1,300,975
Grant	1	-	-	3,965,040	2,000,000	5,965,040
Interest		2,898	10,424	83,754	20,729	117,805
Refund	2	-	-	2,951	-	2,951
Total		<u>237,586</u>	<u>1,076,711</u>	<u>4,051,745</u>	<u>2,020,729</u>	<u>7,386,771</u>
EXPENDITURE 3						
Debt service payments		91,233	1,076,092	3,920,049	2,152,425	7,239,799
Import of US Services		146,972	-	-	-	146,972
Total		<u>238,205</u>	<u>1,076,092</u>	<u>3,920,049</u>	<u>2,152,425</u>	<u>7,386,771</u>
Surplus/ (Deficit) of Revenues over Expenditures		(619)	619	131,696	(131,696)	-
Inter-Account transfers		619	(619)	(131,696)	131,696	-
Balance as at October 31, 1993		<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>

2.1.1 Notes to the statement

1. Revenues

Revenues represent the value of each Grant actually transferred to each project bank account operated by GROD, together with interest earned on each account. The amount transferred to bank account No. BTE 63 for FY 1991 is reconciled to the Grant total as follows:-

	US\$
Total Grant value per Grant Nos. 603-K-601D & E	4,005,040
Less: retained by USAID under the Grant for payment of audit fees	(40,000)
Transferred to bank account No.BTE 63	<u>3,965,040</u>

2. Amounts refunded by GROD

The amounts refunded by GROD represent amounts determined under the previous audit as recoverable by the Program as follows:-

	US\$
Interest earned, not credited	1,152
Unsupported payment to Fond Africain Du Developpement	895
Claimed by GROD in excess of payments for eligible purposes	<u>904</u>
	<u>2,951</u>

3. Expenditures

Expenditures represent amounts actually paid to multilateral and bilateral agencies for servicing of GROD debt, together with payments for US services.

2.2 Fund Accountability Statement of GROD under the Djibouti Non-Project Assistance Grant Nos.603-0022 and 603-0024 for the period October 1, 1991 to October 31, 1993 - Questioned Costs

	<u>Total Disbursed</u> US\$	<u>Disbursements recommended for acceptance</u> US\$	----- <u>Questioned Costs</u> ----- <u>Ineligible Disbursements</u> US\$	<u>Unsupported Disbursements</u> US\$	<u>Reference</u>
Debt service payments	7,239,799	7,233,401	-	6,398	2.3
Import of US Services	<u>146,972</u>	<u>146,972</u>	<u>-</u>	<u>-</u>	2.3
	<u>7,386,771</u>	<u>7,380,373</u>	<u>-</u>	<u>6,398</u>	

2.3 Expenditures

Expenditures represent payments to multilateral and bilateral agencies for services of GROD debt, together with payments for US commodities and services.

Verification

The following verification work was performed:-

Debt Servicing

1. Vouched payments for servicing of GROD debt to originating third party documentation.
2. Ensured that debt service payments are made in order of priority of class of debt as specified by the Grant agreements.
3. Ensured that the debts being serviced are not for purposes which are ineligible under the Grants.

US Services

1. Vouched payments for US services to originating third party documents.
2. Ensured that the payments were not for services which are ineligible under the Grants.

Results

1. Questioned (unsupported) costs amounted to US\$6,398. The costs relate to payment of interest on a loan from the Kuwait Fund for Arab Economic Development (KFAED). Whilst the interest paid agrees to payment request letters received from KFAED, there is no supporting interest payment schedules to support the interest payment. The GROD had an internally generated interest payment schedule. However, the interest paid does not agree with this schedule. The questioned amount is the difference between the amount paid, as agreed with the payment request letter, and the interest as calculated on the internally generated interest payment schedule, as follows:-

<u>Payment Date</u>	<u>Interest paid per Request Letter</u> KD	<u>Interest to pay per Schedule</u> KD	<u>Difference</u> KD	<u>Exchange Rate</u> US\$	<u>Total</u> US\$
09.12.92	8,213	7,344	869	3.365	2,924
22.12.92	7,949	6,912	1,037	3.357	3,481
15.04.93	6,478	6,480	(2)	3.330	(7)
					<u>6,398</u>

KD = Kuwait Dinar

2. All other payments were adequately supported by originating third party documents.
3. The priority order for payment of debt servicing on a monthly basis was satisfactorily observed.

Recommendation No.1

We recommend that GROD obtain an interest repayment schedule from KFAED detailing the periodic interest charge. If GROD is unable to obtain the interest repayment schedule, GROD should refund US\$6,398 to the project bank accounts.

GROD Management Comment

GROD management advise that the internally generated schedule is purely for the purpose of enabling GROD to make provisions for future reimbursements. GROD consider that the lending agencies payment request letters indicate the correct interest payable and accordingly the interest expenditures are fully supported.

Certified Public Accountants

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3. **AGENCY CONTRACTED AUDIT OF THE GOVERNMENT OF THE
REPUBLIC OF DJIBOUTI (GROD) UNDER THE NON-PROJECT
ASSISTANCE PROGRAM, PROJECT GRANT
NOS. 603-0022 AND 603-0024**

**INDEPENDENT AUDITOR'S REPORT
ON THE INTERNAL CONTROL STRUCTURE**

We have audited the Fund Accountability Statement of the GROD Non-Project Assistance Program for the period October 1, 1991 to October 31, 1993 and have issued our report thereon dated December 5, 1993.

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

In planning and performing our audit of the financial statements of the GROD Non-Project Assistance Program we considered GROD's internal control structure in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statement and not to provide assurance on the internal control structure.

The GROD 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:-

- Control over receipts of US dollars under the Grants.
- Controls over the recording of transactions.
- Controls over the recording and authorization of disbursements from the Project bank accounts.
- Controls over project reporting to USAID.

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

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

A description of reportable conditions is set out on pages 14 to 16 immediately following this report.

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

Our consideration of the internal control structure would not necessarily disclose all matters in the internal control structure that might be reportable conditions and, accordingly, would not necessarily disclose all reportable conditions that are also considered to be material weaknesses as defined above. In our opinion the reportable conditions set out on pages 14 to 16 are all material weaknesses.

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

Peat Marwick

CERTIFIED PUBLIC ACCOUNTANTS

NAIROBI

Date: *December 5, 1992*

3.1 Introduction

3.1.1 Definition

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

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

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

We have classified the internal control structure of GROD on a functional basis relating to the administration of the Grants as follows:

- Control over receipts of US dollars under the Grant.
- Controls over the recording of transactions.
- Controls over the recording and authorization of disbursements from the Project bank accounts.
- Controls over project reporting to USAID.

3.2 Findings

3.2.1 Checking of interest income charged to the project bank accounts

Observation

It was observed that GROD does not check the calculation of interest credited to the project bank accounts.

Recommendation No.2

The GROD should check the calculation of interest credited to the project bank accounts immediately after reviewing bank statements. The check over interest credited should be documented and any discrepancies followed up by GROD with the bank on a timely basis.

GROD Management Comments

GROD management concur with the recommendation.

3.2.2 Reconciliation of bank statements

Observation

It was observed that GROD does not reconcile its records of project receipts and disbursements with bank statement balances.

Recommendation No.3

It is recommended that in order to ensure that project receipts and disbursements are correctly recorded, project receipts and disbursements recorded by GROD are reconciled on a monthly basis with bank statements received from the bank. All unreconciled items should be followed up by senior GROD officials to ensure project transactions are correctly recorded.

GROD Management Comments

GROD management concur with the recommendation.

3.2.3 Authorization of Project Disbursements

Observation

It was observed that a number of payments to multilateral and bilateral agencies for the servicing of GROD debt were supported only by telex payment requests. In addition a number of payment requests had not been signed as authorized for payment by the Ministry of Finance prior to being paid by the Treasury.

Recommendation No.4

All payments under the Grants should be supported by originating third party documents which have been satisfactorily checked and authorized for payment by the Ministry of Finance.

GROD Management Comments

GROD management advise that they will request the multilateral and bilateral agencies to submit originating signed supporting documents in future. However, they advise that they consider that all payments are satisfactorily authorized and supported by original documents.

3.2.4 Authorization of Payments

Observation

It was noted that project payments by the bank are supported only by a Combined Payment Order (Bordereau Detaille des Ordres de Virement) signed by National Treasurer. This Combined Payment Order is prepared by the Treasury from individual Payment Orders having the same details as payment mandates authorized by the Director of Finance in the Ministry of Finance. There is neither evidence of checking of the accuracy of the Combined Payment Order against the individual payment mandates, nor are the payment mandates presented to the bank as support for the payment instructions on the Combined Payment Order. We consider that there are insufficient controls in place to ensure adequate authorization of project payments by the bank.

Recommendation No.5

Combined Payment Orders signed and submitted to the bank by the National Treasurer should in all cases be supported by the payment mandates authorized by the Director of Finance in the Ministry of Finance.

GROD Management Comments

GROD management concur with the recommendation.

3.2.5 Filing of Project Payment Documents

Observation

NPA project payment orders were not filed separately in a systematic basis. The GROD Treasury files NPA payment orders together with all other GROD payment orders. Accordingly, there was considerable delay in tracing documents required for audit purposes.

Recommendation No.6

GROD should file all payment documents relating to the NPA project in payment date order in a separate NPA file.

GROD Management Comment

GROD management concur with the recommendation.

Certified Public Accountants

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Kenya

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4. **AGENCY CONTRACTED AUDIT OF THE GOVERNMENT OF
THE REPUBLIC OF DJIBOUTI (GROD) UNDER THE NON-PROJECT
PROGRAM, PROJECT GRANTS NOS.603-0022 AND 603-0024**

**INDEPENDENT AUDITORS REPORT ON GROD'S COMPLIANCE
WITH THE PROJECT GRANT AGREEMENT REGULATIONS**

We have audited Fund Accountability Statement of the GROD Non-Project Assistance Program for the period October 1, 1991 to October 31, 1993 and have issued our report thereon dated December 5, 1993.

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

Compliance with the Grants is the responsibility of GROD. As part of obtaining reasonable assurance about whether the financial statements are free of material misstatement, we performed tests of GROD's compliance with certain provisions of the Grants. However, the objective of our audit was not to provide an opinion on overall compliance with such provisions. Accordingly, we do not express such an opinion.

Material instances of non-compliance are failures to follow requirements, or violations of prohibitions, contained in statutes, regulations, contracts or grants that cause us to conclude that the aggregation of the misstatements resulting from these failures or violations is material to the financial statements. The results of our tests of compliance disclosed the following material instance of non-compliance.

The section "Reports, Records, Inspections, Audit" of each Grant agreement requires that "the Grantee will maintain, or cause to be maintained, in accordance with generally accepted accounting principles and practices consistently applied, such books and records relating to this Agreement as are necessary to show adequately, without limitation, deposit into and compliance with this agreement". As noted in section 3, we are of the opinion that adequate books and records have not been maintained.

We considered this material instance of non-compliance in forming our opinion on whether GROD's NPA Program Fund Accountability Statement is presented fairly, in all material respects, in conformity with generally accepted accounting principles, and this report does not affect our report dated December 5, 1993 on the Fund Accountability Statement.

Except as described above, the results of our tests of compliance indicate that GROD 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 GROD had not complied, in all material respects, with those provisions.

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

Peat Marwick

CERTIFIED PUBLIC ACCOUNTANTS

NAIROBI

Date *December 5, 1993*

Embassy of the United States of America



AMERICAN EMBASSY

D J I B O U T I

BY TELETYPE

DATE: 03 MARCH 1994

FROM: JOSEPH PHILLIPS CHICOURT
DEPUTY CHIEF OF MISSION
AMERICAN EMBASSY
DJIBOUTI

FAX: (253) 35 39 40

TO : RICHARD GALT
LEGATION DES ETATS UNIS
NAIROBI, KENYA

FAX (254) 2 213551

REFERENCE: 6 PAGES

SUBJECT: CURE CONVENTION ON THE AFRICAN TIGRIS

FORWARDED TO THE CURRENT FACILITY, BEIRUT AND BEIRUT WASHINGTON.
REPLY PASS COPY TO NAIROBI BUREAU, KENYA.

REGARDS.

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APPENDIX I
(Cont'd)Comments on the audit report
-----1.5 Summary of the audit results.

During your audit in Djibouti, you had noticed that the financial statements of the Government of Djibouti (GROD) were reflecting fairness.

You had obtained a direct and independent confirmation from the WCI regarding payments from the special dollar account.

1.6.2. Review of the internal control structure of the GROD.

The Government is taking the required actions to remedy to the situation.

3.2.3. Payments authorisation

The transactions are duly authorized and supported by originals documents and approved.

Regarding telexes used as supporting documents for reimbursement of multilateral and bilateral debts, we have to indicate that some of donors prefer to use the telex for payment du to minimize the time. Therefore, from now on the Government of Djibouti will take the required actions to inform the donors that in future invoices should be submitted.

The National Treasury of the GROD, has a filing system corresponding to the budget line items. The GROD accepts to adopt a separate filing for all documents related to the USAID assistance.

CommentsResult 1 p 9

1. The exact date of payment to which you are referring does not make supporting documents, it is only an internal documents allowing to do the provisions (capital and interests) for future reimbursements.

2. You have to note that the interests requested can be different from our provisions du the effective date considered by the donors to determine the interests amounts.

3. Concerning the expenses considered not justified, we have to underline that there is a contradiction from your part, one side you state in your report, that the payments by the GROD are done according the letters of request for payments established by the donors, other side you state that the expenses are not justified.

4. The supporting documents of the expenses occurred are attached.

APPENDIX I
(Cont'd)

Translation letter dated 1/20/94 from the Minister of Finance Ref: 99/MF

Monsieur Joseph Philippe Gregoire
Charge d'Affaires
American Embassy
Djibouti

Subject: Audit project

Re: your letter dated 1/3/94, I have the honor to transmit attached to this letter our comments on audit project related to the Non Project Assistance Program of the United States of America for the Republic of Djibouti.

Please accept, Monsieur Charge d'Affaires, the expression of my distinguished consideration.

Ahmed Aden Youssouf
Minister of Finance

REPUBLIQUE DE DJIBOUTI
Unité - Egalité - Paix

وزير المالية

LE MINISTRE DES FINANCES

N° 98 / MF

Djibouti, le 20.11.1994

IA/ZA

à

MONSIEUR JOSEPH PHILIPPE GREGOIRE

chargé d'affaire-P1 de l'Ambassade
des États-Unis d'Amérique

Objet : Le projet d'Audit.

Pour faire suite à votre courrier daté du 3/1/1994, j'ai l'honneur de vous transmettre nos commentaires sur le projet d'Audit relatif au programme de l'aide américaine au gouvernement de la République de Djibouti.

Vous souhaitant bonne réception, je vous prie d'agréer, Monsieur le chargé d'affaire, l'expression de ma considération distinguée.


AHMED ADEN YOUSSEUF
RÉPUBLIQUE DE DJIBOUTI
LE MINISTRE DES FINANCES
Unité Egalité Paix

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COMMENTAIRE SUR LE RAPPORT DE L'AUDIT.

1.6) Résumé des résultats d'Audit

Lors de votre Audit, à Djibouti, vous avez pu constater que les états financiers du gouvernement de Djibouti reflétaient l'équité.

En outre, vous avez obtenu une confirmation directe et indépendante en provenance de la BCI des paiements du compte spécial en dollars.

1.6.2) Revue de structure de contrôle interne du GRD

Le gouvernement a pris les mesures correctives nécessaires pour remédier à cette situation.

3.2.3) Autorisation des paiements

Les transactions sont dûment autorisées et appuyées par des documents originaux et approuvés.

Quant à l'utilisation des télex comme pièces justificatives des remboursements des dettes multilatérales et bilatérales, il faut indiquer que bon nombre de bailleurs de fonds préfèrent user de télex pour le paiement dû pour des raisons d'économie de temps. Cependant, le gouvernement de la République de Djibouti va entreprendre les démarches nécessaires auprès des bailleurs de fonds, pour obtenir dorénavant des factures.

Le Trésor National du gouvernement de la République de Djibouti, dispose d'un système de classement qui répond aux besoins des lignes budgétaires. Le gouvernement de la République de Djibouti, s'engage à adopter un classement séparé des autres documents en ce qui concerne la subvention de l'USAID.

COMMENTAIRE

Résultat L p 9

- 1) Le tableau d'échéance auquel vous vous référez constitue nullement une pièce justificative, ce n'est qu'un document interne nous permettant de faire des prévisions (capital et intérêts) pour les Remboursement futurs.

- 2) Il faut noter aussi que les intérêts demandés peuvent être différents de nos prévisions en raison des dates effectives considérées par le Bailleur des fonds pour arrêter les Montants des intérêts.
- 3) En ce qui concerne les dépenses considérées non justifiées, il faut souligner qu'il y a contradiction de votre part, quand vous déclarez d'une part dans votre rapport, que les paiements effectués par le GRD sont en accord avec les lettres de demande de paiements établies par le Bailleur de fonds, et d'autre part que les dépenses sont non justifiées.
- 4) Les pièces justificatives de la dépense effectuée sont ci-jointes.

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UNITED STATES OF AMERICA

APPENDIX II

AGENCY FOR INTERNATIONAL DEVELOPMENT

REGIONAL ECONOMIC DEVELOPMENT SERVICES OFFICE
FOR EAST AND SOUTHERN AFRICA (REDSO/ESA)

United States Postal Address
U S A I D /REDSO/ESA
UNIT 64102
APO AE 09831-4102

International Postal Address

POST OFFICE BOX 30261
NAIROBI KENYA

March 4, 1994.

Peat Marwick,
P. O. Box 40612,
NAIROBI.

Dear Sir,

Re: Government of Djibouti, Non-Project Assistance Program.
Draft audit report for the period Oct. 1, '91 thru Oct. 31, '93

REDSO/ESA has reviewed the subject draft report and found it appears to present a fair assessment of the Government of the Republic of Djibouti's (GROD) accounting and internal control system. REDSO/ESA has no comments on findings as presented.

Yours faithfully.

Fred C. Fischer

Fred C. Fischer
Director, REDSO/ESA

ATTACHMENT II

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