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ZIMBABWE PRIVATE SECTOR HOUSING PROGRAM

**OVERVIEW OF FINANCIAL SYSTEMS AND
REPORTING - FINAL REPORT**

Dated: 5 June 1995

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FINAL REPORT - OVERVIEW OF FINANCIAL SYSTEMS AND REPORTING

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INTRODUCTION

1. This report covers the first phase of the project to develop financial accounting and reporting systems for the Zimbabwe Private Sector Housing Program (ZPSHP) funds which are to be channelled through the National Housing Fund (NHF).
2. Phase one of the project relates to the assessment of the needs of the various parties involved in the project and to develop an overview of the accounting and reporting system which will address those needs.
3. The purpose of this report is to provide the primary users of the proposed systems an opportunity to gain an understanding of the system and provide input as to its appropriateness prior to the detailed design and subsequent implementation.
4. The report has been structured as follows:

(1) Existing Financial Accounting Systems

The existing financial accounting systems and controls with respect to donor funds are described for:

- Reserve Bank of Zimbabwe
- Ministry of Finance
- Ministry of Public Construction & National Housing and
- Local Authorities

(2) Current Reporting Relationships and Reports

Building on the first section this section documents the reporting relationships between the various parties and the type of reporting which is carried out. The same sub-headings as above are used.

(3) Overview of Proposed Accounting Systems

The overview of the proposed accounting system section is described for each ministry and for the local authorities. This section assumes that the systems for the Local Authorities will be the same in broad terms with each local authority having modifications to accommodate the detail.

(4) Proposed Financial Indicators for Performance Measurement

The financial indicators developed under this section of the report relate to those which are significant for project monitoring and evaluation as well as to provide early warning of problems with regards the financial performance of the project.

(5) Proposed Financial Reporting Relationships and Type of Reporting

The proposed reporting relationships and the type of reporting covers:

- Ministry of Finance
- Ministry of Public Construction & National Housing
- Local Authorities

(6) Other Matters

EXISTING FINANCIAL ACCOUNTING SYSTEMS

Reserve Bank of Zimbabwe (RBZ)

5. USAID funds are firstly deposited in a US Dollar account in the name of Government of Zimbabwe at the Chemical Bank in London. The Chemical Bank advises Reserve Bank of Zimbabwe of the deposit details. This is done by telex or by an electronic transfer system called SWIFT.
6. The Chemical Bank account bears interest which is credited to the account quarterly.
7. A ledger account in US Dollars is maintained at the RBZ's Head Office recording all the transactions on the Chemical Bank Account. This account is reconciled once a month with the Chemical Bank statement. Once this has been done the RBZ produces its own statement which it sends to the Ministry of Finance together with a copy of the Chemical Bank statement.
8. Funds from this bank account are sold on the local market at the interbank rate of exchange and the proceeds deposited in a Ministry of Finance Special Account held at the RBZ. This is done on receipt of a written instruction from the Ministry.
9. The RBZ issues a notification of the deposit of the local funds in the Special Bank Account of Ministry of Finance by means of a letter. This letter documents the foreign amount, the rate of exchange and the local currency equivalent and is sent to the AID Section Officer.
10. The Special Bank Account is interest bearing.
11. All the interest earned on the various bank accounts forms part of the project funds.

Ministry of Finance

12. The Ministry of Finance has a section which is responsible for donor finances known as the AID Section. It is this section's responsibility to control all donor funds and ultimately account to donors for the use of their funds.
13. The disbursement of donor funds can be done using two methods. The first method is by direct payment to the implementor. The second method is using the Vote of Credit (VoC) system.
14. It is very seldom that direct payments are made to implementors. The only time we are aware that this was done was to disburse the grant to the Building Societies participating in the Low Income Housing project by providing low cost mortgages.
15. The VoC system is used to disburse all other donor funds. This is in accordance with Government accounting policies and procedures.
16. Loans are brought to account as public debt whilst grant funds are accounted for as revenue.

Vote of Credit (VoC)

17. The Vote of Credit (VoC) is the annual budget allocation made by Parliament each year for a particular Ministry. All the VoCs are published in the "Estimates of Expenditure". Each Vote has a number and consists of a number of expenses headings.
18. The VoC for the MPC&NH is split into recurrent and capital expenditures under the categories of:
 - Salaries, Wages and Allowances
 - Subsistence and Transport
 - Incidental Expenses
 - Maintenance and Repairs
 - Services
 - Non-State Property
 - Grants
 - Plant, Furniture and Equipment
 - Professional Fees and Services
 - Construction Works and
 - Loans
19. The loans category is split into the National Housing Fund (NHF) and Rural Housing. Low income housing loans are managed under the NHF fund.

20. The Loans and grants shown in the individual ministries' votes do not include those from donors.
21. Donor funding for projects is controlled by the Ministry of Finance. Funds are shown under this ministry's Vote of Credit firstly in total and then by each Ministry.
22. Donor funds are held in the National Development Fund (NDF) under individual grant numbers. Ministries draw funds from the donor funds VoC by firstly submitting a request for the funds to the Exchequer.
23. It is only once these funds have been expended and proof of this is submitted to the Ministry of Finance AID section that the funds are claimed from the donor.
24. The process of obtaining the proof of expenditure from the implementor of the project is more fully discussed under the section on reporting relationships.
25. When the donor is satisfied with the claim they authorise their bankers to release the funds to the Commercial bank. These funds then go through the processes described under the Reserve Bank section above.
26. The AID section officer then draws the funds and repays the Exchequer.

Books of Account maintained by the AID Section

27. A cashbook is maintained for the NDF. This cashbook records the receipts and payments for the fund.
28. The receipts side of the cashbook details the grant number under which the funds are being received and the receipt number together with the amount of the receipt.
29. Payments are allocated against grants. The payments cashbook records the amount of the payment, the payee, the payment voucher number and the grant number to which the payment is allocated.
30. Payments are also recorded in a register which details the amount of the payment, the payee, the payment voucher number and the grant number. This register records payments over the life of the projects
31. At the end of each month the NDF cashbook is reconciled to the bank statement.
32. The NDF Cashbook is posted to the nominal ledger through a journal at the year end.
33. A projects ledger consisting of an analysis book split into sections for each project is maintained.

34. This ledger records the disbursements for each project. It also records project expenditures using the expenditure returns and vouchers submitted by the implementors.
35. There is no reconciliation between this projects ledger and the cashbook.
36. No cashbook is maintained for the foreign bank account and hence no reconciliation is done
37. The Ministry relies on the bank statements which they receive from RBZ to which a copy of the statement from the foreign bank account is attached
38. At the end of each quarter the payments made to a project implementor are matched to the expenditure returns submitted by them.
39. Where the expenditure exceeds the payments a reimbursement is made to the Exchequer.
40. If the expenditure is less than the amount disbursed the implementor is required to refund the difference to the Exchequer. In practice what happens is that the next disbursement is reduced by the shortfall of expenditure over disbursements for the prior quarter.
41. Quarterly reports of the breakdown of expenditure are submitted to the USAID

Ministry of Public Construction & National Housing

42. At the MPC&NH there are two branches which deal with low income housing projects being implemented by Local Authorities. These two branches are:
 - Housing Development Branch and
 - National Housing Fund (NHF) Branch (in the Finance Branch)
43. The Housing Development Branch of the Ministry is responsible for the administration aspects of the low income housing project whilst the National Housing Fund performs the accounting functions for the National Housing Fund set up by the Ministry of Finance for housing projects in terms of the Housing and Building Act.

Housing Development Branch

44. Each Local Authority is required by the Ministry to submit a 'Bid' for the housing projects they plan to undertake over the next three to five years. This bid is a detailed estimate of the costs for the project
45. The bid will vary for each LA and is dependent upon the size of the land and the number of stands that they plan to service in the period covered by the bid.

46. All the bids for the LAs are then collated at MPC&NH by a projects officer. These are then submitted to the National and Economic Planning Commission and where they are analyzed, amended and finally approved.
47. Once the bid has been approved a copy of the approved bid is sent to the MPC&NH projects officer who then writes to the LAs informing them of the approved bid

Local Authorities

48. Each Local Authority has its own systems. These systems vary in the way they are set up, the type and number of controls, complexity and whether they are manual, computerised or a combination of the two.
49. It would not be appropriate to document each system in detail to ascertain whether it is appropriate for the purposes of accounting for the funds for the ZPSHP. This could involve as many as 30 local authorities.
50. In the interests of efficiency it is more effective to develop the type of system the project requires and then tailor what exists to these requirements.

CURRENT REPORTING RELATIONSHIPS AND REPORTS

Reserve Bank of Zimbabwe

51. The RBZ reports to the Ministry of Finance AID section on a monthly basis providing bank statements for the foreign and the local bank accounts.
52. In addition to this the Ministry is informed of each transaction which takes place on the bank accounts. This is done in the form of a letter as and when the transactions occur.

Ministry of Finance

53. The Ministry of Finance AID section is responsible for reporting expenditures to donors in the format prescribed by them. The frequency of these reports is determined by the donor.
54. In the case of USAID reporting it is usually on a quarterly basis. The format for reporting has not been defined in detail. As a result of this the reporting on the previous housing project had a number of major weaknesses (see our report dated 2 March 1994.)
55. USAID reimburse the GOZ on the basis of the expenditures contained in the quarterly reports.

56. The reports submitted to USAID are based on information contained in reports received from the MPC&NH.
57. The AID officer is at present attempting to implement a general ledger package called TURBOCASH to assist in the accounting within his section.

Ministry of Public Construction & National Housing (MPCNH)

58. The MPC&NH reports on project expenditures to the Ministry of Finance usually on a quarterly basis.
59. This report is compiled from reports submitted by each LA.
60. Reimbursement is made on the basis of these reports. This reimbursement is transmitted to each LA.
61. MPC&NH also reports directly to USAID on the physical progress of each project. These reports are done for each LA and are based upon reports submitted by the LAs and inspection visits to verify the reports.

Local Authorities

62. Under previous projects each LA report submitted expenditure reports to the MPC&NH for project expenditures in accordance with the Project Delivery Plan. There was no prescribed format for these reports and as a result each LA submitted its own format.
63. These expenditure reports formed the basis for reimbursements of expenditures.

OVERVIEW OF PROPOSED ACCOUNTING SYSTEMS

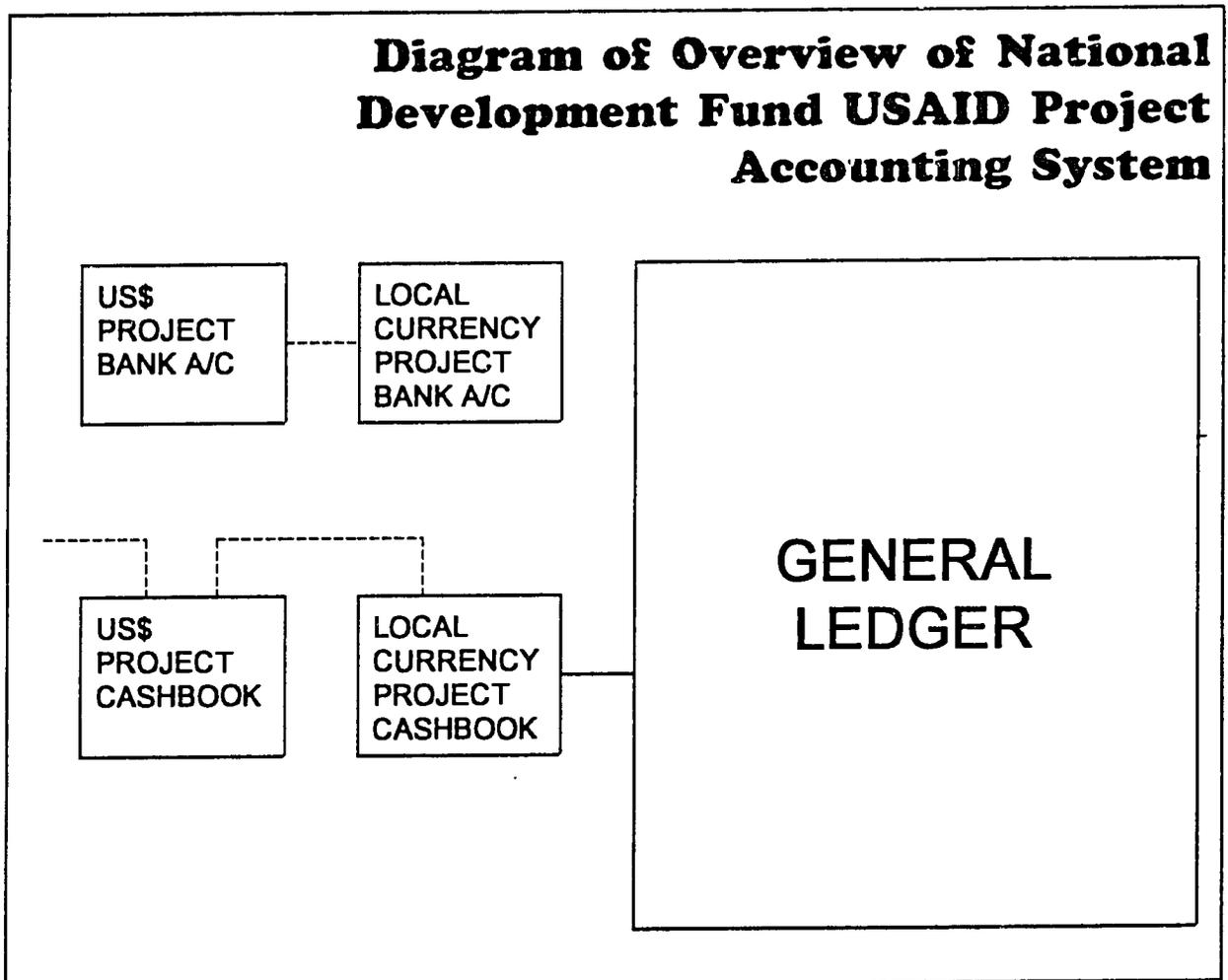
64. The overview of the proposed accounting system has been divided into:
 - Reserve Bank of Zimbabwe
 - Ministry of Finance
 - Ministry of Public Construction and National Housing and
 - Local Authorities.
65. Each of these is described below. In a subsequent section the proposed reporting relationships between these entities and USAID are described.

Reserve Bank of Zimbabwe

66. In terms of the project agreement the project funds have to be matched dollar for dollar by the GOZ. It is therefore necessary for the Ministry of Finance to open a bank account at the RBZ. This bank account will be called **USAID HOUSING GUARANTY PROJECT ACCOUNT**. It will be used for all project transactions.
67. The **USAID HOUSING GUARANTY PROJECT ACCOUNT** will be interest bearing with all interest being separately identified and credited to this account.
68. There will be two types of deposit into this account. The first will be USAID funds from Chemical Bank London which have been converted to Zimbabwe Dollars. The second type of deposit will be the interest earned on this account.
69. The matching of the funds by GOZ will take place at the Ministry of Public Construction and National Housing.
70. The interest earned on the Chemical Bank London Account will remain in that account and will be used as a hedge on payment of the loan from USAID by the GOZ. The interest earned is only used as a hedge if the Z\$ devalues against the US\$. If however the Z\$ should gain against the US\$, the interest then forms part of the project funds. The interest does not require matching by GOZ.
71. At the end of each month RBZ will send two statements to Ministry of Finance. These are:
 - Statement from Chemical Bank London (as is being done at present)
 - Statement for **USAID HOUSING GUARANTY PROJECT ACCOUNT**.
72. This system is not very different from the current system the only change is the separate bank account for the project.

National Development Fund

73. We have presented below a diagram of the overview of the proposed system for the Ministry of Finance. Each Component of the design has then been described under relevant sub-headings.



Cashbooks

74. The project will require two separate cashbooks.
75. One cashbook will be in US dollars and will record all the transactions on the Chemical Bank Account including the conversion and transfer of funds to RBZ.
76. The second cashbook will be in Zimbabwe Dollars and will record all project receipts as well as disbursements.

Local Cashbook

77. The receipts in the local cashbook will need to be analyzed into two categories:
 - USAID Receipts (These receipts must be cross-referenced to the US Dollar cashbook payments)
 - Local interest
78. Disbursements of the project funds will be made on the basis of reimbursement of project expenditure for each local authority. These expenses claims will be submitted via the MPC&NH and the Ministry of Finance who summarise and consolidate the information.

Foreign Cashbook

79. The foreign cashbook will be for the Chemical Bank Account in US Dollars held in London.
80. The receipts in this cashbook will consists of:
 - USAID Receipts and
 - Foreign interest
81. The disbursements from this cashbook will be in the form of translation and then transfers of funds into the RBZ USAID HOUSING GUARANTY PROJECT ACCOUNT.
82. Interest earned on both the local and the foreign bank accounts is to be used as a hedge on repayment of the loan to USAID if the Z\$ devalues against the US\$. If the Z\$ gains against the US\$ the interest funds are to be disbursed as part of the project funds but it is not repayable to USAID.
83. All interest earned is to remain in the respective bank accounts until such a time as it is required on repayment of the USAID loan.

General Ledger

84. This sub-section documents the account which would be required in the General ledger and how they would operate.
85. To ensure correct accounting and the completion of the double entry system the following General Ledger accounts are proposed:
- Local Bank Account (RBZ USAID Housing Guaranty Project Account)
 - Foreign Bank Account (Chemical Bank London)
 - USAID Foreign Loan Repayable
 - USAID Local Loan Repayable
 - Interest Receivable on Local Bank
 - Interest Receivable on Foreign Bank

Local Bank Account (RBZ USAID HOUSING GUARANTY PROJECT ACCOUNT)

86. The Local Bank Account is a control account for the local cashbook and as such will record a summary of the transactions. It will be reconciled together with the cashbook to the RBZ bank statement on a monthly basis.

Foreign Bank Account (Chemical Bank London)

87. The Foreign Bank Account is a control account for the foreign cashbook and as such will record a summary of the transactions. It will be reconciled together with the cashbook to the Chemical bank statement on a monthly basis.
88. This is a memoranda account which will be held in the ledger in US Dollars.

USAID Foreign Loan Repayable Account

89. The USAID Housing Guaranty Loan Account will record all the draw downs from USAID, that is, all the deposits into the Chemical Bank Account in London from USAID. This account will be held in US Dollars as well as Zimbabwe Dollars. This account is a memoranda account.
90. It is proposed that this account record the capital as well as the interest payable on the loan.
91. The interest payable will be calculated in US dollars and then converted to Zimbabwe dollars.

USAID Loan Repayable Account

92. This account will operate as a suspense account. It will record the drawdowns from the foreign bank account to the **RBZ USAID HOUSING GUARANTEE PROJECT BANK ACCOUNT** and when the Exchequer requests for reimbursements this account will be credited with the reimbursed amount.

Interest Receivable on Local Bank

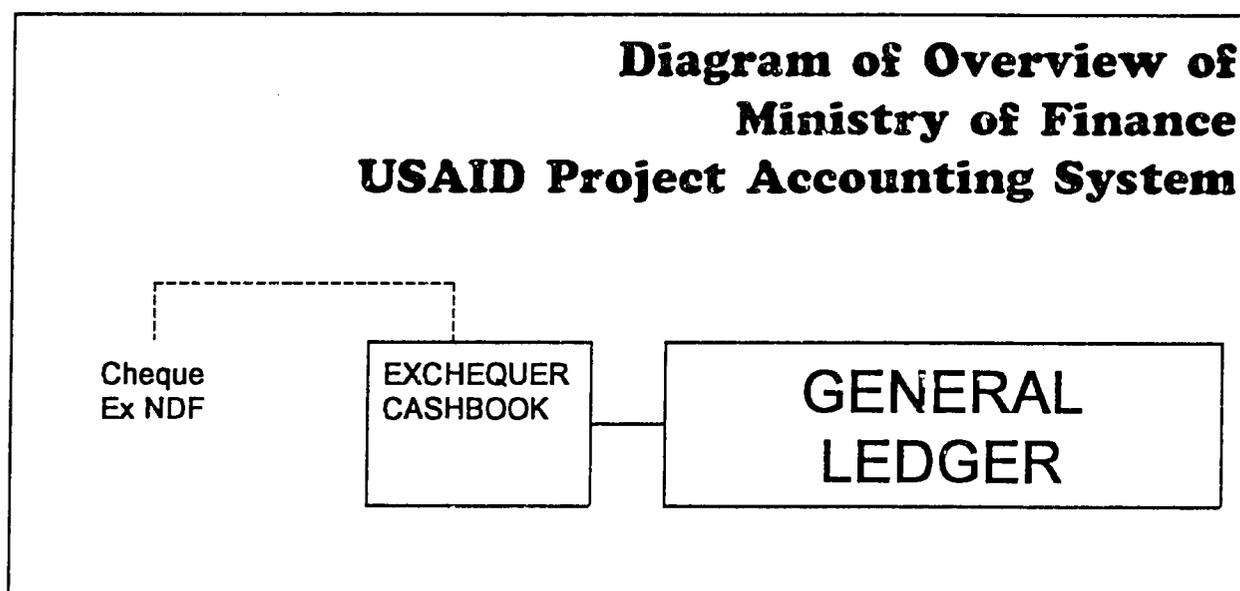
93. The interest earned on the local currency bank account held at RBZ will be used as a hedge against the foreign loan and needs to be separately recorded and accounted for. The interest is to remain in the bank account until such a time as it is required.

Interest Receivable on Foreign Bank

94. The interest earned on the Chemical bank account will be used as a hedge against the foreign loan and needs to be separately recorded and accounted for. This interest will be recorded in US Dollars in a memoranda account.

Ministry of Finance

95. The diagram below represents the overview of the proposed system for the Ministry of Finance. Each component of the design has then been described under relevant sub-headings.



Exchequer Cashbook

96. Funds are disbursed to the National Housing Fund at the MPC&NH under the MPC&NH's vote. The exchequer will then claim a reimbursement equivalent to 50% of proven expenditure from the National Development Fund.

General Ledger

97. This subsection documents the account which would be required in the General Ledger and how they would operate.
98. The following General Ledger accounts are proposed:

- Cashbook Exchequer
- MPC&NH Loans Receivable Account
- Conditional Grant Account
- USAID Loan Payable account
- Interest Payable on USAID Loan
- Exchange Variation on Foreign Currency

MPC&NH Loans Control

99. The MPC&NH Loans Control account will record all disbursements to National Housing Fund at the MPC&NH and all repayments by the NHF.

Conditional Grant Account

100. This account will record all disbursements to the Building Societies.

USAID Loan Payable Account

101. This account will record the amount reimbursed by the NDF, the interest earned on the loan and the repayments to USAID.

Interest Payable on USAID Housing Guaranty Loan Account

102. This account will record all the interest due on the Housing Guaranty loan. This amount will be in Zimbabwe Dollars.

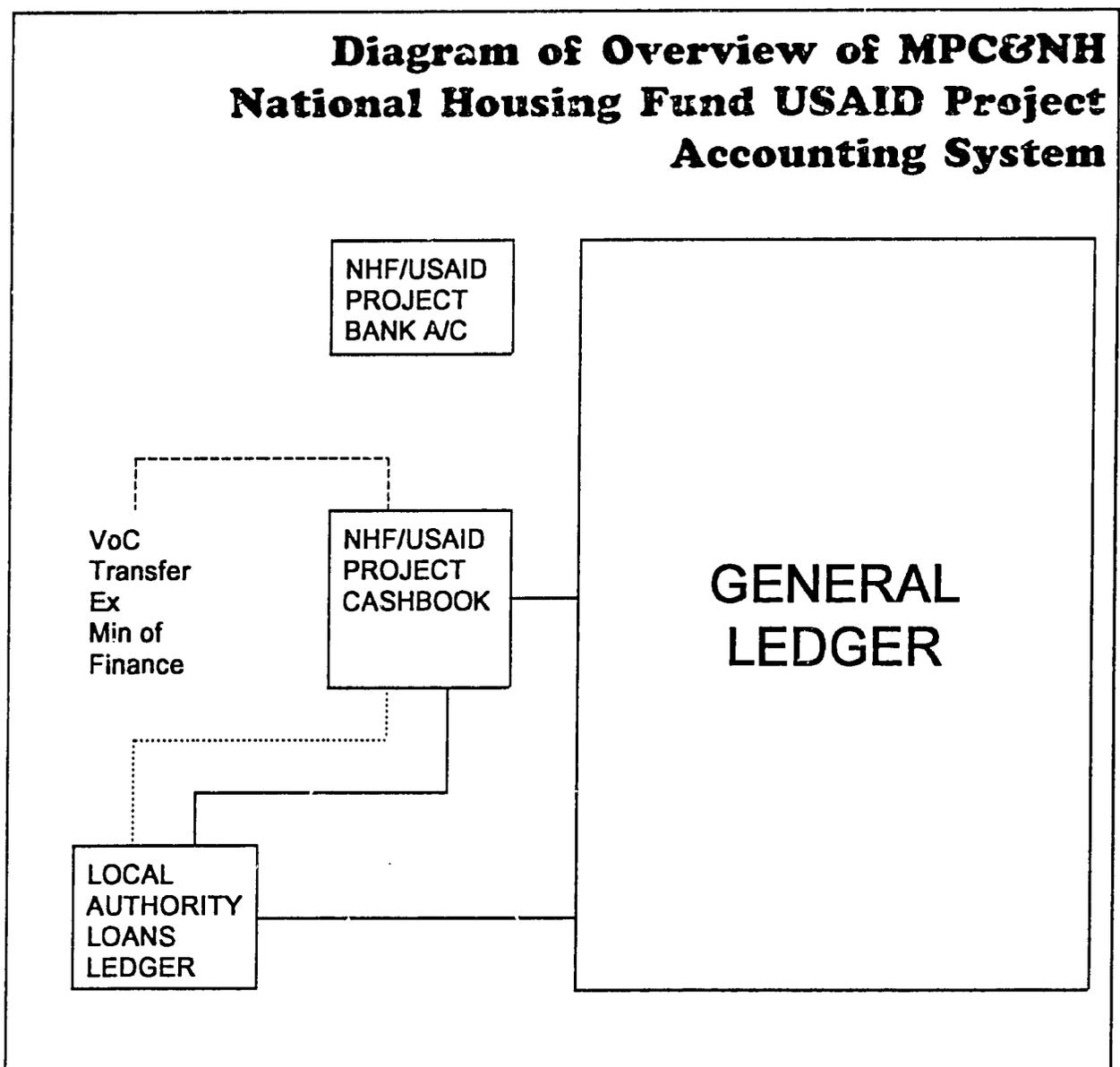
Exchange Variation on Foreign Currency

103. The exchange variation account will record any losses and/or gains on the translation of

US Dollars into Zimbabwe Dollars as well as the unrealised gains and losses when the USAID loan is revalued in Zimbabwe Dollars at period ends.

Ministry of Public Construction and National Housing

- 104. The overview of the proposed system for the MPC&NH is limited to the NHF which deals with all the financial accounting for the project.



105. The proposed system includes:

- USAID Project Bank Account
- Project Cashbook
- Local Authority Loans Ledger and
- General Ledger

106. Each of these is discussed below under their subheadings.

USAID Project Bank Account

107. The project agreement requires that project funds are accounted for separately. It is therefore necessary to open up a separate bank account into which project funds can be deposited.
108. If this account bears any interest that interest becomes part of project funds.
109. This account should not hold funds for any length of time as the request for funds from the Ministry of Finance is initiated by a request from the LAs. Any delays in disbursing the funds will result in a delay in the project implementation.
110. This bank account will be held with the MPC&NH's normal bankers.

Project Cashbook

111. The project cashbook will record all receipts from the Ministry of Finance. These have to be allocated into GOZ and USAID contributions in the cashbook.
112. The cashbook will also record repayments of LA loans when these begin.
113. The disbursements from this account will be cheques drawn for individual Local Authorities. These Disbursements are loans and will be accounted for in the Loans Ledger.
114. At the end of each month the cashbook is to be balanced and reconciled to the funds reflected in the Bank Account.

Local Authority Loans Ledger

115. The Ministry already has a loans register which is manual and does not form part of the double entry accounting system.
116. The loans ledger needs to record the loans to individual LAs. Each disbursement will be a new loan with its own interest rate and repayment schedule.

117. For each loan there is a need to separately identify the capital and interest and to split the repayments accordingly.
118. It is envisaged that this ledger will have a control account which will be a summary of all the loans, interest and repayments. This control account will have a similar account in the general ledger and will be reconciled to it monthly.
119. Each month a statement of each loan needs to be produced and forwarded to the LAs. The statement will detail the balance outstanding on the loan split between capital and interest and any repayment made during the period.

General Ledger

120. This sub-section documents the account which would be required in the General Ledger and how they would operate.
121. To ensure correct accounting and the completion of the double entry system the following General Ledger accounts are proposed:
 - Local Bank Account
 - Local Authority Loans Control
 - Project Funds Account (MoF Loan Account)
 - Interest Receivable on Local Authority Loans

Local Bank Account

122. The Local Bank Account is a control account for the local cashbook and as such will record a summary of the transactions. It will be reconciled together with the cashbook to the bank statement on a monthly basis.

Local Authority Loans Control

123. The Local Authority Loans Control account will record in summary all the transactions in the subsidiary ledger of the same name. This account will be reconciled monthly to the subsidiary ledger.

Project Funds Account (MoF Loan Account)

124. This account will record all the project funds which are received into the bank account splitting them between GOZ and USAID. In addition to this interest on LA Loans will be credited to this account to form part of the revolving project funds.

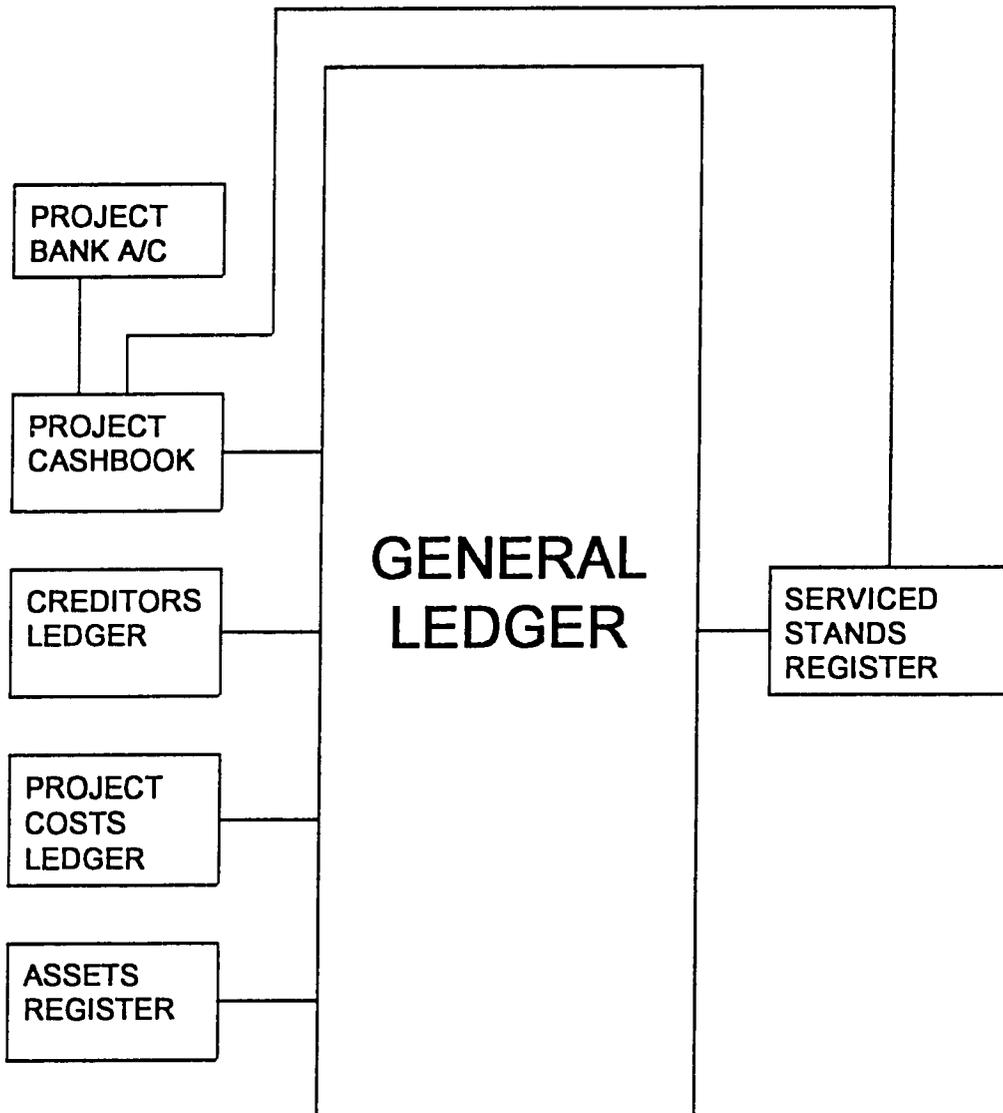
Interest Receivable on Local Authority Loans

125. The interest earned on the local authority loans forms part of the revolving project funds. It needs to be separately recorded and accounted for to ensure that all loans are charged interest correctly. On a quarterly basis this interest is then transferred by journal into the project funds account.

Local Authorities

126. The proposed system for Local Authorities has taken into account the need for the system to be simple and compatible with current systems.
127. In addition to this the system has been designed to accommodate the fact that there is currently an initiative to harmonise all local authorities' systems. Part of this initiative has been the specification of requirements for an accounting and reporting system for the World Bank funded Urban II project.
128. The project for LAs accounting and reporting systems has progressed to the stage where a standard system together with a standard chart of account has been developed.
129. It is planned that all Local Authorities will be computerised by 30 June 1995 using a package called PROMUN.
130. The proposed system has taken this progress in to consideration.

Diagram of Overview of Local Authority USAID Project Accounting System



131. The proposed system includes:

- Project Bank Account
- Project Cashbook
- Creditors Ledger
- Project Costing
- Assets Register
- Serviced Stands Register
- General Ledger
- Eligible Expenditures
- Administrative Overhead and
- Purchasing
- Budgeting and
- Filing.

132. Each of these is discussed below under their subheadings.

Project Bank Account

133. USAID require that project funds are separately identified and that there is no co-mingling with other funds. It is therefore necessary to open up a separate bank account into which project funds are deposited.

134. If this account bears any interest that interest becomes part of project funds.

135. The funds which are deposited into this account will have two sources. The first source will be from the MPC&NH. The second will be when serviced stands are being sold.

Project Cashbook

136. The project cashbook will record all receipts from the MPC&NH and from the sales of stands. The two types of receipts need to be recorded and allocated separately.

137. The cashbook will also record all disbursements of funds to suppliers of services and/or commodities under the project delivery plan. These payments will be :

- immediate payment in which case the transaction will need to be allocated to the category of expenditure in terms of the project delivery plan for later entry into the project costs ledger
- payment of a creditor or contractor which will be allocated to the individual creditor in the creditors ledger

138. The project cashbook will need to be balanced and reconciled each month to the bank statement. Thereafter the cashbook entries will be recorded in the general ledger in the relevant accounts.

Creditors Ledger

139. Where purchases and/or jobs are carried out and payment is not immediate the purchases will need to be recorded in a creditors ledger to accumulate the amounts owed and to whom they are owed.
140. The creditors ledger would also record all payments made to the suppliers of the goods and services. These transaction would be entered from the cashbook.
141. The creditors' ledger should have a control account which summarises the individual transactions on each account.
142. At the end of each month the creditors ledger must be in balance and reconciled firstly to the control account in the creditors' ledger and the general ledger and then to individual suppliers statements

Project Costing

143. This sub-section discusses the recording and accounting for the project costs. We have also described the type of documentation and accounting which would be required if work is undertaken by the LAs themselves.

Project Cost Ledger

144. The project cost ledger is a subsidiary ledger which is structured to record the costs for each component of the project delivery plan.
145. Each major component of the project delivery plan e.g. Primary Infrastructure will be a main expense category.
146. Within each main expenses category there will be further expenses categories, e.g. Roads and Drains, Water Reticulation, Sewage.
147. Within these categories there may be the further expense categories such as the following for Water Reticulation:
- Earthworks
 - Pipe laying
 - Construction of Valve Chambers, Anchor Blocks and Pipe Pedestals
 - Testing and Disinfection

148. At the next level the cost will need to be analyzed further in sub-categories of expenses. If the above example is used again, the expense categories of Earthworks, Pipe laying etc would be further broken down.
149. Pipe laying would be analyzed into the sub-categories of :
 - Materials A
 - Materials B
 - Labour A
 - Labour B
150. In all this gives five levels of expenditure analysis.
151. Whilst work is being carried out costs will be accumulated in this manner. At the end of a financial year, if the work is incomplete the costs will be disclosed in the LA financial statements as work in progress. The project Work in progress must be separated from all other work in progress.
152. Upon completion of the particular work, such as Water Reticulation, the total cost of the asset will be transferred from the Project Cost Ledger into the Asset Register of the LA.
153. The project cost ledger will have an overall control account which like that of other subsidiary ledgers will record in summary form the transaction in the individual ledger account.
154. The general ledger will also have a Project Cost Control Account which will summarise all the subsidiary ledger transactions.
155. At the end of each month the subsidiary ledger accounts will firstly be balanced to the subsidiary ledger control account and this will then be balanced to the general ledger control account.
156. Appendix I of this report contains a diagram illustrating the way in which the Project Cost Ledger is to be structured.

Accounting for Work Performed by the Local Authority

157. Where work in the project delivery plan is performed, the LA must separately identify the materials and labour used and this must be recorded in the project cost ledger.
158. This should not pose a problem with purchases of materials but where LA labour is used then a time recording system for the employees used on the project must be implemented.

Assets Register

159. Once the work has been completed on the primary infrastructure each item becomes a capital asset of the LA. These assets need to be capitalised in the accounts and recorded in an asset register.
160. An asset register would typically record a description of the asset, its location, the cost, and a rate of depreciation.
161. Thereafter each year the depreciation of the asset would be recorded to give the net book value of the asset.
162. The asset register should be split into appropriate sections with each section having its own control account.
163. The asset register should be balanced annually and reconciled to the asset accounts in the general ledger.
164. Where LAs already have asset registers the project assets should be recorded in a separate clearly identified section with its own control account.

Serviced Stands Register

165. The serviced stands register would record the costs of the serviced stands.
166. This cost will be transferred from the Project Cost Ledger upon completion of the servicing.
167. The cost of the stands will include the land acquisition costs, land survey costs as well as the site servicing costs which amongst others are:
 - On-site roads and drains
 - On-site water and sewer
 - Street lights
 - Electricity and
 - Street and plot numbering
168. The total costs divided by the number of serviced stands will give a cost per stand which will be used to determine the price of each stand.
169. The serviced stands register should record each stand number its location and the cost.
170. When stands are sold these would be removed from the register and entered either as a cash sale or as a loan to a beneficiary.

171. The serviced stands register would have a control account which at the outset would record the total costs of the stands. Sales would be recorded on the control account in summary form.
172. Each month as with the other subsidiary ledgers the ledger would be balanced and reconciled to the general ledger control account.

General Ledger

173. The Ministry of Local Government Rural and Urban Development, under Urban II which is funded by the World Bank, are in the process of designing a new general ledger chart of account for all LAs. The general ledger is to be computerised using a package called PROMUN.
174. Based on their general ledger chart of account it is our belief that we will be able to utilise the same system with additional accounts for the ZPSHP.
175. The following ledger accounts will be required:
 - Project Bank Account
 - Creditors Control
 - Project Costs Control
 - Assets Accounts
 - Serviced Stands Control
 - MPC&NH Loan Accounts
 - Interest Payable on Loans

Project Bank Account

176. The Project Bank Account is a control account for the local cashbook and as such will record a summary of the transactions. It will be reconciled together with the cashbook to the bank statement on a monthly basis.

Control Accounts

177. The control accounts in the general ledger will be a summary of the transactions in the subsidiary ledgers and as such will be reconciled to these ledgers each month.

MPC&NH Loan Accounts

178. Each disbursement from the MPC&NH will be recorded as a separate loan.
179. The loan account will record the capital and interest due as well as repayments made. The accounts will be reconciled to the loan statements from the Ministry.

Interest Payable on Loans

180. The interest payable account will record the interest payable on the loans.

Eligible Expenditures

181. Expenditure which can be allocated to the project in terms of the project agreement are termed eligible expenditures.
182. The project agreement defines these expenditure as being any reasonable and actual expenditure which the parties agree were incurred for construction, commencing on or after 1 July 1991 of low cost housing.
183. For LAs these expenditures include but are not limited to:
 - Infrastructure
 - Certain community facilities and
 - normal administrative costs associated with the design and construction of infrastructure

Administrative Overhead

184. The eligible expenditures include administration costs associated with design and infrastructure.
185. Where the administration costs are directly attributable to the project, for example, if an employee was dedicated to the project then all his costs would be allocated to the project.
186. The problem arises when the administration activities involve more than one of the LA's functions. The administration costs then have to be split over the various functions.
187. In order to split these administration costs in an acceptable manner we propose that an overhead cost pool be devised and this pool is split over the functions in relation to the their usage of the overheads.

Purchasing

188. The procurement of services for the infrastructure and site servicing must be subject to a tendering procedure to ensure that quality services are obtained at competitive prices.

Budgeting

189. The project delivery plan will be the budget for the overall project. This budget must be broken down into an annual budget, a quarterly budget and a monthly budget.
190. The budget will be used firstly as the basis of requesting funds from the MPC&NH and secondly to measure project performance by comparing actual expenditures to the budget.

Filing

191. Project documents must be filed separately to ensure ease of access by interested parties.
192. These files should be labelled as project files.

PROPOSED FINANCIAL INDICATORS FOR PERFORMANCE MEASUREMENT

193. The performance measures should be used as a means of early warning that a project is not achieving its objectives. For this reason it is necessary that all indicators are calculated and reported upon timeously.
194. It is not enough that financial indicators are reported on. These need to be interpreted and followed up with action and corrective measures where necessary. The follow up also needs to be monitored and reported upon.
195. Monitoring needs to be at the three levels of:
- Local Authorities
 - MPC&NH and
 - USAID
196. The Local Authorities should monitor all the indicators and report upon them to the MPC&NH. They also need to report on what corrective measures if any they plan to implement.

197. The MPC&NH should not only follow up on the LA's reports but institute a means of establishing a best practice for each indicator and using this as a means of evaluating all the LAs.
198. Best practice can be established by comparing all the indicators from the LAs and using the LA with the most effective indicator as the best practice in that particular area.
199. This means that different LAs may be used for best practice in different areas and the other LAs can learn from their experiences and implement those aspects of the project in a similar way.
200. The selection of best practice should be reviewed quarterly to ensure that the LA selected is still valid.
201. USAID should be kept apprised of the whole monitoring and performance measurement system including the evaluation of best practices.
202. The performance measurements should be evaluated by physical inspections of the project.
203. We have documented below what we believe to be the most effective financial performance measures for the project under the headings of:
 - Budgets
 - Cashflow
 - Loan Repayments
 - Serviced Stands and
 - Sales of Stands

Budgets

204. The budget for the project needs to be analyzed into an annual as well as quarterly and monthly budget against which costs can be monitored. This analysis needs to be on the basis of anticipated project activities in the periods mentioned and NOT an arbitrary split of expenses.
205. A correct analysis of the budget will have a two fold benefit. The first being an ability to produce a cashflow projection and therefore request funds at the right time avoiding project delays due to lack of funds. The second benefit is a means of measuring the progress of the project financially.
206. When actual project expenditures are measured against the budget two results can be obtained and need to be further analyzed.

207. The first result is an over expenditure against budget. This may be as a result of the project activities being undertaken ahead of schedule in which case these expenditures need to be compared to their budget in the future period to ensure that there is no real over expenditure.
208. The alternate explanation is a cost overrun which would indicate that the original budget was understated or that the project activity has been performed inefficiently. The reason for the overrun in this instance needs to be investigated and remedial action taken.
209. Where actual expenditure is measured against the budget and there appears to be under expenditure this could be an indication that the project is falling short of its targets in implementation or it could be a true cost saving.
210. Where the under expenditure is due to non achievement of targets the project implementation plan needs to be reviewed and revised to a more reasonable and achievable time frame.
211. Or if the non achievement is an efficiency issue then alternative implementation methods should be considered and implemented.
212. Before the under expenditure can be considered a true cost saving the possibility of over budgeting should be investigated and if this is found to be the case the project budget should than be revised accordingly.

Cashflow

213. The cashflow projection for each LA should be their tool to provide early warning as to whether they have funds to implement the project activities and/or repay loans when they fall due.
214. If the cashflow projection is used correctly there should be no project delays due to lack of funds.

Loan Repayments

215. The MPC&NH should produce schedules of loans arrears. These should be evaluated and reasons for the arrears be established.
216. Arrears could arise for a number of reasons.
217. If the LA has insufficient funds to complete the servicing of stands then these will not generate funds to repay the loans. This problem should however have been brought to light earlier through a review of actual expenditure against budgets

218. The situation could arise where the stands have been serviced but the building societies are not lending funds for their purchase. This problem is beyond the control of the LA and MPC&NH. To overcome this problem there needs to be a mechanism within the project plan which links the development of serviced plots to the lending of money by the building societies for their purchase.
219. Where LAs fall into arrears on their repayments the MPC&NH needs to investigate the reasons and develop a remedy.

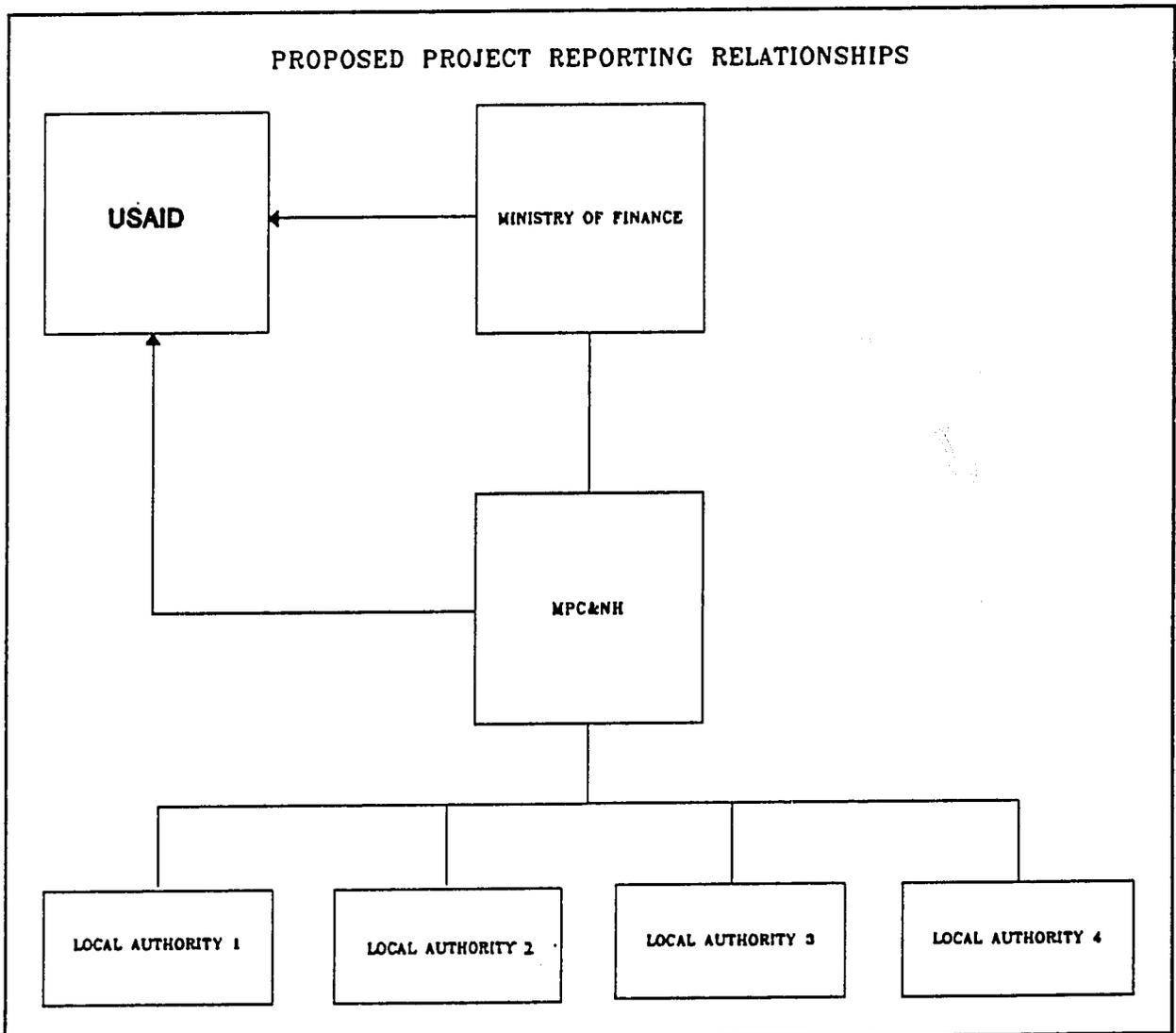
Serviced Stands

220. The statistics on serviced stands will provide an indication of project progress in terms of completion of activities within the time frame and at the anticipated costs.
221. On a quarterly basis the number of serviced stands and the weighted average cost of each stand should be calculated. These should then be compared to the budget.
222. Where the number of stands completed varies from budget this will indicate a non achievement of project goals.
223. In terms of cost, a variance will indicate expenditure inefficiencies and could well make the cost of the stand beyond the means of the median income standard to be adopted by the project.

Sales of Stands

224. Each quarter the LA must report on the number of stands sold for that quarter as well as cumulative to date.
225. When the ratio of stands sold to those completed is calculated for a particular quarter it will give an indication of the fulfilment of demand.
226. Where this ratio is a one to one the indications are that demand is being met. If the ratio is less than one then stands are being completed but are not being sold. If the ratio is greater than one then the demand for stands is outstripping the ability to supply stands.
227. On the year to date figures similar conclusions can be drawn, however, in real terms for the entire project the ratio should not be greater than one as ultimately stands cannot be sold in the long term if they are not available.
228. These are not the only performance indicators but they will provide the core of information together with non financial measures to manage the project.
229. These indicators will be included in the reporting covered below.

PROPOSED FINANCIAL REPORTING RELATIONSHIPS AND TYPE OF REPORTING



230. The reporting relationships for the project are presented below:

Ministry of Finance

231. The Ministry of Finance controls the project funds and disburses them. They will therefore be responsible for reporting to USAID on the status of the funds and the project bank account.

232. On a quarterly basis the Ministry of Finance will report to USAID on:

- Disbursements made to MPC&NH
- Anticipated disbursements for the next quarter
- Local funds held at RBZ and
- Foreign funds held at Chemical bank London

233. The disbursements will be analyzed into USAID and GOZ portions to ensure that the funds are being matched.

234. A bank reconciliation for the local and foreign bank accounts will be produced quarterly.

235. The foreign disbursements will be balanced to the receipts and conversion of foreign amounts into local funds.

236. The local funds reconciliation will be extended to show the anticipated disbursements for the next quarter and therefore the local funds required.

Ministry of Public Construction & National Housing

237. The MPC&NH are responsible for managing the National Housing Fund which will include the USAID funds.

238. They will therefore have two reporting responsibilities. One to the Ministry of Finance for the disbursement of the funds. The second responsibility will be to USAID for the expenditure of the funds by the LAs.

239. The reporting to the Ministry of Finance will be quarterly and consist of:

- Disbursements made for the quarter
- Schedule of anticipated expenditures per LA for the next quarter
- Reconciliation of funds

240. The disbursements to LAs report will record the date of the disbursement to the LAs.

241. It will be the responsibility of the AID section officer to compare these dates to the dates that the funds were disbursed to the MPC&NH and to investigate any delays in the onward transmission of these funds.
242. The anticipated LAs expenditure report and the funds reconciliation will be used by the Ministry of Finance to prepare to report on anticipated disbursements over the next three months, month by month.
243. A bank reconciliation for the local bank account will be produced quarterly.
244. The bank reconciliation will be extended to show the anticipated disbursements for the next quarter and therefore the funds required.
245. The LAs expenditure report will be a summary of the expenditures by the individual LAs. This expenditure will be compared to the budget. The report will also document the cumulative figures for the year as well as for the project to date.
246. The LAs expenditure report will be prepared from each individual LA report which will be submitted to the MPC&NH.
247. Where expenditures vary from the budget the MPC&NH officer in the NHF section will need to investigate and document the reasons.
248. It will be the responsibility of the Ministry to institute remedial action.
249. Copies of all the reports discussed above will be submitted to USAID together with individual LA reports.

Local Authorities

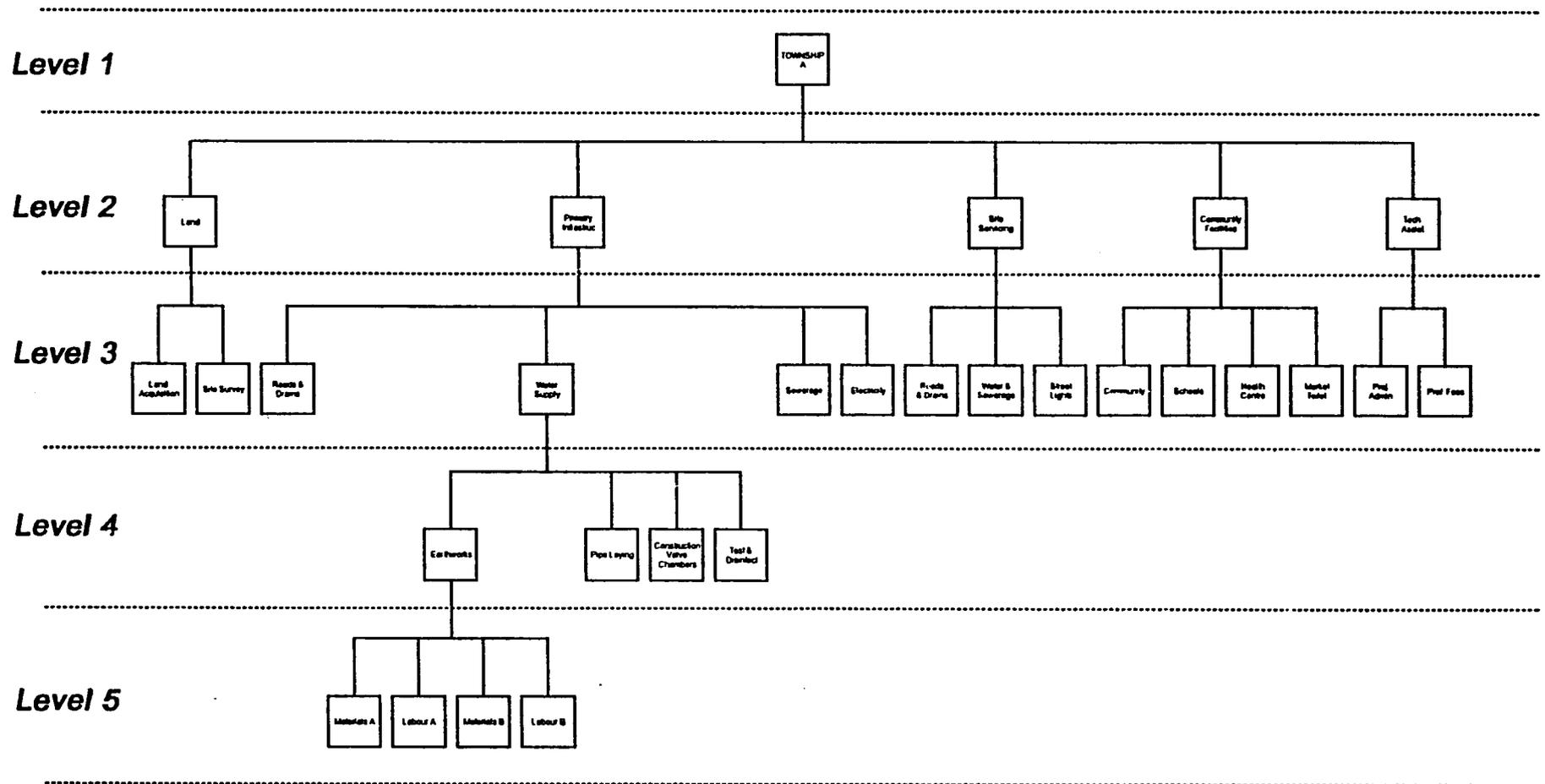
250. Each local authority will have a financial reporting responsibility to the MPC&NH NHF section for the project.
251. The reporting to the MPC&NH will be quarterly and consist of:
 - Expenditures made for the quarter
 - Schedule of anticipated expenditures for the next quarter
 - Reconciliation of funds
 - Costing of Stands
252. The expenditure report will be a summary of the expenditures by line item per the project delivery plan. This expenditure will be compared to the budget. The report will also document the cumulative figures for the year as well as for the project to date.

253. The LA will also need to produce an up to date estimate of expenditure to complete the project. This together with the project expenditure to date will be compared to the project budget.
254. All variances of expenditures and estimates from budgets will need to be explained in a written section of the report.
255. The anticipated LA expenditure report and the funds reconciliation will be used by the MPC&NH to prepare a report on anticipated disbursements over the next three months month by month.
256. A bank reconciliation for the local bank account will be produced quarterly.
257. The bank reconciliation will be extended to show the anticipated expenditures for the next quarter and therefore the funds required.
258. It will be the responsibility of the AID section officer to compare these dates to the dates that the funds were disbursed to the MPC&NH and to investigate any delays in the onward transmission of these funds.
259. The costing of stands will be reported each quarter. This report will include the number of serviced stands completed in the period compared to the budgeted number to be completed. The cumulative number of stands completed compared to the budget will also be reported.
260. The weighted average cost of each stand will be calculated and included in the report together with an estimate of the cost of the stands on completion of the project.
261. Statistics on the sales of stands will be provided as well as the funds generated by sales of stands. The funds for the sales of stands will bear a relationship to the LA's ability to repay the loans to the MPC&NH.
262. We have included formats of reports for each level of reporting as Appendices II, III, and IV of this report.

OTHER MATTERS

263. The project could benefit from a closer liaison with the Urban II project which is in the process of providing LAs with systems and training to strengthen their financial management capabilities.
264. If this liaison were to take place it could lead to a successful implementation of USAID systems and a harmonisation with the systems being developed under Urban II.

Project Cost Ledger



64-68

COSTING OF STANDS

Number of serviced stands completed

ACTUAL BUDGET VARIANCE

This quarter

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To Date

--	--	--

Number of serviced stands to be completed over
life of the project

--	--	--

Weighted Average Cost of Stands Serviced
to date

--	--	--

Estimated Weighted Average Cost of Serviced
Stands at project completion

--	--	--

Number of serviced stands sold

ACTUAL BUDGET VARIANCE

This quarter

--	--	--

To Date

--	--	--

Selling price of stands

--	--	--

Balance of Completed Stands on Hand

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RECONCILIATION OF LOCAL CURRENCY FUNDS HELD AT RESERVE BANK

NAME OF BANK ACCOUNT:
BANK ACCOUNT NO.

Opening Bank Balance (Closing Balance for Last Quarter)

Receipts for Quarter

Source of Receipt	Date	Foreign Amount	Rate of Exchange	Amount
Total Receipts				

Interest Earned for Quarter

Date

Amount

Total Interest

SUB-TOTAL

TOTAL DISBURSEMENTS FOR QUARTER (Per Disbursements Schedule)

BALANCE OF FUNDS ON HAND (Per Attached Bank Statement)

Anticipated Disbursements for Next Quarter (Per Schedule)

FUNDS REQUIRED FOR NEXT QUARTER

ANTICIPATED DISBURSEMENTS FOR NEXT QUARTER

LOCAL AUTHORITY	MONTH 1	MONTH 2	MONTH 3	TOTAL QUARTER
TOTAL				

BEST AVAILABLE COPY

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