

Regional Inspector General for Audit
Nairobi, Kenya

Audit of
Burundi Enterprise Promotion
Program No. 695-0125

Report No. 3-695-93-19-N
May 27, 1993



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.



U.S. AGENCY FOR INTERNATIONAL DEVELOPMENT



U.S. AGENCY FOR
INTERNATIONAL
DEVELOPMENT

May 27, 1993

Memorandum

*Regional
Inspector General
for Audit/Nairobi*

TO: Director, USAID/Burundi, Glenn G. Slocum

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

SUBJECT: Agency-contracted Audit of Burundi Enterprise Promotion Program
No. 695-0125

Attached are five copies of an Agency-contracted audit of Burundi Enterprise Promotion Program No 695-0125. The accounting firm of Bellhouse Mwangi Ernst & Young, Kenya, performed the audit.

The grant agreement for the Burundi Enterprises Promotion Program (BEPP) was signed on April 27, 1990. The purpose of the grant was to assist the Government of the Republic of Burundi (GRB) in accomplishing progressive economic reforms to foster growth of private enterprise in Burundi, especially of small and medium size enterprises. The grant is part of a planned multi-year program to support policy reforms and initiatives of the grantee in the areas of (a) reducing of barriers to entry of private sector small and medium size enterprises to the formal sector (b) reducing constraints to said enterprises doing business in Burundi and (c) reducing barriers to private sector participation in international trade and export. Authorized life of program funds will total \$35 million. The amount was to be released in tranches over a period of 4 years depending on the grantee fulfilling certain conditions precedent. As of December 31, 1992, the Mission had disbursed \$21 million to the GRB. The amount disbursed had generated interest of about \$619,000. As of December 31, 1992, the GRB had spent about \$20.4 million of the amount disbursed and the interest earned. The audit covered all the funds disbursed to the GRB for the BEPP through the dollar account for the period April 27, 1990 to December 31, 1992.

The objectives of the audit were to:

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

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

The auditors issued a qualified opinion on the Fund Accountability Statement. They reported that loan repayments to the International Development Association (IDA) amounting to \$730,238 were not supported by original loan repayment demand notes. The auditors also established that a loan repayment of \$9,650 to the European Investment Bank was not supported by a signed loan agreement. The auditors noted no matters involving the internal control structure and its operation that were considered to be material weaknesses. In regard to compliance, the auditors noted certain immaterial instances of non-compliance which were included as part of their audit report.

The draft report was submitted to the GRB and USAID/Burundi for comments. Their comments are incorporated in the final report (Appendix I and Appendix II). The Mission disagreed that loan repayment to IDA of \$730,238 was unsupported by original support documents. The Mission stated that it was its understanding that the World Bank receives the original demand notes while the GRB receives copies. According to the Mission, the auditors visited the World Bank and were shown all the original support documents for all loan payments in question. The auditee did not specifically address the questioned amounts but stated that all the amounts received, disbursed and verified was accompanied by the appropriate justifying documents. In their response, the auditors stated that during their visit to the World Bank Offices in Burundi, they were able to review some original demand notes. However, demand notes for the \$730,238 were not available. Based on the auditors explanations, RIG/A/N agrees that the amount is properly questioned. In regard to the loan repayment of \$9,650 to the European Investment Bank without a signed loan agreement, the Mission agreed with the finding while the auditee did not comment on the finding.

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

Recommendation No. 1: We recommend that, USAID/Burundi determine the allowability, and recover as appropriate, from the Government of Burundi:

- 1.1 loan repayments to the International Development Association of \$730,238 for which original demand notes were missing; and

1.2 loan repayments to the European Investment Bank of \$9,650 for which no signed agreement was found.

We consider recommendation No. 1 as unresolved. The recommendation will be resolved when the Mission makes a final determination on the allowability of the questioned amounts. The recommendations will be closed when the Mission takes action appropriate to the determination made. Please respond to this report within 30 days indicating action planned or already taken to implement the recommendation.

Thank you for the cooperation extended to Bellhouse Mwangi Ernst & Young auditors and the Regional Inspector General for Audit representatives during the audit.

Attachments: a/s.

AUDIT OF
BURUNDI ENTERPRISE PROMOTION
PROGRAM NO. 695-0125

ATTACHMENTS

41

AGENCY CONTRACTED AUDIT OF
BURUNDI ENTERPRISE PROMOTION
PROGRAM NO. 695-0125
REPORT FOR THE PERIOD APRIL 27, 1990
THROUGH DECEMBER 31, 1992

**BURUNDI ENTERPRISE PROMOTION PROGRAM
AGENCY CONTRACTED AUDIT
REPORT FOR THE PERIOD APRIL 27, 1990
THROUGH DECEMBER 31, 1992**

TABLE OF CONTENTS

	PAGE
GLOSSARY OF TERMS	
SECTION	
1. INTRODUCTION	
1.1 Background	1
1.2 Audit Objectives and Scope	2
1.3 Audit Methodology	2
1.4 Summary of Audit Results	3
1.4.1 Fund Accountability Statement	3
1.4.2 Internal Control Structure	4
1.4.3 Compliance with Grant Provisions and Applicable Laws and Regulations	4
1.5 Summary of Auditee's Comments	5
2 FUND ACCOUNTABILITY STATEMENT	
2.1 Independent Auditor's Report	6
2.2 Findings and Recommendations	
2.2.1 Introduction	7
2.2.2 Sample Selection Criteria	7
2.2.3 Audit Results	7
2.2.4 Details of Revenue and Expenditure	8
2.2.5 Project Costs and Recommendations	9
2.2.6 Unsupported Costs	9
3 INTERNAL CONTROL STRUCTURE	
3.1 Independent Auditor's Report	12
3.2 Work Performed	14
3.3 Findings and Recommendations	
3.3.1 Control Environment	14
3.3.2 Accounting Systems	14
3.3.3 Control Procedures	14
3.3.4 Fund balance in the financial report	15
3.3.5 Reports to PAS from BRB	15
3.3.6 Interest Income	16

**BURUNDI ENTERPRISE PROMOTION PROGRAM
AGENCY CONTRACTED AUDIT
REPORT FOR THE PERIOD APRIL 27, 1990
THROUGH DECEMBER 31, 1992**

GLOSSARY OF TERMS

USAID	United States Agency for International Development
USC	United States Court Ruling
GAAS	Generally Accepted Auditing Standards
GRB	Government of the Republic of Burundi
BEPP	Burundi Enterprise Promotion Program
PIL	Program Implementation letters
BRB	Banque de la Republique du Burundi (Central Bank of Burundi)
IDA	International Development Association
BEI	Banque Europeenne d'Investissement (European Investment Bank)
PAS	Programme d'Ajustement Structurel (Structural Adjustment Program)
IMF	International Monetary Fund
BMEY	Bellhouse Mwangi Ernst & Young
US\$	United States Dollar
FF	French Francs

**4 COMPLIANCE WITH GRANT PROVISIONS AND
APPLICABLE LAWS AND REGULATIONS**

4.1	Independent Auditor's Report	17
4.2	Work Performed	18
4.3	Findings and Recommendations	
4.3.1	Deposit to the Trust Account	18
4.3.2	Commingled Funds	19
4.3.3	Price Waterhouse Recommendations	19
4.3.4	Financial Reports to USAID	20

APPENDICES

APPENDIX I MISSION RESPONSE

APPENDIX II AUDITEE RESPONSE

APPENDIX III FUND ACCOUNTABILITY STATEMENT

**BURUNDI ENTERPRISE PROMOTION PROGRAM
AGENCY CONTRACTED AUDIT
REPORT FOR THE PERIOD APRIL 27, 1990
THROUGH DECEMBER 31, 1992**

1. INTRODUCTION

1.1 Background

The United States Agency for International Development (USAID) and the Government of the Republic of Burundi (GRB) entered into a grant agreement on April 27, 1990 to finance the Burundi Enterprise Promotion Program (BEPP). The purpose of the grant is to assist the Republic of Burundi in accomplishing progressive economic reforms to foster growth of private enterprise. The grant is part of a planned multi - year program to support policy reforms and initiatives of the grantee in the areas of:

- a) Reducing of barriers to entry by private sector small and medium size enterprises to the formal sector;
- b) Reducing constraints to said enterprises doing business in Burundi; and
- c) Reducing barriers to private sector participation in International trade and export.

The total amount of program funds is US \$35 million. This was to be released in tranches over a period of 4 years depending on the grantee fulfilling conditions precedent as set out in the grant agreement. The initial tranche of US \$13 million was released on August 27, 1990 and the second tranche of US \$8 million on July 23, 1992.

The grant agreement required GRB to open the following special accounts:-

- a) A non-commingled interest bearing dollar account with a bank in the USA to be used for servicing debts owed to the U.S. government and debts owed to multilateral development banks and/or International Monetary Fund (IMF), and to meet other uses as USAID may agree in writing.
- b) A local currency account with a bank in Burundi to be used for payments of local costs of specific projects, budgetary support and other mutually agreed upon activities.

The implementing agencies for the grant are the Ministry of Finance and the Central Bank of Burundi. The implementation of the project is supervised by the Structural Adjustment Program (PAS) which is under the Prime Minister's Office.

Bellhouse Mwangi Ernst and Young (BMEY) were appointed under contract No. 623-0000-1-00-2006-00, to perform a financial audit of the operations of the dollar account noted under (a) above.

1.2 Audit Objectives and Scope

Bellhouse Mwangi Ernst & Young were appointed to perform an agency-contracted audit of the BEPP in accordance with generally accepted auditing standards (GAAS) and Government Auditing Standards issued by the comptroller General of the United States (1988 revision). The audit covered all funds disbursed to the GRB for the BEPP through the dollar account for the period April 27, 1990 to December 31, 1992. The objectives of the engagements were to:-

- a) audit the BEPP dollar account Fund Accountability Statement and express an opinion as to whether the Fund Accountability Statement presents fairly, in all material respects and in conformity with the basis of accounting described in the report the use of funds in accordance with the grant agreement.
- b) consider the GRB's internal control structure in relation to the BEPP dollar account 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
- c) test the GRB's compliance with the terms of the grant agreement as part of obtaining reasonable assurance about whether the Fund Accountability Statement is free of material misstatement, and report on any identified material instances of non-compliance.
- d) establish whether internal controls weaknesses identified in the report by Price Waterhouse had been rectified.
- e) determine whether dollar funds released to the Government of Burundi were deposited to a non-commingled interest earning account, and;
- f) determine whether dollar funds under the program were properly utilized.

For this audit Government Auditing Standards 3.46 regarding an external quality control review and 3.6 regarding continuing professional education were not met.

1.3 Audit Methodology

On January 27, 1993 an entry conference was held at the offices of the USAID Mission in Burundi. The conference was attended by representatives from Regional Inspector General Audit/Nairobi (RIG/A/N), USAID Mission in Burundi and BMEY. Introductory meetings were subsequently held with officers from the Central Bank of Burundi, PAS and the Treasury Department of the Burundi Ministry of Finance.

We performed a preliminary survey of the US dollar accounts accounting records and documents maintained at the Central Bank of Burundi, the Treasury and PAS. Our survey revealed that the accounting records are maintained at the Central Bank while the financial reports are prepared by PAS.

The principal audit steps performed included:-

- i) a review of terms and conditions of the grant agreement as it relates to the US dollar accounts;
- ii) a review of the project implementation letters issued by USAID Mission in Burundi;
- iii) a review of the internal control structure of the Treasury Department, the Central Bank of Burundi and PAS as it relates to the operation of the US dollar accounts;
- iv) detailed audit procedures to determine GRB compliance with terms and conditions of the grant agreement, to establish the existence of internal controls and to detect errors and irregularities;
- v) reconciliation of financial reports submitted to USAID to records maintained by BRB to determine their accuracy;
- vi) examining the bank reconciliations to ensure they are correct and are prepared on a timely basis;
- vii) checking calculation of interest earned and ensuring correct amounts have been deposited to the dollar account; and
- viii) testing expenditures in the Fund Accountability Statement to determine the extent of ineligible and unsupported costs under the terms of the grant agreement.

1.4 Summary of Audit Results

1.4.1 Fund Accountability Statement

- i) The Fund Accountability Statement is prepared on the basis of cash receipts and disbursements which is a basis of accounting which does not comply with US Generally Accepted Accounting Principles.
- ii) Loan repayments to International Development Association (IDA) amounting to US\$730,238.26 were not supported by original loan repayment demand notes.
- iii) We were not provided with a signed copy of the loan agreement between the European Investment Bank (BEI) and the Burundi Government for the electrification of Rwegura Kayanza - Ngozi project. The amount paid, US \$9,649.97, was agreed to original loan repayment demand note.
- iv) Our audit revealed no ineligible costs.

11

1.4.2 Internal Control Structure

The following internal control weaknesses were noted:-

- i) The bank reconciliations on the US dollar account do not indicate the correct fund balance as the fund balance is not adjusted to reflect items recorded in the bank statement but not in the BRB books at the end of each month.
- ii) Interest earned from the deposit account is not checked for accuracy.
- iii) BRB does not provide adequate information to PAS to facilitate preparation of financial reports on the accounts.

1.4.3 Compliance with Grant Provisions and Applicable Laws and Regulations

The following instances of non-compliance were noted:-

- i) The Government of Burundi did not deposit US \$2,370,000 in the Trust Account within 30 days of release of US \$8,000,000 by USAID as required by amendment number one to the grant agreement. The transfer to the Trust Account was made on September 30, 1992 while US \$8,000,000 had been credited to the Citibank account on July 23, 1992.
- ii) An amount of US \$1,000,000 was erroneously deposited by GRB in the US dollar account on October 10, 1991. The amount was transferred from the account on December 4, 1991.
- iii) The following recommendations made by Price Waterhouse in their report of March 1992 had not been implemented:-
 - a) that a bank reconciliation be attached to the quarterly financial report to USAID.
 - b) that a facility be provided for the computer at the BRB to log-off automatically after a fixed period of non use to guard against unauthorized access.
 - c) that projects heads be instructed in writing to send individual reports to PAS within a set time limit.
 - d) reduction of the number of signatures required for transfer orders and related documents before they are sent to BRB.
- iv) The financial report for the first quarter of 1991 was not prepared as required by USAID.

1.5 Summary of Auditee's Comments

The following are the auditee's comments on the audit findings.

- i) IDA does not send the original loan repayment demand notes to the Treasury. The Treasury only receives photocopies while the originals are kept by the World Bank.
- ii) The signed copy of the loan agreement between the Burundi Government and the European Investment Bank entered into in 1984 was not found at the Treasury.
- iii) US dollar account fund balances will be adjusted to reflect items in the bank statement at the end of the month to show the correct fund balance.
- iv) The interest earned from the deposit account with Citibank are not checked day to day but no error was found for those received. Interest calculation will be checked systematically.
- v) BRB will provide PAS with all copies of documents received.
- vi) The Government of Burundi did not deposit the US \$2,370,000 in the Trust Account within 30 days of USAID releasing US \$8,000,000 as required by amendment number one to the grant agreement because GRB was informed of the funds release 28 days after the funds had been disbursed.
- vii) The US \$1,000,000 was erroneously credited by Citibank in the special US dollar account. This was corrected soon after the error was noted.
- viii) The recommendations by Price Waterhouse are in the process of being implemented together with the budgeting and accounting reforms being made in the Ministry of Finance.
- ix) The financial report for the first quarter of 1991 was not prepared but reports have been prepared for all the other quarters.

2. FUND ACCOUNTABILITY STATEMENT

2.1 Independent Auditor's Report

We have audited the Fund Accountability Statement (set out on Appendix III), for the USAID US dollar account Grant to the Burundi Government for the Burundi Enterprise Promotion Program, Agreement No. 695 - 0125 for the period April 27, 1990 through December 31, 1992. This statement is the responsibility of the Government of Burundi. Our responsibility is to express an opinion on this statement based on our audit.

We conducted our audit in accordance with Generally Accepted Auditing Standards and Government Auditing Standards issued by the Comptroller General of the United States of America (1988 revision). For this audit, Government Auditing Standard 3.46 regarding an external quality control review and 3.6 regarding continuing professional education were not met. These standards require that we plan and perform the audit to obtain reasonable assurance as to whether the Fund Accountability Statement is free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the statement. An audit also includes assessing the accounting principles used and significant estimates made by the management, as well as evaluating the overall Fund Accountability Statement presentation. We believe that our audit provides a reasonable basis for our opinion.

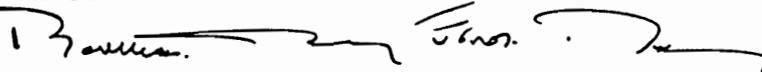
The Fund Accountability Statement is prepared on the basis of cash receipts and disbursements which is a basis of accounting that does not comply with U.S. Generally Accepted Accounting Principles.

Payments amounting to \$739,888.23 were not fully supported by original documents.

In our opinion, except for the unsupported cost amounting to \$739,888.23, the Fund Accountability Statement referred to above presents fairly, in all material respects, the project income and expenditure received and disbursed by the Government of the Republic of Burundi for the Burundi Enterprise Promotion Program for the period April 27, 1990 through December 31, 1992 in conformity with the basis of accounting described above.

Information contained in this report may be privileged. The restrictions of the United States court ruling 18 USC 1905 should be considered before any information is released to the public. The report is intended solely for the information of Government of the Republic of Burundi and the United States Agency for International Development, but this is not intended to limit the distribution of the report, if a matter of public record.

**BELLHOUSE MWANGI ERNST & YOUNG
NAIROBI**



..... 10 May 1993

14

2.2 Findings and Recommendations

2.2.1 Introduction

The Fund Accountability Statement was prepared from the records maintained by the Central Bank of Burundi and is set out on Appendix III.

The scope of the audit included sampling disbursements of the grant funds to the US dollar accounts and payments therefrom in the period August 1990 through December 31, 1992.

2.2.2 Sample Selection Criteria

We verified all receipts and disbursements over US \$102,000 and test checked a representative sample of 25 other payments. Our sample covered 72% of the total expenditure.

We test checked calculation of interest credits over \$1,000. Our sample covered 30% of interest income.

2.2.3 Audit Results

- i) The Dollar funds released to the Government of the Republic of Burundi were deposited in a non commingled interest earning account with Citibank in the United States of America.
- ii) Results of our audit revealed that the Dollar funds under the program were properly utilized. Receipts and expenditure were duly authorized and supported by original and approved documents except for payments noted under section 2.2.6 below which were not supported by original documents.

2.2.4 Details of Revenue and Expenditure

	Original Grant Agreement US\$	Amendment No 1 US\$	Total US\$
REVENUE			
Receipt from USAID	13,000,000.00	8,000,000.00	21,000,000.00
Interest Income	<u>550,622.09</u>	<u>68,029.48</u>	<u>618,651.57</u>
	<u>13,550,622.09</u>	<u>8,068,029.48</u>	<u>21,618,651.57</u>
EXPENDITURE			
Multilateral banks debt repayment:-			
African Development Bank	6,839,644.65	3,933,994.92	10,773,639.57
African Development Fund	1,831,668.96	1,374,432.02	3,206,100.98
European Bank of Investment	551,318.84	150,161.92	701,480.76
International Development Association	4,322,205.63	1,134,269.54	5,456,475.17
International Fund for Agricultural Development	<u>-</u>	<u>294,014.45</u>	<u>294,014.45</u>
	<u>13,544,838.08</u>	<u>6,886,872.85</u>	<u>20,431,710.93</u>
FUND BALANCE	<u>5,784.01</u>	<u>1,181,156.63</u>	<u>1,186,940.64</u>
	=====	=====	=====

2.2.5 Project Costs and Recommendations

	Claimed US\$	Accepted US\$	Questioned costs	
			Ineligible US\$	Unsupported US\$
Multilateral banks	<u>20,431,710.93</u>	<u>19,691,822.70</u>	-	<u>739,888.23</u>
Total Expenditure	<u>20,431,710.93</u>	<u>19,691,822.70</u>	-	<u>739,888.23</u>

Our audit indicated US\$ 739,888.23 of questioned cost which is analysed as follows:

Loan repayment to IDA not supported by original loan repayment demand notes	730,238.26
Loan repayment to European Investment Bank not supported by a signed loan agreement	<u>9,649.97</u>
	<u>739,888.23</u> =====

2.2.6 Unsupported Costs

i. IDA Loan Repayment Demand Notes

The original IDA loan repayment demand notes are kept by the World Bank and only photocopies are sent to Treasury. We visited the World Bank offices at Burundi and reviewed the original demand notes. The original demand notes for the following payments were not available:-

Transfer Order	Date of Transfer	Amount US \$
111	06.03.91	38,500.00
852	16.05.91	28,690.80
577	15.05.91	160,665.77
1801	04.12.92	358,069.36
2042	18.12.92	144,312.33
		<u>730,238.26</u>

Loan repayment should be made against original loan repayment demand notes and not photocopies. This will ensure that there is no possibility of the amount being transferred twice. The Government should request for the original loan repayment demand notes from the World Bank before payments are made.

Recommendation No 1

We recommend that USAID Burundi determine the allowability of the unsupported costs amounting to US\$ 730,238.26 and recover the amount from the auditee as appropriate.

Auditee's comments

In general the financial situation reflects that all flow of funds received and disbursements made by the Government of Burundi are in conformity with the terms of the grant agreement. All the amount received, disbursed and verified were accompanied by the appropriate justifying documents.

USAID comments

We disagree with the findings that loan repayment to IDA amounting to US\$730,238 were not supported by original loan repayment demand notes. It is our understanding that the World Bank and not the Government of Burundi receives the original demand notes for this loan and GRB receives a copy. The auditors visited the World Bank offices in Burundi and were shown the original documents for all loan repayments in question. It is our opinion that this satisfy any question as to support the payment for this loan.

Auditors' response

It is true that we visited the World Bank offices in Burundi where we managed to review some of the original loan repayment demand notes. However, original demand notes for the amount indicated above were not available.

ii Unsigned Loan Agreement

We were not provided with a signed copy of the loan agreement between the European Investment Bank and the Burundi Government for the electrification of Rwegura Kayanza - Ngozi project. The following amount was paid under this line of credit:

Transfer Order No.	Date of Transfer	Amount FF	US \$ Equivalent
1489	09.10.91	55,390.85	9,649.97

A signed copy of the loan agreement between the European Investment Bank and Burundi Government which is being repaid through the dollar account should be provided to confirm the eligibility of the expenditure.

Recommendation No 2

We recommend that USAID Burundi determine the allowability of the unsupported expenditure amounting to US\$ 9,649.97 and consider recovering from the auditee as appropriate.

Auditee comment

The auditee did not comment on the above finding and recommendation in writing.

USAID comment

Accepted.

Auditors' response

We maintain our findings and recommendations.

19

3. INTERNAL CONTROL STRUCTURE

3.1 Independent Auditor's Report

We have audited the Fund Accountability Statement for the USAID US dollar account Grant to the Burundi Government for the Burundi Enterprise Promotion Program, Agreement No. 695 - 0125, for the period April 27, 1990 through December 31, 1992 and have issued our report thereon dated 10 May 1993

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

In planning and performing our audit of the Fund Accountability Statement we considered the internal control structure established by the Government of the Republic of Burundi in so far as it relates to grant funds in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide assurance on the internal control structure.

The Government of Burundi is responsible for establishing and maintaining an internal control structure. In fulfilling this responsibility, estimates and judgments are required to assess the expected benefits and related costs of the 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 the Government of Burundi 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, projections 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 Environment

- written procedures
- personnel capabilities

Accounting System

- accounting records and USAID reporting
- reconciliation to independently generated information

Control Procedures

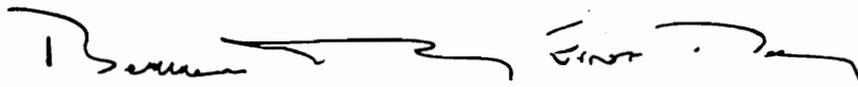
- disbursements
- cash management

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

Our consideration of the internal control structure would not necessarily disclose all matters in the internal control structure that might be material weaknesses under standards established by the American Institute of Certified Public Accountants. A material weakness is a reportable condition which the design or operation of the specific internal control structure elements does not reduce to a relatively low level, the risk that errors or irregularities in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control structure and its operation that we consider to be material weaknesses as defined above. However, we noted certain matters involving the internal control structure and its operation that we have reported under Section 3.3 of this report.

Information contained in this report may be privileged. The restrictions of the United States court ruling 18 USC 1905 should be considered before any information is released to the public. The report is intended solely for the information of the Government of the Republic of Burundi and the United States Agency for International Development but this is not intended to limit the distribution of the report, if a matter of public record.

**BELLHOUSE MWANGI ERNST & YOUNG
NAIROBI**



..... 10 May 1993

3.2 Work Performed

We reviewed the Internal Control Structure of the Bank of the Republic of Burundi, the Structural Adjustment Program (PAS) and the Treasury department of the Ministry of Finance of the Government of Burundi in relation to those elements which related to the USAID US dollar account grant. We obtained an understanding of the design of the relevant control procedures and we assessed control risk. Our review considered the significant Internal Control Structure, policies and procedures categorized as follows:-

Control Environment

- written procedures
- Personnel capabilities

Accounting System

- Accounting records and USAID reporting
- Reconciliation to independently generated information

Control procedures

- disbursement
- cash management

3.3 Findings and Recommendations

3.3.1 Control Environment

Our review indicated that the control environment for the Project Implementation is effective. The fund is managed by senior officers in the Ministry of Finance and the Central Bank of Burundi and the capability of the said officers was considered to be adequate.

3.3.2 Accounting Systems

The accounting system was found to be adequate. Quarterly reports are prepared and submitted to USAID and bank reconciliations are prepared regularly and agreed to Citibank statements. However, some weaknesses were noted in the accounting systems as detailed under 3.3.4 below.

3.3.3 Control Procedures

The control procedures relating to cash disbursement and cash management for the US dollar account were considered adequate. There is proper segregation of duties and transactions are authorized at the appropriate level.

The funds released to the GRB are deposited in an interest bearing account with Citibank in the US.

3.3.4 Fund balance in the financial reports

Items recorded in the bank statements but not recorded in the BRB books are not accounted for in the period they relate to but are instead shown in the bank reconciliations as reconciling items and recorded in the subsequent period. As a result, the fund balance as reported in the quarterly reports to USAID is not always correct. The items not recorded are mainly interest earned and exchange differences. We have adjusted the fund balances at December 31, 1992 with the following items which had not been recorded in BRB books but were in the bank reconciliations:

	US\$
Interest earned	910.59
Exchange differences	4,217.75

Recommendation No 3

We recommend that all entries in the bank statement be recorded in the period they arise to ensure that the financial reports are accurate.

Auditee's comments

The details of interest earned and exchange differences are provided in the bank statements from Citibank. The bank statements are delayed a minimum of one month and BRB cannot do the posting of the above items at the time requested. To remedy this situation Citibank will be requested to transmit the bank statement by fax in time.

USAID comments

Accepted.

Auditors' response

Accepted.

3.3.5 Reports to PAS from BRD

The accounting records of BEPP are maintained at BRB while the financial reports are prepared by PAS on the basis of the accounts statements provided by BRB. The accounts statements submitted by BRB are not sufficient to facilitate the preparation of financial reports given that PAS does not have other necessary documents such as the bank statements and interest ticket from the Citibank.

Recommendation No 4

We recommend that the Bank of the Republic of Burundi provide the following information to Structural Adjustment Programme to facilitate preparation of financial reports:

- a) accounts statement showing the fund balance;

- b) schedule of total interest earned on the account for the period of the financial report;
- c) schedule of total loan repayments through the dollar account for the period of the report; and
- d) bank reconciliation showing a fund balance which is equal to the balance in (a) above.

Auditee's comments

To our knowledge all information asked of PAS such as historical information on the bank accounts and bank payment request were always provided. We will now provide copies of all documents received from Citibank to PAS as requested.

USAID comments

Accepted.

Auditors' response

Accepted.

3.3.6 Interest Income

The accuracy of the interest income credited by Citibank to the dollar account fund is not checked. However, our examination did not reveal any errors.

Recommendation No. 5

We recommend that interest income earned be checked to ensure it is accurate. This should be done by recalculating interest earned per the monthly interest statement (Treasury Activity for the month) sent by Citibank. The person checking the accuracy should sign/initial the records as evidence of the review.

Auditee's comments

We agree that interest earned on the deposit account with Citibank were not checked for accuracy. However, no errors were found. We will systematically do the checking for the interest calculation.

USAID comments

Accepted

Auditors' response

Accepted

4 COMPLIANCE WITH GRANT PROVISIONS AND APPLICABLE LAWS AND REGULATIONS

4.1 Independent Auditors' Report

We have audited the Fund Accountability Statement for the USAID US dollar account Grant to Burundi Government for the Burundi Enterprise Promotion Program Agreement No. 695 - 0125 for the period April 27, 1990 through December 31, 1992 and have issued our report thereon dated 10 May 1993

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

Compliance with laws, regulations, contracts, grants, and binding policies and procedures applicable to the program funds is the responsibility of the Government of the Republic of Burundi. As part of our audit, we performed tests of the Burundi Enterprise Promotion Program US dollar account to confirm compliance with the grant agreement and related laws and regulations. However, it should be noted that we performed those tests of compliance as part of obtaining reasonable assurance as to whether the financial statements are free of material misstatement; our objective was not to provide an opinion on overall compliance with such provisions. Accordingly, we do not express such an opinion.

We noted certain immaterial instances of non-compliance which we have reported under section 4.3 of this report.

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

Information contained in this report may be privileged. The restrictions of the United States cost ruling 18 USC 1905 should be considered before any information is released to the public. The report is intended for the information of the Government of the Republic of Burundi and the United States Agency for International Development but this is not intended to limit the distribution of the report, if a matter of public record.

**BELLHOUSE MWANGI ERNST & YOUNG
NAIROBI**

..... 10 May 1993

4.2 Work Performed

Our audit of USAID US dollar grant to the Government of the Republic of Burundi for the Burundi Enterprise Promotion Program included obtaining assurances that the Burundi Government complied with grant provisions and applicable laws and regulations.

Procedures performed to test such compliance included the following:-

- i) a review of the grant agreement provisions and related regulations to identify those provisions and regulations which could have a material effect on the Fund Accountability Statement; and
- ii) detailed testing to confirm the Government's compliance with those provisions and regulations.

4.3 Findings and Recommendations

4.3.1 Deposit to the Trust Account

Grant amendment number one section 4.2 and Program Implementation Letter number 5 section 2 required that the Government deposit an amount equal to US \$ 2,370,000 to the Trust Account within 30 days after USAID has released the US \$8,000,000 to the dollar account. The Government did not comply with this requirement as it deposited the required amount on September 30, 1992 while USAID released the funds on July 23, 1992.

Recommendation No 6

Deposit to the Trust Account should be made within the time limits set up in the grant agreement.

Auditee's comments

The Bank of the Republic of Burundi was not informed about the deposits when its special account at Citibank was credited with US\$8,000,000 on July 23 1992. The Bank of the Republic of Burundi was only informed on August 20 1992. When Bank of the Republic of Burundi enquired from Citibank about the date of deposit the response came on August 23 1992 and the Ministry of Finance was informed about the deposit on August 28 1992 by our letter No. OBC/283 - SB/KA. The delay to be considered is therefore only six days.

USAID Comments

Accepted.

Auditors' comments

The auditee's comments have been noted.

4.3.2 Commingled Funds

The Burundi Enterprise Promotion Program dollar account opened at Citibank is supposed to be a non-commingled interest bearing account. An amount of US \$1,000,000 was deposited in the account by the Bank of the Republic of Burundi on October 10, 1991. The credit remained in the account until December 4, 1991 when the amount was transferred to the correct account.

Recommendation No 7

No other funds should be deposited in the special dollar accounts. The Bank of the Republic Burundi should ensure that monthly bank statements are received from Citibank soon after month end to enable them identify errors and have them corrected without delay.

Auditee's comments

In October 1992, the Bank of the Republic of Burundi wanted to fund its ordinary account with the Citibank through the Federal Reserves in New York but it did not indicate the account number to be funded. Without notification, Citibank funded the special account on October 10 1992. This was an error due to Citibank inattention as you can see in the telex sent to our correspondent on May 2 1992, we did clearly order that the special account would be for the USAID deposit and daily interest. The error was corrected on December 12 1992.

USAID comments

Accepted.

Auditors' Response

Accepted.

4.3.3 Price Waterhouse Recommendations

In a report of the review of accounting and internal control systems at the Central Bank and Ministry of Finance of Burundi done by Price Waterhouse, and dated March 1992, a number of recommendations were made for improving the internal controls.

However, as at the time of audit the following recommendations had not been implemented:-

- a) that a bank reconciliation be attached to the quarterly financial reports to USAID on the dollar accounts;
- b) that project heads be instructed in writing to send individual reports to PAS within a set time limit;

- c) that a facility be provided for the computer in BRB to log - off automatically after a fixed period of non - use to guard against unauthorized access to and amendment of bank records; and
- d) reduction of the number of signatures required for the transfer orders and related documents before they are sent to Bank of the Republic of Burundi.

Recommendation No 8

We recommend that these recommendations by Price Waterhouse be implemented without delay.

Auditees comments

No written comments were provided by the auditee. However, during the exit conference held on February 15 1993 the auditee confirmed that they are in the process of implementing the recommendations together with the budgeting and accounting reform being made in the Ministry of Finance.

USAID comments

Accepted

Auditors' Response

Accepted

4.3.4 Financial Reports to USAID

The financial report for the US dollar account are supposed to be submitted on a quarterly basis. We noted that the financial report for the first quarter of 1991 had not been prepared.

Recommendation No 9

We recommend that financial reports be prepared and submitted to USAID for all the quarters.

Auditees comments

The auditee did not give any written comments on the above finding and recommendation. However, during the exit conference, the auditee accepted that the report for the quarter was not prepared but said that reports for all the subsequent periods were prepared.

USAID Comments

Accepted

Auditors Response

Accepted

28

MEMORANDUM

DATE: April 8, 1993
FROM: JIM DUVALL, CONTROLLER, USAID/BURUNDI
TO: BELLHOUSE MWANGI ERNST & YOUNG, CPAS
SUBJECT: MISSION AND GRB COMMENTS ON THE BURUNDI ENTERPRISE PROMOTION PROGRAM (BEPP) AUDIT

MISSION HAS REVIEWED SUBJECT REPORT AND PROVIDES THE FOLLOWING COMMENTS:

1. WE DISAGREE WITH THE FINDING UNDER ITEM 1.3.1, QUOTE LOAN REPAYMENTS TO IDA AMOUNTING TO US DOLLARS 730,238 WERE NOT SUPPORTED BY ORIGINAL LOAN REPAYMENT DEMAND NOTES UNQUOTE. IT IS OUR UNDERSTANDING THAT THE WORLD BANK AND NOT THE GOVERNMENT OF BURUNDI RECEIVES THE ORIGINAL DEMAND NOTES FOR THIS LOAN AND THE GRB RECEIVES A COPY. THE AUDITORS VISITED THE WORLD BANK OFFICES IN BURUNDI AND WERE SHOWN THE ORIGINAL DOCUMENTS FOR ALL LOAN PAYMENTS IN QUESTION. IT IS OUR OPINION THAT THIS SATISFIES ANY QUESTION AS TO SUPPORT FOR THE PAYMENTS FOR THIS LOAN. WE HEREBY REQUEST THAT THIS FINDING BE ELIMINATED FROM THE REPORT.

2. IN THE FRENCH TRANSLATION, THE FOLLOWING TRANSLATION ERRORS SHOULD BE CORRECTED:

✓ a. ON PAGE 1, 5TH PARAGRAPH SHOULD READ: "...DE \$US 35 MILLIONS A DEBLOQUER...." INSTEAD OF "...A ETRE DEBLOQUER..."

✓ b. ON PAGE 4, POINT 1.3.4, THE WORD "COMMENTIVES" IS NOT FRENCH.

c. ON PAGE , LAST PARAGRAPH, WE WOULD LIKE TO SUBSTITUTE THE PHRASE "... COPIE SIGNEE DE L'ACCORD DE PRET CONCLU ENTRE LE GRB ET LA BEI EN 1984, N'A PAS ETE TROUVEE A LA TRESORERIE..." FOR WHAT IS WRITTEN.

3. WE ARE IN AGREEMENT WITH ALL OTHER FINDINGS NOTED IN THE REPORT.

29

WE ALSO PROVIDE COMMENTS FROM THE COMITE DU SUIVI/PAS AND THE BANK OF THE REPUBLIC OF BURUNDI (BRB) AS FOLLOWS. WE DID NOT RECEIVE COMMENTS FROM THE MINISTRY OF FINANCE.

CS/PAS COMMENTS:

"(1) IN GENERAL, THE FINANCIAL SITUATION REFLECTS THAT ALL FLOW OF FUNDS RECEIVED AND DISBURSEMENTS MADE BY THE GOVERNMENT ARE IN CONFORMITY WITH THE TERMS OF THE AGREEMENT AND ACCOUNTING PRINCIPLES. ALL THE AMOUNT RECEIVED, DISBURSED AND VERIFIED WERE ACCOMPANIED BY THE APPROPRIATE JUSTIFYING DOCUMENTS.

(2) THE AUDIT FOUND THAT THE INFORMATION USED IN THE DRAFTING OF THE FINANCIAL REPORTS BY THE CS/PAS MUST COME FROM THE BRB. BRB HAS TO VERIFY THAT ALL BANK STATEMENTS AND OTHER DOCUMENTS ARE CORRECT PRIOR TO TRANSMITTING THEM TO CS/PAS.

(3) WE UNDERLINE THE POINT THAT SOME PROBLEMS IN THE DRAFTING OF FINANCIAL REPORTS WILL CONTINUE, SINCE THE DOLLAR FUNDS ARE DEPOSITED INTO A SPECIAL ACCOUNT. THIS SITUATION DELAYS THE TRANSMISSION OF BANK STATEMENTS AND MAKES THE BRB UNABLE TO DO THE BANK RECONCILIATION ON TIME. IN ORDER TO OVERCOME THIS PROBLEM, IT WOULD BE BETTER TO HAVE THE QUARTERLY FINANCIAL REPORT DUE TWO MONTHS AFTER THE QUARTER ENDS.

(4) ON PAGE 1, BEFORE THE LAST PARAGRAPH, PAS IS NOT A SERVICE OF THE MINISTRY OF FINANCE BUT IT IS SUBORDINATED TO THE PRIME MINISTRY, WHO CHAIRS THE (COMITÉ DE SUIVI DU PAS) COMMITTEE TO MONITOR THE STRUCTURAL ADJUSTMENT PROGRAM."

BRB'S COMMENTS

"(1) BANK RECONCILIATIONS.

THE E&Y AUDIT TEAM REMARKS THAT THE BANK RECONCILIATION ON THE DOLLAR FUNDS DON'T GIVE THE SAME BALANCE AS ON THE CITIBANK'S BANK STATEMENTS IN THE BRB BOOKS FOR THE SAME PERIOD. TO HAVE THE SAME BALANCE, THE POSTING OF THESE TRANSACTIONS MUST BE DONE SIMULTANEOUSLY IN BOTH CITIBANK'S AND BRB'S BOOKS ON THE SAME DAY. CURRENTLY, THE DELAY IS ABOUT 2 MONTHS ACCORDING TO THE INTERNATIONAL FUNDING REGULATION OF CITIBANK AND WE CAN'T DO THE POSTING AT THE TIME REQUESTED.

PLEASE NOTE THAT THE INFORMATION, WHICH ALLOWS US TO MAKE THE BANK RECONCILIATION, COMES FROM THE BANK STATEMENT RECEIVED FROM OUR CORRESPONDENT BANK. THESE BANK STATEMENTS ARE DELAYED ONE MONTH MINIMUM. TO REMEDY THIS SITUATION WE SUGGEST THAT CITIBANK TRANSMIT ITS DOCUMENTS BY FAX.

(2) INTEREST.

WE AGREE THAT INTERESTS EARNED FROM THE DEPOSIT ACCOUNT WITH CITIBANK ARE NOT CHECKED DAY TO DAY FOR ACCURACY. PLEASE NOTE THAT FOR THOSE RECEIVED, WE DIDN'T FIND ANY ERROR, OR WRONG CALCULATION. NEVERTHELESS, WE WILL SYSTEMATICALLY DO THE CHECKING FOR THE FOLLOWING CALCULATIONS.

(3) DELAY ON THE DEPOSIT US \$2,370,000 TO THE TRUST ACCOUNT. (VALUE ON SEPTEMBER 30, 1992)

WHEN THE BRB'S SPECIAL ACCOUNT AT THE CITIBANK WAS CREDITED WITH US \$8,000,000 ON JULY 23, 1992, BRB WAS NOT INFORMED ABOUT THIS DEPOSIT. BRB WAS INFORMED ONLY ON AUGUST 20, 1992 BY THE FIRST TELEX RECEIVED. WHEN THE BRB ASKED CITIBANK, NY ABOUT THE DATE OF THE DEPOSIT, THE RESPONSE CAME ON AUGUST 22, 1992. THE MINISTRY OF PLAN WAS INFORMED ON AUGUST 28, 1992 BY OUR LETTER N° OBE/283.SB/KA. THE DELAY TO BE CONSIDERED IS ONLY SIX DAYS.

(4) DEPOSIT US \$1,000,000 TO THE SPECIAL ACCOUNT WITH THE CITIBANK.

IN OCTOBER 1992, BRB WANTED TO FUND ITS ORDINARY ACCOUNT WITH THE CITIBANK THROUGH THE FEDERAL RESERVE IN NEW YORK. THE ACCOUNT NUMBER WAS NOT NOTED. WITHOUT NOTIFICATION, CITIBANK FUNDED THE SPECIAL ACCOUNT ON OCTOBER 10, 1992. THIS TRANSACTION WAS CORRECTED ON DECEMBER 12, 1992. PLEASE NOTE THAT THIS IS AN ERROR DUE TO CITIBANK'S INATTENTION. AS YOU CAN SEE IN THE TELEX SENT TO OUR CORRESPONDENT ON MAY 2, 1992, WE DID CLEARLY ORDER THAT THE SPECIAL ACCOUNT WOULD BE FOR THE USAID DEPOSIT AND DAILY INTEREST.

21

(5) INFORMATION TO BE PROVIDED TO PAS.

TO OUR KNOWLEDGE, ALL INFORMATION ASKED OF PAS, SUCH AS HISTORICAL INFORMATION ON THE BANK ACCOUNTS AND BANK PAYMENT REQUESTS, WERE ALWAYS PROVIDED, EVEN THE RECEIPT OF THE DOLLARS. WE WILL NOW PROVIDE COPIES OF ALL DOCUMENTS RECEIVED FROM CITIBANK TO PAS AS REQUESTED BY THE PRICE WATERHOUSE AUDIT."

BEST REGARDS.

CC: RIG/A/NAIROBI

32

FUND ACCOUNTABILITY STATEMENT
 BURUNDI ENTERPRISE PROMOTION PROGRAM
 FOR THE PERIOD APRIL 27, 1990
 THROUGH DECEMBER 31, 1992.

REVENUE	US\$
Dollars Released to the Government of the Republic of Burundi	
Original Grant Agreement	13,000,000.00
Amendment No. 1	8,000,000.00
Amendment No. 2	-
Interest Earned	618,651.57
	<hr/>
	21,618,651.57
	=====
EXPENDITURE	
Service of U.S debts	-
Multilateral banks/IMF debts	20,431,710.93
Service of other debt	-
Other uses	-
	<hr/>
	20,431,710.93
	<hr/>
BALANCE	1,186,940.64
	<hr/>

Notes

Funds obligated under Amendment number two dated August 31, 1992, US\$10 million, had not been disbursed to the Government of Burundi by December 31, 1992. The original deadline for meeting conditions precedent to the disbursement of December 29, 1992 was extended to April 1, 1993.

ATTACHMENT II

REPORT DISTRIBUTION

U.S. Ambassador to Burundi	1
Mission Director, USAID/Burundi	5
AA/AFR	2
AFR/EA/RB	1
AFR/CONT	1
XA/PR	1
LEG	1
GC	1
AA/FA	1
AA/OPS	1
FA/FM	1
POL/CDIE/DI	1
FA/MCS	2
REDSO/ESA	1
REDSO/RCO	1
REDSO/RFMC	1
REDSO/Library	1
IG	1
AIG/A	1
D/AIG/A	1
IG/A/PPO	2
IG/LC	1
IG/RM/C&R	5
IG/RM/GS (Unbound)	1
AIG/I&S	1
IG/I/NFO	1
IG/A/PSA	1
IG/A/FA	1
RIG/A/Cairo	1
RIG/A/Dakar	1
RIG/A/EUR/W	1
RAO/Manila	1
RIG/A/Singapore	1
RIG/A/Tegucigalpa	1
RIG/A/Bonn	1