

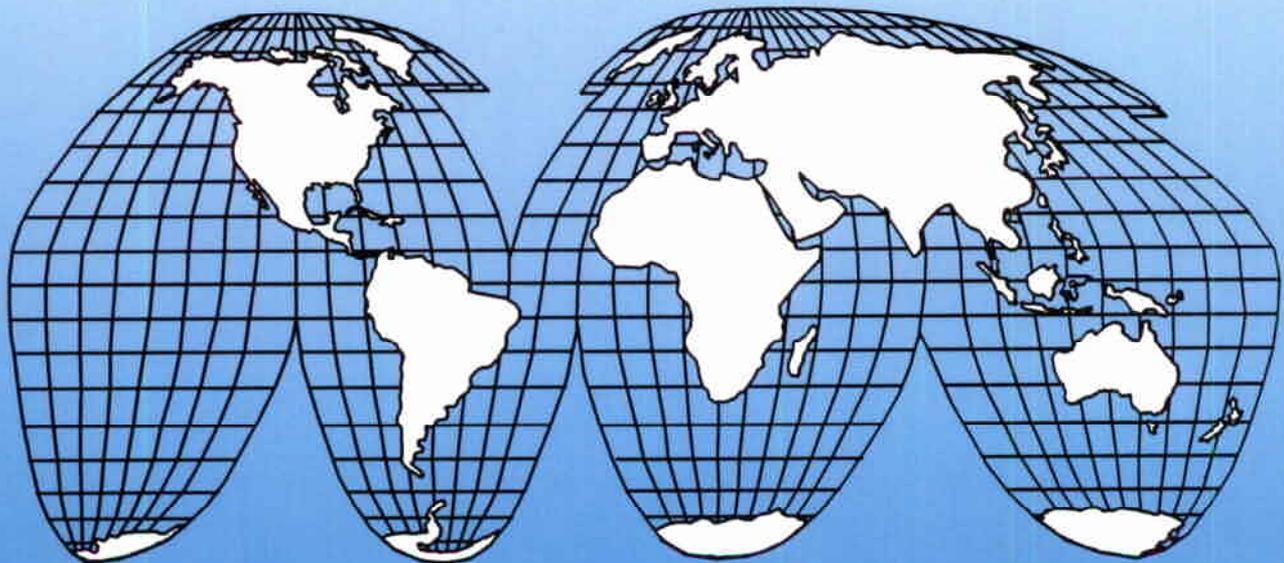
USAID

OFFICE OF INSPECTOR GENERAL

**Audit of USAID/Zambia's Resources Managed by
Credit Management Services Limited under
Cooperative Agreement No. 690-A-00-99-00026-00 for
the Period April 1, 2001 to January 31, 2003**

Audit Report No. 4-611-04-001-N

November 18, 2003



PRETORIA, SOUTH AFRICA

Financial information contained in this report may be privileged. The restriction of 18 USC 1905 should be considered before any information is released to the public.



November 18, 2003

MEMORANDUM FOR ACTING MISSION DIRECTOR, USAID/Zambia, Helen Gunther

FROM: Regional Inspector General/Pretoria, Jay Rollins

A handwritten signature in black ink, appearing to read "J. Rollins".

SUBJECT: Audit of Credit Management Services Limited under Cooperative Agreement No. 690-A-00-99-00026-00 for the Period April 1, 2001 through January 31, 2003 (Report No. 4-611-04-001-N)

This memorandum transmits the subject audit report prepared by Agency-contracted auditor, PricewaterhouseCoopers (Lusaka, Zambia). The audit was intended to cover expenditures of \$372,697 in USAID-provided funding. The audit was not performed because the Managing Director of Credit Management Services Limited (CMS) refused to allow PricewaterhouseCoopers access to CMS' premises and financial records. Consequently, we are questioning the entire \$372,697 as unsupported costs.

CMS is a registered Zambian company which operates to encourage social change by providing Zambia's poor with improved access to microfinance. On February 5, 1999, USAID/Zambia signed a cooperative agreement with CMS to provide \$930,000 for on-lending and to meet the company's operational costs. USAID's planned contribution to CMS was subsequently increased to a total of \$1,080,000 and the award was extended to March 31, 2004.

USAID/Zambia engaged PricewaterhouseCoopers to conduct an Audit of CMS for the period April 1, 2001 through January 31, 2003. The specific objectives of the audit were to:

- Express an opinion on the fair presentation of the Fund Accountability Statement,
- Evaluate CMS' internal controls related to the USAID-funded program,
- Perform tests to determine CMS' compliance with agreement terms and applicable laws and regulations related to the USAID-funded program,
- Perform tests to ensure that the accounting system and the loan tracking system are timely and accurate, and
- Determine if CMS has taken adequate corrective action on prior audit report recommendations.

Because of the scope impairment of not being permitted access to CMS' premises and financial records, PricewaterhouseCoopers was unable to address the five specific objectives of the audit.

Therefore, we are making the following recommendation:

Recommendation No. 1: We recommend that USAID/Zambia determine the allowability of unsupported costs totaling \$372,697, which PricewaterhouseCoopers could not verify because of the audit's scope impairment, and recover from Credit Management Services Limited any amounts determined to be unallowable.

Please respond within 30 days describing the actions taken or planned by USAID/Zambia to address this recommendation.

Attachments: a/s

CC: USAID/RCSA, Contracting Officer, Gail Warshaw
USAID/Zambia, Controller, Amy Fawcett

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CONTROLLED ZAMBIA

The Financial Controller
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22 October 2003

Dear Madam

AUDIT OF THE CREDIT MANAGEMENT SERVICES LIMITED (CMS)

We refer to our contract with USAID of 31 July 2003 under which we were appointed as auditors of USAID resources managed by CMS under the Cooperative Agreement (number 690-A-00-99-00026-00), which provided \$1,080,000 to CMS for on-lending and to meet operational costs over a period of three years. The audit was to cover \$372,696.79 of USAID provided funds expended during the 22 months period ended 31 January 2003.

Following this appointment, we held an entrance meeting at the USAID offices on 9 September 2003 at which it was agreed that the audit would commence on 15 September 2003. However we were later advised that the audit could not commence on that date because bailiffs had closed the CMS offices, and that the revised audit commencement date would be communicated to us in due course.

During the week commencing 6 October 2003, we received instructions from USAID to commence the audit that week and it was agreed that an audit team would travel to CMS on 10 October 2003. On the agreed date an audit team travelled to CMS with a USAID representative but was refused access to the CMS premises and books of accounts by the CMS Managing Director, Mr DW Molver, who indicated that certain issues had to be resolved before the audit could commence.

Therefore we wish to advise that, as a result of the refusal by CMS for us to gain access to CMS premises, its financial reports on the USAID managed resources and the books of accounts underlying those financial reports, we are unable to carry out the terms of reference as stipulated in our contract with USAID and consequently are unable to:

- Express an opinion on whether the fund accountability statement for CMS presents fairly the project revenues received, costs incurred, and commodities or technical assistance directly procured by USAID for the period audited in conformity with the terms of the agreements and generally accepted accounting principles;
- Evaluate and obtain a sufficient understanding of CMS internal controls related to the USAID-funded programmes and projects, assess control risk, and identify reportable conditions, including material internal control weaknesses;
- Perform tests to determine whether CMS complied with agreement terms and applicable laws and regulations related to USAID-funded programmes;
- Perform an audit of the indirect cost rates;
- Determine if CMS has taken adequate corrective action on prior financial assessments and audit report recommendations;
- Express an opinion on whether CMS general purpose financial statements present fairly, in all material respects, the financial position of CMS at year end, and the results of its operations and cash flow for the year then ended, in conformity with generally accepted accounting principles; and
- Determine whether cost sharing contributions were provided and accounted for by the recipient in accordance with the terms of the agreements and the project requirements.

Yours faithfully


Robert Dagge
Director

Cc. Mr DW Molver, CMS Managing Director