PD-ABD-680

UNITED STATES
AGENCY FOR INTERNATIONAL DEVELOPMENT

THE INSPECTOR GENERAL

Regional Inspector General for Audit
NAIROBI

PD-ABD-680

AUDIT OF
LOCAL CURRENCY GENERATIONS UNDER
USAID/ZIMBABWE GRANT NO. 613-K-603

AUDIT REPORT NO. 3-613-91-16-N
SEPTEMBER 16, 1991

The audit disclosed that there was an unreconciled overdeposit into the special account of the equivalent of $273,371. The audit also identified weaknesses in the internal controls of the auditee.

FINANCIAL INFORMATION IN THIS REPORT MAY BE PRIVILEGED. THE RESTRICTIONS OF 18 USC 1905 SHOULD BE CONSIDERED BEFORE ANY INFORMATION IS RELEASED TO THE PUBLIC.

UNITED STATES OF AMERICA
AGENCY FOR INTERNATIONAL DEVELOPMENT
REGIONAL INSPECTOR GENERAL/AUDIT

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September 16, 1991

MEMORANDUM

TO: Ted D. Morse, Director, USAID/Zimbabwe

FROM: Toby L. Jarman, RIG/A/Nairobi

SUBJECT: Audit of Local Currency Generations Under USAID/Zimbabwe Grant No. 613-K-603

Attached are five copies of a non-Federal financial audit report of local currency generations under USAID/Zimbabwe Grant No. 613-K-603. The accounting firm of Deloitte and Touche, Zimbabwe performed the audit.

A.I.D. Grant No. 613-K-603 was authorized to provide budgetary support to the Government of Zimbabwe to implement planned policy reforms. Under a commodity import program component, Zimbabwe dollars to support the program were to be generated and deposited into a special account. These funds were to finance mutually agreed upon development projects. For the period ended June 30, 1989, obligations amounted to $50 million and local currency generated totalled $50.2 million.

The objectives of the audit were to:

- review and express a written opinion on the Fund Accountability Statement;
- evaluate and report on Government of Zimbabwe's internal control structure concerning local currency generations under the program; and
- determine Government of Zimbabwe's compliance with the grant agreement terms and applicable U.S. laws and regulations.

Deloitte and Touche reported that the Fund Accountability Statement fairly presented the status of the funds authorized under Grant No. 613-K-603, except that there was an unreconciled overdeposit into the special account of the equivalent of $273,371. In its

report on the internal control structure, the auditors noted that the Government of Zimbabwe was not reconciling its special account records with A.I.D. records. The auditors reported, however, that the Government of Zimbabwe complied in all material respects with the grant agreement and applicable U.S. laws and regulations.

The draft report was submitted to USAID/Zimbabwe and the auditee for comment, and their comments were taken into consideration in preparation of the final report by Deloitte and Touche .

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

> **Recommendation No. 1: We recommend that the Director, USAID/Zimbabwe ensure that the Government of Zimbabwe reconcile the overdeposit of the *equivalent of $273,371 between A.I.D.'s reccrds and the special account records.**
>
> **Recommendation No. 2: We recommend that the Director, USAID/Zimbabwe ensure that the Government of Zimbabwe institute appropriate procedures to reconcile their financial records for the commodity import program with A.I.D. records.**

We consider Recommendation Nos. 1 and 2 unresolved pending receipt of a specified plan for corrective action. Please respond to this report within 30 days indicating actions planned or underway to implement these recommendations.

Thank you for the cooperation and courtesy extended to Deloitte and Touche and Regional Inspector General for Audit representatives during the audit.

Attachments: a/s

AUDIT OF
LOCAL CURRENCY GENERATIONS
UNDER USAID/ZIMBABWE GRANT NO. 613-K-603

ATTACHMENTS

ATTACHMENT I

FINANCIAL AUDIT

OF LOCAL CURRENCY GENERATIONS UNDER

USAID/ZIMBABWE GRANT NO. 613-K-603

MARCH 1991

FINANCIAL AUDIT
OF LOCAL CURRENCY GENERATIONS UNDER
USAID/ZIMBABWE GRANT NO. 613-K-603

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APPENDIX TWO : USAID Commodity Import Program Accounting and Control Systems Report (See Separate Report)

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APPENDIX EIGHT : Amounts received from other sources

APPENDIX NINE : Receipts less than US$10 000

APPENDIX TEN : Differences between amounts due in terms of grant agreements and local currency generations.

EXECUTIVE SUMMARY

This document records the findings of the financial audit of local currency generations under USAID/Zimbabwe Grant No. 613-K-603.

The report is divided as follows:-

- **Introduction**

  This summarises our approach and methodology

- **Audit Reports**

  This section contains three separate audit reports on:-

  - Fund Accountability
  - Compliance with laws
  - Internal Controls

  and the respective audit findings

The audit was conducted between March 1990 and March 1991.

1. INTRODUCTION

BACKGROUND

In 1988/89 the United States Agency for International Development (USAID) requested Deloitte and Touche (DT) to evaluate the systems and procedures utilised by the Government of Zimbabwe to account for income and expenditure on USAID funded grants. The conclusion reached was that the systems were adequate but that laid down accounting and administrative procedures were often not complied with.

As a result of this in 1990 the USAID/Zimbabwe requested an audit of each USAID funded grant agreement.

By agreement between the RIG/A/N, USAID and DT the audits were divided into local currency generation (income audits) and expenditure audits for selected projects. The income audits cover the generation of local currency funds from the CIP programs and the transfer from the special accounts in which the funds are deposited to the GOZ Exchequer account once approval for project expenditure has been given. The expenditure audits cover the receipt of funds by each of the implementing ministries from the Exchequer account and the expenditure incurred for selected development projects by the implementing ministries. This report concerns local currency generations under USAID/Zimbabwe Grant Number 613-K-603.

AUDIT OBJECTIVES AND SCOPE

The objectives and scope of the audit were governed by the following:-

- CFR-41 1-15-2 (Contracts with Commercial Organisations).
- Federal Acquisition Regulations (FAR) (Contract Cost Principles and Procedures).
- AID Handbook 11 (Host country contracts).
- American Auditing Standards.
- Audit Contract.
- Generally Accepted Auditing Standards.
- American Government Auditing Standards.

In terms of the above, the objectives of the audit were:-

- To issue an opinion on the fund accountability statement.
- To report on compliance with the grant agreement, U.S. laws and regulations.
- To report on Government of Zimbabwe's system of internal controls.

The audit was performed under the guidance of the Regional Inspector General/Audit/Nairobi.

The scope of the audit consisted of the following:-

- One hundred percent checking of all transactions. This was done because an accurate fund accountability statement from GOZ was not available.
- Reconciliation of GOZ records to USAID records.
- Review of transactions for compliance with grant agreement and applicable laws and regulations.
- An evaluation of internal accounting controls and practices as a part of the transaction audit. It should be noted here that because of the one hundred percent checking, reliance was not placed on internal controls.
- A review of all relevant documentation.

The Fund Accountability Statement shows the following:-

	US$
o Deposited into the special account for the grant	50 246 087
o Uncommitted balance still in the hands of AID/Washington	27 284
o A difference between the above and the total grant amount of US$50 000 000 (overdeposit)	(273 371)

SYSTEMS DESCRIPTION

The USAID Commodity Import Programs (CIP) have been designed to aid Zimbabwe in two ways:-

- Provide foreign currency to the private sector in Zimbabwe for the importation of U.S. goods.
- Generate Zimbabwe dollars from the sale of the above foreign currency for use in public sector development programs.

The organisations who administer the programs are as follows:-

- **USAID**

  USAID acts on behalf of the donor and is responsible for ensuring the correct administration of the foreign funds.

- **GOZ**

  - **MFEPD**

    The Ministry of Finance, Economic Planning and Development (MFEPD) is responsible for receipting all local currency generations, refunding the government account from the special grant account for expenditure incurred by the implementing ministries and reporting to USAID.

- **Implementing Ministries**

  The implementing ministries incur, control and report to MFEPD on all expenditure of development projects.

o **Reserve Bank of Zimbabwe (RBZ)**

  RBZ maintains the government special and investment grant accounts.

o **Commercial Banks (CB)**

  CBs act on behalf of the importers

o **Importers**

  Importers purchase foreign currency made available under the grant.

The implementation of the CIP is as follows:-

o An agreement was signed between the United States Government and the Government of Zimbabwe.

o On the basis of a request from the Ministry of Finance, Economic Planning and Development (MFEPD), USAID arranges a letter of commitment to be issued by AID/Washington to the U.S. bank designated by the MFEPD. This letter advises the U.S. bank of the program and the amount of the agreement.

o The nature, terms and conditions of the CIP agreement are advertised. In response to this, Zimbabwean companies submit applications for foreign exchange to the Industrial or Commercial Import Controller of the Ministry of Industry and Commerce.

  The application includes a proforma invoice from the U.S. supplier indicating that the required items can be sourced from the U.S. and the estimated cost.

o The Ministry of Industry and Commerce vets the applications in terms of the USAID Commodity Eligibility Listing and their own priorities and allocates funds accordingly. The Ministry provides USAID with details of all approved allocations.

  USAID prepares the allocation letters using stationery provided by the Ministry of Industry and Commerce.

o The importer upon receipt of the Allocation letter obtains an import licence before requesting an approved Zimbabwean bank to open a letter of credit in favour of the designated U.S. supplier. The local bank provides USAID with a copy of the letter of credit and advises the U.S. supplier that a letter of credit has been opened.

o The U.S. supplier ships the goods. Copies of the shipping documents and invoices are submitted to USAID in Zimbabwe and to the U.S. bank.

- The U.S. bank makes the necessary payments to the U.S. supplier from their own funds and forwards an advice of payment to the bank in Zimbabwe with which a letter of credit was opened.

  AID/Washington reimburses the U.S. bank.

- The Zimbabwean bank collects the full value of the letter of credit (in Zimbabwean dollars) from the importer.

- The Zimbabwean bank transfers the funds to the MFEPD. MFEPD deposits the money into a special CIP account at the Reserve Bank.

- MFEPD usually maintains separate accounts with RBZ for each grant but in the case of Grants 613-K-605 a combined account was used.

- Where there are funds excess to requirements in the RBZ current account, these are transferred to an investment account under instructions from MFEPD.

This completes the income segment of the cycle. Implementing Ministries incurring expenditure on approved development projects submit expenditure returns to MFEPD. In order to refund this expenditure, MFEPD instructs RBZ to transfer funds from the grant special account to the Governments Consolidated Revenue Fund.

AUDIT PROGRAMME

For the purposes of this audit, income comprises the local currency generated from the sale of US dollars to the private sector and expenditure is the money transferred from the special account into the Government account. Actual expenditure will be audited under the expenditure audits done at the various implementing ministries. See report on Financial Audit of Selected Government of Zimbabwe Projects Funded by Local Currency Generated Under USAID/Zimbabwe Grant Nos 613-K-603 to 613-K-606.

The audit programme has been designed to cover all steps in the audit contract signed between USAID and Deloitte and Touche (Refer Scope of Work APPENDIX ONE). The only exceptions to this are steps 8 and 16 in the audit contract.

Step 8

As described above actual expenditure from the CIP account is covered in a separate audit. Expenditure for this contract will represent the drawdowns from the special account.

Step 16

As explained above expenditure is covered in a separate audit.

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AUDIT REPORT ON FUND ACCOUNTABILITY STATEMENT

Independent Auditors Report

We have audited the fund accountability statement for local currency receipts of Grant No. 613-K-603 as at and for the years ended June 30, 1989. This fund accountability statement is the responsibility of the Government of Zimbabwe. Our responsibility is to express an opinion on this fund accountability 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. Those standards require that we plan and perform the audit to obtain reasonable assurance that the fund accountability statement is free of material mistatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the fund accountability statement. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial report presentation. We believe that our audit provides a reasonable basis for our opinion.

The fund accountability statement includes:-

- an amount of (US$273 371) representing an overdeposit difference. This amount represents funds disbursed in excess of the grant by AID/Washington and the uncommitted balance remaining. USAID is unable to explain this difference as the official accounting records are maintained in Washington. Reports received by USAID are inadequate to identify the reason(s) for the discrepancy (refer note 4 of Fund Accountability Statement).

The fund accountability statement has been prepared using the receipts and payments basis of accounting.

Subject to the effect of the above amounts, in our opinion the fund accountability statement fairly presents the status of all funds authorised under Grant Agreement No. 613-K-603.

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. The report is intended solely for the use of the Government of Zimbabwe and USAID and should not be used for any other purpose.

Deloitte & Touche

DELOITTE & TOUCHE

31 March 1991

GRANT 613-K-603

FUND ACCOUNTABILITY STATEMENT FOR THE PERIOD ENDED 30 JUNE 1989
(All amounts in United States Dollars)

REVENUE

Amount granted per agreement US$50 000 000

EXPENDITURE

Category	Accepted	Not Audited	Unsupported	Claimed	Notes
Local Currency Generation	50 246 087			50 246 087	1
Uncommitted balance		27 284		27 284	3
Unexplained difference overdeposit			(273 371)	(273 371)	4
	US$50 246 087	US$27 284	US$(273 371)	US$50 000 000	

Basis of Accounting

This statement was prepared on the receipts and payments basis of accounting.

GRANT 613-K-603

NOTES TO THE FUND ACCOUNTABILITY STATEMENT

1. Local Currency Generation US$50 246 087

1.1 Introduction

This represents the amount of funds made available to local importers. The total local currency generated from those importers amounts to Z$50 154 777.

An analysis of the funds is as follows:-

RECEIPTS

Local Currency Received	50 154 777
Interest earned	2 072 652
	Z$52 227 429

PAYMENTS

Belvedere's Teachers Training College	9 066 608
Co-ops Housing	1 000 000
Zintec Gwanda	1 003 000
Government Medical Assistance Scheme	6 643
Bulawayo Branch Medical Stores	160 063
Housing for Field Staff	353 500
Kadoma Cotton Training Centre	863 000
Chegutu Bulk Grain Depot	1 511 362
Cooperative Development Fund	4 300 000
Norton Bulk Grain Depot	1 000 000
Chibero Agricultural College Equipment	100 801
Chibero Agricultural College	500 000
Kwekwe - Mupandawana	2 599 999
Mlezu Agricultural College Equipment	62 194
Drought Relief	1 400 000
Vegetable Production Training Centre	60 901
Spilhaus Training Centre	1 000 000
Binga District Hospital	1 000 000
Standard Teachers Houses	5 065 938
Sanyati Ginnery	1 700 000
SADCC Drought Relief	19 000
Community Development Fund	976 000
Adult Literacy	1 119 315
Rural Secondary Schools	2 330 000
Refugee Schools	1 500 000
Majoda Secondary School	580 000
Fatima Secondary School	350 000
Msengezi Secondary School	87 122
Chindanduma Secondary School	150 000
Minefield Clearing	1 499 999
Chinhoyi Provincial Training	2 608 600
Peasant Farm Research	200 000
Government Buildings	197 262

District Council Schools	934 062
Private Primary Schools	500 000
Secondary Schools	2 000 000
Council Clinics	42 898
Extension Assistants Training	259 375
Government Housing	810
Mission Schools I	82 646
Irrigation Reconstruction	102 055
Reallocation of incorrect deposit (Appendix 8)	64 451
USAID Trust Fund	503 641
	48 861 245
EXCESS OF RECEIPTS OVER PAYMENTS REPRESENTING FUNDS STILL AVAILABLE FOR DISTRIBUTION AT 30 JUNE 1989	Z$3 366 184

The expenditure will be reconciled to the project audits and at present no work has been done thereon.

1.2 Audit Work

In order to arrive at this analysis we had to perform the following reconciliations:-

- Reconcile the GOZ cashbook for Grant No. 613-K-603 to the USAID records.
- Analyse the GOZ cashbook.
- Reconcile the GOZ cashbook to the Reserve Bank Statements.

1.3 Reconciliation of GOZ Cashbook to USAID Printout

The reconciliation of the GOZ cashbook to USAID printout revealed the following:-

Balance per USAID records		48 879 271
Add :	Receipts in cashbook not in printout (APPENDIX THREE)	1 212 487
Add :	Transfer from 604 printout (APPENDIX FOUR)	41 371
Add :	Correction of punching error (APPENDIX FIVE)	16 863
Add :	Unreconciled difference	4 786
CORRECT RECEIPTS TOTAL		Z$50 154 778
Balance per GOZ cashbook		50 428 282
Add :	Receipts in printout not in Cashbook (APPENDIX SIX)	1 544 731
Less :	Transfers to 605 Cashbook (APPENDIX SEVEN)	(104 669)
Add :	Transfers from 604 Cashbook (APPENDIX FOUR)	98 981
Less :	Amounts received from other sources (APPENDIX EIGHT)	(395 500)
Less :	Amount received from GOZ for computer (not part of grant)	(1 200 000)
Less :	Refunds classified as payments to exchequer (APPENDIX THREE)	(217 047)
CORRECT RECEIPTS TOTAL		Z$50 154 778

Appendices three to five represent adjustments to be made to the USAID records and appendices six to eight represent adjustments to be made to the GOZ cash book.

1.4 Analysis of Cashbook

The analysis of the cashbook confirmed the local currency receipts balance and identified a further Z$2 072 652 earned in interest on invested funds.

2.5 Reconciliation of Cashbook to Reserve Bank Statement

The reconciliation of the GOZ cashbook to bank statement identified actual funds on hand of Z$2 222 641 made up as follows:-

Held on behalf of other grants (APPENDIX EIGHT)	395 500
Held on behalf of 613-K-605 (APPENDIX SEVEN)	104 669
613-K-603 Funds (Note 1.1 of Fund Accountability Statement)	3 366 184
Due from 613-K-604 account (APPENDIX FOUR)	(98 981)
Receipts for 613-K-603 not located (APPENDIX SIX)	(1 544 731)
ACTUAL FUNDS ON HAND	Z$2 222 641

On winding up projects 601 and 602 which do not form part of the CIP an amount of Z$395 500 was left in NDF accounts 248, 252, 253 and the animal programme. This amount was therefore transferred to the 613-K-603 account.

The amount of Z$104 669 represents receipts from the 613-K-605 grant which were erroneously banked in the 613-K-603 account. They must be transferred out of 603 to 605.

The amount of Z$98 981 represents receipts due to Grant No. 613-K-603 which were banked in Grant No. 613-K-604. Again a transfer must be made.

The Z$1 544 731 represents amounts listed on the USAID printout which were not banked into any GOZ special account. We recommend that GOZ should be required to establish exactly where these receipts were banked. If this cannot be done the Mission Director at USAID/Zimbabwe should either accept the loss or make a decision on who is to cover the amount. We believe that these receipts may be related to the receipts in the GOZ cashbook which were not in the USAID printout as detailed in Appendix Three ($1 212 487). We were, however, unable to sustantiate this.

3. Uncommitted Balance — US$ 27 284

This amount represents the cash balance which was in the hands of AID/Washington. It has been confirmed in writing by USAID/Zimbabwe but no further audit work has been performed on it. This amount has since been deobligated by AID/Washington.

4. Unexplained Difference - Overdeposit — (US$273 371)

This amount represents the difference between the identified components of the grant and the total grant amount of US$50 000 000. We believe that this amount relates to bank charges levied by U.S. Banks. It has not been possible to perform audit work on this figure and accordingly we have classified it as unsupported.

A summary of such differences for grants 613-K-603 to 613-K-606 is detailed in Appendix 10.

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AUDIT REPORT ON COMPLIANCE WITH LAWS, REGULATIONS AND PROGRAMS

Independent Auditors Report

We have audited the fund accountability statement for local currency generations of Grant Agreement No. 613-K-603 as at and for the years ended June 30, 1989 and have issued our report thereon dated March 31, 1991.

We conducted our audit in accordance with generally accepted auditing standards and Government auditing standards, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance that the fund accountability statement is free of material mistatement.

Compliance with laws, regulations, contracts, and grants applicable to Grant No. 613-K-603 is the responsibility of the Government of Zimbabwe. As part of the work conducted to obtain reasonable assurance that the fund accountability statement is free of material mistatement we performed tests of Government of Zimbabwe's compliance with certain provisions of laws, regulations, contracts and grants. However, our objective was not to provide an opinion on the overall compliance with such provisions.

The results of our tests indicate that, with respect to the items tested, Government of Zimbabwe complied, in all material respects, with the provisions referred to in the preceding paragraph. With respect to items not tested, nothing came to our attention that caused us to believe that Government of Zimbabwe had not complied in all material respects, with those provisions.

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. The report is intended solely for the use of the Government of Zimbabwe and USAID and should not be used for any other purpose.

Deloitte & Touche

DELOITTE & TOUCHE

31 March 1991

Member
DRT International

COMPLIANCE WITH LAWS

1. INTRODUCTION

The following terms and conditions were tested for compliance:-

- o Whether the report submitted to USAID was on an accrual or cash basis.
- o Whether the actual amount was compared to the allocation.
- o The existence of a systematic method of ensuring timely and appropriate resolution of audit findings and recommendations.
- o Whether the grantee made available all records.
- o That no member of the U.S. Congress or resident U.S. Commissioner shared in any part of the grant.
- o That no air travel or transportation costs were funded by the grant.
- o US$50 million was used to generate local currency
- o No letter of commitment had a date later than 31 May 1985.
- o The minimum size of foreign currency allocation should be ten thousand US dollars.

2. ITEMS OF NON COMPLIANCE

The following items of non compliance were noted:-

Minimum Foreign Currency Allocation

In terms of the grant the minimum foreign currency allocation was ten thousand US dollars.

36 cases of non compliance (see Appendix nine) were noted between US$10 000 and US$1 000:-

Recommendation

Government of Zimbabwe must identify all important terms and conditions of the grant agreement before initiation of funding and ensure all staff are aware of them.

Department Comment

The allocations of foreign currency to the private sector is the responsibility of the Ministry of Industry and Commerce and USAID. The above amounts probably arose through changing exchange rates and prices.

Accountant General's Comment

Agreed

Resolution of Audit Findings

The GOZ Auditor General noted on 30 June 1985 that project cards were not being updated. These project cards have now been discontinued.

This is not a satisfactory resolution of this item in the audit report as there is no evidence to suggest that the Auditor General was approached to discuss whether the project cards should be discontinued.

Recommendation

Recommendations by the Comptroller and Auditor General should be implemented timeously.

Department Comment

The Comptroller and Auditor General is aware of the change in system. The decision to drop the cards was made because of staff shortages and the fact that the information was available from other sources. The purpose of the cards was simply to consolidate it.

Accountant General's Comment

Agreed

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AUDIT REPORT ON INTERNAL CONTROL STRUCTURE

Independent Auditor's Report

We have audited the fund accountability statement for local currency generations of Grant Agreement No. 613-K-603 as at and for the years ended June 30, 1989 and have issued our report thereon dated March 31, 1991.

We conducted our audit in accordance with generally accepted auditing standards and Government auditing standards, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance that the fund accountability statement is free of material mistatement.

In planning and performing our audit of the fund accountability statement for Grant No. 613-K-603 of Government of Zimbabwe for the year ended June 30, 1989, we considered the GOZ internal control structure in order to determine our auditing procedures for the purpose of expressing our opinion on the fund accountability statement but not to provide assurance on the internal control structure.

Government of Zimbabwe is responsible for establishing and maintaining an internal control structure. The objectives of an internal control structure are to provide management with reasonable but not absolute assurance that assets are safeguarded against loss from unauthorised use or disposition, and that transactions are executed in accordance with management authorisation and recorded properly to permit the preparation of financial statements in accordance with generally accepted accounting principles. Because of inherent limitations in any internal control structure, errors or irregularities may nevertheless occur and not be detected. Also, projection of any evaluation of the structure to future periods is subject to the risk that procedures may become inadequate because of changes in conditions or that the effectiveness of the design and operation of policies and procedures may deteriorate.

For the purpose of this report, we have classified the significant internal control structure policies and procedures in the following categories:-

- Invoicing and receipting
- Grant Debtors
- Cash Book
- Project Cards
- Payments to the Exchequer

- Investment Account
- VOC Transfers

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

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

The reportable conditions noted were:-

- Reconciliations of Government of Zimbabwe and United States Agency for International Development records were not performed.
- Reconciliations of money received by Government of Zimbabwe to that due in terms of the grant agreement were not performed.

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

Our consideration of the internal control structure would not necessarily disclose all matters in the internal control structure that might be reportable conditions and accordingly, would not necessarily disclose all reportable conditions that are also considered to be material weaknesses as defined above. We believe the above reportable conditions constitute material weaknesses.

Information contained in this report may be privileged. The restrictions in 18 USC 1905 should be considered before any information is released to the public. The report is intended solely for the use of the Government of Zimbabwe and USAID and should not be used for any other purpose.

Deloitte & Touche

DELOITTE & TOUCHE

31 March 1991

INTERNAL CONTROL

1. INTRODUCTION

In 1988 Deloitte & Touche was requested to investigate and document the accounting and control systems used by GOZ to monitor and control the use of counterpart funds for public sector projects.

Compliance testing was performed and compliance deviations, and system recommendations identified. Auditor General reports on the various systems were also obtained and reviewed.

2. USAID COMMODITY IMPORT PROGRAMME ACCOUNTING AND CONTROL SYSTEMS 1988

The relevant section from the above report is attached as an appendix (See APPENDIX TWO).

3. FOLLOW UP OF ACCOUNTING AND CONTROL SYSTEMS REPORT

The following system changes were noted:-

<u>Debtors System</u>

The preparation of invoices, invoice register and importers debtors system has been discontinued. We do not believe that this represents a system weakness because recording is done on a cash receipts basis. The receipt and the invoice are prepared at the same time. There is therefore no reason to maintain a debtors ledger.

The following system weaknesses were noted:-

<u>Project Cards</u>

The project cards system was discontinued in the 85/86 financial year. This system provided management information on a project basis for the following:-

- VOC transfers
- Expenditure
- Allocations
- Payments to the Exchequer
- Project name and number

It also forms the basis for the preparation of the USAID reports.

The reason given by MFEPD staff for discontinuing the project ledgers is that the expenditure ledger provides the same function. The expenditure ledger only provides expenditure information and is used to summarise implementing ministry returns and ensure that returns for all projects have been submitted.

The purpose of the project cards is to provide management with all the information for each project on a monthly basis. We believe that it is important to maintain the project cards so that management may monitor project expenditure against the amounts allocated for each project.

Recommendation

We recommend the project cards be recommenced.

Department Comment

The Comptroller and Auditor General is aware of the change in system. The decision to drop the cards was made because of staff shortages and the fact that the information was available from other sources. The purpose of the cards was simply to consolidate it.

Accountant General's Comment

Agreed.

4. CURRENT EVALUATION

The current audit revealed the following system weaknesses.

Reconciliation of money received to money due

No attempt had been made to reconcile the money converted to local currency with the money due in terms of the grant agreement.

Recommendation

All money received in terms of grant agreements should have been reconciled on a regular basis to the money due. AID/Washington should have been requested to confirm any unexpended balance remaining in the USA.

For future projects the form of the reconciliation should be as follows:-

Funds converted to Z Dollars	x xxx
Funds in hands of AID Washington	x xxx
Allocated to:-	
- ABC Ltd	
- Unallocated funds	
FUNDS AVAILABLE UNDER GRANT	

This could initially be prepared from the Allocation list and updated quarterly according to cash book receipts.

Responsibility for its preparation should be assigned to the Chief Accountant of GOZ. It should be reviewed by the Assistant Accountant General and USAID.

Department's Comment

A list of local currency generations had not been received from USAID. In future projects this recommendation will be implemented.

Account General's Comment

Agreed.

Reconciliation of GOZ to USAID records

A reconciliation of the records maintained at GOZ and those maintained at USAID was not prepared. As a result adjustments to the value of Z$995 462 were required for USAID records and Z$741 897 for the GOZ records. This indicated a lack of control and could have resulted in material financial loss.

Recommendation

For future projects USAID should supply a copy of their printout listing all local currency generations to allow GOZ to reconcile this to the cashbook. This reconciliation should be prepared monthly by the chief accountant for GOZ and reviewed by the Assistant Accountant General and USAID.

Department's Comment

A list of local currency generations had not been received from USAID. In future projects this recommendation will be implemented.

Accountant General's Comment

Agreed.

Auditor Response

For all current projects this recommendation has been implemented. Reconciliations are carried out accurately and timeously.

Remittance Register

We noted the following cases where the receipt and cheque numbers were inaccurately recorded in the remittance register.

Receipt No.	Name of Importer	Z$
408496	Harrison and Hughson	15 834,69
592466	Stakold Refrigeration	103 591,16

Recommendation

All receipt and cheque numbers must be accurately recorded in the remittance register.

Department's Comment

Accepted.

Account General's Comment

Accepted.

Payment Computation Schedule

The following errors were found to be recorded on the payment computation schedule:-

	Recorded Cumulative Payment	Actual Cumulative Payment	Difference
Community Development Fund	1 000 000	976 000	24 000
Adult Literacy	1 069 315	1 119 315	(50 000)
Rural Secondary Schools	330 000	2 330 000	(2 000 000)
Refugee Schools	-	1 500 000	(1 500 000)
Majoda Secondary School	-	580 000	(580 000)
Fatima Secondary School	-	350 000	(350 000)
Msengezi Secondary School	-	87 122	(87 122)
Chindanduma Secondary School	-	150 000	(150 000)
Minefield Clearing	1 203 871	1 499 999	(296 128)
Chinhoyi Provincial Training	2 607 800	2 608 600	(800)
Accounting Manuals	41 500	-	41 500
Extension Assistant Training	259 400	259 375	25
Private Primary Schools	440 000	500 000	(60 000)
Secondary Schools	1 800 000	2 000 000	(200 000)
Irrigation Reconstruction	-	102 055	(102 055)
	Z$8 751 886	Z$14 062 466	Z$(5 310 580)

The above differences arose from casting and carry forward errors, of figures, on the payment computation schedules.

This position arose because there is no reconciliation of the payment computation schedule to the cash or project cards which have been discontinued. This could have resulted in an over allocation of funds under this grant had USAID/Zimbabwe not maintained a separate record of allocations.

Recommendations

The cashbook payment must be reconciled to the payments to the exchequer per the payment computation schedule each time the schedule is prepared. In addition all carry forward of totals and castings on the payment schedule must be checked by a person independent of the preparer. This task should be signed for.

Department's Comment

Agreed. These functions will be performed in future.

Accountant General's Comment

Agreed.

APPENDIX THREE - RECEIPTS TO BE ADDED TO USAID PRINTOUT

L/C	DATE	NAME OF IMPORTER	RECEIPT NUMBER	Z$	US$
2144/101/84	13.5.85	Field Technical Sales	408 854	8 545,15	5 649,20
85/9144	6.8.85	Dunlop Zimbabwe	408 900	409 882,20	268 882,72
85/9145	27.6.85	Dunlop Zimbabwe	761 086	530 572,42	333 730,05
2128/1/85	27.6.85	NCR Limited	761 087	79 293,48	50 224,49
81/9145	5.7.85	Dunlop Zimbabwe	761 088	210 387,68	134 900,00
D6226	18.3.83	Premier Metal Company	765 867	92 219,05 A	94 868,52
82/5007	19.4.83	Dunlop Zimbabwe	765 890	84 138,70 B	87 209,76
/SBY/1/82	22.7.83	Tractor Corporation	765 975	14 056,99	13 231,91
-	16.2.84	MFEPD	278 484	202,63	-
BGZ/SBY/1/82	22.7.83	Tractor Corporation	765 975	236,42	242,55
				1 429 534,72	988 939,20
REFUNDS					
		Syfrets		(20,00)	-
		Protea		(203 499,00)	-
		Karina Textiles		(13 528,36)	-
				(217 047,36)	
			TOTAL	1 212 487,36	988 939,20

NOTES

A : Appendix Six
B : Appendix Six

APPENDIX FOUR - RECEIPTS TO BE REMOVED FROM 604 PRINTOUT AND TRANSFERRED TO 603 PRINTOUT

L/C	DATE	NAME OF IMPORTER	RECEIPT NUMBER	Z$	US$	LOCATION OF CASH
5173/848	6/1/84	Field Technical Services	-	41 371,83	31 748,74	604*
5173/848	20/12/83	Cellophane Packaging	-	57 609,42	52 349,68	604**
			TOTAL	98 981,25	84 098,42	

* Receipt to be transferred from 604 printout and cashbook
** Receipt to be transferred from 604 cashbook only

APPENDIX FIVE - CORRECTION TO BE MADE TO 605 USAID PRINTOUT

L/C	DATE	NAME OF IMPORTER	Z$ OLD	Z$ NEW	US$ OLD	US$ NEW
D6210		Karina Textiles	176 194,48	189 917,20	191 683,17	204 939,65
82/229		Turnpan Zimbabwe	240 771,19	243 606,65	314 423,10	314 423,10
DX92814		NCR	190 314,58	190 119,57	194 120,88	194 120,88
			607 280,25	623 643,42	700 227,15	713 483,63

DIFFERENCE	16 363,17
OTHER DIFFERENCE	500,00
	16 863,17

APPENDIX SIX - RECEIPTS TO BE ADDED TO 603 CASHBOOK

L/C	DATE	NAME OF IMPORTER	Z$	US$
82/5007	24.1.83	Dunlop Zimbabwe	82 138,70 A	87 209,76
D6229	25/2/83	Premier Metal Company	51 290,03 B	52 751,80
D6227	25/2/83	Premier Metal Company	40 568,51 B	41 745,00
84/022	9/1/84	Goldschmidt	33 592,38	30 018,15
DX927719	7/10/82	Protea Medical	4 156,16	5 346,08
DX827721	7/10/82	Protea Medical	26 514,88	32 374,67
DX927722	6/8/82	Protea Medical	15 155,87	19 475,00
DX927723	6/7/82	Protea Medical	76 540,37	99 043,24
DX927724	6/8/82	Protea Medical	678 821,75	881 993,11
DX927725	14/9/82	Protea Medical	17 825,09	23 037,15
DX927726	10/9/82	Protea Medical	24 979,98	32 381,56
DX927726	5/11/82	Protea Medical	48 547,86	62 417,99
DX927727	2/2/83	Protea Medical	234,81	240,50
DX927727	7/10/82	Protea Medical	30 096,68	38 713,36
DX927727	3/12/82	Protea Medical	2 052,23	2 676,93
DX928482	19/5/83	Ministry of Education and Culture	256 989,16	262 128,94
DX928482	26/6/83	Ministry of Education and Culture	24 629,40	24 090,02
M/F311	25/4/84	National Foods	130 597,84	114 208,00
			1 544 731,70	1 862 200,94

NOTES

A) Appendix Three
B) Appendix Three

APPENDIX SEVEN - RECEIPTS TO BE TRANSFERRED FROM 603 CASHBOOK TO 605 CASHBOOK

L/C	DATE	NAME OF IMPORTER		RECEIPT NUMBER	Z$	US$
84054	9.5.84	M Goldschmidt	761 026	39 532,09	39 532,09	35 175,65
84954	8.3.84	M Goldschmidt	278 490	65 136,99	65 136,99	57 997,98
					104 669,08	93 173,63

APPENDIX EIGHT - AMOUNTS RECEIVED FROM OTHER SOURCES

DATE	NAME OF IMPORTER	RECEIPT NUMBER	Z$	
23/12/83	Transfer from 248	278 452	261 341,65	
23/12/83	Transfer from 252 and 253	278 453	69 707,68	
23/1/84	Transfer from Animal Production	278 475	64 451,42	Already reallocated
			395 500,75	

USAID RECEIPTS UNDER US$10 000 APPENDIX NINE

All No	L/L No	Account Of	Payments	Bank Rate	Z Dollars	Converted Actual	Computed Exchange
243 Y095	BCCZ/SBY/USAID/2	NCR C A LIMITED	9 953.42	0.95	10 506.04	17-Oct-83	0.95
87 X145	D.7011	ELECTRONIC DATA PROCESSING EQUI	9 855.29	0.77	12 876.00	30-Aug-84	0.77
58 X142	DX/929116	TINTO INDUSTRIES	9 827.31	0.90	10 936.25	27-Mar-84	0.90
32 Y072	DX/928654	COMSPEC	9 757.92	0.97	10 109.74	18-Aug-83	0.97
235 X062	83 211	TURNPAN ZIMBABWE LIMITED	9 691.60	0.89	10 894.33	04-Jan-84	0.89
22 Y066	DX/928594	ZIMBANK	9 375.88	0.97	9 713.92	18-Aug-83	0.97
18 Y062	DX/928477	ZIMBANK	9 214.01	1.01	9147.23	23-Jun-83	1.01
371 Y093	4016/83/368	NCR CA LIMITED	8 943.84	0.95	9 424.48	10-Oct-83	0.95
216 ?	?	ZIMBABWE HANDLING EQUIPMENT	8 813.56	0.91	9 649.18	09-Mar-84	0.91
245 Y095	BCCZ/SBY/USAID/2	NCR C A LIMITED	8 030.05	0.73	11 046.98	14-Sep-84	0.73
50 X122	DX/929026	PROTEA MEDICAL SERVICES LIMITED	7 683.00	0.89	8 597.81	28-Dec-83	0.89
453 Y097	83/6556	ZEMCO	7 540.13	0.85	8 858.24	17-May-84	0.85
307 Y025	82/5007	DUNLOP	7 355.72	0.89	8 254.65	22-Mar-84	0.89
344 Y046	83/5929	3M ZIMBABWE	6 044.85	0.89	6 788.16	23-Mar-84	0.89
34 Y074	DX/928644	PROTEA MEDICAL SERVICES LIMITED	5 745.00	0.95	6 070.37	01-Sep-83	0.95
144 X025	5173/4285	LEOPOLD WALFORD	5 475.47	1.02	5 354.46	01-Mar-83	1.02
1 Y048	DX/927719	PROTEA MEDICAL SERVICES LIMITED	5 346.08	1.29	4 156.16 *	07-Oct-82	1.29
38 X107	DX/928758	NCR CENTRAL AFRICA LIMITED	5 307.84	0.86	6 171.91	04-Jun-84	0.86
343 Y046	83/5929	3M ZIMBABWE	4 915.41	0.88	5 609.92	17-Jan-84	0.88
373 Y093	4016/83/368	NCR CA LIMITED	4 375.97	0.91	4 806.65	30-Nov-83	0.91
178 X041	5173/027	CROWN CORK COMPANY	4 375.32	1.01	4 327.72	27-Jun-83	1.01
402 X079	997/30/82	NCR CA LIMITED	3 887.11	-"-	4 592.52	-"-	0.85
267 Y008	82/4791	BLACKWOOD HODGE	3 441.52	1.02	3 376.36	25-Apr-83	1.02
411 X079	997/30/82	NCR CA LIMITED	2 825.52	-"-	3 533.67	-"-	0.80
12 Y056	DX/927727	PROTEA MEDICAL SERVICES LIMITED	2 676.93	1.30	2 052.23 *	03-Dec-82	1.30
54 Y104	DX/929287	NCR (ZIMBANK)	2 646.05	0.87	3 042.14	24-Apr-84	0.87
232 X060	83 076	TURNPAN ZIMBABWE LIMITED	2 602.06	0.97	2 679.22	12-Sep-83	0.97
236 X062	83 211	TURNPAN ZIMBABWE LIMITED	2 493.63	0.95	2 679.22	09-Sep-83	0.93
454 Y097	83/6556	ZEMCO	2 220.46	0.85	2 604.04	28-May-84	0.85
455 Y097	83/6556	ZEMCO	1 928.29	0.83	2 319.61	27-Jun-84	0.83
399 X079	997/30/82	NCR CA LIMITED	1 791.19	0.85	2 115.75	-"-	0.85
407 X079	997/30/82	NCR CA LIMITED	1 703.17	-"-	2 012.25	-"-	0.85
228 X058	82 260	TURNPAN ZIMBABWE LIMITED	1 559.34	1.00	1 556.69	17-Jun-83	1.00
406 X079	997/30/82	NCR CA LIMITED	1 167.52	-"-	1 379.40	-"-	0.85
435 X097	2197/28/83	NCR CA LIMITED	1 079.02	0.89	1 212.93	12-Jan-84	0.89
172 X038	5173/076	ARTMAIL (PVT) LIMITED	1 040.20	0.94	1 101.97	-"-	0.94

APPENDIX TEN - DIFFERENCES BETWEEN AMOUNTS DUE IN TERMS OF GRANT AGREEMENTS AND LOCAL CURRENCY GENERATION

GRANT NO	AMOUNT PER AID/WASHINGTON RECORDS US$			LOCAL CURRENCY GENERATION US$	DIFFERENCE US$
	TOTAL GRANT	UNCOMMITTED BALANCE	DISTRIBUTION		
613-K-603	50 000 000	27 284	49 972 716	50 246 087	273 371
613-K-604	45 000 000	34 215	44 659 785	44 456 054*	(203 731)
613-K-605	47 000 000	126 030	46 873 970	47 038 625	164 655
613-K-606	44 849 000	306 096	44 562 904	44 115 840*	(447 064)
			NET UNDERDEPOSIT		(212 769)

* This amount is the total of amounts obligated directly and local currency generations.

ATTACHMENT II

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