

**Regional Inspector General for Audit
Tegucigalpa, Honduras**

**Audit of USAID/Peru's
Administration of Justice Project
Managed by the Judicial Power, Ministry
of Justice, and the Public Ministry
January 1, 1989 to December 31, 1990**

**Audit Report No. 1-527-92-54-N
September 17, 1992**



Contractor information contained in this report may be privileged. The provisions of 48 CFR 101-11.6 shall apply to this report.



**Regional Inspector General for Audit
Tegucigalpa, Honduras**

**Audit of USAID/Peru's
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U. S. MAILING ADDRESS:
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AGENCY FOR INTERNATIONAL DEVELOPMENT

OFFICE OF THE REGIONAL INSPECTOR GENERAL
AMERICAN EMBASSY
TEGUCIGALPA - HONDURAS

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September 17, 1992

MEMORANDUM

TO: D/USAID/Peru, Craig G. Buck

FROM: RIG/A/T, Lou Mundy



SUBJECT: Audit of USAID/Peru's Administration of Justice Project, Managed by the Judicial Power, Ministry of Justice, and Public Ministry, January 1, 1989 to December 31, 1990

This report presents the results of a financial audit of the Administration of Justice Project, USAID/Peru Project No. 527-0303, managed by the Judicial Power, Ministry of Justice, and the Public Ministry (implementing entities) for the period January 1, 1989 to December 31, 1990. The audit firm of Price Waterhouse prepared the report dated June 9, 1992.

The purpose of the Project is to cooperate with the Government of Peru in the development of programs to improve the administrative, technical and legal capacities of the principal institutions of the Peruvian judicial sector. The Project budget provided for a total of \$5.35 million of which USAID/Peru was to provide grant funds of \$2.85 million. According to the USAID/Peru Controller, the current Project completion date is December 31, 1992 and USAID/Peru is contemplating an extension of the Project through September 30, 1993 with additional funding of \$660,000.

The objectives of the audit were to determine whether: (1) the implementing entities' consolidated fund accountability statement presents fairly, in all material respects, the financial activities of the Project for the period audited, (2) the implementing entities' internal control structure was adequate to manage Project operations, and (3) the implementing entities had complied with Project Agreement terms and applicable laws and regulations. The scope of the audit included an examination of the implementing entities' activities and transactions to the extent considered necessary to issue a report thereon for the period under audit.

The auditors suspended the audit because the implementing entities lacked adequate accounting systems to prepare their own fund accountability statements and were unable to provide basic documentation to support Project transactions. Consequently, Price

Waterhouse was unable to express an opinion over the financial activities of the Project for the period audited.

However, for information purposes the auditors constructed a consolidated fund accountability statement for the implementing entities based solely on information provided by USAID/Peru. The \$936,722 of disbursements shown in this fund accountability statement represents total Project disbursements during the audit period. We obtained from USAID/Peru an analysis of the amount shown in the Price Waterhouse report, as of December 31, 1990, and determined that the net amount of Project funds provided to the implementing entities, after eliminating direct A.I.D. purchases and other miscellaneous disbursements, totaled \$441,355 during the audit period. As a result, we consider the \$441,355 of A.I.D. funding provided to the entities during the audit period to be questionable costs.

With respect to the implementing entities' internal control structure for Project activities, the auditors identified two material weaknesses: (1) the entities had not established adequate accounting and budgetary systems and (2) the entities did not have appropriate filing systems for supporting documentation. As to the implementing entities' compliance with agreement terms and applicable laws and regulations, because of the aforementioned scope limitations the auditors did not perform sufficient tests to provide any assurance on items tested.

The report could not be discussed with the implementing entities' management nor were the auditors able to obtain a management representation letter from the Project's administration as there was no responsible person to coordinate the audit activities. Thus this report was issued without the benefit of management comments.

Because of the severity and nature of the problems identified by the auditors, we believe that USAID/Peru should immediately suspend all A.I.D. funding to the implementing entities. Additional funding should not be provided until such time as the implementing entities have satisfactorily accounted for all A.I.D. Project funds received to date, reimbursed A.I.D. for those amounts determined to be unallowable, and established systems and controls to satisfactorily account for A.I.D. funds.

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

Recommendation No. 1

We recommend that USAID/Peru resolve the questionable (unsupported) costs of \$441,355, identified by USAID/Peru as the amount of A.I.D. funds provided to the Judicial Power, Ministry of Justice and the Public Ministry, which were included in the Price Waterhouse audit report dated June 9, 1992, and recover from the Government of Peru all amounts determined to be unallowable.

Recommendation No. 2

We recommend that USAID/Peru obtain evidence that the Judicial Power, Ministry of Justice and the Public Ministry have established accounting, budgetary, and filing systems to adequately account for A.I.D. Project funds.

Recommendation No. 3

We recommend that USAID/Peru suspend all A.I.D. funding to the Judicial Power, Ministry of Justice and the Public Ministry until such time as these Government of Peru implementing entities have satisfactorily accounted for all Project funds received to date, reimbursed A.I.D. for those amounts determined to be unallowable, and established systems and controls to satisfactorily account for A.I.D. funds.

Recommendation No. 1 will be considered resolved upon the Mission's determination of the amount of recovery and will be considered closed upon the recovery of funds, offset of funds, or issuance of a Bill for Collection. Recommendation No. 2 will be considered resolved when the Mission presents an acceptable firm action plan to correct the reported deficiencies and can be closed when the Mission presents acceptable evidence that the recommended systems have been established. Recommendation No. 3 can be resolved upon presentation by the Mission of data satisfactory to resolve Recommendation Nos. 1 and 2 and can be closed upon the Mission's presentation of acceptable evidence to close Recommendation Nos. 1 and 2.

This final audit report is being transmitted to you for your action. Please advise this office within 30 days of actions planned or taken to resolve and close the recommendations.

**AUDIT OF THE ADMINISTRATION OF JUSTICE
PROJECT, USAID/PERU PROJECT No. 527-0303
ACTIVITIES MANAGED BY THE JUDICIAL POWER,
MINISTRY OF JUSTICE AND THE PUBLIC MINISTRY,
FOR THE PERIOD JANUARY 1, 1989 TO
DECEMBER 31, 1990**

**AUDIT OF THE ADMINISTRATION OF JUSTICE
PROJECT, USAID/PERU PROJECT No. 527-0303
ACTIVITIES MANAGED BY THE JUDICIAL POWER,
MINISTRY OF JUSTICE AND THE PUBLIC MINISTRY
FOR THE PERIOD JANUARY 1, 1989 TO
DECEMBER 31, 1990**

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Price Waterhouse



June 9, 1992

Mr. Reginald Howard
Regional Inspector General
for Audit
United States Agency for
International Development
Tegucigalpa, Honduras C.A.

Dear Mr. Howard:

This report presents the results of our audit of the Administration of Justice Project, USAID/PERU Project No.527-0303, activities managed by the Judicial Power, Ministry of Justice and the Public Ministry, for the period January 1, 1989 to December 31, 1990.

I BACKGROUND

General description of the Project -

On June 25, 1986 the Government of United States acting through its Agency for International Development Mission to Peru (USAID/PERU), approved the Administration of Justice Project, USAID/PERU Project No.527-0303, which provided US\$1,000,000 in grant funds to the Government of Perú (GOP) acting through the Judicial Power, the Ministry of Justice and the Public Ministry. It was agreed that the GOP would provide a counterpart contribution of the equivalent of US\$1,000,000 in local currency. The Project assistance completion date (PACD) was estimated to be December 31, 1987, through subsequent amendments the grant was increased to US\$2,850,000, counterpart contribution to US\$2,500,000 and the PACD was extended to December 31, 1991.

Nature of Project's activities -

The purpose of the Project is to cooperate with the Government of Peru, in the development of programs to improve the administrative, technical and legal capacities of the main institutions of the peruvian judicial sector, with particular, but not exclusive, emphasis in the area of criminal justice, with the objective of making it more efficient and effective and increasing its accessibility to all peruvian citizens.

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The Project's funds are oriented towards the development of subprojects, common to the 3 implementing entities and specific to each of them, these subprojects are described below.

Common subprojects:

Sector Assessment

Consists in a baseline study of the entire judicial system. This study will focus on an analytic description of the system, identification of problems and analysis their causes, major constraints to their solution and the impact of the Project and other efforts of effecting reform. The study will be coordinated with studies conducted for other subprojects and will also be used in monitoring project progress. The study may also be used to make requests to potential donors for further activities.

Assessment of coordinating mechanisms for legislative and judicial aspects of the justice system.

Analyzes the current state of the procedures and mechanisms for the formulation of legislation and for coordination of judicial procedures. The objective is simplification of the system and elimination of inconsistent and/or contradictory norms and practices.

Special training in criminal investigation for prosecutors and judges.

Establish a services of short courses to train prosecutors and judges in theses areas with the end of improving their ability to carry out their investigate function.

Crime prevention

Studies leading to a national crime prevention program to be conducted jointly by the Public Ministry and Ministry of Justice.

Attributions of each implementing entity -

Judicial Power

The Judicial Power, as an autonomous power of government, is responsible for administrating justice, through courts and hierarchically integrated tribunes in a unitary body, with the

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specialties and guarantees that correspond and in accordance with the procedures established by the constitution and laws. Its compliance is guaranteed by the President of the Justice Supreme Court.

The main objectives of the Judicial Power in this Project are the following:

Judicial academic institute

Develop and implement a program for training judges and administrative and support personnel.

Judicial research center

Finance studies on the integrated reform of the judicial power, addressing the specific problems of limited access, high costs, slow procedures and lack of adequate control system.

Planning

Purchase of equipment, training and contracting personnel for the sector's Budgeting and Planning Office.

Dissemination of professional publications

Publication of "The Anuales Judiciales" and other professional journals and their distribution to judges throughout the nation.

Goods and services

Contracting temporary personnel, office rental, purchase of basic office supplies and computer equipment.

Ministry of Justice

The Ministry of Justice is responsible for: i) acting as liaison of the Executive Power and Judicial Power, ii) overseeing the compliance and development of legislation; iii) management of the prison system; iv) family welfare and v) propose and study laws that affect the judicial sector.

The main objectives of the Ministry of Justice in this project are the following:

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Legal information offices

Technical assistance, human and material resources for a pilot program of legal information offices to be established first in metropolitan Lima and later throughout the country with the end of increasing understanding of and thus access to the justice system, especially for the population with limited resources.

Support to victims of crime

Technical assistance, human and material resources to fund a preliminary study on the possibility of setting up a victim assistance program.

Legislative outreach

To help finance a public education campaign via short courses, radio programs and programs in elementary and high schools and the publication of basic legal documents in low cost editions with the aim of educating the public at large and legal professionals in human rights and legal guarantees.

Training in access to the justice system

Short courses for professional including public and private sector lawyers, law professors and court clerks and administrative personnel in basic judicial administrative and legal procedures.

Center for judicial research and documentation

Support for a program of law revision already begun by the Ministry of Justice. The initial phase will include development of methodology to review and revise existing legislation and establishment of mechanisms to coordinate and systematize the process by which legislation is formulated.

Planning

Technical assistance, material and human resources (including training of existing personnel) to upgrade the performance of the Ministry's Planning Office.

Goods and services

For contracting of additional personnel and purchase of basic resources, computer equipment and legal texts.

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Public Ministry

The Public Ministry is an autonomous entity of government hierarchically organized, whose main attributions are: i) promote the justice action in defense of legality, citizens rights and public interests, supported by the law; ii) care for the independence of the judicial entities and for the strict administration of justice and iii) represent the society in judgments.

The main objectives of the Public Ministry in this Project are the following:

Goods and services

For contracting personnel and purchase of basic supplies.

Planning

For upgrading the Planning and Rationalization Offices of the Ministry. Purchase of supplies, technical assistance and training and contracting personnel.

Dissemination of professional publications

For professional upgrading and support of the publication and distribution of the "Defensor del Pueblo" and other professional journals.

Academy of the Public Ministry

Training programs for prosecutors and for administrative and support personnel in the sector.

Public defender

Studies leading to the Public Ministry's implementation of its constitutionally mandated role as "Public Defender".

Project's Budget -

Following is the approved budget according to the Project's Agreement, modified by Amendment No.3 dated July 24, 1989:

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	<u>Total</u> US\$	<u>AID</u> US\$	<u>GOP</u> US\$
Common subprojects			
Electronic Data Center	22,432	17,432	5,000
Sector Assessment	60,000	40,000	20,000
Special Assessment	20,000	10,000	10,000
Special Training	95,000	60,000	35,000
Crime Prevention	<u>20,000</u>	<u>10,000</u>	<u>10,000</u>
	217,432	137,432	80,000
Judicial Power			
Academic institute	211,000	111,000	100,000
Judicial research center	508,568	408,568	100,000
Planning	30,000	15,000	15,000
Professional publication	70,000	30,000	40,000
Goods and services	<u>370,000</u>	<u>170,000</u>	<u>200,000</u>
	1,189,568	734,568	455,000
Ministry of Justice			
Legal information office	1,400,000	200,000	1,200,000
Aid to victims	4,206	3,206	1,000
Legislative outreach	131,336	83,36	48,000
Training	8,664	6,664	2,000
Center for judicial research	140,000	70,000	70,000
Planning	45,000	25,000	20,000
Goods and services	<u>180,000</u>	<u>90,000</u>	<u>90,000</u>
	1,909,206	478,206	1,431,000
Public Ministry			
Goods and services	440,000	235,000	205,000
Planning	35,000	20,000	15,000
Professional publication	30,000	15,000	15,000
School for prosecutors	210,000	110,000	100,000
Public defender	<u>30,000</u>	<u>15,000</u>	<u>15,000</u>
	745,000	395,000	350,000
Other			
Coordinating office	470,000	400,000	70,000
US and Third Country Training	50,000	50,000	-
Evaluation/Audit	60,000	60,000	-
Administrative support	430,000	430,000	-
Contingency	<u>278,794</u>	<u>164,794</u>	<u>114,000</u>
	1,288,794	1,104,794	184,000
TOTAL	<u>5,350,000</u>	<u>2,850,000</u>	<u>2,500,000</u>

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II AUDIT OBJECTIVES AND SCOPE

Objectives -

We were engaged to perform a financial audit of the Administration of Justice Project, USAID/PERU No.527-0303, activities managed by the Judicial Power, Ministry of Justice and the Public Ministry, for the period January 1, 1989 to December 31, 1990.

The objectives were to determine whether:

- The fund accountability statement, for the period January 1, 1989 to December 31, 1990, presents fairly, in all material respects, the financial situation of the Project and costs reported by the implementing entities as incurred and reimbursed by USAID/PERU for the period January 1, 1989 to December 31, 1990 are allowable, allocable and reasonable in accordance with agreement terms, and applicable laws and regulations.
- The internal control structure of the implementing entities is adequate to manage the Project's activities.
- The implementing entities have complied with agreement terms, and applicable laws and regulations, which may affect the Project's goals and incurred costs.

Scope -

Our audit presented scope limitation due to the lack of the Project's adequate accounting system, and the lack of basic information to be able to carry out our work.

The required information not supplied, for each of the implementing entities, is described below:

Judicial Power:

- Project's accounting records.
- Fund accountability statement of the period audited.
- Liquidation vouchers from January to December 1989 and 1990.

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Ministry of Justice:

- Project's accounting records.
- Fund accountability statement of the period audited.
- Liquidation vouchers corresponding to 1989 and 1990.
- Bank statements of the Project's current account, corresponding to December 1988 and January to December 1989 and 1990.

Public Ministry:

- Fund accountability statement of the period audited.
- Liquidation vouchers from July to December 1990.
- Bank reconciliations of December 1988 and January to July 1989.

Due to the importance of the information not supplied, our audit was not made in accordance to our original planning, because we were not able to relate the partial work performed to the evaluation of the system, review of the transfers made by USAID/PERU and review of costs reimbursed by USAID/PERU, with the accounting records and the fund accountability statements of each implementing entity as these were not supplied.

The exposed limitations obliged the suspension of our audit, with the previous coordination and agreement with the USAID mission in Peru.

III RESULTS OF AUDIT

Fund accountability statement -

Due to the importance of the limitations described in the preceding caption that obliged the suspension of our examination, we are not in conditions of expressing and we do not express an opinion on the Project's fund accountability statement.

We want to point out, that the enclosed fund accountability statement, was prepared by us based on the accounting records (listings) supplied by USAID/PERU and is included solely for information, not being able to audit it.

Internal control structure -

We identified the following reportable conditions which we consider to be material weaknesses:



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- An adequate accounting and budgetary system that enables extracting the Project's transactions in order to control the budget and prepare the corresponding fund accountability statements was not established.
- Basic supporting information of the Project's activities such as: accounting records, liquidation vouchers, disbursement's support documentation and bank statements and reconciliations, were not supplied to us by the implementing entities as they could not find them.

Compliance with agreement terms and applicable laws and regulations -

Our audit scope was affected by the following limitations:

- Lack of an adequate accounting and budgetary system, which enabled the implementing entities to prepare the fund accountability statements.
- Lack of basic documentation supporting Project's transactions (i.e. liquidation vouchers).

Because of the scope limitations described above we were not able to provide positive and negative assurance on items tested due to the lack of the implementing entities internal controls to assure compliance with those provisions.

IV MANagements COMMENT

This report could not be discussed with the implementing entities management nor were we able to obtain the management representation letter from the project's administration as there was no responsible person to coordinate the audit activities. Thus this report was issued without the benefit of managements's comments.

Price Waterhouse

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Price Waterhouse



**AUDIT OF THE ADMINISTRATION OF JUSTICE
PROJECT, USAID/PERU PROJECT No. 527-0303
ACTIVITIES MANAGED BY THE JUDICIAL POWER,
MINISTRY OF JUSTICE AND THE PUBLIC MINISTRY
FOR THE PERIOD JANUARY 1, 1989 TO
DECEMBER 31, 1990**

FUND ACCOUNTABILITY STATEMENT

INDEPENDENT AUDITORS' REPORT

We were engaged to perform an audit of the fund accountability statement of the Administration of Justice Project, USAID/PERU Project No. 527-030, activities managed by the Judicial Power, Ministry of Justice and the Public Ministry, for the period January 1, 1989 to December 31, 1990. This fund accountability statement was prepared by us based on the accounting records (listings) of USAID/PERU and is the responsibility of the performing entities.

Due to the suspension of our audit caused by situations described below, we did not conclude our evaluation of the implementing entities' internal control structure. Likewise, we could not verify the compliance with agreement terms and applicable laws and regulations, on behalf of these entities.

Our audit scope was affected by the following limitations:

- a) Lack of an adequate accounting and budgetary system, which enabled the implementing entities to prepare the fund accountability statements.
- b) Lack of basic documentation supporting Project's transactions (i.e. liquidation vouchers).

Due to the limitations described in the preceding paragraph, we were unable to perform sufficient work to enable us to express and we do not express an opinion on the above mentioned fund accountability statement.



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This report is intended solely for the use of the United States Agency for International Development - USAID and the Government of Peru. This restriction is not intended to limit the distribution of this report which, upon acceptance by the Office of the Inspector General is a matter of public record.

December 15, 1991

Price Waterhouse

**AUDIT OF THE ADMINISTRATION OF JUSTICE
PROJECT, USAID/PERU PROJECT No. 527-0303
ACTIVITIES MANAGED BY THE JUDICIAL POWER,
MINISTRY OF JUSTICE AND THE PUBLIC MINISTRY
FOR THE PERIOD JANUARY 1, 1989 TO
DECEMBER 31, 1990**

FUND ACCOUNTABILITY STATEMENT

<u>Source/Cost element</u>	<u>Budget</u> US\$	<u>Actual</u> US\$	<u>Available</u> US\$
DISBURSEMENTS			
Common subprojects			
Electronic Data Center	17,432	9,482	7,950
Sector Assessment	40,000	-	40,000
Special Assessment	10,000	4,594	5,406
Special Training	60,000	21,674	38,326
Crime Prevention	<u>10,000</u>	<u>3,998</u>	<u>6,002</u>
	137,432	39,748	97,684
Judicial Power			
Academic institute	111,000	46,070	64,930
Judicial research center	408,568	10,441	398,127
Planning	15,000	-	15,000
Professional publication	30,000	5,536	24,464
Goods and services	<u>170,000</u>	<u>160,809</u>	<u>9,191</u>
	734,568	222,856	511,712
Ministry of Justice			
Legal information office	200,000	-	200,000
AID to victims	3,206	-	3,206
Legislative outreach	83,336	71,291	12,045
Training	6,664	-	6,664
Center for judicial research	70,000	9,505	60,495
Planning	25,000	21,993	3,007
Goods and services	<u>90,000</u>	<u>25,575</u>	<u>64,425</u>
	478,206	128,364	349,842
Public Ministry			
Goods and services	235,000	40,653	194,347
Planning	20,000	6,939	13,061
Professional publication	15,000	-	15,000
School for prosecutors	110,000	30,348	79,652
Public defender	<u>15,000</u>	<u>506</u>	<u>14,494</u>
	395,000	78,446	316,554
Other	<u>1,104,794</u>	<u>467,308</u>	<u>637,486</u>
	2,850,000	936,722	1,913,278
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Notes 1 and 2 form an integral part of this fund accountability statements.

**AUDIT OF THE ADMINISTRATION OF JUSTICE
PROJECT, USAID/PERU PROJECT No. 527-0303
ACTIVITIES MANAGED BY THE JUDICIAL POWER,
MINISTRY OF JUSTICE AND THE PUBLIC MINISTRY
FOR THE PERIOD JANUARY 1, 1989 TO
DECEMBER 31, 1990**

NOTES TO THE FUND ACCOUNTABILITY STATEMENT

1 NATURE OF ACTIVITIES

On June 25, 1986 the Government of United States acting through its Agency for International Development Mission to Perú (USAID/PERU), approved the Administration of Justice Project, USAID/PERU Project No.527-0303, which provided US\$1,000,000 in grant funds to the Government of Perú (GOP) acting through the Judicial Power, the Ministry of Justice and the Public Ministry. It was agreed that the GOP would provide a counterpart contribution of the equivalent of US\$1,000,000 in local currency. The Project assistance completion date (PACD) was estimated to be December 31, 1987, through subsequent amendments the grant was increase to US\$2,850,000, counterpart contribution to US\$2,500,000, and the PACD was extended to December 31, 1991.

Attributions of each implementing entity:

Judicial Power -

The Judicial Power, as an autonomous power of government is responsible for administrating justice, through courts and hierarchically integrated tribunals in a unitary body, with the specialties and guarantees that correspond and in accordance with the procedures established by the constitution and laws. Its compliance is guaranteed by the President of the Justice Supreme Court.

Ministry of Justice -

The Ministry of Justice is responsible for: i) acting as liaison of the Executive Power and Judicial Power, ii) overseeing the compliance and development of legislation; iii) management of the prison system; iv) family welfare and v) propose and study laws that affect the judicial sector.

Public Ministry -

The Public Ministry is an autonomous entity of government hierarchically organized, whose main attributions are: i) promote the justice action in defense of legality, citizens rights and public

interests, supported by the law; ii) care for the independence of the judicial entities and for the strict administration of justice and iii) represent the society in judgments.

2 **FUND ACCOUNTABILITY STATEMENT**

The fund accountability statement included in this report is presented solely for information and has been prepared by us based on the accounting listings supplied by USAID/PERU. We were unable to perform an audit based on this statement due to the lack of Project's adequate accounting records and supporting documentation of transactions.

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Price Waterhouse



**AUDIT OF THE ADMINISTRATION OF JUSTICE
PROJECT, USAID/PERU PROJECT No. 527-0303
ACTIVITIES MANAGED BY THE JUDICIAL POWER,
MINISTRY OF JUSTICE AND THE PUBLIC MINISTRY
FOR THE PERIOD JANUARY 1, 1989 TO
DECEMBER 31, 1990**

INTERNAL CONTROL STRUCTURE

INDEPENDENT AUDITORS' REPORT

We were engaged to perform an audit of the fund accountability statement of the Administration of Justice Project, USAID/PERU, Project No.527-0303, activities managed by the Judicial Power, Ministry of Justice and the Public Ministry, for the period January 1, 1989 to December 31, 1990 and have issued our report thereon dated December 15, 1991, in which we disclaim an opinion.

In planning and performing our audit of the above mentioned fund accountability statement we could not consider the entities internal control structure, in order to define our auditing procedures since our audit was suspended due to the lack of preparation of an adequate accounting and budgetary system, which enable the implementing entities to prepare the fund accountability statement, and the lack of basic documentation to support the Project transactions.

The Judicial Power, Ministry of Justice and the Public Ministry are responsible for establishing and maintaining an internal control structure to manage the Project's operations. In fulfilling this responsibility, estimates and judgements by management are required to assess the expected benefits and related costs of internal control structure policies and procedures. The objectives of an internal control structure are to provide management with reasonable, but not absolute assurance, that assets are safeguarded against loss from unauthorized use or disposition and that transactions are executed in accordance with management's authorization and recorded properly to permit the preparation of the fund accountability statement. Because of inherent limitations in any internal control structure, errors or irregularities may nevertheless occur and not be detected.



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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 degree of compliance with the procedures may deteriorate.

For the purpose of this report we have classified significant policies and procedures into the following categories: i) accounting and financial aspects; ii) treasury (receipts and custody of funds); iii) liquidations (includes purchase of goods and services); iv) salaries; and v) fixed assets.

Due to the limitations in the scope of our revision that obliged the suspension of our examination we could not complete the understanding of the design of the policies and procedures and whether they have been put into operation. Likewise, the inherent and control risks were not evaluated.

We noted certain matters as described in findings 1 and 2, which involve the internal control structure and its operations, that we consider as reportable conditions. 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 implementing entities' ability to record, process, summarize, and report financial data consistent with the assertions of management in the fund accountability statement for the period January 1, 1989 to December 31, 1990.

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 time 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 that are also considered to be material weaknesses as defined above. We believe that the conditions described in findings 1 and 2 are material weaknesses.



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This report is intended solely for the information and use of the United States Agency for International Development - USAID and the Government of Peru. This restriction is not intended to limit the distribution of this report which, upon acceptance by the Office of the Inspector General, is a matter of public record.

December 15, 1991

Brian Waterhouse

**AUDIT OF THE ADMINISTRATION OF JUSTICE
PROJECT, USAID/PERU PROJECT No. 527-0303
ACTIVITIES MANAGED BY THE JUDICIAL POWER,
MINISTRY OF JUSTICE AND THE PUBLIC MINISTRY
FOR THE PERIOD JANUARY 1, 1989 TO
DECEMBER 31, 1990**

INTERNAL CONTROL STRUCTURE

AUDIT FINDINGS

- 1 An adequate accounting and budgetary system was not established.

Condition -

The implementing entities recorded the Project's transactions in their official accounting records. However, an accounting system that enables extracting the Project's transactions in order to control the budget and prepare the corresponding fund accountability statements was not established.

Criteria -

The USAID "Standard Provisions" regulations oblige the grantee entities to maintain books and records that accumulate the Project's expenses, which, adequately supported, must be kept for three years after the grant's expiration date.

Cause -

Negligence or carelessness on behalf of the Project's implementing entities.

Effect -

The absence of an adequate accounting and budgetary system does not allow controlling the Project's transactions, and controlling the budget. Likewise, it makes difficult the preparation of the fund accountability statement, not allowing to review and audit it.

Recommendation -

We recommend the implementing entities design and implement an adequate accounting and budgetary system that serves as a liaison for the records of the Project's transaction recorded in the central accounting and allow controlling the budget and the preparation of the fund accountability statements.

2 **The Project's filing system was inadequate**

Condition -

Basic supporting information of the Project's activities such as: accounting records, liquidation vouchers, disbursements' support documentation and bank statements and reconciliations were not supplied to us by the implementing entities as they could not find them.

Criteria -

All the documentation related to the Project should be chronologically filed and together with the accounting records it should be kept for at least three years after the grant's expiration date.

Cause -

Negligence or carelessness on behalf of the Project's implementing entities.

Effect -

Uncompliance with USAID regulations, that could represent the presumption or existence of questionable costs.

Recommendation -

We recommend the implementing entities design and implement an adequate filing system that guarantees the custody and chronological file of the Project's documents.

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Price Waterhouse



**AUDIT OF THE ADMINISTRATION OF JUSTICE
PROJECT, USAID/PERU PROJECT No. 527-0303
ACTIVITIES MANAGED BY THE JUDICIAL POWER,
MINISTRY OF JUSTICE AND THE PUBLIC MINISTRY
FOR THE PERIOD JANUARY 1, 1989 TO
DECEMBER 31, 1990**

**COMPLIANCE WITH AGREEMENT TERMS AND
APPLICABLE LAWS AND REGULATIONS**

INDEPENDENT AUDITORS' REPORT

We were engaged to perform an audit of the fund accountability statement of the Administration of Justice Project, USAID/Peru Project No.527-0303, activities managed by the Judicial Power, Ministry of Justice and the Public Ministry, for the period January 1, 1989 to December 31, 1990 and have issued our report thereon dated December 15, 1991, in which we disclaim an opinion.

The Judicial Power, Ministry of Justice and the Public Ministry are responsible for compliance with the terms of the agreement and applicable laws and regulations. Due to the revision scope limitations described in our report of the fund accountability statement, we were unable to evaluate the performing entities' compliance with agreement terms and applicable laws and regulations that could affect the Project and the incurred costs. However, our objective was not to provide an opinion on overall compliance with such provisions.

Because of the scope limitations described in the fund accountability statement we are not able to provide positive and negative assurance on item tested due to the lack of the implementing entities internal controls to assure compliance with those provisions.

This report is intended solely for the information and use of the United States Agency for International Development - USAID and the Government of Perú. This restriction is not intended to limit the distribution of this report which, upon acceptance by the Office of the General Inspector, is a matter of public record.

December 15, 1991

Price Waterhouse

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Annex 1

AUDIT OF THE ADMINISTRATION OF JUSTICE
PROJECT, USAID/PERU PROJECT No. 527-0303
ACTIVITIES MANAGED BY THE JUDICIAL POWER,
MINISTRY OF JUSTICE AND THE PUBLIC MINISTRY,
FOR THE PERIOD JANUARY 1, 1989 TO
DECEMBER 31, 1990

LIST OF RECOMMENDATIONS

- I Internal control structure
 - 1 We recommend the implementing entities design and implement an adequate accounting and budgetary system that serves as a liaison for the records of the Project's transaction recorded in the central accounting and allow controlling the budget and the preparation of the fund accountability statements.
 - 2 We recommend the implementing entities design and implement an adequate filing system that guarantees the custody and chronological file of the Project's documents.

APPENDIX I

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