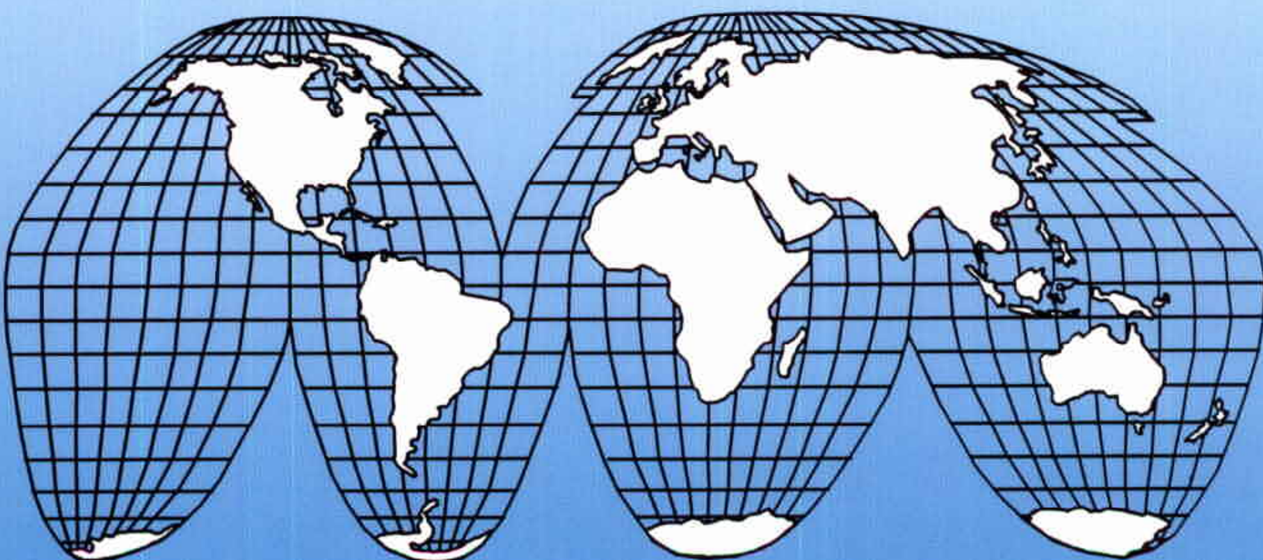
USAID

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 February 5, 1999 to March 31, 2001

Audit Report No. 4-611-03-003-N

February 24, 2003



PRETORIA, SOUTH AFRICA

February 24, 2003

MEMORANDUM FOR MISSION DIRECTOR, USAID/ZAMBIA, Allan E. Reed

FROM: Regional Inspector General/Pretoria, Jay Rollins

SUBJECT: 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 February 5, 1999 to March 31, 2001 (Report No. 4-611-03-003-N)

This memorandum transmits the subject audit report performed by Agency-contracted auditor, Deloitte & Touche, Lusaka, Zambia.

The audit covered $1,023,489 in USAID funds and was performed in accordance with U.S. Government Auditing Standards and the Guidelines for Financial Audits Contracted by Foreign Recipients.

In February 1999, USAID/Zambia approved a cooperative agreement with Credit Management Services Limited (CMS), which provided funding for "onward" lending to selected rural groups and to meet CMS' operational costs for the project. The objective of the agreement was to increase incomes of selected rural groups and the overall goal was to improve the economic and social well being of Zambia's rural population.

USAID/Zambia engaged Deloitte & Touche to conduct a financial audit of USAID/Zambia's resources managed by CMS under Cooperative Agreement Number 690-A-00-99-00026-00 for the period February 5, 1999 to March 31, 2001, and to ascertain whether the costs incurred were allowable, allocable and reasonable under the agreement. In addition, Deloitte & Touche was required to evaluate the internal control systems and to report on CMS' compliance with the agreement terms.

The auditors disclaimed an opinion on whether the Fund Accountability Statement was presented fairly. The audit report disclosed the following findings:

- $303,422 was questioned as ineligible costs ($2,999 in revenue, $294,213 in costs incurred, and $6,210 in equipment directly procured by USAID) because the amounts were not program-related and were prohibited by the terms of the Agreement;

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- $50,456 was questioned as unsupported costs ($15,514 in revenues and $34,942 in costs incurred) because they were not supported by adequate documentation.

- Reportable internal control weaknesses were noted with regard to the procurement of goods and services, management's issuance of verbal instructions to the bank, management's ineffective internal audit function, and the storage of financial records.

- A material internal control weakness was noted with regard to the need to maintain separate bank accounts and ledgers for the program.

- Two material non-compliance findings were noted concerning management's provision of its share of counterpart contributions and the maintenance of separate bank accounts.

- $235,962 was questioned as ineligible cost-sharing contributions because they were not in accordance with the terms of the agreement.

Therefore, we are making the following four recommendations:

Recommendation No. 1: We recommend that USAID/Zambia determine the allowability of questioned costs totaling $353,878 ($303,422 in ineligible costs and $50,456 in unsupported costs) detailed on pages 8-13 of the Deloitte & Touche report, and recover from Credit Management Services Limited any amounts determined to be unallowable.

Recommendation No. 2: We recommend that USAID/Zambia ensure that Credit Management Services Limited corrects the four internal control reportable conditions (the procurement of goods and services, management's issuance of verbal instructions to the bank, management's ineffective internal audit function, and the storage of financial records) and one material weakness (separate bank accounts) detailed on pages 19-22 of the Deloitte & Touche report.

Recommendation No. 3: We recommend that USAID/Zambia ensure that Credit Management Services Limited corrects the two material instances of non-compliance (cost-sharing and commingling of funds) detailed on pages 37-38 of the Deloitte & Touche report.

Recommendation No. 4: We recommend that USAID/Zambia determine the allowability of questioned costs totaling $235,962 (ineligible cost-sharing contributions) detailed on pages 40-41 of the Deloitte & Touche report, 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 these recommendations.

Attachments: a/s

CC: USAID/RCSA, Regional Contracting Officer, Martin Napper
USAID/Zambia, Controller, Amy Fawcett

AUDIT OF UNITED STATES AGENCY FOR INTERNATIONAL DEVELOPMENT RESOURCES MANAGED BY CREDIT MANAGEMENT SERVICES LIMITED UNDER CO-OPERATIVE AGREEMENT NUMBER 690-A-00-99-00026-00

REPORTS AND FUND ACCOUNTABILITY STATEMENT
for the period 5 February 1999 to 31 March 2001

AUDIT OF UNITED STATES AGENCY FOR INTERNATIONAL DEVELOPMENT RESOURCES MANAGED BY CREDIT MANAGEMENT SERVICES LIMITED UNDER CO-OPERATIVE AGREEMENT NUMBER 690-A-00-99-00026-00

REPORTS AND FUND ACCOUNTABILITY STATEMENT
for the period 5 February 1999 to 31 March 2001

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REPORTS AND FUND ACCOUNTABILITY STATEMENT
for the period 5 February 1999 to 31 March 2001

INTRODUCTION

On 5 February 1999, the United States Agency for International Development ("USAID") Mission to Zambia signed a Co-operative Agreement Number 690-A-00-99-00026-00 (the "Agreement") with Credit Management Services Limited ("CMS"). The Agreement provided US $930,000 to CMS for onward lending to selected rural groups and to meet the operational costs of CMS for the project period with the estimated project completion date being 31 January 2003.

Subsequently the Agreement funding was amended to US$1,358,837 with USAID to provide US $1,080,000 and CMS to provided US $270,837 as their cost share.

The objective of the Agreement is to increase incomes of selected rural groups. The overall goal was to improve the economic and social well being of Zambia's rural population. The purpose of the program is to strengthen community groups and group based enterprises through the provision of micro finance to assist these groups to extend their businesses and enable them to join the main stream of business in Zambia, thereby improving their incomes.

CMS was incorporated under the Companies Act of Zambia in 1992 and registered with the Bank of Zambia under the Banking and Financial Services Act of 1994 ("BFSA"). The headquarters of the Company is in Kabwe. The Company has branches in Kabwe, Lusaka, Monze and Chipata. All the branches, except Chipata, utilise USAID funds. The objective of CMS is to provide credit and manage savings as a way of improving access of the poor to micro finance.

CMS provides micro finance services using group lending methodology. Members of the groups have to guarantee each other's loans and every borrower has to provide an "equity contribution" (savings). CMS also provides loans to individuals in instances where the individuals are known to CMS. The individuals are required to prepare a business plan and provide collateral for the loan.

USAID appointed Deloitte & Touche to audit the Fund Accountability Statement of the USAID Resources Managed by Credit Management Services Limited under Co-operative Agreement Number 690-A-00-99-00026-00 (the "Program") for the period 5 February 1999 to 31 March 2001, evaluate the internal control systems and loan portfolio and report on material control weaknesses. In addition Deloitte & Touche were required to report on CMS' compliance with the Agreement.

Deloitte & Touche carried out the work in accordance with the above terms of reference.

AUDIT OF UNITED STATES AGENCY FOR INTERNATIONAL DEVELOPMENT RESOURCES MANAGED BY CREDIT MANAGEMENT SERVICES LIMITED UNDER CO-OPERATIVE AGREEMENT NUMBER 690-A-00-99-00026-00

REPORTS AND FUND ACCOUNTABILITY STATEMENT
for the period 5 February 1999 to 31 March 2001

OBJECTIVES OF ASSIGNMENT

The specific stated objectives of the assignment were as follows:

1. Express an opinion on whether the Fund Accountability Statement of the USAID resources managed by Credit Management Services Limited under Co-operative Agreement Number 690-A-00-99-00026-00 presents fairly, in all material respects, Program revenues received, loan portfolio and loan loss allowances, costs incurred, and commodities and technical assistance directly procured by USAID for the period 5 February 1999 to 31 March 2001 in accordance with the terms of the Agreement and in conformity with Generally Accepted Accounting Principles or other comprehensive bases of accounting.

2. Evaluate and obtain an understanding of CMS's internal control structure and loan portfolio systems related to the Program, assess control risk and identify reportable conditions, including material internal control and loan portfolio systems weaknesses.

3. Perform tests to determine whether CMS complied, in all material respects, with the Agreement terms and applicable laws and regulations related to the Program. Material instances of noncompliance and indications of illegal acts should be reported. Such tests should include the compliance requirements related to required cost sharing.

4. Perform tests to ensure that the accounting system and the loan tracking system are timely and accurate. Evaluate the noncash pay down issues and the loan loss provisions and loan write-offs policies for loan deliquences.

5. Determine if CMS has taken adequate corrective action on prior financial assessment and audit reports recommendations.

WORK DONE

In order to achieve the objectives of the assignment we performed audit work that included:

- Reviewing the Co-operative Agreement;

- Holding discussions with relevant officials at USAID and CMS to obtain an understanding of the Program's activities;

- Reviewing the status of actions taken on findings and recommendations in prior financial assessments and audits of the Company;

- Determining and documenting CMS accounting and loan portfolio systems and identifying key controls;
- Performing tests to determine whether the accounting systems, loan portfolio and internal controls operated as documented;
- Assessing the adequacy of the accounting, loan portfolio and internal controls systems;
- Performing tests of detail to determine whether Program income is received and accounted for;
- Performing tests of detail on a sample basis on the reported expenditure amounts and agreeing them to supporting documentation;
- Obtaining direct confirmation from USAID of the amount of funds granted to CMS for the purpose of the Program;
- Reviewing the loan portfolio and loan account balances for existence, accuracy and completeness and repayment activity;
- Reviewing the adequacy of loan loss provision;
- Obtaining direct confirmations from a sample of loanees selected and verifying their existence by physically visiting them;
- Obtaining direct confirmations from bankers in respect of USAID funding still held on the Program bank account;
- Assessing compliance with the Agreement terms and applicable laws and regulations;
- Verifying a sample of tangible assets that were acquired by USAID for the Program and ensuring that they were appropriately labelled;
- Reviewing the cost sharing schedule to determine whether cost sharing contributions have been provided and accounted for by CMS in accordance with the Agreement; and
- Reviewing compliance with the BFSA.

SUMMARY OF RESULTS

Fund Accountability Statement

The results of the audit of the Fund Accountability Statement for the Program are given in the "Independent Auditor's Report on the Fund Accountability Statement" on pages 6 and 7. The report is a disclaimer in respect of apportioned costs that have been questioned and the lack of separate program expense ledgers and bank accounts.

The report also discloses that no provision for bad and doubtful debts has been made. However, our review of the loan disbursements disclosed that loans totaling US $168,542 remained unpaid for a period of twelve months after 31 March 2001 and should have been classified as bad and doubtful loans as they are unlikely to be recovered by the Program.

The financial statements for the years ended 31 March 2000 and 2001 are attached in Appendix I. These financial statements were prepared by the client and have not been reviewed or audited by Deloitte & Touche. They are attached for reference purposes only.

Internal controls

We carried out a review of the adequacy of internal controls over loan management, receipts, payments, bank and cash management, human resources, commodities, information systems and procurement procedures. The details of the work carried out, the matters arising from the review and the "Independent Auditor's Report on Internal Controls" are set out on pages 14 to 23. We also noted other matters involving the internal control structure and its operation that we have reported to management of Credit Management Services Limited in a separate letter dated 31 January 2003.

The report discloses four reportable conditions and a material weakness in the internal controls.

Our review of the financial assessment report issued in 1998 indicates that the Company has implemented prior recommendations but is yet to complete implementation of three significant recommendations.

Compliance with Agreement and applicable laws and regulations

We tested compliance with conditions of the Agreement. As a registered financial institution the Company is required to comply with the BFSA and the Companies Act. The details of the work carried out, matters arising and the "Independent Auditor's Report on Compliance" are set out on pages 24 to 37 of this report.

Our work indicates that the Company has not complied with the Agreement with respect to provision of cost sharing and separate expense bank accounts.

With respect to the BFSA the Company has not complied with certain provisions relating to governance of the Company.

Cost sharing

We carried out a review to determine whether CMS did provide the cost share in accordance with the requirement of the Agreement. Our work indicates that the Company has not provided its share of counterpart contributions as per the Agreement. The details of the work carried out, the matters arising from the review and the "Independent Auditors Report on Cost Sharing" are set out on pages 38 to 41 of this report.

CONCLUSION

The Company has not complied with all the terms and provisions of the Agreement and has not provided its share of counterpart contributions as required. The internal control structure and loan portfolio systems for this program appear adequate with the exception of the matters specifically referred to under the respective sections of this report.

Controls could be further improved if the recommendations included in this report were implemented.

AUDIT OF UNITED STATES AGENCY FOR INTERNATIONAL DEVELOPMENT RESOURCES MANAGED BY CREDIT MANAGEMENT SERVICES LIMITED UNDER CO-OPERATIVE AGREEMENT NUMBER 690-A-00-99-00026-00

FUND ACCOUNTABILITY STATEMENT
for the period 5 February 1999 to 31 March 2001

STATEMENT OF RESPONSIBILITY FOR THE FUND ACCOUNTABILITY STATEMENT

The Board of Directors of Credit Management Services Limited are responsible for the preparation of the Fund Accountability Statement of the USAID resources managed by Credit Management Services Limited under Co-operative Agreement Number 690-A-00-99-00026-00 for each financial period that gives a true and fair view of the financial activities for that period.

The Board of Directors of Credit Management Services Limited confirm that in their opinion the Fund Accountability Statement is drawn up so as to give a true and fair view of the excess of income over expenditure of the Program for the period 5 February 1999 to 31 March 2001.

Signed on behalf of the Board by:

______________________)
MANAGING DIRECTOR)
)
)
)
)
)
______________________)
OPERATIONAL DIRECTOR)

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Deloitte & Touche

INDEPENDENT AUDITOR'S REPORT ON THE FUND ACCOUNTABILITY STATEMENT

To: **The Mission Director**
USAID Zambia
351 Independence Avenue
P O Box 32481
LUSAKA

The Board of Directors
Credit Management Services Limited
P O Box 80468
KABWE

We have audited the Fund Accountability Statement of the United States Agency for International Development Resources Managed by Credit Management Services Limited under Co-operative Agreement Number 690-A-00-99-00026-00 for the period 5 February 1999 to 31 March 2001 on pages 8 to 13 which has been prepared on the basis of the accounting policies on page 9.

RESPECTIVE RESPONSIBILITIES OF DIRECTORS AND AUDITORS

As described on page 5, the Board of Directors of Credit Management Services Limited are responsible for the preparation of the Fund Accountability Statement. It is our responsibility to express an opinion on the Fund Accountability Statement, based on our audit.

BASIS OF OPINION

We conducted our audit of the Fund Accountability Statement in accordance with United States 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 about whether the Fund Accountability Statement is free of material misstatement. An audit includes examination, on a test basis, of 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 statement presentation. We believe that our audit provides a reasonable basis for our opinion presented below.

We planned our audit so as to obtain all the information and explanations which we considered necessary in order to provide us with sufficient evidence to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or other irregularities or error. However, no separate expense ledgers and bank accounts were maintained for the USAID funded Program, consequently to prepare the Fund Accountability Statement management apportioned a percentage of various expenses incurred on all the programs managed by Credit Management Services Limited to the USAID Program Fund Accountability Statement. The expenses were apportioned by using the ratio of the fund value of the USAID Program to the total of the fund values of all programs managed by Credit Management Services Limited as at 31 March 2001.

Effectively then the accuracy of certain charged expenses cannot be guaranteed as having been incurred wholly and exclusively for the purposes of the USAID Program and in consequence, our procedures were limited, particularly in the area of expenditure.

In forming our opinion, we have also evaluated the overall adequacy of the presentation of information in the Fund Accountability Statement.

EMPHASIS OF MATTER

- We draw your attention to the basis of accounting note on page 9. In accordance with USAID Guidelines for Financial Audits Contracted by Foreign Recipients, this Fund Accountability Statement has been prepared using a cash receipts and disbursements basis of accounting which ignores accruals and prepayments;

- As discussed in note 3 to the Fund Accountability Statement no provision for bad and doubtful debts has been made. Included in loan disbursements are amounts due from individuals of **US $168,542,** which do not meet normal criteria for performing loans and under normal circumstances, would be classified as bad and doubtful loans.

Our opinion is not qualified in respect of the above matters.

DISCLAIMER OF VIEW GIVEN BY THE FUND ACCOUNTABILITY STATEMENT

The results of our tests disclosed the following questioned costs and revenues as detailed in the Fund Accountability Statement:

- **US $11,674, US $6,210** and **US $2,999** of costs, commodities directly procured by USAID and revenues respectively are explicitly questioned because they are not program related and are prohibited by the terms of the Agreement;

- **US $34,942** and **US $15,514** of costs and revenues respectively are not supported with adequate documentation; and

- **US $282,539** was questioned as apportioned costs arising from the lack of separate accounting records for the USAID programs.

As a result of the significance of the questioned matters in the preceding paragraph we are unable to form an opinion as to whether the Fund Accountability Statement presents fairly, in all material respects, Program revenues, costs incurred and reimbursed and commodities and technical assistance directly procured by United States Agency for International Development for the period 5 February 1999 to 31 March 2001 in accordance with the terms of the Agreement and in conformity with the basis of accounting described on page 9.

This report is intended for the information of Credit Management Services Limited and the United States Agency for International Development. However upon release by USAID this report is a matter of public record and its distribution is not limited.

Deloitte & Touche

DELOITTE & TOUCHE

31 January 2003

AUDIT OF UNITED STATES AGENCY FOR INTERNATIONAL DEVELOPMENT RESOURCES MANAGED BY CREDIT MANAGEMENT SERVICES LIMITED UNDER CO-OPERATIVE AGREEMENT NUMBER 690-A-00-99-00026-00

FUND ACCOUNTABILITY STATEMENT

for the period 5 February 1999 to 31 March 2001

	NOTES	BUDGET	ACTUAL	QUESTIONED COSTS INELIGIBLE	QUESTIONED COSTS UNSUPPORTED
		US $	US $	US $	US $
REVENUE					
Loan received from USAID		454,394	**630,581**	-	-
Program income	1	-	**331,933**	2,999	15,514
Grants	2	127,886	**60,975**	-	-
		582,280	**1,023,489**	2,999	15,514
COSTS INCURRED					
Loan disbursements	3	454,394	**384,197**	-	34,942
Salaries	4	100,389	**203,040**	142,065	-
Indirect costs	5	-	**140,474**	140,474	
Interest paid on savings		27,497	**10,528**	-	-
Sundry expenses	6	-	**8,962**	8,962	-
Fines and penalties	7	-	**2,712**	2,712	-
		582,280	**749,913**	294,213	34,942
OUTSTANDING FUND BALANCE	8	-	**273,576**		
COMMODITIES AND TECHNICAL ASSISTANCE DIRECTLY PROCURED BY USAID					
Motor vehicles	9	-	**73,371**	-	-
Motor cycles		-	**70,944**	-	-
Computer and other equipment	10	-	**133,468**	6,210	-
Management consultancy	11	-	**71,923**	-	-
		-	**349,706**	6,210	-

The responsibilities of the Board of Directors of Credit Management Services Limited with regard to the preparation of the Fund Accountability Statement are set out on page 5. The Fund Accountability Statement on pages 8 to 13 was approved by the Board on 28/1/03 and signed on its behalf by:

MANAGING DIRECTOR)

OPERATIONAL DIRECTOR)

AUDIT OF UNITED STATES AGENCY FOR INTERNATIONAL DEVELOPMENT RESOURCES MANAGED BY CREDIT MANAGEMENT SERVICES LIMITED UNDER CO-OPERATIVE AGREEMENT NUMBER 690-A-00-99-00026-00

ACCOUNTING POLICIES

BASIS OF ACCOUNTING

The Fund Accountability Statement has been prepared on the cash receipts and disbursements basis of accounting.

TRANSLATION OF FOREIGN CURRENCIES

Transactions denominated in currencies other than United States Dollars are accounted for at the rate of exchange ruling on the date of the transaction. Bank and cash balances at the end of the period denominated in currencies other than the United States Dollars have been accounted for at the rate of exchange ruling at the end of the period.

During the period under review there were no gains or losses arising on translation.

NOTES TO THE FUND ACCOUNTABILITY STATEMENT

For the period 5 February 1999 to 31 March 2001

US Dollars

1. PROGRAM INCOME

	Period 5 February 1999 to 31 March 2001 US $
Interest income	238,618
Loan equity contributions	66,857
Proceeds from insurance claim (Note 9)	17,574
Fees	5,385
Bank deposit interest	3,499
	331,933

Loan equity contributions relate to compulsory savings collected from customers that have been offset against unpaid loans due from defaulting customers. The contributions are kept in separate bank accounts and are also used by the Program for on lending to customers. As at 31 March 2001 **US $6,814** of the total contributions was in separate bank accounts and is part of the outstanding fund balance of **US $273,576.**

Included in bank deposit interest is **US $2,999** which has not been remitted to USAID in accordance with the Agreement. This amount has been questioned as ineligible in the Fund Accountability Statement.

Fees relate to income from loan application and training fees. A total of **US $15,514** has been questioned in the Fund Accountability Statement as total fees received by the Program amounted to **US $20,899** compared to the **US $5,385** shown as income in the Fund Accountability Statement.

2. GRANTS

This relates to USAID grants for salaries and other operational costs.

3. LOAN DISBURSEMENTS

	Period 5 February 1999 to 31 March 2001 US$
Loan received from USAID	630,581
Outstanding fund balance	(273,576)
	357,005
Loan repayments	27,192
Loan disbursement	384,197

Loans disbursements represent loans paid to customers during the period. Customers are required to repay loans within a period of six to twelve months.

No provision has been made for losses expected to arise on loans that remained unpaid after the maximum loan repayment period of twelve months as the Directors are of the opinion that all loans are recoverable.

Loans totaling **US $34,942** have been questioned in the Fund Accountability Statement due to lack of supporting loan agreements.

4. SALARIES

Included in salaries are amounts totaling **US $142,065** that have been questioned, as they are not Program expenses but an apportionment of the Company's salary costs.

5. INDIRECT COSTS

	Total US $	Percent	Period 5 February 1999 to 31 March 2001 US $
Travel expenses	86,697	70%	60,688
Motor vehicle maintenance	56,286	66%	37,149
Bank charges	16,840	70%	11,788
Legal and professional fees	11,577	70%	8,104
Postage and telephone	10,133	70%	7,093
Office maintenance	7,273	70%	5,091
Printing and stationery	5,924	70%	4,147
Training expenses	4,974	70%	3,482
Rent and rates	4,188	70%	2,932
	203,892		140,474

Indirect costs have been apportioned to the Program Fund Accountability Statement using the ratio of the Program fund value to the fund value of all the programs managed by the Company as 31 March 2001. All indirect costs have been questioned, as they are ineligible according to the terms of the Agreement.

6. SUNDRY EXPENSES

	Period 5 February 1999 to 31 March 2001 US $
Licensing	2,346
Staff refreshments	2,165
Employee benefits	1,452
Funeral grants	617
Maintenance	592
Donations	432
Water and electricity	425
Advertising	422
Entertainment	399
Security	112
	8,962

All sundry expenses have been questioned in the Fund Accountability Statement, as the expenses are not directly related to the Program's principal activity.

7. FINES AND PENALTIES

Fines are in respect of traffic offences committed by employees while on duty. Penalties relate to late submission of tax returns. All fines and penalties have been questioned in the Fund Accountability Statement as they are not directly related to the Program's principal activity.

8. OUTSTANDING FUND BALANCE

	US $
Head office	253,456
Lusaka region	10,276
Southern region	8,433
Central region	1,411
	273,576

The fund balance is represented by USAID specific bank balances denominated in Zambia Kwacha held with various commercial banks. The funds under head office of US $253,456 related to loan funds awaiting disbursement to loanees. However contrary to provisions of the Agreement, included in this amount were disbursement requirements for over 30 days. As a result these funds were only fully liquidated on 31 July 2001.

9. MOTOR VEHICLES

During the period a motor vehicle registration number AAT 3512 valued at **US $ 23,086** was stolen. This Program received a total of **US $17,574** as proceeds from the insurance of the motor vehicle. The proceeds are reflect under Program Income (Note 2).

10. COMPUTER AND OTHER EQUIPMENT

Included in computer and other equipment is one printer, computer and uninterruptable power supply unit valued at **US $6,210** that have been questioned as the commodities were used on another USAID funded program managed by CMS without charging that program a fee for use of the commodities.

11. MANAGEMENT CONSULTANCY

The consultancy services relates to development of the Program's training modules and documentation in credit risk management, portfolio management and management effectiveness.

12. BUDGET

The Program budget in the Agreement has been pro-rated on a time basis in the Fund Accountability Statement.

No budget values have been included for program income and commodities and technical assistance directly procured by USAID as these were not quantified in the Agreement. However, all the expected program income was defined and the commodities to be procured by USAID were listed in the Agreement.

INTERNAL CONTROLS

SCOPE OF WORK

As part of the financial audit of the CMS, we were required to evaluate and obtain an understanding of CMS internal control structure related to the program, assess control risks and identify reportable conditions, including significant internal control weaknesses.

In order to achieve this requirement, the work we performed included the following:

- Reviewed and evaluated the internal control structure in order to obtain an understanding of the internal control policies and procedures and ensure they are in operation;

- Reviewed the accounting system with particular emphasis on policies that pertain to CMS's ability to record, process and report financial data in a manner that complies with Generally Accepted Accounting Principles;

- Carried out an assessment of the effectiveness of CMS's internal control structure and policies and procedures in preventing or detecting material misstatements in the Fund Accountability Statement; and

- Reviewed status of actions taken on findings and recommendations in prior financial assessments and audits of the Company.

INTERNAL CONTROL STRUCTURE AND ASSESSMENT

In summary the internal control structure at CMS was as follows:

Receipts

The funds received from USAID are banked in a separate dedicated account at Barclays Bank of Zambia Limited, Kabwe Branch. Once loans are approved in the various regions, disbursements are made to each region's bank account. Each region has a separate USAID bank account for repayments and disbursement of USAID loans.

Loan Management

The Regional Manager approves loans once he is satisfied that loanees have undergone training, paid security and equity deposit and each group member has guaranteed loans of other group members. Credit Co-ordinators and Regional Managers pay loans in cash to individual members of the group. On a monthly basis Credit Officers visit loanees to collect repayments. Loan portfolio reports are prepared and reconciled to accounting records on a monthly basis. However, currently the Loan Management System is not integrated to the accounting system and as a result a lot of time is wasted in consolidation of data to prepare monthly financial and loan reports.

INTERNAL CONTROLS

Procurement

Based on purchase requirements three quotations are obtained. A supplier is selected after taking into consideration the price and quality of goods and services to be procured. The Regional Accountant then raises a payment voucher using the proforma invoice of the selected supplier. The Regional Manager approves the payment voucher. A cheque and a copy of the payment voucher are dispatched to the supplier.

Purchase requisitions, local purchase orders and goods received notes are not raised in the procurement of goods. As a result controls on the quantity and quality of the goods and services are not adequate.

Payments for expenses are made from one account in each region. No separate dedicated USAID expense bank account is maintained in each region. Payments are made from one account where funds for USAID and other Programs managed by CMS are combined.

Commodities

The Board of Directors approves all procurements of commodities. A fixed asset register is maintained to record all assets belonging to the Company.

Payroll

The Payroll Administrator prepares the payroll at head office. The payroll is checked by the Chief Accountant and approved by the Managing Director.

Once the payroll is approved, Regional Accountants prepare bank transfer instructions. Certain employees are paid in cash hence the Regional Accountants draw cash and make payments to employees. Employees sign against the wage sheet once they have collected their wages. A separate cheque payable to the Zambia Revenue Authority is prepared for remittance of Pay As You Earn deducted from employees' salaries.

Salary rates of employees are reasonable and in accordance with the Agreement.

Bank and cash

At least two signatures are required for any payment on each bank account. Bank reconciliations are prepared every month by Regional Accountants, and checked and approved by Regional Managers.

Accounting

Each region maintains it's own general ledger which forms the basis of preparing the trial balance. The Chief Accountant consolidates all trial balances from all the regions by importing them from the SAGE accounting systems to Excel. The consolidated trial balance forms the basis for the preparation of management accounts, financial statements and Fund Accountability Statements.

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INDEPENDENT AUDITOR'S REPORT ON INTERNAL CONTROLS

To: **The Mission Director**
USAID/Zambia
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P O Box 32481
LUSAKA

The Board of Directors
Credit Management Services Limited
P O Box 80468
KABWE

We have audited the Fund Accountability Statement of the United States Agency for International Development Resources managed by Credit Management Services Limited under Co-operative Agreement Number 690-A-00-99-00026-00 for the period 5 February 1999 to 31 March 2001 on pages 8 to 13 which has been prepared on the basis of the accounting policies on page 9.

We conducted our audit in accordance with United States 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 about whether the Fund Accountability Statement is free of material misstatement.

The Board of Directors of Credit Management Services Limited are responsible for establishing and maintaining accounting systems and internal control. In fulfilling this responsibility, estimates and judgements by the Directors 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 the assets are safeguarded against loss from unauthorised use or disposition; transactions are executed in accordance with management's authorisation and in accordance with the terms of the Agreement; and transactions are recorded properly to permit the preparation of the Fund Accountability Statement in conformity with the basis of accounting described on page 9. 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.

In planning and performing our audit of the Fund Accountability Statement we obtained an understanding of the internal control structure. We reviewed relevant policies and procedures and considered whether they have been placed in operation. We assessed control risk in order to determine our auditing procedures for the purpose of expressing our opinion on the Fund Accountability Statement and not to provide an opinion on the internal control structure. Accordingly we do not express such an opinion.

We noted certain matters involving the internal control structure and its operation that we considered 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 judgement, could adversely affect the Program's ability to record, process, summarize and report financial data consistent with the assertions of management in the Fund Accountability Statement and Cost Sharing Schedule.

The identified reportable conditions as defined above are summarized below with further explanations and management's responses on pages 19 to 22 of this report.

1. **Procurements of goods and services are done without raising orders**

   Contrary to the provisions in the accounting manual, no purchase orders are raised for procurement of goods and services. No documentation is raised to record the receipt of goods and services procured.

2. **Management issues verbal instructions to the bank**

   In certain instances, management does not write letters to the bank for withdrawals and transfers of funds to other accounts. Instead verbal instructions are given to the bank. The bank then issues a withdrawal or transfer slip that is signed by the signatories over the bank counter.

3. **The internal audit function is not effective**

   The internal audit function comprises of only one person and his responsibilities are not clearly defined. The Company does not have an internal audit manual to guide the Internal Auditor. Risk assessments, planning and standardized working papers are non-existent.

4. **Back up diskettes are stored on the Company's premises**

   Back up diskettes of the Program's loan portfolio and accounting data are stored in the computer room. In case of fire or theft the Program may lose all its data.

A material weakness is a reportable condition in which the design or operation of one or more of the internal control structure elements does not reduce to a relatively low level the risk that errors or irregularities in the amounts that would be material in relation to the Fund Accountability Statement and the Cost Sharing Schedule 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. However, we noted the following matter involving the internal control structure and operations that we consider to be a material weakness as defined above.

This condition was considered in determining the nature, timing and extent of the procedures to be performed in our audit of the Fund Accountability Statement of the United States Agency for International Development Resources Managed by Credit Management Services Limited under Co-operative Agreement Number 690-A-00-99-00026-00 for the period 5 February 1999 to 31 March 2001. The material weakness is summarized below with further explanations and management's responses on page 21 of this report.

- **Separate expense bank accounts and ledgers are not maintained for the Program**

  Credit Management Services Limited does not maintain separate expense bank accounts for the Program. Payments in each region are made from one bank account where funds for USAID and other programs managed by the Company are combined.

  No separate expense ledger accounts are maintained for the USAID Program. As a result management apportioned **US $282,539** of the total of expenses of all the programs managed by the Company to the Program Fund Accountability Statement using the ratio of the fund value of the Program to the total of fund value of all programs managed by the Company. This basis of apportionment is not appropriate for all expenses as each expense category varies according to different cost drivers.

We also noted other matters involving the internal control structure and its operation that we have reported to management of Credit Management Services Limited in a separate letter dated 31 January 2003.

As required by Government Auditing Standards we have reviewed the status of the Company's corrective actions with respect to findings and recommendations from previous financial reports on the Company's internal control. We have detailed our assessment of the progress made by the Company in implementing the findings in prior year reports on page 23.

This report is intended for the information of the United States Agency for International Development and Credit Management Services Limited. However upon release by USAID this report is a matter of public record and its distribution is not limited.

Deloitte & Touche

DELOITTE & TOUCHE

31 January 2003

INTERNAL CONTROLS

Reportable conditions

1. Procurement of goods and services are done without raising orders

Purchase orders are normally used only if an independent purchasing function has been established. The Company does not have such a function but the Agreement and the accounting manual requires the Company to raise purchase orders. In addition goods received notes ("GRN") are not raised to record the receipt of goods.

Implications

The main objective of a purchase order is to restrict the ability to create, change or cancel purchases to authorized personnel. Hence the lack of control may enable personnel to make unauthorized purchases.

The raising of GRNs helps to ensure goods ordered are actually received in terms of quantity and quality. Without GRNs individuals involved in purchasing may order and pay for goods that may never be received by the organization.

Recommendation

Management should introduce purchase requisitions, orders and goods received notes for material purchases.

Management may consider setting a threshold for US$250 and ensure that all procurements above US$250 are supported by:

- Approved purchase requisition;
- Three quotations from different suppliers;
- Approved local purchase order; and
- Goods received note.

Before payments are made orders should be matched to the appropriate goods received note and suppliers invoice.

Management response

The volume of purchases of supplies does not warrant the cost of an elaborate procurement system. Other than procurement of motor vehicle servicing and computer repairs the Program never purchases consumables in excess of US $250 at a time.

INTERNAL CONTROLS

2. Management issues verbal instructions to the bank

In certain instances management does not write letters to the bank for withdraws or transfers of funds to other accounts. Instead, verbal instructions are given to the bank. The bank then issues a withdraw or transfer slip that is signed by the signatories over the bank counter. In certain cases Management does not even obtain copies of the signed slips.

Payment vouchers are not raised to support such transactions.

Implications

Unauthorized transfers may be made without the knowledge of Management.

Recommendation

All bank instructions should be in writing on the Company's letterhead duly signed by the appropriate signatories.

Approved payment vouchers with appropriate supporting documentation should support all bank instructions.

Management response

All transfers require two signatories. It is hard to understand how the mere writing of a letter can prevent fraud by the same two signatories that sign over the counter. Such transfers were only done in emergencies and instructions have now been given that in future all transfers must be done by a signed letter.

3. The internal audit function is not effective

The current internal audit function comprises of only one person. The responsibilities of the internal auditor are not clearly defined and the Company does not an internal manual to guide the internal auditor in his work. Risk assessments, planning and standardized working papers are none existent.

Implications

The audit function is unable to cope with the workload and as result audits of the regions are not done on a timely basis. In the absence of risk assessments audits are not focussed to address high-risk areas.

Recommendation

We recommend that Management and USAID critically examine the internal audit functions of the Company to identify areas requiring assistance.

The review should result in identification of areas where USAID may require to provide technical assistance to ensure that the internal audit function is strengthened.

Management response

The Chief Accountant will be requested to produce an Internal Audit Manual.

4. **Back up diskettes are stored on the company's premises**

Back up diskettes of the Program's loan portfolio and accounting data are stored in the computer room.

Implications

In case of fire or theft the Company may lose all its data.

Recommendation

Back up diskettes should be archived off site with the Company's bankers to minimise the risk of data losses.

Management response

Arrangements have now been made to archive backup diskettes off site.

Material weakness

Credit Management Services Limited does not maintain separate expense bank accounts for the Program. However, separate USAID bank accounts are maintained for disbursements and repayment of loan principal and interest.

Payments for Program expenses are made from one bank account in each region where funds for USAID and other programs managed by the Company are combined.

Expenses are not coded according to each Program and no separate expense ledger accounts exist for the USAID Program. In addition the accounting processes in place did not support the preparation of reliable and timely Fund Accountability Statements. Each region maintains its own general ledger, which forms the basis of preparing the trial balance. All trial balance are imported into a spreadsheet from the accounting system and a consolidated trial balance is prepared which forms the basis of preparing the Program Fund Accountability Statement.

Implications

Management was unable to extract USAID Program expenses accurately from its accounting systems in order to prepare a Fund Accountability Statement for the Program. As a result management allocated US $282,539 incurred on the various programs managed by the Company to the Program Fund Accountability Statement using the ratio of the fund value of the Program to the total of the fund value of the various programs managed by the Company as at 31 March 2001. This method is not appropriate as the nature and accumulation of each expense category varies according to the different cost drivers and is also prohibited by the Agreement.

Recommendation

We recommend that Management should maintain specific USAID Program bank accounts for payment of Program expenses.

The Company should also have separate expense ledger accounts for the Program and ensure all Program expenses are coded and posted accordingly. The Micro Loan Administration System ("MLAS") currently under implementation will greatly assist management in this respect.

Management response

Management is implementing the MLAS whose loan management system is integrated with the accounting system.

Previously Management found it impossible to maintain separate dedicated bank accounts for purely USAID Program expenses. It was also cumbersome to allocate costs such as employee's time spent on attending to the USAID Program.

Appropriate Program coding will be possible once the MLAS is fully implemented and USAID Program expenses will be coded and posted separately from other program expenses.

INTERNAL CONTROLS

Status of prior period's findings and recommendations

The status of corrective actions with respect to the findings and recommendations from previous financial assessment reports on the Company's internal controls are listed below:

Recommendation	Status
▪ The Company should maintain a fixed asset register	▪ Completed
▪ The Company should recruit a qualified accountant.	▪ Completed
▪ The Sovereign Sage accounting package should be replaced by an integrated accounting and loan management system.	▪ In progress
▪ The filing system should be improved to enable easy retrieval of supporting documentation.	▪ In progress
▪ Passwords should be introduced for each computer	▪ In progress

AUDIT OF UNITED STATES AGENCY FOR INTERNATIONAL DEVELOPMENT RESOURCES MANAGED BY CREDIT MANAGEMENT SERVICES LIMITED UNDER CO-OPERATIVE AGREEMENT NUMBER 690-A-00-99-00026-00

COMPLIANCE WITH AGREEMENTS

SCOPE OF WORK

As part of the financial audit of CMS we were required to determine whether CMS complied in all material respects, with the Agreement terms and applicable laws and regulations related to USAID funded programs.

In order to achieve this requirement we carried out the following work:

- Reviewed the Agreement and assessed CMS's compliance to pertinent Agreement terms;
- Reviewed the Banking and Financial Services Act ("BFSA") of 1994 and assessed CMS's compliance to the regulatory requirements applicable to financial institutions in terms of the BFSA, 1994; and
- Reviewed the Bank of Zambia ("BOZ") inspection report on CMS.

FINDINGS

The following matters arose from our work:

Co-operative Agreement

- No social impact data has been maintained by CMS so as to assess the extent to which the strategic objective of the Agreement has been met. As a result CMS has not be able to report on Rural Non Farm Enterprises sales and service revenues;
- CMS has not met the targeted 75% of the annual targeted levels of key Program indicators listed below:

Key Program Indicator	Period to 31 March 2000 Budget	Period to 31 March 2000 Actual	Year to 31 March 2001 Budget	Year to 31 March 2001 Actual
Number of loans disbursed	2,500	1,167	4,500	2,933
Number of loans disbursed to women	1,875	822	3,375	1,965
Number of loans per loan	179	65	195	140
Portfolio at risk	10%	52%	7.5%	47%
Return on operations	81%	45%	86%	27%
Operational self sufficiency	116%	70%	154%	54%
Percentage of loans to women	75%	70%	75%	67%

- In certain cases advances for Program funding were not limited to disbursement requirements of 30 days. For example, advances given on 19 March 2001 were only fully liquidated on 31 July 2001.

AUDIT OF UNITED STATES AGENCY FOR INTERNATIONAL DEVELOPMENT RESOURCES MANAGED BY CREDIT MANAGEMENT SERVICES LIMITED UNDER CO-OPERATIVE AGREEMENT NUMBER 690-A-00-99-00026-00

COMPLIANCE WITH AGREEMENTS

Banking and Financial Services Act of 1994

- The Act requires a minimum of five Board members and that at least two thirds of Board members should be non-executive. However CMS only has two executive Board members;
- The Act requires that each financial institution should have a Loans Review Committee and an Audit Committee. CMS does not have any of these committees in place;
- CMS has not set up a compliance function to ensure that the requirements of the Act are met or waived by BOZ, the institution responsible for supervising financial institutions;
- CMS has also not met the requirements for the minimum regulatory capital as defined by the Act and this was evidenced by the computation prepared by the BOZ supervision department;
- The Act forbids an individual to have voting rights of more than 25% of a financial institution. However as CMS has only two shareholders their voting rights are above the prescribed threshold;
- The audited financial statements of the entity CMS for the years ended 31 March 2001 and 2000 did not state in the opinion whether CMS complied with the provisions of the Act, did not include a directors report and were not submitted within three months after the year end;
- The Directors have contravened the provisions of the BFSA by allowing CMS to continue trading when it is technically insolvent; and
- The Directors have not sought any dispensation from BOZ on any of the matters noted above.

RECOMMENDATIONS

Our recommendations and management comments over the findings above are listed below:

1. **Social Impact Data**

The Strategic objective of the Agreement is "Increased Rural Incomes of selected Groups". The performance indicator for the objective is the percentage increase in incomes of assisted of assisted groups to determine the extent to which the strategic objective has been met rural non-farm enterprises. CMS is required to report on the sales and service revenues.

No impact data, including the beneficiary sales and service revenues, is maintained by CMS.

Implications

In the absence of impact data it is difficult to determine the extent to which the strategic objective of the Agreement has been met. Impact refers to the extent to which the credit program has assisted the beneficiaries of the Program.

COMPLIANCE WITH AGREEMENT

Recommendation

Management should design appropriate data collection forms to capture data on the changes of revenues of customers so as to report of the attainment of objective of the Agreement.

Management response

Management has overlooked this aspect and will design appropriate data collection forms and will start collecting this data.

2. **Key Program Indicators**

The Company has not achieved at least 75% of annual targeted levels of Program indicators.

The Company does not have a strategic plan in place, which sets out the Company's mid-to long-term future.

Implications

The Company has been unable to manage its growth and ensure its own sustainability. The Company solely depends on USAID funding for its survival.

The failure to manage the Company's growth has resulted in poor loan recovery rates and negative returns on operations. As a result the Company has failed to meet the requirements of minimum regulatory capital as defined by the BFSA.

Recommendation

The Company should critically review its operational costs to determine cost drivers and rationalize its costs. It should also review the interest rates on its loan products and improve on loan portfolio management.

In the long term the Directors should consider preparing a strategic plan spelling out the Company's mission statement, primary goals, and measurable objectives for the next three to five years.

The strategic plan should explain the basic strategies for fulfilling the mission and achieving the Company's goals.

Management response

Management will during the next quarter prepare a three year strategic plan incorporating all of the above points.

Management dismissed Regional Managers early this year and the two directors and the General Manager now manage operations of each region. Management has also been examining the Company's cost structure and considering strategies to reduce the costs.

COMPLIANCE WITH AGREEMENTS

The pull out of MBT, FINIDA and other funders also affected the cost structure of the Program as the targets in the agreement were based on the expectation that the other funders would continue to support the Company.

3. Program Funding

In certain cases advances for Program funding were not limited to disbursement requirements of 30 days. For example, advances obtained on 19 March 2001 were only liquidated on 31 July 2001.

Implications

Management is unable to forecast accurately its loan disbursement requirements. As a result excess funds are obtained from USAID and maintained in low interest bearing accounts. Interest in excess of US $250 per annum was not remitted to USAID is accordance with the Agreement.

Recommendations

Management should critically review its forecast loan disbursement requirements so that Program advances are restricted to requirements for the 30 days in accordance with the Agreement. Any interest earned on any advances exceeding US$250 each year should be remitted to the USAID in accordance with the Agreement.

Management response

The statement made by Deloitte & Touche is totally misleading as they did not adequately examine the issue of the advance received on the 19th March 2001. The previous advance received was in August 2000. In September 2000 there was a delay in forwarding the funds and then when we did in fact receive funds from USAID the cheques were "lost in the post" when Barclays Bank forwarded them to Lusaka for clearance and our account was debited with the full amount of the advance so we ere unable to disburse and liquidate any funds. The funds received in March 2001 therefore represent advances for some 6 months which again is impossible to disburse to our clients within one month and in fact we consider that having disbursed and liquidated 6 months advances in 4 months was good going and took a tremendous amount of work from our staff, bearing in mind that they also had their normal monthly work to cope with.

4. Directors

The BFSA requires all financial institutions registered under it to have non-executive directors in the majority on the Board of Directors.

CMS does not have any non-executive directors.

The Company has also not complied with the requirement of the Act for each institution to have a minimum of five members of the Board as it currently has only two members on the Board. Since the Company only has two shareholders their voting rights are above the prescribed level by the BFSA of 25%.

Implications

As the Company's shareholders are also executive directors, in the absence of non-executive directors there is no mechanism to counter check the performance of executive directors to safeguard the interest of other stakeholders in the Company such as the USAID.

The absence of diversification in terms of representation, qualifications and experience on the board does not augur well for the institution's future.

Recommendation

The composition of the board needs to be enlarged to include non-executive directors with considerable experience in micro-finance and in turning around micro finance institutions onto a sustainable growth path. Non-executive directors will assist the board in that they will bring in independent judgement on issues of strategy, performance, key appointment and accountability. They will contribute to board business from a wide experience and critical detachment.

Management response

Management has been actively looking for suitable persons who would be prepared to join the board without expecting a huge fee, which the Company cannot afford. Management has only managed to find two individuals who were both rejected by the Bank of Zambia as they are already on the board of another financial institution. The Bank of Zambia are fully aware of the efforts management are making to find suitable persons to fill the required positions on the Board and are sympathetic to the Company's position.

5. Statutory Committees

The BFSA requires that all institutions registered under the Act should have an Audit Committee, Compliance Committee and Loans Review Committee. The Directors of CMS have established none of these committees.

Implications

The internal and external audit functions of the Company have not been effective in addressing the Company's problems.

The Company has not complied with some of the terms of the Agreement and the BFSA. Of notable concern is the failure to meet the regulatory capital as set out by the BFSA. The directors have not discussed with Bank of Zambia to seek waiver of some of the requirements of the Act.

The performance of the loan portfolio has also been poor as evident in the poor recovery rates.

Recommendation

The Directors should consider appointing Non-executive directors who will also discharge the responsibilities of the Audit Committee, Compliance Committee and Loans Review Committee.

The Audit Committee will assist the Board in providing an oversight of the organization and managerial operation. It will also promote accountability and transparency in financial transactions. It will review the internal audit functions; assess the effectiveness of the external audit function and monitor corrective action on issues raised by auditors.

The Compliance Committee will liase with the regulators and other stakeholders and ensure the Company complies with the relevant agreement terms and statutory provisions.

The Loans Review Committee will monitor the effectiveness of the Company's loan portfolio management systems and will also assess whether adequate loan policies and procedures exist in the Company.

Management response

Management is fully aware of the need to appoint these three committees. However until such time as Management is able to appoint non-executive directors to the board there are no directors to constitute these committees.

It should also be noted that BFSA was targeted for commercial banks and as a result certain of the requirements of the Act are too costly to Micro Finance Institutions (MFI) to adhere to. BOZ is fully aware of this and is in the process of issuing new regulations that will apply to MFIs.

6 Audit Reports

The audited financial statements of the entity CMS for the years ended 31 March 201 and 2000 did not state in the opinion whether CMS complied with the provisions of the Act, did not include a directors report and were not submitted within three months after the year end.

Implications

The absence of an Audit Committee has resulted in audited financial statements not complying with the requirements of the BFSA.

Recommendation

As previously stated the establishment of an Audit Committee will assist in assessing the effectiveness of the external audit function to ensure compliance with laws and regulations.

Management response

As soon as non executive directors are appointed Management will be in a position to establish an Audit Committee.

7. Insolvency of Company

The Directors have contravened the provisions of the BFSA by allowing the Company to continue trading when it is technically insolvent.

Implications

As the Company is not solvent the USAID may not recover all the Program funds on expiry of the Agreement.

Recommendation

The Company is in urgent need of capitalization. The Company's shareholders should consider ways of raising further equity capital for the Company.

Management response

If the USAID loan fund is converted into equity, as anticipated by Management, the Company will not be insolvent. In case this does not happen the directors will seek other sources of capitalization.

8. USAID Labels

There were certain Program commodities that did not have any USAID labels on them as stipulated by the Agreement.

Implications

Program commodities are not easily identified and may be used on activities not related to the Program's principal activity.

Recommendation

We recommend that all Program commodities should have USAID labels as stipulated by the Agreement.

Management response

Management was of the opinion that all USAID Program assets were marked. It must be remembered that the Company has some of its own assets, which are not marked with USAID stickers. If specific items could be identified corrective measures will be undertaken.

9. Commodities

Contrary to the Co-operative Agreement the Company allocated the following commodities valued at US $6,210 to the CLUSA fund without charging CLUSA a fee commensurate with the market rates for the use of the assets:

- Epson-LQ 2180 printer serial number BESY 004881;
- CPU Server mode 1600 serial number 8925 BWT 11001;
- Compaq Monitor PE 1100 serial number 842AB 11DB640; and
- UPS 100VA Smart UP Serial number GS9847005887.

Implications

The Program has lost income that would have otherwise been earned had Management followed the provisions of the Agreement.

Recommendation

Management should ensure that all Program commodities are leased out at commercial rates if used on activities not related to the Agreement.

Management response

These assets were used by the Company in its management of the CLUSA Credit Program and were not allocated to the CLUSA fund. This was done because CLUSA is also a USAID funded program linked to the Company. The commodities have since been retrieved from CLUSA.

10. Cost sharing

Contrary to the provisions of the Agreement the Program has not provided its share of the counterpart contributions to the Program amounting to **US $150,874**.

The Program does not have appropriate accounting systems in place to record cost sharing contributions.

In additional the amount of **US $85,088** allocated as CMS cost sharing contribution has been questioned as ineligible because the amounts do not meet all the criteria for cost sharing set out in OMB 110 circular and were not included in the approved cost sharing budget.

Implications

The Program has breached the provisions of the Agreement.

Recommendation

Management should ensure that it's share of counterpart contributions to the Program of **US $ 150,874** is paid to the Program.

Separate expense ledgers should also be maintained for recording cost sharing contributions to the Program.

The MLAS currently under implementation will assist management in the coding and recording of cost sharing contributions.

Management response

Management is of the view that the Company has provided more than it's share of the required counterpart contributions in the subsequent period to the end of the contract.

COMPLIANCE WITH AGREEMENTS

11. Salaries

The Agreement provided for the financing of Credit Officers salaries for the initial six months as well for financing of the Chief Accountant salary. All other salaries expense to the Program were to be restricted to those that are for the provision of financial services.

In view of the non maintenance of separate expense ledgers a total of **US $142,065** of the Company's salary expenses was apportioned to the Program Fund Accountability Statement. However, the Agreement states that no indirect costs are to be charged to the Program.

Implications

The Program has not adhered to the provision of the Agreement and Program funds have been used for ineligible costs.

Recommendation

Management should maintain specific USAID expense ledger and payroll records for the Program.

Management response

It is impossible for the Company to maintain specific USAID expense ledger and payroll records as all staff are involved in all our programs and the cost of trying to account separately and accurately for their time and allowable expenses would be prohibitive. It would also be prohibitive to employ separate staff for each program. If it is not going to be done accurately it may as well not be done but be apportioned on a reasonable basis, which is the system adopted by this Company. As far as the allocation of salaries are concerned we do not accept the amount of US $142,065 as being all indirect costs, part of some of the salaries are direct costs.

12. Indirect costs

The Agreement states that no indirect costs will be charged to the Program. Any indirect costs will be absorbed by the Company and considered as cost sharing to the Program. However, **US $140,474** for indirect costs have been charged to the Program.

Implications

Program funds have been used on ineligible costs. The failure by management to complete the implementation of the MLAS system contributed significantly to this problem.

Recommendations

All Program funds expanded on ineligible costs should be repaid to the Program.

Management should ensure that in the future no indirect costs are charged to the Program.

Management response

The indirect costs of US $140,474 said to be indirect costs allocated to the programme will reallocated as more than that has been expended on direct costs during the period 1st April, 2001 to the end of the contract period

We cannot accept that the failure of management to implement the MLAS system contributed to this problem. There has been no delay in the implementation of the MLAS system. It must be remembered that this was a completely new software program being written specifically to meet the needs of CMS. In addition all the consultants who visited CMS, including those sent by USAID advised CMS that we must enter all the historical data for our clients, as this would be of great benefit in the future. The only way this could have been speeded up would have been by the acquisition of considerably more computers and also by engaging more computer operators. It is obvious from CMS' financial statements that CMS does not have the resources to do this.

13. Sundry expenses

A total of US $8,962 relating to sundry expenses were charged to the Program Fund Accountability Statement.

However, these expenses are not directly related to the Program's principal activity and not allowed by the Agreement.

Implications

Program funds have been expanded on ineligible expenses.

Recommendations

Management should ensure that Program funds are only used on expenses that are directly related to provision of micro finance services.

Management response

It is difficult to comment on this without specific details of the sundry expenses concerned. As far as the statement that "only expenses related to the provision of micro finance should be charged to the program". We fail to understand this statement as the Company is not involved in any business other than micro finance.

14. Fines and penalties

A total of US $2,712 for fines and penalties has been charged to the Program Fund Accountability Statement.

Those expenses are not directly related to the Program's principal activity and are not allowed by the Agreement.

Implications

Program funds have been used on ineligible expenses.

Recommendations

Management should ensure that Program funds are only used for eligible expenses in line with the Agreement.

Management response

Again it is difficult to comment on this without a breakdown of the specific items referred to. As far as fines are concerned, if a credit officer is fined by a police officer for not having a reflector on his or her motorcycle, when returning to the office after visiting clients who live in an area where there are no roads and the reflector may have been lost there, is this not a direct expense!

15. Loan disbursements

Contrary to provisions of the Agreement which requires that loan loss provisions be made for all loans overdue by more than 30 days no loan loss provisions were made during the period reviewed.

Our review of the loan portfolio at 31 March 2002 indicated that US $168,542 of the total loan disbursement in the period of US $384,197 remained unpaid after the maximum loan repayment period of twelve months.

Implications

The Program is reporting loan balances that are unlikely to be recovered by the Program.

Recommendations

Loan loss provisions should be made for all arrears that are overdue by more than 30 days.

Management response

Management considers that this recommendation is unrealistic for a micro finance institution. The Company's policy is to provide for loans that are in arrears for more than 24 months.

16. Federal cash advances

Attachment 9 of the Agreement requires CMS to complete the "Federal Cash Advance Status Report" for each quarter in order to supplement the standard reports and reconcile the quarterly financial reporting requirements with the 30 day advance limitation.

However, CMS did not submit "advance requests" in the required format although USAID continued to process the advances.

Implications

There could be difficulties in reconciling disbursements with advance requests with the possibility then that amounts requested are more than the entities requirements for the 30 day period.

Recommendation

USAID Program Officers should not authorise the payment of advance requests on non standard request forms.

Management response

All applications for advances were made by CMS on forms provided to CMS by USAID. CMS was never advised that they were not using the correct forms.

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INDEPENDENT AUDITOR'S REPORT ON COMPLIANCE

To: **The Mission Director**
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LUSAKA

The Board of Directors
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KABWE

We have audited the Fund Accountability Statement of the United States Agency for International Development Resources managed by Credit Management Services Limited under Co-operative Agreement Number 690-A-00-99-00026-00 for the period 5 February 1999 to 31 March 2001 on pages 8 to 13 which has been prepared on the basis of the accounting policies on page 9.

We conducted our audit in accordance with United States 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 about whether the Fund Accountability Statement is free of material misstatement.

Compliance with agreement terms and laws and regulations applicable to the United States Agency for International Development Resources managed by Credit Management Services Limited under Co-operative Agreement Number 690-A-00-99-00026-00 is the responsibility of the Board of Directors of Credit Management Service Limited. As part of obtaining reasonable assurance about whether the Fund Accountability Statement is free from material misstatement, we performed tests of Credit Management Services Limited's compliance with certain provisions of agreement terms and laws and regulation. However, our objective was not to provide an opinion on overall compliance with such provisions. Accordingly, we do not express such an opinion. We also performed tests of Credit Management Services Limited's compliance with certain provisions of agreement terms and laws and regulations applicable to the provision of cost sharing contributions. We have also considered our own responsibilities as auditors under the Banking and Financial Services Act of 1994, under which the Company is licensed. Under this Act we are required to report on whether the Company has complied with the provisions of the Act.

Material instances of non-compliance are failures to follow requirements or violations of agreement terms and laws and regulations that cause us to conclude that the aggregation of misstatements resulting from those failures or violations is material to the Fund Accountability Statement and the Cost Sharing Schedule. The results of our tests disclosed the following material instances of non-compliance, the effects of which are shown as questioned costs in the Fund Accountability Statement and Cost Sharing Schedule for the period 5 February 1999 to 31 March 2001:

- The Company has not provided its share of the counterpart contributions to the Program amounting to US **$150,874**; and

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- The Company has not maintained separate dedicated bank accounts for payments of USAID Program expenses. Funds for expenses are commingled with other funds managed by the Company. Expenses paid from these accounts are not appropriately coded to separate USAID expenses from other Programs. As a result a total of US **$282,539** of the Company's expenses were apportioned to the Fund Accountability Statement using the ratio of USAID funds to the total of all funds managed by the Company.

We considered these material instances of non-compliance in forming our opinion on whether the Fund Accountability Statement for the United States Agency for International Development Resources managed by Credit Management Services Limited is presented fairly, in all material respects, in accordance with the terms of the agreements and in conformity with the basis of accounting described on page 9 and this report does not affect our report on the Fund Accountability Statement dated 29 January 2003.

We noted certain immaterial instances of non-compliance that we have reported to the management of Credit Management Services Limited in a separate letter dated 31 January 2003.

This report is intended for the information of the United States Agency for International Development and Credit Management Services Limited. However upon release by USAID this report is a matter of public record and its distribution is not limited.

Deloitte & Touche

DELOITTE & TOUCHE

31 January 2003

AUDIT OF UNITED STATES AGENCY FOR INTERNATIONAL DEVELOPMENT RESOURCES MANAGED BY CREDIT MANAGEMENT SERVICES LIMITED UNDER CO-OPERATIVE AGREEMENT NUMBER 690-A-00-99-00026-00

COST SHARING

SCOPE OF WORK

As part of financial audit of CMS we were required to review the cost-sharing schedule and determine whether CMS provided its share of the counterpart contributions to the Program.

In order to achieve this requirement we:

- Agreed the cost-sharing schedule to the general ledger and other supporting documentation;

- Assessed the adequacy of the basis of apportionment of Company expenses to the cost-sharing schedule; and

- Reviewed the accounting systems in place to ensure that the Company's cost share contributions are accurately captured and recorded in the Company's accounting system.

FINDINGS

CMS does not have appropriate accounting systems in place to record cost sharing contributions. As a result Management was unable to account for the Company's actual cost sharing contributions to the Program.

Recommendation

Management should maintain separate expense ledgers to record the Company's cost sharing contributions to the Program. The MLAS currently under implementation will assist management in the coding and recording of cost sharing contributions.

Management response

Management is of the view that the Company has provided more than its share of the required counterpart contributions.

Management is implementing the MLAS whose loan management system is integrated with the accounting system.

Appropriate program coding will be possible once the MLAS is fully implemented and the Company's contributions to the Program will be coded and recorded separately to easily determine the Company's cost share.

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Deloitte & Touche

INDEPENDENT AUDITOR'S REPORT ON COST SHARING SCHEDULE

To: **The Mission Director**
USAID Zambia
351 Independence Avenue
P O Box 32481
LUSAKA

The Boards of Directors
Credit Management Services Limited
P O Box 80468
KABWE

We have reviewed the accompanying cost sharing schedule of Credit Management Services Limited for the period 5 February 1999 to 31 March 2001 on pages 40 to 41. Our review was conducted in accordance with standards generally applied to attestation assignments. The purpose of our review was to determine if cost sharing contributions were provided and accounted for in accordance with the terms of the Agreement. We also considered the internal controls related to the provision of and accounting for cost sharing contributions.

A review consists principally of inquiries of recipient personnel and analytical procedures applied to financial data. It is substantially more limited in scope than an examination, the objective of which is the expressing of an opinion on the cost-sharing schedule. Accordingly, we do not express such an opinion.

The results of our review disclosed that **US $150,874** detailed in the cost sharing schedule was not provided to the Program by Credit Management Services Limited in accordance with the terms of the Agreement.

Findings on internal controls and compliance with agreement terms relating to cost sharing are shown on the Independent Auditors reports shown on pages 16 and 36.

Based on our review Credit Management Services Limited has not provided cost sharing contributions in accordance with the terms of the Agreement.

This report is intended for the information of Credit Management Services Limited and the United States Agency for International Development. However upon release by USAID this report is a matter of public record and its distribution is not limited.

Deloitte & Touche
DELOITTE & TOUCHE
31 January 2003

Deloitte
Touche
Tohmatsu

AUDIT OF UNITED STATES AGENCY FOR INTERNATIONAL DEVELOPMENT RESOURCES MANAGED BY CREDIT MANAGEMENT SERVICES LIMITED UNDER CO-OPERATIVE AGREEMENT NUMBER 690-A-00-99-00026-00

COST SHARING SCHEDULE
for the period 5 February 1999 to 31 March 2001

				QUESTIONED COSTS	
	NOTES	BUDGET US $	ACTUAL US $	INELIGIBLE US $	UNSUPPORTED US $
Depreciation	4	-	72,588	72,588	-
Rent	4	-	12,500	12,500	-
Salaries and wages	5	92,420	-	92,420	-
Other direct costs	5	58,454	-	58,454	
		150,874	85,088	235,962	-

NOTES TO THE COST SHARING SCHEDULE

for the period 5 February 1999 to 31 March 2001

US Dollars

1 BASIS OF ACCOUNTING

The cost sharing schedule has been prepared on historical basis of accounting.

2 TRANSLATION OF FOREIGN CURRENCIES

Transactions in currencies other than United States Dollars are accounted for at the rate of exchange ruling on the date of the transaction. Gains or losses arising on translation are included in the Cost Sharing Schedule. However, no exchange gains or losses have been included in the cost sharing schedule for the period.

3. BUDGET

The Program budget in the Agreement has been pro-rated on a time basis in the Cost Sharing Schedule.

4. QUESTIONED ACTUAL COSTS

The allocation of the depreciation on commodities directly procured by USAID has been questioned as it does not meet all the criteria set under federal guidelines for cost sharing or matching contributions.

The apportioned rent cost has been questioned because, it is an indirect cost and was not provided for in the approved cost sharing budget.

5. QUESTIONED BUDGET COSTS

The Company has not provided its share of costs as per Agreement for salaries and wages amounting to US $92,420 and direct costs amounting to US $58,454. These amounts have been questioned as payable in the cost sharing schedule.

AUDIT OF UNITED STATES AGENCY FOR INTERNATIONAL DEVELOPMENT RESOURCES MANAGED BY CREDIT MANAGEMENT SERVICES LIMITED UNDER CO-OPERATIVE AGREEMENT NUMBER 690-A-00-99-00026-00

REPORTS AND FUND ACCOUNTABILITY STATEMENT
for the period 5 February 1999 to 31 March 2001

APPENDIX 1: FINANCIAL STATEMENTS

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5/6/02

Credit Management Services Limited

31 Report and Financial Statements
March 2001

JMC

JM Chisanga & Company
Chartered Public Accountants

CREDIT MANAGEMENT SERVICES LIMITED

Report and Accounts
31 March 2001

Contents

JM Chisanga & Company
Findeco House, 10th Floor, Suite 1 – 6.
P.O. Box 50544, 15101, Lusaka Zambia
Tel: 227254/227506/236089, Fax: 227253.
Email: fidcon@zamnet.zm

Chartered Accountants

Report of the auditors

Report of the auditors to the Members of *Credit Management Services Limited*

We have audited the financial statements on pages 2 to 9, which have been prepared under the historical cost convention, on the basis of the accounting policies set out on page 6.

Respective responsibilities of directors and auditors

It is the sole responsibility of the company's directors to prepare the financial statements including the selection of suitable accounting policies. It is our responsibility to form an independent opinion, based on our audit, on those financial statements and to report our opinion to you.

Basis of opinion

We conducted our audit in accordance with International Auditing Standards. An audit includes examination, on a test basis, of evidence relevant to the amounts and disclosures in the financial statements. It also includes an assessment of the significant estimates and judgements made by the directors in the preparation of the financial statements, and of whether the accounting policies are appropriate to the company's circumstances, consistently applied and adequately disclosed.

Opinion

In our opinion the financial statements give a true and fair view of the state of affairs of the company as at 31 March 2001 and of the company's loss and cash flows for the year then ended and have been adequately prepared in accordance with International Accounting Standards, as adopted for use in Zambia, and comply with the requirements of the Companies Act No 26, 1994.

JM Chisanga & Co

JM Chisanga & Company

9/13/01

CREDIT MANAGEMENT SERVICES LIMITED

PROFIT AND LOSS ACCOUNT
FOR THE YEAR ENDED 31 MARCH 2001

	Notes	March 31, 2001	March 31, 2000
TURNOVER	2	784,493,724	684,683,777
LOSS BEFORE TAX	3	(663,539,963)	(292,542,339)
TAXATION	4	-	-
LOSS FOR THE YEAR		(663,539,963)	(292,542,339)

STATEMENT OF MOVEMENT IN RESERVES

	March 31, 2001	March 31, 2000
AT 1 APRIL 2000	(474,139,330)	(181,596,991)
Prior Year Adjustment	-	
	(474,139,330)	(181,596,991)
LOSS FOR THE YEAR	(663,539,963)	(292,542,339)
AT 31 MARCH 2001	(1,137,679,293)	(474,139,330)

Notes on pages 6 to 8 form part of these accounts

Auditors' Report on Page 1

CREDIT MANAGEMENT SERVICES LIMITED

NOTES TO THE ACCOUNTS
31 MARCH 2000

5) FIXED ASSETS

Kwacha	MOTOR VEHICLE	MOTOR CYCLES	OFFICE EQUIPMENT	FURNITURE & FIXTURES	GARDEN EQUIPMENT	LAND AND BUILDINGS	WORK-IN PROGRESS	TOTAL
COST								
At 01 April 1999	25,000,000	17,949,865	28,693,488	9,111,283	65,000	37,044,129	2,200,000	120,063,765
Additions	160,204,200	92,672,250	213,195,160	962,500	92,600	-	-	467,126,710
Disposals	12,000,000	6,150,000	-	-	-	-	-	18,150,000
At 31 March 2000	173,204,200	104,472,115	241,888,648	10,073,783	157,600	37,044,129	2,200,000	569,040,475
DEPRECIATION								
At 01 April 1999	16,059,548	6,226,506	11,860,450	5,159,477	28,438	-	-	39,334,419
Charge for the Year	39,286,163	24,561,402	57,507,050	982,861	12,916	-	-	122,350,392
Release on Disposal	5,607,000	6,150,000	-	-	-	-	-	11,757,000
At 31 March 2000	49,738,711	24,637,908	69,367,500	6,142,338	41,354	-	-	149,927,811
At 31 March 2000	123,465,489	79,834,207	172,521,149	3,931,445	116,246	37,044,129	2,200,000	419,112,664
At 31 March 1999	8,940,452	11,723,359	16,833,038	3,951,806	36,562	37,044,129	2,200,000	80,729,346

CREDIT MANAGEMENT SERVICES LIMITED

BALANCE SHEET
AS AT 31 MARCH 2001

	Notes		March 31, 2001		March 31, 2000
Fixed Assets	5		338,066,980		419,112,664
Current Assents					
Debtors	6	1,797,304,176		1,119,003,860	
Bank Balance		841,341,674		122,137,703	
		2,638,645,850		1,241,141,563	
Current Liabilities					
Creditors	7	1,050,624,768		940,932,671	
Bank Overdraft		49,230,671		34,075,357	
		1,099,855,439		975,008,028	
Net Current Assets			1,538,790,411		266,133,535
			1,876,857,391		685,246,199
Financed By:					
Share Capital	8		25,000,000		25,000,000
Shareholders' Loan Account			-		19,564,335
Revenue Reserves			(1,137,679,293)		(474,139,330)
Shareholders' Worth			(1,112,679,293)		(429,574,995)
Long-Term Loan			2,989,536,684		1,114,821,194
			1,876,857,391		685,246,199

Director: ______________________________

Director: ______________________________

Notes on pages 6 to 8 form part of these accounts

Auditors' Report on Page 1

CREDIT MANAGEMENT SERVICES LIMITED

STATEMENT OF SOURCE AND APPLICATION OF FUNDS
31 MARCH 2001

		March 31, 2001		March 31, 2000
Source of Funds				
(Loss) for the year		(663,539,963)		(292,542,339)
Add: Items not involving the movement of funds:				
Prior Year Adjustment		-		(1,723,781)
Asset write-off		40,689,075		6,393,000
Depreciation		95,086,609		122,350,392
Total Generated from Operations		(527,764,279)		(165,522,728)
Funds from other Sources				
Shareholders' Loan Accounts	(19,564,335)		(10,701,568)	
Long Term Loan	1,874,715,490		654,070,326	
		1,855,151,155		643,368,758
		1,327,386,876		477,846,030
Application of Funds				
Purchase of Fixed Assets	54,730,000		467,126,710	
Taxation	-		-	
		54,730,000		467,126,710
Increase/(Decrease) in Working Capital		1,272,656,876		10,719,320
Made up as Follows				
Debtors	678,300,316		606,621,126	
Bank Overdraft	(15,155,314)		(33,902,422)	
Creditors	(109,692,097)		(683,088,087)	
		553,452,905		(110,369,383)
Movement in Liquid Funds:				
Bank Balance		719,203,971		121,088,703
		1,272,656,876		10,719,320

CREDIT MANAGEMENT SERVICES LIMITED

NOTES TO THE ACCOUNTS
31 MARCH 2001

1) ACCOUNTING POLICIES

A. Basis of Preparation of Accounts

These accounts have been prepared under the historical cost basis of accounting and comply with operative International/Zambian Accounting Standards.

B. Depreciation

Depreciation is calculated to write off the cost of the Fixed Assets on a reducing balance method over the expected useful lives of the assets concerned. The principal rates for this purpose, which are consistent with those of the previous year, are:

Motor Vehicles	*25%*
Motor Cycles	*25%*
Office Equipment	*25%*
Furniture and Fixtures	*20%*
Garden Equipment	*10%*

C. Principal Activities

The principal activities of the company are the provision of business and management consultancy, accounting and auditing services. The company is also engaged in the provision of credit funding and management.

2) TURNOVER

Turnover represents the invoiced value of services rendered during the year less discounts.

3) LOSS FOR THE YEAR

(Loss) for the year is stated after charging:

	March 31, 2001	March 31, 2000
Audit Fees	10,692,500	6,056,820
Depreciation	95,086,609	122,350,392

4) TAXATION

Taxation is charged on taxable income at the rate of 35%

5) FOREIGN CURRENCIES

Assets and liabilities expressed in foreign currencies are converted into Kwacha at rates of exchange ruling at the year end. Differences in exchange are dealt with through the profit and loss account.

CREDIT MANAGEMENT SERVICES LIMITED

NOTES TO THE ACCOUNTS
31 MARCH 2001

5) FIXED ASSETS

Kwacha	MOTOR VEHICLE	MOTOR CYCLES	OFFICE EQUIPMENT	FURNITURE & FIXTURES	GARDEN EQUIPMENT	LAND AND BUILDINGS	WORK IN PROGRESS	TOTAL
COST								
At 01 April 2000	173,204,200	104,472,115	241,888,648	10,073,783	157,600	37,044,129	2,200,000	569,040,475
Additions	54,730,000	-	-	-	-	-	-	54,730,000
Reclassification	-	-	-	-	-	-	-	-
Disposals	54,252,100	-	-	-	-	-	-	54,252,100
At 31 March 2001	173,682,100	104,472,115	241,888,648	10,073,783	157,600	37,044,129	2,200,000	569,518,375
DEPRECIATION								
At 01 April 2000	49,738,711	24,637,908	69,367,500	6,142,338	41,354	-	-	149,927,811
Charge for the Year	30,985,847	19,958,552	43,130,287	982,861	29,062	-	-	95,086,609
Release on Disposal	13,563,025	-	-	-	-	-	-	13,563,025
At 31 March 2001	67,161,533	44,596,460	112,497,787	7,125,199	70,416	-	-	231,451,395
At 31 March 2001	106,520,567	59,875,655	129,390,861	2,948,584	87,185	37,044,129	2,200,000	338,066,980
At 31 March 2000	123,465,489	79,834,207	172,521,148	3,931,445	116,246	37,044,129	2,200,000	419,112,664

CREDIT MANAGEMENT SERVICES LIMITED

NOTES TO THE ACCOUNTS
31 MARCH 2001

		March 31, 2001	March 31, 2000
6)	DEBTORS		
	Trade Debtors	1,753,831,778	1,012,734,234
	Sundry Debtors	43,472,398	106,269,626
		1,797,304,176	1,119,003,860
7)	CREDITORS		
	Trade Creditors	465,932,000	697,152,822
	Sundry Creditors	584,692,768	243,779,849
		1,050,624,768	940,932,671
8)	SHARE CAPITAL		
	Authorised		
	50,000,000 Ordinary shares of K1.00 each	50,000,000	50,000,000
	Issued and Fully Paid		
	25,000,000 Ordinary shares of K1.00 each	25,000,000	25,000,000

CREDIT MANAGEMENT SERVICES LIMITED

DETAILED PROFIT AND LOSS ACCOUNT
FOR THE YEAR ENDED 31 MARCH 2001

		March 31, 2001		March 31, 2000
Turnover		784,493,724		684,683,777
Less Expenses				
Audit Fees	10,692,500		6,056,820	
Advertising	-		2,002,000	
Bank Charges	36,637,793		20,104,044	
Depreciation	95,086,609		122,350,392	
Electricity and Water	1,271,500		747,500	
Entertainment	1,240,720		1,197,040	
Fines and Penalties	12,878,146		4,789,930	
Licences - BOZ	2,700,000		5,432,400	
Luapula Region	22,770,298		-	
Motor Vehicle Expenses	108,715,926		50,900,782	
Motor Cycle Expenses	4,091,000		5,195,143	
Office Expenses	12,275,825		10,624,055	
Postage and Telephones	15,233,440		17,821,425	
Printing and Stationery	19,697,286		17,274,932	
Rent - Offices	14,040,055		11,434,511	
Protective Clothing	1,165,000		-	
Donations	5,957,847		2,052,000	
Salaries and Wages	584,685,284		429,757,200	
Professional/Legal Fees	27,785,500		-	
Staff Welfare	6,893,090		1,489,200	
Staff Training	15,119,107		1,040,000	
Insurances	5,709,060		-	
Interest - MBT	27,424,978		61,929,050	
Interest - Loanees	38,413,762		26,916,419	
Maintenance - Equipment	12,998,425		2,928,263	
Maintenance - Buildings	759,541		1,730,107	
Misappropriated Funds	77,644,564		-	
Loan Loss Provision/Bad Debts	77,370,903		95,229,381	
Transport Costs	208,775,527		78,223,522	
		1,448,033,687		977,226,116
(Loss) before Taxation		(663,539,963)		(292,542,339)

Notes on pages 6 to 8 form part of these accounts

Auditors' Report on Page 1

CREDIT MANAGEMENT SERVICES LIMITED

INCOME TAX COMPUTATION
INCOME TAX YEAR 2000/2001

Capital Allowances

Motor Vehicle

W.D.V. @ 01 April 2000	120,151,150	
Additions	54,730,000	
	174,881,150	
Wear and Tear @ 25%		
(Straight Line Method)	43,720,288	43,720,288
W.D.V. @ 31 March 2001	131,160,863	

Office Equipment

W.D.V. @ 01 April 2000	104,472,115	
Additions	-	
	104,472,115	
Wear and Tear @ 25%		
(Straight Line Method)	26,118,029	26,118,029
W.D.V. @ 31 March 2001	78,354,086	

Office Equipment

W.D.V. @ 01 April 2000	159,755,481	
Additions	-	
	159,755,481	
Wear and Tear @ 25%		
(Straight Line Method)	3,778,389	3,778,389
W.D.V. @ 31 March 2001	155,977,092	

Furniture & Fixtures

W.D.V. @ 01 April 2000	721,875	
Additions	-	
	721,875	
Wear and Tear @ 25%		
(Straight Line Method)	721,875	721,875
W.D.V. @ 31 March 2001	-	

Total Capital Allowances		74,338,580

CREDIT MANAGEMENT SERVICES LIMITED
INCOME TAX YEAR 2000/2001

TAX COMPUTATION

Profit before Taxation			(663,539,963)
Add:	Depreciation	95,086,609	
	20% Motor Vehicle Expenses	21,743,185	
	10% Postage and Telephones	1,523,344	
	Motor Cycle Allowances	112,288,450	
	Misappropriated Funds	77,644,564	
			308,286,152
			(355,253,811)
Less Capital Allowances			74,338,580
Tax Loss for 2000/2001			(429,592,391)
Less Provisional Tax Paid During the year			-
Tax Loss Brought Forward			(556,822,303)
Tax Loss Carried Forward			(986,414,694)

22/0/1/1

Credit Management Services Limited

Report and Accounts

31 March 2000

JM Chisanga & Company

Chartered Public Accountants

CREDIT MANAGEMENT SERVICES LIMITED

Report and Accounts
31 March 2000

Contents

JMC

JM Chisanga & Company
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P.O. Box 50544, 15101, Lusaka Zambia
Tel: 227254/227506/236089, Fax: 227253.
Email: fidoon@zamnet.zm

Chartered Accountants

Report of the auditors

Report of the auditors to the members of *Credit Management Services Limited*

We have audited the financial statements on pages 2 to 9, which have been prepared under the historical cost convention on the basis of the accounting policies set out on page 6.

Respective responsibilities of directors and auditors

It is the sole responsibility of the company's directors to prepare the financial statements including the selection of suitable accounting policies. It is our responsibility to form an independent opinion, based on our audit, on those financial statements and to report our opinion to you.

Basis of opinion

We conducted our audit in accordance with International Auditing Standards. An audit includes examination, on a test basis, of evidence relevant to the amounts and disclosures in the financial statements. It also includes an assessment of the significant estimates and judgements made by the directors in the preparation of the financial statements, and of whether the accounting policies are appropriate to the company's circumstances, consistently applied and adequately disclosed.

Opinion

In our opinion the financial statements give a true and fair view of the state of affairs of the Company as at 31 March, 2000 and the Company's loss and cash flows for the year then ended and have been properly prepared in accordance with International Auditing Standards, as adopted for use in Zambia, and comply with the requirements of the Companies Act, No 26, 1994.

J M Chisanga & Company

CREDIT MANAGEMENT SERVICES LIMITED

PROFIT AND LOSS ACCOUNT
FOR THE YEAR ENDED 31 MARCH 2000

	Notes	March 31, 2000	March 31, 1999
TURNOVER	2	684,683,777	396,961,098
LOSS BEFORE TAX	3	(292,542,339)	(251,983,758)
TAXATION	4	-	-
LOSS FOR THE YEAR		(292,542,339)	(251,983,758)

STATEMENT OF MOVEMENT IN RESERVES

AT 1 APRIL 1999	(181,596,991)	24,432,852
Prior Year Adjustment	-	45,953,915
	(181,596,991)	70,386,767
LOSS FOR THE YEAR	(292,542,339)	(251,983,758)
AT 31 MARCH 2000	(474,139,330)	(181,596,991)

Notes on pages 6 to 8 form part of these accounts

Auditors' Report on Page 1

CREDIT MANAGEMENT SERVICES LIMITED

BALANCE SHEET
AS AT 31 MARCH 2000

	Notes		March 31, 2000		March 31, 1999
Fixed Assets	5		419,112,664		80,729,346
Current Assents					
Debtors		1,119,003,860		512,382,734	
Bank Balance		122,137,703		1,049,000	
		1,241,141,563		513,431,734	
Current Liabilities					
Creditors	7	940,932,671		257,844,584	
Bank Overdraft		34,075,357		172,935	
		975,008,028		258,017,519	
Net Current Assets			266,133,535		255,414,215
			685,246,199		336,143,561
Financed By:					
Share Capital	8		25,000,000		25,000,000
Shareholders' Loan Account			19,564,335		30,265,902
Revenue Reserves			(474,139,330)		(181,596,991)
Shareholders' Worth			(429,574,995)		(126,331,089)
Long-Term Loan			1,114,821,194		462,474,650
			685,246,199		336,143,561

Director: ______________________________

Director: ______________________________

Notes on pages 6 to 8 form part of these accounts

Auditors' Report on Page 1

CREDIT MANAGEMENT SERVICES LIMITED

STATEMENT OF SOURCE AND APPLICATION OF FUNDS
31 MARCH 2000

		March 31, 2000		March 31, 1999
Source of Funds				
(Loss) for the year		(292,542,339.15)		(251,983,758.00)
Add: Items not involving the movement of funds:				
Prior Year Adjustment		(1,723,781.00)		45,953,915.00
Asset write-off		6,393,000.00		-
Depreciation		122,350,392.15		8,541,917.00
Total Generated from Operations		(165,522,728.00)		(197,487,926.00)
Funds from other Sources				
Shareholders' Loan Accounts	(10,701,568.00)		11,273,235.00	
Long Term Loan	654,070,326.00	643,368,758.00	462,474,650.00	473,747,885.00
		477,846,030.00		276,259,959.00
Application of Funds				
Purchase of Fixed Assets	467,126,710.00		9,908,878.00	
Taxation	-	467,126,710.00	7,927,902.00	17,836,780.00
Increase/(Decrease) in Working Capital		10,719,320.00		258,423,179.00
Made up as Follows				
Debtors	606,621,126.00		234,345,121.00	
Bank Overdraft	(33,902,422.00)		209,364.00	
Creditors	(683,088,087.00)	(110,369,383.00)	26,263,327.00	260,817,812.00
Movement in Liquid Funds:				
Bank Balance		121,088,703.00		(2,394,633.00)
		10,719,320.00		258,423,179.00

CREDIT MANAGEMENT SERVICES LIMITED

NOTES TO THE ACCOUNTS
31 MARCH 2000

1) ACCOUNTING POLICIES

A. **Basis of Preparation of Accounts**

These accounts have been prepared under the historical cost basis of accounting and comply with operative International/Zambian Accounting Standards.

B. **Depreciation**

Depreciation is calculated to write off the cost of the Fixed Assets on a reducing balance method over the expected useful lives of the assets concerned. The principal rates for this purpose, which are consistent with those of the previous year, are:

Motor Vehicles	25%
Motor Cycles	25%
Office Equipment	25%
Furniture and Fixtures	20%
Garden Equipment	10%

C. **Principal Activities**

The principal activities of the company are the provision of business and management consultancy, accounting and auditing services. The company is also engaged in the provision of credit funding and management.

2) TURNOVER

Turnover represents the invoiced value of services rendered during the year less discounts.

3) LOSS FOR THE YEAR

(Loss) for the year is stated after charging:

	March 31, 2000	March 31, 1999
Audit Fees	6,056,820	7,224,500
Depreciation	122,350,392	8,541,917

4) TAXATION

Taxation is charged on taxable income at the rate of 35%

5) FOREIGN CURRENCIES

Assets and liabilities expressed in foreign currencies are converted into Kwacha at rates of exchange ruling at the year end. Differences in exchange are dealt with through the profit and loss account.

CREDIT MANAGEMENT SERVICES LIMITED

NOTES TO THE ACCOUNTS
31 MARCH 2000

		March 31, 2000	March 31, 1999
6)	DEBTORS		
	Trade Debtors	1,012,734,234.00	512,382,734.00
	Sundry Debtors	106,269,626.00	-
		1,119,003,860.00	512,382,734.00
7)	CREDITORS		
	Trade Creditors	697,152,822.00	257,844,584.00
	Sundry Creditors	243,779,849.00	-
		940,932,671.00	257,844,584.00
8)	SHARE CAPITAL		
	Authorised		
	50,000,000 Ordinary shares of K1.00 each	50,000,000.00	50,000,000.00
	Issued and Fully Paid		
	25,000,000 Ordinary shares of K1.00 each	25,000,000.00	25,000,000.00

CREDIT MANAGEMENT SERVICES LIMITED

INCOME TAX COMPUTATION
INCOME TAX YEAR 1999/2000

Capital Allowances

Motor Vehicle

W.D.V. @ 01 April 1999	38,189,320	
Additions	160,204,200	
	198,393,520	
Wear and Tear @ 25%		
(Straight Line Method)	54,145,407	54,145,407
W.D.V. @ 31 March 2000	144,248,113	

Office Equipment

W.D.V. @ 01 April 1999	3,637,500	
Additions	213,195,160	
	216,832,660	
Wear and Tear @ 25%		
(Straight Line Method)	57,077,179	57,077,179
W.D.V. @ 31 March 2000	159,755,481	

Furniture & Fixtures

W.D.V. @ 01 April 1999	3,359,701	
Additions	962,500	
	4,322,201	
Wear and Tear @ 25%		
(Straight Line Method)	3,600,326	3,600,326
W.D.V. @ 31 March 2000	721,875	
Total Capital Allowances		114,822,912

TAX COMPUTATION

Profit before Taxation		(292,542,339)
Add: Depreciation	122,350,392	
20% Motor Vehicle Expenses	10,180,156	
10% Postage and Telephones	1,782,143	
		134,312,691
		(158,229,648)
Less Capital Allowances		114,822,912
Tax Loss for 1999/2000		(273,052,560)
Less Provisional Tax Paid During the year		15,000,000
Tax Loss Carried Forward		(288,052,560)