

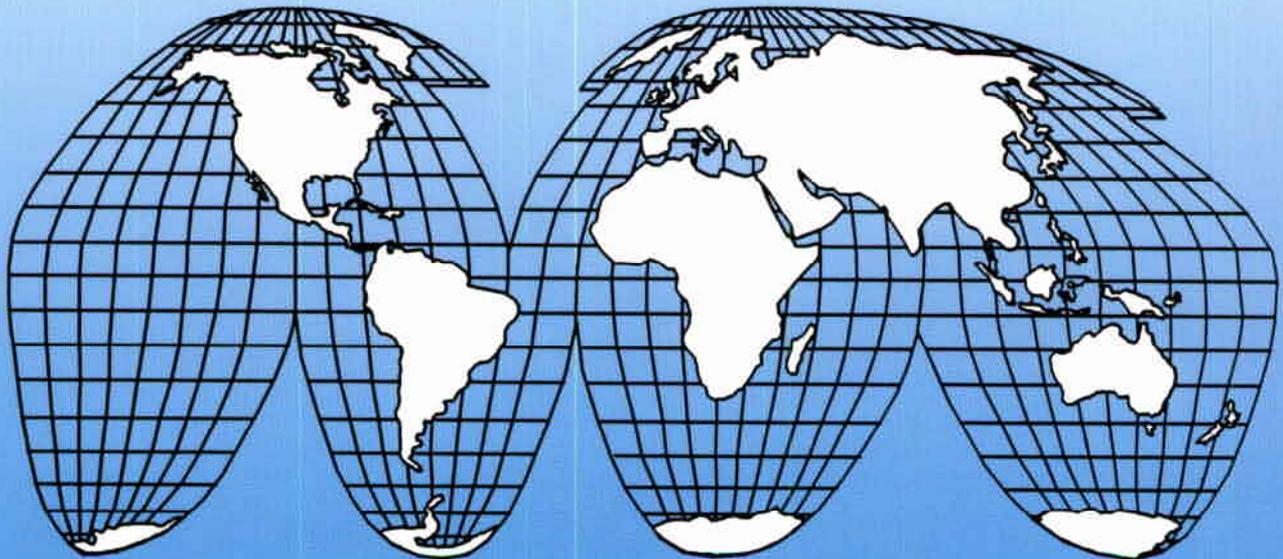
USAID

OFFICE OF INSPECTOR GENERAL

Closeout Audit of USAID/Mozambique's Resources Managed by Impacto Projectos e Estudos Ambientais, Lda Under the Rural Access Project, Roads Rehabilitation and Maintenance and Emergency Roads: Building and Support Effort – Environmental Analysis, Mitigation and Monitoring, Contract No. 656-C-00-98-00066-00 for the Period November 9, 1998 to September 30, 2002

Audit Report No. 4-656-05-004-N

February 16, 2005



PRETORIA, SOUTH AFRICA

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



February 16, 2005

MEMORANDUM FOR MISSION DIRECTOR, USAID/Mozambique, Jay L. Knott

FROM: Acting Regional Inspector General/Pretoria, James B. Gaughran 

SUBJECT: Closeout Audit of USAID/Mozambique's Resources Managed by Impacto Projectos e Estudos Ambientais, Lda Under the Rural Access Project, Roads Rehabilitation and Maintenance and Emergency Roads: Building and Support Effort – Environmental Analysis, Mitigation and Monitoring, Contract No. 656-C-00-98-00066-00 for the Period November 9, 1998 to September 30, 2002 (Report No. 4-656-05-004-N)

This memorandum transmits the subject audit report prepared by Agency-contracted auditor, Ernst & Young (Maputo, Mozambique).

The audit was performed in accordance with the U.S. Comptroller General's Government Auditing Standards. The audit had scope limitations that Ernst & Young does not have continuing education and external quality control review programs that fully satisfy the requirements set forth in U.S. Government Auditing Standards.

On August 22, 1995, the USAID Mission to Mozambique approved the Rural Access Project, later renamed the Roads Rehabilitation and Maintenance Program, which provided \$445,902 in contractual funds to Impacto Projectos e Estudos Ambientais, Lda to provide environmental impact assessment and mitigation services related to Mission-funded road reconstruction, rehabilitation, and maintenance activities. The term of the contract was November 9, 1998 to September 30, 2002. The recipient is a private environmental consulting firm based in Maputo, Mozambique.

Because the contract was a Cost-Plus-Fixed Fee contract that ended on September 30, 2002, the Mission requested an audit to support closeout. Additionally, the contract included a provisional indirect cost rate and the Mission needed to determine a final rate. Finally, there was a concern regarding payroll processing during the term of the contract that the Mission wanted to investigate further.

USAID/Mozambique contracted Ernst & Young to perform an audit for the period November 9, 1998 to September 30, 2002. The audit covered \$332,477 in expenditures of USAID funds. The specific objectives of the audit were to:

- Express an opinion on whether the fund accountability statement for the USAID-funded programs presents fairly, in all material respects, revenues received, costs incurred, and commodities and technical assistance directly procured by USAID for the period audited in conformity with the terms of the agreements and generally accepted accounting principles or other comprehensive basis of accounting (including the cash receipts and disbursements basis and modifications of the cash basis). Specific emphasis must be placed on testing and verifying payroll information.

- Evaluate and obtain a sufficient understanding of the recipient’s internal controls related to the USAID-funded programs, assess control risk, and identify reportable conditions, including material internal control weaknesses. This evaluation must include the internal controls related to required cost-sharing contributions.
- Perform tests to determine whether the recipient complied, in all material respects, with agreement terms (including cost-sharing, if applicable) and applicable laws and regulations related to USAID-funded programs. All material instances of noncompliance and all illegal acts that have occurred or are likely to have occurred must be identified. Such tests must include the compliance requirements related to required cost-sharing contributions, if applicable.
- Perform an audit of the indirect cost rate(s) if the recipient has been authorized to charge indirect costs to USAID using provisional rates, and USAID has not yet negotiated final rates with the recipient. If the recipient does not have a USAID authorized indirect cost rate, this fact must be disclosed in the report.
- Determine if the recipient has taken adequate corrective action on prior audit report recommendations.

Ernst & Young rendered a qualified audit opinion on the Fund Accountability Statement. The audit disclosed the following:

- Total questioned costs of \$215,580, of which \$161,133 was deemed ineligible and \$54,447 unsupported.
- Three reportable internal control weaknesses, all of which were considered to be material.
 - Inadequate understanding of contract clauses;
 - Lack of timekeeping system; and
 - Lack of system of classifying costs between direct and indirect.
- Five material noncompliance findings were noted:
 - Ineligible personnel costs;
 - Lack of timekeeping system;
 - Lack of system of classifying costs between direct and indirect;
 - Level of experience and academic credentials of consultant hired not in accordance with contract terms; and
 - Level of effort stipulated in contract not adhered to.

Therefore, we are making the following recommendations:

Recommendation No. 1: We recommend that USAID/Mozambique determine the allowability of questioned costs totaling \$215,580 (\$161,133 ineligible and \$54,447 unsupported) detailed on page 16 of the Ernst & Young report, and recover from Impacto, Projectos e Estudos Ambientais, Lda any amounts determined to be unallowable.

Recommendation No. 2: We recommend that USAID/Mozambique ensure that Impacto, Projectos e Estudos Ambientais, Lda correct the three reportable internal control weaknesses (inadequate understanding of contract clauses, lack of timekeeping system and lack of system of classifying costs between direct and indirect) detailed on pages 22-25 of the Ernst & Young report.

Recommendation No. 3: We recommend that USAID/Mozambique ensure that Impacto, Projectos e Estudos Ambientais, Lda correct the five material instances of noncompliance (ineligible personnel costs, lack of timekeeping system, lack of system of classifying costs between direct and indirect, level of experience and academic credentials of consultant hired not in accordance with contract terms, and level of effort stipulated in contract not adhered to) detailed on pages 28-35 of the Ernst & Young report.

In accordance with USAID's Automated Directives System (ADS) 595.3.1.1.a and 595.3.1.5.a, an audit recommendation without management decision may be elevated three months after issuance. Contract, Grant, or Agreement Officers make management decisions on questioned costs and procedural audit recommendations resulting from Office of Inspector General (OIG) desk reviews of financial audits of contractors and grantees. Mission Directors make management decisions for audit recommendations pertaining to Strategic Objective Grant Agreements that he/she signs. Please have the responsible official provide RIG/Pretoria with management decisions for the recommendation(s) presented in this memorandum within three months.

**CLOSE-OUT AUDIT OF THE RURAL ACCESS PROJECT (RAP),
ROADS REHABILITATION AND MAINTENANCE (RRM)
AND EMERGENCY ROADS: BUILDING AND SUPPORT
EFFORT (BASE) – ENVIRONMENTAL ANALYSIS,
MITIGATION AND MONITORING
MANAGED BY IMPACTO**

For the periods November 9, 1998 to September 30, 2002



**CLOSE-OUT AUDIT OF THE USAID RESOURCES MANAGED BY IMPACTO, PROYECTOS E
ESTUDOS AMBIENTALES UNDER THE RURAL ACCESS PROJECT (RAP), ROADS REHABILITATION
AND MAINTENANCE (RRM) AND EMERGENCY ROADS: BUILDING AND SUPPORT EFFORT (BASE)
- ENVIRONMENTAL ANALYSIS, MITIGATION AND MONITORING**

FOR THE PERIODS NOVEMBER 9, 1998 TO SEPTEMBER 30, 2002

<u>TABLE OF CONTENTS</u>	<u>PAGES</u>
1. PROJECT DESCRIPTION AND SCOPE	1 - 13
1.1 Transmittal Letter	1
1.2 Background	1
1.3 Scope & Methodology	2 - 6
1.4 Results	7 - 13
2. AUDITOR'S REPORT ON THE FUND ACCOUNTABILITY STATEMENT	14 - 18
2.1 Independent Auditor's Report	14 - 15
2.2 Fund Accountability Statement	16 - 18
3. INTERNAL CONTROL STRUCTURE	19 - 25
3.1 Independent Auditor's Report on the Internal Control Structure	19 - 21
3.2 Findings & Recommendations	22 - 25
4. COMPLIANCE	26 - 36
4.1 Independent Auditor's Report on Compliance	26 - 27
4.2 Findings & Recommendations	28 - 36
5. IMPACTO'S FINANCIAL STATEMENTS	37 - 44
5.1 Independent Auditor's Report on Compliance	37
5.2 Financial Statements	38 - 44
6. INDIRECT COST RATE COMPUTATION	45
6.1 Independent Auditor's Report on Compliance	45
APPENDIX A	
Detailed Funds Accountability Statement Budget	46
ANNEX	
Management comment annexes (1 - 5)	

FOR THE PERIODS NOVEMBER 9, 1998 TO SEPTEMBER 30, 2002

I. PROJECT DESCRIPTION AND SCOPE

1.1 TRANSMITTAL LETTER AND SUMMARY

Impacto – Projectos e Estudos Ambientais
Av. dos Mártires da Machava, 968
Maputo, Mozambique

Dear Sir or Madam

Closeout audit of the of the USAID Resources Managed by Impacto - Projectos e Estudos Ambientais, Lda under the Rural Access Project (RAP), Roads Rehabilitation and Maintenance (RRM) and Emergency Roads: Building and Support Effort (BASE) – Environmental Analysis, Mitigation and Monitoring.

Contract N°. 656-C-00-98-00066-00

We have completed the audit of the above Project for the period November 9, 1998 to September 30, 2002 and report as follows:

1.2 BACKGROUND

On August 22, 1995, the U. S. Agency for International Development (USAID) Mission to Mozambique (Mission) approved the Rural Access Project, later renamed the Roads Rehabilitation and Maintenance Program (program), which provided \$445,902 in contractual funds to Impacto Projectos e Estudos Ambientais (recipient) for the recipient to provide environmental impact assessment and mitigation services related to Mission-funded road reconstruction, rehabilitation, and maintenance activities. The contract number is 656-C-00-98-00066-00. The term of the contract was November 9, 1998 to September 30, 2002. The recipient is a private environmental consulting firm based in Maputo, Mozambique.

The allocation of funds under this Contract was modified twice amounting to US\$ 445,902.00 for the period from November 9, 1998 to September 30, 2002.

FOR THE PERIODS NOVEMBER 9, 1998 TO SEPTEMBER 30, 2002

1. PROJECT DESCRIPTION AND SCOPE

1.3 SCOPE AND METHODOLOGY

The objective of this engagement is to conduct a financial audit of the USAID resources managed by the recipient under the Roads Rehabilitation and Maintenance Program for the period November 9, 1998 to September 30, 2002 in accordance with U.S. Government Auditing Standards and the USAID "Guidelines for Financial Audits Contracted by Foreign Recipients (Guidelines)."

The financial audit must include:

- (1) **a specific audit of all the recipient's USAID-funded programs, and**
- (2) **an audit of the recipient's general purpose financial statements on an organization-wide basis (balance sheet, income statement, and cash flow statement) if the recipient has been authorized to charge indirect costs, or if the Mission specifically requests such an audit.**

The fund accountability statement is the basic financial statement to be audited that presents the recipient's revenues, costs incurred, cash balance of funds provided by USAID, and commodities and technical assistance directly procured by USAID for the recipient's use. All currency amounts in the fund accountability statement, schedule of computation of indirect cost rate, and the report findings, if any, must be stated in U.S. dollars.

The specific objectives of the review are as follows;

- Express an opinion on whether the fund accountability statement for the USAID-funded programs presents fairly, in all material respects, revenues received, costs incurred, and commodities and technical assistance directly procured by USAID for the period audited in conformity with the terms of the agreements and generally accepted accounting principles or other comprehensive basis of accounting (including the cash receipts and disbursements basis and modifications of the cash basis). **Specific emphasis must be placed on testing and verifying payroll information.**
- Evaluate and obtain a sufficient understanding of the recipient's internal controls related to the USAID-funded programs, assess control risk, and identify reportable conditions, including material internal control weaknesses. This evaluation must include the internal controls related to required cost-sharing contributions.

FOR THE PERIODS NOVEMBER 9, 1998 TO SEPTEMBER 30, 2002

1. PROJECT DESCRIPTION AND SCOPE

- Perform tests to determine whether the recipient complied, in all material respects, with agreement terms (including cost sharing, if applicable) and applicable laws and regulations related to USAID-funded programs. All material instances of noncompliance and all illegal acts that have occurred or are likely to have occurred must be identified. Such tests must include the compliance requirements related to required cost-sharing contributions, if applicable.
- Perform an audit of the indirect cost rate(s) if the recipient has been authorized to charge indirect costs to USAID using provisional rates and USAID has not yet negotiated final rates with the recipient. If the recipient does not have a USAID authorized indirect cost rate, this fact must be disclosed in the report.
- Determine if the recipient has taken adequate corrective action on prior audit report recommendations.

Our methodology was as follows:

Audit of the Fund Accountability Statement

- Held an entrance conference with the recipient and USAID to explain the audit objectives and other related matters on May 27, 2004.
- Reviewed the direct and indirect costs billed to and reimbursed by USAID/Mozambique and costs incurred but pending reimbursement by USAID, identifying and quantifying questionable costs.
- All questionable costs resulting from instances of non-compliance with contract terms and applicable laws and regulations are included as findings.
- Reviewed general ledgers and project ledgers to determine whether costs incurred were properly recorded.
- Reviewed procurement procedures to determine that sound commercial practices including competition were used, reasonable prices were obtained, and there were adequate controls over the qualities and quantities received.
- Reviewed direct salary charges to determine whether salary rates are reasonable for that position, in accordance with those approved by USAID, and supported by appropriate timesheets. Unsupported salary charges were questioned and are also reported in the findings.
- Reviewed travel and transportation charges to determine whether they are adequately supported and approved.

FOR THE PERIODS NOVEMBER 9, 1998 TO SEPTEMBER 30, 2002

1. PROJECT DESCRIPTION AND SCOPE

- **Internal Control Structure**
- Reviewed and evaluated the recipient's internal controls related to USAID programs to obtain a sufficient understanding of the design of relevant control policies and procedures and whether those policies and procedures have been placed in operation.
- Prepared the report required by the USAID Guidelines, identifying any reportable conditions, which are significant deficiencies in the design or operation of the internal controls, and the reportable conditions considered to be material weaknesses. Material weaknesses are reportable conditions in which the design or operation of the specific internal control elements do not reduce to a relatively low level the risk that errors or irregularities in amounts that would be material in relation to the fund accountability statement may occur and not be detected within a timely period by management performing its normal functions. Reportable conditions, including material weaknesses, are set forth in the report as findings. Non-reportable conditions are included in a separate management letter to the recipient and referred to in the report on the internal controls.
- Evaluated the control environment, the adequacy of the accounting systems, and control procedures. Emphasis was placed on the policies and procedures that pertain to the recipient's ability to record, process, summarize, and report financial data consistent with the assertions embodied in each account of the fund accountability statement. This emphasis included, but not be limited to, the control system for:
 - a. ensuring that charges to the program are proper and supported;
 - b. managing cash on hand and in bank accounts;
 - c. procuring goods and services;
 - d. managing inventory and receiving functions;
 - e. managing personnel functions such as timekeeping, salaries, and benefits;
 - f. managing and disposing of commodities (such as vehicles, equipment, and tools, as well as other commodities) purchased either by the company or directly by USAID; and
 - g. ensuring compliance with agreement terms and applicable laws and regulations that collectively have a material impact on the fund accountability statement.

FOR THE PERIODS NOVEMBER 9, 1998 TO SEPTEMBER 30, 2002

1. PROJECT DESCRIPTION AND SCOPE

Compliance with Agreement Terms and Applicable Laws and Regulations

In fulfilling the review requirement to determine compliance with agreement terms and applicable laws and regulations related to USAID programs, we as the auditor followed, at a minimum, guidance contained in AICPA SAS No. 74 (AU8OI) entitled "Compliance Auditing Considerations in Audits of Governmental Entities and Recipients of Governmental Financial Assistance." The auditor's report on compliance should set forth all material instances of non-compliance as findings. Nonmaterial instances of non-compliance should be included in a separate management letter to the recipient and referred to in the report on compliance.

The auditor's report includes all conclusions that an irregularity or illegal act either has occurred or is likely to have occurred. In reporting material irregularities, illegal acts, or other non-compliance, the auditors should place their findings in proper perspective. To give the reader a basis for judging the prevalence and consequences of these conditions, the instances identified should be related to the universe or the number of cases examined and be quantified in terms of US dollar value, if appropriate. In presenting material irregularities, illegal acts, or other non-compliance, auditors should follow the reporting standards contained in Chapter 5 of U.S. Government Auditing Standards. Auditors may provide less extensive disclosure of irregularities and illegal acts that are not material in either a quantitative or qualitative sense. Chapter 4 of U.S. Government Auditing Standards provide guidance on factors that may influence auditor's materiality judgments. If the auditor concludes that sufficient evidence of irregularities or illegal acts exists, they should contact the USAID RIG office and should exercise due professional care in pursuing indications of possible irregularities and illegal acts so as not to interfere with potential future investigations and/or legal proceedings.

- a. Identified the agreement terms and pertinent laws and regulations and determine which of those, if not observed, could have a direct and material effect on the fund accountability statement.
- b. Determined if payments have been made in accordance with agreement terms and applicable laws and regulations.
- c. Determined if funds have been expended for purposes not authorized or not in accordance with, applicable agreements terms. If so, the auditor should identify these costs as questioned in the fund accountability statement.
- d. Identified any costs not considered appropriate, classifying and explaining why these costs are questioned.

FOR THE PERIODS NOVEMBER 9, 1998 TO SEPTEMBER 30, 2002

I. PROJECT DESCRIPTION AND SCOPE

Audit of the indirect cost rates

The auditors attempted to determine the actual indirect cost rates for the year because the recipient has used provisional rates to charge indirect costs to USAID. The audit of the indirect cost rates must include tests to determine whether the:

- a. distribution or allocation base includes all costs that benefited from indirect activities,
- b. distribution or allocation base is in compliance with the governing USAID Negotiated Indirect Cost Rate Agreement (NICRA), if applicable,
- c. indirect cost pool includes only costs authorized by the USAID agreements and applicable cost principles,
- d. indirect cost rates obtained by dividing the indirect cost pool by the base are accurately calculated, and
- e. costs included in this calculation reconcile to the total expenses shown in the recipient's audited general-purpose financial statements.

Where indirect costs are authorized, an audit of the general purpose financial statements is needed to ensure that all costs have been correctly included in the indirect cost rate calculation.

General Purpose Financial Statements

Examined the recipient's general purpose financial statements on an organization-wide basis. The audit must be performed in accordance with generally accepted auditing standards of the American Institute of Certified Public Accountants (AICPA), auditing standards that have been prescribed by the laws of the country or adopted by an association of public accountants in the country, or auditing standards promulgated by the International Organization of Supreme Audit Institutions or International Auditing Practices Committee of the International Federation of Accountants.

The objective of this audit is to express an opinion on whether those statements present fairly, in all material respects, the recipient's financial position at year-end, and the results of its operations and cash flow for the year then ended, in conformity with generally accepted accounting principles.

Adequate corrective action on prior audit report recommendations - taken by the recipient.

Reviewed the status of actions taken on findings and recommendations reported in prior audits of USAID-funded programs. To determine whether the audit has taken timely and appropriate corrective actions. Auditors must report the status of uncorrected material findings and recommendations from prior audits that affect the financial statement audit.

FOR THE PERIODS NOVEMBER 9, 1998 TO SEPTEMBER 30, 2002

1. PROJECT DESCRIPTION AND SCOPE

1.4 RESULTS

1.4.1 LIMITATIONS OF SCOPE

1. Ernst & Young, Lda (Mozambique) does not have a continuing education program that fully satisfies the requirements of *U.S. Government Auditing Standards*.
2. Ernst & Young, Lda (Mozambique) does not have an external quality control review by an unaffiliated audit organization as required the *U.S. Government Auditing Standards*.
3. Timesheets were not recorded by Impacto; therefore we were not able to verify time costs charged to USAID as *personnel costs*, to supporting documents.
4. Impacto did not provide the auditors with a schedule of computation of indirect cost as set out in Example 63 of the Guidelines for Financial Audits contracted by Foreign Recipients. The information provided was not sufficient to form the basis of the indirect cost rate calculation.

1.4.2 QUESTIONED COSTS – USD 215,580

1.4.2.1 INELIGIBLE COSTS – USD 161,133

In view of this being a fixed cost plus fee contract, only the actual amount paid to the personnel performing the services is an allowable expense. The portion of the *personnel costs* charged to USAID over and above the amount actually paid in cash to the individual consultants is ineligible in terms of FAR 52.216-7 Subpart 31.2.

The quantification of the questioned costs as ineligible, was based on documents prepared by Impacto. On review, these documents are based on the hours charged to the project multiplied by the salary rate of each consultant. Particular consultants, involved in this project, also charge technical assistance fees to the company, but the contract budget specified *personal costs* and not *consulting fees*.

Nonetheless, the total *personnel cost* as stated in 1.4.2 is a questioned cost.

See Section 4.2: Finding No. 1

FOR THE PERIODS NOVEMBER 9, 1998 TO SEPTEMBER 30, 2002

I. PROJECT DESCRIPTION AND SCOPE

1.4.2.2 UNSUPPORTED COSTS - Personnel – USD 5,755

The unsupported costs were identified as payments to personnel, for which there were no supporting timesheets for the unit days charged to the contract. The total value charged amounts to USD 166,888, of which USD 161,133 has been deemed ineligible (see 1.4.2.1) and the balance USD5,755 as unsupported.

See Section 4.2: Finding No. 2

1.4.2.3 UNSUPPORTED COSTS - Overhead – USD 48,692

In view of the following two factors the overhead costs charged to USAID are questioned as unsupported:

1. We were not provided with a schedule of computation of indirect cost as set out in Example 63 of the Guidelines for Financial Audits contracted by Foreign Recipients.
2. Neither were we provided with sufficient information regarding the client's allocation of costs, per the basic financial statements, as DIRECT; attributable to a specific project or contract of work (with exception of direct costs attributable to this USAID project and specific technical consulting fees) or INDIRECT; not attributable to a specific project or contract of work.

See Section 4.2: Finding No. 3

1.4.3 MATERIAL CONTROL WEAKNESSES

1. There was a material control weakness in terms of contract management. The company's management did not ensure that staff were adequately trained to review, interpret and implement the clauses of the contract with USAID. This resulted in:
 - a. 49% of the costs charged to USAID to-date are ineligible in terms of this contract.
 - b. The full category of personnel costs charged to USAID have been questioned.
 - c. Contract clauses were not adhered to or alternative approvals obtained in respect of consulting qualifications and levels of effort
2. There was a material control weakness over the allocation of working hours on a Project basis, as a result key project based controls were not implemented eg. Timesheet Implementation
3. There was a material control weakness in respect of detecting and correcting the absence of cost allocations between direct and indirect costs, as defined by USAID, in the reporting systems of the company.

See Section 3.2: Finding Nos. 1- 3

FOR THE PERIODS NOVEMBER 9, 1998 TO SEPTEMBER 30, 2002

1. PROJECT DESCRIPTION AND SCOPE

1.4.4 COMPLIANCE FINDINGS

1. Personnel costs were charged on a basis higher than that paid to the consultants, this is in contravention of the agreement.
2. Personnel costs were not supported by timesheets.
3. The schedule of computation of indirect cost as set out in Example 63 of the Guidelines for Financial Audits contracted by Foreign Recipients was not provided for audit nor was data to support the computation provided by the company.
4. The company did not hire a civil consultant engineer as specified in the contract. The forestry engineer who performed the consulting did not have a Masters degree level qualification and the required number of years work experience.
5. Certain levels of effort assumed by type of consultant, as per the agreement, were not adhered to.

See Section 4.2: Finding Nos. 1-5

1.4.5 GENERAL PURPOSE FINANCIAL STATEMENTS

The General Purpose Financial Statements were audited in order to reconcile the schedule of computation of indirect cost to an audited set of accounts. The following qualification was raised in the Audit Report:

Qualification

1. Expenditure amounting to MZM'000 41,378 was not recorded in the income statement for 1999. As such Retained Income is overstated by MZM'000 41,378.

The Report was however not used to reconcile to the schedule of computation of indirect cost as no schedule was produced.

See Section 5.1: Independent Auditor's Report on The Financial Statements of IMPACTO, PROJECTOS E ESTUDOS AMBIENTAIS, LDA

FOR THE PERIODS NOVEMBER 9, 1998 TO SEPTEMBER 30, 2002

1. PROJECT DESCRIPTION AND SCOPE

1.4.6 INDIRECT COST RATES

In view of the following two factors the Auditor's Report will be a Disclaimer of Opinion:

1. We were not provided with a schedule of computation of indirect cost as set out in Example 63 of the Guidelines for Financial Audits contracted by Foreign Recipients.
2. Neither were we provided with sufficient information regarding the client's allocation of costs, per the basic financial statements, as DIRECT (with exception of direct costs attributable to this USAID project and specific technical consulting fees) or INDIRECT.

See Section 6.1: Independent Auditor's Schedule of Computation of Indirect Cost Rate

1.4.7 CORRECTIVE ACTION TAKEN ON PRIOR AUDIT REPORT RECOMMENDATIONS

There were no recommendations made in prior year Audit Reports.

The audit report for 2001 raised a qualification in the Compliance Report as follows:

" We were unable to verify bio-data of the personnel involved in the project, and as such the unit costs of the direct labour. Additionally, no supporting documentation was made available to us in order to verify the correctness of the number of units invoiced."

We have verified that no adequate corrective action was taken to document the unit number of days charged to USAID contract via use of timesheets or other recording mechanism.

1.4.8 IMPACTO - PROYECTOS E ESTUDOS AMBIENTAIS - MANAGEMENT COMMENTS

General Comments

a) About the contract

The contract comprises parts A, B and C each with the following attributes (see Annex 1 for more detailed information):

Part A – To provide a Annual Work Plan – Impacto should provide an annual work plan updated on a semester basis. The plan to be produced by Impacto staff. In addition, the project director (i.e. the Impacto Managing Director) should dedicate sufficient time with ANE, MICOA and USAID to discuss, approve and report compliance of the plan. The average of 20 days per year should be used for this purpose

FOR THE PERIODS NOVEMBER 9, 1998 TO SEPTEMBER 30, 2002

1. PROJECT DESCRIPTION AND SCOPE

Part B – Environmental Assessment, Mitigation and Monitoring & Capacity Building A total of 102 days over a four-year period (25.5 days per year) were allocated for this component.

Part B was carried out by four staff members, including the Managing Director.

Part C – Short Term T/A. A total of 220 person days over four years were allocated for this component (55 days per year). Part C comprises technical support for PVOs (e.g. World Vision) that were involved in the rehabilitation of tertiary roads and in the environmental evaluation and monitoring of contractor's activities for primary/secondary road rehabilitation/construction viz., the Gorongosa-Caia, Inchope-Gorongosa and Caia-Sena roads. In addition, on an annual basis ANE drew up a list of roads for environmental monitoring that were being rehabilitated with USAID funds. This list was forwarded to USAID. Based on the comments from USAID a plan was formulated for this work and the environmental monitoring was carried out.

a) Modification to the Scope of Work

The Scope of Work covered the contract USAID RAP N° 656-00-98-00066 was modified in 2000 to include roads covered under the BASE Project in addition the roads covered under the RAP Project.

b) Evaluation of the Technical Performance

The three components as well as the evaluation of roads covered by the BASE Project were carried out successfully and to the highest professional standards as recognized by USAID, ANE and MICOA (see technical reports). Importantly, through work carried out under this contract ANE, today, possesses a fully functional social affairs and environmental unit, with clear procedures for ensuring that environmental considerations are fully incorporated into all phases of road rehabilitation.

c) Amendment to the contract

Beside the additions to the Scope of Work two amendments to the contract were made. The first amendment related to the inclusion of the sum of US\$56,000.00 (fifty-six thousand US Dollars) to cover VAT as recommended by the independent auditor. The second amendment specifying a sum of US\$ 78,734.78 was the revised figure of the overhead rates as determined by the independent auditors in consecutive audits. This revised overhead rate was submitted to, and approved, by USAID.

FOR THE PERIODS NOVEMBER 9, 1998 TO SEPTEMBER 30, 2002

1. PROJECT DESCRIPTION AND SCOPE

d) Time Sheets

Impacto possesses control regarding the time inputs of each staff member on a daily basis (and not the number of hours). Annex 2.

e) Computation of Independent Costs

The accounting of Impacto is made on the basis of a General Accounts Plan (PGC) in accordance with the norms and regulations of the Mozambican Ministry of Finances. As such the accounting register is based on fixed and variable costs rather than direct and indirect costs. Annex 3.

The second amendment (number II, modification of B5) considers as final the overhead rates obtained for 1999, 2000 and 2001. Annex 4

f) Payments to personnel (rates)

Impacto used the billing rates based on budgets submitted to USAID and not on the internal salary structures. The billing rates are those laid out in the detailed breakdown of the budget (Annex 1).

This contract was awarded directly to Impacto and not through a tender process. The award was based on the technical performance demonstrated by Impacto with regards to the first Environment Assessment of the road alternatives for the Gorongosa-Caia Road carried out a behalf of USAID in 1996. USAID, recognizing the need to incorporate environmental considerations in the USAID funded RAP program approached Impacto to provide services in recognition of the proven technical ability of the company.

Following this approach from USAID, Impacto was presented with a Scope of Work drawn up by USAID and was invited to submit a financial proposal for the Scope of Work. The contract negotiations were carried out over a three-month period. In one of the preliminary budgets submitted in 06/08/1998 the fees varied between US\$345 for the lowest rates and US\$390 for the highest rates. Sixty (60) person days at US\$345 per day were allocated to Part C of the contract for Year 1.

FOR THE PERIODS NOVEMBER 9, 1998 TO SEPTEMBER 30, 2002

1. PROJECT DESCRIPTION AND SCOPE

Following negotiations (in November 1998) these rates were re-adjusted down-wards to US\$231 per day for the lowest rates and US\$263 per day for the highest rates. The number of working days for Year 1, Part C remained at 60 person days but at the reduced rates of US\$231 per day. (Annex 1).

It was on this basis that Impacto proceeded with invoicing, assuming that the values laid out in the detailed budget table were those agreed to by both parties. Impacto recognizes that the internal capacity to interpret and manage a complex contract of this nature was lacking during the implementation period.

g) Technical Staff used in the project

One of the main objectives of the contract (Part C) was to ensure the incorporation of environmental considerations into road projects financed by USAID. In view of the emphasis on environmental impacts and identification of appropriate mitigating measures, the most appropriate staff were selected for specific tasks in order to achieve this overall objective. This required the inputs of environmental scientists rather than road engineers *per se*. In this way Impacto, in coordination with ANE and USAID, guaranteed that this objective was fully achieved with the level of quality demanded by USAID. The technical staff involved in this project were highly commended by the agencies involved.

h) Overall

This project was audited by the Deloitte & Touche in 1999 and 2001 and by BDO in 2000. These financial audits did not draw attention to any of the issues currently raised by the final audit (two years after the conclusion of the project). The audit reports produced by Deloitte & Touche were evaluated and accepted by RIG (Annex 5) as per correspondence of 2nd April 2001 and 2nd September 2001.

2. AUDITOR'S REPORT ON THE FUND ACCOUNTABILITY STATEMENT

2.1 Independent Auditor's Report

Impacto – Projectos e Estudos Ambientais

Av. dos Mártires da Machava, 968

Maputo, Mozambique

We have audited the Funds Accountability Statement of the USAID Resources Managed by IMPACTO - PROJECTOS E ESTUDOS AMBIENTAIS Project N°. 656-C-00-98-00066-00 for the period November 9, 1998 to September 30, 2002. The fund accountability statement is the responsibility of Impacto - Projectos e Estudos Ambientais' management. Our responsibility is to express an opinion on the fund accountability statement based on our audit. Our audit was performed to meet the specific objectives set out in Section 1.3 of this report.

Except as discussed in the following paragraphs, we conducted our audit of the fund accountability statement in accordance with *U.S. Government Auditing Standards* issued by the Comptroller General of the United States. Those standards require that we plan and perform the review to obtain reasonable assurance about whether the fund accountability statement is free of material misstatement. A review includes examining, on a test basis, evidence supporting the amounts and disclosures in the fund accountability statement. A review 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 review provides a reasonable basis for our opinion.

1. We do not have a continuing education program that fully satisfies the requirement set forth in Chapter 3, paragraph 3.6 of *U.S. Government Auditing Standards*. However, our current program provides for at least 160 hours of continuing education and training every two years. We are taking appropriate steps to implement a continuing education program that fully satisfies the requirement.
2. We did not have an external quality control review by an unaffiliated audit organization as required by Chapter 3, paragraph 3.33 of *U.S. Government Auditing Standards*, since no such program is offered by professional organizations in Mozambique. We believe that the effects of this departure from *U.S. Government Auditing Standards* is not material because we participate in the *Ernst & Young Global* worldwide internal quality control review program which requires our office to be subjected, every three years, to an extensive quality control review by partners and managers from other affiliate offices.

2. AUDITOR'S REPORT ON THE FUND ACCOUNTABILITY STATEMENT

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

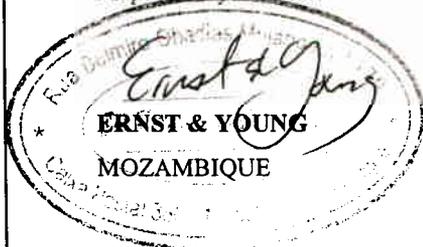
3. Ineligible costs were charged to the contract to the value of USD161,133 (See note 2.2.3).
4. Unsupported costs were charged to the contract to the value of USD54,447 (See note 2.2.3).

In our opinion, except for the matters discussed in the preceding paragraphs, the fund accountability statement presents fairly in all aspects, the revenue, costs incurred and reimbursed by USAID for the period November 9, 1998 to September 30, 2002, in accordance with the terms of the agreements and in conformity with the basis of accounting described in Note 2.2.1.

In accordance with *U.S. Government Auditing Standards*, we have also issued our reports dated July 19, 2004, on our consideration of *Impacto - Projectos e Estudos Ambientais*' internal control over financial reporting (Section 3) and our tests of its compliance with certain provisions of laws and regulations (Section 4). Those reports are an integral part of an audit performed in accordance with *U.S. Government Auditing Standards* and should be read in conjunction with this Independent Auditor's Report in considering the results of our audit.

This report is intended for the information of IMPACTO - PROJECTOS E ESTUDOS AMBIENTAIS and the U.S. Agency for International Development (USAID). However, upon release by USAID, this report is a matter of public record and its distribution is not limited.

Maputo, July 19, 2004



2. AUDITOR'S REPORT ON THE FUND ACCOUNTABILITY STATEMENT

2.2 FUND ACCOUNTABILITY STATEMENT

IMPACTO – PROJECTOS E ESTUDOS AMBIENTAIS MOZAMBIQUE					
FUND ACCOUNTABILITY STATEMENT					
NOVEMBER 9, 1998 to SEPTEMBER 30, 2002					
	<u>BUDGET</u>	<u>ACTUAL</u>	<u>QUESTIONED COSTS</u>		<u>NOTES</u>
	USD	USD	INELIGIBLE	UNSUPPORTED	
			USD	USD	
Income		332,477			
Net reimbursement of costs to Impacto - Projectos e Estudos Ambientais from USAID Contract Nr 656-C-00-98-00066-00		332,477			2.2.2
Costs	445,902	332,477	161,133	54,447	
Personnel	181,269	166,888	161,133	5,755	2.2.3
Travel & Transportation	28,412	20,727	-	-	
Supplies	13,099	10,729	-	-	
Other Direct Costs	15,911	8,393	-	-	
Overhead	122,472	48,692	-	48,692	2.2.3
Fee	28,739	28,739	-	-	
VAT	56,000	48,309	-	-	
Fund Balance		0			
Total Questioned Costs			215,580		

2. AUDITOR'S REPORT ON THE FUND ACCOUNTABILITY STATEMENT

NOTES TO THE FUND ACCOUNTABILITY STATEMENT

2.2.1 SIGNIFICANT ACCOUNTING POLICIES

a. General

The fund accountability statement was prepared on the cash basis. In accordance with this principal, receipts are only accounted for when received and expenses when paid for.

b. Equipment and supplies

Purchases of equipment are recorded as current expenditure in the fund accountability statement in the period in which they arise.

c. Currency

The fund accountability statement is presented in USD. All expenses in Meticaís were converted and registered in USD, at the exchange rate applicable on the transaction date. The foreign exchange gains and losses are reflected on the company financial statements. The average rates over the period were - from *November 1998-1999*: 1USD~12,786MZM; *2000*: 1 USD~15,468; *2001*: 1 USD~20,785; to *September 2002*: 1USD~23,747MZM.

The detailed movement for each period can be referred to in **Appendix A**.

2. AUDITOR'S REPORT ON THE FUND ACCOUNTABILITY STATEMENT**2.2.2 INVOICES SUBMITTED AND FUNDS RECEIVED FROM USAID**

Invoice	Reference	Personnel	Travel & Accom.	Supplies	ODC	Overhead	Fee	VAT	Total
1 st invoice	9B/05/99	4,129	-	1,292	-	2,329	3,593	1,928	13,271
2 nd invoice	30A/10/99	15,073	2,432	66	180	7,629	1,997	4,655	32,032
3 rd invoice	15A/05/00	4,716	589	-	-	2,280	-	1,290	8,875
4 th invoice	15B/05/00	18,021	3,191	2,577	-	10,225	5,616	6,737	46,367
5 th invoice	18A/12/2000	12,587	4,916	364	2,414	6,896	2,107	4,979	34,263
6 th invoice	06A/08/2001	42,749	2,439	75	30	16,491	5,988	11,521	79,292
7 th invoice	07A/12/2001	3,521	74	-	5,213	2,842	-	1,981	13,631
8 th invoice	08A/12/2001	39,456	2,051	746	-	-	6,344	8,260	56,857
9 th invoice	09A/04/2002	18,490	2,545	41	-	-	928	3,741	25,745
10 th invoice	10A/05/2002	3,447	878	-	6	-	619	841	5,792
11 th invoice	11 th invoice	4,699	1,612	5,568	550	-	1,547	2,376	16,352
		166,888	20,727	10,729	8,393	48,692	28,739	48,309	332,477

2.2.3 QUESTIONED COSTS

	<u>31.12.1999</u>	<u>31.12.2000</u>	<u>31.12.2001</u>	<u>30.4.2002</u>	<u>Total</u>
	USD	USD	USD	USD	USD
Value of ineligible personnel costs	18,456	34,179	82,438	86,060	161,333
Value of unsupported personnel costs	746	1,145	3,288	576	5,755
Value of unsupported overhead costs	9,958	19,401	19,333	-	48,692
Total Questioned Costs	19,202	22,737	98,313	26,636	215,580

3. AUDITOR'S REPORT ON THE INTERNAL CONTROL STRUCTURE

3.1 Independent Auditor's Report on the Internal Control Structure

Impacto – Projectos e Estudos Ambientais

Av. dos Mártires da Machava, 968

Maputo, Mozambique

We have audited the FUND ACCOUNTABILITY STATEMENT of IMPACTO - PROJECTOS E ESTUDOS AMBIENTAIS, LDA (section 2.2) as of and for the period November 9, 1998 to September 30, 2002, and have issued our report on it dated July 19, 2004. Our audit was performed to meet the specific objectives set out in Section 1.3 of this report.

Except for not having a fully satisfactory continuing education program and/or not conducting an external quality control review by an unaffiliated audit organization (as described in our report on the fund accountability statement), we conducted our audit in accordance with *U.S. 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 management of Impacto - Projectos e Estudos Ambientais is responsible for establishing and maintaining an internal control structure. In fulfilling this responsibility, estimates and judgments by management are required to assess the expected benefits and related costs of internal control structure policies and procedures. The objectives of an internal control structure are to provide management with reasonable, but not absolute, assurance that the assets are safeguarded against loss from unauthorized use or disposition; transactions are executed in accordance with management's authorization and in accordance with the terms of the agreements; and transactions are recorded properly to permit the preparation of the fund accountability statement in conformity with the basis of accounting described in Note 2.2.1 to the fund accountability statement. Because of inherent limitations in internal control, errors or fraud 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.

3. AUDITOR'S REPORT ON THE INTERNAL CONTROL STRUCTURE

In planning and performing our audit procedures of the fund accountability statement of the USAID Resources Managed by IMPACTO - PROYECTOS E ESTUDOS AMBIENTALES Project N°. 656-C-00-98-00066-00 for the period November 9, 1998 to September 30, 2002, we obtained an understanding of internal control. With respect to internal control, we obtained an understanding of the design of relevant policies and procedures and whether they have been placed in operation, and we assessed control risk 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 internal control. Accordingly, we do not express such an opinion.

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

See findings section 3.2:

1. *Contract management:* the company's management did not ensure that staff were adequately trained to review, interpret and implement the clauses of the contract with USAID.
2. *Timesheet implementation:* the company did not institute a key project based control, allocation of working hours on a project basis, into its recording procedures.
3. *Recording of Costs as direct and indirect:* control systems were inadequate in detecting and correcting the absence of cost allocations between direct and indirect costs, as defined by USAID, in the reporting systems of the company.

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

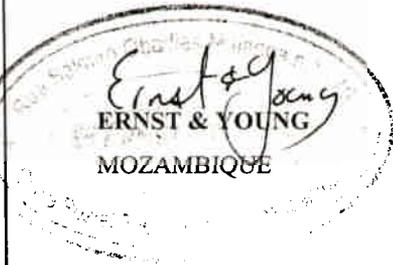
3. AUDITOR'S REPORT ON THE INTERNAL CONTROL STRUCTURE

Our consideration of internal control would not necessarily disclose all matters in internal control 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, all the reportable conditions stated above were also material weaknesses as defined above. These conditions were considered in determining the nature, timing, and extent of the procedures to be performed in our audit of the fund accountability statement of the USAID Resources Managed by IMPACTO - PROJECTOS E ESTUDOS AMBIENTAIS Project N^o. 656-C-00-98-00066-00 for the period November 9, 1998 to September 30, 2002.

This report is intended for the information of Impacto - Projectos e Estudos Ambientais, Lda and the U.S. Agency for International Development (USAID). However, upon release by USAID, this report is a matter of public record and its distribution is not limited.

Maputo, July 19, 2004

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3. AUDITOR'S REPORT ON THE INTERNAL CONTROL STRUCTURE

3.2 FINDINGS & RECOMMENDATIONS

The control environment reflects the overall attitude, awareness and actions of management. The accounting system consists of methods and records established to identify, assemble, analyze, classify, record and report transactions. Control procedures are those policies and procedures in addition to the control environment and accounting system that management has established to safeguard the Organization's resources.

Our review of the internal control structure was directed towards those significant policies and procedures, which relate to the nature of project funding arrangements.

Finding No. 1 – Contract Management was inadequate, no controls were put in place which led to a compliance finding in respect of this USAID project

Criteria

In terms of GAO/AIMD-00-21.3.1 *Standards for Internal Control* and OMB Circular A-123, *Management Accountability and Control*, Standards for Internal Control provide an overall framework for establishing and maintaining internal control, as well as assessing and reporting on control.

Condition

The overall control environment is the responsibility of management. The company's management did not ensure that staff were adequately trained to review, interpret and implement the clauses of the contract with USAID.

Cause

This was an oversight on the part of management. Management did not employ controls in their project management and risk management procedures to ensure compliance with project terms.

Effect

This resulted in:

- a. 49% of the costs charged to USAID to-date are ineligible in terms of this contract.
- b. The full category of personnel costs charged to USAID have been questioned.
- c. Contract clauses were not adhered to or alternative approvals obtained in respect of consulting qualifications and levels of effort.

3. **AUDITOR'S REPORT ON THE INTERNAL CONTROL STRUCTURE**

Recommendation No. 1

A project and risk management procedure needs to be implemented at the start of each project contracted for. This should involve the admin/finance/accounting manager(s) who should ensure that the recording and other mechanisms be put in place in order to comply with the requirements set out in the contract. This will ensure the eligibility of the charges made and the establishment of an adequate audit trail in respect of appropriate documentation.

Management Comments No. 1

All of Impacto's accounting is organized in accordance with a General Accounts Plan (PGC), as well as a Procedures Manual for internal control so that these were in conformity with existing standards. It should be noted that the control of this project was based on regulations that were being applied within the company and that these regulations are in accordance with normal standards for a company the size of Impacto. No budget for the contracting of a specialist familiar with USAID regulations was available. In addition experienced accountants familiar with USAID requirements are not available in locally.

Finding No. 2 – Recording is not performed on a project basis, as a result key project based controls were not implemented eg. Timesheet Implementation

Criteria

In terms of GAO/AIMD-00-21.3.1 *Standards for Internal Control* and OMB Circular A-123, *Management Accountability and Control*, Standards for Internal Control provide an overall framework for establishing and maintaining internal control, as well as assessing and reporting on control.

This procedure should be performed at a minimum:

Weekly or daily records of hours spent per Project should be recorded. The timesheets should be approved by a senior staff member or by the person responsible for the Project.

Condition

No timesheets were used to control unit days charged to the USAID contract No. 656-C-00-98-00066-00 during the period November 9, 1998 to September 30, 2002. because the company did not institute allocation of working hours on a Project basis into its recording procedures.

3. AUDITOR'S REPORT ON THE INTERNAL CONTROL STRUCTURE

Cause

Although the Company performs work on a Project basis, they do not employ project management tools, such as timesheets on a per Project basis.

Effect

As a result of the weaknesses we are unable to verify the reasonableness of the personnel costs charged to the contract amounting to USD 166,888. This lack of control has caused a compliance issue in terms of the USAID contract.

Recommendation No. 2

The company should prepare timesheets as a mechanism to control hours charged to each of its projects, per USAID guidelines this is mandatory to justify the unit days charged to the contract. This recording should be instituted as a way of controlling productivity and chargeability on each project. Each timesheet should be reviewed by a manager on a weekly/monthly basis to ensure that the time charged on each project is commensurate with the work performed.

Management Comments No. 2

During the contract period Impacto consultant's time was controlled by completing time sheets based on working days. Impacto was not instructed to prepare time sheets based on the number of working hours dedicated to a task. This record was used by Impacto for invoicing the number of working days. This system was adhered for this contract and independent audits carried out during implementation never drew attention of the need to change the system.

The number days allocated and invoiced was based upon:

- a) The annual work plan formulated by Impacto and approved by USAID for each year of the contract .
- b) Field studies (environmental monitoring) of road projects financed by USAID. These studies were often accompanied by staff of USAID and/or ANE (the latter as part of on-the-job training). These activities involved costs related travel, per diems and the production of reports.
- c) Training programs for ANE staff in accordance with approved work plans; these also incurred expenses for their implementation .
- d) Reports of the field studies that were submitted to USAID and ANE for approval.

During this consultancy this was the only contract with USAID

A list of contracts with other donor agencies for the same period has been provided from which it can be confirmed that duplicate invoicing did not occur during the contract period with USAID.

3. AUDITOR'S REPORT ON THE INTERNAL CONTROL STRUCTURE

Finding No. 3 - Recording of Costs as direct and indirect was not performed and the system of control did not detect or correct this error.

Criteria

In terms of GAO/AIMD-00-21.3.1 *Standards for Internal Control* and OMB Circular A-123, *Management Accountability and Control*, Standards for Internal Control provide an overall framework for establishing and maintaining internal control, as well as assessing and reporting on control.

Condition

Control systems were inadequate in detecting and correcting the absence of cost allocations between direct and indirect costs in the reporting systems of the company, as defined in Subpart 31.2- Contracts with Commercial Organizations 31.202 Direct costs and 31.203 Indirect costs.

Cause

Management has not established appropriate systems of internal control to deal with the sophistication of requirements of this USAID Contract.

Effect

The client was unable to produce a Schedule of Indirect Cost Computation as a result of not recording the appropriate data during the life cycle of the project. As a result the Auditors have disclaimed an Opinion on the Schedule of Indirect Cost Computation which puts into question the full overhead costs charged to date on the project as well as the establishment of a final overhead cost rate.

Recommendation No. 3

Management should study the guidelines and institute this methodology for all USAID projects. Controls over project/contract management as noted in **Finding No. 1 – Contract Management was inadequate** should be instituted in the organisation as a whole. It is Management's corporate responsibility to ensure adequate Corporate Governance.

Management Comments No. 3

As mentioned above Impact has in place an accounting system based on a General Accounting Plan organized in fixed and variable costs (and not in direct and indirect costs).

In 1998 it would have been extremely difficult, if not impossible, to identify a Mozambican with experience of the USAID accounting system which require sophisticated accounting skills as noted by the Final Audit and, in addition, no budget was allocated for contracting of a specialist for this task.

4. AUDITOR'S REPORT ON COMPLIANCE

4.1 Independent Auditor's Report on Compliance

Impacto – Projectos e Estudos Ambientais

Av. dos Mártires da Machava, 968

Maputo, Mozambique

We have audited the FUND ACCOUNTABILITY STATEMENT of IMPACTO - PROJECTOS E ESTUDOS AMBIENTAIS, LDA (section 2.2) as of and for the period November 9, 1998 to September 30, 2002, and have issued our report on it dated July 19, 2004. Our audit was performed to meet the specific objectives set out in Section 1.3 of this report.

Except for not having a fully satisfactory continuing education program and/or not conducting an external quality control review by an unaffiliated audit organization (as described in our report on the fund accountability statement), we conducted our audit in accordance with *U.S. 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 resulting from violations of agreement terms and laws and regulations that have a direct and material effect on the determination of the fund accountability statement amounts.

Compliance with agreement terms and laws and regulations applicable to Impacto - Projectos e Estudos Ambientais, Lda is the responsibility of Impacto - Projectos e Estudos Ambientais, Lda's management. As part of obtaining reasonable assurance about whether the fund accountability statement is free of material misstatement, we performed tests of Impacto - Projectos e Estudos Ambientais, Lda's compliance with certain provisions of agreement terms and laws and regulations. However, our objective was not to provide an opinion on overall compliance with such provisions. Accordingly, we do not express such an opinion.

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. The results of our compliance tests disclosed the following material instances of non-compliance, the effects of which are shown as questioned costs in the FUND ACCOUNTABILITY STATEMENT – IMPACTO - PROJECTOS E ESTUDOS AMBIENTAIS, LDA.

4. AUDITOR'S REPORT ON COMPLIANCE

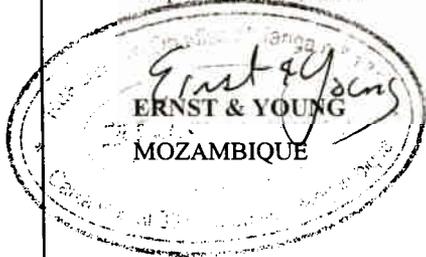
See findings section 4.2:

1. Personnel costs were charged on a basis higher than that paid to the consultants, this is in contravention of the agreement.
2. As a result of personnel costs not being supported by timesheet recording, we were unable to conclude on the reasonableness of unit days charged to the contract and therefore on the reasonableness of personnel costs amounting to USD 166,888.
3. The schedule of computation of indirect cost as set out in Example 63 of the Guidelines for Financial Audits contracted by Foreign Recipients was not provided for audit nor was data to support the computation provided by the company.
4. The company did not hire a civil consultant engineer as specified in the contract. The forestry engineer who performed the consulting did not have a Masters degree level qualification and the required number of years work experience.
5. Certain levels of effort assumed by type of consultant, as per the agreement, were not adhered to.

We considered these material instances of non-compliance in forming our opinion on whether the FUND ACCOUNTABILITY STATEMENT – IMPACTO - PROJECTOS E ESTUDOS AMBIENTAIS is presented fairly, in all material respects, in accordance with the terms of the agreements and in conformity with the basis of accounting described in Note 2.2.1 to the Fund Accountability Statement, and this report does not affect our report on the fund accountability statement dated July 19, 2004.

This report is intended for the information of Impacto - Projectos e Estudos Ambientais and the U.S. Agency for International Development (USAID). However, upon release USAID, this report is a matter of public record and its distribution is not limited.

Maputo, July 19, 2004



4. **AUDITOR'S REPORT ON COMPLIANCE**

4.2 FINDINGS & RECOMMENDATIONS

Finding No. 1 – Ineligible Personnel Costs charged to USAID

Criteria

In terms of FAR 52.216-7 Allowable Cost & Payment, (b) Reimbursing costs. (1) For the purpose of reimbursing allowable costs...the term "costs" includes only- (i) Those recorded costs that, at the time of the request for the reimbursement, the Contractor has paid by cash, check, or other form of payment for items or services purchased directly for the contract.

And in terms of subpart 31.2 entitled 'Contracts with Commercial Organizations' 31.201-2 *Determining allowability*, d) A contractor is responsible for accounting for costs appropriately and maintaining records, including supporting documentation, adequate to demonstrate that costs claimed have been incurred, are allocable to the contract, and comply with applicable cost principles in this subpart and agency supplements.

Condition

The rates for unit days were invoiced to USAID based on the rate estimated in the contract. This rate was however not paid per the payroll to the individual consultants.

Cause

The company applied the rate for personnel remuneration per the contract but this was not supported directly by the payroll costs. The company has a dual payment mechanism for certain consultants, a monthly retainer/payroll salary and acceptance of invoicing from the individual consultants for specific consulting work performed on a per project basis.

Effect

In view of this being a fixed cost plus fee contract, only the actual amount paid to the personnel performing the services is an allowable expense. The portion of the *personnel costs* charged to USAID over and above the amount actually paid in cash to the individual consultants is ineligible in terms of FAR 52.216-7 and Subpart 31.2.

The quantification of the questioned costs as ineligible, was based on documents prepared by Impacto. On review, these documents are based on the hours charged to the project multiplied by the salary rate of each consultant. Particular consultants, involved in this project, also charge technical assistance fees to the company, but the contract budget specified *personal costs* and not *consulting fees*.

4. AUDITOR'S REPORT ON COMPLIANCE

Recommendation No. 1

The USAID contracting officer should issue a collection order for the amount of USD161,133, unless both of the following points are met:

- a. justify that a higher rate was actually paid to the consultants via the technical assistance fees invoices
- b. Obtain approval retrospectively to allocate part of the budget from personnel costs to technical consulting fees.

Should points a. and b. be met the amount, justified and approved for reallocation, would still be unsupported in terms of the Criteria noted in **Finding No. 2 – Lack of timesheets** below.

Management Comments No. 1

The initial contract with USAID in accordance with clause B.3, page 3, establishes a sum of US\$316,000.00 of which US\$287,385.00 are estimated costs and US\$28,739.00 are fees. These values reflect the revised (lower) billing rates that were reduced during contract negotiations. These reduced billing rates are shown in the detailed breakdown of the budget and were strictly adhered to by Impacto. These billing rates are in accordance with local market rates. During negotiations we were not aware of the complexity of contract requirements and consequently invoicing was made on the basis of the billing rates that we considered to be part of the contract. Therefore invoicing was carried out at these rates as is normal procedure with other clients.

4. AUDITOR'S REPORT ON COMPLIANCE

Finding No. 2 – Lack of timesheets

Criteria

In terms of FAR 52.216-7 Allowable Cost & Payment, subpart 31.2 entitled '**Contracts with Commercial Organizations**' 31.201-2 *Determining allowability*, d) A contractor is responsible for accounting for costs appropriately and maintaining records, including supporting documentation, adequate to demonstrate that costs claimed have been incurred, are allocable to the contract, and comply with applicable cost principles in this subpart and agency supplements.

Condition

No timesheets were used to record unit days charged to USAID contract No. 656-C-00-98-00066-00 during the period November 9, 1998 to September 30, 2002.

Cause

Although the Company works on a Project basis, they do not employ project management tools, such as timesheets per Project.

Effect

An amount of USD 166,888 could not be supported by adequate documentation. USD 161,133 has been deemed ineligible noted in **Finding No. 1 – Ineligible Personnel Costs charged to USAID** above and the balance USD5,755 as unsupported.

We were able to perform procedures to verify the salaries paid to staff, but not the allocation of time spent on this project.

Recommendation No. 2

The USAID contracting officer should consider the questioned costs and if ineligible, issue a collection order.

Management Comments No. 2

Impacto employs a time control system for staff members based working days. This record, maintained by Impacto, was used to invoice the number working days. This system was adhered during the present contract and the earlier audits never alerted Impacto for the necessity to change the system.

During this contract there was no duplicate invoicing. This was the only contract with USAID.

4. **AUDITOR'S REPORT ON COMPLIANCE**

Finding No. 3 – Indirect Cost Computation

Criteria

In terms of Subpart 31.2 - Contracts with Commercial Organizations the following sections provide information regarding the computation /allocation of Direct costs (31.202) and Indirect costs (31.203).

Condition

No cost allocations between direct and indirect costs in the reporting systems of the company were recorded

Cause

The company did not institute adequate internal control to ensure responsible staff were aware of the requirements of the Contract. As a result for the full duration of the project the appropriate records were not kept.

Effect

1. We were not provided with a schedule of computation of indirect cost as set out in Example 63 of the Guidelines for Financial Audits contracted by Foreign Recipients.
2. Neither were we provided with sufficient information regarding the client's allocation of all costs, per the basic financial statements, as DIRECT (attributable to a specific project or contract of work, with exception of direct costs attributable to this USAID project and specific technical consulting fees paid) or INDIRECT.

Recommendation No. 3

The USAID contracting officer needs to assess in light of the above, the possibility for a method of computation. If no solution can be found, the contracting officer should consider the questioned costs and if ineligible, issue a collection order for the amount invoiced and disallow the balance of the amount budgeted for.

Management Comments No. 3

As referred to above the initial contract with USAID in accordance with Clause B.3, page 3, established a value of US\$316,124.00 of which US\$287,385.00 are estimated costs and US\$28,739.00 are fees.

Annex 3 provides the tables submitted (August 1998) that were utilized to estimate the provisional overhead costs – Clause B5, page 4.

4. AUDITOR'S REPORT ON COMPLIANCE

The alteration of the overhead rates was determined by the auditing firms Deloitte & Touche and BD0 and Amendment number 2, of 25 March 2003, considers as final the overhead rates determined by the findings of successive audits carried out by Deloitte & Touche and DB0 (Number II, Modification of B5).

In accordance with Amendment 2, only the overhead for the period January 2002 to October 2002 are considered provisional and subject to adjustment (Annex 4)

Impacto, up to September 2002 (the contractual date for closure of the project) invoiced US\$48,307.35 as overheads as envisaged in the contract. The increased value of the overheads determined a result the audits of 1999, 2002 and 2001 and the provisional rates of the 2002 audit were not claimed. These increased rates are considered to be the final rates (Amendment 2).

In 2003, following the extension of the contract and having been allocated an additional sum for overheads, the invoice 12A/09/2003 to the value of US\$78,734.78 was submitted on request from USAID (in a meeting) in compliance with the audit findings.

The invoice 12A/09/2003 has not been paid.

4. **AUDITOR'S REPORT ON COMPLIANCE**

Finding No. 4 – Hiring of a forestry engineering consultant the without the academic and experience qualifications instead of a civil engineer, as envisaged in the contract

Criteria

In terms of the contract USAID (RAP) n° 656-C-00-98-00066-00, section IV-Expertise required and position, categories Task III C “A civil engineer should be hired, who should bear a masters level degree equivalent or higher with ten years experience”.

Condition

The consultant who performed the work was a forestry engineer and was not adequately qualified in terms of work experience and academic requirements.

Cause

Internal Impacto consultants were utilised in this Project and there was no employee who met the above criteria.

Effect

Contractual objectives may not be adequately met if people with inadequate qualifications are utilized. The amount charged to USAID for the consultant utilised is included in the amount noted as questioned costs per the Funds Accountability Statement (note 2.2).

Recommendation No. 4

Contract clauses should be adhered to. Approval for the allocation of consultants with qualifications differing to those anticipated in the contract should be requested in advance of the services being performed by the replacement consultant. The USAID contracting officer should consider, in light of the qualifications and experience being different to the standard anticipated by the contract, whether the contract objectives were met.

Management Comments No. 4

The objective of the contract was to ensure that USAID-financed road projects (tertiary road rehabilitation by PVOs and primary roads by contractors) did not result in serious environmental damage.

At the same time, USAID sought to strengthen ANE so that the road agency would be able to fully incorporate environmental management into road projects after the conclusion of the USAID-Impacto contract.

4. AUDITOR'S REPORT ON COMPLIANCE

In order to achieve these objectives Impacto provided the services of consultants best able to meet the technical exigencies of the contract. As such Dr. Steve Telford and Eng^a Abida Jamal, in addition to John Hatton and Mário Rassul, formed a highly experienced team of core consultants that enabled the successful implementation of the technical components of the contract.

The technical outputs of the work performed by Impacto have been highly commended by all parties and, through the services provided under this contract ANE has, in place today, a fully functional social affairs and environmental unit (Unidade de Acção Social e Meio Ambiente – UASMA).

4. AUDITOR'S REPORT ON COMPLIANCE

Finding No. 5– Levels of effort per specific consultant were not adhered to

Criteria

In terms of the contract 656-C-00-98-00066-00 section C Description, Specifications, Work statement III tasks, C short-term technical assistance “The level of effort requested, to be distributed among the tasks listed in section C1, C2 and C3, will entail up to 300 person-days. For planning and budgeting purposes it is assumed that: 25% of the time will be utilized by an ecologist/biologist, 25% by a social scientist or planner, 20% by a civil engineer with environmental science expertise, and 30% by the category environmental scientist”.

Condition

Levels of effort per specific consultant were not adhered to as envisaged in the contract as demonstrated below:

	Budget		Name/Description	Actual	
	Days	%		Days	%
Time					
Ecologist/ Biologist	75	25%	Stephen Telford	71	24%
Social scientist/ Planner	75	25%			
Forestry engineer			Abida Jamal	222	74%
Civil engineer	60	20%			
Environmental scientist	90	30%	John Hatton	224	75%
	300	100%		517	172%

Cause

Internal Impacto consultants were utilised in this Project, the availability of individuals also impacted the utilisation.

Effect

Contractual objectives may not be adequately met if planned levels of efforts per specific consultant are not adhered to.

Although the number of days was greater than the budget the actual cost was 92% of the budgeted cost, see the Funds Accountability Statement (note 2.2).

Recommendation No. 5

Contract clauses should be adhered to. Approval of relocation of hours should be requested in advance of the hours being utilised. The USAID contracting officer should consider whether in light of the levels of effort not being adhered to the contract objectives were met.

ERNST & YOUNG

4. AUDITOR'S REPORT ON COMPLIANCE

Management Comments No. 5

In the table presented in the final audit, "Actual" includes Part A, B, and C of the contract, while the "Budget" is for part C only, hence the difference in the number of days between "Actual" and "Budget" . It should be noted that the 300 days initially allocated for Part C was for the RAP Project only whereas Impacto also provided services for the BASE Project the without exceeding the allocated budget.

In order to carry out all tasks (Parts A, B & C) within the allocated budget it was necessary to maximize the use of human resources. The budget for to Parts A, B & C was never exceeded.

It is important to note the achievements obtained through this contract under the existing budget. The activities in the annual plans formulated by Impacto required the provision of timely inputs by each of the staff involved in the project. Once the workplans were approved by USAID/ANE, Impacto allocated tasks to the most suitably qualified staff in order to meet the technical requirements as per contract.

5. AUDITOR'S REPORT ON IMPACTO'S FINANCIAL STATEMENTS

5.1 Independent Auditor's Report on The Financial Statements of IMPACTO, PROJECTOS E ESTUDOS AMBIENTAIS, LDA

Impacto – Projectos e Estudos Ambientais
Av. dos Mártires da Machava, 968
Maputo, Mozambique

We have audited the accompanying balance sheet of IMPACTO, PROJECTOS E ESTUDOS AMBIENTAIS, LDA as of November 9, 1998 to September 30, 2002, and related statements of revenues and expenditures for the period then ended. These financial statements are the responsibility of IMPACTOS, PROJECTOS E ESTUDOS AMBIENTAIS, LDA's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with International Standards on Auditing. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatements. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statements presentation. We believe that our audit provides a reasonable basis for our opinion.

Qualification

Expenditure amounting to MZM'000 41,378 was not recorded in the income statement for 1999. As such Retained Income is overstated by MZM'000 41,378.

Qualified Opinion:

In our opinion, except for the qualification above, the financial statements referred to above present fairly, in all material respects, the financial position of IMPACTO, PROJECTOS E ESTUDOS AMBIENTAIS, LDA for the period November 9, 1998 to September 30, 2002, and the results of its operation and its fund balance for the year then ended in conformity with generally accepted accounting principles.



5. AUDITOR'S REPORT ON IMPACTO'S FINANCIAL STATEMENTS

5.2 IMPACTO, PROJECTOS E ESTUDOS AMBIENTAIS – FINANCIAL STATEMENTS

**5.2.1 IMPACTO, PROJECTOS E ESTUDOS AMBIENTAIS
 BALANCE SHEET
 PERIOD: NOVEMBER 11, 1998 TO SEPTEMBER 30, 2002**

(Expressed in thousands of Meticais)

	<u>Notes</u>	<u>1999</u>	<u>2000</u>	<u>2001</u>	<u>2002</u>
Assets					
Clients	1	-	1,054,558	-	-
Debtors	2	868,524	194,873	729,670	458,874
Cash and Bank	3	1,757,606	302,943	1,710,671	1,088,386
Prepaid expenses		23,914	45,909	77,966	41,555
		<u>2,650,044</u>	<u>1,598,283</u>	<u>2,518,307</u>	<u>1,588,815</u>
Liabilities					
Suppliers	4	-	205,805	167,569	-
Creditors	5	2,735,191	2,087,864	2,859,496	3,751,470
Accruals	6	631,783	777,263	1,547,290	139,860
		<u>3,366,974</u>	<u>3,070,932</u>	<u>4,574,355</u>	<u>3,891,330</u>
Net liabilities		(716,930)	(1,472,649)	(2,056,048)	(2,302,515)
Fixed Assets	7	797,977	1,723,700	2,410,221	3,276,495
		<u>81,047</u>	<u>251,051</u>	<u>354,173</u>	<u>973,980</u>
Quota holders fund					
Share capital	8	30,000	30,000	30,000	30,000
Legal reserve		23,592	23,592	23,592	23,592
Retained income		27,455	197,459	300,581	920,388
Net income		<u>81,047</u>	<u>251,051</u>	<u>354,173</u>	<u>973,980</u>

5. AUDITOR'S REPORT ON IMPACTO'S FINANCIAL STATEMENTS

5.2.2 **IMPACTO, PROYECTOS E ESTUDOS AMBIENTAIS**
INCOME STATEMENT
PERIOD: NOVEMBER 9, 1998 TO SEPTEMBER 30, 2002

(Expressed in thousands of Meticais)

	<u>Notes</u>	<u>1999</u>	<u>2000</u>	<u>2001</u>	<u>2002</u>	<u>TOTAL</u>
SALES						
Sales of services		4,364,945	3,918,709	8,504,891	6,557,212	23,345,757
Other Income		25,205	89,632	50,091	106,945	271,873
		<u>4,390,150</u>	<u>4,008,341</u>	<u>8,554,982</u>	<u>6,664,157</u>	<u>23,617,630</u>
COSTS						
Remuneration		311,349	397,480	526,021	560,495	1,795,346
Supplies		220,525	345,983	494,950	598,161	1,659,620
Services	9	2,968,703	2,497,366	6,643,324	3,261,935	15,371,328
Bank charges		20,011	34,765	38,459	90,890	184,126
Taxes		13,459	24,491	28,216	46,652	112,818
Depreciation		190,998	416,495	492,158	570,912	1,670,563
Other costs	10	239,666	548,189	726,662	997,666	2,512,183
Operating costs		<u>3,964,711</u>	<u>4,264,770</u>	<u>8,949,790</u>	<u>6,126,711</u>	<u>23,305,982</u>
Operating Income/ (Loss)		425,439	(256,429)	(394,808)	537,446	311,648
Extraordinary items	11	67,166	550,477	632,624	107,772	1,358,040
Prior year adjustments		(20,774)	(21,127)	(3,000)	(25,412)	(70,313)
Net income before taxation		471,831	272,921	234,816	619,806	1,599,374
Taxation		(14,783)	(102,917)	(131,693)	-	(249,393)
Transfer to reserve		(23,592)	-	-	-	(23,592)
Net income		<u>433,456</u>	<u>170,004</u>	<u>103,123</u>	<u>619,806</u>	<u>1,326,390</u>
Transfer to:						
Retained Income		433,456	170,004	103,123	619,806	1,326,390
Retained Income at beginning of the year		(406,001)	27,455	197,459	300,582	(406,001)
Retained Income at the end of the year		<u>27,455</u>	<u>197,459</u>	<u>300,582</u>	<u>920,388</u>	<u>920,388</u>

5. AUDITOR'S REPORT ON IMPACTO'S FINANCIAL STATEMENTS

**5.2.3 IMPACTO, PROJECTOS E ESTUDOS AMBIENTAIS
NOTES TO THE FINANCIAL STATEMENTS
PERIOD: NOVEMBER 9, 1998 TO SEPTEMBER 30, 2002**

ACCOUNTING POLICIES

(a) General

The financial statements were prepared in accordance with the accounting principles defined in the Mozambican Plan of Accounts and the accounting policies set out below. As such they follow the historical cost convention, modified for the revaluation of fixed assets, and on the basis of continuity of operations in conformity with the fundamental accounting principles of consistency, prudence, and substance over form and materiality.

(b) Transactions in foreign currency

Foreign currency transactions are accounted for in Meticaís at the official exchange rate at the date of the transaction. All amounts receivable or payable in foreign currency at the end of the year are converted into Meticaís by applying the official exchange rates at that date. The profits and losses on translation are charged through the income statement.

(c) Fixed assets

Equipment and other fixed assets are stated at cost. Depreciation is calculated on cost using straight-line basis over their expected useful lives. The following depreciation rates were used:

	Annual rates
Transport equipment	25%
Furniture and office equipment	10-16.66%
Intangible assets	33.33%

5. AUDITOR'S REPORT ON IMPACTO'S FINANCIAL STATEMENTS

IMPACTO, PROYECTOS E ESTUDOS AMBIENTAIS
NOTES TO THE FINANCIAL STATEMENTS
PERIOD: NOVEMBER 9, 1998 TO SEPTEMBER 30, 2002

(Expressed in thousands of Meticais)

1. Clients

	<u>1999</u>	<u>2000</u>	<u>2001</u>	<u>2002</u>
USAID	-	1,054,558	-	-

2. Debtors

	<u>1999</u>	<u>2000</u>	<u>2001</u>	<u>2002</u>
Reimbursement - Zambezia Project	829,775		339,117	322,656
State debtor	-	70,395	77,273	629,58
Employee debtor	11,600	9,070	38,109	732,60
Other	27,149	115,408	275,171	-
	<u>868,524</u>	<u>194,873</u>	<u>729,670</u>	<u>458,874</u>

3. Cash and Bank

	<u>1999</u>	<u>2000</u>	<u>2001</u>	<u>2002</u>
Cash and Bank				
Banks				
Foreign currency	1,665,722	267,179	1,653,334	894,252
Local currency	48,299		1,436	144,401
	<u>1,714,021</u>	<u>267,179</u>	<u>1,654,770</u>	<u>1,038,653</u>
Cash	43,585	35,764	55,901	49,733
	<u>1,757,606</u>	<u>302,943</u>	<u>1,710,671</u>	<u>1,088,386</u>

6. Suppliers

	<u>1999</u>	<u>2000</u>	<u>2001</u>	<u>2002</u>
Intercar	-	205,805	-	-
Others	-	-	167,569	-
	<u>-</u>	<u>205,805</u>	<u>167,569</u>	<u>-</u>

5. AUDITOR'S REPORT ON IMPACTO'S FINANCIAL STATEMENTS

5. Creditors

	<u>1999</u>	<u>2000</u>	<u>2001</u>	<u>2002</u>
State creditor				
Employee tax	2,460	-	4,878	10,704
Social Security contributions	798	-	3,619	-
Company tax	-	-	-	11,525
VAT	2,011	-	128,284	5,747
Withholding tax	<u>251,626</u>	<u>-</u>	<u>439,810</u>	<u>(24,112)</u>
	<u>256,895</u>	<u>-</u>	<u>576,591</u>	<u>3,864</u>
Shareholders				
Mario Rassul	441,832	441,832	441,832	441,832
Antonio Couto	315,635	315,635	315,635	315,635
John Hatton	368,844	718,844	718,844	718,844
Adriano Macie	<u>179,218</u>	<u>179,218</u>	<u>179,218</u>	<u>179,218</u>
	<u>1,305,529</u>	<u>1,655,529</u>	<u>1,655,529</u>	<u>1,655,529</u>
Other creditors				
Novarte	257,897	-	-	-
Danida	721,543	-	88,973	-
CFM	-	-	103,817	1,047,599
Credit Bank balances - BIM	-	-	434,586	-
BIM leasing	-	-	-	1,044,478
ERM	183,102	-	-	-
Other	<u>10,225</u>	<u>432,335</u>	<u>-</u>	<u>-</u>
	<u>1,172,767</u>	<u>432,335</u>	<u>627,376</u>	<u>2,092,077</u>
	<u>2,735,191</u>	<u>2,087,864</u>	<u>2,859,496</u>	<u>3,751,470</u>

6. Accruals

	<u>1999</u>	<u>2000</u>	<u>2001</u>	<u>2002</u>
Deferred income	490,273	633,714	1,341,151	-
Tax provision	14,783	102,917	131,693	83,235
Communication and Electricity	-	22,991	74,446	8,168
Others	<u>126,727</u>	<u>17,641</u>	<u>-</u>	<u>48,457-</u>
	<u>631,783</u>	<u>777,263</u>	<u>1,547,290</u>	<u>139,860</u>

5. AUDITOR'S REPORT ON IMPACTO'S FINANCIAL STATEMENTS

7. Fixed Assets

	<u>1999</u>	<u>2000</u>	<u>2001</u>	<u>2002</u>
Cost				
Buildings	-	396,489	402,342	402,342
Equipment	56,201	919,169	1,213,822	2,227,905
Furniture and Office equipment	958,393	1,041,155	1,346,543	1,754,944
Extraordinary repairs	13,132	13,132	0	63,320
Intangible assets	<u>184,328</u>	<u>184,328</u>	<u>506,120</u>	<u>457,500</u>
	<u>1,212,054</u>	<u>2,554,273</u>	<u>3,468,827</u>	<u>4,906,011</u>
Depreciation				
Buildings	-	7,930	15,977	22,012
Equipment	14,050	243,843	547,299	938,291
Furniture and Office equipment	235,493	381,340	495,330	665,526
Extraordinary repairs	10,942	13,132	-	3,687
Intangible assets	<u>153,592</u>	<u>184,328</u>	<u>-</u>	<u>-</u>
	<u>414,077</u>	<u>830,573</u>	<u>1,058,606</u>	<u>1,629,516</u>
Net	<u>797,977</u>	<u>1,723,700</u>	<u>2,410,221</u>	<u>3,276,495</u>

8. Share Capital

Share capital is made up as follows:

	<u>MZM'000</u>
Mario J. Rassul	4,500
António L. Couto	10,500
Adriano Macie	4,500
John Hatton	<u>10,500</u>
	<u>30,000</u>

9. Services

	<u>1999</u>	<u>2000</u>	<u>2001</u>	<u>2002</u>	<u>TOTAL</u>
Maintenance & Repairs	53,151	31,010	353,518	57,522	495,201
Audit & Accountancy	165,571	120,906	-	78,393	364,870
Communications	143,962	219,636	284,585	263,475	911,658
Transport	170,531	326,539	286,280	215,855	999,205
Meals, Lodging and Allowance	-	-	-	456,117	456,117
Subcontracts	-	564,290	-	-	564,290
Technical Assistance	2,279,583	1,094,046	5,165,181	1,805,437	10,344,247
Other	<u>155,905</u>	<u>140,939</u>	<u>553,760</u>	<u>385,136</u>	<u>1,235,740</u>
	<u>2,986,703</u>	<u>2,497,366</u>	<u>6,643,324</u>	<u>3,261,935</u>	<u>15,371,328</u>

5. AUDITOR'S REPORT ON IMPACTO'S FINANCIAL STATEMENTS

10. Other costs

	<u>1999</u>	<u>2000</u>	<u>2001</u>	<u>2002</u>	<u>TOTAL</u>
Rental	102,917	349,519	536,417	656,772	1,645,625
Insurance	32,763	14,107	56,263	197,450	300,583
Non reimbursable expenses	91,343	160,147	83,940	70,667	406,097
Other	12,643	24,416	50,042	72,777	159,878
	<u>239,666</u>	<u>548,189</u>	<u>726,662</u>	<u>997,666</u>	<u>2,512,183</u>

11. Extraordinary items

	<u>1999</u>	<u>2000</u>	<u>2001</u>	<u>2002</u>	<u>TOTAL</u>
Disposals	(32,770)	-	(117,801)	-	(150,571)
Fine	-	-	(142,549)	(1,600)	(144,149)
Other	-	-	-	(3,266)	(3,266)
Doubtful debtors	(91,154)	-	-	-	(91,154)
	<u>(123,924)</u>	<u>-</u>	<u>(260,350)</u>	<u>(4,866)</u>	<u>(389,140)</u>
Others	-	-	79,923	103,817	183,740
Exchange rate difference	191,090	550,477	813,051	88,22	1,563,440
	<u>191,090</u>	<u>550,477</u>	<u>892,974</u>	<u>112,639</u>	<u>1,747,180</u>
	<u>67,166</u>	<u>550,477</u>	<u>632,624</u>	<u>107,773</u>	<u>1,358,040</u>

12. Tax contingency

The tax authorities have the right to review the tax situation of the company for a period of up to five years. This may result in adjustments due to a different interpretation and/or non-compliance with the legislation related to company tax, payroll tax, withholding tax and VAT. It is not possible to determine the extent of the adjustments, if any, which may result.

6. AUDITORS REPORT ON INDIRECT COST RATE COMPUTATION

6.1 Independent Auditor's Schedule of Computation of Indirect Cost Rate

Impacto – Projectos e Estudos Ambientais

Av. dos Mártires da Machava, 968

Maputo, Mozambique

Our audit was made for the purpose of forming an opinion on the basic financial statements taken as a whole. A schedule of computation of indirect cost rate is presented for purpose of additional analysis and is not a required part of the basic financial statements. Such information is subjected to auditing procedures applied in the audit of the basic financial statements.

Qualification

1. We were not provided with a schedule of computation of indirect cost as set out in Example 63 of the Guidelines for Financial Audits contracted by Foreign Recipients.
2. Neither were we provided with sufficient information regarding the client's allocation of costs, per the basic financial statements, as DIRECT (with exception of direct costs attributable to this USAID project and specific technical consulting fees) or INDIRECT.

In our opinion, because of the significance of the matters discussed in the preceding paragraphs, we do not express an opinion on the schedule of computation of indirect cost in relation to the basic financial statements taken as a whole, for the periods November 9, 1998 to September 30, 2002.

Maputo, July 19, 2004



APPENDIX A DETAILED FUNDS ACCOUNTABILITY STATEMENT BUDGET INCL. REVISIONS AND ACTUALS - PER ANNUM**FUNDS ACCOUNTABILITY STATEMENT****USAID FUNDS MANAGED BY IMPACTO****CONTRACT N° 656-C-00-98-00066-00**

	<u>BUDGET</u>			<u>ACTUAL</u>				<u>Total</u>	Budget greater than Actual Balance
	<u>ORIGINAL</u>	<u>AMEND 1</u>	<u>AMEND 2</u>	<u>1999</u>	<u>2000</u>	<u>2001</u>	<u>2002</u>		
<u>INCOME</u>				45,303	89,505	149,780	47,889	332,477	
<u>EXPENSES</u>									
Personnel	183,005	181,269	181,269	19,202	35,324	85,726	26,636	166,888	14,381
Travel & Transportation	35,835	28,412	28,412	2,432	8,696	4,564	5,035	20,727	7,685
Supplies	5,000	13,099	13,099	1,358	2,941	821	5,609	10,729	2,370
Other Direct Costs	14,851	15,911	15,911	180	2,414	5,243	556	8,393	7,518
	238,691	238,691	238,691	23,172	49,375	96,354	37,836	206,737	31,954
Overhead	48,694	48,694	122,472	9,959	19,401	19,332		48,692	73,780
Subtotal	287,385	287,385	361,163	33,131	68,776	115,686	37,836	255,429	105,734
FEE	28,739	28,739	28,739	5,590	7,723	12,332	3,094	28,739	0
Subtotal	316,124	316,124	389,902	38,721	76,499	128,018	40,930	284,168	105,734
VAT		56,000	56,000	6,583	13,006	21,762	6,958	48,309	7,691
<u>TOTAL</u>	<u>316,124</u>	<u>372,124</u>	<u>445,902</u>	<u>45,304</u>	<u>89,505</u>	<u>149,780</u>	<u>47,888</u>	<u>332,477</u>	<u>113,425</u>



Proyectos e Estudios Ambientales

**ANNEXES TO MANAGERMENTS
COMMENTS TO INCLUDE IN THE
FINAL AUDIT REPORT**

October, 2004

ANNEX 1
APPROVED BUDGET TABLE

US MORE

DEAR MARTIN

PLEASE FIND THE PROPOSER, REVISED
AND AGREED.

I WOULD LIKE TO RECEIVE YOUR
ADVICE ON WAY TO CLARIFY
THE BEST ~~WAY~~ NEXT STEPS
OR THIS KIND OF PROPOSED
CONTRACTS

BEAR WYMAN

Luana Fortes

2/11

Impacto

Projectos e Estudos Ambientais

Com os melhores cumprimentos

Address: Av. Marfins da Machava, 968

Tel. (258-1) 49 96 36/7

Fax. (258-1) 49 30 19

Dlr.492778

E-mail: Impacto@mail.tropical.co.mz

Maputo, Mocambique

IMPACTO

Budget
Version 4 de 28/

DETAILS	YEAR 1				YEAR 2				YEAR 3				YEAR 4				CONTRU TOTAL
	FACTOR	RATE	Days	TOTAL	FACTOR	RATE	Days	TOTAL	FACTOR	RATE	Days	TOTAL	FACTOR	RATE	Days	TOTAL	
Impacto Management				8,020.61				4,140.44				4,377.46				7,019.20	31.6
PERSONNEL				1,823.08				2,019.23				2,120.19				2,344.93	8.4
Marlo Rasoul	0.10	8,666.67		866.67	0.10	7,000.00		700.00	0.10	7,350.00		735.00	0.10	7,717.60		771.75	2.8
Imamal Guly	0.15	2,564.19		384.62	0.15	2,692.31		403.85	0.15	2,826.92		424.04	0.15	2,968.27		445.24	1.6
Onlla Dias	0.15	3,076.82		461.54	0.15	3,230.77		484.62	0.15	3,392.21		508.85	0.15	3,561.82		534.29	1.9
Stella Changala	0.20	2,051.28		410.26	0.20	2,163.85		432.77	0.20	2,281.54		456.31	0.25	2,374.62		593.65	1.9
Overhead	0.10	40,875.28		4,087.54	0.05	42,424.18		2,121.21	0.05	45,145.38		2,257.27	0.10	46,742.63		4,674.26	13.3
PART A - Work Plan				7,999.28				7,816.84				7,867.88				8,007.77	31.4
PERSONNEL				6,826.00				6,883.88				6,262.23				6,626.34	22.1
Project Director		283.00	8	2,104.00		278.15	7	1,933.05		289.96	6	1,739.75		304.48	6	1,826.73	7.1
Tech. Coord/Environmental Scientist		283.00	8	2,104.00		278.15	7	1,933.05		289.96	6	1,739.75		304.48	6	1,826.73	7.1
Ecologist		231.00	5	1,155.00		242.55	5	1,212.75		254.68	5	1,273.39		267.41	5	1,337.06	4.1
Social Scientist		231.00	1	231.00		242.55	1	242.55		254.68	1	254.68		267.41	1	267.41	1.1
Civil Engineer		231.00	1	231.00		242.55	1	242.55		254.68	1	254.68		267.41	1	267.41	1.1
Overhead	0.05	43,485.59		2,174.26	0.05	45,059.88		2,252.88	0.05	47,912.87		2,395.64	0.05	49,648.52		2,482.43	9.3
PART B - Environmental Assessment, Mitigation and Monitoring & Capacity Building																	
	Number	Rate/day	Days		Number	Rate/day	Days		Number	Rate/day	Days		Number	Rate/day	Days		
PART B - Capacity Building				21,840.28				48,242.79				36,401.88				38,426.61	153.1
PERSONNEL				8,318.68				42,721.80				24,834.20				21,981.44	97.2
Specialist Team (3 members)	3	231.00	12	8,318.00	3	242.55	12	8,731.80	3	254.68	9	4,584.20	3	267.41	4	3,208.94	24.1
Community Researchers					12	50.00	36	21,000.00	12	52.50	15	9,450.00	12	55.13	10	6,615.00	37.1
Regional data Support					2	100.00	35	7,000.00	2	105.00	20	4,200.00	2	110.25	10	2,205.00	13.4
Maputo Data Support					1	100.00	80	6,000.00	1	105.00	60	6,300.00	1	110.25	90	9,922.50	22.2
TRAVEL & TRANSPORTATION				4,880.00				4,368.00				4,628.23				6,414.28	19.3
Transport in Provinces		150.00	10	1,500.00		157.50	10.00	1,575.00		165.38	10	1,653.75		173.64	10	1,734.44	6.4
Transport in Maputo		35.00	10	350.00		36.75	10.00	367.50		38.59	10	385.88		40.52	10	405.17	1.4
Per Diem - Project Director		75.00	5	375.00										87.00	5	435.00	1.7
Per Diem - Project Coordinator		75.00	5	375.00										87.00	5	435.00	1.7
Per Diem - Specialist Team		75.00	10	750.00		78.75	10.00	787.50		82.89	10	828.88		86.82	10	868.22	3.2
In-country Flights	3	500.00		1,500.00	3	525.00		1,575.00	3	551.25		1,653.75	3	578.81		1,734.44	6.4
SUPPLIES				4,000.00				600.00								890.00	5.1
Maps/Books/Materials		4,000.00	set	4,000.00		500.00	1	500.00						500.00	1	500.00	5.1
OTHER DIRECT COSTS				2,800.00				4,200.00				2,754.26				5,384.08	14.1
Field Workshops	1	1,000.00		1,000.00	2	1,050.00		2,100.00	1	1,102.50		1,102.50	1	1,157.83		1,157.83	5.1
Client Seminars	1	500.00		500.00	2	525.00		1,050.00	1	551.25		551.25	1	578.81		578.81	2.1
National Workshops													1	2,500.00		2,500.00	2.1
Translations	50	20.00		1,000.00	50	21.00		1,050.00	50	22.05		1,102.50	50	23.15		1,157.83	4.1
Overhead (Personnel only)	0.05	43,485.59		2,174.26	0.10	45,059.88		4,608.88	0.10	47,912.87		4,781.28	0.10	49,648.52		4,964.86	16.3

IMPACTO

Budget
Version 4.06.21
CONF

	YEAR 1				YEAR 2				YEAR 3				YEAR 4			
	Number	Rate/day	Days	Total	Number	Rate/day	Days	Total	Number	Rate/day	Days	Total	Number	Rate/day	Days	Total
PART C - Short Term T/A				20,014.28				16,042.48				21,855.67				23,289.41
PERSONNEL				13,888.00				8,702.00				18,280.00				18,044.00
Ecologist		231.00	15	3,465.00		242.85	10	2,428.50		254.08	15	3,810.16		287.41	10	2,874.11
Social Scientist		231.00	10	2,310.00		242.85	10	2,428.50		254.08	15	3,810.16		287.41	20	5,348.20
Civil Engineer		231.00	15	3,465.00		242.85	6	1,217.10		254.08	10	2,540.80		287.41	10	2,874.11
Environmental Scientist		231.00	20	4,620.00		242.85	19	3,614.15		254.08	20	5,081.60		287.41	20	5,348.20
TRAVEL & TRANSPORTATION				4,000.00				4,017.60				4,179.28				4,276.54
Transport to Providence		150.00	15	2,250.00		150.00	16	2,400.00		150.00	15	2,250.00		150.00	15	2,250.00
Per Diem - Project Director																
Per Diem - Project Coordinator																
Per Diem - Specialist Team		75.00	10	750.00		75.75	10	757.50		82.68	10	826.80		86.02	10	860.20
In-country Flights		600.00	2	1,200.00		625.00	2	1,250.00		651.25	2	1,302.50		676.61	2	1,353.22
Overhead (Personnel only)		0.05	43,485.59	2,174.28		45,055.85	0.05	2,252.79		47,912.27	0.05	2,395.61		49,848.22	0.05	2,491.91
Personnel				20,924.08				13,092.50				18,096.56				15,786.17
Direct Costs				16,350.00				11,193.18				11,193.18				15,100.45
Total Overhead				10,620.38				6,848.68				6,848.68				7,675.30
Fee				5,680.45				8,424.27				7,049.30				7,675.30
TOTAL CONTRACT				61,483.90				62,660.94				77,042.29				84,426.32

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**IMPACTO
ILLUSTRATIVE BUDGET LINE ITEMS**

**MARIO RASSUL
VERSION 4**

	Y1	Y2	Y3	Y4	Total
Personnel	29,924.08	60,016.98	47,197.27	45,866.40	183,004.72
Transport	8,850.00	8,392.50	8,699.63	9,892.11	35,834.23
Supplies	4,000.00	500.00	0.00	500.00	5,000.00
ODC	2,500.00	4,200.00	2,756.25	5,394.06	14,850.31
Subtotal	45,274.08	73,109.48	58,653.14	61,652.56	238,689.27
Overheads	10,620.38	11,133.18	11,899.84	15,100.45	48,693.85
Overheads (%)	42.98	31.31	20.41	43.99	36.97
Subtotal	55,894.45	84,242.66	70,492.99	76,753.02	287,383.12
Fee	5,589.45	8,424.27	7,049.30	7,675.30	28,738.31
Total	61,483.90	92,666.93	77,542.29	84,428.32	316,121.43

OVERHEAD CALCULATION						REMARKS
	CUSTO MENSAL	Y1	Y2	Y3	Y4	
Office rent	1,000,00	12,000,00	12,000,00	13,200,00	13,200,00	As per contract
Electricity	153,85	1,846,15	1,938,46	2,035,38	2,137,15	
Telephone (6 numbers)	854,70	10,256,41	10,769,23	11,307,69	11,873,08	
Water	15,38	184,62	193,85	203,54	213,72	
Computer net work management	200,00	2,400,00	2,520,00	2,646,00	2,778,30	
Office Equipment	500,00	6,000,00	6,300,00	6,615,00	6,945,75	
Fuel & car maintenance	25,64	307,69	323,08	339,23	356,19	
Security (alarms)	67,00	800,00	840,00	882,00	926,10	
Mailshot	84,00	1,000,00	1,050,00	1,102,50	1,157,63	
Salaries (general staff excluded secretary)	384,62	4,615,38	4,846,15	5,088,46	5,342,88	
Compulsivly social Insurance	130,43	1,565,13	1,643,38	1,725,55	1,811,83	Seguranca social - INSS
Total		40,975,38	42,424,15	45,145,36	46,742,53	
Insurance						
Acidentes trabalho	222,22	222,22	233,33	245,00	257,25	
Office (building & equipment)		235,00	246,75	259,09	272,04	
Permanent technical Staff		600,00	630,00	661,50	694,58	
Special Consultants Insurance	1,452,99	1,452,99	1,525,64	1,601,92	1,682,02	
Total		2,510,21	2,635,72	2,767,51	2,905,89	
GRAND TOTAL		43,485,60	45,059,88	47,912,87	49,648,52	

ANNEX 2

MODEL OF CONTROL OF WORKING DAYS

USAID RAP
13ª VIAGEM
Gorongozza - Caia Road

Short Term Consultancy

Consultor: A Jamal

20 a 22 de Nov.01

Year ___: per diems

Year ___: despesas e fees

CONSULTOR	PREPARATION				FIELD WORK				WRITING				
	I	II	III	IV	I	II	III	IV	I	II	III	IV	
A Jamal	3	15 a 19.Nov			3				16	23 a 30.Nov + 03 a 07.Dez			22
J Hatton	1								10				11
J Walter / B. Hatton	3								4				7
Maputo Data Support: L Covane													0

PER DIEMS	FIELD WORK			
	I	II	III	IV
A Jamal	3			
L Covane				

ANNEX 3

TABLE TO CALCULATE OVERHEADS

OVERHEAD CALCULATION							
	CUSTO MENSAL				REMARKS		
	Y1	Y2	Y3	Y4			
Office rent	1.000,00	12.000,00	12.000,00	13.200,00	13.200,00	As per contract	
Electricity	153,85	1.846,15	1.938,46	2.035,38	2.137,15		
Telephone (6 numbers)	854,70	10.256,41	10.769,23	11.307,69	11.873,08		
Water	15,38	184,62	193,85	203,54	213,72		
Computer net work management	200,00	2.400,00	2.520,00	2.646,00	2.778,30		
Office Equipment	500,00	6.000,00	6.300,00	6.615,00	6.945,75		
Fuel & car maintenance	25,64	307,69	323,08	339,23	356,19		
Security (alarmes)	67,00	800,00	840,00	882,00	926,10		
Mailshot	84,00	1.000,00	1.050,00	1.102,50	1.157,63		
Salaries (general staff excluded secretary)	384,62	4.615,38	4.846,15	5.088,46	5.342,88		
Compulsiviy social Insurance	130,43	1.565,13	1.643,38	1.725,55	1.811,83		Seguranca social - INSS
Total		40.975,38	42.424,15	45.145,36	46.742,63		
Insurance							
Acidentes trabalho	222,22	222,22	233,33	245,00	257,25		
Office (building & equipment)		235,00	246,75	259,09	272,04		
Permanent technical Staff		600,00	630,00	661,50	694,58		
Special Consultants Insurance	1.452,99	1.452,99	1.525,64	1.601,92	1.682,02		
Total		2.510,21	2.635,72	2.767,51	2.905,89		
GRAND TOTAL		43.485,60	45.059,88	47.912,87	49.648,52		

24 /

ANNEX 4

AMENDMENT 2: FINAL OVERHEAD

I. Delete "B.4 BUDGET" in its entirety and replace with:

"B.4 BUDGET

LINE ITEM	ORIGINAL BUDGET	THIS MODIFICATION	TOTAL
Personnel	181,269	0.0	181,269
Travel & Transportation	28,412	0.0	28,412
Supplies	13,099	0.0	13,099
Other Direct Costs	15,911	0.0	15,911
Overhead	48,694	73,778	122,472
Sub-Total	287,385	73,778	361,163
Fee	28,739	0.0	28,739
Sub-Total	316,124	73,778	389,902
VAT	56,000	0.0	56,000
Total	372,124	73,778	445,902

II. Delete "B.5 ESTABLISHMENT OF INDIRECT COSTS" in its entirety and replace with:

"B.5 ESTABLISHMENT OF INDIRECT COSTS

Pending the establishment of revised provisional or final indirect costs rates, allowable indirect costs shall be reimbursed on the basis of the following negotiated provisional or predetermined rates and the appropriate bases:

Description	Rate	Base	Type	Period
Overhead	49.58	1/	1/	1/
Overhead	64.46	1/	1/	1/
Overhead	58.28	1/	1/	1/
Overhead	58.28	1/	1/	1/

1/ Base of Application: Total Direct Costs
Type of Rate: Final
Period: October, 1998 to December, 1999

1/ Base of Application: Total Direct Costs
Type of Rate: Final
Period: January, 2000 to December, 2000

1/ Base of Application: Total Direct Costs
Type of Rate: Final
Period: January, 2001 to December, 2001

1/ Base of Application: Total Direct Costs
Type of Rate: Provisional, until Amended
Period: January, 2002 to October, 2002

ANNEX 5
RIG CORRESPONDENCE



Regional Inspector General/
Pretoria

April 2, 2001

Mario Jorge Rassul
IMPACTO, Projectos e Estudos Ambientais
C/o USAID/Mozambique Controller
Maputo, Mozambique

Reference: Audit Report No. 4-656-01-038-R

Dear Trustees:

We have reviewed the above-referenced audit report of IMPACTO, Projectos e Estudos Ambientais, prepared by the audit firm Deloitte & Touche, Chartered Accountants, Maputo, Mozambique, for the period November 23, 1998 through December 31, 1999. The Auditors' Report on the Fund Accountability Statement, Report on Internal Controls, and Report on Compliance were found to be generally prepared in accordance with the requirements of the "Guidelines for Financial Audits Contracted by Foreign Recipients" (Guidelines).

However, we wish to point out the following condition, which your auditors will need to address in subsequent audits to more fully comply with the Guidelines:

> Fund Accountability Statement

The report did not show the local currency for the actual revenues and expenditures nor did it disclose the applicable exchange rate (s) in effect during the audit period for this data. Future reports should disclose the applicable exchange rate(s) to convert to U.S. Dollars in the notes to the Statement or show the Meticais local currency equivalents.

Please pass the above comment to your auditors so that these issues are addressed in future audits of USAID funds by this firm.

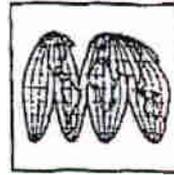
Sincerely,

Joseph Farinella
Joseph Farinella
Regional Inspector General/Pretoria

Recd. Dr. ANELYS Mikolova
Deloitte & Touche,
FA 429163



FAX



OFFICE OF THE REGIONAL INSPECTOR GENERAL / PRETORIA
AGENCY FOR INTERNATIONAL DEVELOPMENT
SANCARDIA BUILDING, 4TH FLOOR
524 CHURCH STREET / P.O. Box 55380
ARCADIA, PRETORIA 0007 South Africa
FAX No 27 12 324-5064 / PHONE: 27 12 323-8869

DATE: September 11, 2001

PAGES: 1

TO: Regional Director of Impacto
C/o Ismael Gufar Gulli

Fax: (258) 1-493019

FROM: Stuart Long

SUBJECT: This is to inform you that we have scheduled a Quality Control Review (QCR) of Deloitte & Touche for Tuesday, September 18, 2001 at 8:00a.m. in Maputo. The QCR will review the audit of IMPACTO, Agreement No. 656-C-00-98-00066-00, for the Period 23 November 1998 to 31 December 1999. This is a courtesy notification and requires no action on your part.