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PIO/T N° 685-0205-3-20115
CASAMANCE REGIONAL DEVELOPMENT
FAA SECTION 121D CERTIFICATION

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19th September 1984

S.J. Littlefield,
Director,
USAID
Dakar,
Sénégal.

Dear Madam,

PIO/T NO. 685-0205-3-20115 - CASAMANCE REGIONAL DEVELOPMENT -
FAA SECTION 1210 CERTIFICATION

In accordance with the terms of reference of the above PIO/T Ms Jenny Webb of our staff visited Ziguinchor from July 31 to August 17, 1984 to assess the systems of accounting and internal control of the project. She also visited the regional centre and warehouse at Bignona, the seed multiplication farm at Kouidioubi and the zone centre of Tenghori. In Dakar, she visited Dr. Diallo of the University of Dakar Parasitology Department to examine the records of the health control component of the project.

2. As the project is divided into several components, each with its own system of accounting and reporting, we have issued separate reports for each accounting station as follows:

APPENDIX A SOMIVAC/PIDAC (Société de la Mise en Valeur Agricole de la Casamance/Projet Interimaire de Développement Agricole en Casamance). This accounting station is responsible for four bank accounts directly pertaining to USAID funds:

- SGBS 14699 Operating account
- SGBS 14700 Special Agricultural Credit Account
- SGBS 118/922 Special Mobylette Account
- SGBS 118/923 Reimbursement of Technical Assistants' Personal Mileage

In addition, it submits details of PIDAC salaries which USAID subsequently reimburses.

APPENDIX B ISRA (Institut Sénégalais de Recherches Agricoles)

APPENDIX C CASAMANCE HEALTH CONTROL

APPENDIX D WOMEN'S DEVELOPMENT

3. A further component of the project, the Casamance Health Education and Study, does not require certification because it does not receive cash funds. We have, however, included in Appendix E our recommendations for improvements in the financial management of this component.

Summary of Conclusions and Recommendations

4. Only two of the four components are certifiable (ISRA and Women's Development). The Health Control component has very few transactions and would require only a small amount of training or the engagement of an external accountant for one half-day per month in order to produce reliable and easily verifiable reports.

5. SOMIVAC/PIDAC, on the other hand, will require a considerable amount of technical assistance for training, systems design and implementation and the recruitment of suitably qualified accounting staff. It will be necessary for USAID to issue amendments to the project agreement and project implementation letters which set out clearly how the revolving funds are to be managed.

6. An improvement in the flow of information from Supplies Management Office and much closer monitoring by the project officer will be required. All verification of the accounting records should take place at the project offices and the processing of requests for advances should be accelerated to ensure that the implementation of the project is not impeded through lack of funds.

7. If you would like any further information, or if you require assistance in implementing any of the recommendations made in this report, please do not hesitate to contact us.

Yours truly,

Debra Hartman & Bill

GLOSSARY OF ABBREVIATIONS

ACC	Agent Comptable Central
ACP	Agent Comptable Particulier
BNE	Budget National d'Exploitation
CEP	Centre des Etablissements Publics
ISRA	Institut Sénégalais de Recherches Agricoles
PIDAC	Projet Interimaire de Développement Agricole en Casamance
RIG	Regional Inspector General
SECID	South East Consortium for International Development
SOMIVAC	Société de la Mise en Valeur Agricole de la Casamance
SRFMP	Sahel Regional Financial Management Project
USAID	United States Agency for International Development

APPENDIX A - SOMIVAC/PIDAC

I N D E X

	<u>Paragraphs</u>
FAA SECTION 121D CERTIFICATION AUDIT REPORT	1 - 2
GENERAL	
- Background	3
- Approach	4
- Summary of Past Problems	5 - 10
- Organization and Personnel	11 - 14
- Procedures Manual	15 - 16
- Accounting for USAID Financing	17 - 21
OPERATING ACCOUNTS	
- Accounting for Expenditure	22 - 29
- Cash Advance Funds	30 - 35
- Zone Cash Funds	36 - 40
- Accounting for Receipts	41 - 46
- Financial Reports to USAID	47 - 54
- Budgetary Control	55 - 58
CONTROL OF ASSETS	
- Fixed Assets	59 - 60
- Inventory	61 - 62
- Gas Coupons	63 - 68
REVOLVING FUNDS	
- Special Agricultural Credit Fund	69 - 77
- Mobylette Account	78 - 80
- Sundry Revolving Funds	81
PRIVATE MILEAGE REIMBURSEMENT	82 - 84
CLAIMS FOR REIMBURSEMENT OF SALARIES	85 - 90

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APPENDIX A TO THE LETTER DATED 19TH SEPTEMBER 1984
ADDRESSED TO THE DIRECTOR OF USAID DAKAR

19th September 1984

S.J. Littlefield,
Director,
USAID
Dakar,
Sénégal.

Dear Madam,

SOMIVAC/PIDAC
FAA SECTION 121D CERTIFICATION REPORT

We have reviewed the accounting station SOMIVAC/PIDAC for the project Casamance Regional Development No. 685-0205. Our review was performed in accordance with the scope of work provided under Contract No. 681-0000-C-90-3154-00 and work order No. 5 and was conducted in accordance with generally accepted accounting practices and principles.

A.2 In our opinion this accounting station has a system of accounting and internal control which will not provide adequate identification of U.S. Government funds and control over the receipt and expenditure of those funds. Similarly, the system will not provide accurate and easily verifiable claims for reimbursement of salaries.

Deloitte Haskins + Sells

BACKGROUND

A.3 Prior to our visit, serious short-comings in the accounting and reporting of SOMIVAC/PIDAC had been identified (Regional Inspector General for Audit Report 7-685-84-1 of November 1983). Ms Webb's arrival in Ziguinchor coincided with that of a two-man training team from the Sahel Regional Financial Management Training Project (SRFMTP) whose one-month mission was to implement a manual of procedures written by Mr. Oumar Ndiaye. Ms Webb's task was to determine the reasons for the past failure to control project funds and to assess whether the new procedures would eliminate those fundamental weaknesses, could be relied on to control US funds and to generate timely, accurate and easily verifiable financial reports.

APPROACH

A.4 The major considerations in evaluating the new procedures were as follows:

- internal controls inherent in the system;
- creation of strong audit trail;
- elimination of duplicated effort;
- practicalities of implementation;
- feasibility of implementation programme;
- capability of staff to carry out new procedures;
- adequacy of proposed reporting procedures;
- reliability of past records as a starting point for the new system;
- eventual technical assistance requirements.

In the light of the above considerations, we have examined the organizational structure, financial reporting methods and accounting procedures. Our observations and recommendations are set out in the following paragraphs.

SUMMARY OF PAST PROBLEMS

Financial Reports

A.5 PIDAC has consistently been very slow in submitting to USAID expenditure reports to justify the advances received. Almost invariably the reports, when submitted, have been full of errors with many items not adequately supported. Vouchers have been rejected by USAID and returned to PIDAC for correction. Invoices have frequently been presented many months after the period to which they relate and there is strong reason to suspect duplication.

Pre-financing of Expenditure

A.6 USAID has been unable to advance funds to PIDAC until previous advances have been satisfactorily accounted for. Therefore, in order to cover running costs normally financed by USAID, PIDAC has used funds from other sources (loan repayments, sales proceeds and advances from SOMIVAC). This procedure has led to difficulty in supplying the justifying documents and to improper accounting for receipts.

Mobylette Repayments

A.7 Between 1979 and 1982 USAID funded the purchase of a large number of mobylettes for sale on credit to members of PIDAC staff. The loan repayments, deducted directly from salaries or paid monthly to the cashier, were supposed to be deposited in a separate bank account to finance future mobylette purchases. No record of the beneficiaries or of the repayments has been maintained and regular deposits to the special bank account have not been made.

Delays in Purchasing

A.8 Because SOMIVAC is a public organization (établissement public) all budgetary line items for a value in excess of 10.000.000 FCFA are subject to a lengthy contracting procedure which leads to excessive delays and the non-availability of products at the time they are most needed. This is particularly true in the case of gasoline where the delay contributes to an allocation of coupons which does not correspond to the requirements of PIDAC or to the amount charged to the project.

Goods supplied direct by USAID

A.9 In order to alleviate the above problems, the Supplies Management Office (SMO) of USAID has undertaken a considerable amount of purchasing on behalf of PIDAC. It has not, however, transmitted copies of the invoices promptly to PIDAC to permit correct accounting for the goods received (cf Special Agricultural Credit Fund).

Fraud

A.10 The former accountant and cashier of PIDAC are currently awaiting trial, charged with embezzling funds from the project. The fraud relates to sales receipts and loan repayments which have not been properly accounted for. In view of the lack of reliable records, it is difficult to ascertain how much has been stolen. A figure in the region of four million francs has been mentioned but is likely to be an underestimate.

ORGANIZATION AND PERSONNEL

A.11 As the law stands, all funds destined for PIDAC must pass through SOMIVAC, since only the Agent Comptable Particulier (ACP) and Director General of SOMIVAC have cheque-signing powers. Similarly, since SOMIVAC is a public establishment and PIDAC a project thereof, for the purpose of contracting for goods and services, PIDAC's requirements must be added to those of all sections of SOMIVAC and the total quantity put out to tender, if in excess of 10 million FCFA. This structure has been criticized greatly in the past (cf Project Evaluation by Tom Zalia, July, 1983 and RIG Audit November 1983) as being too unwieldy to allow proper implementation of the project, but no feasible alternative has been found.

A.12 As from August 1984, SOMIVAC will be subject to ex-post financial verification, which means that it will no longer have to send all original accounting documents to Dakar. This represents a major step forward as it should reduce the risk of duplicated claims against copy invoices. In the longer term the possibility of changing the statutes to allow greater delegation of responsibility and in particular cheque signing power to PIDAC should be explored, if there is any way this may be done without changing SOMIVAC's status of public establishment. The option of converting SOMIVAC into a Société Nationale should be avoided because of the cash-flow problems which severance from the central treasury would bring.

A.13 The proposed organigram in the procedures manual creates the post of "Financial and Administrative Director" of PIDAC. This will be a key post in the operation of the new procedures and it is essential that a suitably qualified accountant be recruited to fill it. As a result of past irregularities other posts within PIDAC's accounting department are also vacant and again a higher category of staff to fill these posts should be sought.

A.14 Generally, morale among the staff is low. This fact is reflected in bad time-keeping, low productivity and much internal bickering. Absences "en mission" are not co-ordinated to permit continued functioning of a department. During our visit the ACP and the clerk responsible for the bank journal were both in Dakar at the same time leaving the general ledger in a locked office. It is to be hoped that when SOMIVAC moves to the new building, the improved facilities, filing space and general working conditions will change the staff's attitude towards work. It is imperative, however, that the directors, ACP and others in positions of responsibility set an example to the rest of the staff and actively enforce sanctions for unpunctuality and unauthorized absence.

PROCEDURES MANUAL

A.15 The procedures manual which the SRFMTP training team is currently trying to implement is stamped "avant-projet", meaning first draft, and does not claim to be comprehensive. One of the most notable omissions is a detailed job description for each post. Determining the distribution of tasks in such a way as to ensure an adequate segregation of duties, while at the same time arriving at an equitable and manageable division of the work-load is the job of an experienced systems designer. The training team should take the initial steps in this direction but, in view of the further modifications which we feel should be made to the procedures, the task of writing detailed job descriptions for inclusion in the manual should fall to the systems designer engaged to make those modifications.

A.16 The major areas in which we recommend modification to the procedures are detailed in this report as follows:

- presentation of financial reports to USAID;
- accounting for USAID financing;
- maintenance of manual general ledger;
- accounting for the Special Agricultural Credit Fund;
- accounting for the Mobylette fund;
- accounting for receipts;
- issue of gas coupons.

The manual should also contain the SOMIVAC/PIDAC chart of accounts with full descriptions as to the operation of each account. Again, this task should fall to the systems designer after creation of the accounts necessary to control USAID financing, the Special Agricultural Credit Fund, the Mobylette fund and any other revolving funds which may come into existence.

ACCOUNTING FOR USAID FINANCING

A.17 Project Implementation Letters stipulate the bank accounts into which cheques and the reimbursement of loans or proceeds of sales are to be deposited. They give no instruction as to how to account for the funds using double-entry book-keeping. Similarly, when assets and supplies are bought by the Supplies Management Office of USAID on behalf of the project, there is no requirement that they be entered in the accounting records, although a memorandum record should be maintained. There is no accounting and financial reporting system for the credit funds as distinct entities.

A.18 As SOMIVAC is a public establishment and is supposed to bring its total assets into the balance sheet, it uses capital and operating subsidy accounts and a current account to permit the double-entry accounting of all operations with USAID. As is seen later in the report, full information is not always received by the project accountant and the asset records are

consequently incomplete. In principle, the accounting entries are as follows:

When SMO supplies equipment:
DR 22xx Equipment account
CR 1409 Equipment Subsidy

When SOMIVAC receives an advance from USAID:
DR 57 SGBS USAID A/C N° 14699
CR 4376 Current account USAID

When a 1034 voucher is submitted:
DR 4376 Current account USAID
CR 1409 Equipment subsidy
CR 7600 Operating subsidy

A.19 In theory, therefore, the balance outstanding on account 4376 should represent the advances received from USAID which have yet to be justified, represented by permanent disallowances, vouchers in process, advances against contracts and cash. The situation is complicated by the fact that funds received for the Special Agricultural Credit Fund have also been credited to account 4376. Furthermore, in the absence of any other instructions, the ACP intends to credit the account with the value of the farming implements and fertilizer purchased direct by USAID for credit sale to the producer groups.

A.20 In the procedures manual, it is proposed that a register of USAID financing be maintained and reconciled periodically with the general ledger and with USAID's accounting records. The format proposed for the register allows only for the recording of requests for advances and for invoices paid direct by USAID. It does not provide for the recording and follow-up of no-pay vouchers submitted and does not therefore show the utilization and justification of funds received.

A.21 We recommend that:

- the exact status of USAID/PIDAC financing be determined;
- a consultant systems designer be called in to set up accounts in the general ledger to account for US financing and direct supply of materials, Agricultural Credit Fund, and Mobylette fund and to document fully the operation of those accounts.
- adjusting entries be made to the general ledger accounts in order to reflect the balances determined by analysis of USAID accounts and SOMIVAC memoranda;
- all future financial PILs clearly state the method of accounting for funds or materials in addition to stipulating the bank account into which the funds or sale proceeds must be deposited.
- the proposed Register of Financing be replaced by a reconciliation statement to be included in the monthly financial reports.

ACCOUNTING FOR EXPENDITURE

Purchase Orders

A.22 The procedures laid down for purchasing and authorizing payments would ensure sufficient control if they were respected. However, in spite of repeated comments by USAID, the practice of issuing a purchase order after the goods have been delivered and the final invoice received is still current. In our view, the only means of eliminating this practice is for the director to impose sanctions on the services departments responsible for purchasing without prior approval.

Goods Received Notes (bons d'entrée)

A.23 In respect of invoices with a value in excess of FCFA 300.000, a "reception commission" formally inspects the goods and a copy of the minutes of their meeting, signed by all present, is attached to the invoice. For goods having a lower value, a goods received note is issued, but a copy is very rarely attached to the invoice. Reception of the goods is "certified" on the invoice by the Director of PIDAC and on the strength of this approval the invoice is passed for payment.

New System

A.24 A new department (Service de l'Approvisionnement), which has yet to be created, will be responsible for raising purchase orders and recording entries into stock. The creation of this department and the allocation of duties within it should be treated as top priority in the implementation of the new system. From the procedures manual it is unclear as to whether goods received notes will in future be joined to invoices, but we recommend that this be done.

Payments

A.25 All payments in excess of FCFA 50.000 should be made by cheque. The approved invoices are passed to the ACP for payment. We could not establish whether it is the ACP himself or one of his staff who writes the cheque, which is then signed by the ACP and the Director of SOMIVAC. The payment is recorded in the bank journal by a member of the ACP's staff who also performs the bank reconciliations. Several invoices are often paid with one cheque and it is the practice to record each invoice amount separately in the bank journal. Thus one cheque payment may cover many entries. As it is the journal line entries and not the cheque numbers and amounts which appear on the disbursement reports, no tie-up between reported disbursements and debits on the bank statement is possible without returning to the journal and using an adding machine.

A.26 We recommend that when a number of invoices are paid together, a summary showing the invoice references and totals, and adding up to the cheque amount, should be attached. If the invoices are chargeable to the same expenditure account or if they are to be credited to a supplier account, only one entry for the total charge should be made in the bank journal.

A.27 The top copy of the bank journal is detached every ten days and sent, together with the original invoices, to the Central Accountant (CEP) in Dakar for control, processing and filing. A copy of the invoice is filed in the accounts department of SOMIVAC, another copy is used for the preparation of the expenditure "memoir" and is sent to USAID.

A.28 With the transition to ex-post financial control of SOMIVAC, the original invoices should no longer be sent to Dakar. It is therefore recommended that in future no copies be taken and that all verification be made on the original documents. This procedure would eliminate the possibility of double-charging which has arisen in the past.

A.29 It is stated in the procedures manual that in the event of a change in the statutes of SOMIVAC, cheque-signing authority should be delegated to the director and accountant of PIDAC. If this change comes about, the system will not be certifiable, since, if the accountant signs the cheques, there will be inadequate segregation of duties within PIDAC.

CASH ADVANCE FUNDS

A.30 A USAID cash fund is maintained in Ziguinchor and is supplemented regularly by cheques drawn on the USAID SGBS bank account. Although there is theoretically a limit of 500.000 FCFA on the funds to be held at any one time, this rule has been interpreted as permitting cheques to be drawn for 500.000 FCFA regardless of the balance remaining. The procedure described in the manual is for reimbursement on an imprest basis and we recommend that this be implemented as soon as possible. However as the average monthly cash expenditure is in the region of four million francs, and as the Ziguinchor cash fund is supposed to advance funds to Bignona and to the zone cash floats, we recommend that the limit be raised to 1.000.000 FCFA. We believe that instead of controlling the level of expenditure, the imposition of a lower limit would impede the proper functioning of the cash fund and would encourage practices which USAID is trying to eliminate, namely, the pre-financing of expenditure from sales receipts and loan reimbursements.

A.31 A further restriction imposed by USAID on the operation of the cash fund is that individual payments should not exceed 50.000 FCFA. PIDAC have respected the letter but not the spirit of this rule by splitting payments between vouchers. At the date of our visit the cashier's memorandum showed a balance of 204.000 FCFA. This sum was represented by 2000 francs in coins and provisional vouchers to the total of 202.000 francs in respect of travel advances. We noted that two advances of 49.000 had been made to the same person on the same day in respect of the same journey. We also noted that a voucher for 15.000 FCFA had been outstanding since June 1984.

A.32 We recommend that travel advances be followed up more promptly and that any advances outstanding more than a week after the return of the person concerned be recovered against salary.

A.33 The PIDAC accountant, arguing for a raise in the 50.000 limit, said that it was impractical to pay by cheque workers who were many miles from the nearest bank. Although individually the workers do not generally earn more than 50,000 FCFA, the total for a particular site may be in the region of 300.000 francs.

A.34 The present method of paying these workers seems to involve the issue of cash against a provisional voucher. When the men have been paid, the justifying documents are entered individually or in twos, according to the amount of the payments, in the cash journal.

A.35 We recommend that clear instructions be issued for the payment of wages. A cheque for the total amount should be drawn in favour of the person responsible for distributing the pay. Each worker should sign for receipt of his pay and all the pay documents should be filed together in the bank payments file. This procedure would reduce the number of journal entries and permit better control over the cash.

ZONE CASH FUNDS

A.36 The zone bursars receive cash advances either from the Ziguinchor float or from the Bignona float to enable them to purchase cereals from the farmers. They are also responsible for collecting, from the treasurers of the producer groups, the repayments of short and medium term loans and for making cash sales of grain, fertilizer and seeds.

A.37 At present the zone bursars maintain a cash memorandum (brouillard de caisse) on which they record receipts and payments relating to the above. They do not record the cost of loading and unloading the seeds, credit fund fertilizer or equipment on the cash summary sheets as the cash is obtained from Ziguinchor or Bignona.

A.38 Every ten days, the zone bursars detach the top copy of the cash movements summary and send it, together with the related receipt and disbursement voucher, to the PIDAC accountant in Ziguinchor. This copy must be submitted even if there have been no movements. At the end of the month, the accountant checks that he has received three folios from each zone, checks the vouchers against the entries on the folios and then records the vouchers in a cash journal for each zone.

A.39 In our opinion, this system has the following weakness:

- submission of documents on a ten-daily basis is an unnecessary waste of effort and paper if the vouchers are to be posted all together at the end of the month;
- preparation of a memorandum cash summary, the checking thereof and subsequent re-writing to a cash journal represent unnecessary duplication of effort;

- the balances maintained in some of the cash boxes are allowed to accumulate for several months before being repaid to the general bursar's cash fund;
- as receipts and expenditure are mingled within one cash fund, both are difficult to control and receipts are used to pre-finance expenses.

In view of the above weaknesses, we recommend that receipts and expenditure funds be maintained separately. (For the treatment of receipts see paragraphs A.41 - 46 below).

A.40 During the months of "commercialisation", (December and January) the zone bursars should maintain a purchases journal, analysed over the different types of cereal and handling costs. For the rest of the year, a small cash advance should be given on an imprest basis to cover handling charges and the documents should be accounted for by the central cashier each time he reimburses the imprest fund.

ACCOUNTING FOR RECEIPTS

A.41 As stated above, the zone bursars receive cash in respect of cash sales of seeds, fertilizers and pesticides, reimbursements by producer groups (GPs) of short and medium term credit and surety deposits of 1000 FCFA per person from new members joining GPs. The analysis of these receipts and the transfer to the corresponding bank accounts is carried out several months or even years later and represents a massive reconciliation exercise. Work is presently underway to analyse receipts since the start of the credit fund.

A.42 In addition to the above, the zones stock fertilizer belonging to the Société Sénégalaise des Engrais et Produits Chimiques (SSEPC) which they sell for cash but do not record in the cash summary. This money is paid to the ACP who remits it to the company. When asked how the related commission was accounted for, the ACP said that no commission had so far been received.

The central warehouse at Bignona carries a stock of spare parts for agricultural implements of the type sold on medium-term credit. Again, the parts remain the property of the supplier and the sale proceeds are not recorded in the receipt records. We were unable to ascertain who is responsible for payments to the supplier as the ACP said that he was unaware of the situation.

A.43 In our opinion, there is inadequate control over receipts if they are not recorded in the cash book. We therefore recommend that contact be made with the suppliers to determine the exact nature of the agreement and the basis on which commission is calculated. The accounting procedures should set out clearly how these receipts are to be treated and ensure that they are properly controlled.

A.44 We recommend that the cash summary maintained by the zone bursars be replaced by a cash journal which would be analysed by type of cereal, fertilizer, pesticide, loan repayment or producers' surety deposit. The original of this journal should

be sent monthly to the PIDAC accountant, together with the receipt documents and a copy to the regional bursar in support of movements on the stock schedules and debtor accounts.

A.45 Total receipts should be paid over monthly to the cashier, who should summarize them by category and pay then directly into the corresponding bank accounts. It has been recommended in the procedures manual that the loan balances be controlled in the accounts by zone and we believe that the procedure outlined above would greatly facilitate this control.

A.46 Since our visit to Ziguinchor, it has come to our attention that chickens from the poultry farm and medicines from the health education component are also being sold, with the intention of creating revolving funds. There is, at present, no clear indication as to how these funds are to be accounted for and managed. We recommend that the situation be clarified and procedures written to ensure that these funds are properly controlled.

FINANCIAL REPORTS TO USAID

A.47 As of June 1984, financial reports are prepared monthly instead of quarterly. The details of cash and bank payments are copied from the journals to expense statement sheets (Relevé Mensuel des Dépenses) on which a distinction is made between allowable and permanently disallowable disbursements. The budgetary category is shown in the final column. There is no provision for temporarily disallowable disbursements, such as advances, which will be justified in a later period. Thus, in an attempt to avoid claiming items for which there is insufficient justification, PIDAC frequently omits disbursements from the statement, with the result that total disbursements per the statement do not agree with total movements on the cash and bank accounts. If the missing items are included in the report of a subsequent period there is often a suspicion of double-counting.

A.48 In order to regroup items from the expense statement by budget category for inclusion in the monthly financial statement or "memoir" it is necessary to add-list each category. This must be done three times in order to show for each category the total expenditure, allowable and disallowable. This is a time-consuming process which leaves great scope for error and is difficult to verify.

A.49 We recommend that the method of presenting the information be re-examined in order to produce, with the minimum amount of recopying, figures which are easy to trace from one document to another and are easy to control. In the procedures manual it is assumed that the general ledger will be produced monthly, instead of quarterly, and promptly enough after the month-end to serve as a basis for the preparation of the monthly statement known as "memoir". The method of extracting and presenting the information is, however, the same as using the hand-written journals. It is also assumed that the current practice of maintaining a "parallel" manual ledger, which involves copying each individual journal line to an account card without backing sheet, will be discontinued.

15

A.50 In determining the approach to be adopted, two hypotheses should be considered:

1. That the general ledger cannot be produced promptly enough to satisfy control and reporting requirements and that the parallel accounting must continue. (The ACP has confirmed that this is likely to be the case).

In this case, we recommend a one-write system be implemented. A ledger card should be maintained for each account by cost centre. The backing-sheet should be analysed by USAID budgetary category, with additional columns for permanently and temporarily disallowable items. A typed copy of this journal would replace the present expense statement in the financial report and the totals for each budgetary category would be carried forward to the memoir.

2. That the general ledger is produced monthly and the parallel accounting discontinued.

Entries should be written directly on the analysis-sheet described above. A considerable time-saving could be achieved if:

- a) the schedule were written up daily by the PIDAC accountant for cash transactions and by the financial service for cheque payments;
- b) carbon paper were used and the top-copy of the schedule submitted to USAID in place of a typed copy, thus avoiding transcription errors and verification time.

A.51 The memoir, in its present form, is based on the false premise that SOMIVAC must justify one hundred percent of any advance received before USAID will send another cheque. It has a column in which the advance received for the period is split between the different budgetary categories and the final column shows the cash balance outstanding. If PIDAC is to function normally, without pre-financing from SOMIVAC, it is essential that at all times it has an advance equal to 60-90 days cash requirements. The analysis of the cash balance between budgetary categories requires additional effort and serves no purpose. The analysis of expenditure against budget should be more detailed and should be on a commitments basis. We therefore recommend that the memoir be redesigned.

A.52 When we examined the report of the situation at June 30, 1984, which had already been checked by a member of the Controller's Office staff of USAID, we discovered that the bank reconciliation did not immediately agree to the bank statement. Closer examination revealed that the reconciliation itself was not incorrect but that the accountant clearly did not understand the purpose of the reconciliation or how to present it. Because the statement was dated July 2, he had added back to the balance the value of the cheques debited in July to arrive at a theoretical balance at June 30. The same cheques were then included in the reconciliation as not yet debited by the bank. We recommend that the SRFMP team explain clearly to project and USAID staff how a bank reconciliation should be presented.

A.53 In the past, USAID has required SOMIVAC to submit copies of all invoices together with the financial reports. Since SOMIVAC has no photocopier of its own, it has spent large sums of money having the documents copied commercially. In our opinion, it is not possible to perform an adequate control over the invoices without verifying them against the accounting records. We therefore recommend that in future invoices should not be copied and a member of the Controller's Office staff should make a periodic visit to Ziguinchor to check them.

A.54 We also recommend that a check-list be developed and that the project manager or his assistant check the concordance between key figures on the reports and the accounting records. This check-list should be completed and signed as part of the administrative approval necessary before a voucher can be processed.

BUDGETARY CONTROL

A.55 Budgetary control cards are maintained for each budgetary line item in accordance with the SOMIVAC chart of accounts and by cost centre. A second set of cards is maintained by account code only, which represents a duplication of effort and should be discontinued. When a purchase order is issued, details are recorded on the cards and the new balance is calculated. A full listing is, in theory, produced monthly. The task of keeping the budgetary control cards has, until recently, fallen to the accountant of PIDAC, but should be re-allocated to a member of the financial section.

A.56 We recommend that a summary version of the commitments status report be prepared using the matrix given in the procedures manual for regrouping the accounts by USAID budgetary category. This information, together with cumulative expenditure per the memoir, should be transferred to a further schedule to show amounts committed but unpaid. This schedule should be submitted to USAID in support of the request for an advance.

A.57 In cases where supplies originally included in the PIDAC budget are procured direct by USAID, care should be taken to inform the budgetary control clerk so that the necessary adjustment can be made.

A.58 When planning the allocation of the government contribution to operating expenses (Budget National d'Exploitation - BNE), SOMIVAC should set aside funds to cover the taxes relating to expenditure financed by USAID and which are disallowable e.g. service tax on repairs (TPS) or lease registration tax. In addition, USAID should agree to accept small amounts of tax as part of the cost of repairs.

FIXED ASSETS

A.59 A full physical inventory of fixed assets has been taken at June 30, 1984 and the process of valuing them and reconciling them to the financial records is underway. Certain assets, procured by SMO and delivered direct to the project have not been entered in the records because the accounting department was not informed of their arrival or did not receive a copy of the invoice and payment voucher. In our opinion, responsibility for ensuring that all invoices are transmitted by SMO to PIDAC lies with the project officer and much closer follow-up will be required in future.

A.60 Detailed procedures are set out in the manual for ensuring that such assets are entered on asset register cards and brought into the accounts. A minor modification we recommend to the sequence of events is that the documents should be coded before being entered on the asset register. This would facilitate the reconciliation between the asset cards, physical inspection and accounting records at the end of the financial year.

INVENTORY

A.61 One of the major changes to be effected by the new procedures will be the introduction of a perpetual inventory system (comptabilité matière) to be fully integrated in the financial accounting. In the past there has been a system of "intermittent inventory" i.e. all entries to the accounting records in respect of cost of sales and stock balances were made as a result of a physical stock-counts at June 30 and December 31. Movements of stock in respect of the Special Agricultural Credit Fund have been well documented (see below), stock cards are already in place in most warehouses and a system of pre-numbered stock movement vouchers is in effect. The process of valuing the stock at June 30, 1984 may however, prove difficult and time-consuming because of the lack of information concerning the cost of stock procured by USAID.

A.62 It is impossible to stress too highly the importance of the prompt transmission of information by Supplies Management Office to SOMIVAC/PIDAC. No accounting entries were made in relation to the equipment and fertilizer supplied by USAID in 1983 because the ACP did not receive copies of the relevant invoices until August 8, 1984 and many of those copies were illegible. As a result, the closing stock at June 30, 1983 exceeded the opening stock plus purchases, thus giving a negative cost of sales value. The SOMIVAC balance sheet was rejected by the ACC for this reason, thus causing further delays in the processing of the general ledger and an absence of account balances at June 30, 1984.

GAS COUPONS

Supply

A.63 Motor fuel and lubricants, having an annual budget of approximately 30 million FCFA, of which just over half relates to PIDAC, is an extremely important item of budget expenditure. As mentioned above (cf § A.8) problems have arisen in the past because of the delays in passing a contract. While waiting for a new contract to be signed, the gasolene company has accepted provisional vouchers from the projects of SOMIVAC. These vouchers have been issued to cover immediate needs with no reference to budget allocation. Thus, by the time a contract was signed, fifty percent of the coupons for the year had been used up and the remainder were distributed pro-rata according to budget allocation. According to the Director General of SOMIVAC, this problem has been resolved by the signing of a 3 year contract (1984-1987) with Texaco.

A.64 A further problem on the allocation of gas coupons arises from Texaco's policy in relation to the tax exemption to which PIDAC is entitled. Instead of deducting the tax from the invoice, which would permit the deduction of that amount from the amount billed to PIDAC, Texaco bills all coupons at the tax-inclusive price. Subsequently, it issues a credit note for the tax, which is settled by the issue of further gas coupons. It is unclear:

- a) whether the value of additional coupons issued is calculated according to the tax-free or tax-inclusive price of gasolene.
- b) who is responsible for ensuring that these coupons are received
- c) how these coupons are distributed.

A.65 In our opinion, this practice is quite unacceptable. We recommend that an audit of gasolene purchases be carried out to establish what has been happening in the past. We also recommend that SOMIVAC make immediate contact with Texaco to change the basis for future supplies.

Custody

A.66 In the procedures manual it is proposed that the supplies accountant (comptable matière) have custody of the coupons and that he issue them on receipt of a duly authorized request form. He will record the numbers of the coupons issued, the quantity and value after each movement and keep a running total of the balances. The register will be in addition to the permanent stock card.

A.67 In our opinion, the role of the supplies accountant is to maintain an independant record of stocks of which he does not have custody. He provides an independent record against which the stock card and physical stock held by the storeman and the balance shown by the financial accounts can be controlled. We therefore considered it inappropriate that the supplies accountant should have custody of the unused gas coupons.

A.68 We recommend that the procedure be modified to provide an additional copy of the request for fuel, The supplies accountant should maintain the register and indicate on the request form the numbers of the coupons to be issued. The request form should then be passed to an independent custodian of the coupons who would issue the numbers indicated and update the permanent inventory card.

SPECIAL AGRICULTURAL CREDIT FUND

History of the Fund

A.69 There is no indication in the grant agreement, amendments to the grant agreement or PILS as to the scope of the credit fund or the way in which it is to be managed or accounted for. The grant agreement stated that a study was to be carried out to determine an acceptable interest rate which would be sufficient to prevent the capitalization of the fund or to encourage eventual involvement by commercial lending institutions. Obligation of funds would depend on the satisfactory outcome of the study.

A.70 The first funds made available for the credit fund were allocated by PIL N° 27 of April 1982. Twenty million FCFA was transferred to bank account N° 14700 at the SGBS Ziguinchor for the purchase of agricultural implements. An interest rate of 10% was to be charged. According to the PIL, the above bank account was to be used exclusively for the operations of the credit fund. The PIL did not specifically state that reimbursement of loans to farmers must be deposited in this account. The first reference to an obligation of funds to the Credit Fund is in the budget attached to Grant Amendment N° 7 for financial year 1983. It would therefore appear that PIL 27 was not in accordance with the grant agreement at the date of issue.

A.71 In June 1983, 17 million FCFA of the initial advance was returned to USAID because PIDAC had been unable to purchase the equipment and USAID had been obliged to procure it direct from the supplier. Proceeds from the sale of paddy and bank interest have been subsequently credited to the account, giving a balance at June 30, 1984 of 4.9 million FCFA.

A.72 It appears from the project paper that the credit fund was initially intended exclusively for the finance of agricultural implements and equipment on medium term (five year) credit, and for tools and construction materials on short term credit. In March 1983, with PIL N° 38, USAID agreed to prefinance, by way of loan, the purchase of fertilizer to the value of 42.5 million FCFA. PIL N° 38 did not explain whether this loan was to be repaid into project funds or whether the proceeds of sale should be paid into the Credit Fund bank account. It expressed USAID's agreement to the methods of operation proposed in SOMIVAC's letter of February 1983 requesting the finance. It was impossible to trace this letter at Ziguinchor but, after several requests, it was found in the project office at Dakar on August 29, 1984. The letter sets out the reimbursement terms by the farmers but does not specify in which bank account the funds are to be deposited or whether the reimbursements are to finance further fertilizer purchases the following year.

Fund Accounting

A.73 No instructions have been issued by USAID concerning the method of accounting for the Special Credit Fund. SOMIVAC has merely been told to use a specific bank account and to keep

detailed records. If one of the aims of the fund, as stated in the grant agreement, is to demonstrate to the commercial sector that agricultural credit can be a viable activity, it is necessary to have an accounting system which permits the results of the credit operation to be determined separately.

A.74 In our opinion it is imperative that a separate capital contribution account be set up if this fund is to be monitored properly. The interest charged to producers should be credited initially to a revenue account and transferred at the end of the financial year, after deduction of directly related expenditure and bad debts, to a special accumulated earnings account. An annual income and expenditure statement and balance sheet for the Special Credit Fund should be produced. Only by producing statements, extracted from the financial records, showing that total debtors + stock + cash = capital contribution + accumulated earnings can the project demonstrate that the fund is properly controlled and achieving its objectives.

Distribution and repayment records

A.75 Very detailed memorandum records are maintained by the zone bursars showing the receipt of goods from the central warehouse, distribution to the producers and repayments in cash and in kind. Every 10 days they submit a schedule to the regional bursar showing all movements, together with copies of the prenumbered stock movement notes.

A.76 For each producer with whom a loan agreement has been signed, a card is kept by the zone bursar, regional bursar and general bursar and all repayments in cash or in kind are recorded on the card. The new procedures propose a reduction in the duplication of effort and will permit accounting control to be established over the balance of loans outstanding in each zone. In addition, we recommend (cf § A.44) that an analysed receipts journal be introduced in the zones and reconciled to stock movements.

A.77 We recommend that an audit of the memorandum records be carried out to ascertain how accurately they have been maintained and how much reliance can be placed on the summary statement of results for the year.

MOBYLETTE ACCOUNT

A.78 Mobylettes were procured by USAID on several occasions between 1979 and 1982 for sale on credit to members of SOMIVAC/PIDAC staff. No official reference is made to them until PIL N° 28 of June 25, 1982 which requests that a special mobylette account be opened at the SGBS Ziguinchor and that loan reimbursements be paid into that account. It states that there is to be a revolving fund and that the sums deposited in the special bank account will be reserved for financing mobylettes throughout the life of the project. There is no mention in the grant agreement or amendments of the creation of a revolving fund.

A.79 In their audit report of November 1983, the RIG auditors stated that the account was not being used and issued a recommendation that the full amount of the reimbursements be determined and deposited in the account. At the time of Ms Webb's visit to Ziguinchor, a list of the recipients of the mobylettes and their repayments had been requested. The ACP provided the list the following week but there was no evidence that the beneficiaries were in agreement. The difference between the reimbursements of 24 million FCFA shown by the list and the balance of the special bank account, 10 million FCFA, has been deducted by USAID from the salaries' reimbursement cheque. A separate cheque for payment into the special bank account will be issued by USAID Paris.

A.80 We recommend that the balance outstanding be agreed with the beneficiaries and that a fund account be set up equal to the cash balance plus debtors at a given date. PIDAC should report monthly on the status of the fund and submit a copy of the bank statement. A PIL should be drawn up setting out the method of accounting and reporting.

SUNDRY REVOLVING FUNDS

A.81 It has recently come to our attention that revolving funds are to be created in connection with the activities of the poultry farm and with the sale of medicines. Neither of these activities is provided for by the project agreement and there appears to be no authorization for the sale of medicines provided by USAID.

We recommend that, if these activities are to continue, a grant amendment is drawn up and proper procedures for accounting for the funds be developed. The wisdom of such diversification should, however, be questioned.

A.82 Technical assistants submit a quarterly statement to USAID of private mileage done using project vehicles. USAID collects the cash and sends a cheque to SOMIVAC. According to the procedures manual, this cheque should be deposited in a separate bank account No 118923. Due to the absence of the ACP for the final week of Ms Webb's visit, we were unable to ascertain whether or not this procedure is being followed.

A.83 According to a member of USAID project office staff, the amounts involved are insignificant, the most recent cheque being for about \$24. We were unable to obtain an explanation as to why a separate account was needed or to what use the funds were to be put.

A.84 This matter would appear trivial were it not for the fact that the bank account had been opened without any reference to a PIL. This automatically raises the question as to whether other accounts have been opened in this way. We recommend that in preparation for the forthcoming audit of the project, the banks be requested to provide USAID with a full list of the accounts open in their books in the name of SOMIVAC.

A.85 Since 1980 USAID has reimbursed the Government of Senegal for the salaries, certain indemnities and social charges of PIDAC employees. This cost was originally intended to be borne by the GOS. The monthly payroll is produced on the computer by the Central Pay Office for Public Establishments. A monthly listing is sent to SOMIVAC together with a treasury cheque for salaries to be paid in cash.

A.86 On the monthly listing the personnel of SOMIVAC/PIDAC and all other projects controlled by SOMIVAC are mixed together and the project to which each individual belongs is designated by a code. A monthly summary of pay and social charges by project and account code is also produced. (Récapitulation Générale par poste de paie). In order to arrive at the salary charge attributable to each cost centre the PIDAC accountant performs a manual analysis of the payroll, which he records in a hard-backed register. This process is very time-consuming and cannot be started until after SOMIVAC has finished using the single copy of the payroll received.

A.87 As claims for reimbursement from USAID have always been on a quarterly basis, the accountant, using an adding machine and turning the pages of his register, has added up the three months' pay, social charges and six possible types of indemnity for each of nearly 200 employees. The information is then summarized by cost centre, typed and checked. It is little wonder that the claim takes a long time to prepare, contains many errors and is impossible to verify. Monthly reporting should alleviate this problem to a certain extent.

A.88 From discussions with the ACP, it would appear that the Central Pay Office is unable to print out the monthly salaries by cost centre. Manual analysis is therefore unavoidable.

We recommend that SOMIVAC request an additional copy of the monthly print-outs to permit the analysis work to start earlier.

A.89 We further recommend that in future USAID request only the analysis of the payroll and social charges by cost centre, supported by reconciliation to the computer-produced monthly summary, a photocopy of which should be attached. If USAID is unwilling to reimburse all indemnities a fixed percentage could be deducted from the reimbursement. In our opinion, the time spent recopying the individual salary details from the analysed paybook to the draft claim schedules, typing and checking cannot be justified. It is likely to produce errors which do not exist in the accounting records, it offers no additional control to USAID and, most important, it prevents the accountant from devoting his time to more important matters.

A.90 We recommend that USAID review the claims analytically, request explanations for any significant variances between one month and the next. Periodically, a member of USAID staff should visit Ziguinchor to check the physical existence of a selected number of employees and the concordance between the claims and the analysed paybook.

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APPENDIX B TO LETTER DATED 19TH SEPTEMBER 1984
ADDRESSED TO THE DIRECTOR OF USAID DAKAR

19th September 1984

S.J. Littlefield,
Director,
USAID
Dakar,
Sénégal.

I S R A

FAA SECTION 121D CERTIFICATION AUDIT REPORT

We have reviewed the accounting station ISRA for the project Casamance Regional Development No. 685-0205. Our review was performed in accordance with the scope of work provided under Contract No. 681-0000-C-00-3154-00 and work order No. 5 and was conducted in accordance with generally accepted accounting practices and principles.

B2. In our opinion, this accounting station has a system of accounting and internal control which will provide adequate identification of U.S. Government funds and control over the receipt and expenditure of those funds.

Deloitte Haskins & Sells

I S R A

B.3 The system of accounting and internal control at ISRA is good. A separate analysed cheque register, analysed by USAID budgetary categories, is maintained in addition to the computerized journal and all cheques are recorded when issued. Items paid out of petty cash and chargeable to USAID are debited to a liaison account. This account is cleared and the items debited to the correct expense accounts when a cheque for the corresponding amount is drawn on the ISRA/USAID bank account. As the use of the liaison account has only been in operation since March 1984, auditors examining prior periods should look for any possible duplications in the recharging of expenditure to donors.

B.4 Financial statements are produced on a timely basis and are easily verifiable. Copies of all invoices and supporting documents are submitted to USAID with the financial report. We recommend that in future all verification of invoices be carried out at the ISRA offices of Djibelor.

B.5 There is no perpetual inventory system at ISRA, all inputs being treated as consumed in the year of purchase. However, as the project increases in size, a more accurate method of calculating the cost of production and of controlling stock should be introduced. We recommend that a SRFMP team assist in the implementation of a costing system at ISRA.

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APPENDIX C TO LETTER DATED 19th SEPTEMBER 1984
ADDRESSED TO THE DIRECTOR OF USAID DAKAR

19th September 1984

S.J. Littlefield,
Director,
USAID
Dakar,
Sénégal.

CASAMANCE HEALTH CONTROL
SECTION 121D CERTIFICATION REPORT

We have reviewed the accounting station Health Control Component for the project Casamance Regional Development No. 685-0205. Our review was performed in accordance with the scope of work provided under Contract No. 681-0000-C-00-3154-00 and work order No. 5 and was conducted in accordance with generally accepted accounting practices and principles.

In our opinion this accounting station has a system of accounting and internal control which will not provide adequate identification of U.S. Government funds and control over the receipt and expenditure of those funds.

Deloitte Haskins & Sells

CASAMANCE HEALTH CONTROL

C.3 The Casamance Health Control component is run by a professor at the Institute of Parasitology at the University of Dakar. All laboratory equipment is purchased direct by USAID. The local currency bank account is for vehicle maintainance, indemnities and sundry expenses when the professor and his team visit the Casamance. Their task is to collect and analyse blood samples to determine whether desalination of the dykes is increasing the level of malaria.

C.4 When Ms Webb visited the professor on August 21, 1984, he was unable to show her his cash and bank journal because he had submitted it to USAID for verification, together with his financial report, on July 2 and the person responsible for dealing with it was on vacation. He said that although he had opened a new bank account, as instructed, at Citibank, no transfer of funds had been made. It was therefore impossible for him to proceed with the collection of blood samples and it seemed likely that he would miss the rainy season for this year. Not only does this mean that the opportunity to collect valuable data is lost, but also expensive laboratory slides will be wasted since their expiry date is December 31, 1984.

C.5 At USAID, Ms Webb was able to examine the disbursements journal and financial report but the invoices, which the professor claimed to have submitted at the same time, could not be located. The disbursements journal was written up in pencil. Expenses were analysed into columns but these had not been totalled. A separate page at the back was used for cash expenditure. Not all cheques shown in the cash column of the bank section were entered as receipts in the cash section. It was not possible to agree the analysis of expenditure shown on the financial statement to the cash and bank disbursements although the total agreed. The bank interest repaid to the US Treasury was claimed on form 1034 as an expense. The financial report covered the period February 1983 to June 1984

CASAMANCE HEALTH CONTROL

C.6 According to the administrative approval form attached to the voucher, the project officer visited the project three times in the last quarter and spoke with the professor 15 times. In our opinion, she should time one of her visits to coincide with the preparation of the report and should complete a checklist to review the records. No accounting knowledge is required to check that columns are totalled, that figures are correctly copied from the journal to the report and that the bank reconciliation agrees to the bank statement and cash journal. We recommend that a checklist be developed as part of the administrative approval necessary before a voucher is submitted. This would prevent delays caused by the submission of vouchers which cannot be justified.

C.7 We further recommend that all verification of accounting documents be carried out at the professor's office. Under no circumstances should records be removed, since it is then impossible for transactions to be recorded on a daily basis. As the professor clearly has no aptitude for accounting, we recommend that an external accountant be paid out of project funds to prepare a quarterly report. In our opinion, only half a day would be required to do this work, provided that the cash and bank journals are kept up to date.

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APPENDIX D TO LETTER DATED 19th SEPTEMBER 1984
ADDRESSED TO THE DIRECTOR OF USAID DAKAR

19th September 1984

S.J. Littlefield,
Director,
USAID
Dakar,
Sénégal.

WOMEN'S DEVELOPMENT COMPONENT
FAA SECTION 121D CERTIFICATION REPORT

We have reviewed the accounting station Women's Development Component of the Project Casamance Regional Development No. 685-0205. Our review was performed in accordance with the scope of work provided under Contract No. 861-0000-C-00-3154-00 and work order No. 5 and was conducted in accordance with generally accepted accounting practices and principles.

D2. In our opinion this accounting station has a system of accounting and internal control which will provide adequate identification of U.S. Government funds and control over the receipt and expenditure of those funds.

Deloitte Haskins & Sells

WOMEN'S DEVELOPMENT

D.3 An analysed cash book is maintained in accordance with USAID recommendations, all invoices and goods received notes are properly filed and the reports are prepared on a timely basis. We were surprised to find that the two cheque signatories for this bank account are USAID employees, the project manager and assistant project manager. At the time of our visit, it was the project manager who also authorized the expenditure, but this duty has since been assigned to his superior.

D.4 We recommend that USAID seek some other means of controlling this bank account, such as making SECID responsible for it.

HEALTH EDUCATION AND STUDY

All procurements in respect of this component are made by Supplies Management Office. Long delays have been experienced in the delivery of medicines and educational material and at the time of our visit, project implementation had come to a complete halt. Funds for the health survey to be carried out by the Ministry of Health and the Statistical office (BEEP) of SOMIVAC had been withheld pending clarification of how SOMIVAC was to handle the funds. The protocol authorising the finance had been signed without reference to the controller's office and without informing the accountant who was to receive the cheque. Since the survey, to be of any use, had to be carried out before the corn from the new harvest came on the market, it seems unlikely that it can now be carried out in 1984. Funds already spent training the researchers and preparing the population for the survey will have been wasted and the project will lose credibility.

E.2 It has recently come to our attention that the project is selling medicines and is to set up a revolving fund. This activity is outside the scope of the project paper and grant agreement. As the component has no bank account or petty cash, we do not know where the sale proceeds are being deposited.

E.3 We recommend that greater attention be paid to the financial management of this component of the project. Its activities should be clearly defined and proper accounting procedures implemented. The project manager should ensure that funds are requested at the right time and that the controller's office is fully informed. Copies of invoices should be sent to the project in order to permit the lady in charge to manage her budget