

NORTH CAMEROON SEED MULTIPLICATION PROJECT

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REPORT ON THE SYSTEMS OF INTERNAL CONTROL  
AND FINANCIAL MANAGEMENT

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26th July 1984  
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The Director,  
USAID,  
Yaoundé,  
Cameroon.

Dear Sir,

PIO/T NO : 631-0023-3-30056

In accordance with your instructions we carried out a study of the financial and inventory management and the organizational structure of the North Cameroon Seed Multiplication Phase II Project (referred to hereafter as the Seed Project) in Garoua and at the Sanguéré farm from June 14-27, 1984. The purpose of this study was to review the financial and inventory management system currently in operation at the Seed Project to report on the shortcomings, make recommendations for corrective action and to evaluate the time necessary for the design and implementation of a full management information system and the cost which such a mission would involve.

2. Details of the systems in operation and of our conclusions and recommendations are set out in the appendices to this letter as follows:

3. Appendix A details the results of our review of the organization and operations of the Seed Project in the light of legal requirements, generally accepted accounting principles, the loan agreement between USAID and the Government of Cameroon, internal controls and its capacity to generate accurate and meaningful information for management purposes. Under each subheading an attempt is made to describe the existing system and the major problems arising therefrom and to outline what would be required to solve those problems.

4. Appendix B contains an evaluation of the time necessary to design and implement a complete management information system, including a suggested work-plan for tackling the tasks in an order most suited to the seasonal activities of the project. It identifies the short-term assistance requirement and the work to be performed by each member of the team and gives an approximation of the cost in terms of fees, equipment, printing, stationery and ancilliary expenses. It details the training considered necessary for staff of different levels and the approximate cost of that training.

5. Appendix C sets out the assumptions on which the time, training and cost estimates are based. It also contains suggestions for accounting policies to be adopted by the Seed Project. Accounting policies must be authorized by the Conseil d'Administration and, as they are fundamental to the development of a management information system, a decision should be taken prior to the arrival of the short-term assistance team.

#### SUMMARY OF CONCLUSIONS AND RECOMMENDATIONS

6. The main problems at the Seed Project arise from the lack of formalization of accounting policies, procedures and documentation and the absence of detailed job descriptions. In addition, the information received by the Seed Project from USAID and MIDEVIV in respect of assets and supplies paid for on its behalf has often in the past been insufficient to permit complete and accurate accounting. This situation combined with inadequate segregation of duties and absence of reconciliation between key elements, results in an inability to safeguard assets or produce reliable cost records.

7. In order to produce a balance sheet at June 30, 1984 which reflects as far as possible the true position of the project and to ensure that the cost of production for the 1984 growing season can be accurately monitored, the following action is required without delay:

- approval by the Conseil d'Administration of fundamental accounting policies (see Appendix C);
- employment of a suitably qualified local accountant;
- acquisition of duplicators and photocopiers for use by the accounts staff and short-term assistance team;
- transmission to the Seed Project by USAID and MIDEVIV of copies of all equipment, supply and service invoices paid on its behalf and of full information concerning the preparation of financial statements in previous years;

- appointment of a two-person short-term assistance team to revise the financial accounting procedures, assist in the preparation of a balance sheet at June 30, 1984, establish an integrated management information system, give on-the-job training to Seed Project staff, prepare job descriptions for all personnel and compile a full financial and accounting manual, documenting and explaining every procedure;
- participation by accounting staff and senior personnel of the Seed Project and of MIDEVIV in courses to be arranged by the short-term assistance team, with more intensive training for certain accounts clerks;
- a follow-up visit by a member of the short-term assistance team six months after implementation of the management information system to resolve any problems which may have arisen and make additional refinements if necessary.

8. In addition to the above steps which require immediate action, an annual systems audit should be introduced as from 1986, preferably commencing one year after the above mentioned follow-up visit. The purpose of the annual systems audit, which should remain in effect until the end of Phase II, will be to ensure that the procedures are properly respected and to advise on any modifications which may become necessary as the project develops.

9. We should like to thank all members of the Seed Project staff, MIDEVIV, USAID and DAC for their co-operation in identifying the accounting and organizational needs of the project.

10. If you require any further information in connection with our mission, please do not hesitate to contact us.

Yours truly,

*Deloitte* *Herkins & Sell*

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## ORGANIZATIONAL STRUCTURE

In any organization, one of the major pre-requisites for effective management control is a clear definition of the duties and responsibilities of each member of staff. As a general rule, the greater the degree of delegation which exists within a system the greater the effective control which can be exercised by management.

2. At the Seed Project there is a general organization chart which shows the interrelation of the different departments and sections and there is a description of the responsibilities of each. (See Appendix E). What is lacking is an organisation chart and job descriptions for the functions within each section and each department. Thus, where there have been changes in personnel, the absence of a detailed job description has resulted in procedures being abandoned simply through uncertainty as to who is responsible for executing the task. These comments apply as much to the technical and production sections as to the financial and administrative department.

3. There is no manual of policies and procedures and thus no record of what documents should exist or how they should be completed, circulated or filed. An important part of the work to be performed by the short-term assistance team will therefore consist in compiling a full systems manual with copies of all documents to be used and instructions for completing them. The team will prepare job descriptions for each member of staff who has custody of assets, or who originates, approves or handles any document which gives rise to an entry in the financial accounting or cost records. These tasks will, of course, be carried out after reviewing and modifying the accounting procedures in such a way as to eliminate unnecessary records and to strengthen the system of internal control by adequate segregation of duties. They will also take account of new responsibilities created in connection with the system of cost accounting to be installed.

4. The job descriptions, when read in conjunction with the relevant sections of the systems manual (a copy of which should be available for consultation in each department), should give a complete picture of the responsibilities of each individual. There should be no confusion as to what documents should be received, their frequency and the course of action to be followed if information is incomplete. Close cooperation will be required from the staff in order to establish accurate descriptions.

#### BUDGETARY CONTROL

5. As part of a para-statal organisation the Seed Project has a legal obligation to submit an annual budget detailed by line item which, once approved must be strictly adhered to. Budgetary control requires verification that credits are available against a particular line item before a commitment is made. This procedure is not followed by the Seed Project.

6. In the past, budgetary control cards were maintained centrally by the financial and administrative department. If, in future, costs are to be controlled at their point of origin, a system of budgetary control by responsibility centre should be developed. Costs should be imputed against the credit of a departmental budget only after approval by the head of that department. The introduction of pre-numbered purchase requisitions in each responsibility centre (i.e. Sanguéré farm, Guetalé farm, garage, maintenance workshop and SAF) would be one possible method of setting up this control.

7. Other costs such as "missions", the budget for which is prepared on a departmental basis, should also be controlled by the department concerned. Thus, an ordre de mission should be signed first by the head of department, since only he is aware of other missions which must be undertaken in the same

financial year and then by the project director. Transfers of budgetary credits between departments should not occur without the agreement of the heads of department concerned.

8. The short-term assistance team should therefore design and implement a system of budgetary control for the financial year 1984-1985 which permits costs to be controlled on a departmental basis and provides regular status reports to the heads of department.

## FINANCIAL ACCOUNTING RECORDS

### Chart of accounts

9. The Seed Project chart of accounts is in accordance with the OCAM plan classes 1 to 7. There is however, no provision for a depreciation charge account and there is only one depreciation provision account which is credited with the total depreciation on all assets by the debit of the grant account. There are no class 8 accounts to record the disposal of fixed assets. The sales of all types of seed are recorded in the same account.

10. In addition to setting up class 9 accounts for management<sup>e</sup> purposes, it will be necessary to revise the existing chart of accounts for the "Comptabilité Générale" to give all the analyses necessary for budgetary control for the determination of sales by product type and for the incorporation in the accounts of all funds and assets made available to the project.

Accounting for Loans, Grants and SusidiesMIDEVIV Contribution

11. Cash, equipment or supplies received from MIDEVIV are accounted for as follows:

- 1) When the amount of the grant is made available:

DR 4511 MIDEVIV

CR 7610 SUBSIDY GRANTED

- 2) When funds are transferred:

DR 56-- BANK

CR 4511 MIDEVIV

- 3) When MIDEVIV pays for goods and services on behalf of the Seed Project:

DR ASSETS or EXPENSES

CR 4511 MIDEVIV

- 4) At the end of the accounting period:

DR 7610 SUBSIDY GRANTED

CR 1030 CAPITAL CONTRIBUTION

12. Any debit balance remaining on account 4511 at the end of the year is cleared by bank transfer. In the past, insufficient information has been provided by MIDEVIV concerning the exact nature of the expenses and the assets or supplies to which transport invoices refer. It is essential that copies of the invoices be supplied to the Seed Project in order to ensure that the costs correspond to goods and services actually received and are correctly coded.

USAID contribution

13. Assets and supplies provided by USAID are not currently brought into the books. This means that the true cost of operations is not shown by the accounts. It also means that to prepare operating statements and a balance sheet for the project it is necessary to consolidate figures from different sources, some of which arise outside the accounting system.

14. A review of the project balance sheets for 1977, 1978, 1979 and 1981 shows that in Phase I equipment supplied by USAID was brought into the accounts by the credit of a capital contribution account. The annual depreciation on that equipment was then debited direct to the capital contribution account. It is impossible to determine the rate of exchange used or whether freight, insurance, transport or the cost of spare parts supplied with the machines have been included in the gross book value. Phase I balance sheets also reveal the capitalization and depreciation over five years of the cost of training provided to local employees of the project. There is, however, no capitalization of technical assistance, nor does it appear to have been shown in the operating costs of the project.

15. If the Seed Project is to produce financial statements which show the true totals of funds utilized and production costs, it will be necessary to bring all USAID contributions into the accounts. As a general rule, the rate of exchange used should be the rate at the time of payment. However, since the value of equipment provided by USAID under Phase II represents a dollar loan repayable by the GRC in accordance with the project agreement, it would be appropriate to revalue the loan at the year-end if the exchange rate fluctuates by more than a given percentage, say 20%.

### Operating Statements and Balance Sheets

16. The Seed Project transmits all its accounting records to MIDEVIV Yaoundé at the year-end for preparation of the financial statements. This arrangement is unsatisfactory because it leads to long delays and leaves the Seed Project without the means of analysing its accounts and verifying its production figures. As at the date of this report the balance sheet for the year ended June 30, 1983 is not yet finalised.

17. The financial statements for the year ended June 30, 1984 and for future years should be prepared by the Seed Project and all accounting documents should remain in Garoua. Serious efforts should be made to bring all assets and liabilities of the project into the accounts.

### Journal and General ledger

18. The general ledger is maintained on one-write ledger cards but without use of a carbon copy back-up journal. It is therefore difficult to identify errors made in posting to the general ledger and there is no general journal as required by the Civil Code. The ledger cards are kept loose in a drawer, which means that there is a risk of their being accidentally lost or mislaid.

19. It is essential that the Seed Project purchase and use a complete and appropriate book keeping system such as Kalamazoo, including the necessary stationery and equipment - ledger boxes, metallic backing boards, journal sheets and hard-backed binders, to ensure that the records are maintained in a complete and accurate manner. One of the tasks of the short-term assistance team will be to advise on a system and to instruct the Seed Project staff in its application. Although the ledger is up-to-date and balanced as at May 31, 1984 for the current year's movements, the Seed Project does not have the necessary information to bring forward opening balances as at July 1, 1983.

Fixed assets

20. No register of fixed assets is maintained by the Seed Project. As stated above, balances at 1st July 1983 are not available and assets provided by USAID in Phase II have not been accounted for. A physical inventory of fixed assets in existence in May 1984 has been carried out and attempts have been made to locate the original invoices. In order to make any adjustment to the accounts, it will be necessary, using the schedule of fixed assets and depreciation as at June 30, 1982 and subsequent additions to draw up a list of assets and then to compare this with the physical inventory. Assets which no longer exist should be written off. It is intended that a card be opened for each asset and that those items which are either beyond repair or surplus to requirements be disposed of.

21. There is a strong case for revaluing certain assets and for revising the methods of depreciation (see accounting policies).

22. It will fall within the scope of work of the short-term assistance team to supervise the recording in the books of adjustments which may become necessary through a change in accounting policy and to design fixed asset register cards.

Spare parts, production materials and supplies

23. There are no financial stock records of spare parts, production materials or supplies, all items being written off in the year of purchase or excluded from the accounts. The suggested method of valuing spare parts is included in the section on accounting policies. The records kept as to quantities are recorded under the heading "Technical Service Records".

Sales and control of seed stock

24. Sales of seed stock occur at the two production centres and at a small storage centre in Guiring. Prices for each grade of seed are fixed by the project director but are not on display at the selling points. A stock card is maintained by the storeman for each type of seed, showing the weight and number of sacks. When a sale is made, whether for cash or on credit, a stock issue document ("bon de sortie") is made out and the quantity, together with the number of the issue document is recorded on the stock card. The top copy of the issue document is given to the customer to serve as a delivery note, the second copy is remitted to the farm manager and the third remains in the storeman's book. The farm manager passes the second copy to the cashier in Garoua, with the cash or to the head of SAF for invoicing in the case of a credit sale. No debtors records are set up, all sales being accounted for when settlement is made. A procedure has been drawn up by the head of SAF concerning the authorization of credit sales but there is no evidence that this procedure is applied consistently.

25. The weaknesses in the system outlined above are as follows:

- as the production and selling functions are not segregated there is a risk of the production figures being understated and sales being unrecorded;
- if a check is made between stock issues as recorded on the stock card and the quantity shown on the issue document, this could only be against the third copy which need not necessarily correspond to the copy which gives rise to an entry in the bank and sales records;
- as the farm manager keeps no written record of the issue documents given to him by the storeman, he cannot be sure the first number of one batch immediately follows the last number of the previous batch;

- since the same series of issue documents is used for both cash and credit sales, neither the cashier nor the head of SAF can easily check that all vouchers have been remitted and accounted for;
- failure to observe the procedures laid down for credit sales may result in deliveries to customers who have not placed a written order or been approved for credit by the project director;
- the lack of a sales ledger makes the control of debtors extremely difficult. This may lead to understatement of sales and current assets or to a failure to obtain payment.

26. It is essential that a system be introduced which separates the production and selling functions, uses different documents for cash and credit sales and provides for a monthly reconciliation between stock issues as recorded on the stock cards and sales as recorded in the ledger. A sales ledger should be set up using a one-write system. The backing sheet sales journal should then be analysed by type of seed.

#### Purchases

27. Any department requiring an article to be purchased must first inform the supplies clerk (comptable matières) who fills out a purchase requisition after checking that he does not have the item in stock. He then signs the purchase requisition and passes it to the head of SAF and to the project director for signature. After approval of the purchase requisition, the supplies clerk, who also acts as purchaser, obtains prices from suppliers and then fills out a purchase order which is signed by the head of SAF and by the project director. The purchase order is entered in a register by the director's secretary. The supplies clerk places the order and fills out a goods received note when the goods arrive. Incoming invoices are recorded in a register by the secretary and are accounted for when paid, which may be up to three months after the date of receipt of the goods.

28. The above system has the following weaknesses:

- as the purchase requisitions are centralised, the service departments have no control over the items ordered on their behalf and allocated, when paid, against their budget;
- although the supplies clerk signs that he does not have the item in stock, this procedure is meaningless since the only stock records he maintains are of office supplies;
- there is no set procedure (although one was proposed by the head of SAF) for obtaining pro-forma invoices from a number of suppliers and for documenting the basis of selection;
- there is inadequate segregation of duties, since the person responsible for issuing purchase requisitions and purchase orders also does the purchasing and fills out goods received notes;
- long delays may occur in purchasing quite minor items which are urgently required by technical services;
- there is no control over the numerical sequence of purchase orders issued; any missing numbers are presumed cancelled without verification;
- no cross-reference is made in the purchase order register to indicate receipt of the invoice or raising of a goods received note. There is therefore no control over the execution of orders or invoices not received at the year-end;

- the absence of a purchases journal and creditors' ledger means that there is a delay in the posting of expenses and that the balance due to suppliers can only be ascertained by adding outstanding invoices, with no guarantee that the list is complete.

29. A complete revision of the purchases system is called for with the introduction of pre-numbered purchase requisitions in each department, delegation of authority to approve purchases up to a given value, proper budgetary controls, records of proforma invoices obtained, segregation of duties and a one write creditors' ledger and purchase journal. At the same time, as an integral part of the costing system, a stock ledger should be maintained in the accounts department showing both quantities and values. Verification of a purchase requisition by the clerk in charge will then become a meaningful control.

#### Cheque payments

30. A payment voucher is made out by the cashier for each invoice to be settled. Copies of the purchase order, delivery note and goods received note are attached to the invoice. After the payment voucher has been approved the cashier makes out the cheque which is signed by the head of SAF and the project director. The payment voucher is then passed to the accountant for coding and recording in the payments journal. The account code is not recorded on the payment voucher. Entries in the payments journal do not follow the numerical sequence of the payments vouchers. According to the accountant, this is because there are not sufficient analysis columns on the journal page for all the expense codes and he is therefore forced to regroup the vouchers. For the same reason, the total of each page is posted to the general ledger instead of making one entry for the month.

31. If the purchase system is revised as recommended, the payments journal will be the backing sheet created with the one-write system at the same time as the suppliers ledger is debited. The problem of lack of analysis columns, which will then apply to the purchase journal, can be resolved by the creation of a "sundries" column which is further analysed before posting to the ledger. A coding stamp should be designed and used on all invoices. Periodic checks of the coding should be made.

#### Cash payments

32. Procedures concerning the operation of the cash funds have been formalised in Note de Service N° 3/NS/84/PROSEM/SAF. In general control appears to be good but the advantages of operating on an imprest system should not be overlooked. It will also be necessary to ensure that items bought for cash are included in the receiving records of the services concerned.

#### Payroll

33. The payroll for the entire project staff at all locations, numbering more than 100, is prepared manually by the wages clerk who is also the cashier. Gross pay is taken from the personnel file and overtime hours from a monthly summary submitted by the farm managers or heads of department. Tax calculations are carried out using the monthly tax reckoner. Deductions in respect of salary advances are made with reference to the individual advance cards which are also maintained by the cashier.

34. Temporary workers are taken on by the farm managers as and when required. A list of names and the number of days worked is provided monthly to accounts department. This list is a summary of the daily attendance records maintained by the permanent staff who act as team leaders. There is no

reconciliation between the number of hours paid and the number of hours recorded in the production records. No tax is required to be deducted from temporary workers and no payslips are made out. A list showing the amount payable to each worker is given to the farm manager, together with the cash and it is his responsibility to distribute the pay.

35. The major weaknesses in this system concern the segregation of duties:

- the farm managers compile the list of workers and make the cash distribution. If there is to be proper control, a member of SAF who has no other involvement with the payroll or with other cash funds should deliver the pay to the site and pay each worker individually, making him sign or put a thumb print to acknowledge receipt;
- the cashier calculates the amount to be paid, writes up the advances cards and handles the cash. The task of maintaining the advances cards and of preparing a monthly list of balances for reconciliation to the general ledger should be given to another member of the accounts department. The accountant should take care to ensure that the account "Remunérations dues" balances each month and the bank reconciliation does not reveal any anomalies.

36. The process of preparing the pay manually is very time-consuming and gives scope for error. As the Seed Project has an IBM personal computer, consideration should be given to the possibility of computerising the pay in the not too distant future.

## TECHNICAL SERVICE RECORDS

Tractors

37. At present there is no system of recording the mechanics' time or spare parts used in the repair and maintenance of vehicles. According to the DAC technical assistant, the life expectancy of a tractor if regularly maintained is in the region of 6000-8000 machine hours.

38. It is essential that records be set up for the exact cost of repairing each machine. It will also be necessary to establish a policy for differentiating between repairs to be expensed and renovations to be capitalized.

Spare parts

39. Spare parts have been received from USAID, from the World Bank and from local suppliers. Goods inwards documents (bons d'entrée) have been filled out only in respect of the parts received from USAID. Following a physical inventory in May 1984, stock cards have been introduced for each item of stock. It was intended that a duplicate card should be filled in by the accounts department using copies of the receiving and issue documents but this procedure has not been introduced. It would not, in any case, be particularly useful as there is no provision for a value on the stock card.

40. One of the first steps to be taken in this area will therefore be to redesign the stock card to be kept by the accounts department and to value all items in stock at a given date. The stock at June 30, 1984 should be physically counted, checked to the stock cards and a list supplied to accounts department.

### Valuation

41. It is practically impossible to identify an invoice value for individual spare parts, to know the exchange rate applicable at the date of acquisition or the in-country transport cost incurred. Any attempt to arrive at accurate figures would involve months of research and the benefit would not justify the effort.

42. The purpose of putting a value on parts stock is to facilitate control, to show in the balance sheet an asset of the project and to enable the parts used to be evaluated as part of the repair cost of an individual piece of equipment.

43. To achieve this objective, the most practical and least time-consuming approach would be to value the parts at current dealer selling price plus a mark-up factor for on-costs to be calculated with reference to a sample of invoices. An appropriate exchange rate should be used such as the current or past year average exchange rate to the dollar. This method would permit a realistic amount for repairs to be charged in the accounts as a cost of production.

### Supplies

44. At present there is no distinction made on the stock cards between spare parts and consumable garage supplies. This distinction should be made at June 30, and the stocks should appear separately on the balance sheet. Throughout the year the purchases should be directly expensed and an adjustment made at the year-end to take account of closing stocks.

Diesel oil

45. There is no means of measuring the quantity of fuel consumed by each item of equipment, as the fuel is delivered and stored in barrels. A 5.000 litre tank is on order and it is planned to buy or rent a pump with a gauge. As a rough guide, 10 tractor-hours usually represent a consumption of approximately 80 litres. The costing system designer will have to determine whether diesel should best be controlled separately or incorporated in the cost per tractor-hour.

## PRODUCTION RECORDS

46. The records of productive time, control of inputs, and machine utilization are maintained at the Sanguéré farm are detailed in the following paragraphs.

### Labour

47. Each member of permanent staff who has temporary staff assigned to him keeps a daily record of the number of hours worked by each man. This forms the basis of the payroll. No other information such as place of work or activity is provided. It is therefore not possible to determine which team of workers worked on which field at any given date. It is essential that this information be incorporated if reconciliations are to be carried out and variances between hours paid and hours charged to production investigated. The record kept by the deputy farm manager of hours worked by the permanent staff has the same shortcomings.

### Inputs

48. "Inputs" is the word used to describe seed for planting, fertilizer, pesticides and herbicides. The quantity required per hectare is laid down by the technical data sheet for each product. The machines are regulated before leaving the yard to scatter or spray at the required density.

49. Stock cards are maintained for each type of input. A goods inwards document is completed at the time of reception. One copy is intended for transmission to the accounts department but this does not in fact occur. The number of the goods received document is supposed to be recorded on the stock sheet together with the quantity received. In fact, it is generally only the date which is recorded.

50. No documents are filled out for issues to production. It is not therefore possible to check the issues recorded on the stock card and thus control the physical stock. Similarly it is impossible to determine the exact quantity used for each "parcelle".

51. When revising the system, the short-term assistance team will have to ensure that procedures include the filling out of an issue document for all issues to production and the transmission of copies of both receiving and issue documents to the accounts department for the update of stock and costing records.

#### Tractor hours

52. A log-book is completed daily for each tractor showing work carried out, place and type of crop and the meter reading at the beginning and end of the day. The log-book is completed in duplicate, the top copy being intended for transmission to the accounts department, although this procedure does not appear to be followed.

#### Summaries and cost calculations

53. Daily work register. This register is completed daily from the records completed by the tractor drivers and permanent staff. One page is used for each day's operations. No monthly total is generated which could be reconciled to the total number of tractor hours shown by the meters or to the total labour hours included in the payroll. This register should be replaced by a monthly summary schedule giving the same information but analysed so as to generate monthly totals. It should be completed in duplicate and one copy sent to accounts department for entry in the costing records.

54. Calculating the cost of production. At the end of the growing season, the cost of production for each type of crop is calculated by extracting from each day's entries in the work register the number of labour and tractor hours relating to that crop. This process is not only tedious and time consuming but is uncontrollable as to accuracy and completeness. The cost per tractor hour cannot be determined with any accuracy for the following reasons:

- the acquisition costs of the machines have not been fully identified;
- the straightline depreciation policy hitherto applied is not appropriate;
- the cost of maintenance and repairs has not been analysed;
- the fuel consumption cannot be measured.

55. In the same way, since there is no record of "inputs" issued to production, their cost per hectare is calculated with reference to the technical data sheet and does not take account of quantities actually invoiced.

#### COST ACCOUNTING

56. According to the terms of the project loan agreement, the Seed Project must keep detailed production costing records which enable it to determine the cost of each type of seed. As has been seen above, records exist, but not in a form capable of generating reliable information.

57. A major task of the short-term assistance team will therefore be to design and implement a fully integrated cost accounting system. This should be done by designing schedules which collect the data in a readily exploitable and controllable form and then setting up the accounts necessary to ensure that monthly figures can be produced.

#### Permanent stock records

58. A stock ledger should be maintained by the accounts department in respect of all inputs, spare parts and seed stocks. It should be maintained on cards showing quantity and value for each item and be updated daily for all movements inwards, issues to production or sales as recorded on goods inwards or issue documents. A standard cost, taking account of transport inwards and all other direct costs of acquisition, should be established for each item and revised at regular intervals. It will be the duty of the stock ledger clerk to price the issues to production to be included in the cost accounts.

59. The stock ledger balances should be listed and reconciled at regular intervals with the stock control account to be created in the cost accounts. Adjusting entries should be made following each physical inventory.

### Chart of Accounts - "Comptabilité Analytique"

60. A chart of accounts should be developed within the framework of the OCAM accounts plan class 9 accounts to allocate the cost of production to the different products by group of fields ("parcelle"), and the general operating costs to the departments concerned. For this purpose the Sanguéré farm, Guétalé farm, Technical Services, Liaison and Popularization and General Management should be treated as responsibility centres. Cost centres should be set up as follows:

- for production: each type of seed produced, further analysed by production location;
- for Technical Services: each major item of farm equipment and each category of minor equipment (in order to determine the exact cost of repairs and maintenance in terms of labour hours and spare parts attributable to each);
- for Liaison and Popularisation Department: liaison, popularisation and each sub-project. Although the sub-projects are not covered by the project agreement, they should nevertheless be treated as cost centres since resources are allocated to them.

61. The short-term assistance team should develop standard journal vouchers for the re-allocation of monthly payrolls and expenses by cost centre and fully instruct project staff in their use.

### Standard Cost and Overhead Recovery

62. It will be necessary to develop a standard cost per hour for each category of worker taking account of basic wage, regular overtime hours, average productivity bonus, any fringe benefits, payroll taxes and employer's contribution to social security or pension funds.

63. A standard cost must also be developed for machine hours for all types of mechanically propelled agricultural equipment taking account of depreciation, maintenance, fuel and lubricants and repairs. Similarly, as mentioned above, standard costs should be developed for fertilizers, pesticides, herbicides, breeder seeds and other inputs to production.

64. Overhead recovery accounts should be set up in respect of payroll, repairs and maintenance and depreciation and should be credited with the amount taken to production. Detailed explanations as to the function of these accounts, the treatment of variances and the revision of standard costs must be provided by the systems designer and incorporated in the systems manual.

#### Cost accounting records

65. As the cost accounting system is to be integrated into the existing financial accounting system, the same type of one-write ledger cards should be used. A monthly trial balance of Class 9 accounts should be taken out and agreed to the financial accounting records. The short-term assistance team should develop a standardised method of reconciliation and instruct project staff in its use.

#### Determination of cost per tonne

66. At the time of the harvest the crop is weighed and records are kept of the yield from each "parcelle". Division of the balance on each cost centre account by the number of tonnes produced will give the total variable cost per tonne.

## DETERMINATION OF SELLING PRICE

67. The long-term aim of the Seed Project is to evolve towards self-sufficiency and ultimate profitability. To do this, it is essential to fix the selling price at a level which will primarily cover the variable costs of production and at a later date recover fixed costs and make a profit.

68. At present it is estimated that the selling price is equal to approximately one quarter the cost of production even though the latter does not take account of depreciation. On occasions, it even falls below the market price for the food crop which means that there is a risk of the seed being bought for immediate consumption.

69. There is no marketing department at the Seed Project and no evidence to suggest that research has ever been done to establish who are the purchasers of the seed, whether it is used as seed or consumed, and what price farmers would be prepared to pay for the seed. It is essential that this sort of research be carried out if the Seed Project is ever to be a viable concern.

70. As it seems unlikely at present that farmers would accept a price equal to the cost of production, the selling price should be determined in the short term with reference to the market price for the food crop. Once a percentage correlation between the market price and the selling price has been established, the market price should be monitored on a weekly basis and any fluctuation reflected in the selling price of the seed.

## PERSONNEL

71. At the farm, those responsible for the keeping of daily work records have the necessary skills to carry out all that will be required of them under the new system. The information they will record will be the same as at present but arranged in a different format to permit monthly reconciliations.

72. In the accounts department, the staff should, with intensive on-the-job training, be capable of carrying out the day-to-day accounting operations. The accountant is not highly qualified but has a lot of experience, including management accounting, and is doing a good job. At present it is intended that he be transferred to a sub-project and replaced by someone with higher qualifications. This transfer would be a mistake since the work in the department will increase and two competent men will be required. If the accounts department is to be rationalized after implementation of the new system, careful consideration should be given to the choice of man to be transferred.

73. Regarding the recruitment of a qualified accountant, this step is essential as there must be someone at the project capable of supervising the whole of the accounting, setting and revising standards and preparing the annual financial statements. To attract a man of the right calibre, it may be necessary to re-structure the department in order to offer him a job with high enough status.

## PROJECT VEHICLE UTILIZATION

74. The head of SAF has developed procedures for controlling the use of project vehicles, the amount of fuel consumed and the cost of repairs. At present these procedures are not being fully applied. One of the tasks of the short-term assistance team will therefore be to review these procedures, make any modifications necessary and ensure that they are implemented.

APPENDIX B - EVALUATION OF TIME AND COST OF SHORT TERM  
ASSISTANCE

SCOPE OF WORK	1- 5
ESTIMATE OF TIME	6- 7
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## SCOPE OF WORK

The short-term assistance team will consist of one cost and management systems designer, who will also act as team-leader, and one financial and stock control systems designer. They will work with the Seed Project in Garoua for an initial period of 17 weeks, spend 2 weeks at home base finalizing the systems manual and one member of the team will return to Garoua for 2 weeks, six months after the conclusion of the first mission.

2. The task of the team will be:

- to install a system of budgetary control;
- to design and implement a management accounting system which will give the production cost of each type of seed;
- to implement stock control procedures;
- to assist in the the valuation of stocks and fixed assets;
- to assist in the preparation of the balance sheet at June 30, 1984;
- to set up a permanent stock ledger;
- to establish procedures for accounting for the USAID input to the project;
- to revise the purchase, sales and payroll procedures;
- to give on-the-job training to project staff;
- to give seminars to accounts staff and to senior personnel on the operation of the new systems;

- to determine the distribution of work among members of the accounts department;
- to write detailed job descriptions for all members of staff who have custody of assets or who originate, approve or handle any document which gives rise to an entry in the accounting records;
- to consolidate in a financial and accounting manual all accounting policies, procedures, documents and instructions as to their completion, and job descriptions.

3. The specific tasks of each member of the team are set out below in the form of a suggested work plan, with a time allocation for each task. Regular report sessions are planned in the 6th, 12th and 17th weeks, when the team member will present a formal progress report to USAID and MIDEVIV in Yaoundé. At the same time they will supervise the printing of documents which they have designed. In the 3rd, 9th and 15th weeks, representatives of USAID and MIDEVIV should travel to Garoua for an informal report on progress to date. It is also foreseen that the project manager of the consulting firm providing the team will visit Garoua and Yaoundé in the 6th, 12th and 17th weeks.

4. The final version of the systems manual will be produced in French in the number of copies required, at the offices of the consulting firm. This will take a further five man-weeks after the end of the field work. The team leader and project manager will then return to Cameroon to make a formal presentation of the manuals.

5. A follow-up visit of two weeks will be made by one member of the team six months after completion of the initial fieldwork to ensure that the systems are being properly applied and to make any refinements necessary.

## ESTIMATE OF TIME

6. We estimate the time necessary to complete the scope of work as follows:

Cost and management systems designer

N° of weeks

Design forms for collecting production data, instruct staff in their use and organize the summarization of the production register from start of growing season	1
Draft procedures for stock ledger (comptabilité matière), design stock ledger cards and arrange for them to be printed	1
Revise the whole accounts plan, create Class 9 accounts and write account descriptions	3
Write progress report and present it to USAID and MIDEVIV in Yaoundé	0.5
Develop standard costs and document the method used, instruct staff on the revision of standards	1.5
Write budgetary control procedures, instruct staff, set up cards	2
Set up stock ledger and instruct staff	1.5
Design standard journal vouchers and instruct staff in preparing them	1
Write progress report and present it to USAID and MIDEVIV in Yaoundé	0.5
Check journal vouchers prepared by project staff and supervise posting to ledger card	1
Decide on the final distribution of work between staff and write job descriptions	1
Prepare and give training courses	2
Prepare and present final report	<u>1</u>
	<u>17</u>
14. Finalization of manual	<u>2</u>
	<u>19</u>

## 7. Financial and stock control systems designer

	<u>N° of weeks</u>
Draft stock-take instructions, carry out the physical inventory of parts, seeds and production materials and reconcile movements back to June 30, 1984. Instruct project staff in valuing opening stock	2
Write procedures for the control of stocks	0.5
Instruct and supervise staff in the valuation of fixed assets at June 30, 1984, design the fixed asset register card and arrange for it to be printed	1.5
Write procedures for accounting for equipment and services supplied by USAID	1
Supervise the preparation of the balance sheet at June 30, 1984	2
Write progress report and present it to USAID and MIDEVIV in Yaoundé	0.5
Revise purchase, payments and payroll procedures. Instruct staff. Set up creditors' ledger	2.5
Write sales procedures and open debtors' accounts	2
Write procedures for maintaining vehicle utilization records	0.5
Write progress report and submit it to USAID and MIDEVIV in Yaoundé	0.5
Write procedures for the control of fixed assets, instruct staff and set up the fixed asset register	2
Decide on final distribution of work and write job descriptions	0.5
Assist in the preparation of course material	0.5
Check that the whole system is running smoothly	<u>1</u> <u>17</u>
Finalization of manual	<u>2</u> <u>19</u>

## COST

8. The total cost of the consultant's mission is estimated at \$US 160,000 as detailed below. The estimate of consultants' fees is based on the rates quoted to USAID by Deloitte Haskins and Sells under the Indefinite Quantity Contract and is net of taxes. Airfares are calculated on the assumption that the consulting firm is based in Abidjan and that current fares remain in force. The number of days for fieldwork is based on a work-week of 5.5 days and time for finalizing the manual on a work-week of 5 days. Local currency costs have been converted at the rate of \$US 1 = 400 FCFA.

9. The manual will be produced in French. No provision for either the time or the cost of producing an English version has been included in the budget. If it is decided that the contractor should produce an English version, the budget should be increased accordingly as follows assuming the manual contains 450 pages:

Professional translation fees are FCFA 6.000 per hour,  
at the rate of 3 pages per hour

150 hours x FCFA 6.000 = FCFA 900.000  
at FCFA 400 = \$1 2,250

Consultant's time to review and  
correct translation  
10 days at \$550 5,500

Total cost \$ 7,750

This estimate would vary according to the size of the manual.

10. It has also been assumed that a project vehicle will be available for use by the short-term assistance team. If this is not the case and a vehicle has to be rented, the approximate cost will be

133 days x FCFA 10.000 per day = FCFA 1.330.000  
= \$ 3,325

## 11. Cost calculation

	Days	Rate \$US	Total \$US
Initial Fieldwork			
Cost and management			
systems designer	93.5	550	51,425
Financial and stocks			
systems designer	93.5	550	51,425
Project manager	10	1008	10,080
			<hr/>
			112,930
Production of manual in French			
Team members	20	550	11,000
Project manager	5	1008	5,040
Presentation in Yaoundé			
Team leader	1.5	550	825
Project Manager	1.5	1008	1,512
Follow-up			
Team member	11	550	6,050
			<hr/>
			137,357
Per diem			
Garoua	230	55	12,650
Yaoundé	35	85	2,975
Air tickets			
Abidjan-Yaoundé return	9	427.50	3,848
Yaoundé-Garoua return	8	137.50	1,100
			<hr/>
			\$ 157,930
Sundries			2,070
			<hr/>
			\$ 160,000
			<hr/> <hr/>

## TRAINING

12. As already stated, the majority of the training given to project staff will be on the job. In addition it is planned that two seminars be held - a three-day seminar for the accounts staff to explain the detail of all the documents and how each fits into the system, and a two-day seminar for senior personnel of the Seed Project and of MIDEVIV to give an overall view of the system, the information it should produce and the way in which the information can be used. It will deal with the question of budgeting and of fixing selling prices.

13. The cost of the consultant's time for giving these courses is included in the fee calculations above. If the courses are held in Yaoundé, air tickets and allowances must be budgeted for the participants from Garoua.

14. It is further recommended that the possibilities for training courses provided by institutions in Yaoundé be explored with a view to sending some members of the accounts department for six months training. This should not take place until after the new system has been implemented.

## STATIONERY

15. A provision of approximately \$US 5000 should be made to cover the printing costs of documents to be designed by the short-term assistance team.

## APPENDIX C - ASSUMPTIONS

ASSUMPTIONS	1
ACCOUNTING POLICIES	2-9
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Asset revaluation	4
Valuation- spare parts	5
Depreciation	6
Fixed asset replacement reserve	7
National taxes	8
Breeder seeds	9

## ASSUMPTIONS

The estimate of consultants' time is based on the following assumptions:

- a. Prior to the arrival of the team in Garoua, the following actions will have been taken:
  - acquisition of duplicators and photocopiers
  - recruitment of a qualified accountant with experience of standard cost accounting
  - finalization of the balance sheet at June 30, 1983
  - approval of the accounting policies set out hereafter
  - preparation by USAID of a status report on project expenditure to June 30, 1984
  - transmission by USAID to the Seed Project of all invoices for parts and equipment.
- b. The team will receive the full co-operation of Seed Project staff, MIDEVIV, USAID and DAC.
- c. A competent secretary, able to type in both French and English, will be assigned to the team.
- d. A vehicle will be made available to the team for the duration of their stay in Garoua.
- e. The accountant currently employed at the project will not be transferred nor the number of accounts staff reduced before the new system is in operation.

- f. The team will not be responsible for implementing the new system at the Guétalé farm.

## ACCOUNTING POLICIES

2. In order to ensure that accounts are prepared in accordance with management decisions, it is essential that accounting policies be formulated, approved and applied consistently. Set out below are areas requiring policy decisions, which should subsequently be included in a financial and accounting manual. As accounting policies are fundamental to the development of any management information system, it is recommended that a decision be taken without delay.

### Capitalisation

3. There are several aspects of capitalisation which require policy decisions:

- the minimum amount below which items are to be treated as expenses even if their useful life is expected to exceed one year, (for example, small tools or office supplies);
- the capitalisation of intangibles, such as technical assistance or personnel training costs, the benefit of which is expected to accrue over several years;
- the costs associated with the acquisition of assets (freight, insurance, in-country transport, installation and notional taxes which should be included in the gross book value of the asset;

- the distinction, in relation to farm equipment and buildings, between repairs to be expensed and renovations to be capitalised.

#### Revaluation of assets

4. As stated in the Baseline Report, many assets were acquired during Phase I and fully written off on a straight-line basis although they were in fact hardly used. The project also acquired warehouses for which no consideration was paid. Again with a view to charging a reasonable amount for depreciation in the accounts, the Seed Project should adopt a policy of periodic revaluation of assets.

#### Valuation of spare parts

5. Many spare parts are shipped to the project at the same time as the equipment to which they relate. Consequently no unit price is given for each part and it is not possible to determine what percentage of transport and insurance costs relate to those parts. To date, parts supplied by USAID have not been brought into the books. In order to keep proper control over those parts and to charge them to the repair of the asset concerned it will be necessary to develop a valuation policy. One method would be to value parts at current dealer net price and to determine an on-cost factor to cover freight insurance and in-country transport. If a separate value is attributed, care must be taken to identify the type of machine to which they relate and to write them off when the machine becomes obsolete.

#### Methods and rates of depreciation

6. The purpose of depreciation is to write the asset off over its expected useful life against the results of the years in which it is used. Depreciation may be calculated on the basis of time or of usage. Tractor should be depreciated on the basis of usage, the cost per machine hour being included in the variable cost of production.

### Fixed asset replacement reserve

7. One of the aims of the Seed Project is eventually to become self-sufficient. For this to be possible it is necessary to set aside a certain sum each year to ensure that funds will be available for the replacement of assets. The sum set aside should be at least equal to the depreciation charge for the year. The Seed Project has no budgetary line item for depreciation, the annual charge being written off directly against capital. If the Seed Project is to continue after the end of phase II, it is imperative that a budgetary line item be created and a sum equal to depreciation set aside each year.

### Notional taxes

8. Equipment supplied by USAID is exempt from all import duties and taxes. This means that the value shown in the books is less than the market value of the asset and the amount charged that would normally apply. If the accounts are intended to show the potential profitability of the Seed Project with a view to privatisation, they should be prepared on a basis consistent with private ownership, i.e. as if all taxes had been paid. To achieve this objective, notional taxes could be included in gross book value of the assets by the credit of a separate subsidy or sundry income account.

### Breeder Seeds

9. Breeder seeds are supplied to the seed project by the Agricultural Research Institute. The price charged is current market price which does not take account of the true cost of producing high quality seed. Seed stock retained by the seed project for its own use is valued at current selling price which is a quarter of cost of production. Such aspects should be taken into account in determining the true cost of production.