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AUDIT OF
THE ALTERNATIVE ENERGY
PEAT II PROJECT
(695-0103) AND
THE OFFICE NATIONAL DE LA
TOURBE (ONATOUB)

AUDIT REPORT NO. 3-695-89-01-N
December 16, 1988

UNITED STATES OF AMERICA

AGENCY FOR INTERNATIONAL DEVELOPMENT
REGIONAL INSPECTOR GENERAL/AUDIT

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December 16, 1988

MEMORANDUM FOR A.I.D. REPRESENTATIVE, Burundi, Donald Miller

Richard C. Thabet

FROM: Richard C. Thabet, RIG/A/N

SUBJECT: Audit Report No. 3-695-89-01-N "Audit of the
Alternative Energy: Peat II Project (695-0103) and
the Office National De La Tourbe (ONATOUR)"

The enclosed report presents the results of a non-Federal audit of the Alternative Energy : Peat II Project (695-0103) and the Office National De La Tourbe. The audit was requested by the Office of A.I.D. Representative (O.A.R.) Burundi. The certified public accounting firm of Price Waterhouse, Nairobi, Kenya prepared the report dated June 17, 1988.

The purpose of this audit was to report on: (1) the fairness of the financial statements of ONATOUR for the four year period ending December 31, 1987, and the expenditures of the Alternative Energy Peat II Project (695-0103); (2) the system of internal accounting control; and (3) compliance by ONATOUR with the terms and conditions of the A.I.D. agreement and the applicable U.S. Government laws and regulations in its operations of the project.

Price Waterhouse issued an adverse opinion on ONATOUR's financial statements for the four year period ending December 31, 1987. The auditor's study and evaluation of internal accounting controls disclosed sixteen material internal accounting control weaknesses, resulting in sixteen recommendations to improve the system of internal accounting control; and contained six recommendations to improve the ONATOUR's general accounting reporting system. In the report on compliance, the auditors reported that there were three areas where ONATOUR did not comply with the terms and conditions of the A.I.D. agreement and the applicable U.S.

Government laws and regulations, resulting in ONATOUR being improperly reimbursed \$8,515 for unallowable costs. Since A.I.D. involvement in ONATOUR has terminated, RIG/A/N will not monitor the implementation of the accounting and internal control recommendations. We do, however, concur with the auditor's financial recommendations.

Recommendation No. 1

We recommend that O.A.R. Burundi recover \$8,515 from the Office National De La Tourbe for disallowed and unsupported costs.

Recommendation No. 2

We recommend that O.A.R. Burundi perform sufficient testing of local currency reimbursements for the period August 1980 through May 1987 to determine the effectiveness of doing a complete reconciliation or to support a conclusion that a complete evaluation is not worthwhile.

O.A.R. Burundi officials disagreed with the compliance report recommendations, stating that since A.I.D. assistance to the project has terminated, it would not be cost effective to attempt recovery of the \$8,515 in disallowed and unsupported costs, or to attempt to review the documentation supporting almost seven years of local currency costs. These recommendations are unresolved. Disallowed costs of \$8,515, and the potential recovery of up to \$1.3 million in questioned costs is, in our opinion, significant and the resolution of these items should be pursued.

Please advise me within 30 days of the actions planned or taken to implement these recommendations.

NON-FEDERAL AUDIT OF THE
ALTERNATIVE ENERGY: PEAT II PROJECT
(695-0103) AND
THE OFFICE NATIONAL DE LA TOURBE



ACRONYMS

CCC	College des Commissaires aux Comptes
C&L	Coopers and Lybrand
FBU	Burundi Francs
GRB	Government of the Republic of Burundi
OTB	Office du Thé du Burundi
ONATOUR	Office National de la Tourbe
PAC	Project Activity Competition date
PFIR	Project Financial Implementation Report
PSC	Personal Service Contract
RFMC	Regional Finance Management Center
RIG/A/N	Regional Inspector General for Audit in Nairobi
USAID	United States Agency for International Development



EXECUTIVE SUMMARY

The Alternative Energy: Peat II project began on August 29 1980. The purpose of the project was to help preserve forest reserves and assist The Office National de la Tourbe (ONATOUR) in the development of peat as an alternative energy source. ONATOUR is a parastatal organization created in 1977 by the Government of the Republic of Burundi to explore, exploit and market Burundi's peat reserves. The project is governed by a project grant agreement (695-0103) between USAID and the Government of the Republic of Burundi (GRB) with an amended completion date of June 30 1988. The total estimated cost of this project is \$ 9,000,000. Amounts committed by USAID to December 31 1987 totalled \$ 8,685,610 and amounts disbursed to the same date totalled \$ 7,998,652.

Under the terms of Contract No. 695-0103-C-00-8004-00 we were requested to perform (a) a financial and compliance audit of the USAID-financed Peat Grant II to ONATOUR (Project No. 695-0103) for the period August 29 1980 to December 31 1987 and (b) an audit of the financial statements of ONATOUR for the four years ended December 31 1987.

The specific objectives of the financial and compliance audit were to; (a) determine the validity and appropriateness of project expenditures reimbursed by The Regional Finance Management Center (RFMC); (b) verify that contractors provided the necessary services; (c) determine whether commodities provided by USAID had been properly recorded, used for project purposes only and kept in satisfactory operating condition; (d) review construction contracts, procedures in awarding the contracts, payment procedures and ONATOUR accounting practices to incorporate the buildings into their assets; and (e) examine procedures and evaluate internal controls over local currency costs reimbursed and advances provided by USAID.

Under the terms of Contract No. 695-0103-C-00-8004-00 we were requested to perform an audit of the financial statements of ONATOUR for the four years ended December 31 1987, and to prepare a report thereon. The specific objectives of the audit of ONATOUR were to; (a) determine if the financial statements and related accounts and records present fairly the financial position of ONATOUR and its operations at December 31 1987; (b) re-examine the problems un-covered by previous audits and ensure that appropriate corrective actions have been initiated and completed; (c) determine whether ONATOUR complied with GRB laws, regulations, and AID agreement provisions which may have a material effect on the financial statements and costs; and (d) prepare a professional audit report.



In respect of the financial and compliance audit we concluded that except for the reimbursement of local currency costs, the project expenditures reimbursed by RFMC were reasonable, appropriate and resulted from authorized activities. We concluded that, except in one case, contractors did provide the necessary services. We concluded that commodities provided by USAID had been properly recorded in material respects, and kept in satisfactory operating condition. We concluded, however, that not all commodities provided by USAID had been properly used for project purposes only. We concluded that construction contracts were properly awarded, payments were properly made and, in material respects, had been correctly recorded and accounted for by ONATOUR. We were unable to conclude on the adequacy of procedures and internal controls over the reimbursement of local currency costs, because most supporting documentation could not be located at the time of our audit visit.

We concluded that the financial statements did not present fairly the financial position of ONATOUR and its operations at December 31 1987. We concluded that appropriate corrective actions had not been initiated and completed in respect of problems uncovered by previous audits. We concluded that generally ONATOUR had complied with GRB laws, regulations and USAID agreement provisions.

We found that documentation to support reimbursement of local currency costs was not available at the time of our audit visit. We found that not all commodities provided by USAID had been used for project purposes only. We found that in one case a contractor employed under a Private Services Contract did not appear to have fulfilled his statement of duties.

We found that controls over, and records of, peat inventories were poor. We were unable to conclude that the figure for peat inventories included in the financial statements at December 31 1987 was fairly stated. We were unable to conclude that the figure for fixed assets and related depreciation included in the balance sheet at December 31 1987 was fairly stated. We found that the accounts and finance department of ONATOUR was not working effectively and financial information produced was not reliable. We found that there were doubts about ONATOUR's viability as a going concern. We found that ONATOUR's management were unaware of the repayment terms and conditions pertaining to the long-term loan from "L'Office du The du Burundi" included in the balance sheet at December 31 1987. We found that the ONATOUR accounts department were unable to reconcile the balance on the "capital grants" (subventions d'equipement) account included in the balance sheet at December 31 1987.





We recommend that a specific exercise be undertaken to review the documentation in support of reimbursements of local currency costs between August 1980 and May 1987. This documentation could not be located at the time of our audit visit, but has since been found. The amounts involved total FBU 141 million (US \$ 1.3 million). We also recommend that in respect of the period June to December 1987 USAID should recover reimbursements of FBU 143,056 (US\$ 1,141) for which no documentation was available and should recover disallowed costs of FBU 924,277 (US\$ 7,374).

We recommend that USAID Burundi should; (a) develop a policy whereby detailed cost/benefit analyses are prepared by competent officials before major capital expenditures are authorized; and (b) require responsible officials to report on the use to which capital assets are put and insist on remedial action (where applicable).

We recommend that USAID Burundi should introduce a system whereby the performance of services provided under a Private Services Contract is independently evaluated before the contract is renewed.

We have made various recommendations concerning ways in which the controls over peat inventories can be improved and the quality of records and information relating to peat inventories can be made more meaningful.

We recommend that all fixed asset records should be brought up-to-date. ONATOUR's management should develop an accounting policy to deal with fixed assets and depreciation. A decision should be made to identify and write off any obsolete assets.

We recommend that ONATOUR's management should develop and implement a written plan for the strengthening of the accounts and finance function at ONATOUR. This would include employing a suitably qualified and experienced accountant to direct the finance and accounts function. Greater emphasis should be given to ensuring the preparation of timely and reliable financial information.

We recommend that ONATOUR's management should critically review cash flow projections for the next few years, assess the level of additional funding that will be required to guarantee ONATOUR's future and identify possible sources of this funding.

We recommend that ONATOUR's management take steps to determine the terms and conditions pertaining to the long-term loan recorded in the books as received from "L'Office du The du Burundi".

We recommend that the "capital grants" (subventions d'equipement) account should be reconciled and corrected as necessary.

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NON-FEDERAL AUDIT OF THE
ALTERNATIVE ENERGY: PEAT II PROJECT (695-01C3)
AND
THE OFFICE NATIONAL DE LA TOURBE

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NON-FEDERAL AUDIT OF THE
ALTERNATIVE ENERGY: PEAT II PROJECT (695-0103)
AND THE OFFICE NATIONAL DE LA TOURBE

PART 1 - INTRODUCTION

A Background

The Office National de la Tourbe (ONATOUR) is a parastatal organization which was created in 1977 by the Government of the Republic of Burundi (GRB) to explore, exploit and market Burundi's peat reserves. Peat is the first stage in the formation of coal and is caused by the decomposition of vegetable matter. Following the completion of several small pilot projects during the 1970's, the Project Grant Agreement (No. 695-0103), referred to as Peat Grant II, was signed in August 1980 between USAID and the GRB. With effect from that date peat was seriously developed as an alternative energy source in Burundi.

The definition set out in section 2.1 of the Grant Agreement specifies that the project will help preserve forest reserves by assisting the Grantee in the development of its peat resources as an alternative energy source. In addition, the project will help strengthen the institutional capacity of the Burundi National Peat Office (ONATOUR) to carry out present and planned peat production on an efficient basis and without the need for significant future financial or technical support. The project will finance long term technical assistance for ONATOUR, peat-harvesting equipment and tools, vehicles and other commodities, training Burundi counterpart personnel, construction of headquarters facilities for ONATOUR, and other related costs. The Project Activity Completion date (PAC) was amended several times with the final amended PAC being June 30 1988. Under the terms of Peat Grant II a total of US\$ 9,000,000 was made available to ONATOUR. At December 31 1987 the amount committed was \$8,685,610, and the amount disbursed was \$7,998,652.

In the 4 year period to December 31 1987 annual production has fluctuated between 10,300 and 17,500 tons of peat with an average of 13,875 tons. During the same period annual sales have fluctuated between 7,200 and 11,900 tons with an average of 9,500 tons. Despite various attempts to diversify, approximately 90% of all sales are to the armed forces, who are therefore in a very strong position to influence the terms of trade.



B Audit objectives and Scope

The first part of the assignment was a financial and compliance audit performed at the request of the Regional Inspector General for Audit in Nairobi (RIG/A/N). The specific objectives of the audit were to; (a) determine the validity and appropriateness of project expenditures reimbursed by RFMC; (b) verify that contractors provided the necessary services; (c) determine whether commodities provided by USAID had been properly recorded, used for project purposes only, and kept in satisfactory operating condition; (d) review construction contracts, procedures in awarding the contracts, payment procedures and ONATOUR accounting practices to incorporate the buildings into their assets; and (e) examine procedures and evaluate internal controls over local agency costs reimbursed by USAID.

The second part of the assignment was an audit of the financial statements of ONATOUR for the four year period to December 31 1987. The audit was contracted by RIG/A/N. The objectives of the assignment were to; (a) determine if the financial statements and related accounts and records present fairly the financial position of ONATOUR and its operations at December 31 1987; (b) re-examine the problems uncovered by the previous audits and ensure that appropriate corrective actions have been initiated and completed; (c) determine whether ONATOUR complied with GRB laws, regulations, and AID agreement provisions which may have a material effect on the financial statements and costs; and (d) prepare a professional audit report.

The audit work was performed at; (a) the USAID regional offices in Nairobi from May 9 1988 to May 17 1988, and (b) the USAID office and ONATOUR's office in Bujumbura from May 18 1988 to June 17 1988. Following the visit to Bujumbura we returned to USAID regional offices in Nairobi and completed our work on July 15 1988.

We held meetings with key personnel in RIG/A/N and RFMC Nairobi, with the director, assistant director and other staff of ONATOUR, with the USAID/Burundi head of mission, project officer and controller, with the Minister of Energy and Mines of Burundi, and with technical assistance personnel assigned to ONATOUR in order to obtain; 1) additional background information relating to ONATOUR'S operations and areas of concern; 2) additional background of ONATOUR'S and the project's financial problems; (c) the propriety of some expenditures claimed under the project since August 29 1980; and 3) USAID'S specific areas of concern.



We reviewed the terms and conditions of the Grant Agreements, applicable standard provisions, implementation letters, budgets and financial reports in order to gain knowledge and understanding of the; (a) goals and objectives of the project and agreements; (b) activities being financed by USAID; (c) types of costs intended to be financed; (d) financial procedures and requirements; and (e) results of completed financial reviews. We reviewed the books and records of ONATOUR for the 4 year period to December 31 1987. We reviewed the Coopers and Lybrand (C&L) audit report for the period ended December 31 1983 and the Coopers and Lybrand "Management letter" for the same period. We reviewed the audit reports produced by the office of the Inspection du Finance of Burundi for the years ended December 31 1984, 1985 and 1986. (The report for the year ended December 31 1987 has not yet been prepared). We reviewed the Annual Reports prepared by ONATOUR.

Our audits were made in accordance with generally accepted government auditing standards. Accordingly, we included such tests of the records and internal control procedures as we considered necessary in the circumstances.

We reviewed and evaluated the project's accounting system, internal controls and capability to properly identify and account for costs in accordance with the Grant Agreement, implementation letters and/or applicable standard provisions.

We visited all the bogs currently being developed. Our tests involved physical verification of the peat production process and verification of assets financed by USAID.

In the period to December 31 1987 a total of \$ 7,998,652 (see Exhibit I) was disbursed. The individual transactions comprised in the total disbursement figure are listed in a "Comprehensive Pipeline Report by Budget Allowance". A copy of this report was made available to us. We selected approximately 10 entries from this report on a judgemental basis for each of the years under review (a total of 64 entries). These entries represented disbursements totalling \$ 4,368,136 (i.e. 55% of total disbursements). Detailed testing was performed on these entries to ensure that all aspects of standard USAID procurement procedures had been followed (see Exhibit II).

Under the Grant Agreement, the GRB agreed to provide or cause to provide for the project all funds in addition to the Grant, and all other resources required to carry out the project effectively and in a timely manner. The resources provided by the GRB for the project would not be less than the equivalent of one million seven hundred seventy five thousand United States dollars (US \$ 1,775,000) including costs borne on an "in kind" basis. Due to the poor records kept by ONATOUR we were unable to ascertain that the GRB had fulfilled their obligation. We noted however that the peat bogs developed by ONATOUR and the land on



which ONATOUR currently have their offices, are owned by the government but were made available exclusively to ONATOUR. We believe the GRB understands that its commitments have been fulfilled in this way.

We were unable to test the reimbursement of the local currency costs incurred by ONATOUR for the period from August 29 1980 to May 31 1987. The files containing the back up documentation were not located before the auditors assigned to the work had returned to Nairobi. Disallowable costs to the value of FBU 1,067,333 (\$ 3,515) were found in the period from June 1 1987 to December 31 1987. To December 31 1987 a total of FBU 157,850,000 (approximately US \$ 1,460,000) was reimbursed by USAID to ONATOUR in respect of local currency costs. This represents 18% of total disbursements (see Exhibit III).

Price Waterhouse

NON-FEDERAL AUDIT OF THE
ALTERNATIVE ENERGY: PEAT II PROJECT (695-0103)
AND OFFICE NATIONAL DE LA TOURBE

PART II - RESULTS OF AUDIT

REPORT I - Report of the auditors to RIG/A/N on the financial statements of ONATOUR

- 1 We have examined the balance sheet of ONATOUR at December 31 1987 which is set out on page 19 and the profit and loss statement for the 4 years then ended, which is set out on page 20. Agency for International Development has grant project No 695-0103 with ONATOUR. Except as explained in paragraphs 3,4,6 and 8 below, our examination was made in accordance with generally accepted auditing standards and the U.S. Comptroller General's "Standards for Audit of Governmental Organizations, Programs, Activities, and Functions" (1981 Revision), and accordingly included such tests of the accounting records and such other auditing procedures as we considered necessary in the circumstances. The balance sheet of ONATOUR for the year ended December 31 1983, included for comparative purposes, was audited by other auditors whose report dated May 2 1984 expressed a qualified opinion on those statements. As discussed in footnote 3 the balances brought forward in the books of ONATOUR at January 1 1984 did not agree with those audited by the previous auditors. For this reason it is not possible to reconcile the movement on reserves and comparative profit and loss account figures have not been included.
- 2 The operations of ONATOUR have been heavily subsidized by USAID throughout the period from 1980. The grant under which this financial subsidy was provided expires during 1988. In the trading environment in which ONATOUR currently operates we do not consider that the organization is a viable going concern without its continued source of funding from AID. The accounts have been prepared on a going concern basis which assumes that adequate subsidies will be obtained. This is further explained in footnote 4.
- 3 We are of the opinion that proper books of account were not kept throughout the period under review. In particular, no general ledger was maintained for the year ended December 31 1987. The trial balance provided to us for the year ended December 1987 included an unexplained difference of FBU 4,707,080. This is further explained in footnote 3.

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- 4 The balance sheet includes a balance of FBU 178,588,000 in respect of capital grants. This figure is in respect of assets capitalized by ONATOUR but paid for by USAID or other donors. The balance on the account is adjusted periodically by the amount of depreciation charged on assets financed by USAID or other donors. We were unable to verify transfers to and from this account due to the poor state of the financial records and we are therefore unable to conclude that the balance is fairly stated. This is further explained in footnotes 2 and 6.
- 5 The depreciation charge has been computed on an inconsistent basis over the period of 4 years to December 31 1987. The basis of charging depreciation is inconsistent for assets of a similar nature. Our audit work indicates that accumulated depreciation at December 31 1987 is understated by an amount of approximately FBU 9,700,000. This is further explained in footnote 2.
- 6 We did not observe the taking of physical inventory as of December 31 1987 as we had not, at that time, been appointed auditors. We were unable to satisfy ourselves regarding inventory quantities and valuation by means of other auditing procedures. Our audit work indicated that inventory records were not accurately maintained during the period under review and we were unable to locate any independent evidence in support of the inventory quantities included in the balance sheet. We are therefore unable to conclude that inventory quantities included in the balance sheet are fairly stated. Our estimate of the production cost of peat at the bogs is between FBU 1.5 to FBU 2 per kilo. The accounting records do not permit the computation of a more accurate unit cost, but the above range is accepted as reasonable by both ONATOUR's management and technical advisers from Ireland. In the case of peat held at Bujumbura the average cost of transportation from the bogs is estimated at FBU 2.75 per kilo. Using a rate of FBU 1.5 per kilo for peat at the bogs and an additional FBU 2.75 per kilo for peat at Bujumbura the quantities of peat included in the balance sheet at 31 December 1987 would be valued at FBU 18,900,000. The value of stock in the balance sheet is FBU 42,659,516. This is further explained in footnote 1.
- 7 An amount of FBU 40,741,450 is shown in the balance sheet as a long-term loan. There has been no movement on this account since 1983, when the balance sheet was audited by other auditors. The amount is understood to be due to "L'Office du The du Burundi". No request for repayment from the lender was seen and we did not receive a confirmation of the debt for audit purposes from the latter. Furthermore the financial statements do not disclose, and we have been unable to obtain any information concerning, repayment terms and conditions and the portion of the debt which should normally be classified as "short term debt" under current liabilities. The principle effect of this matter on ONATOUR's financial position was not reasonably determinable. This is further explained in footnote 5.

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- 8 We were not appointed auditors of ONATOUR until May 1988 and in consequence did not report on the financial statements for the year ended December 31 1983. We noted that the balances brought forward in the books of ONATOUR at January 1 1984 differed from those on which the previous auditors reported as at December 31 1983. The net effect of these differences was that the opening balance for combined reserves in the books of ONATOUR was greater by FBU 6,613,542 than the figure previously audited.
- 9 The financial statements presented by the management do not contain any footnote disclosure of important items within the financial statements, nor is there any description of significant accounting policies used in the financial statements. This is contrary to generally accepted accounting practice and in our opinion renders the present financial statements incomplete. The principle effect of this matter on ONATOUR's financial position was not reasonably determinable.
- 10A Since proper books of account were not kept throughout the period audited as explained in paragraph three, since we were unable to verify transfers to and from the capital grants account due to the poor state of the financial records and are therefore unable to conclude that the balance is fairly stated as explained in paragraph four, since we did not observe the taking of the physical inventory as of December 31 1987 and were unable to satisfy ourselves as to inventory quantities and valuation as explained in paragraph six, and since we were unable to verify the opening balance to the ONATOUR books as of December 31 1983 as explained in paragraph eight, and for all the situations referred to above we were unable to apply adequate alternative procedures regarding these items the scope of our work was not sufficient to enable us to express, and we would not have expressed an opinion on the financial statements referred to above, had not generally accepted auditing standards required that where there are material departures from generally accepted accounting principles a disclaimer of opinion on the financial statements should not be expressed (au 509.45).
- 10B In our opinion, because of material understatement of accumulated depreciation referred to in paragraph five, because the debt referred to in paragraph seven is not properly classified and disclosed, and because there are no informative footnote disclosures and accounting policies disclosures to the financial statements provided by management as explained in paragraph nine, the financial statements referred to above do not present fairly the financial position of ONATOUR at December 31, 1987 and the results of its operations for the four years then ended in conformity with generally accepted accounting principles.



This report is intended solely for the use of management of ONATOUR or the Agency for International Development and should not be used for any other purpose. Contractor information contained in this report may be privileged. The restrictions of 18 USC 1905 should be considered before any information is released to the public.

Price Waterhouse

Price Waterhouse
June 17 1988



Footnote 1

It is not possible to conclude on the accuracy of the figure for peat inventories included in the balance sheet at December 31 1987

The balance sheet at December 31 1987 includes a figure for peat inventories of FBU 42,659,516. This represents the total value of extracted peat on hand at December 31 1987 in Bujumbura or any of the bog sites. There was no independent observation of the physical inventory count performed at the end of 1987 by ONATOUR. The records of the count performed by ONATOUR staff have not been kept. Accurate book records are not maintained by ONATOUR. Peat inventories have not been valued at the lower of cost and net realizable value, as required by generally accepted accounting principles.

Recommendation no.1

We do not consider it possible to compute a figure for peat inventories at December 31 1987 which we could conclude would be accurate. Our recommendations therefore relate to the future.

We recommend that the management of ONATOUR perform the following:

- a) instruct the relevant employees to ensure that book records are kept fully up-to-date at all times.
- b) ascertain the level of production and transport costs incurred in bringing peat inventories to the condition in which they are found at the various locations.
- c) develop a method of measuring accurately the weight of peat transferred from one location to another as well as the weight of peat kept at each location.
- d) apply the lower of net realizable value and the costs computed in (b) above to year end peat balances for valuation purposes.
- e) draw up instructions for the performance of periodic inventory counts.
- f) invite all interested parties to attend year end inventory counts. This would have included USAID officials in 1987 and in the future might include representatives from external audit firms and GRB's audit service.
- g) keep records of all counts performed, to enable subsequent verification.



Discussion

The production of peat takes place during a season which runs from mid-May to September. During 1987 there were three peat bogs in production - Matana, Gisozi and Gitanga. The extracted peat is stored in large hangars at the bog sites. Deliveries may be made from the bogs either directly to the customer or to Bujumbura, where storage facilities exist, and from where deliveries to customers may be made.

We visited all the above mentioned bog locations as well as Bujumbura and performed audit work designed to indicate whether or not the inventory records were accurately maintained. We requested records of the physical inventory count performed at December 31 1987 in order to be able to assess the accuracy of the year end inventory quantities incorporated in the financial statements. We performed calculations to enable us to assess whether inventories had been correctly valued at the lower of cost or net realizable value, in accordance with generally accepted accounting principles.

Inventory records were located as follows:

- i) Bujumbura - from December 12 1987
- ii) Matana - from January 1 1987
- iii) Gitanga - from December 14 1984
- iv) Gisozi - from July 1 1987.

Inventory records prior to the above dates could not be traced. Our review of inventory records indicated that they were generally unreliable, for the following reasons:

- i) "receipts" of peat are based on production figures. These production figures are commonly inflated by production managers in order to appear to meet production targets. ONATOUR'S current management confirmed that it had come to their notice that production figures had often been inflated in the past.
- ii) issues of peat are not accurately recorded: eg at Gitanga all issues were recorded as 10 tons, which is the maximum payload of the lorries used by ONATOUR. Although expensive weighing machines were purchased several years ago by USAID for use at bog sites, these have never been installed.
- iii) a number of instances were noted where inventory records were arithmetically inaccurate.



We were unable to locate any evidence of a physical inventory count having been performed at December 31 1987. We were informed that the physical inventory count records had been destroyed following extraction of the required figures.

We were unable to understand the basis on which closing inventories had been valued, and satisfactory explanations were not provided to us. Inventories of peat on hand as at December 31 1987 stood at 12,148 tons with a valuation of FBU 42,659,516. Our own calculations indicated that the production cost of peat at the bogs is between FBU 1.5 and FBU 2 per kilo. The accounting records do not permit the computation of a more accurate unit cost, but the above range is accepted as reasonable by both ONATOUR'S management and technical advisers from Ireland. In the case of peat held at Bujumbura the average cost of transportation from the bogs is estimated at FBU 2.75 per kilo. Using a rate of FBU 1.5 per kilo for peat at the bogs and an additional FBU 2.75 per kilo for peat at Bujumbura the value of inventories in the balance sheet would be FBU 18,900,000.



Footnote 2

We are unable to conclude that fixed assets are fairly stated at December 31 1987 and that depreciation of fixed assets has been properly computed during the four year period to December 31 1987.

The fixed asset register is incomplete and not up-to-date. It is not in agreement with the general ledger. Depreciation has not been charged on the fixed assets of ONATOIR on a consistent basis from year to year. Fixed assets of a similar nature are sometimes depreciated at different rates. Our calculations indicate that depreciation charged in the 4 year period to December 31 1987 has been understated by approximately FBU 9,700,000. In our opinion the cause for these inconsistencies lies in the absence of a fixed accounting policy regarding depreciation and the distorting effect that the depreciation charge can have on the profit and loss account of ONATOIR.

Recommendation no.2

We recommend that the management of ONATOIR:

- a) should ensure that all fixed asset records are kept fully up-to-date;
- b) should develop an accounting policy to deal with fixed assets and depreciation and should set depreciation rates which should be applied to all assets of a similar nature. The accounting policy and depreciation rates decided upon should be applied consistently from year-to-year; and
- c) should make a decision to write off the asset in question in cases where the depreciation charge on obsolete fixed assets distorts ONATOIR'S profit and loss account, The adjustment should be made against the "capital grants" (subventions d'équipement) account if the asset was financed by an outside agency or should be adjusted against current year profit and disclosed as an exceptional item in the profit and loss account if it was purchased directly by ONATOIR.

Discussion

We noted three distinct problems in the accounting for fixed assets and depreciation. The first was the failure to keep fixed asset records fully up-to-date. The second was a failure to charge depreciation consistently from one year to the next. The third was a failure to charge depreciation at the same rate on assets of a similar nature. We have computed the combined effect of the latter two errors to be a net undercharge of depreciation of approximately FBU 9,700,000 over the four year period to December 31 1987. The two aspects are considered separately below.



Consistency of depreciation charge from year-to-year - ONATOUR owns a large dredging machine known as an Amphydredge. This machine was acquired from a departing team of Finnish Contractors and was brought into the books of ONATOUR at a cost of FBU 21,817,111. The Amphydredge has not been used in the operations of ONATOUR for several years. Depreciation has not been charged on this asset since 1984, because to do so would, in the view of the accountant, distort the profitability of ONATOUR. Similarly depreciation has not been consistently charged on an obsolete machine known as a Lillyput.

If the assets in question are considered to be obsolete, the decision should be taken to make provision for the permanent diminution in their value. Accordingly an adjustment should be made against the "capital grants" account (subventions d'équipement) if the asset was financed by an outside agency. If the asset was purchased directly by ONATOUR an exceptional charge should be passed in the current year's profit and loss account.

Consistency of depreciation charge on similar assets - We noted that whereas certain items of office furniture, office equipment, household furniture and machines were depreciated at 10 per cent per annum, others were depreciated at 15 per cent per annum.

The basis on which depreciation was calculated in the four years under review is not consistent with best accounting practice. The problem appears to have arisen principally because of the absence of any clear accounting policy relating to fixed assets and depreciation. The effect is that we are unable to conclude that fixed assets are fairly stated in the balance sheet at December 31 1987 nor that depreciation has been fairly charged to the profit and loss account for the four years then ended.

Footnote 3

The finance department of ONATOUR should be strengthened to enable the preparation of reliable, timely financial information.

The progress of our audit work was considerably hampered by the fact that neither accounts nor a trial balance for the year ended December 31 1987 were available at the commencement of our audit visit. We eventually received a trial balance several days after the beginning of our audit. No entries relating to 1987 had been made in the general ledger. The trial balance that was provided to us was prepared from various sources, was arithmetically inaccurate and incorporated a difference of FBU 4,707,080. Although accounting records for the period 1984-86 were written up we are unable to say whether this had been done promptly. We concluded that adequate books and records had not been maintained throughout 1987 and that urgent attention needs to be given to strengthening the finance and accounts function within ONATOUR.

Recommendation no. 3

We recommend that the management of ONATOUR:

- (a) develops and implements a written plan showing how they intend to strengthen the finance and accounts function at ONATOUR. This should be done as a matter of urgency.
- (b) employs a suitably qualified and experienced accountant to direct the finance and accounts function.
- (c) should ensure that the general ledger and books of prime entry are kept up-to-date at all times.
- (d) should require the preparation of monthly trial balances and quarterly management accounts.

Discussion

The general state of the accounting records and the performance of the finance and accounts department of ONATOUR is poor measured against the standard of other organizations (both commercial and non-profit making) that we have experience of auditing.

We experienced many problems, whilst performing our audit of the financial statements. The most serious of these are enumerated below:

- a) At the time of our arrival in Bujumbura in mid-May 1988, no trial balance as at December 31 1987 had been prepared for ONATOUR. We eventually received a trial balance several days after the commencement of the audit. This trial balance was arithmetically inaccurate and incorporated an unreconciled difference of FBU 4,707,080.



- b) No general ledger had been maintained throughout 1987. The trial balance that we eventually received had not been extracted from a general ledger, but from various non-integrated sources.
- c) Balances brought forward in ONATOUR's books of accounts at January 1 1984 differed from those on which C&L had reported as at December 31 1983. The net effect of these differences was that the opening balance for combined reserves in the books of ONATOUR was higher by FBU 5,613,542 than the figure audited by C&L. The ONATOUR accountant was unable to explain how this difference had arisen.
- d) Bank reconciliations had not been performed as at December 31 1987. We had to perform these reconciliations ourselves.

These problems appear to arise because the current accountant is insufficiently qualified to run the accounts and finance section of ONATOUR. As a consequence the section is poorly run, controls are weak and there is therefore an increased risk that incidences of fraud and error can pass undetected.



Footnote 4

AID is the major source of ONATOUR's funds.

At the time of performing our audit, we performed a review of the financial viability of ONATOUR. This review is documented in a separate report: "Office National de la Tourbe, Burundi - Financial Viability Report". This report concluded that "..... the financial viability of ONATOUR is dependent on the continued support of funds from either the government of the Republic of Burundi (GRB) or from donors. There are insufficient financial resources within ONATOUR to finance continued operations....." There is no evidence that these additional funds have been pledged. The draft financial statements have, however, been prepared on the assumption that the necessary funds will be forthcoming.

Recommendation no. 4

ONATOUR management should critically review cash flow projections for the next few years, assess the level of additional funding that will be required, and identify potential sources of this funding.

Discussion

At the time of performing our audit we were also requested to produce a report to discuss ONATOUR's financial status and progress towards financial viability. This work was performed and the report was produced by a management consultant from Price Waterhouse's consultancy division in Nairobi.

The consultant's work was hampered by the poor quality of available financial information, which has already been referred to at footnote 3 above. However, on the basis of work undertaken the consultant concluded that "..... the financial viability of ONATOUR is dependent on the continued support of funds from either the government of the Republic of Burundi (GRB) or from donors. There are insufficient financial resources within ONATOUR to finance continued operations and future capital investment and replacement programs."

We understand that ONATOUR'S management is generally aware of this position, but has not yet started to develop specific plans to address the situation.



1
Footnote 5

The repayment terms and conditions of the long-term loan from "L'Office de The du Burundi" should be determined.

The draft balance sheet of ONATOUR as at December 31 1987 includes an amount of FBU 40,741,450 (approximately US \$ 302,000) in respect of a long term loan payable to L'Office du The du Burundi (OTB). The repayment terms and conditions relating to this loan are not known by ONATOUR's management. Management do not therefore have any formal plans to make repayment. It is not possible to predict future related cash flows nor to account for related interest.

Recommendation No. 15

ONATOUR's management should begin discussions with the Ministry of Energy and Mines in order to determine how they should account for the loan. We consider that this approach is appropriate as it is our understanding that OTB is a parastatal organization which should be dealt with at ministerial level.

Discussion

The balance sheet of ONATOUR at December 31 1987 includes an amount due to OTB of FBU 40,741,450. We understand that this amount relates to the value of plant and equipment taken over by ONATOUR and that it was originally understood that repayment should be made in kind i.e. peat.

We understand that several years ago, in an attempt to settle the loan, ONATOUR supplied some peat to OTB. The boilers of the latter, however, were not suitable for peat fuel and a breakdown was caused.

There has been no recent correspondence between ONATOUR and OTB, and ONATOUR'S management requested us not to write to OTB to request clarification. ONATOUR'S current management do not know how the loan will be repaid, and do not wish to remind OTB of the existence of the loan.

The audit report of the College des Commissaires aux Comptes (CCC) for the 1986 audit suggests that because the amounts in question originally represented a grant to OTB the amounts should be treated as a grant, not a loan, in ONATOUR books. We recommend that this problem be sorted out at ministerial level.



Footnote 6

The "capital grants" (subventions d'équipement) account should be reconciled.

ONATOUR's balance sheet at December 31 1987 includes a balance of FBU 178,588,000 (approximately US \$ 1,325,000) in respect of "capital grants" (subventions d'équipement). It should be possible to identify the balance on this account with the depreciated amounts of assets provided to ONATOUR by donors, especially USAID. This has not been done by the accounts department of ONATOUR and because of the backlog and the poor state of ONATOUR'S accounting records it will now require a major effort to complete the reconciliation.

Recommendation No.6

We recommend that a member of ONATOUR's accounts department be assigned the task of reconciling the capital grants account as soon as possible.

Discussion

When fixed assets are provided by donors to ONATOUR the value of the assets is debited to fixed assets with a corresponding credit to capital grants. When depreciation is charged on these assets, the amount of depreciation should be credited to the provision for accumulated depreciation with a corresponding debit to the capital grants account.

It should therefore be possible at any time to identify the balance on the capital grants account with the depreciated value of the corresponding individual assets.

The balance on this account at December 31 1987 is FBU 178,588,000 (approximately US \$ 1,325,000). Because of the poor state of the fixed asset records specifically (see footnote 2 above) and the accounting records generally (see footnote 3 above), ONATOUR'S accounts staff are unable to reconcile the balance in the capital grants account. We are therefore unable to conclude that the balance is fairly stated.

We recommend that the necessary resources be devoted to performing the necessary reconciliation.



OFFICE NATIONAL DE LA TOURBE (ONATOUR)
BALANCE SHEET
AS AT 31 DECEMBER 1987

	<u>1987</u>	<u>1983</u>
	FBU'000	FBU'000
CAPITAL EMPLOYED		
Initial capital	37,613	37,618
Revaluation reserve	1,955	4,308
Profit and loss account	15,222	(9,028)
Capital grants	<u>178,588</u>	<u>24,011</u>
	233,383	56,909
Loans	<u>40,741</u>	<u>40,741</u>
	<u>274,124</u>	<u>97,650</u>
<u>Represented by</u>		
FIXED ASSETS	197,651	49,179
INTANGIBLE ASSETS	-	<u>3,045</u>
	<u>197,651</u>	<u>52,224</u>
CURRENT ASSETS		
Receivables	25,168	17,519
Inventories	42,660	10,974
Cash and Bank	<u>12,006</u>	<u>18,785</u>
	<u>79,834</u>	<u>47,278</u>
CURRENT LIABILITIES		
Payables	<u>3,461</u>	<u>1,852</u>
Net Current Assets	<u>76,373</u>	<u>45,426</u>
	<u>274,124</u>	<u>97,650</u>



OFFICE NATIONAL DE LA TOURBE (ONATOUR)
PROFIT AND LOSS ACCOUNT
FOR THE PERIOD ENDED 31 DECEMBER 1987

	1987 <u>(4 years)</u> FBU'000
Sales	256,184
Cost of Sales	<u>122,245</u>
GROSS PROFIT	133,939
Other Income	<u>69,015</u>
	202,954
Overheads	<u>192,133</u>
Net Profit	<u>10,821</u>

Price WaterhouseREPORT II - Report on Internal Accounting Control

We have examined the Financial Statements of ONATOUR for the period ended December 31 1987 and have issued our report thereon dated June 17 1988. As part of our examination we made a study and evaluation of ONATOUR's systems of internal accounting control to the extent we considered necessary to evaluate the system as required by generally accepted auditing standards and the standards for Financial and Compliance audits contained in the US General Accounting Office's "Standards for Audit of Governmental Organizations, Programs, Activities, and Functions." (1981 Revision). For the purpose of this report, we have classified the significant internal accounting controls in the following categories:

- inventories
- procurement
- equipment
- payroll
- cash and bank

Our study included all of the control categories listed above. The purpose of our study and evaluation was to determine the nature, timing, and extent of the auditing procedures necessary for expressing an opinion on ONATOUR's financial statements. Our study and evaluation was more limited than would be necessary to express an opinion on the system of internal accounting controls taken as a whole or on any of the categories of controls identified above.

The management of ONATOUR is responsible for establishing and maintaining a system of internal accounting control. In fulfilling this responsibility, estimates and judgements by management are required to assess the expected benefits and related costs of control procedures. The objectives of a system are to provide management with reasonable, but not absolute, assurance that assets are safeguarded against loss from unauthorized use or disposition, and that transactions are executed in accordance with management's authorization and recorded properly to permit the preparation of financial statements in accordance with generally accepted accounting principles.



Because of inherent limitations in any system of internal accounting control, errors or irregularities may nevertheless occur and not be detected. Also, projection of any evaluation of the system to future periods is subject to the risk that procedures may become inadequate because of changes in conditions or that the degree of compliance with the procedures may deteriorate.

Our study and evaluation, made for the limited purpose described in the first paragraph, would not necessarily disclose all material weaknesses in the system. Accordingly, we do not express an opinion on the system of internal accounting control of ONATOUR taken as a whole or any of the categories of controls identified in the first paragraph. However, our study and evaluation disclosed the following sixteen conditions that we believed to be material weaknesses to the system of internal accounting control.

This report is intended solely for the use of management of ONATOUR or the Agency for International Development and should not be used for any other purpose. Contractor information contained in this report may be privileged. The restrictions of 18 USC 1905 should be considered before any information is released to the public.

A handwritten signature in cursive script, likely reading "Price Waterhouse".

Price Waterhouse
June 17 1988



1 The finance department of ONATOUR should be strengthened to enable the preparation of reliable, timely financial information.

The progress of our audit work was considerably hampered by the fact that neither accounts nor a trial balance for the year ended December 31 1987 were available at the commencement of our audit visit. We eventually received a trial balance several days after the beginning of our audit. No entries relating to 1987 had been made in the general ledger. The trial balance that was provided to us was prepared from various sources, was arithmetically inaccurate and incorporated a difference of FBU 4,707,080. Although accounting records for the period 1984-86 were written up we are unable to say whether this had been done promptly. We concluded that adequate books and records had not been maintained throughout 1987 and that urgent attention needs to be given to strengthening the finance and accounts function within ONATOUR.

Recommendation

We recommend that the management of ONATOUR:

- (a) develops and implements a written plan showing how they intend to strengthen the finance and accounts function at ONATOUR. This should be done as a matter of urgency.
- (b) employs a suitably qualified and experienced accountant to direct the finance and accounts function
- (c) should ensure that the general ledger and books of prime entry are kept up-to-date at all times.
- (d) should require the preparation of monthly trial balances and quarterly management accounts.

Discussion

The general state of the accounting records and the performance of the finance and accounts department of ONATOUR is poor measured against the standard of other organizations (both commercial and non-profit making) that we have experience of auditing.

We experienced many problems, whilst performing our audit of the financial statements. The most serious of these are enumerated below:

- a) At the time of our arrival in Bujumbura in mid-May 1988, no trial balance as at December 31 1987 had been prepared for ONATOUR. We eventually received a trial balance several days after the commencement of the audit. This trial balance was arithmetically inaccurate and incorporated an unreconciled difference of FBU 4,707,080.

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- b) No general ledger had been maintained throughout 1987. The trial balance that we eventually received had not been extracted from a general ledger, but from various non-integrated sources.
 - c) Balances brought forward in ONATOUR's books of accounts at January 1 1984 differed from those on which C&L had reported as at December 31 1983. The net effect of these differences was that the opening balance for combined reserves in the books of ONATOUR was higher by FBU 6,613,542 than the figure audited by C&L. The ONATOUR accountant was unable to explain how this difference had arisen.
 - d) Bank reconciliations had not been performed as at December 31 1987. We had to perform these reconciliations ourselves.

These problems appear to arise because the current accountant is insufficiently qualified to run the accounts and finance section of ONATOUR. As a consequence the section is poorly run, controls are weak and there is therefore an increased risk that incidences of fraud and error can pass undetected.

2 Stocks of spare parts and fuel should be valued and incorporated in ONATOUR's books of account.

ONATOUR sometimes carries large stocks of spare parts and fuel. These are not accounted for in ONATOUR's books of account. We recommend that ONATOUR should incorporate these stocks in their accounting records in order to improve the quality of management information, as well as to enhance control over these items.

3 Delivery notes should be pre-numbered and filed sequentially

This is not currently done for either peat or other inventories. Because of this not only is it currently difficult to locate documentation for verification purposes, but it is not possible to ensure that all issues have been fully accounted for.

4 The level of insurance cover in respect of buildings, workshops and residential houses occupied by ONATOUR and their staff should be reviewed.

With the exception of motor vehicles, the assets used by ONATOUR appear not to be insured against any risks. In order to avoid large potential losses to the organization, we recommend that ONATOUR critically reviews whether insurance cover should be taken out.

- 5 Vehicle movement logbooks kept by drivers should bear evidence of authorization for journeys by responsible officials.

We verified the logbooks kept by lorry drivers and noted that they were not kept properly. Evidence of authorization by supervisors did not appear against all the trips made by drivers. In order to enhance control over the organization's fixed assets and fuel resources and in order to reduce the risk of loss or wastage we recommend that all journeys should be logged and authorized.

- 6 All suppliers invoices and other accountable documents should be filed in chronological, alphabetical, or numerical order (as appropriate).

We have already referred (at 3 above) to the difficulties experienced in tracing delivery notes. We experienced similar problems in locating suppliers invoices and other documents. Generally, the standard of filing at ONATOUR is poor. We recommend that this situation be addressed as soon as possible.

- 7 Invoices and credit notes should be pre-numbered.

Invoices are not currently pre-numbered. Formal credit notes are not prepared. Instead invoices are cancelled and new ones raised bearing the same number.

In order to ensure the accuracy and completeness of accounting information we recommend that pre-numbered invoices and credit notes should be prepared. Invoices should not be cancelled - instead, credit notes should be prepared.

- 8 Regular surprise visits to bog-sites should be performed by management to ensure that all casuals listed are bona fide.

Officials of ONATOUR disclosed that they visit the bogs once in a while to ensure that casuals on pay records actually exist. However, there was no evidence to prove this and it is therefore uncertain whether this control exists. More often than not, reliance is placed on figures submitted by the site supervisors.

It is imperative that such visits be conducted as casuals form the highest proportion of employees during June-September of any year. Further, management has no direct control over the employment of these casuals as the responsibility lies with the site supervisor.

- 9 Journal entries should be reviewed and authorized by a responsible official and evidenced in writing.

The journal book is not reviewed at all by an official independent of the accounting function. It is possible that errors and fraud could go undetected.



- 10 Creditor's reconciliations between the ledger and suppliers' statements should be prepared regularly and reviewed by a responsible official.

No reconciliations are currently prepared. It is therefore difficult for ONATOUR's management to establish whether all liabilities have been taken up.

- 11 Suppliers' invoices should be stamped 'PAID' after payment to avoid duplicate payments.

Our review of invoice files revealed that this is not currently done. The risk of error of duplicating payments is therefore high and might not be discovered as supplier's reconciliations are not prepared.

- 12 ONATOUR's tax status should be clarified.

We were informed by the Directeur of ONATOUR that ONATOUR was exempt from tax from the first 10 years of its existence. ONATOUR was formed on March 21 1977 under Decree No. 100/36. No tax return has been filed for 1987. The Directeur is unclear as to the current position and we have seen no correspondence on the subject. We recommend that steps be taken to clarify the position.

- 13 Accuracy of RFMC records

Our audit work was based on a sample of transactions taken from the Comprehensive Pipeline Report by Budget Allowance (PO7). Details of disbursements in respect of items selected from the PO7 were verified via a Commitment Liquidation Report (PO4). We noted a number of errors in the recording of disbursements in the PO4. We did not observe any instances of disbursements being made in error. We recommend that RFMC develops procedures to ensure the accuracy of the PO4.

- 14 USAID approval for selling and scrapping assets

We did not see any documentary evidence of approval given by USAID Burundi for the sale or scrapping of USAID-financed equipment. The proceeds of sales of USAID-financed equipment appeared to have been fully accounted for in the books of ONATOUR. Our discussions with USAID officials in Burundi indicate that they were fully aware of all such transactions. We recommend, however, that written USAID approval be obtained before any transactions to sell, scrap or otherwise dispose of USAID-financed assets be undertaken.



15 USAID-financed assets in ONATOUR books

We noted that ONATOUR's books and records are generally poorly kept. Although we were able to trace most USAID-financed fixed assets through to the books of ONATOUR, certain exceptions were noted. We recommend that USAID Burundi insists that ONATOUR's fixed asset records be brought up-to-date.

15 Records kept at RFMC, Nairobi

We were unable to locate several files and vouchers in the regional offices at Nairobi. Generally, difficulty in locating supporting documentation hampered the progress of our audit work. We recommend that efforts be made to improve the quality of filing.

Price Waterhouse

REPORT III - Report on compliance with laws, regulations and programs

We have examined the Financial Statements of ONATOUR for the period ended December 31, 1987 and have issued our report thereon dated June 17 1988. Our examination was made in accordance with generally accepted auditing standards, the provisions of the "Standards for Audit of Governmental Organizations, Programs, Activities and Functions," (1981 Revision) promulgated by the US Comptroller General, as they pertain to financial and compliance audits and, accordingly included such tests of the accounting records and such other auditing procedures as we considered necessary in the circumstances. The management of ONATOUR is responsible for ONATOUR's compliance with laws, regulations and terms and conditions of the Federal award agreements.

In connection with our examination, we found that for the items tested, ONATOUR complied with laws, regulations, and the terms and conditions of the federal award agreements except for the following four items which constitute instances of non-compliance.

Further, with respect to the items not tested by us, nothing came to our attention to indicate that ONATOUR had not complied with laws, regulations and terms and conditions of ONATOUR's Federal grants, contracts, and agreements, other than those instances of non-compliance which we noted in our testing referred to above. However, it should be noted that our examination was not directed primarily toward obtaining knowledge of non-compliance with laws, regulations, terms and conditions of Federal award agreements.

This report is intended solely for the use of management of ONATOUR or the Agency for International Development and should not be used for any other purpose. Contractor information contained in this report may be privileged. The restrictions of 18 USC 1905 should be considered before any information is released to the public.

Price Waterhouse
June 17 1988



1. We are unable to conclude that local currency costs reimbursed by USAID were fully allowable

Despite repeated requests over the course of a four week audit visit to Bujumbura, ONATOUR staff were unable to locate documents to support reimbursements made by USAID during the period August 1980 to May 1987. These documents were subsequently found after the auditors assigned to the work had returned to Nairobi. The total value of reimbursements made in this period was FBU 141 million (US \$ 1.3 million). These costs have been treated as questionable in the summary included as Exhibit III. Vouchers to support reimbursements made in the period June to December 1987 were located. All of these vouchers were reviewed. Of total reimbursements made in this latter period of FBU 16,762,939 there were no documents to support payments of FBU 143,056 (US\$ 1,141) and we found that reimbursements totalling FBU 924,277 (US\$ 7,374) were not allowable under the USAID regulations.

RECOMMENDATION NO. 1

We recommend that USAID Burundi should:

- (a) perform a specific exercise (using personnel not previously involved with ONATOUR) to review the documentation now located to ensure that all reimbursements of local currency expenditure during the period August 1980 to May 1987 were properly made;
- (b) recover the reimbursements of FBU 143,056 (US\$ 1,141) which are not supported by the necessary documents; and
- (c) recover the disallowed costs of FBU 934,277 (US\$ 7,374).

Discussion

ONATOUR claim reimbursement of local procurement costs using a Project Financial Implementation Report (PFIR). At the bottom of each PFIR an ONATOUR official appends his signature to the following representation: "I certify that records and supporting payment vouchers (commercial invoices, receiving reports, inventory and proper records) being applicable are on file at ONATOUR/Project Tourbe and are available for review by US government representatives upon request. On the basis of the progress reports I have determined that progress on the project is commensurate with the expenditure during the period".



From the beginning of our audit visit to Bujumbura we persistently requested the documents supporting PFIRs raised between August 1980 and May 1987. We were informed by ONATOUR staff that these documents could not be traced. The documents were eventually located after the auditors assigned to the work had returned to Nairobi.

It should, however, be noted that an American PSC was assigned to assist the ONATOUR accounts department from August 1980 to March 1987 and during this period was responsible for the preparation of PFIR's. Prima facie, this provides us with some comfort that reimbursements of local currency costs during this period were properly made.

During the period June to December 1987 (the period for which supporting documentation was available) we noted reimbursements of costs totalling FBU 143,056 (US\$ 1,141) for which no documentation was available.

We also noted the reimbursement of costs totalling FBU 924,277 (US \$ 7,374) which are not allowable under USAID regulations.

We noted that ONATOUR staff were unable to locate documentation in support of local currency reimbursements from August 1980 to May 1987. This is not consistent with Section B.5. (b) of the grant agreement which required the grantee to "maintain or cause to be maintained.....books and records relating to the project.....adequate to show, without limitation, the receipt and use of goods and services acquired under the grant."

Management comment

With reference to recommendation (a), now that USAID assistance to the project has terminated we question the utility, advisability or cost effectiveness of attempting to review all documentation in support of local currency costs covering a period of almost seven years.

With reference to recommendations (b) and (c) we feel the amounts are not sufficiently material to warrant an attempt to recover these costs from the government at this late stage.

2 Not all commodities provided by USAID have been used for project purposes only

USAID financed certain items of capital expenditure which have not been used for the direct benefit of the project. Such expenditure includes the construction of an office block for ONATOUR, which was used for only a short time because the level of ONATOUR's activities did not justify the cost of maintaining the office block. USAID also financed the acquisition of 4 expensive weighing machines for use at the 3 main bog sites and Bujumbura. The machines at the bog site have never been assembled and we saw no plans to do so.

RECOMMENDATION NO. 2

We recommend that USAID Burundi should:

- (a) develop a policy whereby detailed cost/benefit analyses are prepared by competent officials before authorizing major capital expenditure; and
- (b) require responsible officials to report on the use to which capital assets are put and insist on remedial action (where applicable).

Discussion

In 1982/83 (in the early stages of ONATOUR's existence) USAID financed the construction of an office block for ONATOUR in central Bujumbura at a cost of approximately US \$ 417,750. We did not see any evidence that the commercial justification for this was ever fully considered. In their 1986 "Management Assessment" Coopers & Lybrand (C&L) recommended that ONATOUR should vacate the office block as the costs of running it could not be justified. ONATOUR subsequently moved out, and the administration staff are now housed at the warehouse compound in Bujumbura's industrial area. The office building is now rented out at a low rental to a Burundi parastatal and the income is credited in ONATOUR books.

In 1984 USAID financed the purchase of 4 weighing machines at a cost of US \$ 31,525 (excluding freight costs). The machines were purchased under P10/C 695-0103-4-10038. One machine was assembled at the Bujumbura warehouse in 1987. The other 3 have not been assembled at the bog sites as was originally planned. The components are currently at the bog sites in their original packing, which is disintegrating. We understand that there is a plan to sell one machine to another parastatal. There are no plans for the other two machines.

In our view it would be desirable to assemble these machines (in the form of weigh-bridges) at the bog sites in order to be able to accurately record the weights of peat production and inventory issues.



- 3 USAID renewed the contract of a PSC employee several times, although it appears that he did not fulfil his statement of duties.

USAID funded the costs of a PSC financial adviser for 4 consecutive contracts. One of the primary responsibilities of the financial adviser was to develop the finance and accounts functions at ONATOIR. At the time of our audit visit in 1988, the finance and accounts department was scarcely functioning and there were no effective systems in place. The amount disbursed in respect of the above contracts was \$ 319,777.

RECOMMENDATION NO. 3

USAID Burundi should introduce a system whereby the performance of services provided under a PSC is independently evaluated before the contract is renewed.

Discussion

The statement of duties of the financial adviser referred to above included:

- (a) Assist ONATOIR to improve its accounting system;
- (b) Advise ONATOIR staff in analytical accounting, including investment and budgetary planning, preparation of cash flow statements, cost benefits analysis and feasibility studies.
- (c) Assist ONATOIR in the analysis and implementation of eventual audit/evaluation recommendations;
- (d) Assist ONATOIR in the institutionalization of basic data collection and analyses.

We do not consider that the above duties were adequately fulfilled. We set out below examples of these inadequacies:

- (a) No general ledger was maintained during 1987;
- (b) Little or no effort had been made to implement the recommendations made by C&L following their audit of the financial statements for the period ended December 31 1983; and,
- (c) There are no effective systems for recording and controlling the movements of peat inventories.

Management comment

Agreed, subject to being able to identify an appropriate form of independent evaluation.

- 4 ONATOIR has not complied with all provisions of the Burundian Plan National Comptable

During our audit we reviewed the reports of the Burundian College des Commissaires aux Comptes which were qualified in various areas. Based on these qualifications and our own work we do not consider that ONATOIR has complied with all provisions of the Burundian Plan National Comptable.

Price Waterhouse



NON-FEDERAL AUDIT OF THE
ALTERNATIVE ENERGY: PEAT II PROJECT (695-0103)
AND
THE OFFICE NATIONAL DE LA TOURBE

PART III - REPORT ON SUPPLEMENTAL INFORMATION

We have examined the Financial Statements of ONATOUR for the period ended December 31, 1987. Our examination was made for the purpose of forming an opinion on the Financial Statements of ONATOUR taken as a whole. The following Exhibits I-III are presented for the purpose of additional analysis and are not a required part of the basic Financial Statements of ONATOUR. Such information has been subjected to the auditing procedures applied in the examination of the basic Financial Statements and, in our opinion, is fairly stated in all material respects in relation to the basic Financial Statements taken as a whole.

Price Waterhouse

Price Waterhouse
June 17 1988

EXHIBIT I

NON FEDERAL AUDIT OF THE
ALTERNATIVE ENERGY: PEAT II PROJECT (695-0103)
SUMMARY OF PROJECT DISBURSEMENTS

<u>US\$'000</u>	<u>1980</u>	<u>1981</u>	<u>1982</u>	<u>1983</u>	<u>1984</u>	<u>1985</u>	<u>1986</u>	<u>Total</u>
Technical Assistance	1050	223	255	245	55	183	56	2,067
Commodities	557	677	421	46	99	458	243	2,501
Demonstration	-	100	33	-	-	90	-	223
Training	39	22	4	10	8	7	-	90
Construction	50	438	59	244	278	47	117	1,233
Namunuwaga	-	-	-	100	-	-	-	100
Other Costs	264	411	279	334	-	259	-	1,547
Soil Reclamation	-	-	-	50	16	-	-	66
Project Support Cost	-	62	-	-	-	110	-	172
Total	1,960	1,933	1,051	1,029	456	1,154	416	7,999

NON FEDERAL AUDIT OF THE
ALTERNATIVE ENERGY: PEAT II PROJECT (695-0103)
SUMMARY OF RESULTS OF AUDIT WORK

US \$'000

	Total disbursed	Total tested	Competitive/Source procurement			P10 Authorised	Verified	Contract		Disbur ments Verified
			verified	Not applicable	Exceptions			Not applicable	Exceptions	
1980	1,960	392	82	179	131	392	273	119	-	238
1981	1,933	923	546	313	64	923	903	20	-	675
1982	1,051	389	107	261	21	389	368	21	-	282
1983	1,029	934	244	660	30	934	415	419	100	904
1984	456	456	300	106	50	456	431	25	-	365
1985	1,154	658	351	358	149	658	572	286	-	752
1986	416	416	117	273	26	416	416	-	-	173
	7,999	4,368	1,747	2,150	471	4,368	3,378	890	100	3,389
		note 1)	(note 2)	(note 3)	(note 4)					(note 5)

- Note 1: Represents a total of 64 transactions selected from the "Comprehensive Pipeline Report by Budget Allowance" and covering 55% by value of all transactions.
- Note 2: Verified evidence of compliance with USAID regulations concerning multiple tendering and source of procurements.
- Note 3: Reasons for non applicability include - evidence of approved waivers (usually given by USAID Burundi head of mission)
- documentation not available re reimbursement of local currency costs.
- Note 4: Exceptions usually arise because of inadequate documentation.
- Note 5: Due to non-availability of documentation not all disbursements could be verified.

EXHIBIT III

NON FEDERAL AUDIT OF THE
ALTERNATIVE ENERGY: PEAT II PROJECT (695-0103)
SUMMARY OF ALLOWABLE, DISALLOWABLE
AND QUESTIONABLE EXPENDITURE

YEAR	FBU '000	Exchange rate (approx.)	US\$ equivalent	Allowable US\$	Disallowable US \$	Questionable US\$
<u>1 Reimbursement of local currency costs via PFIRs</u>						
1981-82	20,406	89.55	227,872	-	-	227,872
1983	25,642	89.55	286,342	-	-	286,342
1984	33,167	114.79	288,936	-	-	288,936
1985	25,244	119.06	212,027	-	-	212,027
1986	26,105	116.05	224,946	-	-	224,946
1987 (Jan-May)	10,522	122.67	85,737	-	-	85,737
(Jun-Dec)	<u>16,764</u>	125.33	<u>133,921</u>	<u>125,406</u>	<u>8,515</u>	<u>-</u>
	<u>157,850</u>		1,459,781	125,406	8,515	1,325,860
<u>2 Other expenditure</u>						
1980-87			<u>6,538,871</u>	<u>6,538,871</u>	<u>-</u>	<u>-</u>
			<u>7,998,652</u>	<u>6,664,277</u>	<u>8,515</u>	<u>1,325,860</u>

APPENDIX I

MANAGEMENT COMMENTS ON DRAFT REPORT

TEXT OF CABLE SENT BY USAID BUJUMBURA

FOR: RIG/A/N THABET FROM MILLER, AID REPRESENTATIVE

SUBJECT: BURUNDI PEAT II - NFA DRAFT AUDIT REPORT

REF: NAIROBI 27495

- 1 WE HAVE RECEIVED SUBJECT DRAFT REPORT AND COMMEND THE PRICE WATERHOUSE TEAM FOR THE THOROUGH AND COMPREHENSIVE COVERAGE OF ONATOUR'S OPERATION AND MANAGEMENT.
- 2 MISSION'S PRINCIPAL OBJECTIVE FOR REQUESTING THE AUDIT WAS TO ENHANCE ONATOUR'S CAPACITY TO CONTINUE THE DEVELOPMENT OF A VIABLE PEAT INDUSTRY WITHOUT FURTHER USAID FINANCIAL ASSISTANCE. WE FEEL THAT THE FINDINGS AND RECOMMENDATIONS PERTAINING TO ONATOUR SUPPORT THIS OBJECTIVE AND WE WILL ENCOURAGE ONATOUR TO ACCEPT AND IMPLEMENT THE RECOMMENDATIONS.
- 3 WE HAVE RESERVATIONS, HOWEVER, ABOUT THE RECOMMENDATIONS FOR USAID ACTION. WE READILY ACCEPT THE FACT THAT WEAKNESSES EXIST IN ONATOUR'S FINANCIAL MANAGEMENT SYSTEM AND THE PROJECT HAS CONSISTENTLY ATTEMPTED TO ADDRESS THESE WEAKNESSES BY PROVIDING A LONG TERM PSC FINANCIAL ADVISOR, TRAINING FOR ONATOUR'S MANAGEMENT STAFF, MANAGEMENT ASSESSMENTS AND REVIEWS BY OUTSIDE CONSULTANTS AND AUDITS AND EVALUATIONS TO INCLUDE THIS ONE. NOW THAT USAID ASSISTANCE TO THE PROJECT HAS TERMINATED WE QUESTION THE UTILITY, ADVISABILITY OR COST EFFECTIVENESS OF ATTEMPTING TO REVIEW ALL DOCUMENTATION IN SUPPORT OF REIMBURSEMENTS OF LOCAL CURRENCY COSTS COVERING A PERIOD OF ALMOST SEVEN YEARS. IF THAT WAS NECESSARY AT THIS LATE STAGE OF THE GAME, THE AUDITORS THEMSELVES SHOULD HAVE DONE IT OR ARRANGED THEN TO HAVE IT DONE WHEN THEY WERE HERE.
- 4 WITH RESPECT TO THE RECOMMENDATION PERTAINING TO THE RECOVERY BY USAID OF CERTAIN PROJECT FUNDS FROM ONATOUR, THE REPORT DOES NOT IDENTIFY THE DISALLOWABLE COSTS REFERRED TO IN EXHIBIT III. MORE INFORMATION IS NECESSARY TO SUPPORT A DEMAND FOR REIMBURSEMENT. AGAIN, HOWEVER, WE QUESTION THE MERIT OF THIS RECOMMENDATION. THE SUBJECT WAS RAISED BY THE AUDITORS WHEN THEY WERE HERE AND IN THEIR JUDGEMENT IT WAS NOT A PROBLEM OF A SCALE THAT MERITED AN ACTION BY AID. IN PROCEEDING ON THIS ASSUMPTION, MISSION ON SEPTEMBER 13, 1988 RELEASED THE FINAL CHECK TO ONATOUR FOR REIMBURSEMENT OF LOCAL COST PROJECT EXPENDITURES. IT WOULD BE EXTREMELY AWKWARD FOR THE MISSION, AT THIS STAGE TO ATTEMPT TO RECOVER THESE FUNDS FROM THE GOVERNMENT.

- 5 IN RECOMMENDATION NO.3 PLEASE EXPLAIN WHAT IS INTENDED BY TERM "INDEPENDENTLY EVALUATED".

- 6 WE HOPE YOU FIND THESE COMMENTS USEFUL IN FINALIZING YOUR REPORT. I WILL BE IN NAIROBI ON TUESDAY, DECEMBER 13 AND WILL MAKE A POINT OF TRYING TO SEE YOU. WE CAN DISCUSS THIS ALONG WITH A TOUR OF THE HORIZON OF OTHER MATTERS OF COMMON INTEREST. PHILLIPS.

REPORT DISTRIBUTION

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SAA/S&T	1
S&T/AGR	1
PPC/CDIE	3
REDSO/ESA	1
RFMC/Nairobi	1
IG	1
DIG	1
IG/PPO	2
IG/LC	1
IG/ADM/C&R	12
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