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NON-FEDERAL AUDIT OF THE
PL 480 TITLE II AND III FUNDS
PROVIDED TO THE BANGLADESH AGRICULTURAL
RESEARCH COUNCIL IN SUPPORT OF THE
AGRICULTURAL RESEARCH II PROJECT
PROJECT NO. 388-0051

AUDIT REPORT NO. 5-388-89-05-N
MAY 31, 1989

AGENCY FOR INTERNATIONAL DEVELOPMENT
OFFICE OF THE REGIONAL INSPECTOR GENERAL FOR AUDIT
- Singapore -

U.S. POSTAL ADDRESS:
American Embassy
AID/RIG
FFO San Francisco 96000

INTERNATIONAL ADDRESS:
c/o American Embassy
30 Hill Street
Singapore 0617
Tel: 225-1033

May 31, 1989

MEMORANDUM FOR Priscilla M. Boughton
Director, USAID/Bangladesh

FROM: *B. Howard*
Reginald Howard, RIG/A/Singapore

SUBJECT: Non-Federal Audit of the PL 480 Title II and III funds provided to the Bangladesh Agricultural Research Council in support of the Agricultural Research II Project (Project No. 388-0051), Audit Report 5-388-89-05-N

This report presents the results of a non-federal financial and compliance audit of the PL 480 Title II and III funds provided to the Bangladesh Agricultural Research Council (BARC) in support of USAID/Bangladesh's Agricultural Research II Project. The accounting firm of Price Waterhouse in Calcutta, India performed the audit.

The audit objectives were to (1) report on the Bangladesh Agricultural Research Council's fund accountability statement for PL 480 Title II and III funds for the period July 1, 1986 to June 30, 1988; (2) evaluate the system of internal accounting controls; and (3) determine compliance with applicable laws, regulations, and agreement terms.

Price Waterhouse disclaimed an opinion on the fund accountability statement because of the lack of audited financial statements as of June 30, 1986 and the use of inappropriate cut-off procedures in recognizing recipient expenditures. The auditors questioned expenditures totaling TAKA 698,985 (\$21,842) and identified several areas in which internal controls needed strengthening. These areas included the lack of segregation of duties, deficiencies in the internal audit system, and lapses in the internal control system.

Price Waterhouse concluded that the Bangladesh Agricultural Research Council generally complied with agreement terms and regulations. However, they noted several non-compliance issues. One of these issues concerned the need for USAID to

ensure that the Bangladesh Agricultural Research Council employs an accounting firm to perform annual audits of PL 480 Title II and III funds. The auditors also disclosed that the Government of Bangladesh failed to release PL 480 Title III funds to the Bangladesh Agricultural Research Council amounting to TAKA 6,160,320 and TAKA 299,990,000 as required in the agreement. We understand the lack of these funds have had detrimental implications on project operations.

USAID's and the Bangladesh Agricultural Research Council's comments to the draft report (Appendix 1) were taken into consideration by the auditors in preparing the attached audit report. The Price Waterhouse report contains eight recommendations which we have combined into three recommendations. Accordingly the following recommendations will be included in the Office of the Inspector General's audit recommendation follow-up system.

Recommendation No. 1

We recommend that USAID/Bangladesh require the Bangladesh Agricultural Research Council to:

- (a) refund TAKA 28,308 (\$884) to its PL 480 Title II and Title III operating expense account for the unauthorized use of funds for construction and taxes; and
- (b) identify TAKA 670,677 (\$20,958) in its accounting records as an available source of PL 480 Title II and Title III funds instead of an expenditure of the same amount.

Recommendation No. 2

We recommend that USAID/Bangladesh require the Bangladesh Agricultural Research Council improve its internal controls by:

- (a) establishing a comprehensive accounting manual;
- (b) developing internal accounting controls to address the deficiencies cited on pages 24-32 of the Price Waterhouse report;
- (c) instituting a more effective monitoring system over the use of recipient cost statements including a comparison of the recipients' budgeted and actual expenditures;
- (d) adopting procedures for the segregation of accounting duties and responsibilities; and

- (e) developing an internal audit system which includes an internal audit plan and specifies that audit reports be addressed to the Chairman of the Bangladesh Agricultural Research Council.

Recommendation No. 3

We recommend that USAID/Bangladesh ensure:

- (a) the Bangladesh Agricultural Research Council complies with the seven areas of non-compliance with agreement terms as specified on pages 40-42 of the Price Waterhouse report; and
- (b) the Government of Bangladesh releases TAKA 6,160,320 (\$192,510) and TAKA 299,990,000 (\$9,374,687) to the Bangladesh Agricultural Research Council as required per the project agreement.

Based upon the comments to the draft report and the related attachments, Recommendation Nos. 1, 2b, 2c, and 3a are closed upon report issuance. Recommendation Nos. 2a, 2d, 2e, and 3b are resolved and will be closed when the corrected actions have been completed.

Please advise this office within 30 days of actions planned or taken to implement the open recommendations.

AUDITORS' REPORT ON PL 480 TITLE II & III
FUNDS IN SUPPORT OF USAID/BANGLADESH'S
AGRICULTURAL RESEARCH II
PROJECT NUMBER : 388 - 0051

Financial and Compliance Non-Federal Audit of the PL 480 Title II and III Funds provided to the Bangladesh Agricultural Research Council (BARC) in support of USAID/Bangladesh's Agricultural Research II Project No. 388-0051 during the period from 1st July, 1986 to 30th June, 1988.

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Price Waterhouse

8th May, 1989

Mr. B.R. Howard,
Regional Inspector General For Audit,
U.S. Agency For International Development,
Singapore.

Dear Mr. Howard,

This report presents the results of our audit for the period from 1st July, 1986 to 30th June, 1988 in respect of the PL 480 Title II and III Funds provided to the Bangladesh Agricultural Research Council (BARC) in support of USAID/Bangladesh's Agricultural Research II Project No. 388-0051.

BACKGROUND

The Agricultural Research II Project (388-0051) is a ten year USAID/Bangladesh effort to improve Bangladesh's agricultural research capabilities. USAID/Bangladesh in collaboration with the Government of Bangladesh (BDG) has provided local currency generated by the sale of PL 480 Title II and Title III commodities to BARC for the purpose of meeting the recurrent local currency costs of agricultural research.

The sale proceeds for agricultural research were allocated to BARC to provide budgetary support for BARC's Technical and Financial Monitoring Cells (BARC's FTMC). In addition, BARC is authorized to transfer funds directly to various Agricultural Research Institutes and Research Stations throughout Bangladesh.

The total sale proceeds are deposited into the BDG'S Special Account. Thereafter, the sale proceeds specified for agricultural research should be transferred into BARC's interest-bearing Short Term Deposit Account. The 1985 and 1987 Title III agreements required that the transfer to the Short Term Deposit Account should be completed by 30th June 1986 and 31st March 1988 respectively. BARC is also required to maintain three current accounts:

- (1) to accumulate funds shortly before transfer to the institutes, stations and sub-stations;

- (2) to support BARC's operating expenses, and
- (3) to support the operating expenses of BARC's Financial and Technical Monitoring Cells [BARC - FTMC].

AUDIT OBJECTIVES AND SCOPE

A financial and compliance audit was performed in accordance with generally accepted auditing standards and US Government Auditing Standards set out in the U.S. General Accounting Office's "Yellow Book" titled "Standards for Audit of Governmental Organizations, Programs, Activities and Functions". The audit included appropriate tests to determine if funds and/or commodities are being properly accounted for and used as directed by the agreements and other applicable program documents or the laws of Bangladesh.

The principal objectives of the audit were to determine whether:

1. The Fund Accountability Statement for BARC PL 480 Title II and PL 480 Title III costs under the Agricultural Research II Project fairly presented its receipts and expenditures for the period from 1st July, 1986 to 30th June, 1988 in conformity with the terms of the Agreements with the Agency for International Development (AID) and identify costs which were not fully supported with adequate records or which were not allowable, reasonable or allocable under the terms of the Agreements.
2. BARC's internal accounting controls were adequate for A.I.D. purposes.
3. BARC had complied with applicable laws, regulations and agreement terms.
4. USAID/Bangladesh had complied with its financial monitoring responsibilities in accordance with applicable laws, regulations and agreement terms.

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).

Broadly, the audit was performed using uniform worldwide

methodology of Price Waterhouse as documented in the Audit Guidance Series (AGS) produced by the Audit Research and Methods Group of Price Waterhouse World Firm (PWWF).

The audit was carried out in a manner consistent with the 'Examination Objectives' and the 'Audit Review Phase' outlined in chapters 2 & 4 respectively of the 'Guidelines for Financial and Compliance Audits of AID-financed Agreements'.

The audit assessed the accountability of the BARC Head Office concerning BARC operating expenses at the Financial and Technical Monitoring Cells and transfer of funds to the institutes, stations, and sub-stations. The audit did not encompass the Fund Accountability Statements of the institutes, stations and substations but included confirmation procedures pertaining to transfer of funds to those entities and units to the extent deemed appropriate.

RESULTS OF THE AUDIT

Fund Accountability Statement

The scope of our work was limited to the examination of the Fund Accountability Statement of BARC only and did not encompass the examination of such statements of the Research Institutes, Research Stations and Sub-stations. Also, our examination did not include an audit of the receipts and expenditures of the Bangladesh Government's counterpart contributions. Additionally, our examination revealed that :

- BARC did not have audited financial statements covering the opening balances with Banks, Research Institutes, Research Stations and Sub-stations as of 30th June, 1986;
- inappropriate cut-off procedures were followed by BARC for recognizing expenses on the basis of cost statements received from Research Institutes, Research Stations and Sub-stations ; and
- common expenditures were allocated to BARC's FTMC as per the discretion of the management.

In view of our above remarks, we are unable to, and we do not, express an opinion on the Fund Accountability Statement.

However, we identified Taka 698,985 as questioned cost ~~and~~

estimated an apparent loss of Taka 7,674,796 by way of interest due to the delay and short release of funds by BDG.

Internal Accounting Controls

Our study and evaluation of the system of internal accounting controls of BARC, applicable to the project, indicated the following deficiencies:

- There were lapses in the internal control system regarding the proper recording and accounting for PL 480 Title II and Title III funds.
- Inappropriate cut-off procedures were followed for recognizing expenses on the basis of cost statements received from Research Institutes, Research Stations and Sub-stations.
- There was lack of segregation of duties with respect to certain incompatible accounting functions affecting the project.
- The internal audit system was not effective and also was not commensurate with the size, number of locations and nature of activities of the Research Institutes, Research Stations and Sub-stations.

We believe the above conditions could result in more than a relatively low risk that errors or irregularities in amounts that could be material in relation to the Fund Accountability Statements may occur and not be detected within a timely period. Because our study and evaluation of the system of internal controls was made for the limited purposes of the audit, it would not necessarily disclose all material weaknesses in the system, and therefore we do not express an opinion on the system of internal controls of BARC taken as a whole.

Compliance with agreement terms

Based on the results of our testings, except for certain non-compliance items as discussed in findings 1 - 3 of the compliance section, we are of the opinion that BARC complied with the agreement terms and applicable laws and regulations.

Nothing came to our attention that caused us to believe that untested items were not in compliance with agreement terms and applicable laws and regulations.

Compliance with financial monitoring responsibilities by USAID/Bangladesh

For the items tested, USAID/Bangladesh was generally in compliance with AID financial monitoring regulations except for ensuring that annual audits of BARC's Fund Accountability Statement for PL 480 Title II and Title III were performed. Nothing came to our attention in our examination which caused us to believe that USAID/Bangladesh was not in compliance with AID financial monitoring regulations for items not tested.

MANAGEMENT COMMENTS ON OUR FINDINGS AND RECOMMENDATIONS

BARC\USAID were generally in agreement with our findings and recommendations. They have advised us of the various measures which are being or have been taken to rectify the deficiencies and areas of non-compliance which were highlighted during our survey.

Price Waterhouse
PRICE WATERHOUSE
CHARTERED ACCOUNTANTS

Price Waterhouse

PL 480 Title II and III Funds provided to the Bangladesh Agricultural Research Council (BARC) in support of USAID/Bangladesh's Agricultural Research II Project No. 388-0051.

AUDITORS' REPORT ON THE FUND ACCOUNTABILITY STATEMENT

Mr. B.R. Howard,
Regional Inspector General For Audit,
U.S. Agency For International Development,
Singapore.

1. We have examined the attached Fund Accountability Statement of the PL 480 Title II and III Funds provided to the Bangladesh Agricultural Research Council (BARC) in support of USAID/Bangladesh's Agricultural Research II Project No. 388-0051 for the period from 1st July, 1986 to 30th June, 1988.
2. 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 under the circumstances, except as explained in paragraph 3 below.
3. (a) Taka 74,585,190 was spent by various Agricultural Research Institutes, Research Stations and Sub-stations. The examination of the Fund Accountability Statements of such recipients were beyond the scope of our audit.
(b) The agreement included a provision for the Bangladesh Government's counterpart contributions but the audit of the receipts and expenditure of the counterpart contributions was outside the scope of our examination.
(c) In the absence of audited statements of account as on 30th June, 1986, the opening balances with Banks, Research Institutes, Research Stations and Sub-stations and BARC-FTMC, in respect of Title II Funds, as appearing in the books of account of the Council as at

1st July, 1986 have been accepted by us.

4. For the purpose of preparing the Fund Accountability Statement, BARC recognized expenditures on the basis of cost statements received from Research Institutes, Research Stations and Sub-stations upto a predetermined cut-off date. Consequently :
 - . The expenditures in respect of Title II Funds included expenditures pertaining to periods prior to 1st July, 1986 which has been recognized in the Fund Accountability Statement on the basis of cost statements received from Research Institutes, Research Stations and Sub-stations. The extent of such expenditures is not readily ascertainable.
 - . In respect of Title III funds, cost statements for expenditures pertaining to the period from 1st July, 1986 to 30th June, 1988 received subsequent to the cut-off date has not been recognized. In the absence of necessary particulars/details the amount of further adjustments necessary in this regard is not ascertainable.
 - . In view of the facts stated above a meaningful comparison of the budgeted amount with the actual expenditure could not be made.
5. Common expenditures like electricity, fuel and oil, telephone, repairs and maintenance etc. were allocated to BARC's FTMC from time to time as per the discretion of the management depending on the availability of funds. In the absence of management's predetermined basis of allocation we are unable to comment on the reasonableness of such allocation.
6. In view of our remarks in Paragraphs 3 to 5 above, we are unable to, and we do not, express an opinion on the Fund Accountability Statement of the PL 480 Title II and III funds provided to BARC in support of USAID/Bangladesh's Agricultural Research II Project No. 388-0051 for the period from 1st July, 1986 to 30th June, 1988 prepared on the basis of accounting policies described in Note 2 to the Fund Accountability Statement.
7. However, as part of our examination, we identified Taka 698,985 as questioned costs which we believe should be

reviewed by USAID/Bangladesh for allowability (See Finding number 1 enclosed herewith.)

8. Our examination also revealed an apparent loss of interest of Taka 7,674,796 which resulted from the delay and short release of funds by BDG [See Finding number 2 of our report on Compliance With Agreement Terms].

This report is intended solely for the use of the Bangladesh Agricultural Research Council and The Agency For International Development. This restriction is not intended to limit distribution of this report, which upon acceptance by the AID Office of the Inspector General, is a matter of public record.

12th January 1989

Price Waterhouse
PRICE WATERHOUSE
CHARTERED ACCOUNTANTS

BANGLADESH AGRICULTURAL RESEARCH COUNCIL

SUPPORT OF USAID/BANGLADESH'S AGRICULTURAL RESEARCH II
PROJECT NO 388-0051

PL 480 TITLE II AND III FUNDS

FUND ACCOUNTABILITY STATEMENT
FOR THE PERIOD FROM 1ST JULY 1986 TO 30TH JUNE 1988

	SCHEDULE REFERENCE	TITLE II	TITLE III
		FUNDS	FUNDS
		TAKA	TAKA
SOURCES OF FUNDS			
Opening Balances as of July 1, 1986			
With Banks	A	53,721	-
With Bangladesh Agricultural Research Council - Financial and Technical Monitoring Cell		1,661,785	-
With Agricultural Research Institutes, Research Stations and Sub-stations		28,748,527	-
Contributions from USAID [Note 2(c)]		-	110,000,000
Bank Interest [Note 2(c)]		15,168	1,300,809
Miscellaneous Income		1,250	28
TOTAL		30,480,451	111,300,837

	SCHEDULE REFERENCE	TITLE II FUNDS	TITLE III FUNDS
		TAKA	TAKA
APPLICATIONS OF FUNDS			

Budget categorywise expenses for the period July 1, 1986 to June 30, 1988	B	30,066,982	50,137,506
Closing Balances as of June 30, 1988			
With Bank	C	641	10,014,127
With Bangladesh Agricultural Research Council - Financial and Technical Monitoring Cell		77,047	34,703
With Agricultural Research Institutes, Research Stations and Sub-stations [Note 3]		335,781	51,114,501
		-----	-----
TOTAL		30,480,451	111,300,837
		-----	-----

Notes on Fund Accountability
Statement

D

Price Waterhouse
PRICE WATERHOUSE
CHARTERED ACCOUNTANTS

12th January, 1989

SCHEDULE A

BANGLADESH AGRICULTURAL RESEARCH COUNCIL

SUPPORT OF USAID/BANGLADESH'S AGRICULTURAL RESEARCH II
PROJECT NO. 388-0051

PL 480 TITLE II AND III FUNDS

SCHEDULES TO THE FUND ACCOUNTABILITY STATEMENT

SCHEDULE OF BANK BALANCE AT JULY 1, 1986

	TITLE II FUNDS	TITLE III FUNDS
	TAKA	TAKA
Opening Balances with Banks as of July 1, 1986		
On Short Term Deposit Account with United Commercial Bank Ltd	19	-
On Current Account with Sonali Bank	53,702	-
	53,721	-

SCHEDULE B

SCHEDULES TO THE FUND ACCOUNTABILITY STATEMENT

SCHEDULE OF EXPENDITURES FOR THE PERIOD JULY 1, 1986
TO JUNE 30, 1988

	TITLE II FUNDS -----	TITLE III FUNDS -----
	TAKA -----	TAKA -----
Budget Categorywise Expenses for the period July 1, 1986 to June 30, 1988 -----		
Labour wages etc.	8,533,580	13,757,108
Fuel and Oil	1,526,309	4,176,959
Travel Allowance	2,117,043	3,445,346
Inputs for research: fertilizers, pesticides, seeds, field prepara- tion, laboratory chemicals and laboratory glassware	6,013,014	6,272,300
Purchase of books, journals, reprints, publications and reports	2,199,017	3,090,657
Repair and maintenance of vehicles, research implements and laboratory equipment	4,464,896	3,975,463
Workshops, seminars, meetings and farmer field days	810,707	868,917
Carried forward	----- 25,664,566	----- 35,586,750

SCHEDULE B [Contd]

 SCHEDULES TO THE FUND ACCOUNTABILITY STATEMENT

	TITLE II FUNDS ----- TAKA -----	TITLE III FUNDS ----- TAKA -----
Brought forward	25,664,566	35,586,750
Contractual services/statistical chemical analysis	396,888	-
Current telephone and electric bills for offices and laboratories	-	7,833,206
Purchase of agricultural imple- ments and laboratory equipment not exceeding TK 3000/item	-	367,649
Development of experimental plots including irrigation, drainage, channelling and fencing	-	3,371,322
Internal monitoring and evaluation	17,026	-
BARC operating expenses	3,048,833	-
Financial and Technical Monitoring Cell expenses	-	2,499,575
Contingencies/ Miscellaneous Expenses	937,939	409,844
Bank Charges	1,730	69,160
	30,066,982	50,137,506

SCHEDULE C

SCHEDULES TO THE FUND ACCOUNTABILITY STATEMENT

SCHEDULE OF BANK BALANCES AS AT JUNE 30, 1988

	TITLE II FUNDS ----- TAKA -----	TITLE III FUNDS ----- TAKA -----
Closing Balances With Bank as of June 30, 1988 -----		
On Short Term Deposit Account with Sonal Bank	-	9,935,774
On Current Account with Sonali Bank	641	78,353
	-----	-----
	641	10,014,127
	-----	-----

SCHEDULE D

SCHEDULES TO THE FUND ACCOUNTABILITY STATEMENT

Notes On Fund Accountability Statement

1. IDENTIFICATION AND ACTIVITY

The Agricultural Research II Project (388-0051) is a ten year USAID/Bangladesh effort to improve Bangladesh's agricultural research capabilities.

In accordance with a 1983 Agricultural Commodity Grant Agreement between the Government of Bangladesh (BDG) and the United States of America, certain quantities of wheat were granted under PL 480 Title II and III for sale either through the Modified Ration Program or through the Open Market Sales Program.

The sale proceeds are used to support agricultural research operating expenses outside the funds provided by the BDG in the Annual Development Plan and also to provide budgetary support for the Bangladesh Agricultural Research Council's Financial and Technical Monitoring Cells.

On the basis of budgets approved by USAID/Bangladesh, the Bangladesh Agricultural Research Council is authorized to transfer funds directly to various Agricultural Research Institutes, Research Stations and Sub-stations throughout Bangladesh and also to BARC-FTMC. The task of maintaining the books of account, incorporating inter alia the disbursements made and cost statements submitted by recipients rests with BARC.

2. BASIS OF ACCOUNTING/ACCOUNTING POLICIES

- a. Funds are provided by USAID/Bangladesh in local currency, generated by sale of PL 480 Title II and III commodities, through the Government of Bangladesh. Consequently, the books are maintained and the Fund Accountability Statement is expressed in Taka, the monetary unit of Bangladesh.

SCHEDULE D [Contd]

SCHEDULES TO THE FUND ACCOUNTABILITY STATEMENT

- b. The books of account in respect of PL 480 Title II and III funds maintained by the Bangladesh Agricultural Research Council are separate and distinct from those maintained for other funds and activities.
 - c. Contributions from USAID, released by the Government of Bangladesh, and interest on Short-Term Deposits are accounted on a cash basis. However, expenditures are recognized on the basis of cost statements received from Research Institutes, Research Stations and Sub-stations upto a predetermined cut-off date.
 - d. Common expenditures on electricity, fuel and oil, telephone, repairs and maintenance etc. are allocated to BARC's FTMC from time to time as per the discretion of the management depending on the availability of funds.
3. CLOSING BALANCE INCLUDES LOAN

Closing balances with Agricultural Research Institutes, Research Stations and Sub-stations, in respect of Title III Funds, include a loan amounting to Taka 2,583,947 recoverable from the Fisheries Research Project.

BANGLADESH AGRICULTURAL RESEARCH COUNCIL

SUPPORT OF USAID/BANGLADESH'S AGRICULTURAL
RESEARCH II PROJECT NO. 388-0051

PL 480 TITLE II AND III FUNDS

FINDING NO. 1

QUESTIONABLE BARC EXPENDITURES

Condition

Budget categorywise expenses include questioned costs to the tune of Taka 44,612 and Taka 654,373 in respect of Title II and III respectively as summarized below :

Voucher No. and Date	Particulars	Title II Funds Taka	Title III Funds Taka
CV No. 1610 dated 30/07/1986	Payment for construction of guard room, which is not in the nature of an operational expenditure, without obtaining approval from USAID. The amount has been debited to BARC's operating expenses	18,091	-
CV No. 1718 dated 23/08/1986	Payment of Municipal Tax, not admissible under PIL-2 terms, debited to BARC's operating expenses	6,521	-
	Carried forward	24,612	-

Voucher No. and Date	Particulars	Title II Funds	Title III Funds
		Taka	Taka
		-----	-----
	Brought forward	24,612	-
CV No. 292 dated 30/06/1987	Payment of personal income tax on salaries on behalf of two employees, not admissible under PIL-2 terms, debited to BARC's operating expenses	-	3,696
CV No. 96 dated 26/02/1987	Equivalent US \$ coupons were purchased from Bangladesh National Commission of UNESCO but remained unused as of 30/06/1988. This, being money equivalent, should have been included under closing balance instead of including under BARC's operating expenses	-	300,000
JV No. 157 dated 30/06/1987 and JV No. 53 dated 30/06/1988	Unadjusted advances outstanding as on 30/04/1987 and 30/06/1988, shown as BARC-FTMC expenses	-	350,677
JV No. 7 dated 30/06/1988	Unadjusted advances outstanding as on 30/06/1988 shown as BARC's operating expenses	20,000	-
		-----	-----
		(A) 44,612	(B) 654,373
		-----	-----
	Total questioned costs (A) + (B)	Taka 698,985	

Criteria

- * Prior approval should be obtained from USAID for incurring any expenditure which is not in the nature of an operational cost as specified in the project agreement.
- * Purchase of money equivalents should be expended when actually expended.
- * Advances should be expended only on actual receipt of goods or services and not at the time of making advances.
- * Expenses not admissible under FIL - 2 terms should not be debited to BARC's operating expenses.

Cause

The reasons for the above referred deficiencies in accounting are due to lack of uniformity and appropriate understanding of the systems and procedure among different accounts personnel of BARC responsible for PL 480 funds.

Effect

The questioned cost referred to above do not ensure preparation of a fair and complete Fund Accountability Statement as budget category expenses are overstated and the unspent balances are understated.

Recommendation No.1

BARC should :

- (a) refund TAKA 28,308 to the BARC PL 480 Title II and Title III operating expense account covering the unauthorized use of funds for construction and taxes ;
- (b) ensure that TAKA 670.677 is identified in its accounting records as an available source of PL 480 Title II and Title III funds instead of an expenditure of the same amount.

Management Comments:

BARC/USAID have informed us that -

(a) TAKA 10,217 representing payment of municipal tax and personal income tax have been refunded and USAID has recommended post-facto approval of minor construction involving TAKA 18,091.
(b) Equivalent US \$ coupons purchased from Bangladesh National Commission of UNESCO worth TAKA 300,000 have been entered in BARC's accounts as an asset and the balance amount of TAKA 3,70,677 has been supported as expenditure subsequently.

Price Waterhouse

BANGLADESH AGRICULTURAL RESEARCH COUNCIL

SUPPORT OF USAID/BANGLADESH'S AGRICULTURAL RESEARCH II PROJECT NO. 388-0051

PL 480 TITLE II AND III FUNDS

REPORT ON INTERNAL ACCOUNTING CONTROLS

Mr. B.R.Howard
Regional Inspector General for Audit
US Agency For International Development
Singapore.

We have performed a financial and compliance non-federal audit for the period from 1st July, 1986 to 30th June, 1988 of the PL 480 Title II and III funds provided to the Bangladesh Agricultural Research Council (BARC) in support of USAID/Bangladesh's Agricultural Research II Project No. 388-0051 and have issued our report thereon dated 12th January, 1989. As part of our examination, we have made a study and evaluation of BARC's system of internal accounting controls to the extent we considered necessary to evaluate the system as required by the generally accepted auditing standards and the U.S. Comptroller General's "Standards for Audit of Governmental Organizations, Programs, Activities, and Functions" (1981 Revision). 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 the Fund Accountability Statement. For the purpose of this report, we have classified the significant internal accounting controls evaluated as 1) General Administration 2) Bank (receipts and disbursements) 3) Payroll 4) Procurement 5) Internal Audit and Follow-up System. The scope of our work was limited to the examination of the Fund Accountability Statement of BARC only and did not encompass the examination of such statements of the Research Institutes, Research Stations and Sub-stations. Our study and evaluation was more limited than would be necessary to express our opinion on the system of internal accounting controls taken as a whole.

The management of BARC 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 the system are to provide management with reasonable, but not absolute, assurance that assets are safeguarded against loss from unauthorised use or disposition, and that transactions are executed in accordance with management's authorisation 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 controls of BARC taken as a whole. However, our study and evaluation did disclose conditions that we believe would result in more than a low risk that error or irregularities in amounts that could be material in relation to the fund accountability statement may occur and not be detected within a timely period. The conditions which include internal control weaknesses, inappropriate cut-off procedures, lack of segregation of duties, and deficiencies in the internal audit system are described in Findings 1 - 4.

This report is intended solely for the use of BARC and USAID. This restriction is not intended to limit distribution of this report which, upon acceptance by the A.I.D. Office of the Inspector General, is a matter of public record.

Price Waterhouse
PRICE WATERHOUSE
CHARTERED ACCOUNTANTS

12th January, 1989

BANGLADESH AGRICULTURAL RESEARCH COUNCIL

SUPPORT OF USAID/BANGLADESH'S AGRICULTURAL
RESEARCH II PROJECT NO. 388-0051

PL 480 TITLE II AND III FUNDS

FINDINGS ON THE INTERNAL ACCOUNTING CONTROLS

FINDING NO. 1

Deficiencies in BARC's accounting and related control system

Condition

In the course of our audit, we have come across the following deficiencies:

- a) BARC does not have any formal accounting manual to deal in particular with the transactions in connection with PL 480 funds.
- b) Advances made out of PL 480 fund and remaining unadjusted as at the end of the period were reported by BARC as expenses instead of including these as unspent closing balance.

<u>Title/year</u>	<u>Account head debited by BARC</u>	<u>Amount</u>
		<u>Taka</u>
III/1986-87	BARC-FTMC expenses	252,295
III/1987-88	BARC-FTMC expenses	98,382
II/1987-88	BARC operating expenses	20,000

Payments should be charged to expenses only on actual receipt of goods or services and not at the time of making advances.

- c) Cheques were issued to draw cash for making certain payments in the nature of staff pay and overtime which were recorded in the books at the time of issue, but no corresponding entries were made in the books after the cash was drawn for disbursement. As a result the amount unpaid, if any, remained unaccounted for and chances of unauthorized use of such money cannot be ruled out. Some instances are given below:

Payment Voucher No.	Nature of payment	Title II
		Taka

1505	Staff overtime bills	2,103.00
1532	Staff overtime bills	986.00
1568	Staff overtime bills	2,713.00
1590	Drivers overtime bills	7,655.75
1642	Staff overtime bills	1,845.00
164	Pay of Mr. Md. Ershad Ali	2,014.00
250	Pay of Mr. Md. Ershad Ali	2,100.00
261	Pay of Mr. Rafiqul Islam	1,829.29
265	Pay of Mr. Md. Ershad Ali	2,034.00

All cash movements must be recorded in the cash columns of the Cash Book.

- d) In respect of BARC-FTMC Title-III, as per Cash Book, initial receipt of funds was on 31st January, 1987 while first cheque (No. 0390601) was issued to the Deputy Commissioner, Kurigram, on 29th January, 1987. This has resulted in the drawing of funds without ensuring availability of funds.
- e) Disbursements to and adjustments of costs of all recipients are entered in the subsidiary ledger. It is preferable to maintain a control account in the General Ledger on the principle of self-balancing ledgers to provide a cross-check inherent in the system.
- f) Figures appearing in the Cost Statements received from Research Institutes, Research Stations and Sub-stations were altered at BARC's office and recorded without obtaining concurrence of concerned authorities. A few examples are given below:

Recipient	Title and period	Original figure	Figure after
		in cost statement	change
		Taka	Taka?
Principal Scientific Officer, E&RP, RARS, Ishurdi, Fabna	II 1986-87	82,995.54	81,001.54
RARS, Fabna	II 1986-87	518,029.11	481,594.50
Soil Chemist, ARSS, Comilla	II 1986-87	13,751.15	47,503.80
Regional Laboratory, Shasangacha, Comilla	II 1986-87	24,961.58	34,746.14
P.S.O., RARS, Hathazari	II 1986-87	26,776.14	26,768.72
BJRI, Rangpur	II 1986-87	296,626.58	112,199.40
F.J.S.F., Nashipur, Dinajpur	II 1986-87	11,101.13	10,722.19
F.J.S.F., Chitla, Kushtia	II 1986-87	834,782.90	810,847.15
Technological Research on Jute, HQ BJRI	II 1986-87	588,646.08	629,925.27

It is desirable that the concurrence of recipients is obtained for any alteration to their cost statements.

- g) Printed money receipts, though available with BARC-FTMC, were not issued by it. The use of pre-numbered money receipts will improve the internal control system.
- h) From BARC-FTMC, fresh travel advances in some cases were given without adjusting the previous advances. A few examples are given below:

Name of employee -----	Date of advance/ adjustment -----	Amount of advance ----- Taka ----	Amount of refund ----- Taka ----	Balance ----- Taka ----
Dr. Mirajuddin	26-07-87	1,800	-	1,800
Ahmed	11-08-87	4,000	-	5,800
P.S.O.	08-09-87	500	-	6,300
	25-10-87	1,500	-	7,800
	31-11-87	-	2,000	5,800
	10-12-87	500	-	6,300
	17-12-87	2,500	-	8,800
	31-12-87	-	4,000	4,800
	31-01-88	-	500	4,300
	24-02-88	1,000	-	5,300
	21-03-88	550	-	5,850
	31-03-88	-	1,000	4,850
	12-04-88	1,000	-	5,850
	31-04-88	-	2,500	3,350
	04-05-88	1,800	-	5,150
	31-05-88	-	1,676	3,474
	06-06-88	1,000	-	4,474
	19-06-88	1,500	-	5,974
	30-06-88	-	5,974	Nil

- 1) Taka 10,217 was spent by BARC towards Municipal Tax and personal Income Tax on salaries which are not admissible under PIL - 2 terms. Corrective action should be taken immediately to prevent such recurrence in future.
- j) Recoveries against advances for travel and for purchases amounting to Taka 3,415 and Taka 16,173, respectively, were netted off against expenses during the year. This has resulted from the fact that no balance on account of advances prior to 1st July, 1986 was brought forward in the books relating to 1986-87.
- k) In most cases, Journal Vouchers were neither approved by an authorized person nor did we see any evidence in support of the fact that these were checked by any person other than the person preparing the same.
- l) A cost statement was submitted for Taka 3,60,000 by RARS, Jessore, in respect of Title II covering the period from 9th February, 1986 to 8th October, 1986 instead of a statement for the half-year ending on 30th June 1986. As a result in

absence of proper segregation of costs between the two accounting years of BARC, the entire amount was booked in the period starting July 1, 1986. The circumstances referred to above call for a clarification and a request for an amended cost statement from the recipient.

- m) Some cost statements were submitted by recipients in round figures (expressed in thousand of Takas) which were accepted and adjusted by BARC without further investigation. Some examples are given below:

Recipient	Title / period	Amount
		Taka
Senior Scientific Officer ARSS, Debiganj, Dinajpur	II 1986-87	49,000
Production Specialist, RARS, Jessore	II 1986-87 II 1987-88	3,60,000 20,000
Principal Scientific Officer, Rahmatpur, Barisal	II 1986-87	4,50,000
Principal, BCAS, Salna	II 1986-87	4,95,000
BRRI, Joydebpur	II 1986-87	23,14,000
SSO (Fruits), Kazla, Rajshahi	II 1986-87	45,000

It is desirable that BARC should examine justification before accepting these types of cost statements.

- n) Following discrepancies were noticed while checking entries in the ledger for adjustments from recipient cost statements :

Particulars	Per ledger	Per cost statement	Difference
	Taka	Taka	Taka
1) Journal voucher 74, dated 18-01-1988 for Rangpur, B.J.R.I. in respect of Title-III/ 1987-88			
Repairs and maintenance	-	19,545.00	19,545.00
Workshop, seminar, etc.	19,545.00	2,000.00	(17,545.00)
Current telephone, electric bill, etc.	2,000.00	11,092.74	9,092.74
Purchase of agricultural implements	11,092.74	-	(11,092.74)
11) Journal voucher 3, dated 24-02-1988 for Monirampur, B.J.R.I. in respect of Title-III/ 1987-88			
Fuel and oil	2,252.40	-	(2,252.40)
Travel allowance	10,249.20	2,252.40	(7,996.80)
Inputs for research	-	10,249.20	10,249.20
111) Cash voucher 1877, dated 05-11-1986 in respect of Title-II/ 1986-87			
Seminar, workshop	43,000.00	-	(43,000.00)
Miscellaneous	-	43,000.00	43,000.00
	88,139.34	88,139.34	-

An independent checking of the entries registered would eliminate these sort of errors. These affected the line itemwise

expenditure in the Fund Accountability Statement for the period.

- o) Disbursements to recipients in some cases did not tally with the total of the line itemwise budget approved by BARC. Some examples are given below:

Name of the recipient	Title/Period	Total of line itemwise budget	Amount disbursed	Difference
-----	-----	-----	-----	-----
		Taka	Taka	Taka
BARI				

Senior Scientific Officer, Potato Agricultural Research Centre, Pahartali, Chittagong	III 1986-87	56,000	60,000	4,000
Senior Scientific Officer, Jaintapur, Sylhet	III 1986-87	17,000	20,000	3,000
Chief Scientific Officer, A.S.D., Shyampur, Rajshahi	III 1986-87	9,600	10,000	400

Before disbursement, the arithmetical accuracy of budgets ought to be checked.

- p) Line itemwise budgets were kept in the respective recipients' files without preserving a master file on a consolidated basis. Consequently, some of the line itemwise budgets which could not be traced in the individual files were found untraceable in BARC's Office. Some examples are given below:

Name of the recipients -----	Title/period -----
i) Bangladesh Institute of Nuclear Energy	III 1986-87
ii) Directorate of Livestock Services	III 1986-87
iii) Bangladesh Livestock Research Institute	III 1986-87

It is desirable that a master budget should be prepared and preserved centrally in order to avoid the difficulties arising from the misplacement of individual budgets.

q) In many cases, the cost statements submitted by the recipients did not bear any signature or seal of the concerned person/recipient. Some examples are listed below:

Name of the recipient -----	Title -----	Journal voucher and date -----	Amount ----- Taka -----
BARI ----- Debiganj, Dinajpur	II	JV 322 19-5-87	69,605.50
BJRI ----- Rangpur	II	JV 341	112,199.40
Faridpur	II	JV 337 13-6-87	95,898.38
Monirampur, Jessore	II	JV 256 3-3-87	216,362.68
Tarabo	II	JV 294 19-5-87	31,027.50
Chitla, Kushtia	II	JV 263 18-4-87	810,847.15

BARC should accept properly authorized cost statements only.

- r) A cost statement received from one recipient did not indicate the period to which it relates. We understand from BARC officials that the costs were taken into account after considering the period for which the last cost statement was received from the concerned recipient (Journal Voucher No. 71, dated 19th July, 1986 received from PSO, RARS, Pabna, for Taka 81,001.54 in respect of Title-II).

BARC should not accept cost statements which do not identify the period to which it relates.

- s) Taka 18,091 was paid for the construction of a guard room, a non-operational expenditure, without obtaining approval from USAID. Prior approval from USAID should be obtained under similar circumstances in the future.
- t) Equivalent US \$ coupons amounting to Taka 300,000 were purchased from Bangladesh National Commission of UNESCO which were not used during the period under audit. The amount, however, was reported by BARC as expenses instead of including these as unspent closing balance. Purchase of such money equivalents should be charged to expenses only on actual consumption and not at the time of making payment. BARC should formulate an appropriate accounting policy to ensure that an amount is recognized as an expense only when the actual benefit is received.
- u) Common expenditures like electricity, fuel and oil, telephone, repairs and maintenance etc. were allocated to BARC's FTMC from time to time as per the discretion of the management depending on the availability of funds. An appropriate basis for consistently allocating such common administrative overhead should be formulated.

Criteria

Generally accepted accounting standards require the establishment of internal accounting controls for ensuring appropriate and complete financial information in the accounting records. Further, accounting systems should include accounting manuals and procedures to ensure the consistent and appropriate accounting of financial transactions.

Cause

The reasons for the above referred deficiencies in accounting and the related control system are due to lack of uniformity and appropriate understanding of the systems and procedures among different recipients and accounts personnel of BARC responsible for PL 480 funds.

Effect

The deficiencies referred to above do not ensure preparation of a fair and complete Fund Accountability Statement. Lack of uniformity and appropriate understanding of systems and procedures resulted in carrying out duties by the concerned employees of BARC and different recipients according to their own criteria. The circumstances give rise to more than a low risk of errors and omissions, which may remain undetected in a timely manner.

Recommendation No. 2

It is recommended that BARC should :

- (a) prepare an accounting manual which defines accounting policies, includes standardized procedures and specifies use of appropriate forms to achieve a unified approach and result ;
- (b) develop internal accounting controls to address the deficiencies cited in items (a) to (u) referred to above.

Management Comments:

BARC/USAID have advised us that -

- (a) Necessary action for preparation of an accounting manual has been initiated and a local firm of Chartered Accountants has been asked to furnish a cost proposal in this regard.
- (b) Appropriate corrective steps have been initiated to address the deficiencies in accounting control cited in items (a) to (u) referred to above.

FINDING NO. 2

BARC used inappropriate cut-off procedures for the adjustment of costs against disbursements.

Condition

BARC's accounting records for Title II and Title III funds reflected adjustments of costs were made against corresponding disbursements on the basis of cost statements received from the Research Institutes, Research Stations and Sub-stations upto a predetermined cut-off date instead of making adjustments for all the recipients on due dates.

Criteria

In respect of Title III, as per Project Implementation Letter No. 2 dated 28th May, 1986, all recipients are required to submit financial statements to BARC for each disbursement on the expiry of 6 months from the date of transfer. Further, as per Project Implementation Letter No. 9, dated 15th March, 1988, such statements are due for submission to BARC within 4 weeks of the expiry of 6 months period.

In respect of Title-II, although there is no specific requirement in this regard, any sound accounting system should ensure reflection of all the transactions that have taken place during the period.

Cause

Inability of BARC to devise a follow-up system to ensure timely receipt of cost statements from all recipients.

Effect

1) BARC's Fund Accountability Statements are inaccurate because expenditures are understated. However, the extent of which is not ascertainable as :

- a) certain cost statements of some of the recipients are yet to be received.
- b) certain cost statements of some of the recipients,

which have been received, bear no indication as to the period to which they relate.

c) BARC's monitoring system does not readily identify such defaulters.

2) Additionally, a comparison between budgeted and actual expenditures cannot be performed in a meaningful manner.

Recommendation No. 3

It is recommended that BARC's monitoring system should be reviewed and strengthened to ensure that:

- a) cost statements from all recipients are received within the time stipulated ;
- b) cost statements from recipients are reviewed, scrutinized, and checked to ensure that they are properly prepared, including the indication of the period to which they relate, duly signed and dated ;
- c) defaulters are promptly identified to facilitate appropriate follow-up and corrective action; and
- d) a comparison between budgeted and actual expenditures is made possible to take the full benefits of budgetary control.

Management Comments:

BARC/USAID have informed us that their monitoring system has been geared up to overcome the deficiencies noted above.

FINDING NO. 3

Lack of segregation of duties

Condition

Certain accounting functions which are deemed incompatible were performed solely by the cashier without adequate independent checks by any other individual. These functions include keeping

unused cheque books (which are not crossed) in custody, preparation of payment vouchers, delivery of cheques to parties, receipt and opening of bank statements, preparation of bank reconciliations, and posting of cash transactions to the General Ledger and Cash Book.

Criteria

An adequate system of internal control should provide for segregation of duties in relation to authorization, initiation, processing, custody, and recording of transactions in the accounting records.

Cause

There was inadequate implementation of a proper system of internal control in this regard.

Effect

This weakness has resulted in one individual performing incompatible functions, and accordingly, errors and other discrepancies could go undetected for a long period of time.

Recommendation No.4

It is recommended that BARC should adopt a procedure for ensuring that accounting functions are properly and effectively segregated so that the work of authorization, initiation, processing, custody, and recording of transactions are done by different individuals. This can be done by reallocating duties amongst the existing accounts personnel.

Management Comments:

BARC/USAID have advised us that the process of reallocating duties among existing personnel of BARC has already started.

FINDING NO. 4

BARC needs to improve its Internal Audit System

Condition

Internal audit was conducted by two persons who worked on a

contract basis. Audit reports were, in practice, addressed to the Director of Finance, whose work was also subject to review by the Audit Department. Also, the selection of auditees and the performance of audit was made in the absence of a phased audit plan and program, and, adequate audit working papers.

Criteria

An adequate system of internal control should provide for an internal audit system commensurate with the size and nature of operations to review records on a periodic basis as an aid to management.

Cause

BARC has not yet developed an internal control system which systematically plans audits to cover significant activities. Further the audit reports are not addressed to a management level high enough for initiating corrective action.

Effect

This weakness has resulted in both poor coverage of transactions and unsystematic selection of auditees. Additionally, by not reporting to an independent higher authority, its importance has been overlooked.

Recommendation No.5

It is recommended that BARC should develop an internal audit system which includes an internal audit plan to ensure proper and appropriate audit coverage supported by tailored audit programs and checklists to document the work performed. Moreover, BARC should require audit reports to be addressed to the Chairman of BARC.

Management Comments:

BARC/USAID have informed us that steps are being taken to revamp the internal audit system in the lines suggested.

Price Waterhouse

BANGLADESH AGRICULTURAL RESEARCH COUNCIL

SUPPORT OF USAID/BANGLADESH'S AGRICULTURAL
RESEARCH II PROJECT NO. 388-0051

PL 480 TITLE II AND III FUNDS

REPORT ON COMPLIANCE WITH AGREEMENT TERMS
AND APPLICABLE LAWS AND REGULATIONS

Mr. E. E. Howard
Regional Inspector General for Audit
US Agency For International Development
Singapore.

We have examined the Fund Accountability Statement for the period from 1st July, 1988 to 31st June, 1989 of the PL 480 Title II and III funds provided to the Bangladesh Agricultural Research Council (BARC) in support of USAID/Bangladesh's Agricultural Research II Project No. 388-0051 and have issued our report thereon dated 12th January, 1989.

The scope of our work was limited to the examination of the Fund Accountability Statement of BARC only and did not encompass the examination of such statements of the Research Institutes, Research Stations, and Sub-stations. Our examination included tests of compliance with agreement terms and applicable laws and regulations as we considered necessary in the circumstances, and as required by the U.S. Comptroller General's "Standards for Audit of Governmental Organizations, Programs, Activities, and Functions" (1981 Revision).

In our opinion, subject to our observations as described in Finding Nos. 1 and 2 of this report, BARC had complied with the agreement terms and applicable laws and regulations. Nothing came to our attention in connection with our examination that caused us to believe that BARC was not in compliance with the agreement terms and applicable laws and regulations for those transactions not tested.

This report is intended solely for the use of BARC and USAID. This restriction is not intended to limit distribution of this report which, upon acceptance by the AID Office of the Inspector General, is a matter of public record.

12th January, 1989

Price Waterhouse
PRICE WATERHOUSE
CHARTERED ACCOUNTANTS

BANGLADESH AGRICULTURAL RESEARCH COUNCIL

SUPPORT OF USAID/BANGLADESH'S AGRICULTURAL
RESEARCH II PROJECT NO. 388-0051

PL 480 TITLE II AND III FUNDS

FINDINGS ON THE NON-COMPLIANCE WITH AGREEMENT
TERMS AND APPLICABLE LAWS AND REGULATIONS

FINDING NO. 1

BARC did not comply with certain agreement terms

Condition

A. Our examination revealed certain non-compliances of agreement terms (FIL No. 2, dated 28th May, 1986 read with FIL No. 9, dated 15th March, 1988 in respect of Title III) which are listed below.

- i) BARC was required to hire out of these funds a local firm of chartered accountants to conduct an annual audit of the Fund Accountability Statement, but no such arrangements have been made by BARC. The last audit report was dated August, 1984.
- ii) PL 480 Fund Recipients were required to submit a six-monthly financial statement to BARC. But, we have noticed some instances of non-compliance.
- iii) The release of funds to each field station should be based on the following formula :
Taka 30,000/Scientists/Field Stations, Taka 7,500 / Research Institute Scientists spending 30 percent or more of his/her time in the field, Taka 4,500 / cultivated acre on station plus Taka 12,000 per cultivated acre off-station. We have not seen any evidence to corroborate whether the budgets were prepared in accordance with such formula. Subsequently management has taken steps to implement the release of funds in conformity with the

formula.

- iv) Technical monitoring staff and audit officers were required to spend approximately 60 percent and 80 percent of their time, respectively, in the field. BARC was not maintaining statistics to determine if they were complying with the above provisions.
- v) Our examination revealed the following instances where disbursements of loans, were made without USAID's approval. All the loans were accounted for within the period ending June 30, 1988. However, these loans do not appear to be a proper use of PL 480 Title II and Title III funds.

Loanee/purpose of loan -----	Amount ----- Taka
BARC	600,000.00
BARC's personnel attending SAARC seminar	50,392.00
BARC's personnel attending seminar at Dryland	83,653.89
International Development Agency IV	35,400.00
BARC's employee-Rowshan Akhter	2,293.00

In view of our observation of the inadequate cut-off procedures to record recipient expenditures as stated in Paragraph 4 of our report on the Fund Accountability Statement, we are unable to compare budgeted against actual expenditures and consequently cannot verify the compliance with the above mentioned clause.

- vi) The FILs require BARC to submit to USAID a semi-annual financial report reflecting expenses of each Research Institute, Research Station and Sub-station.

Since BARC does not receive the Research Institute, Research Station and Sub-station reports in a timely manner, BARC's reports to USAID are incomplete.

B. Our examination also revealed the area mentioned below where

the circumstances compelled us to disclaim our opinion on compliance with agreement terms and applicable laws and regulations.

In case expenditures were expected to exceed more than 15 percent of the total line item in the budget, the recipient Research Institutes, Research Stations, and Sub-stations should obtain prior approval from BARC for reallocation of resources.

Criteria

All the agreement terms should have been strictly complied with or should have been negotiated at the appropriate level for ratification/waiver.

Cause

BARC and USAID did not ensure compliance with agreement terms.

Effect

In view of the non-compliance issues discussed above, USAID cannot be assured that BARC is exercising good financial management of PL 480 funds.

Recommendation No.6

We recommend that USAID/Bangladesh ensures BARC complies with the 7 areas of non-compliance with agreement terms identified in this report.

Management Comments:

USAID has advised us that suitable corrective measures (including certain amendments in FIL's) have been taken for complying with the 7 areas of non-compliance with agreement terms identified in this report.

FINDING NO. 2

The Government of Bangladesh has not released all the Title III funds to BARC as required.

Condition

The following terms of the agreement were not fulfilled by the Government of Bangladesh (BDG):

- 1) According to FIL No. 2, read with FIL No. 9, BARC was entitled to receive Taka 116,160,320 and Taka 299,990,000 from BDG in respect of Title III Funds. But, an amount of Taka 110,000,000 only was released by the BDG on this account upto 30th June, 1988.
- ii) FIL No. 2 read with FIL No. 9 required BDG to transfer funds amounting to Taka 116,160,320 and Taka 299,990,000 to the interest-bearing short-term deposit account with Sonali Bank in favour of BARC by 30th June, 1986 and 31st March, 1988, respectively. But we found that funds amounting to Taka 60,000,000 and Taka 50,000,000 only were released by the BDG on 19th January, 1987 and 29th June, 1987, respectively, within the period of our audit.

Criteria

FIL No.2 required that the BDG should release funds in favour of the interest-bearing short-term deposit account of BARC amounting to Taka 116,160,320 and Taka 299,990,000 by June 30, 1986 and March 31, 1988 respectively.

Cause

We understand that BDG released funds in accordance with their own budgetary policy.

Effect

BARC has not obtained use of Taka 6,160,320 and Taka 299,990,000 which they should have received by June 30, 1986 and March 31, 1988 respectively. The delay in release of funds by the BDG resulted in the loss of interest income amounting to Taka 7,674,796 computed at 4.5% simple interest per annum.

Recommendation No.7

USAID/Bangladesh should ensure that the BDG releases Taka 6,160,320 and Taka 299,990,000 to BARC as required per the project agreement.

Management Comments

USAID has informed us that BDG has already released TAKA 50,00,000 out of the required amount of TAKA 299,990,000 on 6th October, 1988. Necessary steps will be taken for release of the balance amount from BDG.

FINDING NO.3

Non-compliance with applicable laws and regulations of Bangladesh
Condition

We have observed deviations in the following cases, from the compliance by BARC with applicable laws and regulations of Bangladesh :

- i) Tax was not deducted from salaries in respect of Mr. Nazrul Islam and Dr. Mirajuddin Ahmed as required under relevant provisions of Income Tax Ordinance 1984.
- ii) In respect of BARC-FTMC, revenue stamps were not affixed in many cases on the payees' receipts.
- iii) Cheques were issued from BARC-FTMC bank account without having either positive bank balance or overdraft arrangements with bank. The instances are:

<u>Date of issue of cheque</u> -----	<u>Amount</u> ----- <u>Taka</u>	<u>Balance as per books before issue</u> ----- <u>Taka</u>
29-01-87	10,000	nil
31-01-88	5,000	617.42

Criteria

BARC was expected to comply with the relevant provisions of the applicable Bangladesh legislation in respect of the aforesaid non-compliances.

Cause

Oversight of BARC employees may have caused such non-compliances.

Effect

Violation of local laws attracting penal actions.

Recommendation No.6

BARC should take corrective actions to avoid recurrence of such non-compliances.

Management Comments:

BARC/USAID have noted our recommendation for future action.

BANGLADESH AGRICULTURAL RESEARCH COUNCIL

SUPPORT OF USAID/BANGLADESH'S AGRICULTURAL
RESEARCH II PROJECT NO. 388-0051

PL 480 TITLE II AND III FUNDS

REPORT ON COMPLIANCE WITH FINANCIAL MONITORING
RESPONSIBILITIES BY USAID/BANGLADESH

Mr. B.R.Howard
Regional Inspector General for Audit
US Agency For International Development
Singapore.

We have examined the Fund Accountability Statement for the period from 1st July, 1986 to 30th June, 1988 of the PL 480 Title II and III funds provided to the Bangladesh Agricultural Research Council (BARC) in support of USAID/Bangladesh's Agricultural Research II Project No. 388-0051 and have issued our report thereon dated 12th January, 1989. Our examination included such tests for the review of compliance by USAID/Bangladesh with its financial monitoring responsibility in accordance with applicable laws, regulations, and agreement terms as we considered relevant in the circumstances, and as required by the U.S. Comptroller General's "Standards for Audit of Governmental Organizations, Programs, Activities, and Functions" (1981 Revision).

For the items tested, USAID/Bangladesh was generally in compliance with AID financial monitoring regulations except for ensuring that BARC complied with the project agreement provision concerning the completion of annual audits on BARC's fund accountability statement for PL 480 Title II and Title III funds. The above condition is discussed in Finding 1(A) of our report on BARC's compliance with agreement terms and applicable laws and regulations. Nothing came to our attention in our examination that caused us to believe that USAID/Bangladesh was not in compliance with AID financial monitoring regulations for those transactions not tested.

This report is intended solely for the use of BARC and USAID. This restriction is not intended to limit distribution of this report which, upon acceptance by the AID Office of the Inspector General, is a matter of public record.

Price Waterhouse
PRICE WATERHOUSE
CHARTERED ACCOUNTANTS

12th January, 1989

BANGLADESH AGRICULTURAL RESEARCH COUNCIL

SUPPORT OF USAID/BANGLADESH'S AGRICULTURAL RESEARCH II
PROJECT NO. 388 - 0051

PL 480 TITLE II AND III FUNDS

LIST OF REPORT RECOMMENDATIONS

Fund Accountability Statement

1. BARC should :
 - (a) refund Taka 28,308 to the BARC PL 480 Title II and Title III operating expense account covering the unauthorized use of funds for construction and taxes ;
 - (b) ensure that Taka 670,677 is identified in its accounting records as an available source of PL 480 Title II and Title III funds instead of an expenditure of the same amount.

Internal Accounting Controls

2. It is recommended that BARC should :
 - (a) prepare an accounting manual which defines accounting policies, includes standardized procedures and specifies use of appropriate forms to achieve a unified approach and result ;
 - (b) develop internal accounting controls to address the deficiencies cited in items (a) to (u) referred to under Finding No. 1.
3. It is recommended that BARC's monitoring system should be reviewed and strengthened to ensure that :
 - (a) cost statements from all recipients are received within the time stipulated ;
 - (b) cost statements from recipients are reviewed, scrutinized and checked to ensure that they are properly prepared, including

the indication of the period to which they relate ;

- (c) defaulters are promptly identified to facilitate appropriate follow-up and corrective action ; and
 - (d) a comparison between budgeted and actual expenditures is made possible to take the full benefits of budgetary control.
4. It is recommended that BARC should adopt a procedure for ensuring that accounting functions are properly and effectively segregated so that the work of authorization, initiation, processing, custody and recording of transactions are done by different individuals. This can be done by reallocating duties amongst the existing accounts personnel.
 5. It is recommended that BARC should develop an internal audit system which includes an internal audit plan to ensure proper and appropriate audit coverage supported by tailored audit programs and checklists to document the work performed. Moreover, BARC should require audit reports to be addressed to the Chairman of BARC.

Report on Compliance with Agreement Terms and applicable Laws and Regulations

6. We recommend that USAID/Bangladesh ensures BARC complies with the 7 areas of non-compliance with agreement terms identified in this report.
7. USAID/Bangladesh should ensure that the BDG releases Taka 6,160,320 and Taka 299,990,000 to BARC as required per the project agreement.
8. BARC should take corrective actions to avoid recurrence of such non-compliances as listed under Finding No. 3.

UNITED STATES OF AMERICA
AGENCY FOR INTERNATIONAL DEVELOPMENT
Dhaka, Bangladesh

April 16, 1989

MEMORANDUM

TO : Reginald Howard, RIG/A/Singapore

FROM : Malcolm Purvis, Director
USAID Mission, Bangladesh *[Handwritten signature]*

SUBJECT: Price Waterhouse's Draft Non-Federal Audit Report
on the Bangladesh Agricultural Research Council (BARC)

Attached are the consolidated comments and responses from USAID and BARC to eight recommendations for the Audit Report.

Although some actions are still ongoing, the management of BARC has been very cooperative and is sincerely interested in improving its financial and monitoring functions. BARC will continue to improve these functions through oversight and training. In addition, USAID and BARC will continue negotiations with the Ministry of Finance and Agriculture to ensure the complete disbursement of PL-480 Title III funds as agreed to by the BDG in PIL Nos. 2 and 9. The Mission hopes to resolve this disbursement issue (Recommendation No. 7) within a few weeks. I shall keep you informed of our progress.

A copy of the comments and supporting evidence on the eight recommendations has been forwarded to Price Waterhouse, India. Attachments cited in the consolidated comments are retained at USAID/Dhaka for future reference.



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Audit Report:

Recommendation No. 1

"BARC should refund Taka 28,308 to the BARC PL-480 Title II and III operating expense account covering the unauthorized use of funds for construction and taxes.

"BARC should ensure that Taka 670,677 is identified in its accounting records as an available source of PL-480 Title II and III funds instead of an expenditure of the same amount."

BARC/USAID Response:

The first part of the report concerns the requirement of refund Tk. 28,308.00 to BARC PL-480 Title II and III operating expenses accounts. These were unauthorized expenditures for minor construction and taxes as follows:

- | | |
|------------------------------|----------------------------------|
| a) Minor construction | Tk. 18,091.00 (Attachment No. 1) |
| b) Municipal Taxes | Tk. 6,521.00 (Attachment No. 2) |
| c) PTMC Employees Income Tax | Tk. 3,696.00 (Attachment No. 3) |

Expenditures (b) and (c) above have been refunded (copies of Bank Deposit slips attached). USAID recommended post-facto approval of minor construction in 'a' above (Request letter for approval of Minor construction along with copy of the paid bill attached - Attachment No. 1). PIL No. 9 dated March 15, 1988 (Attachment No. 14) approves funds utilization for minor construction under line item No. 6.

The second part of recommendation No.1 concerns the appropriate accounting of Tk. 670,677.00, for UNESCO Coupons worth Tk. 300,000.00. The coupons have now been entered in BARC accounts as an asset. Books and periodicals will be purchased with the coupons (Attachment No. 4).

The third part of Recommendation No. 1 concerns Tk. 350,677,00 which was unadjusted on 30-4-1987 and 30-6-88 as shown in BARC-PTMC expenses and also Tk. 20,000.00 which was shown as a BARC operating expense on 30-6-1988. These have been supported as expenditures by preparing JV Nos. 157, 53 and 7 (Attachment Nos. 5, 6 and 7) including voucher supporting documentation. Attachment No. 5 and 6 fully documented the adjustment of advances for Tk. 252,295 + Tk. 98,382 = Tk. 350,677 as BARC-PTMC expenses and that of Attachment No. 7 for Tk. 20,000 as BARC's operating expenses.

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USAID Comments: USAID/Dhaka recommends that all three parts of recommendation No. 1 above be closed upon issuance of the final audit report.

Recommendation No. 2

"It is recommended that BARC should prepare an accounting manual which defines accounting policies, includes standardized procedures and specifies use of appropriate forms to achieve a unified approach and result.

"Additionally, BARC should develop internal accounting controls to address the deficiencies cited in items (a) to (u) referred to above."

BARC/USAID Response:

The first part of the recommendation stated that BARC should prepare an Accounting Manual for PL-480 projects. Action has been initiated and BARC expects procure the services of M/s. ACNABIN and Company, a local chartered accounting firm to prepare an Accounting Manual. USAID will be furnished a proposal by 23 April, 1989; PL-480 funds will be used to prepare the Manual.

The second part of the Recommendation No. 2 concerns deficiencies in accounting control at BARC which have been addressed as follows:

- a) Actions in connection with preparation of an Accounting Manual have been initiated. M/s. ACNABIN and Company, a local chartered accounting firm has been asked to furnish a proposal. The cost proposal is expected to be received in USAID/Dhaka by 23 April, 1989.
- b) Unadjusted advances will not be entered as expenses. Entries noted in the audit report has since been corrected.
- c) As per the recommendations, all cash movements are now being recorded in the Cash Book. (Attachment No. 7 A) Attachment No. 7A documented the cheques issued for staff payment and corresponding entries after the cash was drawn for disbursement.
- d) Special care is now being exercised so that cheques are not drawn without ensuring availability of funds in the account.

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- e) A Control Account in the General Ledger is being maintained.
- f) The concurrence of recipients is obtained for any correction or alteration to their cost statements.
- g) Printed pre-numbered money receipts have been introduced (Attachment No. 8).
- h) No travel advances are now given without adjustment of the previous advance.
- i) Taxes paid have been refunded to the PL-480 Account (Attachment Nos. 2 and 3). Corrective action has been taken to prevent recurrence of such payment in future. Attachment Nos. 2 and 3 documented refund of Municipal Tax for Tk. 6,521.00 and personal income tax for Tk. 3,696.00 respectively.
- j) This has been corrected by two JVs (Attachment Nos. 9 and 10). Attachment No. 9 and 10 documented recoveries against advances for travel for Tk. 3,415.00 and against purchases for Tk. 16,173.00 respectively.
- k) Approval of JV by authorized person has been ensured.
- l) The recipient was requested to submit the expenditure of Tk. 360,000.00 in two parts: one for June 30, 1986 and another for the subsequent period of FY 1986-87 (Attachment No. 11). Attachment No. 11 documents the action taken by the BARC advising recipient institute to segregate cost statement between the two accounting years.
- m) BARC agrees to take more care in checking expenditure statements in round figures.
- n) Ledger posting has been corrected; the entries in the ledger are being checked independently to avoid such errors.
- o) The arithmetical accuracy of budgets is being checked closely.
- p) Appropriate measures have been taken to ensure that expenditures for different line items can be identified easily through the introduction of a Budget Book.

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- q) Special care is taken so that the cost statement is signed by recipients.
- r) Care is being taken now to ensure that cost statements showing time period discrepancies are rejected.
- s) This was corrected in response to Recommendation No. 1.
- t) This was corrected in response to Recommendation No. 1.
- u) An appropriate basis for consistency of allocation of over-head expenditure has been introduced (Attachment Nos. 15 and 15A). Attachment Nos. 15 and 15A are the budgets for BARC-PTMC and BARC's operating expenses respectively. These two attachments are the documents of allocation of over-head expenditures and expenses incurred under line items approved by USAID.

USAID Comments: USAID/Dhaka recommends Part No. 1 of Recommendation No. 2 be closed upon completion of Audit Manual.

USAID/Dhaka recommends Part No. 2 of the Recommendation be closed upon issuance of the final Audit Report.

Recommendation No. 3

"It is recommended that BARC's monitoring system should be reviewed and strengthened to ensure that:

- a) cost statements from all recipients are received within the time stipulated;
- b) cost statements from recipients are reviewed, scrutinized, and checked to ensure that they are properly prepared, including the indication of the period to which they relate, duly signed and dated.
- c) defaulters are promptly identified to facilitate appropriate follow-up and corrective action; and
- d) a comparison between budgeted and actual expenditures is made possible to take the full benefits of budgetary control."

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BARC/USAID Response:

- a) BARC agrees to withhold subsequent disbursements to recipients until cost statements from recipients are received in accordance with the provisions stipulated in PIL No. 9.
- b) Requirement has been ensured (Attachment No. 12). Attachment No. 12 documents the action taken by BARC to recipient institute, advising cost statement be properly prepared in the prescribed forms and submitted during the period to which they relate.
- c) BARC agreed that identified defaulters will take corrective actions immediately upon instruction from BARC. Otherwise, subsequent disbursement will be withheld (Attachment Nos. 11 and 12).
- d) Budgetary control has been ensured.

USAID Comments: USAID/Dhaka recommends that Recommendation No. 3 be closed upon issuance of the final Audit Report.

Recommendation No. 4

"It is recommended that BARC should adopt a procedure for ensuring that accounting functions are properly and effectively segregated so that the work of authorization, initiation, processing, custody, and recording of transactions is done by different individuals. This can be done by reallocating duties amongst the existing accounts personnel."

BARC/USAID Response:

Reallocation of duties among existing personnel of BARC to ensure segregation of authorization, initiation, processing, custody and accounting of transactions will be completed by 23 April, 1989. A copy will be submitted to USAID/Dhaka for comment and approval.

USAID Comments: USAID/Dhaka recommends that Recommendation No. 4 be closed upon approval of the reallocation list by USAID/Dhaka.

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Recommendation No. 5

"It is recommended that BARC should develop an internal audit system which includes an internal audit plan to ensure proper and appropriate audit coverage supported by tailored audit programs and checklists to document the work performed. Moreover, BARC should require audit reports to be addressed to the Chairman of BARC."

BARC/USAID Response:

The audit plan will be completed by 23 April, 1989 and a copy will be given to USAID/Dhaka for comment and approval; the audit plan will be passed on to RIG/A/Singapore. Audit reports are addressed to the Chairman of BARC and this omission should not occur again.

USAID Comments: USAID/Dhaka recommends that Recommendation No. 5 be closed upon approval of the Audit Plan by USAID/Dhaka.

Recommendation No. 6

"We recommend that USAID/Bangladesh ensures BARC complies with 7 areas of non-compliance with agreement terms identified in this report."

USAID Response:

1. The arrangement for hiring a local firm of chartered accountants to conduct an annual audit has already been initiated by BARC. BARC has received bids from different firms which are now under review for the selection of the firm. The audit is likely to commence in May, 1989.
2. BARC now receives semi-annual financial statements for PL-480 expenditures from the recipients. Release of funds for defaulters will be withheld. BARC has agreed to request recipients to comply with this requirement.
3. Funds are released as per the formula in PIL No. 2, dated May 28, 1986, and PIL No. 9, dated March 15, 1988. It is stated in both PILs that adjustment in this formula may be made based upon BARC's review of submitted proposals in consultation with USAID. It now seems that the formula fits for crops but not for fisheries, forestry, livestock and other research priorities because many exceptions are made during the approval process by BARC and USAID. In future PILs, the Mission may recommend that this formula be discontinued to streamline disbursement procedures.

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4. Technical monitoring staff and audit officers of BARC do spend approximately 60% and 80% of their time, respectively, in the field, but this cannot be substantiated; they have been keeping records but not in an organized way. BARC agreed to comply with this requirement; time cards are being considered.
5. BARC should not issue loans in the future. Advances for purposes other than authorized PL-480 activities should not be made. Additional advances will not be issued until restitution of previous advances has been made.
6. BARC now submits a semi-annual financial report reflecting expenses of each research institute, research station and sub-station to USAID in a timely manner. BARC agreed to comply with this requirement and has done so this past year.
7. The recipient institutes will not exceed any line item in the budget by more than 15%. Adjustment must also be within the total budget for the financial year. The requirement that BARC gives prior approval for any expenditure exceeding 15% will cease as soon as the PIL is amended for this particular clause; the 15% limit will remain in effect.

USAID Comments: The recommendation No. 6 be closed upon issuance of the final Audit Report.

Recommendation No. 7

"USAID/Bangladesh should ensure that the BDG releases Tk. 6,160,320 and Tk. 299,990,000 to BARC as required per the project implementation letters."

USAID Response:

As per PIL No. 2, (Attachment No. 13) the BDG released Tk. 60,000,000 and Tk. 50,000,000 on January 19, 1987 and June 29, 1987 respectively. The remaining amount of Tk. 6,160,320 was not released. We understand that releases were in accordance with the budgetary policy of BDG.

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As per PIL No. 9, (Attachment No. 14) the BDG released Tk. 50,000,000 of the required Tk. 299,990,000 on October 6, 1988. A meeting was held in the Ministry of Agriculture on March 22, 1989 where the following resolutions were adopted (Attachment No. 16):

- a) The Ministry of Agriculture will write to the Ministry of Finance to request release a second tranche of Tk. 50,000,000 for 1988/89 under PL-480 Title III.
- b) BARC is to submit a proposal justifying their request to release the balance (i.e., Tk. 249,990,000) as per agreement made between ERD and USAID. The Ministry of Agriculture will forward this proposal to the Ministry of Finance for action.

In the meantime, USAID will take up the matter with ERD, the Ministry of Agriculture and the Ministry of Finance to abide by PIL No. 9 and release the full amount of Tk. 299,990,000.

USAID Comments: USAID/Dhaka recommends that Recommendation No. 7 be closed upon BARC's receipt of the full amount of Tk. 299,990,000.

Recommendation No. 8

BARC should take corrective actions to avoid recurrence of such non-compliances.

BARC/USAID Response:

Noted for guidance in the line of the above submission.

USAID Comments: USAID/Dhaka recommends that the Recommendation No. 8 be closed upon issuance of the final Audit Report.

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