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**AUDIT REPORT ON
THE ENTERPRISE DEVELOPMENT PROJECT
WITH THE MICRO INDUSTRIES DEVELOPMENT
ASSISTANCE SOCIETY IN BANGLADESH**

AUDIT REPORT NO. 5-388-91-03-N

APRIL 17, 1991

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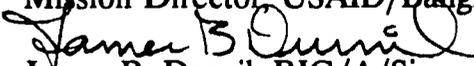
AGENCY FOR INTERNATIONAL DEVELOPMENT
OFFICE OF THE REGIONAL INSPECTOR GENERAL FOR AUDIT
- Singapore -

U.S. POSTAL ADDRESS:
American Embassy
AID/RIG
FPO San Francisco 96699

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

April 17, 1991

MEMORANDUM FOR: Mary Kilgour
Mission Director, USAID/Bangladesh

FROM: 
James B. Durnil, RIG/A/Singapore

SUBJECT: Audit of the Enterprise Development Project with the Micro
Industries Development Assistance Society in Bangladesh

USAID/Bangladesh Project No. 388-0066-A-00-6063

Audit Report No. 5-388-91-03-N

The enclosed Coopers and Lybrand audit report presents the final results of an independent financial audit of the Enterprise Development Project with the Micro Industries Development Assistance Society (MIDAS) in Bangladesh under USAID/Bangladesh Project No. 388-0066-A-00-6063.

USAID/Bangladesh supports the Government of Bangladesh's (BDG) efforts to reduce the high rate of unemployment in Bangladesh by providing assistance to the Enterprise Development Project. The project is implemented through a grant to the BDG and grants to various non-governmental organizations, one of which is MIDAS. As of June 30, 1989, USAID/Bangladesh obligated \$5,489,782 under a Cooperative Agreement with MIDAS, of which \$1,789,806 was expended during the period under review.

The audit was initiated at the Mission's request. The audit objectives were to determine whether the Fund Accountability Statements presented fairly the receipts and expenditures for the 34-month period ended June 30, 1989, whether internal controls were adequate, and whether there was compliance with laws, regulations and agreement terms. The scope of the audit included an examination of MIDAS' activities and transactions to the extent considered necessary to issue a report thereon for the period under audit.

Coopers and Lybrand concluded that the fund accountability statements were presented fairly and internal controls were generally adequate. However, there were \$150,000 in questioned costs related to purchases from countries outside the authorized Geographic Code and a few material instances of non-compliance with Agreement terms. The details of reportable internal control and compliance lapses are set out on pages 16 to 19 and 22 to 28 of the report.

USAID/Bangladesh and MIDAS indicated agreement with the audit findings and recommendations. The full text of USAID/Bangladesh's comments are shown as Appendix A. MIDAS' comments are shown next to the findings.

Coopers and Lybrand made nine recommendations on which USAID/Bangladesh should take action to ensure that the noted problems are corrected. In addition, we are making three recommendations which will be included in the IG recommendation follow-up system.

Recommendations

We recommend that USAID/Bangladesh:

1. Require MIDAS to implement procedures for identifying loans to related parties and report such loans separately to board members in the loan approval process. Disclosure of all related party loans should be made to USAID/Bangladesh for review.
2. Require MIDAS to implement procedures to ensure that loan fund requests are linked to actual loan disbursements. To facilitate mission monitoring of undisbursed loan funds, the procedures should include a monthly report to USAID/Bangladesh showing all funded but undisbursed loans and scheduled loan disbursement dates.
3. Resolve the \$149,787 (\$127,000 and \$22,787) costs questioned in the audit report and determine the amounts to be recovered, if any, for any unauthorized purchases from sources outside geographic code 941.

The above recommendations were discussed with USAID/Bangladesh officials who indicated general agreement. Recommendation No. 1 and 2 are resolved. Recommendation No. 3 is unresolved and can be resolved once the dollar amount of questioned costs are determined. All recommendations will be closed upon completion of the corrective actions.

We appreciate the courtesies and cooperation the Mission and MIDAS extended to Coopers and Lybrand and our staff during the course of this audit.

We would like you to provide your final comments to this report within 30 days.

AUDIT OF THE ENTERPRISE DEVELOPMENT PROJECT
WITH THE
MICRO INDUSTRIES DEVELOPMENT ASSISTANCE SOCIETY
IN BANGLADESH

USAID/BANGLADESH PROJECT NO. 388-0066-A-00-6063

AUDIT PERIOD SEPTEMBER 1, 1986 TO
JUNE 30, 1989

Performed and Prepared
by

Coopers & Lybrand
Singapore

A Qasem & Co
Bangladesh

AUDIT OF THE ENTERPRISE DEVELOPMENT PROJECT
WITH THE
MICRO INDUSTRIES DEVELOPMENT ASSISTANCE SOCIETY
IN BANGLADESH

INDEPENDENT AUDITORS' REPORT

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your reference
our reference

A3/TTK/MIDAS

Mr James B. Durnil
Regional Inspector General
for Audit - Singapore
US Agency for International Development
16 Raffles Quay
#31-01 Hong Leong Building
Singapore 0106

March 6, 1991

Dear Mr Durnil

This report presents the results of our audit of the Enterprise Development Project (388-0066) with the Micro Industries Development Assistance Society ("MIDAS") in Bangladesh for the period September 1, 1986 to June 30, 1989.

Background - Bangladesh

A high rate of unemployment and underemployment, fueled by a high population growth, is a critical problem confronting the Government of Bangladesh (BDG). Unemployment at present is estimated to be between 25 and 40 per cent which the BDG is anxious to reduce to a more manageable level. The BDG recognises both the magnitude of this task, and the crucial importance of successfully accomplishing it. There is little scope for generating large numbers of new (net) productive job opportunities in the public sector or in the large scale manufacturing sector. Therefore, the BDG looks primarily to small and medium scale, labour intensive enterprises such as service, construction, manufacturing and cottage industries. The United States Agency for International Development, Bangladesh ("USAID/B") recognises this problem and the importance of creating new, net employment opportunities through the rapid growth of small and medium scale enterprises. To assist in this development, USAID/B has financed the Enterprise Development Project.

USAID's Involvement in the Project

USAID's assistance supports the Enterprise Development Project by providing funds for a capital fund, small enterprise development and action research, staff training, technical assistance, equipment, and evaluation and monitoring. The Enterprise Development Project (EDP) (388-0066) is a 6-year effort authorised at US\$8.0 million which is due to end September 30, 1992. USAID/B implements this project through a grant to the BDG and grants to various non-governmental organisations (NGOs). One of these NGOs is the Micro Industries Development Assistance Society of Bangladesh. As of June 30, 1989 USAID/B obligated US\$5,489,782 to MIDAS under the Cooperative Agreement No. 388-0066-A-00-6063 of which about US\$1,789,806 was expended in the period under review.

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Regional Inspector General
for Audit - Singapore
US Agency for International Development
Singapore

Project Goal and Purpose

The goal to which this project will contribute is the development of a sound and rapidly growing small and medium business sector in Bangladesh, a sector growing at a rate wherein it can absorb a significant number of the new entrants to the labour force each year. It is recognised that attainment of this goal is an enormous challenge, and that many years will pass before it is reached. It is also recognised that the project will make only a modest contribution towards attainment of the goal.

The purpose of this project is to enhance the capability of an institution which will, on a continuing, largely self-sustaining basis:

- (a) identify exceptionally promising small and medium scale industrial opportunities;
- (b) provide financial, managerial, and/or technical assistance to entrepreneurs prepared to exploit those opportunities; and
- (c) serve as a dynamic force for growth in small and medium industry.

MIDAS - The Organisation

MIDAS of Bangladesh was established in 1982 as a non-profit private voluntary organisation with technical and financial assistance provided by the USAID/B Rural Industries Project (388-0042). It is staffed by 51 professional and support staff located in Dhaka and Chittagong City. Their primary objective is to promote and develop small enterprise sectors in Bangladesh for generating employment on a self-sustainable basis. They will identify exceptionally and promising small industrial opportunities; provide financial, managerial and/or technical assistance to the entrepreneurs; and serve as a potent force for growth in small and medium scale enterprises.

Audit Objectives and Scope of Work

We conducted a financial and compliance audit of the MIDAS Enterprise Development Project's Fund Accountability Statements under the Cooperative Agreement No. 388-0066-A-00-6063 for the period September 1, 1986 to June 30, 1989. The Fund Accountability Statements comprise the balance sheet as at June 30, 1989 and the income and expenditure statement for the period from September 1, 1986 to June 30, 1989 and the notes thereon. The results of our work are reflected in the accompanying Independent Auditors' Report on the:

Mr James B. Durnil
Regional Inspector General
for Audit - Singapore
US Agency for International Development
Singapore

- (a) Fund Accountability Statements;
- (b) System of Internal Control; and
- (c) Compliance with Agreement Terms, Applicable Laws and Regulations.

The objectives of our work were to determine whether :-

- (a) the Fund Accountability Statements for the MIDAS Enterprise Development Project present fairly the receipts and expenditures for the 34-month period ended June 30, 1989 in accordance with the terms of the agreement with the Agency for International Development and to identify any costs which were not fully supported with adequate records or which were not allocable, reasonable or allowable under the terms of the agreement;
- (b) MIDAS' system of internal controls is adequate for A.I.D's purposes;
- (c) MIDAS has complied with the applicable laws, regulations and agreement terms, OMB circulars and A.I.D's mandatory standard provisions for non-US grantees/donees.

The audit was conducted in accordance with generally accepted auditing standards and government auditing standards and, accordingly, included such tests to determine if funds were being properly accounted for and used as directed by the Agreement and other applicable program documents and the laws of Bangladesh.

The scope of our work primarily included the following general procedures:-

- (a) holding meetings with USAID/B, MIDAS and A.I.D. Regional Inspector General for Audit/Singapore (RIG/S) officials;
 - (b) reviewing the cooperative agreement and amendments, OMB circulars, A.I.D handbook regulations and mandatory standard provisions for non-US grantees/donees, prior period audit reports on MIDAS financial statements, correspondences and minutes of meetings between USAID/B and MIDAS, project files/reports maintained by MIDAS and USAID/B and loan files maintained by MIDAS.
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Mr James B. Durnil
Regional Inspector General
for Audit - Singapore
US Agency for International Development
Singapore

- (c) obtaining an understanding of the accounting, administrative and internal control systems of MIDAS using questionnaires, interviews, flowcharts and narrative descriptions;
- (d) evaluating the system of internal controls by using questionnaires etc;
- (e) devising and performing tests to establish the effectiveness of the system of internal controls;
- (f) devising and performing substantive tests on the transactions and balances recorded in the Fund Accountability Statements; and
- (g) testing the effectiveness of administrative controls applied by MIDAS management and USAID/B to ensure that there is compliance with the applicable laws, regulations and agreement terms.

In addition to the general audit procedures described above, we were continually alert, during our audit work, to situations/transactions which could be indicative of fraud, abuse, waste and illegal acts. However, as we are not required to search specifically for fraud, abuse, waste and illegal acts, unless we became aware of evidence of such acts, our audit procedures cannot be relied upon to disclose all such matters.

Results of Audit

(I) Opinion on Fund Accountability Statements

We noted that several MIDAS subprojects purchased machineries and equipment from countries outside the authorized Geographic Code 941 but, we are unable to ascertain the extent of the amount expended by those subprojects on the aforementioned purchases except for approximately US\$127,000 (Tk.4,050,733) worth of items which USAID/B discovered to have been procured by certain subprojects from Communist block countries.

In connection with the above infringement, demand for refund was made by the USAID/B. However, no provision for the refund has been made in the Fund Accountability Statements.

Mr James B. Durnil
Regional Inspector General
for Audit - Singapore
US Agency for International Development
Singapore

In our opinion, except for the effect of such adjustment which might arise from the matter referred to in the last two paragraphs on page 4 of this report, the Fund Accountability Statements present fairly, in all material respects, the financial position of MIDAS as at June 30, 1989 and its income and expenditure for the period September 1, 1986 to June 30, 1989 as they pertain to the Enterprise Development Project as funded by USAID/B.

(II) System of Internal Controls

Our study and evaluation of the system of internal controls of MIDAS, made as part of the audit of the Fund Accountability Statements, disclosed certain conditions which we consider necessary to be brought to the attention of management of MIDAS and USAID/B. These conditions are summarised below:

- (a) Controls over fixed assets need improvement;
- (b) There were many instances where approval of journal vouchers was not evidenced by the authorised personnel;
- (c) A proper aged analysis of accounts receivable balances was not prepared;
- (d) MIDAS has not established procedures for identifying loans to related parties and reporting these transactions to Board members.

The above conditions were considered in determining the nature, timing and extent of the audit tests applied by us in the examination of the Fund Accountability Statements and the conditions have not affected our report, dated October 11, 1990, on those Statements.

The results of our testing of the system of internal controls indicate that there is a relatively low risk of material errors and irregularities in respect of the project not being detected within a timely period by MIDAS management.

Because our study and evaluation of the system of internal controls were made for limited purposes, it would not necessarily disclose all weaknesses in the system, and therefore, we do not express an opinion on the system of internal controls of MIDAS taken as a whole.

Mr James B. Durnil
Regional Inspector General
for Audit - Singapore
US Agency for International Development
Singapore

(III) Compliance with Agreement Terms, Applicable Laws and Regulations

Our test for compliance with agreement terms and applicable laws and regulations of selected transactions and records of MIDAS and USAID/B indicate that, for the items tested, MIDAS and USAID/B complied with those provisions of agreement terms and applicable laws and regulations except for the following items summarised below:-

- (a) There has been accumulation of undisbursed funds for loans purposes;
- (b) Certain MIDAS subprojects procured goods from countries outside the Geographic Code 941;
- (c) Maintenance of the bank account designated for loan principal repayments needs improvement; and
- (d) No prior approval was obtained for using funds from different cooperative agreements to purchase motor vehicles.

The non-compliances have a material effect on the Fund Accountability Statements of the Enterprise Development Project for reasons stated in the second and third paragraphs on page 9 of our report dated October 11, 1990, on those Statements.

With respect to transactions and records not tested by us, nothing came to our attention to indicate that MIDAS has not complied with the agreement terms applicable laws and regulations in connection with the Enterprise Development Project.

Management Comments on Findings and Recommendations

The USAID/B and management of MIDAS have indicated that they are in agreement with our findings and recommendations on both internal controls and compliances, the details of which are set out in pages 16 to 19 and 22 to 28 respectively. The full text of USAID/B's comments is attached as Appendix A to this report.

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Mr James B. Durnil
Regional Inspector General
for Audit - Singapore
US Agency for International Development
Singapore

In respect of major non-compliance in areas of accumulation of undisbursed funds for loan purposes and procurement of goods from countries outside the authorised Geographic Code, USAID/B has taken the appropriate action to resolve these issues. As of todate, all the accumulated undisbursed funds for loan purposes have either been used to finance current disbursement requirements of approved loans or returned to USAID/B. MIDAS and USAID/B are currently working on a resolution for the settlement of the A.I.D funds used to procure goods from countries outside the Geographic Code 941.

Acknowledgement

We would like to take this opportunity to express our gratitude for the assistance given to us by the RIG/S office, USAID/B and MIDAS during the course of the audit.

Yours truly

Coopmans & Hylbrand

INDEPENDENT AUDITORS' REPORT
ON
FUND ACCOUNTABILITY STATEMENTS

your reference
our reference

A3/TTK/MIDAS

Mr James B. Durnil
Regional Inspector General
for Audit - Singapore
US Agency for International Development
16 Raffles Quay
#31-01 Hong Leong Building
Singapore 0106

October 11, 1990

Dear Mr Durnil

ENTERPRISE DEVELOPMENT PROJECT WITH THE
MICRO INDUSTRIES DEVELOPMENT ASSISTANCE SOCIETY
IN BANGLADESH
USAID/BANGLADESH PROJECT NO. : 388-0066-A-00-6063
INDEPENDENT AUDITORS' REPORT ON FUND ACCOUNTABILITY STATEMENTS

We have audited the Fund Accountability Statements of Micro Industries Development Assistance Society ("MIDAS") pertaining to the Enterprise Development Project as funded by the United States Agency for International Development, Bangladesh ("USAID/B"). These Statements, comprising the balance sheet, income and expenditure statement and the notes thereon, set out on pages 10 to 12, are the responsibility of MIDAS management. Our responsibility is to express an opinion on these Statements based on our audit.

We conducted our audit in accordance with generally accepted auditing standards and government auditing standards. These standards require that we plan and perform the audit to obtain reasonable assurance about whether the Statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall presentation of the Statements. We believe that our audit provides a reasonable basis for our opinion.



resident partners

Tan Swan Jeng
Reggie M. Then
Jonathan H. E. Ou
Khoo Kum Wing
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Chan Kai Teck
Nors C G Ong
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ENTERPRISE DEVELOPMENT PROJECT WITH THE
MICRO INDUSTRIES DEVELOPMENT ASSISTANCE SOCIETY
IN BANGLADESH
USAID/BANGLADESH PROJECT NO. : 388-0066-A-00-6063
INDEPENDENT AUDITORS' REPORT ON FUND ACCOUNTABILITY STATEMENTS

As stated in note 2 on page 12, the Fund Accountability Statements present only the transactions and balances of the Enterprise Development Project fund and are not intended to present fairly the income and expenditure and financial position of MIDAS as a whole in conformity with US generally accepted accounting principles.

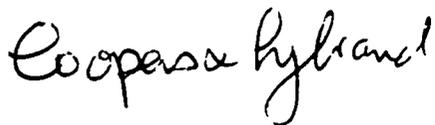
We noted that several MIDAS subprojects purchased machineries and equipment from countries outside the authorized Geographic Code 941 but, we are unable to ascertain the extent of the amount expended by those subprojects on the aforementioned purchases except for approximately US\$127,000 (Tk.4,050,733) worth of items which USAID/B discovered to have been procured by certain subprojects from Communist block countries.

In connection with the above infringement, demand for refund was made by USAID/B. However, no provision for the refund has been made in the Fund Accountability Statements.

In our opinion, except for the effect of such adjustment which might arise from the matter referred to in the second and third paragraphs above, the Fund Accountability Statements present fairly the financial position of the MIDAS as at June 30, 1989 and its income and expenditure for the period September 1, 1986 to June 30, 1989 as they pertain to the Enterprise Development Project as funded by USAID/B.

This report is intended solely for the use of USAID/B and should not be used for any other purpose. This restriction is not intended to limit the distribution of this report which, upon acceptance by the A.I.D Regional Inspector General for Audit/Singapore, is a matter of public record.

Yours truly



COOPERS & LYBRAND
Certified Public Accountants

MIDAS ENTERPRISE DEVELOPMENT PROJECT

BALANCE SHEET AS AT JUNE 30, 1989

	<u>Taka</u>	<u>US\$ Equivalent</u>
ASSETS		
Project loans	38,877,669.00	1,216,828.45
Less:		
Provision for loan losses	3,887,800.00	121,683.88
	<u>34,989,869.00</u>	<u>1,095,144.57</u>
Purchase of equity	700,000.00	21,909.23
Receivable from USAID	1,155,195.95	36,156.37
Fixed assets	1,468,177.00	45,952.33
Less:		
Depreciation	436,000.00	13,646.32
	<u>1,032,177.00</u>	<u>32,306.01</u>
Cash in bank	5,976,417.05	187,055.31
	<u>43,853,659.00</u>	<u>1,372,571.49</u>
LIABILITIES		
Payable to computer consultant	215,040.00	6,730.52
USAID Fund Balance (note 3)	43,638,619.00	1,365,840.97
	<u>43,853,659.00</u>	<u>1,372,571.49</u>

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MIDAS ENTERPRISE DEVELOPMENT PROJECT
 INCOME AND EXPENDITURE STATEMENT
 FOR THE PERIOD FROM SEPTEMBER 1, 1986 TO JUNE 30, 1989

<u>REVENUES</u>	<u>Taka</u>	<u>US\$ Equivalent</u>
Service charges earned	4,272,568.00	133,726.70
Consultancy income	3,638,981.07	113,896.12
Loan application and evaluation fees	57,188.00	1,789.92
Sales of publications	381,983.83	11,955.67
	<u>8,350,720.90</u>	<u>261,368.41</u>
Less: EXPENSES		
Operational expenses	17,412,756.65	545,000.21
Staff training	16,500.00	516.43
Technical assistance	143,360.00	4,487.01
Depreciation	436,000.00	13,646.32
Provision for loan losses	3,887,800.00	121,683.88
	<u>21,896,416.65</u>	<u>685,333.85</u>
Operational deficit transferred to fund balance (note 3)	<u>(13,545,695.75)</u>	<u>(423,965.44)</u>

MIDAS ENTERPRISE DEVELOPMENT PROJECT

Notes to the Fund Accountability Statements
for the period September 1, 1986 to June 30, 1989

1. Significant Accounting Policies

(a) Accounting Convention

The Fund Accountability Statements are prepared in accordance with the historical cost convention. For information purposes, they are also expressed in United States of America dollars (US\$) using the average rate of exchange calculated for the period under review of Tk. 31.95 to US\$1.

(b) Income and expenditure are accounted for on an accrual basis;

(c) Depreciation on fixed assets has been provided at the flat rate of 20% per annum on cost of all assets;

(d) Provision for loan losses has been made at a rate of 10% on the total project loan.

(e) No reimbursement was claimed from USAID for depreciation on fixed assets and provision for loan losses.

2. Component unit of MIDAS

The Fund Accountability Statements present only the transactions and balances of the fund under the Cooperative Agreement No. 388-0066-A-00-6063 as funded by USAID and are not intended to represent the income and expenditure and financial position of MIDAS as a whole.

3. USAID Fund Balance

	<u>Taka</u>	<u>US\$ equivalent</u>
Total receivable from USAID against operational expenses	10,690,072.75	334,587.57
Capital fund received	46,494,242.00	1,455,218.84
	57,184,314.75	1,789,806.41
Less:		
Operational deficit	13,545,695.75	423,965.44
Net fund balance	43,638,619.00	1,365,840.97

REPORT ON THE SYSTEM OF INTERNAL CONTROLS

your reference
our reference

A3/TTK/MIDAS

Mr James B. Durnil
Regional Inspector General
for Audit - Singapore
US Agency for International Development
16 Raffles Quay
#31-01 Hong Leong Building
Singapore 0106

October 11, 1990

Dear Mr Durnil

ENTERPRISE DEVELOPMENT PROJECT WITH THE
MICRO INDUSTRIES DEVELOPMENT ASSISTANCE SOCIETY
IN BANGLADESH
USAID/BANGLADESH PROJECT NO. : 388-0066-A-00-6063
INDEPENDENT AUDITORS' REPORT ON THE SYSTEM OF INTERNAL CONTROLS

We have audited the Fund Accountability Statements of Micro Industries Development Assistance Society ("MIDAS") pertaining to the Enterprise Development Project as funded by the United States Agency for International Development, Bangladesh ("USAID/B"). These Statements, comprising the balance sheet, income and expenditure statement and the notes thereon, are set out on pages 10 to 12, and we have issued our report thereon dated October 11, 1990.

We conducted our audit in accordance with generally accepted auditing standards and government auditing standards. These standards require that we plan and perform the audit to obtain reasonable assurance about whether the Statements are free of material misstatement.

In planning and performing our audit of the Statements for the period September 1, 1986 to June 30, 1989, we considered MIDAS' internal control structure in order to determine our auditing procedures for the purpose of expressing our opinion on the Statements and not to provide assurance on the internal control structure of MIDAS as a whole.



resident partners

Tan Swan Jeng
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ENTERPRISE DEVELOPMENT PROJECT WITH THE
MICRO INDUSTRIES DEVELOPMENT ASSISTANCE SOCIETY
IN BANGLADESH
USAID/BANGLADESH PROJECT NO. : 388-0066-A-00-6063
INDEPENDENT AUDITORS' REPORT ON THE SYSTEM OF INTERNAL CONTROLS

The management of MIDAS is responsible for establishing and maintaining an internal control structure. In fulfilling this responsibility, estimates and judgements by management are required to assess the expected benefits and related costs of internal control structure policies and procedures. The objectives of an internal control structure are to provide management with reasonable, but not absolute, assurance that 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 internal control structure, errors or irregularities may nevertheless occur and not be detected. Also, projection of any evaluation of the structure to future periods is subject to the risk that procedures may become inadequate because of changes in conditions or that the effectiveness of the design and operation of policies and procedures may deteriorate.

For the purpose of this report, we have classified the significant internal control structure policies and procedures in the following categories.

Accounting Controls:

- Payroll
- Procurement
- Cash Disbursements
- Cash Receipts
- General Ledger

Administrative Controls:

- USAID Financial Reports
- Cost Allocation and Allowability
- Monitoring

For all the internal control structure categories listed above, we obtained an understanding of the design of relevant policies and procedures and whether they have been placed in operation, and we assessed control risk.

ENTERPRISE DEVELOPMENT PROJECT WITH THE
MICRO INDUSTRIES DEVELOPMENT ASSISTANCE SOCIETY
IN BANGLADESH
USAID/BANGLADESH PROJECT NO. : 388-0066-A-00-6063
INDEPENDENT AUDITORS' REPORT ON THE SYSTEM OF INTERNAL CONTROLS

We noted certain matters involving the internal control structure and its operation that we consider to be reportable conditions under standards established by the American Institute of Certified Public Accountants. Reportable conditions involve matters coming to our attention relating to significant deficiencies in the design or operation of the internal control structure that, in our judgement, could adversely affect the entity's ability to record, process, summarise and report financial data consistent with the assertions of management in the Statements. These conditions are set out in pages 16 to 19.

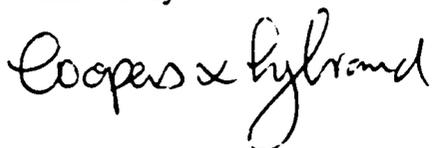
A material weakness is a reportable condition in which the design or operation of the specific internal control structure elements does not reduce, to a relatively low level, the risk that errors or irregularities in amounts that would be material in relation to the Statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions.

Our consideration of the internal control structure would not necessarily disclose all matters in the internal control structure that might be reportable conditions and, accordingly, would not necessarily disclose all reportable conditions that are also considered to be material weaknesses as defined above. Furthermore, the scope of our procedures was limited to those matters discussed in the second paragraph on page 13 of this report. We believe that those matters set out on pages 16 to 19 represent material weaknesses.

As a consequence of the material weaknesses noted in the internal control structure, greater emphasis was placed on substantive testing procedures in our audit of the Fund Accountability Statements.

This report is intended solely for the use of USAID/B and should not be used for any other purpose. This restriction is not intended to limit the distribution of this report which, upon acceptance by the A.I.D Regional Inspector General for Audit/Singapore, is a matter of public record.

Yours truly



COOPERS & LYBRAND
Certified Public Accountants

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MIDAS SYSTEM OF INTERNAL CONTROLS

SUMMARY OF AUDIT FINDINGS

1. Controls over fixed assets need improvement.
2. There were many instances where approval of journal vouchers was not evidenced by the authorised personnel.
3. A proper aged analysis of accounts receivable balances was not prepared.
4. MIDAS has not established procedures for identifying loans to related parties and reporting these transactions to Board members.

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1. Controls over fixed assets need improvement

Condition

Fixed assets were not labelled for purposes of identification and control.

Criteria

A.I.D Handbook 13 - Title to and use of Property (Grantee Title), paragraph (f)(1)(ii), states that the grantee's property management standards for non-expendable personal property shall include, amongst other procedural requirements, the maintenance of property records. The property records shall include, amongst other information, the manufacturer's serial number, model number, federal stock numbers, national stock number, or other identification number.

In addition to the above requirement, sound property management control normally includes labelling of the fixed assets.

Effect

As the fixed assets purchased with USAID funds cannot be readily identified, it could result in them being used for other than their authorised purposes.

Cause

MIDAS was not aware of this requirement as it does not have a copy of A.I.D Handbook 13.

Recommendation

We recommend that USAID/B ensures that the MIDAS management should immediately introduce a system of identifying fixed assets with tags differentiating those purchased with USAID funds or otherwise.

Management Comment

- "(a) MIDAS maintains Fixed Asset Register with details of assets, its location, name of supplier, accumulated depreciation, annual depreciation which are required as per International Accounting Procedures and Standard.
- (b) Physical inventory of assets in classified form are conducted along with the auditors representative and the reports are compared with register periodically. Reconciliation is also done to find out the missing items (if any) and are placed before the management for decisions as and when needed.
- (c) Labelling at the body of the asset itself is not a compulsory control tool for asset control.
- (d) However to comply with this guideline, actions are being taken to implement the recommendation from January 1, 1991."

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2. There were many instances where approval of journal vouchers was not evidenced by the authorised personnel

Condition

There were many instances where accounting entries effected by means of journal vouchers did not bear evidence of approval by an independent reviewer or authorised personnel.

Criteria

Sound accounting control practice requires that each journal voucher must be referenced to or supported by adequate documentation and approved by an independent responsible official before the journal entries are processed into the accounting records.

Effect

Unauthorised and/or erroneous accounting entries may not be detected and could lead to misstatement of financial statements.

Cause

Management placed considerable reliance on the work of the Assistant Accountant who originated the entries.

Recommendation

We recommend that MIDAS implement procedures to ensure that all journal vouchers are checked, reviewed and approved by Senior Officials who should also initial on the vouchers as evidence of check performed by them.

Management Comment

"We like to point out the following for the information and consideration of the auditors:

- (a) The Accounts Section of MIDAS is being headed by an Assistant Chief Accountant having wide experience in book-keeping and financial recording works over 25 years. He is assisted by an Accounts Officer.
- (b) The journal voucher relating to adjustment of advances per diem etc having financial implication are being approved by the Executive Director after being prepared by Accounts Officer and checked by the Assistant Chief Accountant.
- (c) The journal vouchers relating to calculation of depreciation, allocation of expenses to various cost centres are prepared and approved at the level of the Head of Accounts Section. The practice is being followed from the very beginning of MIDAS. MIDAS has so far not received any qualification from any auditor on this issue.
- (d) However, since April 1989, with the employment of the Director of Finance all journal vouchers are approved by the Director of Finance and/or the Executive Director."

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3. A proper aged analysis of accounts receivable balances was not prepared

Condition

A proper aged analysis of accounts receivable balances showing the breakdown of overdue principals, interest and other amounts due by months was not prepared for monthly review by the board members.

Criteria

Good financial management requires the preparation of proper aged analysis of accounts receivable balances for monthly review by the board members.

Effect

The allowance for doubtful accounts and the related provision for bad debts may be misstated because there is insufficient information accumulated to determine a reasonable bad debt provision.

Cause

The management did not have the mechanism to produce a proper aged analysis for monthly review by the board members.

Recommendation

We recommend that USAID/B requires MIDAS to prepare a proper aged analysis of accounts receivables showing the breakdown of overdue principal, interest and other amounts due for monthly review by the board members. Furthermore the comments of the investigation officer, including the recommended actions, should be noted on the aged analysis so that the board members can make decisions for the proper course of action.

Management Comment

"Although a proper aged analysis of a description of that of the auditors is not prepared, a monitoring report on all overdue loans is prepared by the Commercial Department for review by management. MIDAS is in the process of installing a software programme which produces a proper aged analysis of accounts receivable by month. It is expected that the programme will be finalised by December 31, 1990."

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- 4 MIDAS has not established procedures for identifying loans to related parties and reporting these transactions to Board members

Condition

There are procedures established to evaluate and approve loans to subprojects. However, these procedures do not identify loans to parties related to the Board members.

Criteria

Good management practice normally requires a monitoring mechanism which documents and evaluate transactions with parties related to board members.

Effect

Final approval of the subproject loans rests with the Board of Directors and USAID/B. Certain board members and/or USAID/B may not be aware of such transactions, the knowledge of which may have a bearing on the approval process.

Cause

MIDAS was not aware of the requirements.

Recommendation

We recommend that USAID/B require MIDAS to establish a system for identifying loans to parties related to board members and such loans should be separately reported to board members in the loan approval process. Furthermore disclosure of such transactions should be made to USAID/B for review.

Management Comment

"All MIDAS projects are evaluated in the same process. If any sponsor has any connection with any Board Members and the fact is known, Board Members would follow the practice of abstaining from voting in the process of approval of that project. MIDAS will introduce procedures that require sponsors to declare their relation with any of MIDAS Board of Directors in loan applications. While processing such loan applications, concerned Directors of MIDAS Board will abstain from voting. After the Board's approval, the projects will be forwarded to USAID/B indicating the name of the Director and his interest."

**REPORT ON COMPLIANCE WITH AGREEMENT
ITEMS AND APPLICABLE LAWS AND REGULATIONS**

21

your reference
our reference

A3/TTK/MIDAS

Mr James B. Durnil
Regional Inspector General
for Audit - Singapore
US Agency for International Development
16 Raffles Quay
#31-01 Hong Leong Building
Singapore 0106

October 11, 1990

Dear Mr Durnil

ENTERPRISE DEVELOPMENT PROJECT WITH THE
MICRO INDUSTRIES DEVELOPMENT ASSISTANCE SOCIETY
IN BANGLADESH
USAID/BANGLADESH PROJECT NO. : 388-0066-A-00-6063
INDEPENDENT AUDITORS' REPORT ON COMPLIANCE WITH
AGREEMENT TERMS AND APPLICABLE LAWS AND REGULATION

We have audited the Fund Accountability Statements of Micro Industries Development Assistance Society ("MIDAS") pertaining to the Enterprise International Development, Bangladesh ("USAID/B"). These Statements, comprising the balance sheet, income and expenditure statement and the notes thereon, are set out on pages 10 to 12 and we have issued our report thereon dated October 11, 1990.

We conducted our audit in accordance with generally accepted auditing standards and the standards for financial audits contained in Government Auditing Standards issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the Statements are free of material misstatement.

Compliance with laws, regulations, contracts, and grants applicable to MIDAS is the responsibility of MIDAS management. As part of obtaining reasonable assurance about whether the Statements are free of material misstatement, we performed tests of MIDAS' compliance with applicable laws, regulations and agreements. However, our objective was not to provide an opinion on overall compliance with such provisions.

Material instances of non-compliance are failure to follow requirements, or violations of prohibitions contained in statutes, regulations, contracts, or grants that cause us to conclude that the aggregation of the misstatement resulting from those failures or violations is material to the Statements. The results of our tests of compliance disclosed the material instances of non-compliance set out on pages 22 to 28.



resident partners

Tan Swan Jeng
Reggie M. Thein
Jonathan H. E. Ou
Khoo Kum Wing
Chew Kia Ngai
Chen Kai Teck
None C. G. Ong
David G. Compton
Philip E. S. Tan
Michael G. Gray
Chew Teck Soon
Foo Tiang Sze

Ernest T. P. Seow
Jimmy K. H. Seet
Lawrence K. S. Seet
Edwin T. S. Khoo
Leong Yik Song
Quek Soo Tei

Betty Khoo
Chey Chor Wee

directors

D. Michael Fleming
Andrew Jackomos
Joyce Tan
David K. H. Tan

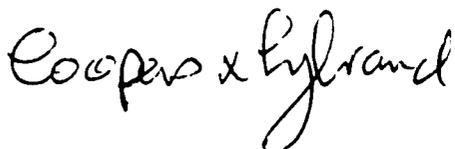
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ENTERPRISE DEVELOPMENT PROJECT WITH THE
MICRO INDUSTRIES DEVELOPMENT ASSISTANCE SOCIETY
IN BANGLADESH
USAID/BANGLADESH PROJECT NO. : 388-0066-A-00-6063
INDEPENDENT AUDITORS' REPORT ON COMPLIANCE WITH
AGREEMENT TERMS AND APPLICABLE LAWS AND REGULATION

We considered these material instances of non-compliance in forming our opinion on whether MIDAS Statements are presented fairly, and as a result we have made appropriate qualifications on our report dated October 11, 1990 on those Statements. Except as described above, the results of our tests of compliance indicate that, with respect to the items tested, MIDAS complied, in all material respects, with the provisions referred to in the third paragraph on page 20 of this report, and with respect to items not tested, nothing came to our attention that caused us to believe that MIDAS had not complied, in all material respects, with those provisions.

This report is intended solely for the use of USAID/B, and should not be used for any other purpose. This restriction is not intended to limit the distribution of this report which upon acceptance by the A.I.D Regional Inspector General for Audit/Singapore, is a matter of public record.

Yours truly



COOPERS & LYBRAND
Certified Public Accountants

COMPLIANCE ISSUES

SUMMARY OF AUDIT FINDINGS

1. There has been accumulation of undisbursed funds for loan purposes.
2. Certain MIDAS subprojects procured goods from countries outside the Geographic Code 941.
3. Maintenance of the bank account designated for loan principal repayments needs improvement.
4. No prior approval was obtained for using funds from different cooperative agreements to purchase motor vehicles.

1. There has been an accumulation of undisbursed funds for loan purposes

Condition

There has been a substantial accumulation of undisbursed funds by MIDAS mainly because:

- (a) MIDAS has been requesting the release of the entire sum of loans even though the loans were disbursed in instalments; and
- (b) there were cases where funds released by USAID/B were withheld by MIDAS as there were delays in documentation by the borrowers.

Although MIDAS has never advised USAID/B of the undisbursed funds nor provided any explanation for not liquidating them, this practice was discovered by USAID/B prior to our audit. The amount of undisbursed funds identified by USAID/B as attributable to the Cooperative Agreement No. 388-0066-A-00-6063 was approximately US\$319,000 (Tk.10,181,789) and accordingly, USAID/B has taken action to recover the amount. We understand that as of April 18, 1990 approximately US\$25,000 (Tk.827,623) had been returned to USAID/B whilst the balance of US\$294,000 was used to meet current disbursements of approved loans.

Criteria

Clause IVC, Para 2, Page 3 of the Cooperative Agreement requires MIDAS to request funds from USAID in tranches in cases where funds are disbursed on an incremental basis. Also, MIDAS is requested to return to A.I.D all funds not disbursed on a timely basis. In no case will A.I.D funds sit in a non-interest bearing account longer than three weeks.

Effect

Holding or accumulating funds for long periods would mean unauthorised holding of donors' cash resources.

Cause

In general, requests for capital fund were made on a lump sum basis. There were also instances where disbursements of fund were delayed because certain approvals from local authorities were not issued on time to the borrowers.

Recommendation

USAID/B should require MIDAS to present cash flow projections and disbursement schedules for all approved loans against which requests from MIDAS for fund disbursements can be monitored. A report on all loans funded but which disbursements have not been made should be submitted monthly to USAID/B.

Management Comment

"The matter has been sorted out with USAID/B and currently MIDAS does not have any accumulated fund and is following strictly to procedures approved by USAID/B."

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2. Certain MIDAS subprojects procured goods from countries outside the Geographic Code 941

Condition

In order to ascertain whether the procurement actions taken by MIDAS subprojects were in compliance with A.I.D regulations, we have reviewed 14 subproject files of MIDAS selected at random. Arising from our review, we noted 10 out of these 14 subprojects have procured machineries and equipment from countries outside the authorised Geographic Code 941.

In the case of the above subprojects all the profiles were sent to USAID/B for concurrence as soon as they were approved by board of MIDAS. In each of the profiles, the source and origin of machineries along with their costs were clearly spelt out. Although concurrence of the subprojects were given by USAID/B in terms of their commercial viability, no mention was made as to whether USAID/B had expressly approved the procurement of goods from countries outside the authorised Geographic Code 941.

USAID/B had discovered, prior to the commencement of our audit, that certain of MIDAS subprojects procured goods which had Communist block countries as their origin. The amount of such procurements identified by USAID/B was approximately US\$127,000 (Tk.4,050,733) and, accordingly, USAID/B has taken action to recover the amount.

Criteria

The Cooperative Agreement requires that in consideration of A.I.D's long range interest and involvement in MIDAS efforts, there may be substantial involvement by A.I.D in certain aspects of MIDAS operations during the period covered by the agreement and to the extent deemed appropriate by A.I.D. One such aspect as mentioned in the agreement is to review and concur with substantive provisions of subordinate loans, agreements, or contracts. Approval from USAID for procurement of goods from countries outside the authorised Geographic Code 941 is required to be in writing.

Cause

There were inadequate monitoring on prohibition of purchase of goods from countries outside the authorised Geographic Code 941 by USAID/B and MIDAS.

Effect

MIDAS was reimbursed by USAID/B for procurement of goods and services from countries outside the authorised Geographic Code 941. These procurements are prohibited under the agreement.

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Recommendation 1

USAID/B should

- (a) require MIDAS to ensure that all purchases from countries outside the authorized Geographic Code 941 are identified and submit a list of such purchases together with relevant details including the purchase price for USAID/B perusal. USAID/B should take appropriate steps to satisfy themselves on the completeness of the list of unauthorized purchases (where considered necessary test check should be done), and then;
- (b) resolve with MIDAS the appropriate course of action to take in respect of the US\$127,000 in questioned costs in purchases from Communist countries and the other purchases from countries outside the authorized Geographic Code 941.

Recommendation 2

USAID/B should require MIDAS to ensure that procedures are implemented:

- (a) to bring to USAID/B's attention any request for approval to purchase goods or service from countries outside Geographic Code 941;
- (b) for obtaining USAID approval prior to the order of any goods or services from countries outside Geographic Code 941;
- (c) to make site visits and/or examine procurement documents, including shipping documents, to ensure that there is a no unauthorized purchase of goods and services from countries outside Geographic Code 941.

USAID/B CommentRecommendation 1

"As a result of a financial review that was conducted for USAID by a local accounting firm, a list of all purchases funded under the MIDAS grants, as of June 30, 1989, including those from countries outside Geographic Code 941, has been prepared. USAID will request MIDAS to update the list for procurements between July 1, 1989 and December 31, 1990. USAID requests this part of the recommendation be considered resolved. Upon receipt of this updated list, USAID will request that this part of the recommendation be closed."

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Recommendation 2

"By memorandum dated September 30, 1990, MIDAS advised USAID that the figure reported in both the USAID financial review and the NFA, representing procurement from communist countries, was overstated. Per MIDAS accounts, these purchases totalled Tk. 3,071,125 as opposed to the Tk. 4,050,733 reported in the financial review and NFA. USAID Financial Analysis staff will visit the MIDAS office to review their documentation in support of this claim. We will advise RIG/A/S if the amount reported by the NFA as communist procurement has been misstated. MIDAS has agreed to transfer loans involving communist country procurement to sources other than the USAID funded grant. USAID funds made available as a result of this transfer will be used for other approved loans meeting the conditions of the MIDAS grant. Regarding the other procurement (non-communist country) which has already taken place from countries outside the Geographic Code 941, USAID is preparing a legal opinion which concludes that A.I.D has no legal recourse against MIDAS, based on the terms of the A.I.D-MIDAS agreement, for free world, but non-941, procurement which took place prior to July 1989. MIDAS is responsible to ensure procurements after that date are in compliance with A.I.D regulations and that where necessary, waivers are sought in advance. Following reconciliation with MIDAS on the amount actually used for communist country procurement and issuance by USAID of a legal opinion for other procurement (non-communist country) outside code 941, USAID will request this part of the recommendation be closed."

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3. Maintenance of the bank account designated for loan principal repayments needs improvement

Condition

Loan principal repayments (reflow funds) were not always placed in a separate bank account meant for credit/equity fund. Recoveries from borrowers in respect of both principal repayments and service charges were deposited into different bank accounts and transfers of funds were made at certain points of time from these accounts to the designated account in an attempt to segregate capital and service charge repayments.

Criteria

The agreement between USAID/B and MIDAS requires that loan principal repayments be placed in an account specifically dedicated to the credit/equity fund and the account be used only for subsequent business development loans or for purchase of equity in business ventures.

Effect

The present arrangements give rise to a mixing of reflow funds with those funds received in respect of service charges and as a result, reflow funds could have been temporarily used to meet operational expenses. Furthermore, at anyone time the level of reflow funds in the designated bank account cannot be readily determined with accuracy.

Cause

MIDAS did not see the need to properly maintain this account as it was of the view that the periodic transfers made can give the desired result.

Recommendation

We recommend that USAID/B require MIDAS to deposit all cheques received from the borrowers in respect of repayment of loan principals and service charges, at the first instance into an account specifically dedicated to reflow funds and then at regular intervals, transfer service charges to another account, thereby keeping the reflow funds separate and intact.

Management Comment

"MIDAS normally receives the principal amount and service charge from a borrower under a single cheque. Although the cheques were banked into different bank accounts, transfers of the principal amounts were made at a later stage to a bank account designated for credit/ equity funds. However, MIDAS has already started following auditors' recommendation of banking the cheques first into a bank account meant for credit/equity fund and then transfer service charges to a general bank account with immediate effect."

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4. No prior approval was obtained for using funds from different cooperative agreements to purchase motor vehicles

Condition

Through a letter dated October 26, 1988, USAID/B agreed to extend the estimated completion date of a previous Cooperative Agreement No. 388-0042-A-00-4002 from February 28, 1988 to November 30, 1988. The purpose of this extension was to allow MIDAS to expend the remaining funds amounting to US\$54,215.23 (Tk.1,731,022). This amount was to be expended on certain office equipment and furniture, a jeep and three motorcycles as stated in the said letter. However, there was still an unspent amount of approximately US\$12,347. It was noted that no prior approval from USAID/B was obtained to use that unspent amount together with funds from the cooperative agreement under review to purchase two motor vehicles. The details are as follows:-

<u>Voucher No.</u>	<u>Date</u>	<u>Make of Motor Vehicle</u>	<u>Total Cost</u> Tk.	<u>Amounts charged to Cooperative Agreement Number</u>	
				<u>388-0042-A-00-4802</u>	<u>388-0066-A-00-6063</u>
PV-518	11.15.88	Nissan Sunny 1000 cc	550,000	216,438	333,562
PV-1276	04.27.89	Honda Civic 1200 cc	790,000	178,049	See Note * below
			<u>1,340,000</u>	<u>394,487</u>	<u>333,562</u>
At exchange rate of Tk. 31.95			US\$ <u>41,941</u>	<u>12,347</u>	<u>10,440</u>

Furthermore, no prior approval from USAID/B was obtained in respect of these motor vehicles which were purchased from countries outside the authorised Geographic Code 941.

Note * - The balance Tk.611,951 of the purchase price of the Honda Civic was financed by MIDAS out of its own funds.

Criteria

Prior approval from USAID/B is required:-

- (a) to use any unexpended amount of USAID fund to purchase assets not specifically covered by the fund; and
- (b) for purchase of goods which have their source and origin outside the authorised Geographic Codes.

Effect

There was unauthorised used of USAID funds. Such funds were also used to purchase motor vehicles outside the authorised Geographic Codes.

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Cause

Not known.

Recommendation

USAID/B should resolve this matter with MIDAS as soon as possible.

Management Comment

Discussions with USAID are in progress to resolve the matter.

UNITED STATES OF AMERICA
AGENCY FOR INTERNATIONAL DEVELOPMENT
Dhaka, Bangladesh

February 10, 1991

MEMORANDUM

TO: Mr. James B. Durnil
RIG/A/Singapore

FROM: Mary C Kilgour, *Mary Kilgour* Mission Director
USAID/Bangladesh

Subject: Draft Audit Report of Micro Industries Development Assistance Society (MIDAS) - dated December 31, 1990

The Mission has completed a review of the subject draft audit report and will be working with MIDAS during the next four months to implement each of the recommendations contained in the report.

Recommendations Regarding Internal Controls:

Recommendation No. 1: MIDAS agreed during the exit conference with this recommendation and indicated that all fixed assets purchased with USAID funds would be properly tagged NLT January 1, 1991. USAID will visit the MIDAS offices to ensure that they have complied with this recommendation. Based on MIDAS' comments, USAID requests this recommendation be considered resolved. USAID will request closure once we have confirmed that assets have been properly marked.

Recommendation No. 2: MIDAS agrees with this recommendation and stated that effective April 1989, all journal vouchers are approved by the Director of Finance and/or the Executive Director. USAID will verify a test sample of journal vouchers prepared since April 1989 during our next visit to MIDAS. Accordingly, we request RIG/A/S consider this recommendation as resolved. USAID will request closure once we have confirmed that journal vouchers are being properly approved.

Recommendation No. 3: MIDAS concurred with this recommendation and advised USAID that MIDAS was in the process of installing software which would produce proper aging reports by month for analysis by MIDAS staff. This software was scheduled to be operational by December 31, 1990. USAID will confirm that aging reports are now being prepared during our next visit to MIDAS. Accordingly, we request RIG/A/S consider this recommendation resolved. USAID will request closure once we have verified that aging reports are being prepared and utilized by MIDAS.

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- 2 -

Recommendation No. 4: Based on MIDAS comments during the Exit Conference, USAID requests this recommendation be considered resolved. USAID will request closure upon verification that procedures agreed to by MIDAS are in place.

Recommendations Regarding Compliance:

Recommendation No. 1: The issue of MIDAS accumulating undisbursed funds has been resolved. At present MIDAS has refunded to USAID all undisbursed funds. At present MIDAS is only requesting funds from USAID when loans are scheduled to be disbursed. Accordingly, USAID requests this recommendation be considered resolved. USAID staff will work with MIDAS to develop a periodic report to be submitted by MIDAS to allow USAID to monitor fund disbursements.

Recommendation No. 2a: As a result of a financial review that was conducted for USAID by a local accounting firm, a list of all purchases funded under the MIDAS grants, as of June 30, 1989, including those from countries outside Geographic code 941, has been prepared. USAID will request MIDAS to update the list for procurements between July 1, 1989 and December 31, 1990. USAID requests this part of the recommendation be considered resolved. Upon receipt of this updated list, USAID will request that this part of the recommendation be closed.

Recommendation No. 2b: By memorandum dated September 30, 1990, MIDAS advised USAID that the figure reported in both the USAID financial review and the NFA, representing procurement from communist countries, was overstated. Per MIDAS accounts, these purchases totalled TK 3,071,125 as opposed to the TK 4,050,733 reported in the financial review and NFA. USAID Financial Analysis staff will visit the MIDAS office to review their documentation in support of this claim. We will advise RIG/A/S if the amount reported by the NFA as communist procurement has been misstated. MIDAS has agreed to transfer loans involving communist country procurement to sources other than the USAID funded grant. USAID funds made available as a result of this transfer will be used for other approved loans meeting the conditions of the MIDAS grant. Regarding the other procurement (non-communist country) which has already taken place from countries outside the Geographic code 941, USAID is preparing a legal opinion which concludes that AID has no legal recourse against MIDAS, based on the terms of the AID-MIDAS agreement, for free world, but non-941, procurement which took place prior to July 1989. MIDAS is responsible to ensure procurements after that date are in compliance with AID regulations and that where necessary, waivers are sought in advance. Following reconciliation with MIDAS on the amount actually used for communist country procurement and issuance by USAID of a legal opinion for other procurement (non-communist country) outside code 941, USAID will request this part of the recommendation be closed.

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Recommendation No. 3(a) and (b): MIDAS agreed to bring to USAID's attention at the time loans are forwarded to USAID for review, any procurement which will take place outside the Geographic code 941. At the same time, MIDAS will request waivers to authorize non-941 procurement as appropriate. Where documents are silent about procurement source/origin, USAID will verify with MIDAS that all procurement planned under the loan will be from 941 countries. Based on this agreement, USAID requests that parts (a) and (b) of this recommendation be closed upon issuance of the report.

Recommendation No. 3(c): MIDAS has agreed to monitor procurement actions more closely in the future and to document visits to borrowers offices to examine procurement documents to ensure that there are no unauthorized purchases from Non 941 countries. USAID staff will review MIDAS files to ensure that they are conducting and documenting these visits as agreed. Accordingly, we request RIG/A/S consider this part of the recommendation as resolved. Following our review of MIDAS site visit records, we will request the recommendation be closed if appropriate.

Recommendation No. 4: Based on MIDAS concurrence with this recommendation during the Exit Conference, USAID requests this recommendation be considered resolved. During our visit to the MIDAS offices, our staff will verify that MIDAS is depositing funds into an account specifically dedicated to reflow funds and then at regular intervals, transferring an amount equal to the service charges to another account. Once we have verified that this procedure is in place, USAID will request RIG/A/S close this recommendation.

Recommendation No. 5: This issue is currently under review by the USAID Grants Officer. RIG/A/S will be advised once the matter has been resolved.

I wish to thank you and your staff for the close coordination provided with Coopers and Lybrand, MIDAS and the Mission during the conduct of this audit. We believe that the recommendations contained in this report have been helpful and that corrective action will result in improving the overall management of this important USAID funded activity.