

Regional Inspector General for Audit  
Nairobi, Kenya

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Audit of  
Seychelles Commodity Import Program  
Program Nos. 662-K-606 to 609

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Report No. 3-662-92-03-N  
March 09, 1992



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U.S. AGENCY FOR INTERNATIONAL DEVELOPMENT

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March 09, 1992

memorandum

TO: Fred C. Fischer, Director, REDSO/ESA  
FROM: *for* Toby L. Jarman, RIG/A/Nairobi *Joseph Fairinella*  
SUBJECT: Audit of Seychelles Commodity Import Program  
Nos. 662-K-606 to 662-K-609, A.R. No. 3-662-92-03-N

Attached are five copies of a mission-contracted financial audit report of Seychelles Commodity Import Program Nos. 662-K-606 to 662-K-609. The accounting firm of Deloitte Haskins & Sells, Kenya performed the audit.

The purpose of the Seychelles Commodity Import Program was to assist the Government of Seychelles to ease its balance of payments problem, increase its foreign exchange reserves and reduce its budgetary constraints. Under this program, Seychelles rupees were generated from the sale of fuel and gas oil and deposited into the special account to fund mutually agreed upon development projects of the Government of the Seychelles. The program was authorized by the Regional Economic Development Services Office for East and Southern Africa (REDSO/ESA) in fiscal year 1982 and is amended annually. As of December 1990 obligations were \$21.08 million and disbursements amounted to \$19.64 million. The audit covered disbursements of \$11.06 million for the period October 1987 through December 1990.

The objectives of the audit were to:

- review and express an opinion on the auditee's U.S. dollar and local currency Fund Accountability Statements;

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- evaluate and report on the auditee's internal control structure; and
- review and report on the auditee's compliance with the grant agreement terms and applicable U.S. laws and regulations.

Deloitte Haskins & Sells did not comply with Government Auditing Standard 3.6 regarding continuing education. Also, auditors did not review original supplier invoices because invoices could not be located.

The audit disclosed that the U.S. dollar Fund Accountability Statement was fairly presented whereas the local currency Fund Accountability Statement had overstated errors amounting to Seychelles Rupees 1,640,871 (\$315,552), that needed correction. Further, the report identified non-material internal control structure weaknesses which were brought to the attention of management. Also, the report on compliance identified non-material compliance issues which were reported to management.

The draft audit report was submitted to REDSO/ESA and the auditee for comment and their comments (Appendix I and Appendix II, respectively) were incorporated in the final report by Deloitte Haskins & Sells. We are including the following recommendation in the Office of the Inspector General audit recommendation follow-up system.

**Recommendation No. 1:** We recommend that the Director, Regional Economic Development Services Office for East and Southern Africa require the Government of the Seychelles to reconcile and correct the overstated difference of Seychelles Rupees 1,640,871 (\$315,552) between the local currency special account and quarterly financial reports submitted to A.I.D.

We consider Recommendation No. 1 unresolved pending receipt of a plan for corrective action. Please respond to this report within 30 days indicating actions planned or already taken to implement the recommendation.

Thank you for the cooperation extended to Deloitte Haskins & Sells and Regional Inspector General for Audit representatives during the audit.

Attachments: a/s.

AUDIT OF  
SEYCHELLES COMMODITY IMPORT PROGRAM  
NOS. 662-K-606 TO 662-K-609

ATTACHMENTS

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**Deloitte  
Haskins+Sells**



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**USAID - SEYCHELLES**

**NON-FEDERAL AUDIT OF SEYCHELLES COMMODITY IMPORT  
PROGRAM NOS. 662-K-606 TO 662-K-609**

**AUDIT REPORT**

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**NON-FEDERAL AUDIT OF THE SEYCHELLES COMMODITY  
IMPORT PROGRAM (NOS. 662-K-606 TO 662-K-609)**

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**NON-FEDERAL AUDIT OF THE SEYCHELLES COMMODITY  
IMPORT PROGRAM (NOS. 662-K-606 TO 662-K-609)**

**PART I - INTRODUCTION**

**1.1 BACKGROUND**

The Seychelles Commodity Import Program (SCIP) was established by the U.S. Government through USAID and the Government of Seychelles (GOS), to assist GOS to ease balance of payments and budget constraints. In addition, the local currency generated by the SCIP would finance mutually agreed development projects in Seychelles.

The program commenced in fiscal year 1982 to procure fuel and gas oil commodities and is amended annually. From 1982 to December 1989, \$18,089,000 was obligated and \$18,083,153 disbursed. By December 1990, a further \$2,991,000 had been obligated and \$1,560,617 disbursed. Funding for 1991 and 1992 is estimated at \$7.3 million.

The implementation of the project consists of the following procedures:

- . Commodities are imported from approved suppliers and payment in U.S. dollars is made directly by USAID.
- . The importer, Seychelles Petroleum Company Limited (SEPEC) receives the commodities and deposits the local currency equivalent in a special account maintained at the Central Bank of Seychelles.
- . Local currency is applied to mutually agreed upon development projects in Seychelles.
- . Eligible projects are identified by the Seychelles Ministry of Planning and External Relations (MPER) and submitted for approval to USAID. The approved projects are implemented by the relevant ministries under the control and supervision of the MPER and the Ministry of Finance.

Thus the parties involved in the SCIP are:

- . SEPEC.
- . MPER.
- . Central Bank which maintains the special account.
- . Treasury which approves disbursements from the special account, and prepares quarterly financial reports to USAID and GOS.
- . REDSO/ESA which monitors the program.

## 1.2 AUDIT OBJECTIVES

Deloitte Haskins & Sells, Nairobi, (DH&S), contracted to carry out the Non-Federal audit of the SCIP in July 1991 under Indefinite Quantity Contract number OTR-000-1-00-0011-00.

The overall objective was to perform an audit in accordance with generally accepted auditing standards and the financial and compliance elements of the Government Auditing Standards issued by the U.S. Comptroller General (1988 Revision) and to;

- (a) review and express a written opinion on the validity and propriety of the Fund Accountability Statements, covering financial years October 1987 to December 1990 (or a more current ending period if applicable) in accordance with SAS 62.
- (b) identify and evaluate the auditee's internal control structure in accordance with SAS 55 and report in accordance with SAS 63.
- (c) reach an opinion as to whether or not the auditee has complied with the grant agreement and applicable U.S. laws and regulations in accordance with SAS 63.

## 1.3 AUDIT SCOPE

The audit scope as established in the delivery order required DH&S to:

- (a) Review the statements of fund accountability covering financial years 1987 to 1990 or a more current ending period if applicable, and to express a written opinion in accordance with SAS 62.
- (b) Review, assess and report on compliance with the terms and conditions of the grant agreement, applicable standard provisions and recommendations contained in implementation letters, budgets and financial or programme evaluations, and correspondence.
- (c) Review and evaluate the auditee's internal control structure and capability thereof to properly identify and account for relevant expenditure in accordance with SAS 55. Assess and report as to whether or not the accounting system is adequate and effective.
- (d) Carry out audit steps and procedures to provide reasonable assurance of detecting errors, irregularities and illegal acts that could have a material direct or indirect effect on the financial statement amounts and to report in accordance with SAS 53 and 54.
- (e) Obtain specific written representations as listed in SAS 19.
- (f) Review records and other information relating to expenditures to determine their allowability, allocability, reasonableness, validity and accuracy as stipulated by the Federal Acquisition Regulations (FAR).

(g) Audit coverage:

- . We tested \$11,063,243 of the disbursements for commodity purchases representing 100% dollar expenditures for the financial years October 1987 through December 1990.
  - . We tested RS 60,974,925 of the deposits to the special account maintained at the Central Bank of Seychelles for SCIP funds. This represented 100% of deposits arising from the sale of the commodities financed under the SCIP for financial years October 1987 through December 1990.
  - . We also tested local currency disbursements in the period January 1, 1991 to May 31, 1991 which were made from the unspent balance outstanding at December 31, 1990. Thus the Dollar Fund Accountability statement covers period October 1987 through December 1990 while the Local Currency Fund Accountability statement covers period October 1987 through May 1991. This is in accordance with Paragraph 1.3 (a) of this report.
  - . We performed a limited review of local currency costs to establish that the disbursements from the local currency generated were appropriately applied to mutually agreed upon projects. We reviewed the local currency disbursements to projects generally to ensure that they are in line with approved allocations.
  - . The audit work was performed at the offices of the various entities participating in the commodity import program, in the republic of Seychelles and also at USAID/REDSO/ESA in Nairobi.
  - . The detailed audit field work commenced on August 26, 1991, and the audit team returned to Nairobi on September 5, 1991.
- (h) As required in Policy Pointer Number two dated June 21, 1991, we wish to disclose the fact that Deloitte Haskins and Sells in Kenya has not met the continuing education requirements of the U.S. Government Auditing Standards by virtue of being in practice outside the United States. However, we will be making arrangements to attend relevant courses organized by USAID for the benefit of overseas non-Federal auditors.

1.4 SCOPE LIMITATION

Original supplier invoices on which payment by USAID was based were not verified during the audit. We based our examination on copies because we were informed that Original supplier invoices were in AID's offices in Washington in the U.S. Consequently, we arranged with our associate office in Washington to verify the original invoices on our behalf. The result of their visit to AID Washington was that the originals were forwarded back to Nairobi. The question of where the original invoices are stored is therefore unresolved.

## 1.5 AREAS OF MISSION CONCERN

The mission highlighted areas of concern which DH&S addressed:

- . Accountability of dollar amounts disbursed in relation to commodities ordered and received.
- . Accountability of local currency generated and deposited in a special account ensuring correct exchange rates were used.
- . Whether commodities ordered were received and being used for agreed purposes.
- . Whether local currency disbursements were applied to mutually agreed development projects.

NB. DH&S were not required to test local currency disbursements in detail. This step involved solely an assessment of whether or not projects are mutually agreed upon each financial year prior to disbursements being made, and to evaluate the internal control environment.

## 1.6 AUDIT METHODOLOGY

The audit methodology principally comprised:

### (a) **Audit of the U.S. dollar Fund Accountability Statement.**

- . Reconciliation of the Fund Accountability Statement to the underlying records for dollar receipts and disbursements to ensure accuracy and completeness of the statement.
- . Agreeing dollar receipts to grant obligations at REDSO.
- . Agreeing dollar amounts disbursed to supporting documents ensuring that expenditures were supported, allowable, allocable and reasonable.
- . Reconciliation of dollar disbursements by USAID to dollar receipts by GOS.
- . Documentation of findings and recommendations.

### (b) **Review of the local currency Fund Accountability Statement.**

- . Obtain or prepare and review statement of deposits and withdrawals for financial years 1987 to 1990 based on records maintained at Central Bank and reconcile to quarterly financial statements submitted by Treasury.
- . Test deposits to the special account and perform limited review of withdrawals from the special account with a view to determining the adequacy and effectiveness of internal controls, extent of compliance or non-compliance with the Grant Agreement and applicable laws and regulations and the inclusion of any apparent unallowable or unallocable withdrawals as may be apparent from such limited review of the local currency withdrawals.
- . Documentation of findings and recommendations.

**(c) Evaluation of the adequacy and effectiveness of the internal control structure.**

- . The internal control structure as defined in AICPA codification of auditing standards section 319 consists of "Policies and procedures established to provide reasonable assurance that a specific entity's objectives will be achieved. The internal control structure is composed of three elements, the control environment, the accounting system and the control procedures".
- . For the purposes of SCIP, the internal control structure to be evaluated comprised the relevant elements of the individual structures of the parties involved in the project. Audit work comprised a limited review of the internal control structure at each of these entities in accordance with SAS 55.
- . Documentation of findings and recommendations.

**(d) Steps to provide reasonable assurance for detecting material errors, irregularities and illegal acts in accordance with SAS 53 and 54 respectively.**

Errors are unintentional misstatements or omissions of amounts or disclosures in financial statements while irregularities are intentional misstatements or omissions of amounts or disclosures which may involve falsification or manipulation or alterations of accounting records or supporting documents and/or misrepresentations and omission of significant information. Illegal acts are violations of government regulations.

These were addressed by:

- . Considering the audit risk as may be apparent from weaknesses in the internal control structure, our assessment of the auditee's attitude and our exercise of professional judgment regarding perceived audit risks.
- . Focussing on specific areas which we considered as risky ie. tendering process, pricing of commodities, receipt, short deliveries of commodities, quantity and quality problems, certification of commodity origin, review of commissions and interest payments and any problems relating to end-use marking/monitoring of consignments.
- . Being alert to identify and bring to light at the earliest stage any act or actions which appear to be violations of government laws and regulations, provisions of the agreement and other relevant directives.
- . Obtaining letters of representation in accordance with SAS 19 from relevant parties.

1.7 RESULTS OF THE AUDIT

1.7.1 Comments regarding audit objectives

The first objective of this financial and compliance audit was to determine the validity and propriety of the Fund Accountability Statements. The Fund Accountability Statements comprised two elements, namely dollar amounts obligated and disbursed by USAID/REDSO/ESA, and counterpart funds generated, held in a separate bank account, and disbursed by GOS to mutually agreed projects.

We concluded that the U.S. dollar section of the Fund Accountability Statement for the financial years October 1987 through December 1990 is fairly presented.

We concluded that the Fund Accountability Statement relating to the local currency funds as of May 31, 1991 as presented to USAID/REDSO/ESA had errors amounting to RS 1,640,871 (US\$ 315,552). Both the receipts and disbursements were overstated by the above amount. The error was subsequently adjusted and an amended financial statement is to be sent to USAID/REDSO/ESA.

The second audit objective was to identify, evaluate and report on the auditee's internal control structure. We reviewed the internal control structure of each of the entities involved as pertains to the functions performed by each relevant entity in the SCIP. We concluded, based on the limited review, that the internal control structures were strong, reliable and adequate.

The third audit objective was to reach an opinion as to whether or not the auditee has complied with the grant agreement and applicable laws and regulations. We concluded that the entities involved in the SCIP have complied with the grant agreement and applicable laws and regulations.

1.7.2 Comments regarding overall project implementation

The Seychelles Commodity Import Program (SCIP) was established by the U.S. Government through USAID and the Government of Seychelles (GOS), to assist GOS to ease balance of payments and budget constraints. In addition the local currency derived would finance mutually agreed development projects in Seychelles.

The SCIP commenced in 1982 and to date has assisted in development projects as follows:

- . Road rehabilitation
- . Scholarships
- . Development maintenance of airstrips
- . The national library
- . Development of agricultural and environmental programs
- . Dredging and rock armouring
- . Industrial estate

Our overall commentary on the SCIP is that the implementation has been successful and the intended objectives have been met. This is solely an observation based on information considered by us during the audit and does not constitute a program evaluation.

**1.7.3 Comments by REDSO/ESA-Nairobi and the Auditee**

- (a) Comments by REDSO are included in Appendix I

The draft audit report was reviewed by REDSO/ESA and found to be satisfactory. There are no issues relative to the findings and recommendations that they wished to raise.

- (b) Comments by the Government of Seychelles have been received and are included in Appendix II. Essentially they believe that point number 3.2.8 of this report was unnecessary and should be removed.

However, we did not delete since such a decision or the follow up thereof, lies with the REDSO/ESA Director rather than Deloitte Haskins & Sells.

- (c) Comments by SEPEC, which are as per Appendix III, have been actioned.

- (d) Letters of representation have been obtained from the Government of Seychelles and SEPEC. REDSO/ESA did not provide a signed letter of representation because, according to them, "the appropriateness of the letter of representation for AID audits is currently under review by AID". The Regional Legal Advisor's opinion is that it would be inappropriate to sign such a letter before resolution of this matter by AID.



## PART 2 - FUND ACCOUNTABILITY STATEMENTS

SEYCHELLES COMMODITY IMPORT PROGRAM NOS. 662-K-606 TO 662-K-609  
OCTOBER 1987 THROUGH DECEMBER 1990

### 2.1 REPORT ON THE DOLLAR FUND ACCOUNTABILITY STATEMENT INDEPENDENT AUDITOR'S OPINION

We have audited the U.S. Dollar Fund Accountability Statement for the Seychelles Commodity Import Program shown in Page 9. This statement is the responsibility of REDSO/ESA, Nairobi. Our responsibility is to express an opinion on this statement based on our audit.

We conducted our audit in accordance with generally accepted auditing standards and in accordance with Government Auditing Standards (1988 Revision) issued by the Comptroller General of the United States. These standards require that we plan and perform the audit to obtain reasonable assurance as to whether the U.S. Dollar Fund Accountability Statement is free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the Fund Accountability Statement. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall presentation of the statement. We believe that our audit provides a reasonable basis for our opinion.

The U.S. Dollar Fund Accountability Statement is prepared on the basis of cash receipts and disbursements in line with AID's Financial Accounting System. This is a comprehensive basis of accounting other than generally accepted accounting principles.

In our opinion the U.S. Dollar Fund receipts and disbursements are fairly presented, in all material respects, in conformity with the basis of accounting described above.

This report is intended solely for the use of the United States Agency for International Development 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 Office of the Inspector General, is a matter of public record.

*Deloitte Haskins-Sells*

30 September 1991<sup>8</sup>

Resident:  
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2.2 SEYCHELLES COMMODITY IMPORT PROGRAM NOS 662-K-606 TO 662-K-609  
DOLLAR FUND ACCOUNTABILITY STATEMENT  
OCTOBER 1, 1987 THROUGH DECEMBER 31, 1990

	US\$
Total Revenue	11,166,000
Expenditures:	
Gas oil	8,010,242
Fuel oil	3,053,001
	11,063,243 (see below)
	-----
Un-disbursed balance of grant	102,757
	-----

Note

- 1) The extent of audit testing for the dollar revenues and expenditures exhibited above is 100%.
- 2) Results of audit tests - 100% supported, allocable and allowable.

DOLLAR EXPENDITURES ON OIL PURCHASES BY FINANCIAL YEAR

	<u>GAS OIL</u>	<u>FUEL OIL</u>	<u>TOTAL</u>
	US\$	US\$	US\$
1987	1,303,760	1,065,393	2,369,153
1988	2,293,099	506,901	2,800,000
1989	1,787,651	1,115,439	2,903,090
1990	2,625,732	365,268	2,991,000
	-----	-----	-----
	8,010,242	3,053,001	11,063,243
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## 2.3 REPORT ON THE LOCAL CURRENCY FUND ACCOUNTABILITY STATEMENT

### INDEPENDENT AUDITOR'S OPINION

We have audited the Seychelles Commodity Import Program Fund Accountability Statement Project numbers 662-K-606 to 662-K-610 for the period October 1, 1987 to May 31, 1991.

This statement is the responsibility of the Government of Seychelles. Our responsibility is to express an opinion on the statement based on our audit.

We conducted our audit in accordance with generally accepted auditing standards and in accordance with Government Auditing Standards (1988 Revision) 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 statement is free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

The Local Currency Fund Accountability Statement is prepared on the basis of cash receipts and disbursements as prescribed by USAID under the terms of the Grant Agreement. This is a comprehensive basis of accounting other than generally accepted accounting principles.

We have identified certain errors in the Local Currency Fund Accountability Statement amounting to RS 1,640,871 (US\$ 315,552) described in page twelve, that need to be rectified.

In our opinion, except for the amounts in page twelve, the Local Currency Fund Accountability Statement presents fairly, in all material respects, the local currency generated, and the disbursements from the special account so maintained to approved projects for the period October 1, 1987 to May 31, 1991.

This report is intended solely for the use of the United States Agency for International Development 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 Office of the Inspector General, is a matter of public record.

Resident:  
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*Deloitte Haskins+Sells*  
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*20 September 1991*

2.4 SEYCHELLES COMMODITY IMPORT PROGRAM NOS. 662-K-606 to 662-K-610  
 LOCAL CURRENCY FUND ACCOUNTABILITY STATEMENT  
 OCTOBER 1, 1987 THROUGH MAY 31, 1991  
 (SUMMARY)

GRANT AGREEMENT FISCAL YEAR	NO.	DEPOSITS (1)	APPROVED ALLOCATION (2)	RUPEES DISBURSED (3)	OUTSTANDING BALANCE (1) - (3)
1987	662 - K - 606	14,632,226	16,684,467	16,144,331	(1,512,105)
1988	662 - K - 607	15,047,477	15,840,287	15,041,135	6,342
1989	662 - K - 608	16,275,985	16,261,245	15,869,665	406,320
1990	662 - K - 609	16,660,108	15,868,821	9,310,798	7,349,310
1991	662 - K - 610	-	16,500,000	1,157,085	(1,157,085)
		<u>62,615,796</u> *****	<u>81,154,820</u> *****	<u>57,523,014</u> *****	<u>5,092,782</u> *****

LOCAL CURRENCY FUND ACCOUNTABILITY STATEMENT  
 (EXPRESSED IN U.S. DOLLARS)  
 OCTOBER 1, 1987 THROUGH MAY 31, 1991  
 (SUMMARY)

GRANT AGREEMENT FISCAL YEAR	NO.	DEPOSITS (ACTUAL) (1)	APPROVED ALLOCATION (ACTUAL) (2)	DISBURSED (3)	OUTSTANDING BALANCE (1 - 3)
1987	662 - K - 606	2,369,153	2,375,000	2,616,585	( 247,432)
1988	662 - K - 607	2,800,000	2,800,000	2,800,956	(956)
1989	662 - K - 608	2,903,090	3,000,000	2,828,817	74,273
1990	662 - K - 609	2,991,000	3,000,000	1,671,597	1,319,403
Total to 31 December 1990 -		<u>11,063,243</u>	<u>11,175,000</u>	<u>9,917,955</u>	<u>1,145,288</u>
Add					
1991	662 - K - 610	-	3,300,000	222,516	(222,516)
Total to 31 May 1991		<u>11,063,243</u> *****	<u>14,475,000</u> *****	<u>10,140,471</u> *****	<u>922,772</u> *****

NB Exchange rates used are as follows:

1987	1\$ = 6.17 RS
1988	1\$ = 5.37 RS
1989	1\$ = 5.61 RS
1990	1\$ = 5.57 RS
1991	1\$ = 5.20 RS

2.5 FINDINGS, OBSERVATIONS AND RECOMMENDATIONS

2.5.1 Differences between the deposits to bank account and deposits recorded in the quarterly financial report to USAID.

The deposits of local currency generated are based on the value of the oil consignments received by Seychelles Petroleum Company Limited (SEPEC). The actual quantity landed is valued at the agreed price per metric tonne, and translated into Seychelles Rupees. This is then paid into a special account on specified dates in accordance with the grant agreement, in three equal installments. The exchange rate used is provided by the Central Bank, and it is communicated in writing to SEPEC by the Ministry of Finance, each time an oil consignment is received.

The deposits to the special account originate only from the payments made by SEPEC on account of the oil deliveries received. Normally, oil deliveries do not exceed 4 - 5 consignments in one year. Therefore, we extracted all deposits recorded in the bank statements of the special account for the entire period. Having extracted total deposits recorded in the bank statements, we then compared the figures with the payment records of SEPEC and the deposits as recorded in the Fund Accountability Statement. While our derived figure agreed with the SEPEC records, the Fund Accountability Statement amounts differed by RS 1,640,871 (US\$ 315,552). We investigated the difference with the help of the Senior Accountant at the Treasury. The difference was analyzed as follows:

	<u>RS</u>	<u>US\$</u>
(a) Arising from accounting and clerical errors during report preparation	463,904	89,212
(b) Un-expended funds brought forward from FY 82 - 86 which had been closed	336,680	64,746
(c) Un-utilized allocations in 1988 treated as available funds and transferred to 1987	840,287	161,594
	<hr/>	<hr/>
	1,640,871	315,552
	*****	*****

Included in (a) above are RS 329,896.63 (\$ 63,442) and RS 99,938.00 (\$ 19,219) representing re-imburement to special account. These were amounts previously paid out of the special account but which should not have been borne by the SCIP funds. In our opinion, the correct treatment would have been to reduce project expenditure rather than treating the amounts as "additional funds".

### **Recommendations**

1. Adjustment in respect of items (a) and (c) above is required.
2. To ensure accuracy of the quarterly financial report to USAID and other users, we recommend the following:
  - (a) the report should be checked and reviewed by a senior official at the Treasury before despatch to USAID;
  - (b) deposits to special bank account originate only from SEPEC. A schedule of payments made should be obtained from SEPEC and this should be compared with the deposits recorded in the bank statements and deposits reported in the Fund Accountability Statements at regular intervals.



## PART 3 - INTERNAL CONTROL STRUCTURE

### 3.1 INDEPENDENT AUDITOR'S REPORT ON INTERNAL CONTROL STRUCTURE

We have audited the Seychelles Commodity Import Program Fund Accountability Statements for the period October 1, 1987 to May 31, 1991, and have issued our reports thereon dated 30 September 1991.

We conducted our audit in accordance with generally accepted auditing standards and the standards for financial audits contained in Government Auditing Standards (1988 Revision) 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 Fund Accountability Statements are free of material misstatement.

As part of our examination we considered and evaluated relevant internal control structures. Accordingly we performed such tests of the accounting records and such other auditing procedures as we considered necessary in the circumstances.

For the purpose of this report, we have identified the significant internal control structure elements in the following deposits and expenditure categories:

- . commodity procurement and receiving procedures
- . dollar payments by A.I.D. to suppliers
- . deposits of local currency generated to the special account
- . disbursements from the local currency account to projects
- . overall monitoring, control and co-ordination of the projects

For all the control 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.

The purpose of our evaluation was to determine the nature, timing and extent of auditing procedures necessary for expressing an opinion on the Fund Accountability Statements. Our study and evaluation was more limited than would be necessary to express an opinion on the relevant internal control structures taken as a whole.

Resident:  
D M Ndonye  
S O Onvango  
British\*

V M Allen\*  
A C Waldie\*

J.S.L. Bowers\*

E A. Davidson\*

A.P. Davies\*

J.D. Kabebeni

# Deloitte Haskins-Sells



Certified Public Accountants (Kenya) P.O. Box 40092  
Nairobi, Kenya  
"Kirungu" Ring Road, Westlands  
Telephone: ~~722427~~ 441344  
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Telex: 22966

The entities involved in this program as listed on page one are responsible for establishing and maintaining relevant internal control structures. The objectives of an internal control structure are to provide management with reasonable, but not absolute assurance that, assets are safeguarded against loss from unauthorized use or disposition and that transactions are executed in accordance with management's authorization and recorded properly to permit the preparation of financial statements in accordance with generally accepted accounting principles.

Because of inherent limitations in any internal control structure, 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 consideration and evaluation of the internal control structure was limited as described above and would not necessarily disclose all material weaknesses in the systems. Accordingly, we do not express an opinion on the internal control structure of the various entities participating in the Seychelles Commodity Import Program taken as a whole.

A material weakness is a 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 Fund Accountability Statement being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions.

Although our consideration and evaluation of the categories identified above disclosed no conditions that we believe to be material weaknesses, we have noted some minor issues in the internal control structures which should be addressed. Our findings, observations and recommendations are presented in the following pages.

This report is intended solely for the use of the United States Agency for International Development 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 Office of the Inspector General, is a matter of public record.

Resident  
D.M. Ndonye  
S.O. Onyango  
British\*

V.M. Allen\*  
A.C. Waide\*

J.S.L. Bowers\*

E.A. Davidson\*

A.P. Davies\*

J.D. Kaberer

*Deloitte Haskins-Sells*  
30 September 1991

## **3.2 FINDINGS, OBSERVATIONS AND RECOMMENDATIONS**

### **3.2.1 Local funds generated - co-mingling of funds**

Local funds generated by SCIP are channelled through a special account maintained at the Central Bank. The cashbook and other records are kept by the Treasury. The special account has been in use since the inception of the SCIP program in 1982. The projects do not necessarily start or finish to coincide with the financial years. The result is that some project funds are brought forward into the next financial year, and thus, funds are mixed with the funds for the following year, and so on. In certain instances, the actual amounts available for one year are exhausted, but since the account still holds funds relating to other years, project expenditures continue to take place. Since the account is operated on a continuous basis, the deficit for any one year may not become apparent.

#### **Recommendation**

A separate special bank account should be maintained for each financial year.

### **3.2.2 Over expenditure - project allocation amounts vis-a-vis actual funds available.**

For each annual CIP there are three important considerations namely -

#### **(a) Approved allocation**

This is an estimate based on anticipated rupee equivalent of the oil imports for that year. This approximates to the grant amount for that year translated at the exchange rates ruling at the time of project assessment.

#### **(b) Amount of deposits generated from the receipt of oil**

This is based on the actual quantities of oils landed translated into rupees at the exchange rate ruling on the date of receipt of the oil.

#### **(c) Actual project expenditure.**

There will always be a difference between (a) and (b) and the total dollar value of the oils received in any one year is usually lower than the approved grant allocation.

The result of the above is, therefore, a higher approved amount than the amount actually deposited and available for use by the projects (as shown in the Local Currency Fund Accountability Statement on Page 11). The result has been over expenditure in relation to actual receipts, although there may be un-utilized allocations.

Our observation is that the Ministry of Planning and External Relations, which is responsible for overall project co-ordination and monitoring, has not introduced measures to reduce allocations to be in line with the amounts actually received, or to identify other sources of funding.

Since the bank account has been one account receiving deposits continuously over the years, and because funds overlap, there have always been funds available in the account at any one time. However, one year's amounts could be completely exhausted; while expenditures continue to be authorized and paid. This, in effect, means some projects are "borrowing" from others which would have had "un-spent" balances.

#### **Recommendations**

To address the problem of expenditures in relation to the approved allocation, we recommend that:-

- (a) Since the allocations are set before the actual amounts receivable from the oil deliveries can be determined, a contingency element should be incorporated in the allocation schedule. This will act as a buffer or cushion against fluctuations in exchange rates and discrepancies arising from unexpected short deliveries of the oil consignments.
- (b) Where the approved allocations cannot be matched by actual deposits received, an effort should be made by the Government of Seychelles to provide additional funding. If additional funding cannot be raised, then project expenditure should be restricted.
- (c) A separate and distinct bank account should be maintained as recommended above. We noted that steps to maintain separate accounts for each financial year have been implemented with effect from 1991.

### 3.2.3 Bank reconciliations

- (a) Generally, the bank account is reconciled with the cashbook on a monthly basis. However, during our review of the bank reconciliations, we noted the following:
  - (i) The bank reconciliations relating to the period prior to January 1, 1988 were not available. There is no evidence to suggest that these reconciliations were done in the first place.
  - (ii) The bank reconciliations for the months of March, April, June, July and September 1988, and September & October 1990 could not be traced.
- (b) We did not see any evidence of review of the bank reconciliations done by an official other than the person preparing them. It is an important aspect of internal control that the work of one person is checked by another.

#### **Recommendation**

We recommend that an effort should be made to ensure that bank reconciliations are done at regular intervals, preferably on a monthly basis. We also recommend that these bank reconciliations once prepared should be reviewed by a more senior official of the Treasury.

### 3.2.4 Investment of local funds

The local funds generated by sale of commodities are not invested in interest earning deposits or other income generating instruments. Action memorandum dated 14 March 1988, indicates that there is a national law which would be contravened by investing the idle funds. The GOS officials with whom we discussed this issue are not aware of such a law and indeed some parastatals are believed to be investing idle funds in interest earning deposits.

While we appreciate that this may involve some extra administrative effort and that the matter has already been given some thought, we consider it desirable to invest excess funds in order to generate more local currency to further the objectives of the SCIP.

#### **Recommendation**

Excess funds should be invested in income generating deposits if it can be clarified that no law will be contravened by so doing.

### **3.2.5 Oil purchasing procedures - Tendering process**

The Seychelles Petroleum Company Limited (SEPEC), as the purchasing agent for the Government of Seychelles, is responsible for arranging the procurement of the oils, in liaison with USAID. Good commercial practice requires that the purchaser solicits quotations or offers uniformly from a reasonable number of prospective suppliers. Under the SCIP, this is normally done by issuance and circulation of Invitation For Bid (IFB) to prospective suppliers. In 1987 and 1991 the IFBs were advertised in the daily newspapers in Kenya. However, there was no advertising in respect of SCIP oil purchases for the years 1988, 1989 and 1990.

#### **Recommendation**

We recommend that, in order to obtain bids from a reasonable number of prospective suppliers, an advertisement should be placed in selected newspapers in the region and also in the United States.

### **3.2.6 Approval of Projects by USAID - Observation**

The major thrust of our audit work involved a determination that the counterpart funds generated were being applied to projects that were agreed upon with USAID. This involved among other audit steps, a check and comparison of project details as recorded in the Fund Accountability Statements, with the USAID records and correspondences to ensure that only projects approved by USAID proceeded under SCIP funding. Our review indicated that projects funded under the SCIP were evaluated and agreed with USAID prior to commencement.

However, we noted the following exception for which we did not obtain sufficient clarification, and USAID approval in writing.

CIP 1987: ECP Victorial Commercial Port. Per quarterly financial report approved allocation for the project is RS 3,607,500. However, per USAID letter authorizing use of counterpart funds for that year only RS 1,500,000 was approved. The difference of RS 2,107,500 arises from subsequent additional funding of the local currency equivalent of US\$ 375,000 generated under the SCIP Program. However there is no documentation that USAID approved the use of the additional funds.

**3.2.7 Disbursements of counterpart funds to projects - approval of payments**

The Ministry of Planning and External Relations (MPER) of the Government of Seychelles is responsible for the allocation of the counterpart funds to projects, and for overall co-ordination and monitoring of the program. The duties of the MPER officials include ensuring that the disbursement of funds is consistent with the annual allocation. This is achieved by a requirement that all requests for payments are channelled through the MPER and must receive their endorsement before payment. This is in addition to the approval of payments by the Ministry of Finance. We noted the following:-

- (a) that generally, this control procedure was not strictly adhered to prior to 1989, and the implementing agencies requested payments direct from the Ministry of Finance.
- (b) The Ministry of Finance, financial planning and control division, did not insist on receiving MPER's endorsement before approving payments during 1987 through 1989.

Examples of payments made with no evidence of MPER's endorsement include:

<u>Project Name &amp; Code</u>	<u>Payee</u>	<u>Amount</u> <u>RS</u>	<u>Dollar</u> <u>Equivalent</u> <u>e\$1 = 5.2 RS</u>
1) East Coast Project A/c # 4101:1103 CIP 1988	Mitsui + Co	2,104,555.40	404,722
2) RTS Studios - I A/C 4102:1901 CIP 1989	Allied Builders	588,645.00	113,201
3) Providence Industrial Estate CIP 1990	Seychelles Industrial Development Corporation	1,131,754.94	217,645

**Recommendation**

We have been informed that these control procedures have been re-introduced and that MPER now endorse all payments. We recommend that MPER continue ensuring that all payment requests are channelled through them and that the Financial Planning & Control Division should not approve payments before obtaining MPER's endorsement.

**3.2.8 Disbursements of counterpart funds to projects - lump-sum payments**

In normal circumstances payments to implementing agencies are made against invoices, or certificates submitted for work that has already been carried out. However, during our review of disbursements, we noted that at least three payments represented lump-sum transfers to the implementing agencies. In all three cases, the transfer represented the total amount of the project allocation under that financial year's CIP funds. These three projects are:

		<u>RS</u>	<u>Dollar Equivalent</u> <u>@ \$1 = 5.2 RS</u>
1988	National Library	2,000,000	384,615
1989	National Library	1,000,000	192,308
1990	Assumption Airstrip	1,000,000	192,308

The effect of this condition is loss of control by the Ministry of Finance.

**Recommendation**

We recommend that, in order to exercise financial control over the projects, payments should only be made against certified invoices and other documents supporting work done, rather than advance payments.

**3.2.9 Disbursements of counterpart funds to projects - tendering and award of contracts**

The local currency amounts generated each year by CIP represent a significant amount. It is therefore imperative that clear guidelines are delineated to ensure that the program is administered efficiently and proper controls are instituted. Our review of the program and discussion with the responsible officials confirm that the program is being operated as required and all necessary steps have been taken to ensure efficient and smooth operation.

However, with regard to awarding of contracts to contractors for the various projects we did not see any evidence that competitive bidding procedures were observed before the contracts were awarded. We were informed that due to the size of the country, and limitations of relevant expertise in certain areas, it is not always possible to follow competitive tendering procedures. Contracts are sometimes awarded on introduction or based on past experience without the advantage of comparison with another offer or bid.

**Recommendation**

Notwithstanding the difficulties imposed by the economic or technical environment, good commercial practice requires that a purchaser obtains bids or offers from a reasonable number of prospective suppliers. We recommend that consideration is given to this practice, where practicable, before contracts are awarded.

Where, for good reason, a contractor is selected without due tendering process, a document explaining the selection criteria should be prepared.

### 3.2.10 Checking of quarterly reports by USAID

Under the terms of the Grant Agreement, the grantee is required to furnish A.I.D. with reports and information relating to the goods and services financed by the Grant. The quarterly financial report is one of the reports sent to A.I.D. at regular intervals. The figures reported therein are incorporated in a report to AID/W by REDSO/ESA. We noted that RFMC/Nairobi do not keep their own independent records of the local currency amounts generated by the CIP but rely on the quarterly reports. Although the statements are checked for obvious errors of casts and extensions at RFMC/Nairobi, we feel this is not adequate as significant errors of omission could pass undetected.

#### Recommendation

The local currency generated and deposited in the special account at the Central Bank could easily be predetermined by using the dollar payments converted at the exchange ruling on the dates of the oil deliveries. We recommend that RFMC maintain at least some memorandum record against which the reasonableness of the figures reported in the quarterly financial report can be checked.

### 3.2.11 Payments for oil purchases by USAID Overpayment to supplier - Observation

In 1988 the Grant Agreement provided the Government of Seychelles with \$2,800,000 in grants for the SCIP; and three consignments of gas oil and one consignment of medium fuel oil were financed. When the supplier, TOTAL INTERNATIONAL LTD presented invoices and other documents for the last consignment, amounting to \$821,905.62, the un-spent balance of the grant stood at \$632,472.63. The full invoice amount was paid by RFMC/Nairobi inadvertently. The error was detected shortly afterwards. SEPEC was asked by REDSO/ESA to make a refund for \$189,432.99 overpaid in excess of the grant.

We were assured this oversight was an isolated case and did not recur.

#### Recommendation

We recommend that more care should be taken by officials preparing the payment vouchers and those who examine them before payments are authorized. Invoice validation should include a check as to whether there are adequate unobligated funds to cover a particular invoice.



## PART 4 - COMPLIANCE WITH THE GRANT AGREEMENT AND APPLICABLE LAWS AND REGULATIONS

### 4.1 INDEPENDENT AUDITOR'S REPORT ON COMPLIANCE

We have audited the Seychelles Commodity Import Program Fund Accountability Statements for the period October 1, 1987 to March 31, 1991 and have issued our reports thereon dated 30 September 1991.

We conducted our audit in accordance with generally accepted auditing standards and Government Auditing Standards (1988 Revision) 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 Fund Accountability Statements are free of material misstatement, and accordingly, included such tests of the accounting records and such other auditing procedures as we considered necessary in the circumstances.

Compliance with laws, regulations, contracts and binding policies and procedures is the responsibility of the Government of Seychelles, through various departments and agencies participating in the Commodity Import Program. As part of our audit, we selected and tested transactions and records to determine the Government of Seychelles' compliance with laws, regulations, contracts, grants, binding policies and procedures. However, our objective was not to provide an opinion on overall compliance with such policies and procedures.

The results of our tests indicate that for the transactions and records tested, the Government of Seychelles complied with those provisions of the Grant Agreement and applicable laws and regulations, non-compliance with which could have a material effect on the Fund Accountability Statements. However, we noted certain issues that we believe warrant the attention and action of REDSO/ESA and the Government of Seychelles as described in the audit findings section below.

Nothing came to our attention that caused us to believe that for the items not tested, Government of Seychelles was not in compliance with laws or regulations or provisions of the Grant Agreement, noncompliance with which could have a material effect on the Fund Accountability Statements.

This report is intended solely for the use of the United States Agency for International Development 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 Office of the Inspector General, is a matter of public record.

Resident  
D.M. Naonve  
S.O. Onyango  
British\*

V.M. Allen\*  
A.C. Waide\*

J.S.L. Bowers\*

E.A. Davison\*

A.P. Davies\*

J.D. Kabebiri

## **4.2 FINDINGS, OBSERVATIONS AND RECOMMENDATIONS**

### **4.2.1 Payments for oil purchases by USAID Payment for commodities without IFB - Observation**

Due to the problems associated with the Gulf Crisis (re:invasion of Kuwait), SEPEC purchased large quantities of all petroleum products, including gas oil and fuel oil which are usually financed under the SCIP. These products were stock-piled as a hedge against possible shortages.

The Government of Seychelles and SEPEC later requested USAID to pay for part of the purchases retroactively. They requested that the un-spent balance of the 1990 Grant be released to pay for stocks already in the country.

Given the circumstances, REDSO/ESA concurred and payment was effected via a cash transfer of \$1,355,556, in favour of the Central Bank of Seychelles in November 1990.

No Invitation for Bid (IFB) was issued in respect of the above purchase and therefore, this did not conform with section 3.5 of the Grant Agreement which stipulated that formal competitive bid procedures will be applied for all commodities financed under the Grant.

### **4.2.2 Oil purchasing procedures - Bid evaluation and award of contracts- Observation**

Under the laid down procurement arrangements on page 28 of the PAAD, sealed bids will be received and the bid opening will then be held at the Department of Finance offices in Victoria.

In practice, sealed bids for the supply of the oils are received in Nairobi by REDSO/ESA and transported to Seychelles, accompanied by a REDSO/ESA official. For the financial year 1990 the bids were not accompanied by a REDSO/ESA official but the American Vice Counsel to Seychelles was requested to attend the bid opening.

We noted the following:-

- (a) The evaluation procedures to be followed are not documented.
- (b) No proper record of the actual proceedings of each tender award meeting is maintained.
- (c) The bids were opened at SEPEC offices.

#### **Recommendations**

We recommend that

- (a) The evaluation criteria followed in deciding which supplier is to be awarded the contract should be laid down in writing.
- (b) Minutes of the meetings for the awarding of the contract should be prepared. This record will include such details as the people present and the assessments and decisions reached.

APPENDICES

APPENDIX

TITLE

I

COMMENTS BY REDSO/ESA - NAIROBI

II

COMMENTS FROM THE GOVERNMENT OF  
SEYCHELLES

III

COMMENTS FROM SEPEC

UNITED STATES OF AMERICA  
AGENCY FOR INTERNATIONAL DEVELOPMENT

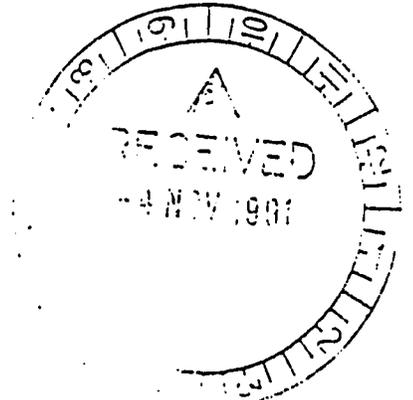
REGIONAL ECONOMIC DEVELOPMENT SERVICES OFFICE  
FOR EAST AND SOUTHERN AFRICA (REDSO/ESA)

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USAID.  
BOX 221  
APO NEW YORK 09675

International Postal Address  
POST OFFICE BOX 30261  
NAIROBI, KENYA

November 1, 1991

Messrs. Deloitte Haskins & Sells  
P.O. Box 40092  
NAIROBI



Dear Sirs:

Ref: Draft Audit Report on the Seychelles Commodity Import Program

Reference is made to your letter of October 1, 1991 and the attached draft audit report.

The draft audit report was reviewed by REDSO/ESA and found to be satisfactory. There are no issues relative to the findings and recommendations that we wish to raise.

I regret that I am not able to provide you with a letter of representation as per your request. The appropriateness of the letter of representation for A.I.D audits is currently under review by A.I.D. I have been advised by the Regional Legal Advisor that it would not be appropriate for me to sign a letter of representation until this matter is resolved by AID.

I look forward to receiving the final audit report.

Yours sincerely,

Fred C. Fischer  
Director

10 15 91

08:10

PLANNING & EXTERNAL RELATIONS SEC

001

APPENDIX II

MINISTRY OF PLANNING AND EXTERNAL RELATIONS  
P.O. Box 10 National House, Victoria, Mahe, Seychelles  
Tel. 244111 MINSIE SZ. Telephone 24041 Fax 24941



TELEFAX MESSAGE

TO : Vincent Mutilangi  
FROM : Maryse Roberts  
DATE : 15th October, 1991  
FAX NO. : 743488 NAIROBI - KENYA

RE: DRAFT REPORT: AUDIT OF CIP PROGRAMME

Your letter of 2/10/91 refers. The Ministry of Finance finds item 3.2.A of the draft report unnecessary and kindly requests it to be deleted.

Please see attached letter. Kindly confirm if above is acceptable to you.

Thank you.

*Maryse Roberts*  
Maryse Roberts (M.S)  
Principal Economic Cooperation Officer  
For: Director General  
PLANNING AND ECONOMIC COOPERATION

CLEARED BY: *[Signature]*



SEYCHELLES PETROLEUM COMPANY LTD.

SE.PE.C. 10617

15th October, 1991

The Principal Secretary  
Ministry of Planning & External Relations  
National House  
VICTORIA

Attention: Mrs M. Roberts  
-----

Dear Sir

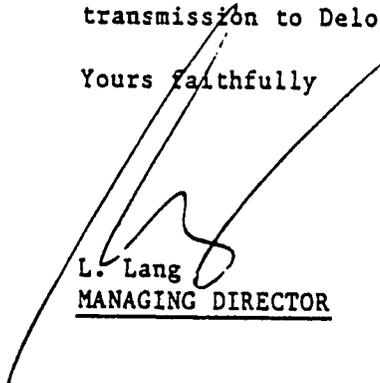
DRAFT REPORT ON THE AUDIT OF SEYCHELLES C.I.P.

We refer to the draft report from Deloitte, Haskins & Sells on the above. Our comments are:

- 1) Page 1, 1.1. Background, paragraph 5, Page 9, 12.3.1. Differences between the ....., Paragraph 1 and Page 16, 3.2.5. Oil Purchasing procedures ....., Paragraph 1 Seychelles Petroleum Corporation - should read Seychelles Petroleum Company Limited.
- 2) Page 1, 1.1. Background, paragraph 5, and thereafter throughout the report wherever it appears (SEYPEC) should read (SEPEC).

We also enclose the letter of representation for your onward transmission to Deloitte's in Nairobi.

Yours faithfully

  
L. Lang  
MANAGING DIRECTOR

encl...

MINISTRY OF FINANCE

FINANCIAL PLANNING DIVISION  
P.O. Box 113, Central Bank Building, Victoria, Republic of Seychelles  
Telex: 23253 FINPLUN SD. Teletax: 2248. 25255 Telephone: 25252



Please address all correspondence to the Director General

10

*P/100*  
*CR 11/11*

Your Ref: FIN/U/2  
Our Ref:  
Enquiries To:  
Telephone Ext:  
Date: October 14, 1991.

**VERY URGENT**

Director General  
Planning & Economic Cooperation  
Ministry of Planning  
and External Relations  
National House



For the attention of: Mrs. M. Roberts

**DRAFT REPORT ON THE AUDIT OF THE US AID SEYCHELLES COMMODITY IMPORT PROGRAMME**

Please find below the comments of the Financial Planning & Control Division for onward transmission to Deloitte, Haskins & Sells.

"We are concerned by the comment at item 3.2.8 of the draft report.

As explained during the course of the audit the National Library Trust Fund responsible for implementing the National Library project is a financially autonomous body. The Ministry of Finance controls the financial activities of the Trust Fund by means other than the processing of each disbursement as is the case with Government ministries and departments. It therefore follows that financial control over the National Library projects payments is ultimately exercised by the Ministry of Finance.

With regards to the Assumption Airstrip, the disbursement to the implementing agency was a reimbursement of expenditures incurred and not an advance payment. Bills of quantities detailing to cost of materials used were available. However, due to the bulkiness of the same neither MPER nor MOP retained copies. The Financial Planning and Control Division offered to obtain the original bills of quantities from the implementing agency for inspection by the representatives of Deloitte Haskins & Sells. However, the latter claimed satisfaction with copies of the memos authorising the payment.

We thus find the comments at item 3.2.8 unnecessary and request it be excluded from the audit report."

A.G. Vakim  
DIRECTOR GENERAL

ATTACHMENT II

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RIG/I/N	1
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