

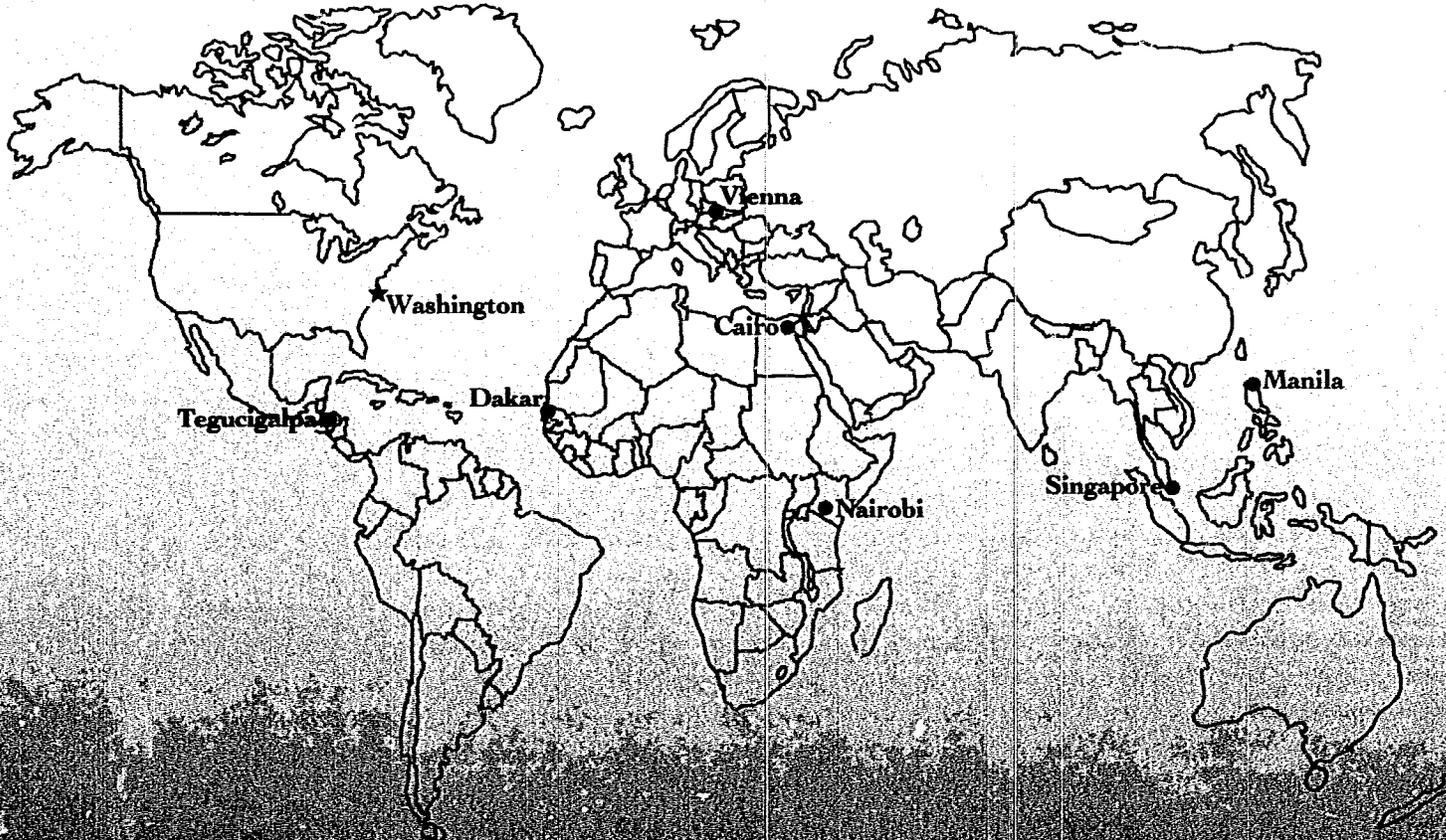
**Regional Inspector General for Audit  
Singapore**

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**AUDIT OF  
LANKA JATHIKA SARVODAYA SHRAMADANA  
SANGAMAYA, INC.  
SRI LANKA**

---

**Audit Report No. 5-383-92-14-N  
March 13, 1992**



**AUDIT OF  
LANKA JATHIKA SARVODAYA SHRAMADANA SANGAMAYA, INC.  
(SARVODAYA)  
SRI LANKA**

**AUDIT REPORT NO. 5-383-92-14-N**

**MARCH 13, 1992**

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**The auditors reported that Sarvodaya's Fund Accountability Statement did not present fairly the receipts and payments under its grants with USAID/Sri Lanka. There were questioned costs amounting to \$131,100 and material omissions of Sarvodaya's contributions of approximately \$69,000. There were also material internal control weaknesses and material instances of noncompliance with grant agreement terms, including the fact that Sarvodaya did not adequately retain and maintain supporting documentation on most of its expenditures. We are recommending that prior to disbursing additional A.I.D. funds to Sarvodaya, USAID/Sri Lanka verify that adequate corrective measures are in process to correct the accounting deficiencies found.**

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**FINANCIAL INFORMATION CONTAINED IN THIS REPORT MAY BE PRIVILEGED. THE RESTRICTIONS OF 18 USC 1905 SHOULD BE CONSIDERED BEFORE ANY INFORMATION IS RELEASED TO THE PUBLIC.**

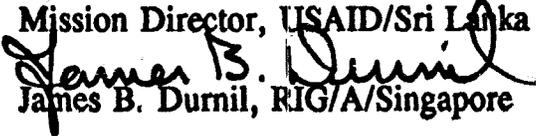
**U.S. AGENCY FOR INTERNATIONAL DEVELOPMENT  
OFFICE OF THE REGIONAL INSPECTOR GENERAL FOR AUDIT  
— Singapore —**

**U.S. POSTAL ADDRESS:**  
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111 North Bridge Road  
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Singapore 0617  
Tel: 65-3342766 Fax: 65-3342541

**March 13, 1992**

**MEMORANDUM FOR:** Richard Brown  
Mission Director, USAID/Sri Lanka

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

**SUBJECT:** Audit of Lanka Jathika Sarvodaya Shramadana Sangamaya, Inc.  
(Sarvodaya) - Sri Lanka  
Audit Report No. 5-383-92-14-N

The accounting firm of Coopers and Lybrand, Singapore, performed a financial audit of USAID/Sri Lanka's four grants with Lanka Jathika Sarvodaya Shramadana Sangamaya, Inc. (Sarvodaya) in Sri Lanka. Five copies of the audit report are enclosed for your action.

USAID/Sri Lanka has been providing assistance to boost agricultural production and enhance the income of those living in rural areas. In line with this effort, USAID/Sri Lanka provided four grants under its Private Voluntary Organization co-financing I and II Project for work on socio-economic based initiatives. Sarvodaya, the recipient of these four grants, was established in 1962 and is currently involved in promoting and establishing organizations for community development. The periods covered by the audit for each of the four grants are noted on page 2 of the audit report. During these periods, Sarvodaya reported that it expended \$359,767 under the four grants.

The audit objectives were to: (1) determine whether the Fund Accountability Statement of Sarvodaya presents fairly the receipts and expenditures under the four grants with USAID/Sri Lanka and whether the expenditures were allocable, allowable, and reasonable; (2) report on Sarvodaya's system of internal controls; and (3) report on Sarvodaya's compliance with applicable laws, regulations, and agreement terms.

The auditors found that Sarvodaya's Fund Accountability Statement did not present fairly the receipts and payments under its grants with USAID/Sri Lanka. There were questioned costs amounting to \$131,100 and material omissions of funds contributed to the project and related expenditures by Sarvodaya amounting to approximately \$69,000. There were also material internal control weaknesses and material instances of noncompliance with grant agreement terms, including the fact that Sarvodaya did not adequately retain and maintain supporting documentation on most of its expenditures; did not maintain separate bank accounts for A.I.D.

funds; and did not monitor the grant budget against actual expenditures.

The management of Sarvodaya agreed with the three of the auditors' findings (findings 2, 5, and 8), did not fully address eight of the findings (findings 3, 4, 6, 7, and 9 through 12), and disagreed on one finding (finding 1). Sarvodaya's response is included in its entirety as Appendix C to the report. We are making the following recommendations to be included in the Inspector General's recommendation follow-up system.

**Recommendation No. 1:** We recommend that USAID/Sri Lanka resolve the \$131,100 in questioned costs (\$109,220 unsupported and \$21,880 unallowable) identified in the audit report (Appendix A.1), and recover from Sarvodaya any costs not allowable under the grants.

**Recommendation No. 2:** We recommend that USAID/Sri Lanka determine Sarvodaya's actual co-financing contribution and verify that the organization has met its required contributions, including approximately \$69,000 of contributions under Grant 30 as identified in the report (see pages 28 and 29), after considering the resolution of all questioned costs identified in the audit report (Appendix A.1 and Appendix B.1) and the related adjustments made to the overheads.

**Recommendation No. 3:** We recommend that USAID/Sri Lanka verify Sarvodaya has established and implemented adequate accounting procedures that include (1) the retention and maintenance of adequate supporting documentation; (2) the maintenance of separate bank accounts for A.I.D. funds; (3) the monitoring of budgeted and actual expenditures; (4) the adherence to A.I.D. property management standards; (5) the performance of pricing analysis on procurement where required; and (6) the seeking of approval from USAID/Sri Lanka on issues which deviate from specific grant requirements.

**Recommendation No. 4:** We recommend that USAID/Sri Lanka verify that Sarvodaya has met reporting and monitoring provisions as identified in the report (see pages 37 to 41) relating to financing, project information, and annual audits.

**Recommendation No. 5:** We recommend that prior to disbursing A.I.D. funds to cover future months' expenses, USAID/Sri Lanka obtain reasonable assurances that Sarvodaya has initiated a formal plan of action to correct the serious accounting deficiencies identified in this audit report.

We appreciate the courtesies and cooperation the Mission and Sarvodaya extended to the auditors and our staff during the course of this audit. Please advise me within 30 days of any actions planned or taken to close the above recommendations.

AUDIT OF  
LANKA JATHIKA SARVODAYA SHRAMADANA SANGAMAYA, INC.  
PERTAINING TO ITS PVO CO-FINANCING GRANTS  
WITH THE UNITED STATES AGENCY FOR INTERNATIONAL DEVELOPMENT  
IN SRI LANKA

---

Performed and Prepared

by

Coopers & Lybrand  
Singapore

AUDIT OF  
LANKA JATHIKA SARVODAYA SHRAMADANA SANGAMAYA, INC.  
PERTAINING TO ITS PVO CO-FINANCING GRANTS  
WITH THE UNITED STATES AGENCY FOR INTERNATIONAL DEVELOPMENT  
IN SRI LANKA

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INDEPENDENT AUDITORS' REPORT

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your reference  
our reference **A6/WR/9278**

Mr James B Durnil  
Regional Inspector General  
for Audit, Singapore  
US Agency for International Development  
#17-03 Peninsula Plaza  
111 North Bridge Road  
Singapore 0617

February 24, 1992

Dear Mr Durnil

This report presents the results of our audit of Lanka Jathika Sarvodaya Shramadana Sangamaya, Inc. ("Sarvodaya") pertaining to its PVO Co-Financing Grants with the United States Agency for International Development, Sri Lanka ("USAID"), and in respect of the following periods for each grant:

**PVO Co-Financing I Project**

Grant No. 30 October 1, 1988 to August 31, 1989

**PVO Co-Financing II Project**

Grant No. 1 December 1, 1987 to December 31, 1990

Grant No. 16 June 1, 1989 to March 31, 1991

Grant No. 26 February 1, 1990 to March 31, 1991

The funding of projects under Grant Nos. 16 and 26 continued beyond our review period.

**Background - Sri Lanka**

At present, the World Bank lists Sri Lanka as one of the poorest countries in the world with an average per capita income of only US\$430 per annum.

Despite the fact that agriculture is by far the major component of the country's Gross National Product, the country is still not self-sufficient in basic foodstuffs. In an attempt to boost local agricultural production and enhance the income of those living in rural areas, both Private Voluntary Organizations ("PVOs") and government institutions have been working together on a variety of socio-economic based initiatives and projects. One such PVO involved in these projects is Sarvodaya.



## resident partners

Tan Swan Jeng  
Reggie M Thein  
Jonathan H E Ou  
Khoo Kum Wing  
Chew Kia Ngee  
Chan Ket Teck  
Noris C G Ong  
David G Compton  
Phillip E S Tan  
Michael G Gray  
Chew Teck Soor  
Foo Tiang SooiErnest T P Seow  
Jimmy K H Seet  
Lawrence K S Seet  
Edwin T S Khoo  
Leong Yit Siong  
Quek Soo Tat  
Betty Khoo  
Chey Chor Wai

## directors

D Michael Fleming  
Andrew Jackomos  
Joyce Tan  
David K H Toh

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

### Sarvodaya - The Organization and its Programs

Sarvodaya began as a movement under the auspice of the Nalanda Vidyalaya Social Service League in 1955, and in 1962 the founder of this movement created an independent national organization under the name of Lanka Jathika Sarvodaya Shramadana Sangamaya.

Subsequently declared an approved charity in 1966, in 1972 Sarvodaya was incorporated by parliamentary act with its principal purposes of:

- Promoting the establishment of legally recognized community organizations to undertake spiritual, moral, social, educational, economic and financial activities for the development of communities in accordance with the Sarvodaya philosophy and to assist such organizations in carrying out their development work by providing them with training, management services and financial assistance; and
- Establishing legal entities as might be necessary to manage the various programs and projects of the Association, to frame rules governing the conduct of such entities, and to delegate to such entities such administrative powers and financial authority as might be necessary.

Receiving funds from USAID as well as a variety of other sources, Sarvodaya's operations are based in Colombo with a number of smaller offices at the district level.

### Audit Objectives and Scope of Work

We have conducted a financial audit of Sarvodaya's Fund Accountability Statements as they relate to the three grants received under the PVO Co-Financing II Project, and the one grant received under the PVO Co-Financing I Project, for the following periods:

#### PVO Co-Financing I Project

Grant No. 30    October 1, 1988 to August 31, 1989

#### PVO Co-Financing II Project

Grant No. 1     December 1, 1987 to December 31, 1990

Grant No. 16    June 1, 1989 to March 31, 1991

Grant No. 26    February 1, 1990 to March 31, 1991

The funding of projects under Grant Nos. 16 and 26 continued beyond our review period.

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

The Fund Accountability Statements comprise the Receipts and Expenditure Statements for each grant for the periods outlined above, as well as a Consolidated Statement and the notes thereon. The results of our work are reflected in the accompanying Independent Auditors' Reports on the:

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

The objectives of our work have been to determine whether:

- (a) The Consolidated Fund Accountability Statement for Sarvodaya presents fairly the receipts, expenditures and closing balances of Sarvodaya as they pertain to grants received under the Co-Financing Projects, as well as Sarvodaya's own costs claimed as contributions to these grants, for the audit periods noted above and in accordance with the terms of the Grant Agreements;
- (b) Sarvodaya's internal accounting controls were adequate to provide reasonable assurance that the assets of Sarvodaya are safeguarded against loss from unauthorized use or disposition and that transactions are properly recorded in its books and records in accordance with grant requirements; and
- (c) Sarvodaya has complied with applicable laws, regulations and agreement terms.

Our audit was conducted in accordance with generally accepted auditing standards and US Government Auditing Standards and, accordingly, included such tests as we considered appropriate in order to satisfy our objectives.

The scope of our work included the following general procedures:

- (a) Holding meetings with USAID, Sarvodaya and USAID Regional Inspector General for Audit/Singapore ("RIG/S") officials;
- (b) Reviewing the appropriate grant agreements and related amendments, OMB circulars, AID Handbook regulations, prior period audit reports on Sarvodaya's financial statements, correspondence and minutes of meetings between USAID and Sarvodaya, as well as project progress reports maintained by both Sarvodaya and USAID;

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 Sarvodaya using questionnaires, interviews, flowcharts and narrative descriptions;
- (d) Devising and performing appropriate tests on the transactions recorded in the Fund Accountability Statements;
- (e) Designing appropriate audit steps and procedures to provide reasonable assurance of detecting errors, irregularities, and illegal acts that could have had a direct and material effect on the results of our audit. We were also aware of the possibility of illegal acts that could have had an indirect and material effect on the results of our audit; and
- (f) Testing the effectiveness of administrative controls applied by Sarvodaya's management to ensure compliance with applicable laws, regulations and agreement terms.

#### Audit Results

(a) Report on the Fund Accountability Statements

The Consolidated Fund Accountability Statement is materially incomplete as Grant 30's Fund Accountability Statement does not include any of Sarvodaya's own contributions under the project.

Based on the Grant Agreement's budgeted expenditure and the level of actual funding provided by USAID, together with representations provided to us by Sarvodaya's management, the omissions in respect of both funds contributed to the project and expenditure actually incurred is estimated to be approximately US\$69,000 or 20% of total consolidated expenditure.

Additionally, in respect of the Fund Accountability Statements for Grants 1, 16 and 30, the non-availability of sufficient records at the time of our audit resulted in our inability to determine the allocability, allowability and reasonableness of a number of costs, amounting to approximately US\$115,000 and this matter has been discussed further in Finding 1 of our Schedule on Findings of Non-Compliance.

As a result of the significant omission in respect of Grant 30 as noted above, in our opinion, the Consolidated Fund Accountability Statement does not present fairly, in all material respects, the receipts and expenditure of Sarvodaya for the periods in question, and as they pertain to the grants received from USAID under the PVO Co-Financing I and II Projects.

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

(b) System of Internal Controls

In accordance with Paragraph 19 of Chapter 5 of Government Auditing Standards, we limited our reliance on Sarvodaya's internal control structure. Our preliminary review and documentation of the accounting and control systems in operation during the major period of our review indicated a number of material weaknesses and it was therefore considered that an adequate structure for the purposes of audit reliance was not in existence. As a consequence, in order to maintain the efficiency of our audit, we expanded our substantive testing.

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

Our tests for compliance with laws, regulations, contract and grant provisions, or binding policies and procedures of selected transactions and records of Sarvodaya indicated that, for items tested, Sarvodaya did not comply, in all material respects, with those terms and regulations applicable for the period under our review.

With respect to transactions and records not tested by us, the extent of non-compliance noted in our testing indicated that there was more than a relatively low risk that Sarvodaya may have also not complied with other laws, regulations, contract and grant provisions, or binding policies and procedures. Total USAID reimbursed costs questioned amounted to US\$131,100 (US\$109,220 unsupported).

In the course of our review, no significant or material findings and recommendations from previous audits, that affect the current audit objectives, were noted as now remaining uncorrected. We have, however, noted a number of general accounting and administrative matters that remain outstanding, and these have been reported to the management of Sarvodaya in a separate letter.

It is also noted that a past employee of Sarvodaya, who handled project activities during certain stages of Grant 30, is at present under interdiction and legal proceedings have been initiated to recover sums due from him. However, this matter did not affect our audit approach nor our findings in respect of this Grant.

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

Comments on Findings and Recommendations

Apart from the matters discussed in Finding 1 on pages 24 to 26 of our report, the management of Sarvodaya generally agreed to our findings and recommendations on the non-compliance issues set out on pages 24 to 41, though they opted not to provide any formal response to a number of the matters raised. Their comments can be found on the relevant pages of our findings and in full in Appendix C.

Acknowledgements

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

Yours truly

*Coopers & Lybrand*

**REPORT ON THE  
CONSOLIDATED FUND ACCOUNTABILITY STATEMENT**

your reference **A6/WR/9278**  
our reference

Mr James B Durnil  
Regional Inspector General  
for Audit, Singapore  
US Agency for International Development  
#17-03 Peninsula Plaza  
111 North Bridge Road  
Singapore 0617

Dear Mr Durnil

LANKA JATHIKA SARVODAYA SHRAMADANA SANGAMAYA, INC.  
PERTAINING TO ITS PVO CO-FINANCING GRANTS  
WITH THE UNITED STATES AGENCY FOR INTERNATIONAL DEVELOPMENT  
IN SRI LANKA

INDEPENDENT AUDITORS' REPORT ON THE CONSOLIDATED  
FUND ACCOUNTABILITY STATEMENT

We have audited the Fund Accountability Statements of Lanka Jathika Sarvodaya Shramadana Sangamaya, Inc. ("Sarvodaya") pertaining to its PVO Co-Financing Grants with the United States Agency for International Development, Sri Lanka ("USAID") and in respect of the following periods:

PVO Co-Financing I Project

Grant No. 30 October 1, 1988 to August 31, 1989

PVO Co-Financing II Project

Grant No. 1 December 1, 1987 to December 31, 1990

Grant No. 16 June 1, 1989 to March 31, 1991

Grant No. 26 February 1, 1990 to March 31, 1991

The funding of projects under Grant Nos. 16 and 26 continued beyond our review period.

These Statements, comprising the Receipts and Expenditure Statements for each grant for the periods outlined above, as well as a Consolidated Statement and the notes thereon, and as set out on pages 10 to 15, are the responsibility of Sarvodaya's management. Our responsibility is to express an opinion on the Consolidated Statement based on our audit.



## resident partners

Tin Swan Jeng  
Reggie M Thein  
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David G Compton  
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Leong Yit Song  
Quek Soo Tat  
Betty Khoo  
Chey Chor Wai

## directors

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Joyce Tan  
David K H Toh

LANKA JATHIKA SARVODAYA SHRAMADANA SANGAMAYA, INC.  
PERTAINING TO ITS PVO CO-FINANCING GRANTS  
WITH THE UNITED STATES AGENCY FOR INTERNATIONAL DEVELOPMENT  
IN SRI LANKA

INDEPENDENT AUDITORS' REPORT ON THE CONSOLIDATED  
FUND ACCOUNTABILITY STATEMENT

We conducted our audit in accordance with generally accepted auditing standards and US Government Auditing Standards. Those 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 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 our audit provides a reasonable basis for our opinion.

As stated in Note 2 on Page 15, the Fund Accountability Statements present only the transactions of Sarvodaya as they pertain to its Co-Financing Grants for the periods detailed above, and are not intended to present fairly the receipts and expenditure of Sarvodaya as a whole.

The Consolidated Fund Accountability Statement is materially incomplete as Grant 30's Fund Accountability Statement does not include any of Sarvodaya's own contributions under the project. Based on the Grant Agreement's budgeted expenditure and the level of actual funding provided by USAID, together with representations provided to us by Sarvodaya's management, the omission in respect of both funds contributed to the project and expenditure actually incurred is estimated to be approximately Rs 2.5m (US\$69,000).

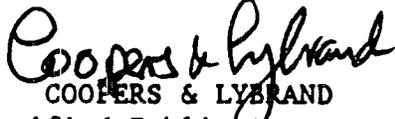
Additionally, in respect of the Fund Accountability Statements for Grants 1, 16 and 30, the non-availability of sufficient records at the time of our audit resulted in our inability to determine the allocability, allowability and reasonableness of a number of costs, amounting to approximately Rs 4.2m (US\$115,000), and this matter has been discussed further in Finding 1 of our Schedule on Findings of Non-Compliance.

As a result of the significant omission noted above, and our estimation of the possible error that exists in the Consolidated Statement, in our opinion, the Consolidated Fund Accountability Statement referred to above does not present fairly, in all material respects, the Receipts and Expenditure of Sarvodaya as they pertain to its Co-Financing Grants with USAID and in conformity with generally accepted accounting principles.

LANKA JATHIKA SARVODAYA SHRAMADANA SANGAMAYA, INC.  
PERTAINING TO ITS PVO CO-FINANCING GRANTS  
WITH THE UNITED STATES AGENCY FOR INTERNATIONAL DEVELOPMENT  
IN SRI LANKA

INDEPENDENT AUDITORS' REPORT ON THE CONSOLIDATED  
FUND ACCOUNTABILITY STATEMENT

This report is intended solely for the use of USAID 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 USAID Regional Inspector General for Audit, Singapore, is a matter of public record.

  
COOPERS & LYBRAND  
Certified Public Accountants

February 24, 1992



# Lanka Jathika Sarvodaya Sangamaya (Inc.)

President: Dr. A.T. Ariyaratne Gen. Secy: D.A. Perera Treasurer: B.A.D. Gunasinghe

SARVODAYA CENTRAL OFFICE: 98, Rawatawatte Road, Moratuwa, Sri Lanka Telephone 507159 505255 507194  
 FAX 507084 TELEX 22837 SARVA CE CABLES SARVODAYA MORATUWA SRI LANKA

**CONSOLIDATED RECEIPTS AND EXPENDITURE STATEMENT**  
**FOR THE PERIOD FROM DECEMBER 1, 1987 TO MARCH 31, 1991**  
**PERTAINING TO ITS PVO CO-FINANCING GRANTS WITH USAID/SL**

	USAID	Sarvodaya	Total	US\$
	Contributions	Contributions	Contributions	Equivalent
	RS	RS	RS	
<b><u>RECEIPTS</u></b>				
Net Funds Contributed	6,815,693	5,985,232	12,800,925	344,945
<b><u>EXPENDITURE</u></b>				
Salaries and Wages	1,070,633	320,653	1,391,286	37,719
Administration expenses	231,396	240,218	471,614	12,618
Capital expenditure	193,466	95,540	289,006	7,600
Transport	298,091	126,020	424,111	11,514
Training	99,516	27,884	127,400	3,398
Revolving Loan Fund	3,896,584	4,531,785	8,428,369	229,190
Community Development	944,809	640,340	1,585,149	39,639
Monitoring, Evaluation and Audit	2,561	2,792	5,353	148
Over Head Allowances (Note 3)	673,965	-	673,965	17,941
	<u>7,411,021</u>	<u>5,985,232</u>	<u>13,396,253</u>	<u>359,767</u>
Funds deficit for the period	<u>595,328</u>	<u>-</u>	<u>595,328</u>	<u>14,822</u>

.....  
*M. Dissanayake*

*for* Sarvodaya Executive Director.

The notes on page 15 form part of these statements.



# Lanka Jathika Sarvodaya Sangamaya (Inc.)

President: Dr. A.T. Ariyaratne Gen. Secy: D.A. Perera Treasurer: B.A.D. Gunasinghe

SARVODAYA CENTRAL OFFICE: 98, Rawatawatte Road, Moratuwa, Sri Lanka Telephone 507159 505255 507194  
FAX 94-1-507084 TELEX 22837 SARVA CE CABLES SARVODAYA MORATUWA, SRI LANKA

## PVO CO-FINANCING 11 PROJECT, GRANT NO 1

### RECEIPTS AND EXPENDITURE STATEMENT FOR THE PERIOD FROM DECEMBER 1 1987 TO DECEMBER 31 1990

	USAID Contribution RS	SARVODAYA Contribution RS	TOTAL Contribution RS.	US\$ Equivalent
<b>RECEIPTS</b>				
Net Funds contributed	2,803,674	5,038,121	7,841,795	216,149
<b>EXPENDITURE</b>				
Salaries and Wages	302,703	308,753	611,456	16,854
Administration Expenses	102,320	232,004	334,324	9,215
Capital Expenditure	40,084	82,577	122,661	3,381
Transport	88,958	124,816	213,774	5,892
Training	49,695	18,394	68,089	1,877
Revolving loan fund	1,962,474	4,268,785	6,231,259	171,757
Monitoring, Evaluation and Audit	2,561	2,792	5,353	148
Over Head Allowances(Note 3)	254,879	-	254,879	7,025
	<u>2,803,674</u>	<u>5,038,121</u>	<u>7,841,795</u>	<u>216,149</u>

.....  
*M. Duranaya*

*for* Sarvodaya Executive Director.

The notes on page 15 form part of these statements.



# Lanka Jathika Sarvodaya Sangamaya (Inc.)

President: Dr A.T Ariyaratne. Gen. Secy: D A Perera. Treasurer: B A D. Gunasinghe

SARVODAYA CENTRAL OFFICE: 98. Rawaiawatte Road Moratuwa Sri Lanka Telephone 507159 505255 507194

FAX: 94-1-507084 TELEX: 22837 SARVA CE CABLES SARVODAYA, MORATUWA, SRI LANKA

**PVO CO FINANCING 11 PROJECT, GRANT NO 16**  
**RECEIPTS AND EXPENDITURE STATEMENT**  
**FOR THE PERIOD FROM JUNE 1, 1989 TO MARCH 31, 1991.**

	USAID Contribution Rs.	Sarvodaya Contribution Rs.	Total Contribution Rs.	US\$ Equivalent
<b>RECEIPTS</b>				
Net funds contributed	750,009	640,340	1,390,349	34,767
<b>EXPENDITURE</b>				
Community Development				
Construction of wells	206,283	151,215	357,498	8,940
Construction of Latrines	669,450	128,875	798,325	19,963
Establishment of Community Home Gardens	69,076	360,250	429,326	10,736
Overhead Allowances (Note 3)	94,481		94,481	2,363
	<u>1,039,290</u>	<u>640,340</u>	<u>1,679,630</u>	<u>42,002</u>
Funds deficit for the Period	<u>289,281</u>	<u>--</u>	<u>289,281</u>	<u>7,235</u>

.....*M. Disanayake*.....

*for* Sarvodaya Executive Director

The notes on page 15 form part of these statements.



## Lanka Jathika Sarvodaya Sangamaya (Inc.)

President: Dr. A.T. Ariyaratne. Gen. Secy: D.A. Perera. Treasurer: B.A.D. Gunasinghe

SARVODAYA CENTRAL OFFICE: 98, Rawatawatte Road, Moratuwa, Sri Lanka. Telephone 507159, 505255, 507134  
FAX: 34-1-507084. TELEX: 32337 SARVA CE CABLES SARVODAYA, MORATUWA, SRI LANKA

PVO CO FINANCING 11 PROJECT, GRANT NO 26  
RECEIPTS AND EXPENDITURE STATEMENT  
FOR THE PERIOD FROM FEBRUARY 1, 1990 TO MARCH 31, 1991

	USAID Contributions Rs.	Sarvodaya Contributions Rs.	Total Contributions Rs.	US\$ Equivalent
<b>RECEIPTS</b>				
Net funds contributed	1,268,251	306,771	1,575,022	39,044
<b>EXPENDITURE</b>				
Salaries and Wages	217,960	11,900	229,860	5,698
Administration Expenses	129,076	8,214	137,290	3,403
Capital Expenditure	119,382	12,963	132,345	3,281
Transport	62,921	1,204	64,125	1,590
Training	31,705	9,490	41,195	1,021
Revolving loan fund	869,900	263,000	1,132,900	28,084
Overhead Allowances (Note 3)	143,354	-	143,354	3,554
	<u>1,574,298</u>	<u>306,771</u>	<u>1,881,069</u>	<u>46,631</u>
Funds deficit for the period	<u>306,047</u>	<u>-</u>	<u>306,047</u>	<u>7,587</u>

.....  
*M. D. Managala*

*M. D. Managala* Sarvodaya Executive Director.

The notes on page 15 form part of these statements.



# Lanka Jathika Sarvodaya Sangamaya (Inc.)

President: Dr. A.T. Ariyaratne Gen. Secy: D.A. Perera Treasurer: B.A.D. Gunasinghe

SARVODAYA CENTRAL OFFICE: 98, Rawatawatte Road, Moratuwa, Sri Lanka Telephone 507159 505255 507194  
FAX 3411507084 TELEX 23337 SARVA CE CABLES SARVODAYA MORATUWA SRI LANKA

**PVO CO FINANCING 1 PROJECT, GRANT NO 30**  
**RECEIPTS AND EXPENDITURE STATEMENT**  
**FOR THE PERIOD FROM 30 OCTOBER 1, 1988 TO AUGUST 31, 1989**

	USAID	Sarvodaya	Total	
	Contributions	Contributions	Contributions	USS
	Rs.	Rs.	Rs.	Equivalent
<b>RECEIPTS</b>				
Net fund Contributed	1,993,759		1,993,759	54,985
<b>EXPENDITURE</b>				
Salaries and Wages	549,970	Details	549,970	15,167
Capital Expenditure	34,000	not	34,000	938
Transport	146,212	available	146,212	4,032
Training	18,116	(Note 4)	18,116	500
Revolving loan fund	1,064,210		1,064,210	29,349
Overhead Allowance (Note 3)	181,251		181,251	4,999
	<u>1,993,759</u>		<u>1,993,759</u>	<u>54,985</u>

.....*M. Disanayake*.....

*for* Sarvodaya Executive Director.

The notes on page 15 form part of these statements.

Notes to the Fund Accountability Statements  
for the period December 1, 1987 to March 31, 1991

1. Significant Accounting Policies

- (a) The Fund Accountability Statements are prepared in accordance with the historical cost convention. For information purposes they are also expressed in United States dollars (US\$) using an average rate for each relevant grant period.
- (b) Expenditure is accounted for on an accruals basis. Receipts relates to amounts actually received in cash or in kind.

2. Component unit of Sarvodaya

The Fund Accountability Statements present only the transactions of Sarvodaya as they pertain to its Co-Financing Grants for the periods under review, and are not intended to represent the income and expenditure of Sarvodaya as a whole.

3. Overhead Allowance

Overhead allowances are based on a fixed rate of 10% of total actual expenditure prior to overhead allowances.

4. Grant 30 - Sarvodaya's Contributions

Sarvodaya's own contributions and expenditure in respect of this grant have been omitted due to inadequate accounting records.

**REPORT ON THE SYSTEM OF INTERNAL CONTROLS**

your reference      **A6/WR/9278**  
our reference

Mr James B Durnil  
Regional Inspector General  
for Audit, Singapore  
US Agency for International Development  
#17-03 Peninsula Plaza  
111 North Bridge Road  
Singapore 0617

Dear Mr Durnil

**LANKA JATHIKA SARVODAYA SHRAMADANA SANGAMAYA, INC.  
PERTAINING TO ITS PVO CO-FINANCING GRANTS  
WITH THE UNITED STATES AGENCY FOR INTERNATIONAL DEVELOPMENT  
IN SRI LANKA**

**INDEPENDENT AUDITORS' REPORT ON THE SYSTEM OF  
INTERNAL CONTROLS**

We have audited the Fund Accountability Statements of Lanka Jathika Sarvodaya Shramadana Sangamaya, Inc. ("Sarvodaya") pertaining to its PVO Co-Financing Grants with the United States Agency for International Development, Sri Lanka ("USAID") and in respect of the following periods:

**PVO Co-Financing I Project**

Grant No. 30      October 1, 1988 to August 31, 1989

**PVO Co-Financing II Project**

Grant No. 1      December 1, 1987 to December 31, 1990

Grant No. 16      June 1, 1989 to March 31, 1991

Grant No. 26      February 1, 1990 to March 31, 1991

The funding of projects under Grant Nos. 16 and 26 continued beyond our review period.

These Statements, comprising the Receipts and Expenditure Statements for each grant for the periods outlined above, as well as a Consolidated Statement and the notes thereon, are set out on pages 10 to 15, and we have issued our report thereon dated February 24, 1992.



resident partners

Tan Swan Jeng  
Reggie M Thein  
Jonathan H E Ou  
Khoo Kum Wing  
Chew Kia Ngee  
Chan Kai Teck  
Noris C G Ong  
David G Compton  
Phillip E S Tan  
Michael G Gray  
Chew Teck Soor  
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LANKA JATHIKA SARVODAYA SHRAMADANA SANGAMAYA, INC.  
PERTAINING TO ITS PVO CO-FINANCING GRANTS  
WITH THE UNITED STATES AGENCY FOR INTERNATIONAL DEVELOPMENT  
IN SRI LANKA

INDEPENDENT AUDITORS' REPORT ON THE SYSTEM OF  
INTERNAL CONTROLS

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 financial statements are free of material misstatement.

In planning and performing our audit of Sarvodaya, we considered its internal control structure in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide assurance on the internal control structure of Sarvodaya as a whole.

The management of Sarvodaya 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 the 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 structure to future periods is subject to the risk that procedures currently considered adequate 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 classified the significant internal control structure policies and procedures into the following categories:

**Accounting Controls:**

- Cash receipts
- Cash disbursements
- Payroll
- General ledger

**Administrative Controls:**

- Cost allocation and allowability
- Monitoring
- Reporting

LANKA JATHIKA SARVODAYA SHRAMADANA SANGAMAYA, INC.  
PERTAINING TO ITS PVO CO-FINANCING GRANTS  
WITH THE UNITED STATES AGENCY FOR INTERNATIONAL DEVELOPMENT  
IN SRI LANKA

INDEPENDENT AUDITORS' REPORT ON THE SYSTEM OF  
INTERNAL CONTROLS

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

As a result of these procedures, 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, would adversely affect the organization's ability to record, process, summarize, and report financial data, consistent with the assertions of management in the Fund Accountability Statements.

Whilst we have also noted this matter in Findings 1 and 5 of our Schedule on Findings of Non-Compliance, examples of these conditions include:

- Certain trial balances did not balance and could not be cross-referenced to general ledgers;
- Source documentation for a number of expense items could not be located; and
- Inadequate property management control.

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 Statements being audited, may occur and not be detected within a timely period by employees in the normal course of performing their assigned tasks.

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.

However, we believe that the reportable conditions noted in Findings 1 and 5 of our Schedule on Findings of Non-Compliance do also constitute material weaknesses and, therefore, in accordance with Government Auditing Standards, we limited our reliance on the internal control structure, as an adequate structure for the purposes of audit reliance was considered not to be in existence. As a consequence, we adopted a substantive testing approach in our audit of the Fund Accountability Statements.

LANKA JATHIKA SARVODAYA SHRAMADANA SANGAMAYA, INC.  
PERTAINING TO ITS PVO CO-FINANCING GRANTS  
WITH THE UNITED STATES AGENCY FOR INTERNATIONAL DEVELOPMENT  
IN SRI LANKA

INDEPENDENT AUDITORS' REPORT ON THE SYSTEM OF  
INTERNAL CONTROLS

We also noted a number of other general matters involving the current internal control structure and its operation that we have reported to the management of Sarvodaya in a separate letter.

This report is intended solely for the use of USAID 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 USAID Regional Inspector General for Audit, Singapore, is a matter of public record.

  
COOPERS & LYBRAND  
Certified Public Accountants

February 24, 1992

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

your reference      **A6/WR/9278**  
our reference

**Mr James B Durnil**  
**Regional Inspector General**  
**for Audit, Singapore**  
**US Agency for International Development**  
**#17-03 Peninsula Plaza**  
**111 North Bridge Road**  
**Singapore 0617**

Dear Mr Durnil

**LANKA JATHIKA SARVODAYA SHRAMADANA SANGAMAYA, INC.**  
**PERTAINING TO ITS PVO CO-FINANCING GRANTS**  
**WITH THE UNITED STATES AGENCY FOR INTERNATIONAL DEVELOPMENT**  
**IN SRI LANKA**

**INDEPENDENT AUDITORS' REPORT ON COMPLIANCE WITH**  
**AGREEMENT TERMS, APPLICABLE LAWS AND REGULATIONS**

We have audited the Fund Accountability Statements of Lanka Jathika Sarvodaya Shramadana Sangamaya, Inc. ("Sarvodaya") pertaining to its PVO Co-Financing Grants with the United States Agency for International Development, Sri Lanka ("USAID") and in respect of the following periods:

**PVO Co-Financing I Project**

**Grant No. 30    October 1, 1988 to August 31, 1989**

**PVO Co-Financing II Project**

**Grant No. 1     December 1, 1987 to December 31, 1990**

**Grant No. 16    June 1, 1989 to March 31, 1991**

**Grant No. 26    February 1, 1990 to March 31, 1991**

The funding of projects under Grant Nos. 16 and 26 continued beyond our review period.

These statements, comprising the Receipts and Expenditure Statements for each grant for the periods outlined above, as well as a Consolidated Statement and the notes thereon, are set out on pages 10 to 15, and we have issued our report thereon dated February 24, 1992.



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LANKA JATHIKA SARVODAYA SHRAMADANA SANGAMAYA, INC.  
PERTAINING TO ITS PVO CO-FINANCING GRANTS  
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INDEPENDENT AUDITORS' REPORT ON COMPLIANCE WITH  
AGREEMENT TERMS, APPLICABLE LAWS AND REGULATIONS

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 financial statements are free of material misstatement.

Compliance with laws, regulations, contract and grant provisions, or binding policies and procedures applicable to Sarvodaya is the responsibility of Sarvodaya management. As part of our audit, we performed tests on selected transactions and records of Sarvodaya for compliance with those provisions. However, it should be noted that, whilst we performed those tests of compliance as part of obtaining reasonable assurance about whether the financial statements were free of material misstatement, our objective was not to provide an opinion on compliance with such provisions.

Material instances of non-compliance are violations of laws, regulations, contract and grant provisions, or binding policies and procedures that cause us to conclude that the aggregation of misstatements resulting from those violations is material to the Fund Accountability Statements. The results of our testing of transactions and records selected disclosed material instances of non-compliance, the effects of which have not been corrected in the Fund Accountability Statements, and they are set out in summary on Page 23 and in detail on Pages 24 to 41 and Appendices A.1 to B.2.

We considered these material instances of non-compliance in forming our opinion on whether Sarvodaya's Fund Accountability Statements are presented fairly, in all material respects, in conformity with generally accepted accounting principles, and this report is considered to affect our report dated February 24, 1992 on those statements.

With respect to items not tested by us, the extent of non-compliance noted in our testing indicated that there was more than a relatively low risk that Sarvodaya may have also not complied with other applicable laws, regulations, contract and grant provisions, or binding policies and procedures.

LANKA JATHIKA SARVODAYA SHRAMADANA SANGAMAYA, INC.  
PERTAINING TO ITS PVO CO-FINANCING GRANTS  
WITH THE UNITED STATES AGENCY FOR INTERNATIONAL DEVELOPMENT  
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INDEPENDENT AUDITORS' REPORT ON COMPLIANCE WITH  
AGREEMENT TERMS, APPLICABLE LAWS AND REGULATIONS

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COOPERS & LYBRAND  
Certified Public Accountants

February 24, 1992

SUMMARY OF AUDIT FINDINGS ON COMPLIANCE ISSUES

1. Sarvodaya has not adequately maintained sufficient and proper accounting records for Grants 1 and 30. Some deficiencies were also noted for Grants 16 and 26.
2. There has been inadequate maintenance of separate bank accounts.
3. Sarvodaya has not attained its co-financing contributions.
4. Claims and reimbursement of amounts in excess of budget have been made.
5. Non-compliance with property management provisions has occurred.
6. Certain capital construction has occurred outside authorized areas.
7. No approval from USAID has been obtained for subcontracted work.
8. Inadequate pricing analysis has occurred for equipment and material purchases.
9. Sarvodaya have failed to adhere to a number of reporting and monitoring provisions required by the agreements.
10. Copies of annual audit reports have not been provided to USAID.
11. USAID have not been provided with a copy of the rules governing revolving loan funds.
12. There were additional questioned costs, not included above, amounting to US\$2,145.

SCHEDULE OF FINDINGS OF NON-COMPLIANCE

1 INADEQUATE MAINTENANCE OF SUFFICIENT AND PROPER ACCOUNTING RECORDS

Condition

In respect of Grants 1 and 30, Sarvodaya has not maintained sufficient and appropriate accounting records to generate complete statements of income and expenditure for all costs incurred as its contributions to respective projects. Additionally, they have also not been able to support the allocability, allowability and reasonableness of a number of those cost items claimed as expenditure related to those Grants. Some deficiencies were also noted in respect of Grants 16 and 26.

This finding includes, as examples, the following specific deficiencies:

- Separate ledger accounts for expenses reimbursed by USAID contributions were not maintained;
- USAID reimbursed vouchers were co-mingled with those for costs financed by non-USAID contributions;
- Payment vouchers are not prenumbered or sequentially filed;
- Source documentation for a number of expense items, including revolving loan funds, could not be located;
- Books of account could not be located in respect of Grant 30;
- Paid vouchers and supporting documents were not effectively cancelled;
- Inadequate details on supporting documentation in respect of Grants 1 and 30;
- Certain trial balances did not balance and could not be cross-referenced to general ledgers for Grant 1; and
- Lack of periodic reconciliation of subsidiary ledgers to control accounts.

The extent of these deficiencies in relation to each Grant is reflected in the level of questioned costs recorded in Appendices A.1 and B.1, Item 1.

Criteria

Mandatory Standard Provision 2(a) of AID Handbook 13, which forms part of the Grant Agreement, requires the grantee to maintain books,

SCHEDULE OF FINDINGS OF NON-COMPLIANCE1 INADEQUATE MAINTENANCE OF SUFFICIENT AND PROPER ACCOUNTING RECORDSCriteria (cont'd)

records, documents and other necessary evidence to sufficiently substantiate charges to grants. Moreover, the records must be able to disclose that portion of project costs that are supplied from other sources. Grant records are also to be retained for a minimum period of three years commencing from the expiration of the grants.

In respect of Grant Agreement No. 1, the Grant Amendment of August 7, 1989 also required original receipts for all expenditure to be serially numbered and filed separately according to budget line item.

The above criteria also constitute requirements of sound accounting practice.

Effect

Sufficient and appropriate accounting records have not been maintained to generate and support the Fund Accountability Statements for Grants 1 and 30. Based on the Grant Agreement's budgeted expenditure and the level of actual funding provided by USAID, together with representations provided to us by Sarvodaya's management, the omission in respect of both funds contributed to the project and expenditure actually incurred for Grant 30 is estimated to be approximately Rs 2.5m (US\$69,000). Some supporting documentation was also not available for Grants 16 and 26.

As a result, we have been unable to determine the reasonableness, allocability or allowability of Rs 4,165,308 (US\$114,590) in recorded expenditure. Refer Appendix A.1, Item 1 and Appendix B.1, Item 1. This amount does not include the estimated omissions in respect of Grant 30.

Cause

Sarvodaya's accounting system was not adequate to ensure full accountability for a significant portion of expenditure incurred under the Co-Financing Grants, primarily due to a lack of sufficient resources and a sufficient number of competent personnel.

We also noted that the accounting system of Sarvodaya was originally assessed by USAID as adequate prior to the release of initial grant funds and that periodic reviews by USAID officials, whilst highlighting certain deficiencies, did not appear to result in any reduction in the flow of grant monies. Despite the deficiencies, the August 1989 amendment to Grant 1, which was a general amendment for a number of grantees, also deleted the requirement for Sarvodaya to continue to provide USAID with receipts for expenditure submitted for reimbursement or advance. Furthermore, it was also noted that prior to this amendment a number of vouchers that had been reimbursed by USAID had not been effectively cancelled as paid or not allowable for reimbursement.

SCHEDULE OF FINDINGS OF NON-COMPLIANCE

1 INADEQUATE MAINTENANCE OF SUFFICIENT AND PROPER ACCOUNTING RECORDS

(cont'd)

Recommendation

The majority of the deficiencies noted during the course of our audit have since been rectified and this was evidenced by the level of costs questioned for Grants 16 and 26.

However, we recommend that USAID review its procedures for the assessment of grantee's accounting systems to ensure they are appropriate for the accountability of expenditure involving US Government funds. We further recommend that Sarvodaya formally notify USAID of any significant changes in its own accounting system that may occur after this review (as required by AID Handbook provisions) to allow adequate assessment by USAID officials of the appropriateness of these changes.

Sarvodaya should also ensure that its recruitment process results in the employment of staff sufficiently qualified and experienced to ensure adequate control and accountability systems are both efficiently and effectively put in place and that it conducts regular reviews of these systems and its ability to determine its compliance with Grant Provisions.

Further, Sarvodaya should now review those matters noted, both above and as detailed in our separate letter to management, on internal controls in an effort to correct those deficiencies still remaining.

Sarvodaya should also review those questioned costs that have resulted from this finding, and as noted in Appendices A.1 and B.1, resolving them with USAID and, if considered appropriate, take action to reimburse incorrectly paid amounts.

Management's Comments

In our view, we have maintained adequate accounting records for all the Grants. Records in respect of Grants 1, 16 and 26 were submitted in full for the audit. Part of the records relating to Grant 30 had been misplaced and could not be submitted.

We refer to your comment on effect of inadequate maintenance of sufficient and proper accounting records and note that the sum of Rs 2,098,644 (US\$57,800) has been classified as questionable in respect of Grant 1. We do not observe any accounting irregularity in respect of this expenditure.

Auditors' Comments

We confirm our original assessment concerning our perceptions of the inadequate maintenance of sufficient and appropriate accounting records based on the information provided to us during the course of our audit.

SCHEDULE OF FINDINGS OF NON-COMPLIANCE

2 INADEQUATE MAINTENANCE OF SEPARATE BANK ACCOUNTS

Condition

Sarvodaya placed funds received from USAID into a single multi-purpose bank account for the majority of its Grants rather than deposit these into separate accounts as required by the Grant Agreements.

Criteria

Special Provision 2 attached to the Grant Agreements for Grants 1, 16 and 30 required all funds provided by USAID be deposited into non-interest bearing separate current accounts and did not permit the co-mingling of these funds with others. Grant 30 also specifically required the establishment of separate accounts for the primary schemes operated under the project.

Effect

The inadequate maintenance of separate bank accounts may give rise to a mixing of US Government Funds with other non-USAID monies and resulted in Sarvodaya not being able to reconcile and support amounts received on a donor by donor basis.

Cause

Sarvodaya's management contend that it was not practical to maintain separate accounts given the administrative burden.

Recommendation

Whilst the extra administrative requirements are noted, the basis for requiring separate accounts to be maintained is considered to override this burden and therefore, Sarvodaya should ensure its adherence to the provisions of its Grant Agreements and deposit all USAID funds into accounts specifically dedicated to those funds. Any inability to ensure adherence to such provisions should be communicated with USAID.

Management's Comments

Separate bank accounts have been maintained for Grant 16.

SCHEDULE OF FINDINGS OF NON-COMPLIANCE

3 CO-FINANCING CONTRIBUTIONS NOT ATTAINED

Condition

Sarvodaya has not attained its co-financing contributions for the following uncompleted grants:

	<u>Budgeted Non-USAID contributions</u> Rs	<u>Non-USAID contributions corresponding to these budget lines</u> Rs	<u>Variance</u> Rs	<u>Other Non-USAID contributions</u> Rs	<u>Net variance</u> Rs
* Grant No. 16	672,456	640,340	32,116	-	32,116
* Grant No. 26	321,000	22,453	298,547	284,318	14,229
	<u>993,456</u>	<u>662,793</u>	<u>330,663</u>	<u>284,318</u>	<u>46,345</u>

\* These amounts are calculated in relation to the level of contributions provided by USAID for the period under review.

Furthermore, we note the following:

- (a) For Grant 30, based on the Grant Agreement's budgeted expenditure and the level of actual funding provided by USAID, together with representations provided to us by Sarvodaya's management, we estimate non-USAID contributions should have been approximately Rs 2.5m (US\$69,000). However, as no actual details of non-USAID contributions were available, we are not able to arrive at any conclusive opinion on the adequacy of Sarvodaya's co-financing obligations for this Grant.
- (b) Subsequent to the completion of our audit fieldwork, and in response to our draft audit findings, Sarvodaya provided additional expenditure figures of Rs 4,268,785 (US\$117,655) for its contributions to Revolving Loan Funds for Grant 1. Prior to this, we had recorded questioned costs of Rs 1,503,892 (US\$41,450) in respect of this Grant for the non-attainment of co-financing obligations. We have not been able to confirm the accuracy of the amount now included.

Criteria

As these grants are provided under Co-Financing Projects, the Grantee is required to expend an agreed minimum of their own funds in return for an established level of US assisted funding. The Project Agreements for each individual grant states Sarvodaya's respective co-financing obligations.

SCHEDULE OF FINDINGS OF NON-COMPLIANCE

3 CO-FINANCING OBLIGATIONS NOT MET  
(cont'd)

Effect

For the two on-going Grants, Sarvodaya has not attained its financial contributions as budgeted in the Grant Agreements by an amount of Rs 330,663 (US\$8,200). Sarvodaya has, however, contributed to the project's aims on other non-budgeted items, reducing its overall funding non-compliance for these Grants to Rs 46,345 (US\$1,150).

Based on our review, we are also of the opinion that Sarvodaya would be unable to meet its full financial obligations, as budgeted in the Grant Agreements of No. 16 and 26, by the completion of these Grants.

We have been unable to determine the extent of compliance for Sarvodaya's financial obligations under Grant 30 as no actual details were available. We have questioned the additional amount included for Grant 1 as we have been unable to confirm its accuracy. Refer Appendix B.1, Items 2 and 3.

Cause

Sarvodaya's accounting and evaluation records do not facilitate proper budgetary monitoring to ensure its compliance with co-financing requirements.

Recommendation

We recommend that Sarvodaya establish and implement a formal system of budgetary monitoring to ensure that it complies with its co-financing obligations. Sarvodaya should meet with USAID to determine how to deal with its non-compliance of these co-financing obligations.

Management's Comments

No comments provided.

SCHEDULE OF FINDINGS OF NON-COMPLIANCE

4 CLAIM AND REIMBURSEMENT OF AMOUNTS FROM USAID IN EXCESS OF BUDGET

Condition

Sarvodaya has claimed and been reimbursed for an excess amount of Rs 564,379 (US\$15,515) in respect of the following line items:

<u>Line item</u>	<u>Budget</u> Rs	<u>Actual</u> Rs	<u>Questioned</u> <u>costs</u> Rs
<u>Grant No. 1</u>			
Revolving Loan Fund	1,500,000	1,962,474	462,474
Travel and subsistence	10,200	38,471	28,271
Maintenance & Repairs	26,500	31,516	5,016
Stationery	45,000	50,060	5,060
Overhead allowance	251,410	254,879	3,469
Project consultant	-	17,500	17,500
Accounts clerk	-	8,750	8,750
Support staff	-	15,440	15,440
Concept meeting	-	1,810	1,810
Collection of data	-	1,110	1,110
Stationery and postage	-	1,812	1,812
- Revolving Loan Fund			
- SEEDS	-	2,637	2,637
<u>Grant No. 26</u>			
Administration expenses	18,000	29,030	11,030
	<u>1,851,110</u>	<u>2,415,489</u>	<u>564,379</u>

In respect of Grant 30, Sarvodaya has also been reimbursed for expenditure incurred up to August, 1989 however it was noted that the grant agreement only applied for the thirty six-month period to May, 1989. This overclaim amounts to Rs 154,362 (US\$4,250).

SCHEDULE OF FINDINGS OF NON-COMPLIANCE

4 CLAIM AND REIMBURSEMENT OF AMOUNTS IN EXCESS OF BUDGET  
(cont'd)

Criteria

The Co-Financing Agreement stipulates that funds are to be administered in accordance with the terms and conditions set forth in the financial plan. Total budgeted amounts should therefore not be exceeded.

Effect

Sarvodaya has claimed and been reimbursed for an amount exceeding individual budget line allowances by Rs 564,379 (US\$15,515) and claimed costs beyond the period of the grant by Rs 154,362 (US\$4,250). Refer Appendix A.1, Item 2.

Cause

Sarvodaya's accounting and evaluation records do not facilitate proper budgetary monitoring to ensure its compliance with the co-financing requirements.

Recommendation

We recommend that Sarvodaya establish and implement a formal system of budgetary monitoring. Where it is determined that budgeted expenditure will be exceeded, a budget amendment should be requested.

Management's Comments

No comments provided.

SCHEDULE OF FINDINGS OF NON-COMPLIANCE

5 NON-COMPLIANCE WITH PROPERTY MANAGEMENT PROVISIONS

Condition

Sarvodaya has not maintained appropriate fixed asset control and accountability procedures for assets purchased with US Government funds, including the appropriate identification of property to indicate its procurement with US Government funds and the maintenance of a Fixed Assets Register.

Criteria

AID Handbook 13 requires the maintenance of an appropriate control system to permit ready identification and location of assets purchased with US Government funds. AID Handbook 14 requires the appropriate marking of assets to identify the source of their procurement funding.

The above criteria also constitute the requirements of sound accounting practice.

Effect

The non-identification of US funded assets may result in a co-mingling of these assets with other non-USAID funded equipment. The non-existence of an appropriate accounting and control system may result in Sarvodaya not being able to effectively control and monitor its property, plant and equipment and therefore create the possibility that a loss of these assets by unauthorized means may occur.

It has also resulted in Sarvodaya being unable to provide us with a complete register of fixed assets.

Cause

The non-tagging of assets and the non-implementation of an appropriate control system has resulted because of a lapse by Sarvodaya's management.

Recommendation

Sarvodaya should implement an appropriate control and accountability system for its fixed assets, such as identifying and recording all assets held, to ensure its compliance with the above provisions and generally accepted accounting concepts.

Management's Comments

Recommendations have been noted and are being implemented.

SCHEDULE OF FINDINGS OF NON-COMPLIANCE

6 CAPITAL CONSTRUCTION OUTSIDE AUTHORIZED AREAS

Condition

A number of latrines constructed under Grant 16 have been established in refugee centres instead of villagers' residences in districts covered by the Grant Agreement.

Criteria

The special provisions of the Agreement require Sarvodaya to identify and advise USAID of the location sites for latrine construction under this project. Whilst this was completed by Sarvodaya, a number of latrines were ultimately constructed in alternate sites, not within the auspice of the Grant.

Effect

Sarvodaya has not complied with the project area requirements of the Grant Agreement and therefore may not have expended US Government funds in accordance with project aims. We have not been able to quantify the financial effect of this non-compliance.

Cause

Due to civil unrest in parts of the country during the construction period, many of the villagers sought safety in refugee centres. This resulted in a redirection of construction efforts to meet the villagers' requirements.

Recommendation

The management of Sarvodaya should ensure its compliance with the provisions of the Agreement. Where it is considered that project implementation will be curtailed by unforeseen circumstances and that funds would more appropriately be redirected to areas different to those originally proposed, Sarvodaya and USAID should review those circumstances and resolve any anomalies accordingly.

Management's Comments

Since many villagers were in refugee centres, a few latrines had to be constructed at these centres too, taking into consideration the realities of the situation.

SCHEDULE OF FINDINGS OF NON-COMPLIANCE

7 SUB-CONTRACT OF CONSTRUCTION WORK

Condition

The construction of latrines in the Jaffna district of Sri Lanka under Grant 16 was subcontracted out by Sarvodaya without directly requesting approval from USAID for a revision of the grant budget.

Criteria

Mandatory Standard Provision 4 of AID Handbook 13 requires that where a grantee intends to contract out any of the work included under a grant, and such a subcontract was not included in the approved grant budget, the grantee should request approval from the grant officer for a revision of the grant.

Effect

Sarvodaya has claimed and been reimbursed for a non-approved expense item amounting to Rs 379,050 (US\$9,400). Refer Appendix A.1, Item 3.

Cause

Sarvodaya did not have sufficient manpower in Jaffna to perform the required work and therefore employed a subcontractor to complete the work on their behalf. Whilst USAID were aware of this activity, the failure to request direct written approval via a budget amendment from the contracting officer resulted from Sarvodaya's management not being aware of this provision.

Recommendation

Sarvodaya should ensure it complies with the requirement to obtain prior approval when subcontracting. A review of previous non-compliances with this provision should be conducted by both USAID and Sarvodaya and the matter resolved appropriately.

Management's Comments

The subcontracted work was carried out with the knowledge and concurrence of the USAID Mission.

Auditors' Comments

Whilst we acknowledge that USAID were aware of this activity, Sarvodaya failed to formally request a budget revision to allow for this type of expenditure, as required by Handbook 13.

SCHEDULE OF FINDINGS OF NON-COMPLIANCE

8 PRICING ANALYSIS ON PROCUREMENT OF GOODS

Condition

The following items of equipment and material have been claimed and reimbursed for which we were unable to sight evidence of appropriate pricing analysis being conducted by Sarvodaya:

	<u>Amount</u> <u>Rs</u>	<u>Equivalent</u> <u>US\$</u>
<u>Grant No. 1</u>		
Office equipment	5,083	140
<u>Grant No. 26</u>		
Transport	112,000	2,750
Office equipment	6,082	150
	<hr/>	<hr/>
Total	123,165	3,040
	<hr/>	<hr/>

Criteria

The procurement of goods and services provision of AID Handbook 13 requires some form of price or cost analysis to be made in connection with every procurement action.

Effect

Equipment procured, and amounting to Rs 123,165 (US\$3,040), may not have been obtained at the most competitive prices and therefore USAID may be reimbursing amounts which are in excess of market rates. Appendix A.1, Item 4.

Cause

No standard procedure exists for this type of analysis.

Recommendation

We recommend that Sarvodaya take measures to ensure its compliance with the procurement provisions of AID Handbook 13 and institute a formal procedure for evaluating each applicable cost element to determine reasonableness, allocability and allowability.

SCHEDULE OF FINDINGS OF NON-COMPLIANCE

8 PRICING ANALYSIS ON PROCUREMENT OF GOODS  
(cont'd)

Management's Comments

There are generally a few situations where a pricing analysis is not carried out, for example:

- (a) A selected branded product is purchased from the manufacturer or an agent at a standard price; and
- (b) Minor purchases being effected at village level from an available source.

SCHEDULE OF FINDINGS OF NON-COMPLIANCE

9 NON-ADHERENCE TO REPORTING AND MONITORING PROVISIONS

Condition

Sarvodaya has not adhered to a number of specific reporting and monitoring provisions required by the Grant Agreements.

This finding includes, but is not restricted to, the following specific deficiencies:

- Documentation submitted to USAID did not include a listing by budget line of anticipated expenditures for the proceeding quarters;
- An end of project report for Grant 1 had not been submitted to USAID within three months after the project's conclusion at 31 December, 1990;
- Project evaluations are performed quarterly but no annual evaluation is conducted;
- Sarvodaya had not furnished USAID with a complete list of the 1,200 villages that were to be included under Grant 16 within three months of signing the relevant Agreement; and
- Claims for reimbursement were not submitted to USAID within the time limits established by the Agreements.

Criteria

Various provisions of the Grant Agreements require specific evaluation and reporting criteria to be completed on a timely and periodic basis, with copies of these reports provided to USAID as well as to the Sri Lankan Ministries of Finance and Planning, and Plan Implementation.

Effect

The non-completion and submission of various progress reports may not facilitate an appropriate evaluation and monitoring of the progress of projects conducted under the Grant Agreements.

Cause

Sarvodaya's management contend that heavy workloads, along with their interpretation of Agreement provisions, has resulted in amendments to reporting contents and timing of lodgements. The non-provision of some reports to appropriate parties has resulted because of an oversight by management.

SCHEDULE OF FINDINGS OF NON-COMPLIANCE

9 NON-ADHERENCE TO REPORTING AND MONITORING PROVISIONS  
(cont'd)

Recommendation

Sarvodaya should ensure its compliance with the provisions of the Grant Agreements. Where such compliance is not considered possible, Sarvodaya should request an amendment to the respective Agreements.

Management's Comments

No comments provided.

SCHEDULE OF FINDINGS OF NON-COMPLIANCE

10 FAILURE TO SUBMIT ANNUAL AUDIT REPORTS

Condition

Sarvodaya has not provided USAID with a copy of its annual audit reports which also covered funds provided under the various Grant Agreements.

Criteria

Mandatory Standard Provision 2(b) of AID Handbook 13 requires grantees to provide USAID with copies of their audit reports to enable USAID to assess the adequacy of audit coverage.

Effect

The independent audits commissioned by Sarvodaya highlighted a number of deficiencies in the grantee's accounting system which affected the ability of Sarvodaya to be fully accountable for US Government funds. These findings have also been noted previously in this report and resulted in questioned costs as detailed in Appendices A.1 to B.2.

Cause

The non-submission of annual audit reports resulted from an oversight by Sarvodaya's management.

Recommendation

Sarvodaya should ensure its adherence to the provisions of AID Handbooks and submit copies of annual audit reports to USAID for review.

Management's Comments

No comments provided.

SCHEDULE OF FINDINGS OF NON-COMPLIANCE

11 RULES GOVERNING REVOLVING LOAN FUNDS

Condition

Sarvodaya has prepared but not furnished USAID with a set of rules governing its Revolving Loan Funds.

Criteria

Special Provision 3 of Grant Agreement No. 1 requires Sarvodaya to furnish USAID with a complete set of rules concerning the maintenance and control of the Revolving Loan Funds received under this grant within three months of signing the relevant Agreement.

Effect

Sarvodaya have not adhered to the terms of the Agreement concerning these funds. This may result in provisions necessary to protect US Government funds not being included in the rules governing these funds and reduce USAID's ability to effectively monitor the credit scheme.

Cause

This has resulted from the management of Sarvodaya not being aware of this provision.

Recommendation

Sarvodaya should ensure it compliance with Grant Agreement Provisions and provide USAID with a copy of the rules governing Revolving Loan Funds.

Management's Comments

Rules governing the Revolving Loan Fund have been prepared and are available.

Auditors' Comments

These rules have not, however, been provided to USAID as required by the Grant Agreement.

SCHEDULE OF FINDINGS OF NON-COMPLIANCE

12 OTHER QUESTIONED COSTS

Condition

During the course of our audit, we came across certain other costs which were considered "questioned costs" by us. The details of these questioned costs, totalling Rs 80,668 (US\$2,145) are set out in Appendices A.2 and B.2.

Criteria

Sarvodaya should ensure its compliance with USAID guidelines and grant requirements when making claims for costs. The basis of questionability of each item noted is set out in Appendices A.2 and B.2.

Effect

Sarvodaya have claimed costs totalling Rs 80,668 (US\$2,145) which may be questionable. Refer Appendices A.2 and B.2.

Cause

Sarvodaya have overlooked USAID guidelines and grant requirements when making claims for costs.

Recommendation

It is recommended that both Sarvodaya and USAID review the list of questioned costs set out in Appendices A.2 and B.2, resolving them with USAID, and, if considered appropriate, take action to repay incorrectly paid costs.

Management's Comments

The questioned costs included are not described in detail for us to comment.

A P P E N D I C E S

## LANKA JATHIKA SARVODAYA SHRAMADANA SANGAMAYA, INC.

**USAID QUESTIONED COSTS AS TO  
REASONABLENESS, ALLOCABILITY AND ALLOWABILITY**

**NON-COMPLIANCE ISSUES**

<u>Finding</u>	<u>Condition</u>	<u>Basis of Questionability</u>	<u>Grant No</u>	<u>Amount Rs</u>	<u>Equivalent US\$</u>
1. Finding 1	Inadequate maintenance of sufficient and proper accounting records.	Reasonableness, allocability and cannot be determined.	1	2,098,644	57,800
			16	10,034	250
			26	35,521	880
			30	1,812,508	49,980
				<u>3,956,707</u>	<u>108,910</u>
2. Finding 4	Claim and reimbursement of amounts in excess of budget.	Allowability - excess budget claims.	1	553,349	15,245
			26	11,030	270
			30	154,362	4,250
				<u>718,741</u>	<u>19,765</u>
3. Finding 7	Non approval of sub-contracted construction work.	Allowability - breach of AID Handbook 13 provisions.	16	<u>379,050</u>	<u>9,400</u>
4. Finding 8	No pricing analysis on procurement of goods.	Reasonableness - cannot be ascertained.	1	5,083	140
			26	118,082	2,900
				<u>123,165</u>	<u>3,040</u>
5. Finding 12	Other questioned costs (refer Appendix A.2)		1	2,946	80
			16	15,460	360
			26	8,200	200
				<u>26,606</u>	<u>660</u>
TOTAL				<u>5,204,269</u>	<u>141,775</u>

**Note:** The total amount of US\$141,775 above includes items questioned under more than one finding. The net questioned costs, excluding these items, is Rs 4,812,433 (US\$131,100).

## LANKA JATHIKA SARVODAYA SHRAMADANA SANGAMAYA, INC.

USAID QUESTIONED COSTS AS TO  
REASONABLENESS, ALLOCABILITY AND ALLOWABILITY

OTHER QUESTIONED COSTS

<u>Line item</u>	<u>Condition</u>	<u>Basis of Questionability</u>	<u>Grant No</u>	<u>Amount Rs</u>	<u>Equivalent US\$</u>
<u>Finding 12</u>					
Training SSM members	Included in this budget line item is an expense for building maintenance.	Allocability - costs are not permissible under the budget.	1	385	10
Monitoring and Evaluation	No evidence on source documentation that these expenses relate to the project.	Allocability - cannot be determined.	1	2,561	70
Construction of wells Valveenia South	Unable to obtain accounting records due to civil unrest.	Reasonableness - cannot be determined.	16	9,710	240
Establishment of Home Gardens	Expenditure was on existing farm land where as the grant stipulates expenditure for establishment of Home Gardens.	Allocability - not incurred in accordance with grant terms and conditions.	16	5,750	140

## LANKA JATHIKA SARVODAYA SHRAMADANA SANGAMAYA, INC.

USAID QUESTIONED COSTS AS TO  
REASONABLENESS, ALLOCABILITY AND ALLOWABILITY

OTHER QUESTIONED COSTS

<u>Line item</u>	<u>Condition</u>	<u>Basis of Questionability</u>	<u>Grant No</u>	<u>Amount Rs</u>	<u>Equivalent US\$</u>
<u>Finding 12</u> (cont'd)					
Transport	Included in this budget line is an expense for the procurement of a helmet.	Allowability - costs are not permissible under the budget.	26	1,300	30
Training - Gramadana workers	Expenditure not incurred for training purposes.	Allowability - costs are not permissible under the budget.	26	6,900	170
TOTAL				<u>26,606</u>	<u>660</u>

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## LANKA JATHIKA SARVODAYA SHRAMADANA SANGAMAYA, INC.

SARVODAYA QUESTIONED COSTS AS TO  
REASONABLENESS, ALLOCABILITY AND ALLOWABILITYNON-COMPLIANCE ISSUES

<u>Finding</u>	<u>Condition</u>	<u>Basis of Questionability</u>	<u>Grant No</u>	<u>Amount Rs</u>	<u>Equivalent US\$</u>
1. Finding 1	Inadequate maintenance of sufficient and proper accounting records.	Reasonableness, allowability and allocability cannot be ascertained.	1	185,321	5,100
			26	23,280	580
				<u>208,601</u>	<u>5,680</u>
2. Finding 3	Co-financing contributions not attained.	Non-achievement of grant requirements.	16	32,116	800
			26	298,547	7,400
			30	Cannot be determined	
				<u>330,663</u>	<u>8,200</u>
3. Finding 3	No supporting documentation made available during the course of our fieldwork.	Reasonableness, allowability and allocability cannot be ascertained.	1	4,268,785	117,655
			TOTAL	<u>4,808,049</u>	<u>131,535</u>

Note: The total amount of US\$131,535 above includes an item questioned under more than one finding. The net questioned costs, excluding this item is Rs 4,622,728 (US\$126,435).

## LANKA JATHIKA SARVODAYA SHRAMADANA SANGAMAYA, INC.

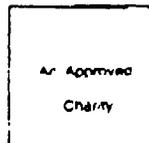
SARVODAYA QUESTIONED COSTS AS TO  
REASONABLENESS, ALLOCABILITY AND ALLOWABILITYOTHER QUESTIONED COSTS

<u>Line item</u>	<u>Condition</u>	<u>Basis of Questionability</u>	<u>Grant No</u>	<u>Amount Rs</u>	<u>Equivalent US\$</u>
<u>Finding 12</u>					
Motorcycle	Expenditure not for grant purposes.	Allocability - costs are not related to project.	1	53,000	1,460
Training - Gramadana workers	Expenditure not for training.	Allocability - costs are not related to project.	26	1,062	25
TOTAL				<u>54,062</u>	<u>1,485</u>

Note: The total amount of US\$1,485 above includes an amount of US\$1,460 also questioned under Finding 3 in Appendix B.1



Lanka Jathika Sarvodaya Sangamaya (Inc.)



President: Dr. A.T. Ariyaratne Gen. Secy: D.A. Perera Treasurer: B.A.D. Gunasinghe

SARVODAYA CENTRAL OFFICE: 98, Rawalawatte Road, Moratuwa, Sri Lanka. Telephone 507159, 505255, 507194  
FAX: 94-1-507084 TELEX 22837 SARVA CE CABLES: SARVODAYA, MORATUWA, SRI LANKA.

Our Ref: FD/65

31st December 1991

Ms. Coopers & Lybrand,  
Orchard Point,  
P.O. Box 285,  
Singapore 9123,  
9, Penang Road #12.00,  
Park Mall Singapore 0923.

Dear Sirs,

Audit of Sarvodaya pertaining to its PVO Co-Financing  
Grants with US Aid Sri Lanka

We refer to your letter dated 20th November 91 and the extension of time granted per your fax dated 18th December 1991.

In general we are of the view that the following factors should be taken into consideration in relation to the audits of the grants under review.

- a) At the initial stages of implementation of the projects covered by the said grants the conditions which prevailed in this country, particularly in the rural areas, did not permit the deployment of qualified and experienced staff in sufficient numbers to maintain the records and accounts according to the stipulations of US Aid grants. During subsequent years however this position was gradually corrected and the records maintained during the latter stages of these grants would have reflected significant improvement when compared to the initial stages.
- b) According to the method you have followed in presenting the figures and comments, a given defect which has a bearing in relation to a particular grant or a situation seems to apply to all other grants and situations thereby conveying a general adverse impression.

Subject to the above general comments we have commented briefly and specifically on the issues that you have raised in this report.

..2/-

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We thank you most sincerely for allowing us an opportunity to comment on the draft audit reports both during the discussions that we have held in Sri Lanka and also in writing according to the present format.

Thanking you,

We remain,

Yours sincerely,



Sarath Hewagama,  
EXECUTIVE DIRECTOR

Re: The Fund Accountability Statements

Of these statements we are of the view that in the statements appearing in pages 9 and 10, the Sarvodaya contribution is understated. The attached statement indicates the minimum contribution made by Sarvodaya to the revolving loan fund. Accordingly the amended fund accountability statements which should appear in pages 9 and 10 are attached herewith. These statements incorporate corrections of crosscasts in the statement appearing in page 10 ( incorrect figures 66,089 ; 1, 964,474).

Page 7 Independent Auditors Report on the consolidated fund accountability statement

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The Sarvodaya contribution for grant number 1 has to be incorporated and corresponding changes may be incorporated elsewhere in your report.

Grant number 16 - A sum of approximately Rs.3 lakhs was paid to a society in Jaffna for constructing latrines and this was done with the knowledge and concurrence of the US Aid Mission.

Audit findings on compliance issues - Page 22

We now refer to the summary of audit finding on compliance issues.

1. In our view, we have maintained adequate accounting records for all the grants. Records in respect of grant Numbers 1, 16, and 26 were submitted in full for the Audit. Part of the records relating to grant No.30 had been misplaced and could not be submitted.  
We refer to your comment on effect of inadequate maintenance of sufficient and proper accounting records and note that sum of Rs.2,098,634/- scheduled in appendix A.1 has been classified as questionable. We do not observe any accounting irregularity in respect of this expenditure.
2. Separate bank accounts have been maintained for grant No.16.
3. Figures in respect of grant No. 01 have to be changed after taking into consideration the Sarvodaya contribution to the revolving loan fund and corresponding corrections made elsewhere in the report.
5. The condition mentioned in grant 01 which states that Sarvodaya should not exceed more than 50% of the funds provided by RRDB could not be adhered to <sup>in</sup> Hambantota as the bank provided only a very small <sup>amount</sup> in the region of Rs.50,000/- only. This provision was overlooked in order to ensure the smooth functioning of project objectives. ) Finding deleted
6. Recommendations have been noted and are being implemented.
7. Since many villagers were in refugees centres, a few latrines had to be constructed at these centres too taking into consideration the realities of the situation.
8. The sub-contracted work was carried-out with the knowledge and concurrence of the US Aid mission.

9. There are generally a few situations where a pricing analysis is not carried-out.

E.g. -

- a) A selected branded product is purchased from the manufacturer or an agent at a standard price.
- b) Minor purchases being effected at village level from an available source.

It may be possible to relate the items quoted in your report to similar situations if details are examined.

10. As an approved Charitable Institution, we were exempted from EPF upto 1st April 1991.)

(Vide page 81 of hand book on understanding Labour Laws published by the Ministry of Labour in 1988) . Copy attached.

) Finding  
) deleted  
)

We have also been paying EPF to our employees for several years now.

13. Rules governing the revolving loan fund have been prepared and are available.

14. The questioned costs included are not described in detail for us to comment.

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