

**Regional Inspector General for Audit  
Singapore**

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**AUDIT OF  
NEW ERA PRIVATE LIMITED  
NEPAL**

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**Audit Report No. 5-367-92-22-N  
August 25, 1992**



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NEW ERA PRIVATE LIMITED  
NEPAL**

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**The Fund Accountability Statement of New Era Private Limited presents fairly the receipts and expenditures incurred under its subcontract with Devres, Inc. except for \$28,362 in questioned costs relating mainly to excess overhead claims resulting from the difference between provisional rates included in the subcontract and audited rates calculated in this report. No material internal control weaknesses were noted, and the organization generally complied with applicable laws, regulations, and subcontract terms.**

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



U.S. AGENCY FOR  
INTERNATIONAL  
DEVELOPMENT

August 25, 1992

**TO:** Kelly C. Kammerer, Mission Director  
USAID/Nepal

**FROM:**   
Alfred M. Clavelli, Acting RIG/A/Singapore

**SUBJECT:** Audit of New Era Private Limited - Nepal  
Audit Report No. 5-367-92-22-N

The accounting firm of Price Waterhouse, India, performed a financial audit of Devres, Inc.'s subcontract with New Era Private Limited (New Era) under the Rapti Development Project in Nepal. Five copies of the audit report are enclosed for your action.

The purpose of the project is to increase agricultural and forestry production in the Rapti Zone, a poor and under-developed area in Nepal. As part of the efforts for providing technology transfer, local group and private enterprise development, and institution building, USAID/Nepal contracted with Devres, Inc., a U.S.-based corporation, to supply the required technical assistance for the project. One of the subcontractors appointed by Devres under this contract was New Era, a corporation registered in Nepal which provides consultancy services in agriculture, forestry, and other development activities. New Era provides specific technical services and administrative support to the project under a cost plus fixed fee type contract.

The audit objectives were to: (1) determine whether the Fund Accountability Statement of New Era presents fairly the receipts and expenditures under the subcontract with Devres, Inc. and whether the expenditures were allocable, allowable, and reasonable; (2) report on New Era's system of internal controls; and (3) report on New Era's compliance with applicable laws, regulations, and subcontract terms. The auditors were also required to calculate an audited overhead rate. The period covered by the audit was February 19, 1988 through December 31, 1990, during which New Era reported that a total of \$613,230 was received from Devres, Inc., and \$682,549 was expended under the subcontract.

The auditors reported that except for \$28,362 in questioned costs (\$22,972 unallowable overhead claims, \$4,513 unallowable costs, and \$877 unsupported costs), the Fund Accountability Statement of New Era presents fairly the receipts and expenditures under the subcontract with

Devres, Inc. The unallowable overhead represents the difference between the provisional rates and the audited rates calculated in this report. No material internal control weaknesses were noted, and New Era complied, in all material respects, with applicable laws, regulations, and subcontract terms. However, two non-material instances of noncompliance were identified and discussed with New Era officials.

While the management of New Era disagreed with some of the costs questioned by the auditors, they generally agreed with the other findings and recommendations in the report. Their comments are summarized under each individual finding in the report and are set out in full as Appendix B.

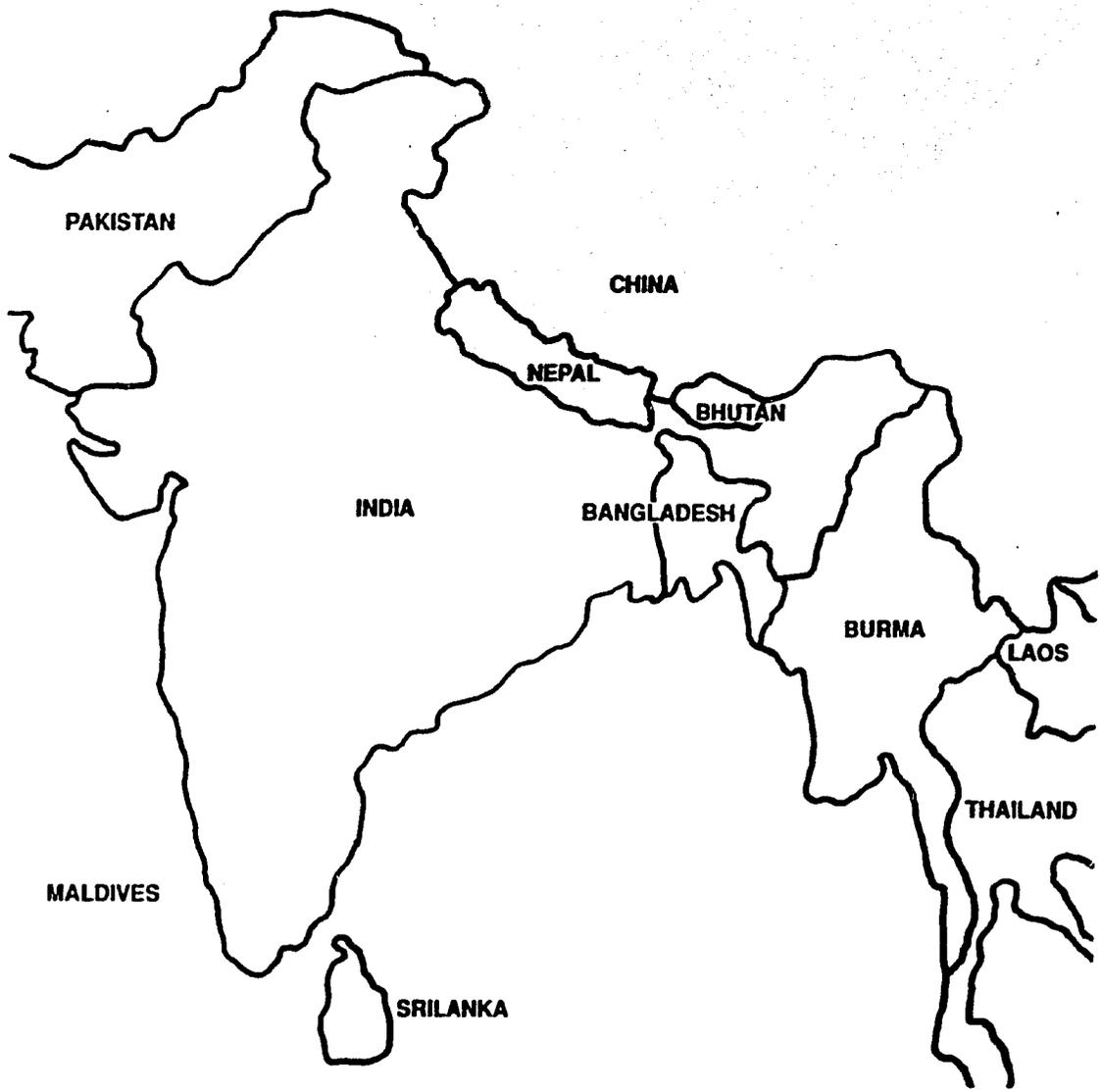
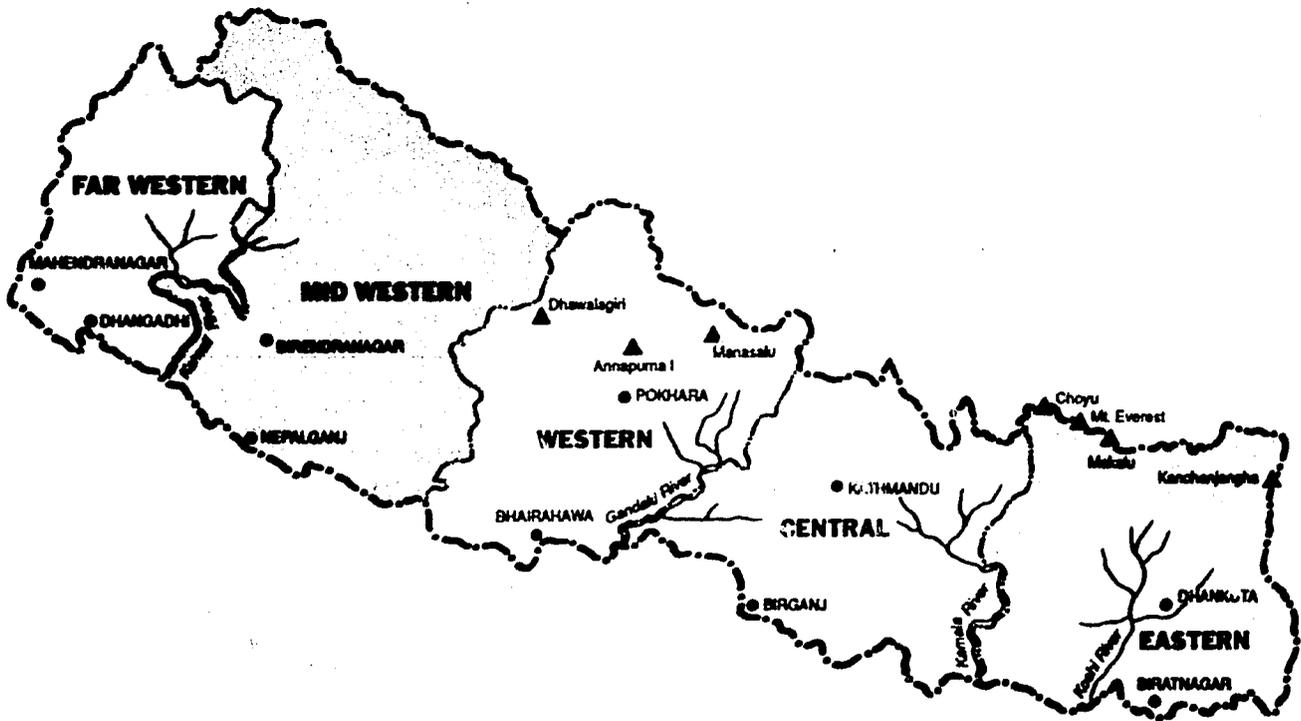
We are making the following recommendations to be included in the Inspector General's recommendation follow-up system.

**Recommendation No. 1:** We recommend that USAID/Nepal resolve with New Era Private Limited, through Devres, Inc., the \$22,972 in questioned (all unallowable) overhead, which represents the difference between the amount claimed based on provisional rates and the audited rates calculated in this report.

**Recommendation No. 2:** We recommend that USAID/Nepal resolve the \$5,390 in questioned costs (\$4,513 unallowable and \$877 unsupported), and recover from New Era Private Limited, through Devres, Inc., any costs not allowable under the subcontract.

We appreciate the courtesies and cooperation USAID/Nepal, Devres, Inc., and New Era Private Limited 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.



## *Price Waterhouse*



August 4, 1992

Mr. James B. Durnil  
Regional Inspector General, Audit  
U.S. Agency For International Development  
17-03 Peninsula Plaza  
111 North Bridge Road  
Singapore 0617

Dear Sir,

This report presents the results of the financial audit of New Era Private Limited sub contract with Devres Inc. for the period February 19, 1988 to December 31, 1990.

The background, audit objectives and scope, and the summary results of audit are contained in Part I of this report. Parts II, III and IV include our audit opinions on the financial reports, the internal controls, and the compliance with laws and regulations, together with the related findings and recommendations.

The comments received from New Era are summarized in Part I of the report and are presented in their entirety in Appendix B.

Yours faithfully,

*Price Waterhouse*

**AUDIT OF NEW ERA PRIVATE LIMITED  
SUB CONTRACT WITH DEVRES INC. FOR  
THE RAPTI DEVELOPMENT PROJECT IN NEPAL  
PERIOD FEBRUARY 19, 1988 TO DECEMBER 31, 1990**

**INDEPENDENT AUDITORS' REPORT**

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**AUDIT OF NEW ERA PRIVATE LIMITED  
SUB CONTRACT WITH DEVRES INC. FOR  
THE RAPTI DEVELOPMENT PROJECT IN NEPAL  
PERIOD FEBRUARY 19, 1988 TO DECEMBER 31, 1990**

**INDEPENDENT AUDITORS' REPORT**

**PART I - INTRODUCTION**

**Background**

USAID/Nepal has been providing assistance to the Rapti Development Project since 1980 to increase agricultural and forestry production in the Rapti Zone, a poor and under-developed area in Nepal. The project is designed to strengthen local group and district institutions for managing development and for sustaining benefits through local resource mobilization. As part of these efforts for providing technology transfer, local group and private enterprise development, and institution building USAID/Nepal contracted with Devres Inc. in 1988, a U.S. based corporation, to provide the required technical assistance for an amount of approximately US\$ 3.8 million. One of the sub-contractors appointed by Devres Inc. under this contract was New Era Private Limited, a corporation registered in Nepal, which provides consultancy services in the fields of agriculture, forestry and other development activities. Under the sub-contract New Era provides specific technical services and administrative support to the project.

Expenditures incurred during the audit period under Devres Inc.'s sub-contract with New Era are illustrated on Chart A following this page.

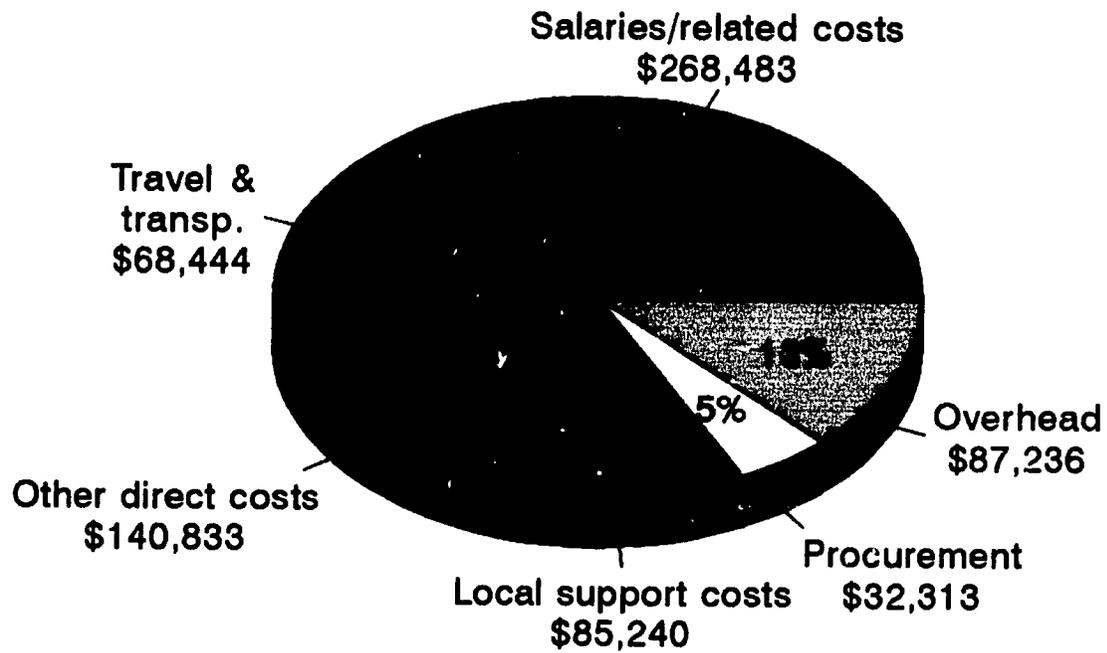
**Audit Objectives and Scope**

The audit objectives were :

- To determine whether the Fund Accountability Statement under sub-contract terms prepared by New Era for the period February 19, 1988 to December 31, 1990 fairly presents the receipts and expenditures under the sub-contract and to identify any questioned costs which were not fully supported with adequate records or which were not allocable, reasonable or allowable in accordance with contract terms, Handbook 14 and applicable Federal Acquisitions Regulations. We were also required to calculate an audited overhead rate for each of New Era's accounting periods, taking into consideration the questioned costs, if any.

**CHART A: NEW ERA SUBCONTRACT WITH DEVRES INC.**  
*Expenditures by type*

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*Per the New Era Fund Accountability Statement on page 7, the above \$682,549 in expenditures were incurred during the period February 19, 1988 through December 31, 1990.*

## **Audit Objectives and Scope (Contd..)**

- To report on the internal controls of New Era as it relates to the sub-contract.
- To report on compliance with applicable laws, regulations and terms of the sub-contract.

Our examination was made in accordance with (1) generally accepted auditing standards set forth by the AICPA, (2) U.S. Government Auditing Standards and (3) the standards mentioned under Article II of the "Guidelines for Financial Audits contracted by A.I.D. - Financed Agreements".

The scope of our work for the audit comprised :

- confirmation of the sub-contract funds received by New Era from Devres Inc.
- an examination of the expenditures made by New Era to ensure that they were adequately supported and allowable under sub-contract terms and to calculate an audited overhead rate for each of New Era's accounting periods.
- evaluation of internal accounting controls to determine the extent of testing required of the New Era records and recommendations for improvements, if any.
- testing of compliance with applicable laws, regulations and sub-contract terms by New Era.
- ensuring that the audit steps and procedures adopted by us provide reasonable assurance of detecting errors, irregularities and illegal acts that could have a direct and material effect on the results of our audit.

The audit was conducted in Kathmandu between mid-December 1991 and January, 1992 and we examined, to the extent considered necessary, the Fund Accountability Statement and the accounting records of New Era for the period under audit.

## **Audit Results**

New Era prepared the Fund Accountability Statement appearing in Part II of this report from the monthly invoices it submitted to Devres Inc. which in turn claimed funds from USAID/Nepal. This statement summarizes the receipts and expenditures of New Era during the audit period under the sub-contract, thereby providing the required accountability.

Our examination of the Fund Accountability Statement and the New Era accounting records revealed that the statement fairly presented the receipts and expenditures under the sub-contract, although certain costs (\$ 5,390 per Finding 1) have been questioned by us. Also, as detailed in Note 3 to the Fund Accountability Statement, (Part II), audited overhead rates have been calculated for each of the three accounting periods, 1988 through to 1990, whereby New Era is required to refund US\$ 22,972 excess overhead claimed as a result of using the provisional overhead rate per its sub-contract. However, these questioned costs did not materially impact the information reported and consequently, except for the effects of such items, the Fund Accountability Statement and the notes thereon present fairly the receipts and expenditures of New Era as they relate to the sub-contract funds received from Devres Inc. and as reimbursed by USAID/Nepal.

The New Era management established and maintained a system of internal accounting controls which largely permitted the preparation of an accurate fund accountability statement and transactions were executed in accordance with management's authorization. However, we noted certain matters involving the internal control structure and its operation relating to records supporting overtime and per diem payments, and the approval of monthly bank reconciliations to ensure independent verification which we consider to be reportable conditions. These reportable conditions are however, not considered by us to be material weaknesses. We also noted other matters involving the internal control structure and its operation that we have reported to the management of New Era in a separate letter dated February 11, 1992.

The audit disclosed that New Era had not complied with certain sub-contract regulations and the tax laws of Nepal, and certain sub-contract budget line items and annual limits were exceeded without the required written approval. Except for these instances of non-compliance the results of our tests of compliance indicated that with respect to the items tested, New Era had complied, in all material respects, with the sub-contract terms and the applicable laws and regulations, and for the items not tested by us, nothing came to our attention which indicated non-compliance therewith.

#### **Audit Follow-Up**

We were informed by the auditee that there were no prior audit findings and recommendations.

## **Views of Responsible Officials**

A discussion relating to the New Era response and our comments thereon appears under each of the findings and the response in its entirety has been included under Appendix B. A summation of these matters is as follows:

In response to Finding 1 New Era has offered explanations for the questioned costs which are at variance with the reported findings. These costs were discussed with New Era and Mission officials to determine their allowability and have been questioned only after due consideration by the Contracting Officer.

For the other findings New Era has indicated general agreement, in that measures have been initiated to adjust the US\$ 22,972 excess of overheads claimed, improve internal controls and to ensure compliance with sub-contract terms and the local tax laws.

*Price Waterhouse*



**AUDIT OF NEW ERA PRIVATE LIMITED  
SUB CONTRACT WITH DEVRES INC. FOR  
THE RPTI DEVELOPMENT PROJECT IN NEPAL  
PERIOD FEBRUARY 19, 1988 TO DECEMBER 31, 1990**

**PART - II**

**INDEPENDENT AUDITORS' REPORT  
ON THE FUND ACCOUNTABILITY STATEMENT**

We have audited the accompanying Fund Accountability Statement of New Era Private Limited relating to its sub-contract with Devres Inc. for the period February 19, 1988 to December 31, 1990. The Fund Accountability Statement is the responsibility of New Era's management. Our responsibility is to express an opinion on the Fund Accountability Statement based on our audit.

We conducted our audit in accordance with generally accepted auditing standards and 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 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 financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

As stated in the audit results (Part I) and in Finding 1, the Fund Accountability Statement includes certain unapproved and disallowable costs, US\$ 5,390, which have been questioned by us and excess overheads of US\$ 22,972 (see Note 3) claimed by New Era, based on a provisional overhead rate in its sub contract as compared to the overhead rates calculated by us.

In our opinion, except for the effects of such adjustments, if any, as might be necessary for the questioned costs and the excess overheads claimed, the Fund Accountability Statement referred to in the first paragraph above presents fairly, in all material respects, the receipts and expenditures of New Era as it relates to the sub-contract during the period under audit in conformity with generally accepted accounting principles.

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

New Delhi

January 28, 1992

*Price Waterhouse*

**FUND ACCOUNTABILITY STATEMENT**

**FOR THE PERIOD FEBRUARY 19, 1988 TO DECEMBER 31, 1990**

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<u>Particulars</u>	(US\$)	(NC's)
Net Receipts from Devres Inc. against invoices	613,230	16,894,234
Exchange gain deducted from various invoices (Note 2)	15,027	-
	<u>628,257</u>	<u>16,894,234</u>
 Expenditure :		
Direct Cost		
Salaries:		
Long Term Local Advisors	74,062	2,166,598
Short Term Consultants	13,062	357,859
Local Administration		
Support Staff	75,597	1,899,604
Other Direct Salaries	2,414	66,948
	<u>165,135</u>	<u>4,491,009</u>
Allowances	53,874	1,477,034
Fringe Benefits	49,474	1,354,781
Travel and Transportation	68,444	1,860,795
Other Direct Costs	140,833	3,845,722
Local Support Costs	85,240	2,324,421
Procurement	32,313	794,754
	<u>595,313</u>	<u>16,148,516</u>
Indirect Cost		
Overheads (Note 3)	87,236	2,357,647
	<u>682,549</u>	<u>18,506,163</u>
Balance Receivable as at December 31, 1990	54,292	1,611,929
	<u>628,257</u>	<u>16,894,234</u>

Notes 1 to 3, appearing on Pages 7 and 8, form an integral part of this Fund Accountability Statement.

Notes:

1. The Fund Accountability Statement presented above has been prepared by New Era and is based upon funds claimed during the audit period under its sub-contract with Devres Inc. This statement has not been adjusted for the costs questioned per Finding 1.
2. The exchange gain deducted represents the gain arising on conversion, at month end exchange rates throughout the audit period, of U.S. Dollar receipts from Devres Inc. into Nepalese Rupees.
3. An audited overhead rate has been calculated for each of New Era's accounting periods as follows:

	Nepalese Rupees		
	1988	1989	1990
3.1 Indirect Cost Pool			
Personnel Cost	436,412	549,772	761,795
Fringe Benefits	146,513	196,989	288,886
Professional and Meeting Fee	12,350	49,650	33,350
Travel Cost	57,850	147,493	155,305
Occupancy	199,176	198,387	218,333
Suppliers and Services	110,791	114,308	171,205
Communication	49,619	65,059	77,796
Professional Development	12,734	32,399	37,544
Depreciation (Ref.note below)	48,882	68,876	158,283
Staff Welfare	42,325	45,087	77,213
Miscellaneous	9,270	31,250	56,653
Taxes	209	300	-
Exceptional Items of Expense	21,924	-	6,485
	<hr/>	<hr/>	<hr/>
A	1,148,055	1,499,570	2,042,848
	<hr/>	<hr/>	<hr/>

Note:

Construction expense, NC's 45,932, incurred during June and July 1989 has been treated as a capital cost and depreciation calculated thereon based on an estimated useful life of ten years effective from August 1, 1989. Consequently, the charge for depreciation has been adjusted to include Rs.1,914 and Rs.4,593 for 1989 and 1990 respectively.

3.2 Overhead Rate Base  
Direct Salaries :

Rapti Development Project per Fund Accountability Statement (Total NC's 4,491,009)					989,907	1,734,229	1,766,873
Other New Era Projects					1,511,645	2,646,193	3,467,863
					2,501,552	4,380,422	5,234,736
Overhead Rate	=	$\frac{A}{B} \times 100$	$\frac{A}{B} \times 100$	$\frac{A}{B} \times 100$			
Overhead Percentage	=	45.89%	34.23%	39.02%			

On the basis of these overhead rates and the provisional overhead rate used under the sub-contract, New Era needs to refund US\$ 22,972 calculated as follows:

	1988	1989	1990	Total
Overhead claimed using provisional overhead rates per Fund Accountability Statement.	24,977	32,152	30,107	87,236
Overhead claimable per rates determined above	19,103	21,665	23,496	64,264
Refund Due From New Era	\$ 5,874	\$ 10,487	\$ 6,611	\$ 22,972

## FINDING 1 : QUESTIONED COSTS

### CONDITION

New Era claimed certain expenses amounting to US\$ 5,390, detailed in Appendix A.1 which are not allowable under the sub-contract and federal acquisition regulations.

### CRITERIA

These costs have been questioned as either certain supports were not available or were disallowable per federal requisitions or were specifically disallowed by USAID/Nepal. (Refer Appendix A.1 for details).

### EFFECT

New Era has claimed and received from Devres Inc. US\$ 5,390 approx. in expenses during the audit period which are potentially disallowable.

### CAUSE

New Era and Devres Inc. management believed these costs to be allowable expenses.

### RECOMMENDATION

New Era should resolve the questioned costs with USAID/Nepal and refund any cost deemed disallowed.

### NEW ERA RESPONSE

The questioned costs, listed in Appendix A.1 of the report, are considered to be allowable per New Era based on the explanations provided. For example, the costs which had no supports available at the time of audit have been justified

on the basis of subsequent availability of duplicate and handwritten bills or receipts. Also, the overtime and other questioned costs are considered allowable as they were reimbursed by USAID/Nepal and were genuine expenses relating to the project.

### AUDITORS COMMENT

The reasons for questioning certain costs are stated in Appendix 1 and these were discussed with New Era and the Contracting Officer at the time of audit. Subsequent to these discussions it was determined that in the absence of specific approval the questioned costs were disallowable and hence had been correctly questioned.

*Price Waterhouse*



**AUDIT OF NEW ERA PRIVATE LIMITED  
SUB CONTRACT WITH DEVRES INC. FOR  
THE RAPTI DEVELOPMENT PROJECT IN NEPAL  
PERIOD FEBRUARY 19, 1988 TO DECEMBER 31, 1990**

**PART - III**

**INDEPENDENT AUDITORS' REPORT ON  
THE INTERNAL ACCOUNTING CONTROLS**

We have audited the Fund Accountability Statement of New Era Private Limited, for the period February 19, 1988 to December 31, 1990 and have issued our report thereon dated January 28, 1992.

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

In planning and performing our audit of the Fund Accountability Statement of New Era for the period February 19, 1988 to December 31, 1990, we considered its internal control structure in order to determine our auditing procedures for the purpose of expressing an opinion on the Fund Accountability statement and not to provide assurance on the internal control structure.

The management of New Era is responsible for establishing and maintaining an internal control structure. In fulfilling this responsibility, estimates and judgements by management are required to assess the expected benefits and related costs of internal control structure policies and procedures. The objectives of an internal control structure are to provide management with reasonable, but not absolute, assurance that assets are safeguarded against loss from unauthorized use or disposition, and that transactions are executed in accordance with management's authorization and recorded properly to permit the preparation of fund accountability statements in accordance with generally accepted accounting principles. Because of inherent limitations in any internal control structure, errors or irregularities may nevertheless occur and not be detected. Also, projection of any evaluation of the structure, to future periods is subject to the risk that procedures may become inadequate because of changes in conditions or that the effectiveness of the design and operation of policies and procedures may deteriorate.



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

- recording of all transactions in the books of account.
- maintaining proper and adequate books of account and records in support of the transactions recorded.
- reconciliation of receipts and payments as recorded with the bank accounts maintained.
- reporting of an accurate financial position to Devres Inc.

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

We noted certain matters involving the internal control structure and its operation that we consider to be reportable conditions under standards established by the American Institute of Certified Public Accountants. Reportable conditions involve matters coming to our attention relating to significant deficiencies in the design or operation of the internal control structure that, in our judgement, could adversely affect the organization's ability to record, process, summarize, and report financial data consistent with the assertions of management in the fund accountability statement.

As stated in Finding 2, New Era needed to maintain certain records in support of overtime and per diem payments, and its monthly bank reconciliation required independent verification and approval.

A material weakness is a reportable condition in which the design or operation of the specific internal control structure elements does not reduce to a relatively low level, the risk that errors or irregularities in amounts that would be material in relation to the 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.

Our consideration of the internal control structure would not necessarily disclose all matters in the internal control structure that might be reportable conditions and, accordingly, would not necessarily disclose all reportable conditions that are also considered to be material weaknesses as defined above. However, we believe none of the reportable conditions described above is a material weakness.



We also noted other matters involving the internal control structure and its operation that we have reported to the management of New Era in a separate letter dated February 11, 1992.

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

New Delhi

*Prisc Waterhouse*

January 28, 1992

## **FINDING 2 : INTERNAL CONTROL MATTERS**

### **CONDITION**

The records to support overtime (e.g. attendance register) and per diem payments (e.g. notation of arrival/departure time on travel statements) were not maintained and the monthly bank reconciliation statements were not independently reviewed or approved to confirm their accuracy.

### **CRITERIA**

New Era under its sub-contract (Clause 27) is required to ... "apply consistent, commonly accepted accounting procedures and practices sufficient to reflect properly all transactions under or in connection with the contract".

### **EFFECT**

The overtime and per diem payments could not be verified by reference to support records and as the monthly bank reconciliation is not independently reviewed or approved, any errors would not be detected in a timely manner.

### **CAUSE**

New Era had been considering these internal control aspects but corrective measures were not considered necessary during the audit period.

### **RECOMMENDATION**

New Era should ensure that adequate records to support overtime and per diem payments are maintained and the monthly bank reconciliation independently reviewed and approved.

### **NEW ERA RESPONSE**

New Era stated "We accept the recommendations in general. However, we will continue to maintain the Time Sheet of each individual staff instead of maintaining an attendance register."

### **AUDITORS COMMENT**

None

*Price Waterhouse*



**AUDIT OF NEW ERA PRIVATE LIMITED  
SUB CONTRACT WITH DEVRES INC. FOR  
THE RPTI DEVELOPMENT PROJECT IN NEPAL  
PERIOD FEBRUARY 19, 1988 TO DECEMBER 31, 1990**

**PART - IV**

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

We have audited the Fund Accountability Statement of New Era Private Limited for the period February 19, 1988 to December 31, 1990 and have issued our report thereon dated January 28, 1992.

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

Compliance with laws, regulations and sub-contract provisions applicable to New Era is the responsibility of its management. As part of obtaining reasonable assurance about whether the financial reports are free of material misstatement, we performed tests of New Era's compliance with certain provisions of laws, regulations and sub-contract terms. However, our objective was not to provide an opinion on overall compliance with such provisions.

Our testing of transactions and records selected disclosed certain instances of noncompliance with those laws and regulations. The instances of noncompliance that we found are:

- certain questioned costs amounting to US\$ 5,390 were claimed contrary to regulations (Finding 1).
- tax was not deducted at source from salaries and certain payments as required by local tax laws (Finding 3).
- the budgets included in the sub-contract were exceeded without the required written approval (Finding 4).



The results of our tests indicate that with respect to the items tested, New Era complied, in all material respects, with the provisions referred to in the third paragraph of this report and with respect to items not tested, nothing came to our attention that caused us to believe that New Era had not complied, in all material respects, with those provisions.

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

New Delhi

January 28, 1992

*Luce Waterhouse*

### **FINDING 3 : NON-COMPLIANCE WITH LOCAL TAX LAWS**

#### **CONDITION**

New Era did not deduct income tax as required at source on employee salaries, rent and contract payments and deposit such tax with the authorities.

#### **CRITERIA**

The Income Tax Act 1974, Section 36, applicable in Nepal requires deduction of tax at source from salary, rent and contract payments, and deposit thereof with the authorities within 15 days of payment.

#### **EFFECT**

The applicable tax laws were not adhered to and consequently New Era could be liable for the taxes and penalties associated with non-compliance, if any.

#### **CAUSE**

New Era believed that the law relating to tax deduction at source from salary and contract payments was not applicable to the Rapti Development Project and that an indemnity from the landlords was a sufficient basis for non-deduction of tax from rent payments.

#### **RECOMMENDATION**

New Era should comply with local tax laws and if considered necessary seek appropriate legal advice.

#### **NEW ERA RESPONSE**

"Tulsipur based staff have paid income tax for the period 1988 to July 1991. Income tax clearance of Kathmandu based staff is in progress. The landlord has already provided us with a copy of income tax clearance document".

#### **AUDITORS COMMENT**

None

**FINDING 4 : SUB CONTRACT BUDGET NOT ADHERED TO.**

**CONDITION**

Certain line items and annual amounts included in New Era's sub contract budget were exceeded as follows:

1. Line Item-wise .

<u>Expense</u>	<u>Year</u>	<u>Budget</u> US\$	<u>Actual</u> US\$	<u>Excess</u> US\$
Other Direct	1988	28,800	30,328	1,528
	1989	30,240	55,501	25,261
	1990	31,752	48,641	16,889
Procurement	1988	42,670	26,228	-
	1989	-	12,774	12,774
	1990	-	4,104	4,104
Personnel Salaries	1989	57,673	63,292	5,619
	1990	57,862	60,214	2,352
Local Support	1989	20,740	33,323	12,583
	1990	21,727	28,746	7,019
Travel and Transport	1989	23,730	29,814	6,084
		<hr/>	<hr/>	<hr/>
2. Annual Totals	1988	267,650	180,030	-
	1989	209,796	263,439	53,643
	1990	213,681	239,080	25,399
		<hr/>	<hr/>	<hr/>

**CRITERIA**

The New Era sub-contract includes a detailed budget and Clause 4 thereof stipulates that "services provided by New Era shall be in conformity with the line item amounts set forth in the budget (Annex 2) which line items are dollar maximums not to be exceeded by New Era without the written concurrence of Devres".

#### **EFFECT**

Non-compliance with sub-contract provisions and budgets exceeded during the audit period.

#### **CAUSE**

New Era contended that approval of their monthly invoice by Devres Inc. amounted to written concurrence for exceeding the budgets, which could now be retroactively amended.

#### **RECOMMENDATION**

New Era should adhere to sub-contract terms, seek written approval for budget modifications from Devres Inc. and obtain USAID/Nepal approval thereon.

#### **NEW ERA RESPONSE**

"Due to amendment in the scope of work of the contractor, the budget was still under revision. However, the budget variations have been now resolved with the new revised budget (Devres/New Era Amendment No.3) approved by USAID".

#### **AUDITORS COMMENT**

None

**SCHEDULE OF QUESTIONED COSTS**

<u>Voucher No.</u>	<u>Nature of Expense</u>	<u>Account Charged</u>	<u>Nepalese Rupees</u>	<u>Reason Questioned</u>
<u>1988</u>				
P-310	Greeting Cards	Other Direct Cost	725	Disallowance per FAR 31.205-1
P-391	Books etc.	"	500	No supports
P-393	"	"	17,041	"
P-127	Mattresses	Procurement	14,249	Only photocopy bill available
Various	Overtime	Salaries	22,464	Disallowed by USAID/Nepal
<u>1989</u>				
264	Dinner/Snacks at CEDA meeting	Other direct cost	6,780	"
297	Invitation cards	"	450	Disallowance per FAR 31.205-1
986	Allowance to employees for attending meeting	"	840	Disallowed by USAID/Nepal
717	Photocopier repair	Local support	3,450	No supports
735	Greeting cards	Other direct cost	1,600	Disallowanc per FAR 31.205-1
596	Seminar expense	"	2,250	No supports
1015	Medical expense	Travel	1,220	Disallowed by USAID/Nepal
	Carried Forward to Page 2 of 2		<hr/> 71,569	

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SCHEDULE OF QUESTIONED COSTS (CONTD..)

<u>Voucher No.</u>	<u>Nature of Expense</u>	<u>Account Charged</u>	<u>Nepalese Rupees</u>	<u>Reason Questioned</u>
	Brought Forward from Page 1 of 2		71,569	
Various	Overtime	Salaries	48,960	Disallowed by USAID/Nepal
153	Dinner at PRC meeting	Other direct cost	2,893	"
154	Food expenses	"	3,115	"
503	"	"	7,283	"
722	"	"	776	"
<u>1990</u>				
258	Food expenses	"	3,000	"
711	Greeting cards	"	2,200	Disallowance per FAR 31.205-1
422	Tea/Snacks	"	764	Disallowed by USAID/Nepal
553	"	"	360	"
675	"	"	1,366	"
743	"	"	540	"
851	"	"	50	"
		NC	142,876	
		US\$	5,390 approx.	



# NEW ERA

Development Research & Training for Change

Phone: 4-13603  
4-10803

Cable: NEWERA

Maharajgunj P. O. Box 722 Kathmandu Nepal

July 9, 1992

Mr. Charles Strickland, A/Chief ARD  
USAID/Nepal  
Rabi Bhawan  
Kalimati  
Kathmandu

Subject: Comments on Draft Non-Federal Audit on the New ERA (Pvt.) Ltd. Rapti Development Project Under Sub Contract with Devres, Inc. for the Period February 19, 1988 to December 31, 1990 Pursuant Between Devres, Inc. and USAID/Nepal

Dear Mr. Strickland:

Thank you for providing us with a Draft Non-federal Audit report on the New ERA (Pvt.) Ltd. prepared by Price Water-house. Upon review of the draft report New ERA would like to make the following comments:

1. Finding No. 1: Schedule of Questioned Costs

a. On Account of Inadequate Support

<u>Year</u>	<u>V. No.</u>	<u>Amount (NC Rs.)</u>	<u>Comments</u>
1988	P-391	500.00	The payment was made for editing service provided by an individual, not by a firm. Printed bill was not available. The editor has signed the receipt voucher.
1988	P-393	17,041.00	This cost was incurred on preparing maps of various districts in Rapti Zone. Since the original bill was misplaced, we have obtained duplicate bill from the supplier. The goods were duly received by us, and therefore, it can be verified physically.

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1988	127	14,249.00	The original bills were misplaced. Therefore, we obtained duplicate bills from the suppliers. The goods were duly received by us and, therefore, it can be verified physically.
1989	717	3,450.00	The Photocopier repair work was done as per the agreement with the individual technicians, not with a firm. Therefore, it was not possible to get printed bill. Hand written bill is attached with the voucher.
1989	596	2,250.00	This was the total costs of several petty expenses incurred against PPVT and Sprayer Workshop in the remote areas. Obtaining a printed bill was not possible. Hand written bill is attached with the voucher.

b. On Account of Disallowed by USAID/Nepal

<u>Year</u>	<u>V. No.</u>	<u>Amount (NC Ru.)</u>	<u>Comments</u>
1988	Various Overtime Expenses	22,464.00	New ERA/RDP Administrative and support staff frequently work 50 to 60 hours per week, or 25 to 50 percent more than the official working hour. In this situation we feel it is fully justified to pay overtime allowance to the RDP administrative and Support staff as such cost is very reasonable and necessary to meet the project goals. Upon our representation, USAID agreed to allow overtime payments vide the letter of February 20, 1990. Accordingly we made a claim with complete details.
1989	..	48,960.00	
	Total	71,424.00 =====	

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USAID then reimbursed the cost with full knowledge that the claim was made with retroactive effect.

1989	264	6,780.00	This cost is already reimbursed by USAID.
1989	986	840.00	This cost was incurred upon the verbal approval of the Project Officer and USAID accordingly reimbursed the cost.
1989	1015	1,220.00	This cost was reclaimed as per the New ERA/RDP Personnel Policy and USAID accordingly reimbursed the cost.

c. Disallowance as Per FAR

Greeting and Invitation Cards

In order to maintain cooperation and coordination among government and non-government organizations such costs are allowable on account of national Occasions, like Dashain, Tihar, New Year's Day, etc. Therefore, it is a genuine expenses incurred by New ERA Rapti Development Project.

d. PRC Meeting/Food Expenses/Tea and Snacks

Since such expenses are incurred in connection with the project activities in the presence of all line agencies and USAID personnel. They are genuine expenses and should be allowable.

2. Finding No. 2: Internal Control Matters

We accept the recommendations in general. However, we will continue to maintain the Time Sheet of each individual staff instead of maintaining an attendance register.

3. Finding No. 3: Non-compliance with Local Tax Laws

Tulsipur based staff have paid income tax for the period 1988 to July 1991. Income tax clearance of Kathmandu based staff is in progress. The landlord has already provided us with a copy of income tax clearance document.

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4. Finding No. 4: Sub-contract Budget not Adhered to

Due to amendment in the scope of work of the contractor, the budget was still under revision. However, the budget variations have been now resolved with the new revised budget (Devres/New ERA Amendment No. 3) approved by USAID.

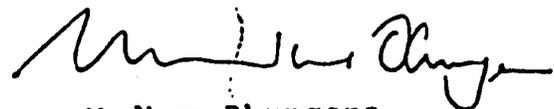
5. Refund of US \$ 22,972: the Difference of Provisional Overhead Rate VS. Claimed Overhead Rates

As suggested in the Contracting Officer's letter of February 20, 1990, Devres and New ERA/RDP signed a Contract Amendment No. 3 which authorized New ERA to charge fee. Accordingly, New ERA has already adjusted US \$ 22,972.00 in billing and was approved/accepted by USAID. As such no refund is to be made by New ERA.

6. Chart A (Page No. 2)

The Pie Chart (Page 2) is not consistent with the Fund Accountability Statement (Page 6)

Sincerely,



Madhup Dhungana  
Executive Director

- c.c.: 1. Mr. Neil Edin  
Contracting Officer, USAID/N  
2. Mr. Homi Jamshed  
Controller, USAID/N  
3. Mr. Shaubhagya Lal Shrestha  
Project Officer, ARD, USAID/N  
4. Mr. Allen Turner  
Devres, Inc.

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