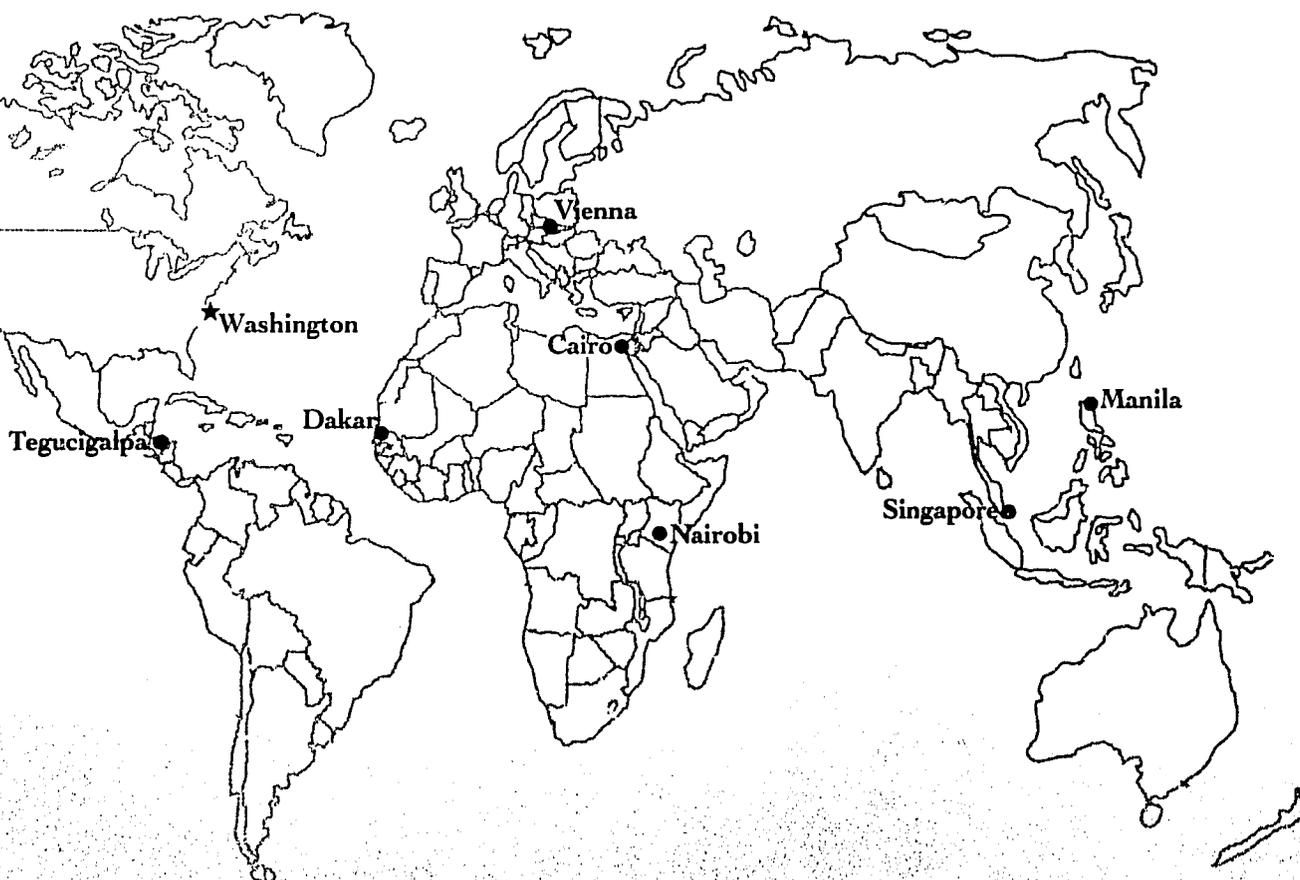


**Regional Inspector General for Audit
Singapore**

**AUDIT OF DIRECTORATE OF
RELIEF AND REHABILITATION'S
USE OF PL-480 TITLE III LOCAL CURRENCY
PROCEEDS IN BANGLADESH**

**Audit Report No. 5-388-93-09-N
April 29, 1993**





U.S. AGENCY FOR
INTERNATIONAL
DEVELOPMENT

April 29, 1993

TO: Mary C. Kilgour, Mission Director
USAID/Bangladesh

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

SUBJECT: Audit of the Directorate of Relief and Rehabilitation's Use of PL-480 Title III Local Currency Proceeds - Bangladesh
Audit Report No. 5-388-93-09-N

The accounting firm of Coopers and Lybrand, Singapore performed a financial audit of the Directorate of Relief and Rehabilitation's (DORR) use of PL-480 Title III local currency proceeds under the USAID/Bangladesh Integrated Food for Work III Project. Five copies of the audit report are enclosed for your action.

Under the Integrated Food for Work III Project, DORR receives allocations from the Government of Bangladesh of local currency generated from the sale of commodities furnished by the US government under the PL-480 Title III Sales Agreement. These funds are used to improve the rural transportation infrastructure of Bangladesh. The period covered by the audit was January 7, 1987 through June 30, 1991, during which DORR reported that \$56,652,350 was received and \$48,396,230 of that amount was expended under the agreement.

The audit objectives were to: (1) determine whether the Fund Accountability Statements of DORR present fairly the receipts and expenditures under the terms of the PL-480 Title III Sales Agreement and the related Project Implementation Letters, and whether the expenditures were allocable, allowable and reasonable; (2) report on DORR's system of internal controls; and (3) report on DORR's compliance with applicable laws, regulations, and agreement terms.

The auditors reported that DORR's Fund Accountability Statements present fairly its receipts and expenditures under the agreement with USAID/Bangladesh, except for \$696,619 in questioned costs arising from noncompliance with agreement terms. In addition, PL-480 Title II and PL-480 Title III funds were commingled, the extent of which could not be ascertained. Except for these instances of noncompliance, DORR complied, in all material respects, with applicable laws, regulations, and agreement terms. Three material internal control weaknesses were also noted.

This report contains eight findings. The management of DORR generally agreed with two findings (finding A on page 16, and finding 4 on page 29), disagreed with finding 5 on page 30, and offered further explanation for the remaining five findings. DORR's comments are summarized under each finding in the report. The comments are also included in their entirety as Appendix B of this report.

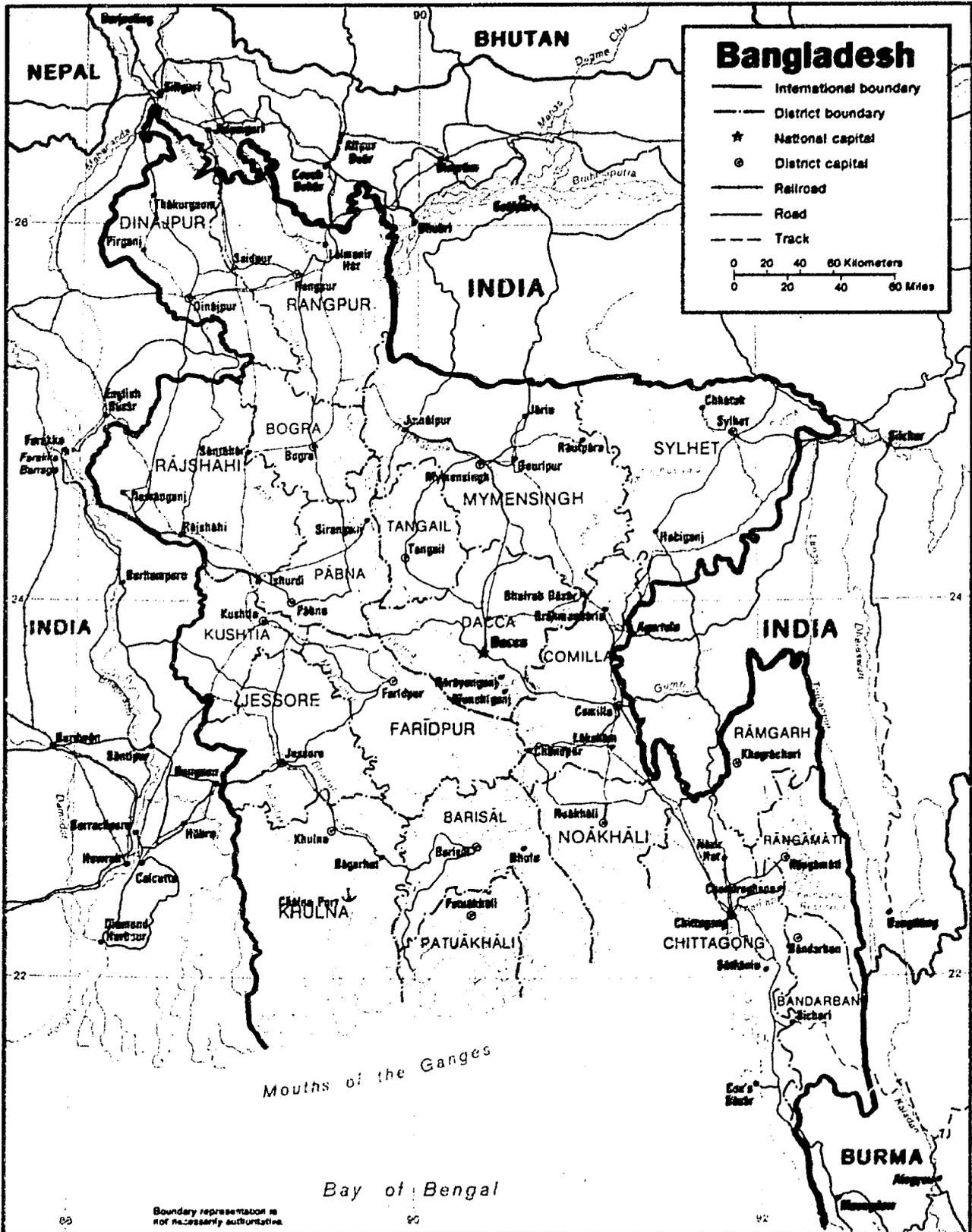
USAID/Bangladesh should ensure that necessary action is taken on all findings included in the report. We are making the following recommendations to be included in the Inspector General's recommendation follow-up system.

Recommendation No. 1: We recommend that USAID/Bangladesh resolve the \$696,619 in ineligible questioned costs with the Directorate of Relief and Rehabilitation and recover any amount determined to be unallowable.

Recommendation No. 2: We recommend that USAID/Bangladesh verify that the Directorate of Relief and Rehabilitation: (a) establishes and implements a system to monitor refunds from regional districts (Upazilas); (b) determines the amount of PL-480 Title II funds commingled with PL-480 Title III "Refunds from Upazilas relating to CARE supervised structures"; and (c) establishes separate accounts for PL-480 Title II and PL-480 Title III funds.

We appreciate the courtesies and cooperation USAID/Bangladesh and DORR have 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
DIRECTORATE OF RELIEF AND REHABILITATION
PERTAINING TO ITS USE OF
PL-480 TITLE III LOCAL CURRENCY PROCEEDS UNDER
THE UNITED STATES AGENCY FOR INTERNATIONAL DEVELOPMENT
INTEGRATED FOOD FOR WORK III PROJECT
IN BANGLADESH

PL-480 TITLE III LOCAL CURRENCY PROCEEDS
FOR THE PERIOD JANUARY 7, 1987 TO JUNE 30, 1991

Performed and Prepared

by

Coopers & Lybrand
Singapore

&

A. Qasem & Co
Bangladesh

AUDIT OF
DIRECTORATE OF RELIEF AND REHABILITATION
PERTAINING TO ITS USE OF
PL-480 TITLE III LOCAL CURRENCY PROCEEDS UNDER
THE UNITED STATES AGENCY FOR INTERNATIONAL DEVELOPMENT
INTEGRATED FOOD FOR WORK III PROJECT IN BANGLADESH

INDEPENDENT AUDITORS' REPORT

TABLE OF CONTENTS

	Page No.
Transmittal letter and summary	
Background - Bangladesh	1
DORR and the IFFW Project	1 - 2
Audit Objectives and Scope of Work	2 - 4
Audit Results	4 - 5
General	6
Comments on Findings and Recommendations	6
Acknowledgements	6
Report on the Fund Accountability Statement	
Independent Auditors' Report	7 - 8
Fund Accountability Statement	9 - 10
Report on the System of Internal Controls	
Independent Auditors' Report	11 - 14
Schedule of Reportable Conditions	15 - 20
Report on Compliance with Agreement Terms, Applicable Laws and Regulations	
Independent Auditors' Report	21 - 23
Schedule of Findings of Non-Compliance	24 - 31
Schedule of Questioned Costs	Appendix A
Auditee Management's Comments in Full	Appendix B
Report Distribution List	Appendix C

your reference
our reference

A5/KYT/DORR

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

14 December 1992

Dear Mr Durnil

This report presents the results of our audit of the Directorate of Relief and Rehabilitation ("DORR") of the Ministry of Relief pertaining to its use of PL-480 Title III local currency proceeds under the United States Agency for International Development, Bangladesh ("USAID/B") Integrated Food For Work ("IFFW") III project for the period January 7, 1987 to June 30, 1991.

Background - Bangladesh

Bangladesh continues to be one of the most densely populated, disaster prone and poorest countries in the world. Despite international development assistance of approximately \$1.82 billion per annum and Government of Bangladesh's (BDG) own heavy commitment of resources, development has not attained a rate that would, in the foreseeable future, allow Bangladesh to achieve a measure of self sustaining growth. Several constraints that impede development are rural underemployment, under-productivity and inefficient use of development resources by local institutions. These problems are addressed directly by the Food For Development Program which has funded, inter alia the construction of bridges and culverts by DORR along roads constructed with IFFW resources.

DORR and the IFFW Project

In accordance with an Agricultural Grant Agreement (Public Law ("PL") 480 agreement) between the United States Government and the Government of Bangladesh (BDG), the United States Agency for International Development furnishes specified amounts of food commodities for sale by BDG, with sales prices subject to the terms of the relevant agreements and with the local currency proceeds accruing to BDG, for financing approved development projects. One such project is the Rural Infrastructure Food for Work Support project, which incorporates the bridges and culverts construction programme.

**resident partners**

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Reggie M Thein
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Mr James B Durnil
Regional Inspector General
for Audit, Singapore,
United States Agency for International Development
Singapore

DORR and the IFFW Project (cont'd)

The programme improves the rural transportation infrastructure of Bangladesh annually covering 6,000 miles of roadway and providing 26 million man days of employment by closing the innumerable gaps of less than 200 feet in length in the rural road networks of the country. The bridges and culverts programme incorporates two sizes of bridges and three categories of supervision. Bridges and culvert sizes are described as less than 40 feet, or 40 feet or longer. Most bridges and culverts less than 40 feet are supervised and monitored by Care International in Bangladesh ("CARE"), under the IFFW agreement with BDG, while those 40 feet or longer are supervised and monitored by Architectural and Engineering ("AE") firms. Some bridges and culverts less than 40 feet are supervised by Upazilas (sub-district level local governments now known as Thanas). From the inception of the programme in 1982 to date, more than 10,000 structures have been completed.

The Ministry of Relief, more specifically DORR, is responsible for the implementation of this programme and thus receives allocations by BDG of local currency funds generated from the sale of commodities furnished by the US government under the PL 480 Title III Sales Agreements, dated 8 March 1982 and 17 April 1987. This allocation is outside the annual development programme of BDG.

Local currency sales proceeds are released by the Bangladesh government and deposited into an interest bearing commercial bank account under the authority of DORR. These funds are disbursed to the various entities involved in the project and DORR is required to maintain adequate records of funds utilization and furnish periodic reports to USAID/B. BDG is required to repay the United States Government for the commodities provided under the terms of the applicable PL-480 agreements unless currency use offset is given by USAID/B.

Audit Objectives and Scope of Work

We have conducted a financial audit of DORR's Fund Accountability Statement as it relates to the use of PL-480 Title III local currency proceeds under the IFFW III project for the period January 7, 1987 to June 30, 1991.

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

Audit Objectives and Scope of Work (cont'd)

The Fund Accountability Statement comprises the Receipts and Payments Statement for the period January 7, 1987 to June 30, 1991 and the notes therein. The results of our work are reflected in the accompanying Independent Auditors' Reports on the :

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

The objectives of our work were to :

- a) Determine whether DORR's Fund Accountability Statement presents fairly the receipts and payments and ending balances covering the audit period in accordance with the terms of the PL-480 Title III agreements and related Project Implementation Letters ("PIL") issued by USAID/B;
- b) Report on DORR's internal controls; and
- c) Report on DORR's compliance with applicable laws, regulations, agreement terms, binding policies and procedures.

Our audit was conducted in accordance with generally accepted United States 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/B, DORR, CARE and USAID Regional Inspector General for Audit/Singapore ("RIG/A/S") officials;
- b) Reviewing the appropriate agreements and appropriate amendments, PILs, correspondence and minutes of meetings between USAID/B and DORR and CARE, as well as project progress reports maintained by both the grant recipients and USAID/B;
- c) Obtaining an understanding of the accounting, administrative and internal control systems of DORR's agents using questionnaires, interviews, flowcharts, narrative descriptions, the Price Waterhouse India ("PWI") Accounting Manual and the Acnabin & Co report on the implementation status of the accounting system;

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

cont'd

- d) Devising and performing appropriate tests on the transactions recorded in the Fund Accountability Statement;
- e) Designing appropriate audit steps and procedures to provide reasonable assurance of detecting errors, irregularities, and illegal acts that could have a direct and material effect on the results of our audit. We were also aware of the possibility of illegal acts that could have an indirect and material effect on the results of our audit;
- f) Testing the effectiveness of administrative controls applied by DORR's management to ensure compliance with applicable laws, regulations and agreement terms; and
- g) Conducting field visits in respect of Upazila supervised structures.

Audit Results

a) Opinion on the Fund Accountability Statement

Included in the refunds from Upazilas relating to CARE supervised structures stated in the Fund Accountability Statement at TK84,675,724 (US\$2,588,314) are refunds which relate to funds from a Title II agreement. We are unable to ascertain the amount of such refunds from the Title II agreement which have been reflected in the Fund Accountability Statement. Furthermore, at 30 June 1991, there were refunds due from the Upazilas totalling TK22,708,606 (US\$694,142) which were not taken up in the Fund Accountability Statement.

Except for the effects of any adjustments arising from the matters referred to in the preceding paragraph above, in our opinion, the Fund Accountability Statement presents fairly, in all material respects, the receipts and payments of DORR for the period January 7, 1987 to June 30, 1991, as they pertain to the use of PL-480 Title III local currency proceeds under the USAID/B IFFW III Project, in conformity with the basis of accounting described in note 1(b) to the Fund Accountability Statement.

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

b) System of Internal Controls

In planning and performing our audit of DORR, we considered its internal control structure and the controls and procedures of the other parties involved in the bridges and culverts programmes under the IFFW project in order to determine our auditing procedures for the purpose of expressing our opinion on the Fund Accountability Statement and not to provide assurance on the internal control structure of DORR as a whole.

For all significant internal control structure categories examined, we obtained an understanding of the design of relevant policies and procedures and whether they had been placed in operation, taking into account the PWI Accounting System Manual issued to DORR in December 1989 by USAID/B and the subsequent report by Acnabin & Co on its implementation status, and we assessed control risk.

We noted certain matters involving the internal control structure and its operation that we considered to be reportable conditions and material weaknesses. These items have been detailed within the body of our report on pages 15 to 20.

c) Compliance with Agreement Terms, Applicable Laws and Regulations

There were instances of non-compliance with agreement terms, applicable laws and regulations, some of which (findings 1, 4 and 5) have a material financial impact on the Fund Accountability Statement. All findings of non-compliance, which are set out in pages 24 to 31 and in Appendix A, resulted in questioned costs amounting to TK22,789,655 (US\$696,619).

Except for the matters noted above, our tests for compliance with agreement terms, applicable laws and regulations of selected transactions and records of DORR indicated that, for the items tested, DORR complied, in all material respects, with those provisions of its agreement terms, as well as applicable laws and regulations, for the period under our review.

With respect to transactions and records not tested by us, nothing came to our attention that caused us to believe that DORR had not complied, in all material respects, with agreement terms, applicable laws or regulations.

In the course of our work, no significant or material findings that affect the current audit objectives, were noted.

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

cont'd

General

USAID/B conducted a review of DORR's accounting system and sought PWI's assistance developing a suitable system for DORR to account for and control the use of PL-480 Title III funds. PWI developed an accounting manual which was finalised in December 1989. PIL#19 was signed in February 1991 allocating US\$20,000 to implement the Manual by appointing accounts staff and three accountants were subsequently employed in April, 1991. Therefore, during most of the period under our review, the Manual could not be fully implemented although basic books and records had been maintained during the period under our review.

Comments on Findings and Recommendations

The management of DORR given general and specific comments to our findings and recommendations on internal control and non-compliance set out on pages 15 to 20 and pages 24 to 31 respectively and their comments are fully set out in Appendix B. We have summarised their comments in our findings and recommendations on internal control and non compliance. They have disputed finding 5 of non-compliance and we have made appropriate comments to the disputed items on page 31 of this report.

Acknowledgements

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

Yours truly

Cooper & Hyland

DIRECTORATE OF RELIEF AND REHABILITATION
PHOTOGRAPHS OF STRUCTURES



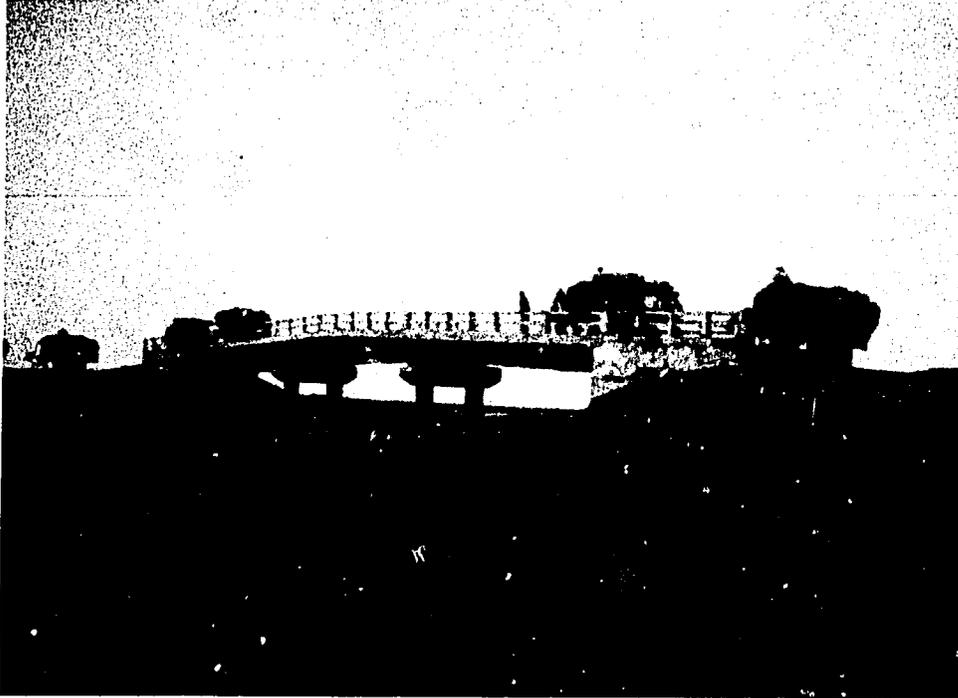
A 52½ feet bridge in district of Pabna (Upazila: Bera).



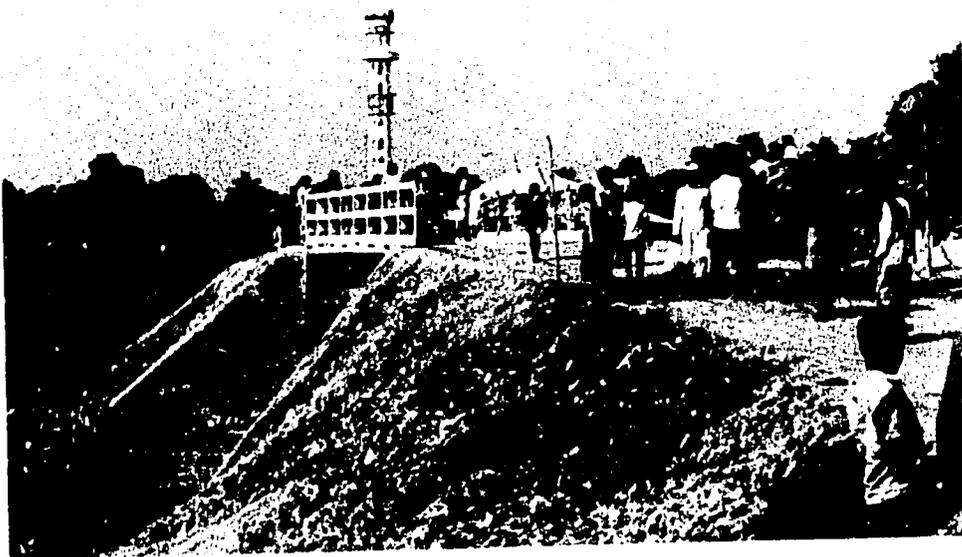
B Lateral view of bridge in district of Brahmanbaria (Upazila: Brahmanbaria).
Notice the USAID identification on the left.

DIRECTORATE OF RELIEF AND REHABILITATION

PHOTOGRAPHS OF STRUCTURES



C Bridge in district of Nawabganj (Upazila : Shibganj).



D This bridge less than 40 feet long is in the district of Narayanganj (Upazila: Rupganj) and is supervised by CARE.

**REPORT ON THE
FUND ACCOUNTABILITY STATEMENT**

bc-

your reference A5/KYT/DORR
our reference

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

14 December 1992

Dear Mr Durnil

**DIRECTORATE OF RELIEF AND REHABILITATION
PERTAINING TO ITS USE OF
PL-480 TITLE III LOCAL CURRENCY PROCEEDS UNDER
THE UNITED STATES AGENCY FOR INTERNATIONAL DEVELOPMENT
INTEGRATED FOOD FOR WORK III PROJECT
IN BANGLADESH**

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

We have audited the Fund Accountability Statement ("the Statement") of the Directorate of Relief and Rehabilitation ("DORR") pertaining to its use of PL-480 Title III local currency proceeds under the United States Agency for International Development, Bangladesh ("USAID/B") Integrated Food For Work ("IFFW") III Project. The period covered by our audit was January 7, 1987 to June 30, 1991.

This Statement, comprising the Receipts and Payments Statement and the notes therein, and as set out on pages 9 and 10 is the responsibility of DORR's management. Our responsibility is to express an opinion on this Statement based on our audit. The Statement presents only the transactions of DORR's operations in Bangladesh as they pertain to PL-480 Title III local currency proceeds, and is not intended to present fairly the receipts and payments of DORR as a whole.



resident partners

Tan Swan Jeng
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DIRECTORATE OF RELIEF AND REHABILITATION
PERTAINING TO ITS USE OF
PL-480 TITLE III LOCAL CURRENCY PROCEEDS UNDER
THE UNITED STATES AGENCY FOR INTERNATIONAL DEVELOPMENT
INTEGRATED FOOD FOR WORK III PROJECT
IN BANGLADESH

INDEPENDENT AUDITORS' REPORT ON THE FUND
ACCOUNTABILITY STATEMENT

We conducted our audit in accordance with generally accepted United States Government Auditing Standards. Those standards require that we plan and perform the audit to obtain reasonable assurance whether the Statement is free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used, and significant estimates made, by management, as well as evaluating the overall financial statement presentation. We believe our audit provides a reasonable basis for our opinion.

As described in note 1(b) to the Statement, the Statement is prepared on a cash receipts and disbursement basis, which is a comprehensive basis of accounting other than generally accepted accounting principles.

Included in the refunds from Upazilas relating to CARE supervised structures stated in the Fund Accountability Statement at TK84,675,724 (US\$2,588,314) are refunds which relate to funds from a different Title II agreement. We are unable to ascertain the amount of such refunds from the Title II agreement which have been included in the Fund Accountability Statement. Furthermore, at 30 June 1991, there were refunds due from the Upazilas totalling TK22,708,606 (US\$694,142) which were not included in the Fund Accountability Statement.

Except for the effects of any adjustments arising from the matters referred to in the preceding paragraph above, in our opinion, the Fund Accountability Statement referred to above presents fairly, in all material respects, the receipts and payments of DORR for the period January 7, 1987 to June 30, 1991 in conformity with the basis of accounting described in note 1(b) to the Fund Accountability Statement.

This report is intended solely for the use of the Agency for International Development and DORR 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

DIRECTORATE OF RELIEF AND REHABILITATION
USE OF PL-480 TITLE III LOCAL CURRENCY PROCEEDS

FUND ACCOUNTABILITY STATEMENT FOR THE
PERIOD FROM JANUARY 7, 1987 TO JUNE 30, 1991

STATEMENT OF RECEIPTS AND PAYMENTS

	Tk	US\$ Equivalent
Receipts		
Title III funds	1,739,145,000	53,161,082
Refunds from Upazilas relating to CARE supervised structures	84,675,724	2,588,314
Interest received from bank account	29,539,813	902,954
	<u>1,853,360,537</u>	<u>56,652,350</u>
Payments		
Care supervised structures	1,110,519,184	33,945,646
Upazila supervised structures	24,072,970	735,847
AE firm supervised structures	446,624,643	13,652,138
Bank charges and commission	2,011,440	61,484
Miscellaneous	36,466	1,115
	<u>1,583,264,703</u>	<u>48,396,230</u>
Closing Balance	<u>270,095,834</u>	<u>8,256,120</u>

J. Hussain
18/3/93

Md. Jalal Hussain
Chartered Accountant
Directorate of Relief
and Rehabilitation

Harun Al-Rashid
18.3.93

Harun Al-Rashid Md. Karimdad
Director - FFW
Directorate of Relief
and Rehabilitation

The notes set out on page 10 form an integral part of this Fund Accountability Statement.

DIRECTORATE OF RELIEF AND REHABILITATION
USE OF PL-480 TITLE III LOCAL CURRENCY PROCEEDS

Notes to the Fund Accountability Statement - June 30, 1991

1 Significant Accounting Policies

- (a) The Fund Accountability Statement, expressed in Bangladeshi Takas, is prepared in accordance with the historical cost convention. Bangladesh Taka amounts have been translated to their US dollar equivalent at the average rate of exchange during the statement period.
- (b) Receipts and payments relate to amounts received and paid respectively in cash. The closing balance represents the bank balance at 30 June 1991.

2 Component unit of DORR

The Fund Accountability Statement presents only the transactions of DORR in Bangladesh as they pertain to PL-480 Title III local currency proceeds, and is not intended to present fairly the receipts and payments of DORR as a whole.

**REPORT ON THE SYSTEM OF
INTERNAL CONTROLS**

10a

your reference A5/KYT/DORR
our reference

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

14 December 1992

Dear Mr Durnil

**DIRECTORATE OF RELIEF AND REHABILITATION
PERTAINING TO ITS USE OF
PL-480 TITLE III LOCAL CURRENCY PROCEEDS UNDER
THE UNITED STATES AGENCY FOR INTERNATIONAL DEVELOPMENT
INTEGRATED FOOD FOR WORK III PROJECT
IN BANGLADESH**

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

We have audited the Fund Accountability Statement ("the Statement") of the Directorate of Relief and Rehabilitation ("DORR") pertaining to its use of PL-480 Title III local currency proceeds under the United States Agency for International Development, Bangladesh ("USAID/B") Integrated Food For Work ("IFFW") III Project. The period covered by our audit was January 7, 1987 to June 30, 1991.

This Statement, comprising the Receipts and Payments Statement for the Grant and the notes therein, and as set out on pages 9 and 10 is the responsibility of DORR's management. Our responsibility is to express an opinion on this statement based on our audit. The Statement presents only the transactions of DORR's operations in Bangladesh as they pertain to PL-480 Title III local currency proceeds, and is not intended to present fairly the receipts and payments of DORR as a whole. We have issued our audit report thereof dated 14 December 1992.



resident partners

Tan Swan Jeng
Reggie M. Thea
Jonathan H. E. Ou
Khoo Kim Weng
Chee Kai Hap
Chan Kai Leck
Nors. C. G. Ong
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THE UNITED STATES AGENCY FOR INTERNATIONAL DEVELOPMENT
INTEGRATED FOOD FOR WORK III PROJECT
IN BANGLADESH

INDEPENDENT AUDITORS' REPORT ON THE SYSTEM
OF INTERNAL CONTROLS

We conducted our audit in accordance with generally accepted United States Government Auditing Standards. 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 DORR, we considered the internal control structure in order to determine our auditing procedures for the purpose of expressing our opinion on the Fund Accountability Statement and not to provide assurance on the internal control structure of DORR as a whole.

The management of DORR 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 cost 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 may become inadequate because of changes in conditions or that the effectiveness of the design and operation of policies and procedures may deteriorate.

DIRECTORATE OF RELIEF AND REHABILITATION
PERTAINING TO ITS USE OF
PL-480 TITLE III LOCAL CURRENCY PROCEEDS UNDER
THE UNITED STATES AGENCY FOR INTERNATIONAL DEVELOPMENT
INTEGRATED FOOD FOR WORK III PROJECT
IN BANGLADESH

INDEPENDENT AUDITORS' REPORT ON THE SYSTEM
OF INTERNAL CONTROLS

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

Accounting Controls;

- o Cash receipts
- o Cash disbursements
- o Payroll

Administrative controls;

- o Cost allocation and allowability
- o Monitoring
- o Reporting

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

As a result of these procedures, and 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 Statement.

However, during the course of our audit, we noted 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 financial statements. The reportable conditions noted are described in detail on pages 15 to 20.

DIRECTORATE OF RELIEF AND REHABILITATION
PERTAINING TO ITS USE OF
PL-480 TITLE III LOCAL CURRENCY PROCEEDS UNDER
THE UNITED STATES AGENCY FOR INTERNATIONAL DEVELOPMENT
INTEGRATED FOOD FOR WORK III PROJECT
IN BANGLADESH

INDEPENDENT AUDITORS' REPORT ON THE SYSTEM
OF INTERNAL CONTROLS

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 Statement 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 as defined above. However, we consider that the reportable conditions identified above are material weaknesses.

We also noted other matters involving the internal control structure and its operation that we reported to the management of DORR in a separate communication dated 14 December 1992.

This report is intended solely for the use of the Agency for International Development and DORR 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
COOPERS & LYBRAND
Certified Public Accountants

DIRECTORATE OF RELIEF AND REHABILITATION

SCHEDULE OF REPORTABLE CONDITIONS

SUMMARY OF REPORTABLE CONDITIONS

- A Records and documents poorly maintained and prepared.
- B Reporting procedures not adequately followed.
- C Monitoring of use of funds in Upazila supervised structures is lax.

DIRECTORATE OF RELIEF AND REHABILITATION

SCHEDULE OF REPORTABLE CONDITIONS

A BOOKS, RECCRDS AND DOCUMENTS POORLY MAINTAINED AND PREPARED

Condition

Some books, records and documents necessary for the financial monitoring of a programme (the bridges and culverts construction programme) of this size have been poorly maintained and prepared by DORR. Specific examples of such instances are:

- a) Programme-wise lists of transfers to Upazilas were not prepared and neither were project registers for Upazila supervised structures maintained;
- b) Detailed programme-wise lists of payments to contractors and AE firms were not prepared;
- c) Detailed programme-wise and party-wise (for example AE firms and Upazilas are parties involved in the programme) lists of advances and adjustments to AE firms were not prepared;
- d) Detailed programme-wise lists of transfers to the Upazilas for CARE managed structures were not prepared;
- e) Bank guarantee details in AE firm Project Register with regard to advance payments to AE firms were not recorded;
- f) Miscellaneous register to record miscellaneous payments and advances not maintained;
- g) Project register folio references on the bank payment advices and supporting documentation to serve as a cross check for payments were not recorded; and
- h) In certain cases, all particulars with regard to contractors for AE firm supervised structures were not recorded in the project registers.

Criteria

In order for DORR to monitor effectively, manage and control the use of its funds, and to report to USAID/B to the extent envisaged in the various agreements in a timely manner, the above books, records and documents should be properly prepared and maintained as there are voluminous transactions involved.

DIRECTORATE OF RELIEF AND REHABILITATION

SCHEDULE OF REPORTABLE CONDITIONS

Effect

The non-adherence to the recommended procedures may hinder DORR in its control of disbursements of Title III funds and may lead to duplication of payments.

One such duplication of payment is noted in Finding 4 of the Schedule of Findings of Non-Compliance on page 29.

The above condition is mitigated as basic books and records are properly prepared and maintained, supervisory controls over structures being built are strong and there are adequate controls over funds disbursed to third parties.

Cause

The accountants were only recruited in April 1991 and prior to that, there was no staff available to cope with the additional work that was required.

Recommendations

DORR should implement the recommendations as soon as possible so that it may monitor and control the use of its funds more effectively. These recommendations are also set out by PWI in its Accounting Manual ("Manual") on page 4-40 paras 4-6, pages 4-36/39 paras 1, 4-6 and page 4-27 para 2.

Management Comments

Prior to April 1991, there were no accountants at DORR, so the absence of records/documents was a result of shortage of qualified personnel. However, these records and documents are currently being maintained and prepared by DORR and recommendations in the PWI manual followed and basic books, for example, bank book and project files containing all the information, had been maintained.

DIRECTORATE OF RELIEF AND REHABILITATION

SCHEDULE OF REPORTABLE CONDITIONS

B REPORTING PROCEDURES NOT ADEQUATELY FOLLOWED

Condition

Some reporting procedures have not been adequately followed by DORR. The specific instances where such procedures have not been followed are:

- a) Detailed work plan giving breakdown of programme-wise disbursements are not being prepared (and submitted to MOR) by DORR;
- b) Enclosures which should accompany the request for release of funds to MOR are not the ones prescribed;
- c) Quarterly Funds Flow Statement had not been prepared until 30/6/91. Only a consolidated annual Receipts and Payments Account was prepared and sent to USAID/B; and
- d) DORR does not prepare (and attach) the following to the consolidated Receipts and Payments Account.
 - i) Detailed lists of programme-wise expenditure during the year under CARE/AE Firm/Upazila supervised structures programme and other miscellaneous payments;
 - ii) Detailed list of programme-wise and party-wise advances and adjustments during the year; and
 - iii) List of closing balances at Upazilas.

Criteria

Sound internal control practice requires that management and utilization of DORR's PL-480 Title III funds be effectively monitored internally by DORR and externally by both the MOR and USAID/B. The above documents should therefore be prepared, reviewed and then submitted on a timely basis to the relevant parties to assist them in monitoring DORR's use of Title III funds.

Effect

The non-adherence to recommended reporting procedures may hinder an appropriate evaluation and monitoring of DORR's use of Title III funds and the progress of projects conducted under the PL-480 Agreement.

DIRECTORATE OF RELIEF AND REHABILITATION

SCHEDULE OF REPORTABLE CONDITIONS

Cause

DORR did not have the requisite number of personnel to carry out the above procedures effectively and on a timely basis.

Recommendations

DORR should henceforth follow the recommended procedures so that its programmes can be more effectively monitored. These procedures are further set out in page 4-16 para 3, page 4-17 paras 2-3, page 4-39 para 3 and page 4-44 paras 12 to 14 and 17 of the PWI manual.

Management Comments

As far as the work plan is concerned this can only be prepared once the PIL is issued which will enable DORR to plan its activities based on the amount allocated in the PIL. However, the PIL is often issued in November or December instead of May or June (of the previous financial year), which makes preparation of the work plan very difficult.

As for the other matters raised, DORR has started complying with the Manual.

DIRECTORATE OF RELIEF AND REHABILITATION

SCHEDULE OF REPORTABLE CONDITIONS

C MONITORING OF USE OF FUNDS IN UPAZILA SUPERVISED STRUCTURES IS LAX

Condition

- a) DORR does not receive certified annual Receipts and Expenditure Statement together with bank certificate and reconciliation statements from Upazilas in respect of those structures supervised directly by Upazilas.
- b) There is no evidence of follow up action having been taken by DORR for non-submission of required statements by Upazilas.

Criteria

The submission of the required statements and follow up of non-submission is a means for DORR to ensure that the funds disbursed for Upazila supervised structures are effectively and properly utilised by the Upazilas. The weaknesses noted above is exacerbated as internal controls established by some Upazilas over bank balances held by them is poor.

Effect

The non-submission and lack of follow up of non-submission of required statements by Upazilas hinders DORR in monitoring the utilization of funds by and performance of Upazilas. This may also lead to mismanagement funds by Upazilas although no such instances were noted.

Cause

The Upazilas were not aware of the above requirement and because of the lack of manpower, DORR could not undertake remedial and follow up measures.

Recommendation

Upazilas should be instructed to comply with the requirement to submit the appropriate statements and any delay should be followed up timely by DORR. DORR should consider withholding any further funding to the Upazilas, if necessary, until such statements are received. The recommendations are also set out in page 4-42 paras 1 and 6 of the PWI Manual.

Management comments

Upazilas do not have the resources required. However, details of work done and fund requirements are prepared and relevant information are maintained in the respective files.

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

your reference
our reference A5/KYT/DORR

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

14 December 1992

Dear Mr Durnil

**DIRECTORATE OF RELIEF AND REHABILITATION
PERTAINING TO ITS USE OF
PL-480 TITLE III LOCAL CURRENCY PROCEEDS UNDER
THE UNITED STATES AGENCY FOR INTERNATIONAL DEVELOPMENT
INTEGRATED FOOD FOR WORK III PROJECT
IN BANGLADESH**

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

We have audited the Fund Accountability Statement ("the Statement") of the Directorate of Relief and Rehabilitation ("DORR") pertaining to its use of PL-480 Title III local currency proceeds under the United States Agency for International Development, Bangladesh ("USAID/B") Integrated Food For Work ("IFFW") III Project. The period covered by our audit was January 7, 1987 to June 30, 1991.

This Statement, comprising the Receipts and Payments Statement and the notes therein, and as set out on pages 9 and 10 is the responsibility of DORR's management. Our responsibility is to express an opinion on this Statement based on our audit. The Statement presents only the transactions of DORR's operations in Bangladesh as they pertain to PL-480 Title III local currency proceeds, and is not intended to present fairly the receipts and payments of DORR as a whole. We have issued our audit report thereof dated 14 December 1992.



resident partners

Tan Swan Jeng
Reggie M. Then
Jonathan H E Ou
Khoo Kum Wing
Chew Kia Ngwe
Chan Ket Teck
Nong C G Ong
David G Compton
Philip E S Tan
Michael G Gray
Chew Teck Soon
Foo Tung Soon

Ernest I P Seow
Jimmy K H Seet
Lawrence K S Seet
Edwin T S Khoo
Leong Yit Seng
Owek Sui Lat
Betty Khoo
Chey Chor Wa
Ooi Chee Kar

directors

D Michael Fleming
Andrew Jackomos
Joyce Tan
David K H Joh
John Ross

**DIRECTORATE OF RELIEF AND REHABILITATION
PERTAINING TO ITS USE OF
PL-480 TITLE III LOCAL CURRENCY PROCEEDS UNDER
THE UNITED STATES AGENCY FOR INTERNATIONAL DEVELOPMENT
INTEGRATED FOOD FOR WORK III PROJECT
IN BANGLADESH**

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

We conducted our audit in accordance with generally accepted United States 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, contracts, grants and binding policies and procedures applicable to DORR is the responsibility of DORR's management. As part of our audit, we performed tests of DORR's compliance with certain of those provisions. However, it should be noted that, whilst we performed those tests of compliance as part of obtaining reasonable assurance whether the financial statements were free of material misstatements, our objective was not to provide an opinion on compliance with those provisions.

Material instances of non-compliance and violations of laws, regulations, contracts, grants or binding policies and procedures that cause us to conclude that the aggregation of misstatements resulting from those violations is material to the financial statements. The results of our tests of compliance disclosed material instances of non-compliance (findings 1, 4 and 5) as set out in pages 25 to 26, pages 29 to 31 and Appendix A. These instances of non-compliance resulted in questioned costs of TK22,789,655 (US\$696,619).

We considered these material instances of non-compliance in forming our opinion on whether DORR's Fund Accountability Statement for the period from January 7, 1987 to June 30, 1991 are presented fairly, in all material respects, in conformity with the basis of accounting described in note 1(b) to the Statement, and this report does not affect our report dated 14 December 1992 on the Statement.

Our testing of transactions, records disclosed other instances of non-compliance with those laws and regulations. All instances of non-compliance that we found are identified in the accompanying schedule of findings and questioned costs.

DIRECTORATE OF RELIEF AND REHABILITATION
PERTAINING TO ITS USE OF
PL-480 TITLE III LOCAL CURRENCY PROCEEDS UNDER
THE UNITED STATES AGENCY FOR INTERNATIONAL DEVELOPMENT
INTEGRATED FOOD FOR WORK III PROJECT
IN BANGLADESH

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

Except as described above, the results of our tests of compliance indicate that with respect to the items tested, DORR has complied, in all material respects, with the provisions referred to in the fourth paragraph of this report. With respect to items not tested, nothing came to our attention that caused us to believe that DORR had not complied, in all material respects, with those provisions.

This report is intended solely for the use of the Agency for International Development and DORR 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

DIRECTORATE OF RELIEF AND REHABILITATION

SCHEDULE OF FINDINGS OF NON-COMPLIANCE

SUMMARY OF AUDIT FINDINGS ON NON-COMPLIANCE ISSUES

- 1 Non-compliance with issue of allotment orders provision for CARE supervised structures.
- 2 Non-compliance with project committee provisions for CARE supervised structures.
- 3 Non-compliance with income tax regulations.
- 4 Income tax deducted at source paid twice.
5. Commingling of Title II and Title III funds.

DIRECTORATE OF RELIEF AND REHABILITATION

SCHEDULE OF FINDINGS OF NON-COMPLIANCE

1 NON-COMPLIANCE WITH ISSUE OF ALLOTMENT ORDERS
PROVISIONS FOR CARE SUPERVISED STRUCTURES

Condition

DORR has not complied with two specific provisions for the issue of allotment orders (funding approval) for CARE supervised structures.

The two specific deficiencies are:

- (i) Refunds from Upazilas (Thanas) of unspent money from the preceding fiscal year's projects are not made by 25 February of the following fiscal year.
- (ii) Some Upazilas continued to receive funding for new projects even though refunds from Upazilas of unspent money from the preceding year's projects have not been made.

Criteria

Paragraph 4.5.10 of the Agreement between the Government of Bangladesh and CARE require that funding approval shall not be given unless the concerned Upazilas have returned the unspent money of the preceding year's structure projects within the fiscal year the refunds are recommended by CARE. Refunds from Upazilas are to be made by 25 February so as to enable CARE to verify and recommend the refunds by 1 March.

Effect

The non-compliance has resulted in outstanding refunds due from Upazilas to DORR not refunded at 30 June 1991 totalling Tk22,708,606 (US\$694,142). This amount due is not reflected in the Fund Accountability Statement on page 9 resulting in an understatement of that amount in "Refunds from Upazilas relating to CARE supervised structures".

Disbursements have been made to more than 40 Upazilas which have not fulfilled their responsibility in returning these refunds. However, upon receiving funds from DORR, the Upazilas have, in all material respects, expended project funds appropriately.

DIRECTORATE OF RELIEF AND REHABILITATION

SCHEDULE OF FINDINGS OF NON-COMPLIANCE

Cause

- (i) Due to a shortage of personnel, DORR has not been effectively monitoring refunds due from Upazilas by matching refunds to be received to refunds recommended by CARE which are due for payment.
- (ii) CARE relied on correspondence from the Upazilas to the Upazilas' banks instructing these banks to transfer refunds to DORR's account. However, neither CARE nor DORR has verified that these refunds were actually received by DORR.

Recommendations

DORR should discuss the finding immediately with USAID/B and resolve the matter without further delay.

In addition DORR should in future follow up on outstanding refunds due from Upazilas by implementing appropriate procedures as outlined in the PWI Manual page 4-19 and maintaining adequate project registers per PWI Manual page 4-34 to 4-37 to facilitate following up such refunds and ensure compliance with applicable agreement provisions.

Management Comments

Upazilas are not under the direct control of DORR. As CARE is the monitoring and supervisory agency for CARE supervised structures, CARE should utilize its network to implement the terms of the agreement.

DIRECTORATE OF RELIEF AND REHABILITATION

SCHEDULE OF FINDINGS OF NON-COMPLIANCE

**2 NON-COMPLIANCE WITH PROJECT COMMITTEE PROVISIONS
FOR CARE SUPERVISED STRUCTURES**

Condition

For some Upazilas, project committees were not formed after receiving Form 7. Form 7 is a letter from CARE giving the approval to commence construction. Project committees are formed to oversee construction and to maintain relevant records and accounts.

Criteria

Paragraph 4.5.11 of the Agreement between the Government of Bangladesh and CARE requires that upon receipt of Form 7, the Upazilas concerned will form a project (implementation) committee to administer the construction of structures.

Effect

The non-compliance may result in poor administration and monitoring of the construction and does not facilitate the verification of necessary information and records which were required to be maintained by the project committee.

Cause

The Upazilas did not realise project committees had to be formed and CARE did not have the resources to follow this up adequately.

Recommendations

Project committees should be formed by the Upazilas upon receipts of form 7, and DORR and CARE should ensure this is being done unless a waiver to the Agreement is obtained.

Management Comments

CARE being the monitoring and supervising agency who prepares form 7 should have ensured that project committees were formed to administer the construction of structures.

DIRECTORATE OF RELIEF AND REHABILITATION

SCHEDULE OF FINDINGS OF NON-COMPLIANCE

3 NON-COMPLIANCE WITH INCOME TAX REGULATIONS

Condition

DORR has not paid the income tax deducted at source ("ITDS") from AE firms' and contractors' bills over to the Government of Bangladesh Treasury within the statutory deadline.

Criteria

Rule 13(a) of the Bangladesh Income Tax Ordinance, 1984 requires that income tax deducted at source be paid to the Government of Bangladesh Treasury on the same day.

Effect

As at 30 June 1991, there was Tk 1,165,241 (US\$ 35,618) of income tax deducted at source owing to the Government of Bangladesh which was due but not paid by the statutory deadline.

Cause

DORR was short of staff and did not have proper procedures to monitor and process payment of income tax deducted at source, for example, updating details of income tax deducted at source in the project registers.

Recommendations

DORR should ensure that the income tax deducted at source be paid over on time to prevent any penalty being imposed by the relevant authorities. If necessary, a waiver should be obtained to extend the time limits for such payments.

In addition, DORR should follow the procedures on page 4-30 of the PWI Accounting Manual to monitor carefully and process payments of the income tax deducted at source.

Management comments

DORR made ITDS payments and kept Income Tax Authority informed by giving a copy of payment advice. Income Tax authority did not impose any penalty in the past and DORR expects no penalty will imposed in the future.

DIRECTORATE OF RELIEF AND REHABILITATION

SCHEDULE OF FINDINGS OF NON-COMPLIANCE

4 INCOME TAX DEDUCTED AT SOURCE PAID TWICE

Condition

Income tax deducted at source ("ITDS") totalling Tk81,049 had been paid twice to the Government of Bangladesh Treasury.

Criteria

ITDS for particular contractors' or AE firms' bills should be paid over to the relevant authorities only once.

Effect

This has resulted in questioned costs totalling Tk81,049 (US\$2,477).

Cause

ITDS was not monitored carefully due to a shortage of personnel.

Recommendations

DORR should resolve the matter with the relevant Government authority. In addition, DORR should monitor carefully and maintain records to match ITDS deducted and paid against respective contractors' and AE firms' bills. In addition, details of ITDS should be updated in the project registers and procedures on page 4-30 of the PWI Accounting Manual followed.

Management Comments

This happened due to oversight and due to shortage of accounts personnel in DORR. Out of TK81,049, TK30,129 has already been adjusted with ITDS payments. Balance of TK50,920 is in the process of adjustment.

DIRECTORATE OF RELIEF AND REHABILITATION

SCHEDULE OF FINDINGS OF NON-COMPLIANCE

5 COMMINGLING OF TITLE II AND TITLE III FUNDS

Condition

Under the current system for the Title III programme, DORR disburses funds directly to the Upazilas for building structures supervised by CARE. These disbursements are recorded under "Payments" for "CARE supervised structures". Amounts which are not fully expended or amounts disallowed will then be refunded by the Upazilas to DORR. These refunds are recorded under "Refunds from Upazilas relating to CARE supervised structures". As of June 30, 1991, the Fund Accountability Statement reflects US\$2,588,314 in refunds from CARE supervised structures. However, given that refunds are normally made about one and a half years after disbursement of funds to the Upazilas and that there are delays in some refunds, a large portion of these refunds are expected to have come from another AID-funded programme (Title II). Hence, Title II funds have been commingled with Title III funds. Because DORR's records did not indicate which scheme and fiscal year these refunds relate to, we are unable to quantify or estimate the amount of refunds which relate to Title II funds.

Criteria

Project Implementation Letter ("PIL") #13 specifies that Title III funds should not be commingled with other funds.

Effect

Title III funds have been commingled with other funds in contravention of PIL #13. For the reasons stated above, we are unable to ascertain the amount of refunds relating to Title II funds which have been banked into the bank account used for Title III funds.

Cause

An absence of a proper accounting system and monitoring and identification of Title II refunds, and a shortage of qualified accounting staff at DORR at the initial period of the grant meant that the accounting records had to be re-created by third party accountants who were unfamiliar with the requirements of PIL #13.

DIRECTORATE OF RELIEF AND REHABILITATION

SCHEDULE OF FINDINGS OF NON-COMPLIANCE

Recommendation

DORR should agree with USAID/B immediately to resolve the finding by quantifying refunds from Upazilas relating to Title II funds that have been banked into the Title III bank account and repaying such refunds received to USAID/B or offset the amounts quantified against subsequent funding under Title III.

Management Comments

Upazilas made payment of refunds direct to DORR by bank to bank transfer. There is a possibility in the initial year that Upazilas might have transferred Title II fund refunds to the Title III bank account. It was not possible to keep track of the payments made by bank to bank transfer without details available. DORR had very little direct control over these transfers and there was no accounting staff to keep track of the refunds from Upazilas. Auditors also made assumption that there was possibility of commingling of Title II Fund with Title III fund as they could not quantify or even make an estimate of how much Title II fund was commingled with Title III fund.

Auditors' Comments

DORR has acknowledged the possibility of commingling of Title II funds with Title III funds and has been unable to show that refunds made in the earlier years relate to Title III funds and not Title II funds. From the work we have performed, there were a number of refunds credited to DORR's bank book as refunds from Upazilas relating to CARE supervised structures but which were not recommended by CARE as Title III refunds. For the reasons given on page 30, we have been unable to quantify the amount of such refunds but given that refunds from Upazilas relating to CARE supervised structures are normally made about one and a half year after disbursement of funds to the Upazilas, a large portion of these refunds are expected to have come from the Title II fund.

APPENDICES

DIRECTORATE OF RELIEF AND REHABILITATIONTITLE III FUND QUESTIONED COSTS AS TO
REASONABLENESS, ALLOCABILITY AND ALLOWABILITYQUESTIONED COSTS

FINDING	CONDITION	BASIS OF QUESTIONABILITY	AMOUNT TK	EQUIVALENT US \$
	Amounts owing from Upazilas not refunded	Allowability- Upazila refunds not made when due therefore contravening agreement between CARE and Government of Bangladesh	22,708,606	694,142
	Income tax deducted at source paid twice	Allowability- payment not for purposes of the project	81,049	2,477
			<u>22,789,655</u>	<u>696,619</u>

GOVERNMENT OF THE PEOPLES' REPUBLIC OF BANGLADESH
Directorate of Relief & Rehabilitation
HBFC Building (5th Floor)
22, Purana palton, Dhaka.

Memo No. DRR/SA/010/241

Date : 31 January 1993

Coopers & Lybrand ←
Orchaard Po Box 285
Singapur 9123

Sub : Final Draft Audit Report-Audit of Directorate of Relief & Rehabilitation pertaining its use of PL-480 Title 111 Local currency Proceeds under USAID. IFFW Project in Bangladesh.

Dear Sir,

With reference to your letter As/KYT/DORR Dated 13 January 1993 on the captioned subject, please find attached Annexure -'A' containing our (management) official comments on your report.

Your sincerely


30.1.93

(Harun Al Rashid Md. Karimdad)
Director -FFW.

cc : (1) Controller, USAID, Baridhara, Dhaka.
(2) CARE Bangladesh, Dhanmondi, Dhaka.
(3) A. Qasem & Co., Dilkusha C/A, Dhaka.

WAHID
File>DIRECTOR

ANNEXTURE-'A'

Management Comments on Final Draft Audit Report-Audit of DORR-PL 480
Title III Local currency Proceeds under USAID IFFW Project in
Bangladesh

1.00 General

1.01 The audit period covered by the auditors is from January 7, 1987 to June 30, 1991. The auditors (M/S. Coopers & Lybrand and M/S A. Wasem & Co.) conducted the audit during the period from August 19, 1992 to December 14, 1992. The auditors conducted the audit based on the "Terms of reference" given by USAID RIGA/Singapore. The auditors followed the (1) auditing standards set forth by the AICPA and (2) generally accepted government auditing standards as stated in U.S. General Accounting offices' "yellow Book". The auditors also audited the Accounting system in comparison with PWI Accounting Manual (PWAM) designed for DORR.

1.02 Directorate of Relief and Rehabilitation (DORR) is purely a Bangladesh governmental Organisation under administrative control of Ministry of Relief. It was following the accounting and recording system as is being generally followed by other governmental organisations in Bangladesh. There was no prescribed accounting system for DORR until September 1992 when the PWAM got implemented in DORR.

1.03 PWAM was submitted to DORR in Draft form on November 2, 1989 by USAID. The PIL (PIL 19) was signed in February 2, 1991 allocating US \$ 20,000 to implement PWAM by appointing accounts staff. PWAM was in fact implemented in September, 1992 after hiring of accounts staff and redesigning the books and registers as per the PWAM. As a matter of fact the accounting system designed by PWI and recommended by USAID got implemented in September 1992 i.e. after the audit period.

2.00 Management Comments-Page wise on Auditors Final draft Audit Report (dated January 13, 1993).

2.01 Pag-4 a) Opinion on the Fund Accountability Statement.

The CARE supervised structures Programme started in the FY 1983-84 under Title -II Fund. CARE supervised structures programme is a continuous programme monitored by CARE and executed by Upazila (Thana). Although Title III fund was started using in 1987, the CARE Programme was continuing since 1983-84 FY. The mechanism of refunding the unspent money by the Thana was by transferring money by Bank Transfer direct to DORR Account on which DORR had very little direct control. In FY 1986-87, there was no accounting staff in DORR to keep track of the refunds from Thanas. So there is possibility in the initial year of Title III Fund (1986-87) of refunds under Title II Fund getting mixed up with Title III Fund.

Please see our comments on refunds due from Thanas Tk. 26,428,077 (3.01. & 3.02 Refers.).

2.02 Page-5 c) Compliance with Agreement, Terms, Applicable Laws and Regulations.

Please see our comments on questioned costs amounting to Tk. 26,509,126 (3.01 & 3.02).

-: 2 :-

- 2.03 Page-8 (para-1 Accounting System)
 DORR is a government organisation in Bangladesh. In the absence of any standard accounting system (as stated in our general comments), DORR followed "Cash Receipt and Disbursement Basis" accounting system generally followed in Bangladesh governmental organisations without taking care of accruals (both receivables and payables). That is why refunds due (receivable) from Thanas as on June 30, 1991 were not taken into account and were not included in the Fund Accountability statement
- 2.04 Page-14 (para-3)
 We understand that Management Letter on internal control structures is not a part of the audit report, this para should, therefore be deleted.
- 2.05 Page-16 A Books, Records and Documents poorly maintained and prepared.
 a) There was no system of preparation of programme-wise lists of transfers to Thanas and no prescribed registers for Thana supervised structures during the period of audit. However, there was a Bank Book reflecting the payments/transfers to Thanas. There were individual project files containing all the necessary information, papers and documents.
 Project Registers and list of transfers for Thana supervised structures are presently being maintained as per PWAM recommendation.
 b) Same as a) above.
 c) Same as a) above.
 d) Same as a) above.
 e) There was no prescribed Project Register for recording advances to AE Firms. However there was individual project file where Bank Guarantee details were recorded. Over and above, the payment was recorded in the Bank Book. At present there is no advance payment system to AE Firm/Contractors, hence there is no need to open a Register for advance payments.
 f) There was no miscellaneous payment except advance payment during the audit period and there was no prescribed Register as Miscellaneous Register. Therefore no Misc. Register was maintained.
 However presently Misc. Register is being maintained.
 g) This is currently being maintained.
 h) This is currently being maintained.
- 2.06 Page-18 B Reporting Procedures not adequately followed.
 a) As per as the work plan is concerned this can only be prepared once the PIL is issued which will enable DORR to plan its activities based on the amount allocated in the PIL. However, the PIL is often signed and issued in December/January instead of May/June of the previous FY, which make preparation of the work plan very difficult.
 Contd...../3

-: 3 :-

b) There was no prescribed enclosures which should accompany the request for release of funds to MOR during the priod under audit.

However the PWAM prescribed enclosures are being accompanied with the request for release of fund to MOR.

c) Quarterly statements of receipts and payments were prepared as prescribed by USAID before June 30, 1991. This is curenly being prepared asper PWAM.

d) 1) Preparation of detailed lists of programme-wise expenditure for CARE/AE Firm/Thana supervised structures programme and Misc. payments is a volumneous Job. Without copmuter, it is not practicable to prepare the list every month, although the same information is being recorded in the respective project Registers and Bank Book.

11) Same as d 1)

111) This depends on Thanas who keep records at Thana level. Since CARE is the monitoring agency with Thanas, CARE can get the closing balances at Thanas.

2.07

Page-20 C Monitoring of use of Funds in Thana supervised structures in Lax.

a) There was no system that DORR should recive certified annual receipts and expenditure statement together with bank certificate and reconciliiation statements from Thanas in respect of structures directly supervised by Thanas during the period under audit. This requirement is recomended in PWAM. This is not practicable because at Thana level there is no qualified/trained accountant to do the PWAM required job. However, Thanas give details of the work done, bill prepared and requirement of fund while requesting release of fund in their favour. All these informations are available in the respective file.

b) Same as a) above.

2.08

Page-2b 1 Non-compliance with issue of Allotment orders provision for care supervised structures.

1) Thanas are not under the direct control of DORR. From administrative point of view, Thanas are under the administrative control of Ministry of LGRD. CARE is the monitoring and supervising agency for care supervised structures. it is CARE who can ensure implementation of paragraph 4.5.10 of the Agreement between GOB and CARE. CARE may utilize its network to implement it.

11) Same as 1) above.

2.09

Page-2/ 2 None-compliance with Project committee provisions for care supervised structures.

CARE being the monitoring and supervising agency who prepares form 1 should have ensured that project committee was formed to administer the construction of structures.

Contd...../4

37

-: 4 :-

2.10 Page-28 3 Non-compliance with Income Tax Regulation

DORR made ITDS payments and kept Income Tax Authority informed by giving a copy of the payment advice. Income Tax Authority didnot impose any penalty in the past and DORR expects no penalty will be imposed in the future.

2.11 Page-29 4 Income Tax deducted at soure paid twice.

This happened due to oversight and due to shortage of accounts personnel in DORR. Out of Tk. 81,049, Tk. 30,129.29 has already been adjusted with ITDS payments. Balance of Tk. 50,919.71 is in the process of adjustment.

2.12 Page-30 5 Commingling of Title 11 Fund with Title 111 Fund.

Please refer to our comments on 2.01. In the initial year of use of Title 111 Fund (1986-87 FY), there was no accounts personnel and there was no accounting system except the governmental system of recording payments and receipts. Thanas made payments of refund direct to DORR by Bank to Bank transfer. There is possibility in the initial year (1986-87) that Thanas might have transfered Title 11 Fund refund to Title 111 Fund Account. It was not possible to keep track of the payment made by Bank to Bank transfer without details, (programm, project year etc.). Auditors also made assumption that there was possibility of comminglieness of Title 11 Fund with Title 111 Fund as they could not quantify or even make estimate of how much Title 11 Fund was commingled with Title 111 Fund .

There were separate sets of Books and accounts for Title 11 and Title 111 Fund, DORR did not knowingly or wilfully commingle Title 11 Fund with Title 111 Fund or is not aware of comminginess.

3.00 Appendix A - Questioned Costs.

3.01 The corect amount owing from Thanas out not refunded as at June 30, 1991 is Tk 22,708,606. Tk. 26,428,000 as mentioned by auditors include Tk. 3,719,471 which was recieved and accounted for within June 30, 1991.

3.02 Out of balance amount of Tk. 22,708,606 receivable from Thanas as on June 30, 1991, Tk. 8,891,249 has been received and accounted for by DORR subsequently. Necessary steps are being taken to get back refunds owing from Thanas. In our opinion, questioned cost statement (Appendix-A) should therefore, be adjusted accordingly.

3.03 Out of Tk. 81,049 as income tax deducted at soure paid twice. Tk. 30,129.29 has been adjusted with subsequent ITDS payment and the balance of Tk. 50,919.71 is in the process of adjustment.

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