

**Regional Inspector General for Audit
Singapore**

**AUDIT OF
W. WOODWARD PAKISTAN (PRIVATE) LIMITED
PAKISTAN**

**Audit Report No. 5-391-93-10-N
June 18, 1993**

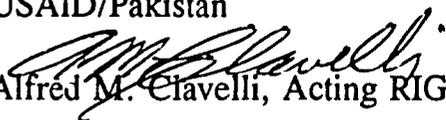




U.S. AGENCY FOR
INTERNATIONAL
DEVELOPMENT

June 18, 1993

TO: John Blackton, Mission Director
USAID/Pakistan

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

SUBJECT: Audit of USAID/Pakistan Funded Contracts with W. Woodward
Pakistan (Private) Limited
Report No. 5-391-93-10-N

The accounting firm of A.F. Ferguson & Co., Pakistan performed a financial audit of USAID/Pakistan's Contract No. 391-0484-C-00-1802-00 with W. Woodward Pakistan (Private) Limited (Woodward), and Woodward's USAID-funded host country contract with the Government of Pakistan. Five copies of the audit report are enclosed for your action.

In March 1984, USAID/Pakistan established the Social Marketing of Contraceptives Project under an agreement signed with the Government of Pakistan. The purpose of this project was to increase the use of contraceptives by promoting family planning and making available contraceptives to the masses. Under this activity, Woodward was contracted by USAID/Pakistan to market and distribute contraceptives in rural and urban areas through the company's network of distributors, wholesalers, and retailers operating in the country. Contraceptives procured under the project were provided to Woodward at no cost. The period covered by the audit was January 1, 1990 through June 30, 1992 during which Woodward reported that \$2,097,728 was received from USAID/Pakistan and \$2,146,794 was expended under these contracts.

The audit objectives were to: (1) determine whether Woodward's Fund Accountability Statement presents fairly the receipts and expenditures under the above contracts and whether the expenditures were allocable, allowable, and reasonable; (2) report on Woodward's system of internal controls; (3) report on Woodward's compliance with

applicable laws, regulations, and terms of the contracts; and (4) calculate Woodward's final overhead rate.

The auditors reported that: (1) Woodward's Fund Accountability Statement presents fairly the receipts and expenditures under the contracts; (2) no material internal control weaknesses were noted; (3) Woodward complied, in all material respects, with applicable laws, regulations, and terms of the contracts; and (4) the provisional overhead rate should be revised to the maximum allowable under the contract. In addition, the auditors found \$5,160 in questioned costs.

The management of Woodward generally agreed with the findings and recommendations contained in the report. Woodward's comments are provided under each finding in the report and the full text of the comments are included as Appendix IV of this report.

This report contains seven findings and recommendations which USAID/Pakistan should ensure that necessary action is taken. We are making the following recommendations to be included in the Inspector General's recommendation follow-up system.

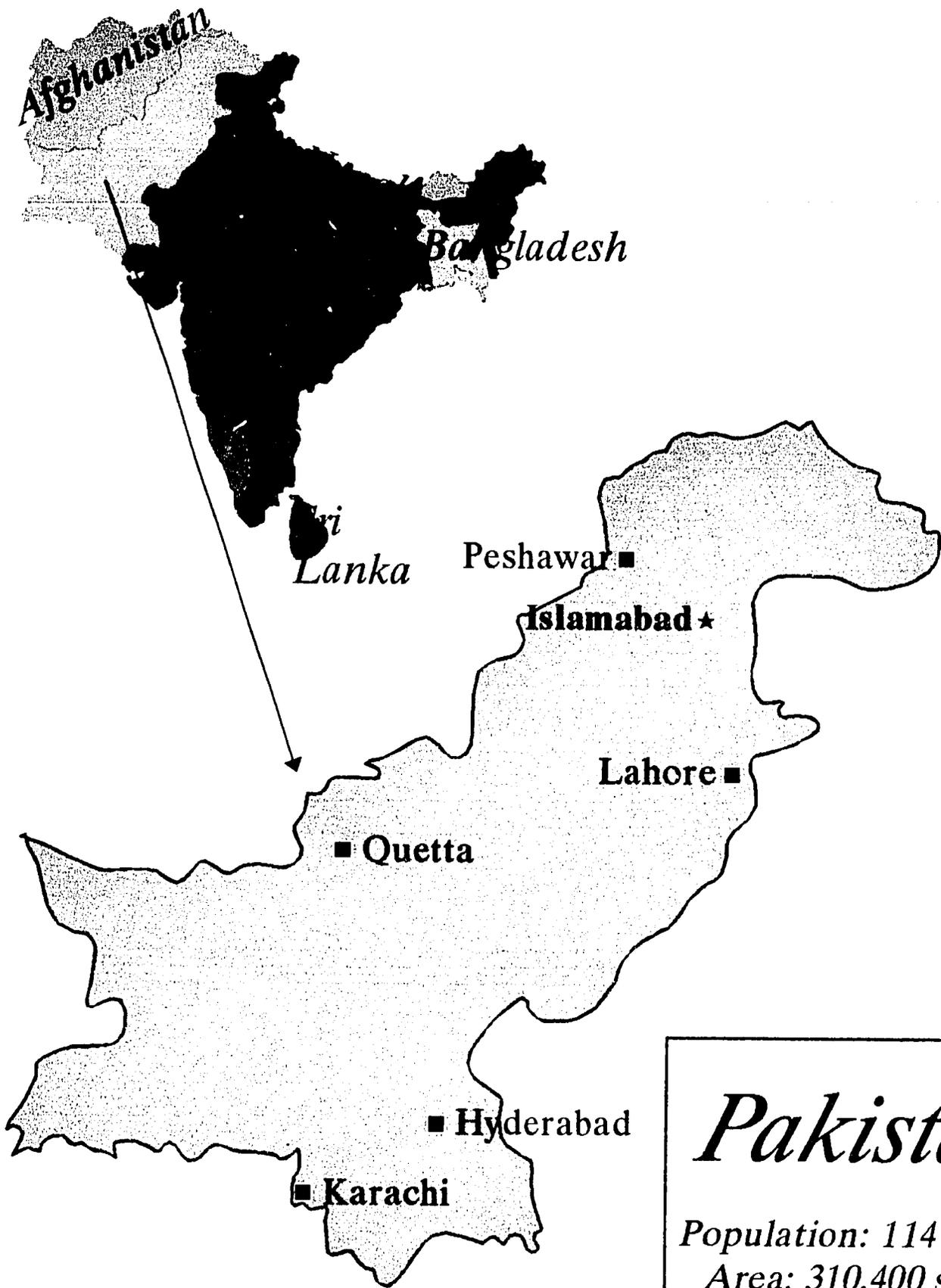
Recommendation No. 1: We recommend that USAID/Pakistan resolve the \$5,160 in questioned costs (\$3,994 ineligible and \$1,166 unsupported) with the W. Woodward Pakistan (Private) Limited and recover any amounts determined to be unallowable.

Recommendation No. 2: We recommend that USAID/Pakistan finalize the overhead rate of W. Woodward Pakistan (Private) Limited and make the appropriate adjustments based on this finalized rate.

We appreciate the courtesies and cooperation USAID/Pakistan and Woodward 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.

Attachment: a/s



Afghanistan

Bangladesh

Sri Lanka

Peshawar

Islamabad *

Lahore

Quetta

Hyderabad

Karachi

Pakistan
Population: 114 million
Area: 310,400 sq. mi.
Capital: Islamabad

FINANCIAL AUDIT OF
W. WOODWARD PAKISTAN (PRIVATE) LIMITED
CONTRACTS WITH USAID/PAKISTAN
UNDER THE SOCIAL MARKETING OF
CONTRACEPTIVES (SMC) PROJECT

FOR THE PERIOD FROM JANUARY 1, 1990
TO JUNE 30, 1992

FINANCIAL AUDIT OF
W. WOODWARD PAKISTAN (PRIVATE) LIMITED

CONTRACTS WITH USAID/PAKISTAN

UNDER THE SOCIAL MARKETING OF CONTRACEPTIVES (SMC) PROJECT

HOST COUNTRY CONTRACT DATED DECEMBER 12, 1985 BETWEEN GOVERNMENT
OF PAKISTAN AND W. WOODWARD PAKISTAN (PRIVATE) LIMITED

FOR THE PERIOD FROM JANUARY 1, 1990 TO JUNE 30, 1991

AND

AID DIRECT CONTRACT NO: 391-0484-C-00-1802-00

FOR THE PERIOD FROM JULY 1, 1991 TO JUNE 30, 1992

Performed and prepared
by
A.F. Ferguson & Co.
Chartered Accountants
State Life Building 1-C
Off I I Chundrigar Road
P O Box 4716
Karachi 74000
Pakistan

W. WOODWARD PAKISTAN (PRIVATE) LIMITED
CONTRACTS WITH USAID/PAKISTAN
UNDER THE SOCIAL MARKETING OF CONTRACEPTIVES (SMC) PROJECT

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

May 20, 1993

C 0902

Dear Sir

**FINANCIAL AUDIT OF W. WOODWARD PAKISTAN (PRIVATE) LIMITED
CONTRACTS WITH USAID/PAKISTAN
UNDER THE SOCIAL MARKETING OF CONTRACEPTIVES (SMC) PROJECT
FOR THE PERIOD FROM JANUARY 1, 1990 TO JUNE 30, 1992**

This report presents results of our financial audit of the fund accountability statement of W. Woodward Pakistan (Private) Limited (Woodward) under host country contract between Government of Pakistan (GOP) and Woodward and AID Direct Contract No. 391-0484-C-00-1802-00 with Woodward covering the period from January 1, 1990 to June 30, 1992 only. However, duration of host country contract was from December 12, 1985 to June 30, 1991 and AID direct contract from July 1, 1991 to September 30, 1993.

BACKGROUND INFORMATION

Pakistan's population growth rate is over 3% which is among the highest in Asia. The rapid growth in the population affects Pakistan's ability to sustain high rates of economic growth and meet the social welfare needs of its people. A major goal of GOP is therefore to reduce the rate of population growth in the country.

Accordingly the Social Marketing of Contraceptives (SMC) Project has been instituted under agreements between GOP and USAID/Pakistan, GOP and Woodward and is funded by USAID/Pakistan. These agreements remained effective from December 1985 through June 1991 and later in June 1991 USAID/Pakistan contracted directly with Woodward for marketing and distribution, which will remain in force till September 1993.

The objective of the project is to increase the usage of contraceptives by promoting family planning and making available contraceptives to the masses.

Under the above agreements Woodward markets and distributes contraceptives in rural and urban areas through its own marketing and distribution network.

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Letter C 0902 dated May 20, 1993

The contraceptives (condoms) are provided by USAID/Pakistan free of cost to Woodward through GOP warehouses and stores and are sold by Woodward in the market through its distribution network comprising wholesalers, distributors and retailers.

Woodward is responsible for safe custody of contraceptives received from GOP. All movements of contraceptives are controlled and monitored by Woodward. Details of overall movements are given in Appendix III.

SMC executive committee comprised of:

For host country contract, the representatives of

- o USAID/Pakistan
- o Ministry of Population Welfare (MPW)/GOP
- o Woodward
- o Population Services International (PSI)
- o National Development Finance Corporation (NDFC)

For AID direct contract, the representatives of all the above organizations/agencies except NDFC.

Sale prices of different packs of contraceptives under each of the above two contracts were recommended by SMC executive committee and approved by GOP. Sales proceeds for the period January 1, 1990 to June 30, 1991 were deposited by Woodward with MPW-GOP, and from July 1, 1991 to June 30, 1992 with PSI.

Expenditure budgets and subsequent amendments thereto were recommended by either SMC executive committee or Sathy Operating Group (SOG) and approved by GOP. SOG included representation of all the above parties but personnel involved were different than those who were involved in SMC executive committee.

Periodically, Woodward submitted request for reimbursement of expenses incurred to NDFC. NDFC after certifying correctness of expenses forwarded the same to USAID/Pakistan for reimbursement of expenses to Woodward. From July 1, 1991, NDFC was replaced by PSI.

Letter C 0902 dated May 20, 1993

AUDIT OBJECTIVES AND SCOPE

We have been appointed by USAID/Pakistan to carry out the audit of receipts and expenditures relating to SMC Project covering the period from January 1, 1990 to June 30, 1992. The operational responsibilities of the relevant parties were being governed by the following agreements:

- Project Grant Agreement between GOP and USAID/Pakistan dated March 31, 1984 and subsequent amendments thereto;
- Agreement between GOP and Woodward dated December 12, 1985 and subsequent amendments thereto; and
- Contract between USAID/Pakistan and Woodward dated May 23, 1991 and subsequent amendments thereto.

The results of our work are reflected in the following accompanying Independent Auditors' Reports on:

- a) Fund accountability statement;
- b) Internal controls; and
- c) Compliance with the applicable laws, regulations and terms of the contracts.

Our audit objectives were to:

- i) form an opinion whether Woodward's fund accountability statement presents fairly the receipts and expenditures and ending balances covering the audit period in accordance with the terms of the agreements and to identify any expenditures which were not fully supported by adequate records or reasonable or allowable under the terms of the agreements;
- ii) report on Woodward's internal control system; and
- iii) report on Woodward's compliance with the applicable laws, regulations and terms of contracts.
- iv) calculate final overhead rate for the AID direct contract and recommend the provisional overhead rate for next financial year.

We have performed our audit in accordance with generally accepted US Government auditing standards.

Letter C 0902 dated May 20, 1993

The scope of our work primarily included the following:

- a) Holding meetings with USAID/Pakistan representatives, Woodward and RIG/A/Singapore officials;
- b) Reviewing agreements, Office of Management and Budget (OMB) circulars, AID Hand book 14 Procurement Regulations, contracts files including all amendments and modifications, monthly reports submitted to USAID/Pakistan and Federal Acquisition Regulations;
- c) Reviewing Woodward internal control structure, accounting records and control procedures;
- d) Assessing Woodward's compliance with terms of the Agreements applicable laws and regulations;
- e) In performing some of the above procedures, compliance and substantive testing procedures were devised and performed; and
- f) 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.

SUMMARY OF THE RESULTS OF AUDIT

Fund Accountability Statement

The fund accountability statement is prepared on the basis of cash receipts and expenditures, which is a comprehensive basis of accounting other than generally accepted accounting principles.

In our opinion, the fund accountability statement presents fairly the income and expenditures of Woodward's contracts under the SMC project for the period from January 1, 1990 to June 30, 1992, as they relate to the host country contract and AID direct contract No: 391-0484-C-00-1802-00. However, we have noted US\$ 5,160 (Pak Rs 120,856) as questioned cost/revenue relating mainly to certain non compliance issues. The details have been given in Appendix I.

Internal Control System

Our review and evaluation of internal control system of Woodward regarding the SMC project did not disclose any material weakness. However, we noted certain minor weaknesses and have reported them to management of Woodward in a separate letter C 0890 dated May 20, 1993.

1

Letter C 0902 dated May 20, 1993

Compliance with terms of contracts, applicable laws and regulations

Our test for compliance with the terms of contracts, applicable laws and regulations by Woodward for the SMC project and selected transactions and records disclosed certain minor instances of non-compliance with those terms, laws and regulations. All instances noted have been listed as findings number 1 to 7 on pages 18 to 24 of this report. Other than these instances:

- the results of our test indicates that, for the items tested, Woodward complied in all material respects with those provisions of the agreement, applicable laws, regulations and terms of contracts; and
- for items not tested, nothing has come to our attention that caused us to believe that Woodward had not complied, in all material respects, with those provisions.

Audit follow-up

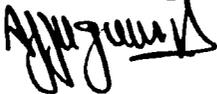
There were no prior findings and recommendations as no audit was arranged in the past by USAID.

Summary of management comments

The management of Woodward has agreed to our recommendations on above findings and these are included under the heading 'Management comments'. Woodward's comments are attached as Appendix IV.

We would like to express our thanks for the assistance and co-operation extended to us by RIG/A/Singapore, USAID/Pakistan and Woodward during the course of our audit.

Yours truly



A. F. FERGUSON & CO.

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Dear Sir

**FINANCIAL AUDIT OF W. WOODWARD PAKISTAN (PRIVATE) LIMITED
CONTRACTS WITH USAID/PAKISTAN
UNDER THE SOCIAL MARKETING OF CONTRACEPTIVES (SMC) PROJECT**

INDEPENDENT AUDITORS' REPORT ON THE FUND ACCOUNTABILITY STATEMENT

We have audited the fund accountability statement and the notes thereon set out on pages 15 to 17, of W. Woodward Pakistan (Private) Limited (Woodward) under the the host country contract with GOP and USAID direct contract No. 391-0484-C-00-1802-00 with USAID/Pakistan for the Social Marketing of Contraceptives (SMC) Project funded by USAID/Pakistan for the period from January 1, 1990 to June 30, 1992. The fund accountability statement is the responsibility of the management of W. Woodward Pakistan (Private) Limited. Our responsibility is to express an opinion on the fund accountability statement based on our audit.

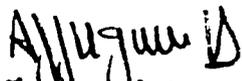
As stated in note 2 on page 15 the fund accountability statement presents only those transactions of Woodward which pertain to the Woodward contracts under the SMC Project and is not intended to present fairly the receipts and expenditures of Woodward as a whole.

We conducted our audit in accordance with generally accepted U.S. Government Auditing Standards. 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. Our audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the fund accountability statement. Our audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall fund accountability statement presentation. We believe that our audit provides a reasonable basis for our opinion.

As described in note 1.2 on page 15 to the fund accountability statement, the statement has been prepared on a cash receipt and expenditure basis which is a comprehensive basis of accounting other than the generally accepted accounting principles.

In our opinion, the fund accountability statement referred to above presents fairly, in all material respects, income and expenditures incurred and reimbursed for the period from January 1, 1990 to June 30, 1992, in conformity with the basis of accounting described in note 1.2 on page 15 to the fund accountability statement.

This report is intended solely for the use of USAID, GOP and Woodward and should not be used for any other purposes. 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.



Chartered Accountants

Karachi 20 MAY 1993

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Dear Sir

**FINANCIAL AUDIT OF W. WOODWARD PAKISTAN (PRIVATE) LIMITED
CONTRACTS WITH USAID/PAKISTAN
UNDER THE SOCIAL MARKETING OF CONTRACEPTIVES (SMC) PROJECT
INDEPENDENT AUDITORS' REPORT ON INTERNAL CONTROLS**

We have audited the fund accountability statement and the notes thereon set out on pages 15 to 17, of W. Woodward Pakistan (Private) Limited under the host country contract with GOP and USAID direct contract No. 391-0484-C-00-1802-00 with USAID/Pakistan for the Social Marketing of Contraceptives (SMC) Project funded by USAID/Pakistan for the period from January 1, 1990 to June 30, 1992, and have issued our report thereon dated May 20, 1993.

We conducted our audit in accordance with generally accepted U.S. Government Auditing Standards. 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.

In planning and performing our audit of W. Woodward Pakistan (Private) Limited under the Social Marketing of Contraceptive (SMC) Project, we considered its 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 Woodward as a whole.

The management of W. Woodward Pakistan (Private) Limited, 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 the fund accountability statement in accordance with generally accepted accounting principles. Because of inherent limitations in any internal control structure, errors or irregularities may nevertheless occur and not be detected. Also, projection of any evaluation of the structure to future periods is subject to the risk that procedures may become inadequate because of changes in conditions or that the effectiveness of the design and operation of policies and procedures may deteriorate.

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

Accounting controls

- Sales revenue
- Expenditure
- Personnel compensation cost
- Inventories

Management controls

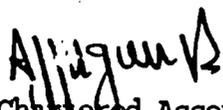
- Monitoring and approval
- Cost allocation and allowability
- Reporting

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

Our consideration of the internal control structure would not necessarily disclose all matters in the internal control structure that might be material weaknesses under standards established by the American Institute of Certified Public Accountants. 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 financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control structure and its operation that we consider to be material weaknesses as defined above.

However, we noted certain minor matters involving the internal control structure and its operation that we have reported to management of Woodward in a separate letter C 0890 dated May 20, 1993.

This report is intended solely for the use of USAID, GOP and Woodward and should not be used for any other purposes. 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.


Chartered Accountants

Karachi 20 MAY 1993

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Mr James B. Durnil
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Dear Sir

**FINANCIAL AUDIT OF W. WOODWARD PAKISTAN (PRIVATE) LIMITED
CONTRACTS WITH USAID/PAKISTAN
UNDER THE SOCIAL MARKETING OF CONTRACEPTIVES (SMC) PROJECT**

**INDEPENDENT AUDITORS' REPORT ON COMPLIANCE WITH
APPLICABLE LAWS, REGULATIONS AND TERMS OF THE CONTRACTS**

We have audited the fund accountability statement and the notes thereon set out on pages 15 to 17 of W. Woodward Pakistan (Private) Limited under the host country contract with GOP and USAID direct contract No. 391-0484-C-00-1802-00 with USAID/Pakistan for the Social Marketing of Contraceptives (SMC) Project funded by USAID/Pakistan for the period from January 1, 1990 to June 30, 1992.

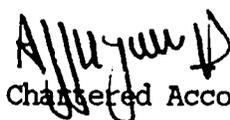
We conducted our audit in accordance with generally accepted U.S. Government Auditing Standards. These standards require that we plan and perform the audit to obtain reasonable assurance about whether the fund accountability statement is free of material misstatement.

Compliance with laws, regulations, contracts, and binding policies and procedures applicable to W. Woodward Pakistan (Private) Limited under the Social Marketing of Contraceptives (SMC) project is the responsibility of the management of W. Woodward Pakistan (Private) Limited. As part of our audit, we performed tests of W. Woodward Pakistan (Private) Limited's compliance with certain provisions of laws, regulations, contracts and binding policies and procedures. However, it should be noted that we performed those tests of compliance as part of obtaining reasonable assurance about whether the financial statements are free of material misstatement; our objective was not to provide an opinion on overall compliance with such provisions.

Our testing of transactions and records selected disclosed certain minor instances of non-compliance with those laws, regulations and contracts terms. All instances of non-compliance have been reported as finding Nos. 1 to 7 on pages 18 to 24.

The results of our tests indicate that, with respect of the items tested W. Woodward Pakistan (Private) Limited has complied, in all material respects with the provisions referred to in the preceding paragraphs of this report. With respect to items not tested, nothing came to our attention that caused us to believe that W. Woodward Pakistan (Private) Limited had not complied in all material respects, with those provisions.

This report is intended solely for the use of USAID, GOP and Woodward and should not be used for any other purposes. 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.


Chartered Accountants

Karachi 20 MAY 1993

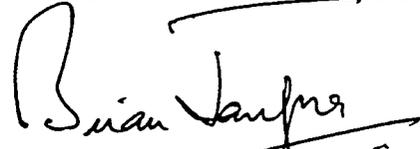
W. WOODWARD PAKISTAN (PRIVATE) LIMITED
 CONTRACTS WITH USAID/PAKISTAN
 UNDER THE SOCIAL MARKETING OF CONTRACEPTIVES (SMC) PROJECT
 FUND ACCOUNTABILITY STATEMENT
 FOR THE PERIOD FROM JANUARY 1, 1990 TO JUNE 30, 1992

15

	Note	Consolidated			For the period from			
		Earned (Incurred)	Deposited/ (Reimbursed)	Balance payable/ (Receivable)	January 1, 1990 to June 30, 1991		July 1, 1991 to June 30, 1992	
				Earned (Incurred)	Deposited/ (Reimbursed)	Earned (Incurred)	Deposited/ (Reimbursed)	
				Host country contract US dollar		USAID direct contract		
Income								
Sale of contraceptives	3	866,279	846,659	19,620	524,238	524,238	342,041	322,421
Interest		3,582	3,497	85	3,582	3,497	-	-
		<u>869,861</u>	<u>850,156</u>	<u>19,705</u>	<u>527,820</u>	<u>527,735</u>	<u>342,041</u>	<u>322,421</u>
Expenditures	4 & 5	(2,146,794)	(2,097,728)	(49,066)	(1,694,479)	(1,677,326)	(452,315)	(420,402)
		<u>(1,276,933)</u>	<u>(1,247,572)</u>	<u>(29,361)</u>	<u>(1,166,659)</u>	<u>(1,149,591)</u>	<u>(110,274)</u>	<u>(97,981)</u>
		=====	=====	=====	=====	=====	=====	=====

- Transactions during the period from January 1, 1990 to June 30, 1991 were governed by the Project Grant Agreement dated March 31, 1984 between the Government of Pakistan and USAID/Pakistan and a host country contract and agreement dated December 12, 1985 between the Government of Pakistan and W. Woodward Pakistan (Private) Limited and subsequent amendments to the above agreements. During the period, sales proceeds were deposited with the Government of Pakistan, Ministry of Population Welfare (MPW).
- Transactions for the period from July 1, 1991 to June 30, 1992 were under the USAID direct contract No. 391-0484-C-1802-00 between USAID/Pakistan and W. Woodward Pakistan (Private) Limited dated May 23, 1991 and subsequent amendments thereto. Sales proceeds for the period were deposited with Population Services International (PSI).
- The expenses for thirty months ended June 30, 1992 were reimbursed by USAID/Pakistan.

The notes set out on pages 15 to 17 form an integral part of this statement.


 Managing Director
 W. Woodward Pakistan (Private) Limited
 CONTRACTS WITH USAID/PAKISTAN
 UNDER THE SOCIAL MARKETING OF CONTRACEPTIVES (SMC) PROJECT


 Marketing Manager
 W. Woodward Pakistan (Private) Limited
 CONTRACTS WITH USAID/PAKISTAN
 UNDER THE SOCIAL MARKETING OF CONTRACEPTIVES (SMC) PROJECT

W. WOODWARD PAKISTAN (PRIVATE) LIMITED
 CONTRACTS WITH USAID/PAKISTAN
 UNDER THE SOCIAL MARKETING OF CONTRACEPTIVES (SMC) PROJECT

NOTES TO FUND ACCOUNTABILITY STATEMENT
 FOR THE PERIOD FROM JANUARY 1, 1990 TO JUNE 30, 1992

1. SIGNIFICANT ACCOUNTING POLICIES

1.1 Accounting convention

The fund accountability statement comprising receipts and expenditures and ending balances, expressed in Pak Rupees with equivalent US dollar has been prepared under the "historical cost convention".

1.2 Receipts and expenditures

The fund accountability statement has been prepared under "receipt and expenditure" basis of accounting. Receipts and expenditures represent the amounts received and paid respectively in cash or kind except that the sale invoices raised on despatch of contraceptives have been deemed to be "receipts" for the purposes of this fund accountability statement.

1.3 Foreign currency translation

Pak Rupee has been translated into US dollar at an average of the thirty month-end buying rates (US \$ 1 = Pak Rs 23.434444).

2. COMPONENT UNIT OF WOODWARD

The fund accountability statement presents the transactions of receipts and expenditures pertaining to host country contract funded by USAID/Pakistan between Woodward and GOP and USAID direct contract No. 391-0484-C-00-1802-00 between Woodward and USAID/Pakistan under the Social Marketing of Contraceptives (SMC) Project only and is not intended to present fairly the receipts and expenditures of Woodward as a whole.

3. SALES OF CONTRACEPTIVES

Period	Earned		Deposited		Balance payable	
	Equivalent US \$	Actual Pak Rs	Equivalent US \$	Actual Pak Rs	Equivalent US \$	Actual Pak Rs
January 1, 1990 to June 30, 1991	524,238	12,285,239	524,238	12,285,239	-	-
July 1, 1991 to June 30, 1992	342,041	8,015,534	322,421	7,555,743	19,620	459,791
	<u>866,279</u>	<u>20,300,773</u>	<u>846,659</u>	<u>19,840,982</u>	<u>19,620</u>	<u>459,791</u>
	=====	=====	=====	=====	=====	=====

The balance US \$ 19,620 (Pak Rs 459,791) represents sale proceeds payable to PSI for the month of June 1992.

4. EXPENDITURES

The period-wise expenses incurred are as follows:

	January 1, 1990 to June 30, 1991		July 1, 1991 to June 30, 1992	
	Equivalent US \$	Actual Pak Rs	Equivalent US \$	Actual Pak Rs
Personnel compensation	126,100	2,955,086	216,901	5,082,953
Packing materials	472,678	11,076,938	120,673	2,827,915
Research	21,358	500,500	-	-
Advertising	421,798	9,884,605	6,588	154,381
Vehicle	9,185	215,248	6,736	157,855
Part-time salaries	33,063	774,812	-	-
Executive travels	39,030	914,641	13,425	314,621
Factory labour	90,455	2,119,773	-	-
POL and maintenance	77,345	1,812,538	-	-
Factory overheads	57,310	1,343,034	9,808	229,837
Freight	30,488	714,474	10,611	248,668
Telephone and telex	10,177	238,500	-	-
Legal and professional	1,408	33,000	839	19,650
Rent	29,060	680,994	-	-
Commission	274,754	6,438,727	66,734	1,563,869
Bank charges	270	6,318	-	-
	<u>1,694,479</u>	<u>39,709,188</u>	<u>452,315</u>	<u>10,599,749</u>
	=====	=====	=====	=====

5. RECEIVABLE FROM USAID/PAKISTAN

The details of outstanding expenses as at June 30, 1992 are as follows:

	January 1, 1990 to June 30, 1991		July 1, 1991 to June 30, 1992	
	Equivalent US \$	Actual Pak Rs	Equivalent US \$	Actual Pak Rs
a) Personnel compensation	-	-	21,873	512,579
b) Packing materials	-	-	3,942	92,371
c) Advertising	3,413	80,000	69	1,617
d) Vehicle	-	-	1,190	27,886
e) Executive travels	13,740	321,990	2,728	63,939
f) Factory overheads	-	-	812	19,023
g) Freight	-	-	1,043	24,441
h) Legal and professional	-	-	256	6,000
	<u>17,153</u>	<u>401,990</u>	<u>31,913</u>	<u>747,856</u>
	=====	=====	=====	=====

6. STOCKS

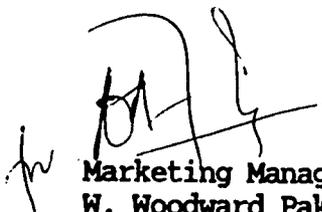
The stock of contraceptives and packing materials at June 30, 1992 comprised the following:

Contraceptives	No. of condoms
- raw material warehouse	96,988
- Production department	-
- finished goods warehouse	9,167,016
- samples	8,200
	<u>9,272,204</u>
	=====

The details on movements of inventory of condoms throughout the period of thirty months ended June 30, 1992 are set out in Appendix III.

Packing materials	units
- leaflets	90,924
- sathi 4's packs	
dispensers	454
packs	26,904
master cartons	565
- sathi 12's packs	
dispensers	-
packs	6,305
master cartons	2,308
- stickers	109,308

Host country contract between GOP and Woodward expired on June 30, 1991. The stocks of contraceptives of 14,035,776 condoms and packing materials valuing US \$ 5,927 (Pak Rs 138,890) were transferred to the AID direct contract free of cost.



Marketing Manager
W. Woodward Pakistan (Private) Limited
CONTRACTS WITH USAID/PAKISTAN
UNDER THE SOCIAL MARKETING OF CONTRACEPTIVES (SMC) PROJECT



Managing Director
W. Woodward Pakistan (Private) Limited
CONTRACTS WITH USAID/PAKISTAN
UNDER THE SOCIAL MARKETING OF CONTRACEPTIVES (SMC) PROJECT

AUDIT FINDINGS ON COMPLIANCE AND RECOMMENDATIONS

Finding No. 1

Condition

In December 1990, 62,208 contraceptives were sold. These sales were neither reported in MIS nor were the proceeds against these sales amounting to US \$ 223 (Pak Rs 5,222) deposited into GOP account.

Criteria

The above sales should have been recorded in MIS and the proceeds against these sales deposited in GOP account.

Cause

We were informed by Woodward's management that in December 1990, there was labour strike in the factory, therefore the above sales were overlooked for reporting into MIS and consequently deposit.

Effect

In the fund accountability statement, sales of contraceptives were under recorded to the extent of US \$ 223 (Pak Rs 5,222).

Recommendation

Sales under consideration should be recorded in MIS and the proceeds be deposited into GOP account.

Management comments

Agreed

Finding No. 2

Condition

There was an error in the calculation of average monthly salary charge at the rate of US \$ 85 (Pak Rs 1,995) per worker. This rate was approved in an undated Memorandum Of Understanding (MOU) signed by the representatives of USAID/Pakistan, MPW and Woodward as the host country contract gives ceiling of total expenditure only and does not specify limits for individual payments to workers.

Criteria

The correct rate on the basis used for calculation as per the MOU works out to US \$ 82 (Pak Rs 1,917) per worker.

Cause

The error occurred due to the application of an incorrect denominator in the formula to calculate the rate per worker that was included in MOU.

Effect

This error has resulted in an overcharge of US \$ 3,539 (Pak Rs 82,885) in personnel compensation cost for the period from January 1, 1990 to June 30, 1991. Effective July 1, 1991, a new rate of US \$ 112 (Pak Rs 2,625) per worker was agreed in the cost proposals (para 4.3) to the AID-direct contract.

Recommendation

The excess charge should be reversed and returned to USAID/Pakistan separately without involving any existing account head.

Management comments

Agreed

Finding No. 3

Condition

Bank charges amounting to US \$ 270 (Pak Rs 6,318) incurred on paying salaries of field staff were directly deducted from sales proceeds of contraceptives and net amount deposited.

Criteria

There was no budget allocation for bank charges and the agreement does not allow non-budgeted items to be deducted from sales proceeds.

Cause

As there was no line item allocated in budget for bank charges, these expenses were deducted from sales proceeds.

Effect

Bank charges were not submitted to NDFC for certifying the correctness of expenses. Further, sales proceeds deposited were understated.

Recommendation

Bank charges should be submitted by Woodward to MPW for certifying the correctness and if found in order, these should be reimbursed and simultaneously sales proceeds of US \$ 270 (Pak Rs 6,318) short deposited should be deposited by Woodward.

Management comments

Agreed

Finding No. 4

Condition

Certain expenses such as computer maintenance, purchase of calculators, stationery and printing expenses amounting to US \$ 1,856 (Pak Rs 43,497) were included and claimed under executive travel expenses. However, these expenses were approved and authorised for payments by NDFC and PSI.

Criteria

These expenses should be recorded in their appropriate heads of account and reimbursement claimed accordingly.

Cause

There was no line item in the budget to accomodate the above expenses.

Effect

The budget allocation of executive travels was utilised for the above expenses of US \$ 1,856 (Pak Rs 43,497) which are considered unallocable to the travel line item.

Recommendation

Existing budget should be revised to include line items for the above expenses.

Management comments

Agreed

Finding No. 5

Condition

Woodward had lodged the following claims with USAID/Pakistan and Ministry of Population Welfare (MPW), which were not recorded in the fund accountability statement.

	<u>USAID/Pakistan</u>		<u>M P W</u>	
	Equivalent US \$	Actual Pak Rs	Equivalent US \$	Actual Pak Rs
Advertising	3,414	80,000	427	10,000
Executive travel	13,740	321,990	-	-
Mass media	-	-	9,719	227,753
Incentive	-	-	22,214	520,575
Markup *	33,005	773,465	-	-
	-----	-----	-----	-----
	50,159	1,175,455	32,360	758,328
	=====	=====	=====	=====

* This represents markup on the funds blocked, on expenses chargeable to the host country contract, due to delay in reimbursement from USAID/Pakistan beyond the period mentioned in the agreement. We have been given to understand that mark up on receivable from USAID/Pakistan claimed by Woodward was relating to period prior to January 1990. It was approved by NDFC after June 30, 1992 but reimbursement from USAID/Pakistan is still awaited. We were informed that claims against advertising and executive travel had been reimbursed by USAID/Pakistan subsequent to June 30, 1992.

We were informed that claims from MPW had been discussed by Woodward and the matter had been resolved. Woodward is expecting the reimbursement in due course.

Criteria

The fund accountability statement should include all expenses incurred by Woodward, which are chargeable to the agreements.

Cause

These expenses were disputed by NDFC and therefore have not been included in the fund accountability statement.

Effect

The fund accountability statement is incomplete to the extent of the above unrecorded items.

Recommendation

We recommend that since all the disputes have been resolved, these expenses should be recorded in the fund accountability statement subsequent to June 30, 1992.

Management comments

The above claims will be recorded when received and after seeking guidance from the contracting agencies.

Finding No. 6

Condition

Staff training charges of US \$ 853 (Pak Rs 20,000) relating to Woodward's personnel working on part time basis for the USAID/Pakistan's Social Marketing of Contraceptive (SMC) Project for the month of October 1991 were claimed by Woodward as reimbursable expenses under professional charges without considering the level of effort of the concerned personnel as provided in the relevant agreement.

Criteria

The claim should have been based on the level of effort of the concerned staff as provided in the Section F para 3 of the AID direct contract. The expenses were disallowed by PSI on the same ground.

Cause

Difference of opinion about the extent of allowability of the expenses between Woodward and PSI.

Woodward contended that the staff training was solely for the SMC Project and therefore, whole of the expenses should be charged to the agreement.

Effect

The above expense is not included in the fund accountability statement. We understand that the above issue has been resolved subsequent to June 30, 1992, and an amount of US \$ 571 (Pak Rs 13,382) is agreed between Woodward and PSI as reimbursable expense.

Recommendation

An agreed reimbursable expense should now be recorded in MIS. Further, in order to avoid any future conflict a properly defined document as to the basis of allowability of the expenses should be prepared and kept on record.

Management comments

Agreed

Finding No. 7

Condition

The sale of contraceptives for the month of September 1991 was over stated by 135,936 number of condoms in MIS and the corresponding sales proceeds net of commission amounting to US \$ 728 (Pak Rs 17,066) were also excess deposited with PSI.

Criteria

In order to report correct information in MIS, proper supervision should be made to ensure authenticity of underlying records.

Cause

Due to casting (adding) error in sales register.

Effect

In the fund accountability statement sales of contraceptives and commission expense are overstated to the extent of US \$ 960 (Pak Rs 22,503) and US \$ 232 (Pak Rs 5,437) respectively. Excess amount net of commission was deposited with PSI on account of sales proceeds.

Recommendation

Error should be rectified in records and the amount excess deposited should be returned by USAID/Pakistan to Woodward.

Management comments

Agreed

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W. WOODWARD PAKISTAN (PRIVATE) LIMITED
 AID DIRECT CONTRACT NO: 391-0484-C-00-1802-00
 UNDER THE SOCIAL MARKETING OF CONTRACEPTIVES (SMC) PROJECT

WORKING OF OVERHEAD RATE

DESCRIPTION	EXPENSES	EXCLUSIONS/ UNALLOWABLE EXPENSES	DIRECT COST BASE	INDIRECT COST POOL
			Pak Rs	
Personnel compensation	7,660,493	2,433,608	5,082,953	143,932
Packing material	2,827,915	-	2,827,915	-
Advertising	154,381	-	154,381	-
Vehicle	157,855	-	157,855	-
Executive travels	314,621	-	314,621	-
Freight	248,668	-	248,668	-
Legal and professional	19,650	-	19,650	-
Depreciation and amortisation	1,060,874	753,643	-	307,231
Factory, office and marketing miscellaneous	3,760,027	3,394,605	-	365,422
Telephone, telex and fax	755,543	377,151	-	378,392
Fuel and energy	611,268	512,309	-	98,959
Financial charges	2,090,222	1,807,722	-	282,500
Others	1,311,519	1,095,976	-	215,543
	<u>20,973,036</u>	<u>10,375,014</u>	<u>8,806,043</u>	<u>1,791,979</u>
	=====	=====	=====	=====

Indirect cost rate calculation:

Indirect costs Pak Rs 1,791,979
 ----- x 100 = ----- x 100 = 20.35%
 Direct cost Pak Rs 8,806,043

NOTE

- The period covered is from July 1, 1991 to June 30, 1992.
- The figures for nine months ended March 31, 1992 are based on proportionate expenses for the period taken from the audited financial statements for the year then ended, whereas the figures for quarter ended June 30, 1992 are based on expenses as per Woodward's unaudited books of accounts. However, reasonableness of such expense amounts was ensured for the purpose of ascertaining contribution of indirect cost to the SMC Project.

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According to paras B.4 and B.5 of section B of the AID direct contract the provisional overhead rate is 2.61% of all direct costs charged to the contract, which is subject to a revision based on final negotiated rate, but not in excess of a ceiling of 3%.

On the basis of the working of overhead rate on page 25 of 27 and keeping in view the restrictive provisions of the contract Woodward needs to be reimbursed for overhead cost an additional amount of US\$ 1,465 (Pak Rs 34,344) as worked out below:

	US \$	Pak Rs
Overhead cost claimable as determined above (i.e., 3% of direct cost)	11,273	264,181
Overhead claimed using provisional overhead rate of 2.61% of direct expenses (Refer to Note 4 to the fund accountability statement)	9,808	229,837
Short claimed by Woodward	1,465	34,344
	=====	=====

. 27-

For the next financial year, we recommend the provisional overhead rate be fixed for at least 3% of direct cost, the maximum rate allowable under the contract. However, we feel that the ceiling of overhead rate given in the contract needs upward revision in view of the substantial difference between actual indirect expenses being incurred and the allowable overhead costs under the contract, as worked out on page 25.

BB

FINANCIAL AUDIT OF W. WOODWARD PAKISTAN (PRIVATE) LIMITED
 CONTRACTS WITH USAID/PAKISTAN
 UNDER THE SOCIAL MARKETING OF CONTRACEPTIVES (SMC) PROJECT
 FOR THE PERIOD FROM JANUARY 1, 1990 TO JUNE 30, 1992

APPENDIX I

Summary of questioned costs/revenue

Finding No.	Nature of cost/revenue	Reason for questioning	Amounts		Unallowable		Unsupported	
			Equivalent US \$	Actual Pak Rs	Equivalent US \$	Actual Pak Rs	Equivalent US \$	Actual Pak Rs
HOST COUNTRY CONTRACT								
1	Sale of contraceptive	Neither reported in MIS nor deposited	223	5,222	223	5,222	-	-
2	Personnel compensation cost	Calculation error	3,539	82,885	3,539	82,885	-	-
3	Bank charges	Not certified as correct by MFW and deducted from sale proceeds	270	6,318	-	-	270	6,318
4	Computer maintenance purchase of calculator stationery, printing	No line item in the budget	1,856	43,497	-	-	1,856	43,497
		Sub total	<u>5,888</u>	<u>137,922</u>	<u>3,762</u>	<u>88,107</u>	<u>2,126</u>	<u>49,815</u>
AID DIRECT CONTRACT								
7 (Part)	Sale of contraceptives	Excess reported in MIS Related proceeds deposited	(960)	(22,503)	-	-	(960)	(22,503)
7 (Part)	Commission on sales	Excess deducted from sales proceeds	232	5,437	232	5,437	-	-
		Sub total	<u>(728)</u>	<u>(17,066)</u>	<u>232</u>	<u>5,437</u>	<u>(960)</u>	<u>(22,503)</u>
		Grand total	<u>5,160</u> =====	<u>120,856</u> =====	<u>3,994</u> =====	<u>93,544</u> =====	<u>1,166</u> =====	<u>27,312</u> =====

FINANCIAL AUDIT OF W. WOODWARD PAKISTAN (PRIVATE) LIMITED
 CONTRACTS WITH USAID/PAKISTAN
 UNDER THE SOCIAL MARKETING OF CONTRACEPTIVES (SMC) PROJECT
 FOR THE PERIOD FROM JANUARY 1, 1990 TO JUNE 30, 1992

Unrecorded cost

Following expenses were not included in the fund accountability statement because of disputes which were resolved subsequent to June 30, 1992.

FINDING NO	NATURE OF COST	US \$	PAK Rs
5	Advertising, executive travel, mass media, incentive and mark up	82,519	1,933,783
6	Staff training charges	853	20,000
		<u>83,372</u> =====	<u>1,953,783</u> =====

FINANCIAL AUDIT OF W. WOODWARD PAKISTAN (PRIVATE) LIMITED
 CONTRACTS WITH USAID/PAKISTAN
 UNDER THE SOCIAL MARKETING OF CONTRACEPTIVES (SMC) PROJECT

Movement of contraceptives

	January 1, 1990 to June 30, 1991	July 1, 1991 to June 30, 1992	Consolidated
	----- No. of condoms -----		
Opening balance	1,520,372	-	1,520,372
Transferred from host country contract	-	14,035,776	14,035,776
Received from Population Welfare Division (PWD)	139,422,000	33,126,000	172,548,000
	140,942,372	47,161,776	188,104,148
Less:			
Sold and proceeds deposited with respective agencies	125,220,816	39,096,720	164,317,536
Sold in December 1990 but neither reported nor proceeds deposited (Refer to finding No: 1 on page 18)	62,208	-	62,208
Casting (adding) error in sales register for the month of September 1991 (Refer to finding No: 7 on page 24)	-	(135,936)	(135,936)
Issued as samples free of cost	56,000	1,480	57,480
	125,339,024	38,962,264	164,301,288
	15,603,348	8,199,512	23,802,860
Closing stock as at June 30, 1991 transferred to AID direct contract	14,035,776	-	14,035,776
Closing stock as at June 30, 1992	-	9,272,204	9,272,204
Shortage/(excess)	1,567,572	(1,072,692)	494,880

NOTE:

Physical stock check of contraceptives was carried out on June 7, 1991 by a team comprising the representatives of USAID/Pakistan, MPW-GOP, PSI and Woodward. Movement of contraceptives for the period from June 7, 1991 to June 30, 1991 was considered and adjusted accordingly to arrive at stock as at June 30, 1991.

Stock on June 30, 1992 was worked out on the basis of physical stock check on September 30, 1992, by taking into account the movements of contraceptives during the period.

Net shortfall of 494,880 condoms is 0.28% of total volume handled.



**MANAGEMENT COMMENTS ON AUDIT FINDINGS ON THE FUND
ACCOUNTABILITY STATEMENT FOR THE PERIOD
FROM JANUARY 1, 1990 TO JUNE 30, 1992.**

<u>FINDING NO.</u>	<u>COMMENTS</u>
1.	Agreed
2.	Agreed
3.	Agreed
4.	Agreed
5.	The above claims will be recorded when received and after seeking guidance from the contracting agencies.
6.	Agreed
7.	Agreed


Brian Janjua
Managing Director


Saifullah Khan
Marketing Manager

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APPENDIX V

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