
Audit of
The Government of Seychelles
Under The Commodity Import Program
Grant Agreement No. 662-K-609B, Project No. 662-0011

Report No. 3-662-93-27-N
August 16, 1993



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BE PRIVILEGED. THE RESTRICTIONS OF 18 USC 1905 SHOULD
BE CONSIDERED BEFORE ANY INFORMATION IS RELEASED TO
THE PUBLIC.



U.S. AGENCY FOR
INTERNATIONAL
DEVELOPMENT

August 16, 1993

MEMORANDUM

*Regional
Inspector General
for Audit/Nairobi*

TO: REDSO/ESA Director, Fred C. Fischer

FROM: RIG/A/Nairobi, Everette B. Orr *Everette B. Orr*

SUBJECT: Audit of the Government of Seychelles Under the Commodity Import Program Grant Agreement No. 662-K-609B, Project No. 662-0011, Audit Report No. 3-662-93-27-N

Attached are five copies of an Agency-contracted financial audit report of Seychelles Commodity Import Program No. 662-K-609B. The accounting firm of KPMG Peat Marwick, Kenya performed the audit.

The initial Seychelles Commodity Import Program (SCIP) was authorized in fiscal year 1982 to procure fuel and gas oil commodities. The program was extended annually through fiscal year 1991. The purpose of the SCIP was to finance the foreign exchange costs of certain commodities necessary to promote the economic development and stability of Seychelles. The commodities eligible were fuel and gas oil. Under this program, Seychelles rupees were generated from the sale of fuel and gas oil and deposited into a special account to fund mutually agreed upon development projects of the Government of Seychelles. The audit covered disbursements of \$3,940,217 for the period January 1991 through February 1993.

The objectives of the audit were to:

- audit the auditee's Fund Accountability Statement and express an opinion as to whether the Fund Accountability Statement presents fairly, in all material respects and in conformity with the basis of accounting described in the report, the use of funds in accordance with the grant agreement;
- consider the auditee's internal control structure in order to determine the auditing procedures for the purpose of expressing an opinion on the Fund Accountability Statement and to report on significant internal control deficiencies and material weaknesses; and

- test the auditee's compliance with the terms of the grant agreement, as part of obtaining reasonable assurance as to whether the Fund Accountability Statement is free of material misstatement, and report on any identified material instances of noncompliance.

KPMG Peat Marwick reported that the U.S. dollar and the local currency Fund Accountability Statements fairly presented the status of funds authorized under the Seychelles Commodity Import Program No. 662-K-609B. The report on internal control structure identified one reportable non-material weakness concerning authorization of project payment vouchers by the Ministry of Environment, Economic Planning and External Relations prior to submission to the Ministry of Finance for payment. Further, the report on compliance noted one material instance of noncompliance concerning initial commingling of grant funds for the first tranche.

The draft report was submitted to the auditee and REDSO/ESA for comment and their comments (Appendix I and Appendix II, respectively) were taken into consideration in the preparation of the final report by KPMG Peat Marwick.

We are not including any recommendation in the Office of the Inspector General audit recommendation follow-up system because the payments were made by the Ministry of Finance on grounds of urgency and alternative documentation was sighted by the auditors evidencing approval of the expenditures by the Ministry of Environment, Economic Planning and External Relations. The Government of Seychelles corrected the material instance of noncompliance of initial commingling of funds for the first tranche by opening a separate non-commingled account No. 16-24 and transferring the amount of the first tranche into it.

Thank you for the cooperation extended to KPMG Peat Marwick and Regional Inspector General for Audit representatives during the audit.

Attachments: a/s.

AUDIT OF
THE GOVERNMENT OF SEYCHELLES
UNDER THE COMMODITY IMPORT PROGRAM
GRANT AGREEMENT NO. 662-K-609B, PROJECT NO. 662-0011

ATTACHMENTS

AGENCY-CONTRACTED AUDIT OF THE
GOVERNMENT OF SEYCHELLES UNDER THE
COMMODITY IMPORT PROGRAM GRANT AGREEMENT
NO. 662-K-6098, PROJECT NO. 662-0011

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AGENCY-CONTRACTED AUDIT OF THE
GOVERNMENT OF SEYCHELLES (GOS) UNDER
THE COMMODITY IMPORT PROGRAM GRANT
AGREEMENT NO. 662-K-609B, PROJECT NO.662-0011

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1. INTRODUCTION

1.1 Background

The initial Government of Seychelles (GOS) Commodity Import Program was authorized in fiscal year 1982 to procure fueloil and gasoil commodities. The program was extended annually through fiscal year 1991.

The purpose of the program was for USAID to finance the foreign exchange costs of certain commodities necessary to promote the economic development and stability of Seychelles. The commodities eligible were fuel and gasoil. Under the program, the Seychelles Petroleum Company (SEPECO) purchase fuel and gasoil, which is paid for by USAID. SEPECO deposit the local currency (Seychelles Rupees, SR) equivalent in a special local currency account. The SR's generated are used for economic development projects in the Seychelles, mutually agreed between GOS and USAID.

The implementing agency for the program is the Government of Seychelles' Ministry of the Environment, Economic Planning and External Relations (GOS/MEEPER). Financial recording and control over the special local currency account is maintained by the Government of Seychelles' Ministry of Finance (GOS/MOF).

Deloitte Haskins and Sells performed an Agency - contracted financial audit (No. 3-662-92-03-N dated March 9, 1992) covering the following periods:-

- For US dollars disbursed under Grant Nos. 662-K-606 to 662-K-609, the report covered the Fund Accountability Statement for the period October 1, 1987 to December 31, 1990.
- For local currencies generated and utilised under Grant Nos. 662-K-606 to 662-K-609B the report covered the Fund Accountability Statement for the period October 1, 1987 to May 31, 1991.

The Local Currency Fund Accountability Statement, audited by Deloitte Haskins and Sells, included disbursements for projects allocated against funds generated from Grant No. 662-K-609B, even though the funds were generated after May 31, 1991. This was because there were unutilised funds available from the earlier Grants.

1.2 Audit Objectives

Peat Marwick was contracted, under its Indefinite Quantity Contract (No. 623-0000-I-00-2005-00), to perform an Agency-contracted audit of GOS under Grant No. 662-K-609B (the Grant), in accordance with generally accepted auditing standards and the U.S. Comptroller General's "Government Auditing Standards" (1988 Revision). The principal objective was to determine whether disbursements by the auditee are adequately supported in accordance with the provisions of the Grant and are allowable, allocable and reasonable.

With respect to the costs claimed, the objectives of the engagement were to:

- audit the auditee's Fund Accountability Statement and express an opinion as to whether the Fund Accountability Statement presents fairly, in all material respects and in conformity with the basis of accounting described in the report, the use of funds in accordance with the Grant;
- consider the auditee's internal control structure in order to determine the auditing procedures for the purpose of expressing an opinion on the Fund Accountability Statement and to report on significant internal control deficiencies and material weaknesses; and
- test the auditee's compliance with the terms of the Grant, as part of obtaining reasonable assurance about whether the Fund Accountability Statement is free from material misstatement, and report on any identified material instances of non-compliance.

1.3 Audit Scope

The scope of our audit is set out below.

(a) Audit report on the US Dollar Fund Accountability Statement

Our audit report covers only US Dollar disbursements by USAID under Grant No. 662-K-609B. Previous Grant disbursements were covered by Deloitte Haskins & Sells in their report no. 3-662-92-03-N dated March 9, 1992.

All US dollar disbursements under the Grant were audited.

(b) Audit report on the Local Currency Fund Accountability Statement

Our audit report covers local currency receipts generated from Grant No. 662-K-609B, and project disbursements deriving both from Grant No. 662-K-609B, and from balances on hand brought forward from Grant Nos. 662-K-606 to 662-K-609. Total disbursements amounted to SR21,688,376 (US\$3,940,217), of which Peat Marwick has audited SR20,603,957 (US\$3,743,206).

Our review of project disbursements reports only on whether the disbursements were programmed for mutually agreed upon development projects. As agreed with RIG/A/N, we have not audited the use of project funds.

(c) Audit Report on GOS's internal control structure

The audit reviewed the internal control structure relevant to the recording of receipts and disbursements by GOS under the Grant.

(d) Audit Report on GOS's compliance with the Grant

The audit report covers only GOS's compliance in respect of the Fund Accountability Statements under the Grant.

1.4. Restrictions on Audit Scope

Within the parameters stated above, there were no restrictions on our audit scope with the exception that we have not complied with Government Auditing Standard 3.46 regarding external quality control review. We do not however believe that this scope limitation had an adverse effect on our audit.

1.5. Audit Methodology

Peat Marwick conducted an initial survey of the accounting records of GOS in the Seychelles from May 2, 1993 to May 6, 1993, at which time the selection of transactions for detailed testing was completed. Peat Marwick subsequently prepared its audit work program for approval by RIG/A/N, secured approval and performed the field work from May 23, 1993 to June 2, 1993.

The principal audit steps performed included:

- a review of the terms and conditions of the Grant, applicable standard provisions and regulations and other project documents as deemed necessary;
- a review of GOS's internal control structure in order to assess the auditee's significant internal control policies and procedures, and the adequacy of GOS's accounting system and internal controls;

- performance of detailed compliance procedures to evaluate GOS's compliance with the Grant;
- performance of audit procedures to obtain reasonable assurance of detecting errors, irregularities and illegal acts, as defined by AICPA Statements of Auditing Standards 53 and 54;
- testing of receipt and disbursement transactions from the Fund Accountability Statements to determine the extent of non-compliance, unallowable or unallocable expenses and the effectiveness of internal controls.

1.6 Summary of Audit Results

1.6.1 Audit report on the US Dollar Fund Accountability Statement

Our audit report on the US Dollar Fund Accountability Statement is set out in section 2. Our audit report states that the Statement is fairly stated.

1.6.2 Audit Report on the Local Currency Fund Accountability Statement

Our audit report on the Local Currency Fund Accountability Statement is set out in section 3. Our audit report states that the Statement is fairly stated.

1.6.3 Review of GOS's internal control structure

Our review of GOS's internal control structure is set out in section 4. Our report notes one reportable condition, concerning lack of authorization of local currency project disbursements by GOS/MEEPER prior to payment by GOS/MOF.

1.6.4 Review of compliance with the Grant

Our review of GOS's compliance with the Grant is set out in section 5. Our report indicates that GOS did not comply initially with Section 5.6(a) of the Grant, concerning commingling of local currencies generated under the Grant.

1.7 Summary of Recommendations

	<u>Recommendation</u>	<u>Page</u>
All local currency project disbursements should be authorized by GOS/MEEPER prior to payment by GOS/MOF	1	16

1.8. Summary of GOS Management Comments

The response of GOS management to our draft report is enclosed in Appendix I. GOS management in general agree with the findings contained in the report. GOS management advise that the payments noted in section 4.2.1 were made without formal MEEPER authorization on the grounds of urgency.

1.9 Summary of USAID Management Comments

The response of USAID management to our draft report is enclosed in Appendix II. USAID management agree with the findings contained in the report.

KPMG Peat Marwick

Certified Public Accountants

Office address
Jubilee Insurance Exchange
Mama Ngina Street
Nairobi
Kenya

Postal address
P O Box 40612
Nairobi
Kenya

Telephone 222862
Telex 25074 PMMNBI
Teletax 254-2-215695
Telegrams Veritatem Nairobi

2. AGENCY CONTRACTED AUDIT OF THE GOVERNMENT OF SEYCHELLES (GOS) UNDER THE COMMODITY IMPORT PROGRAM GRANT AGREEMENT NO.622-K-609B, PROJECT NO.662-0011

INDEPENDENT AUDITOR'S REPORT ON THE US DOLLAR FUND ACCOUNTABILITY STATEMENT

We have audited the US Dollar Fund Accountability Statement for the period January 1, 1991 to February 28, 1993. This financial statement is the responsibility of GOS. Our responsibility is to express an opinion on this financial statement based on our audit.

We conducted our audit in accordance with generally accepted auditing standards and the Government Auditing Standards (1988 Revision) issued by the Comptroller General of the United States with the exception that we did not comply with Government Auditing Standard Section 3.46 regarding external quality control review. These standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statement is free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statement. An audit also assesses the accounting principles used and significant estimates made by the management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

The US Dollar Fund Accountability Statement was prepared on a cash receipts and payments basis which is a comprehensive basis of accounting other than generally accepted accounting principles.

In our opinion, the US Dollar Fund Accountability Statement of the GOS Commodity Import Program for the period January 1, 1991 to February 28, 1993 is fairly stated on the above accounting basis.

Financial information contained in this report may be privileged. The restrictions of 18 USC 1905 should be considered before any information is released to the public. This report is intended solely for the information of GOS and the Agency for International Development but this is not intended to limit the distribution of the report, if a matter of public record.

Peat Marwick
CERTIFIED PUBLIC ACCOUNTANTS

NAIROBI

Date: *2nd June 1993*

2.1 US Dollar Fund Accountability Statement of GOS under the Commodity Import Program Grant No. 662-K-609B for the period January 1,1991 to February 28,1993

	<u>Notes</u>	<u>US\$</u>
<u>BALANCE BROUGHT FORWARD:</u>		
Undisbursed balances on Grant Nos. 662-K-606 to 662-K-609		102,757
Deobligated	3	(83,332)
		----- 19,425
<u>REVENUE</u>	1	3,250,000
		----- 3,269,425
<u>EXPENDITURES</u>		
Gasoil	2	3,248,436
Audit fees		19,425

Undisbursed balance of Grant	3	1,564
		=====

2.1.1. Notes to the Statement

1. Total revenues represent amounts made available under the Grant for purchases of eligible commodities.
2. Gasoil expenditures represent amounts actually expended by USAID on gasoil under the Grant (see Section 2.2).
3. The undisbursed balance of the Grant allocated for gasoil purchases has been de-obligated and utilised for other US Government purposes.

2.2. Expenditures

Expenditures represent amounts actually expended by USAID on gasoil under the Grant.

Verification

The following verification work was performed on gasoil purchases:

- ensured that US Government procurement procedures had been followed;
- ensured that the correct prices per metric tonne were paid for the gasoil;
- ensured that the payments were authorized;

- ensured that the correct metric tonnage of gasoil had been received;
- obtained GOS representations that the gasoil received had not been re-exported.

Results

1. Satisfactory bid procedures were followed.
2. The correct price was paid for the gasoil.
3. The landed amount of gasoil was correct.

KPMG Peat Marwick

Certified Public Accountants

Office address	Postal address	Telephone 222862
Jubilee Insurance Exchange	P O Box 40612	Telex 25074 PMMNBI
Mama Ngina Street	Nairobi	Teletax 254-2-215695
Nairobi	Kenya	Telegrams Veritatem Nairobi
Kenya		

3. AGENCY CONTRACTED AUDIT OF THE GOVERNMENT OF SEYCHELLES (GOS) UNDER THE COMMODITY IMPORT PROGRAM GRANT AGREEMENT NO.622-K-609B, PROJECT NO.662-0011

INDEPENDENT AUDITOR'S REPORT ON THE LOCAL CURRENCY FUND ACCOUNTABILITY STATEMENT

We have audited the Local Currency Fund Accountability Statement for the period June 1, 1991 to February 28, 1993. This financial statement is the responsibility of GOS. Our responsibility is to express an opinion on this financial statement based on our audit.

We conducted our audit in accordance with generally accepted auditing standards and the Government Auditing Standards (1988 Revision) issued by the Comptroller General of the United States with the exception that we did not comply with Government Auditing Standard Section 3.46 regarding external quality control review. These standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statement is free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statement. An audit also assesses the accounting principles used and significant estimates made by the management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

As discussed in note 1 to the Fund Accountability Statement, this financial statement was prepared on a cash basis which is a comprehensive basis of accounting other than generally accepted accounting principles.

In our opinion, the Local Currency Fund Accountability Statement of the GOS Commodity Import Program for the period June 1, 1991 to February 28, 1993 is fairly stated on the above accounting basis.

Financial information contained in this report may be privileged. The restrictions of 18 USC 1905 should be considered before any information is released to the public. This report is intended solely for the information of GOS and the Agency for International Development but this is not intended to limit the distribution of the report, if a matter of public record.

Peat Marwick

CERTIFIED PUBLIC ACCOUNTANTS

NAIROBI

Date: 2nd June 1993

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3.1 Local Currency Fund Accountability Statement of GOS under the Commodity Import Program Grant Nos.662-K-606 to 662-K-609B for the period June 1, 1991 to February 28, 1993

	<u>Notes</u>	<u>SR</u>	<u>US\$ Equivalent</u>
Balance brought forward at June 1, 1991	2	5,092,782	922,772
Local currency deposited by SEPECO	3	<u>17,741,065</u>	<u>3,246,539</u>
Funds available for development projects		22,833,847	4,169,311
Payments for development projects	4	<u>(21,688,376)</u>	<u>(3,940,217)</u>
Balance on hand carried forward at March 1, 1993	5	<u>1,145,471</u>	<u>229,094</u>

3.1.1 Notes to the Statement

1. The Fund Accountability Statement is prepared on a cash receipts and payments basis. As noted in notes 3 and 4 below, revenues and expenditures are recorded when cash is physically received or disbursed.
2. Unexpended funds generated from Grant Nos.662-K-606 to 662-K-609.
3. Funds generated from sale of gasoil to SEPECO, analysed as follows:-

<u>Date Delivered</u>	<u>Metric Tonnes (MT)</u>	<u>Purchase Price</u>		<u>Exchange Rate</u>	<u>Total SR</u>
		<u>Per MT US\$</u>	<u>Total US\$</u>		
July 10, 1991	8,511.256	188.00	1,600,116	5.5102	8,816,959
August 2, 1991	8,828.478	186.49	<u>1,646,423</u>	5.4203	<u>8,924,106</u>
Deposited by SEPECO			<u>3,246,539</u>		<u>17,741,065</u>

Note: The US dollar value of gasoil used as basis to calculate the local currency amount deposited by SEPECO (US.\$3,246,539) differs from the amount disbursed by USAID (US.\$3,248,436) due to small differences on landed quantities of gasoil not recoverable by USAID under the bid agreement.

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4. Expenditures

Expenditures represent payments by GOS for approved development projects.

5. Balance on hand

The balance on hand is reconciled to bank balances as follows:-

	<u>SR</u>	<u>US\$</u> <u>Equivalent</u>
Central Bank of Seychelles Account No.16.24	903,756	180,751
Central Bank of Seychelles Account No.16.10	241,715	48,343
	<u>1,145,471</u>	<u>229,094</u>
	<u>=====</u>	<u>=====</u>

3.2 Local Currency Fund Accountability Statement of GOS under REDSO/ESA Grant No. 662-K-606 to 662-K-610 for the period June 1, 1991 to February 28, 1993 - Questioned Costs

	Total <u>Disbursed</u> SR	Disbursements recommended <u>for acceptance</u> SR	Questioned Costs		Reference
			Ineligible <u>Disbursements</u> SR	Unsupported <u>Disbursements</u> SR	
<u>Expenditures</u>	21,688,376	21,688,376	-	-	3.3

3.3 Expenditures

Expenditures consist of payments made out of the special local currency accounts for agreed development projects.

Verification

1. For a sample (95%) of project payments made by GOS, we performed the following work:-
 - ensured that the payment was authorized by the implementing agency, GOS/MEEPER;
 - ensured that the payment was for a development project approved by USAID and GOS/MEEPER;
 - ensured that the payment was made to an approved project contractor.

Results

All payments were authorized (see section 4.2.1.), and were for approved development projects.

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KPMG Peat Marwick

Certified Public Accountants

Office address
Jubilee Insurance Exchange
Mama Ngina Street
Nairobi
Kenya

Postal address
P O Box 40612
Nairobi
Kenya

Telephone: 22800
Telex: 25021 PUMARIP
Telefax: 25412 215095
Telegrams: Ventatem Nairobi

**AGENCY CONTRACTED AUDIT OF THE GOVERNMENT OF
SEYCHELLES (GOS) UNDER THE COMMODITY IMPORT PROGRAM
GRANT AGREEMENT NO.622-K-609B, PROJECT NO.662-0011**

INDEPENDENT AUDITOR'S REPORT ON THE INTERNAL CONTROL STRUCTURE

We have audited the US Dollar Fund Accountability Statement of the GOS Commodity Import Program for the period January 1, 1991 to February 28, 1993 and the Local Currency Fund Accountability Statement of the GOS Commodity Import Program for the period June 1, 1991 to February 28, 1993 and have issued our reports thereon dated June 2, 1993.

We conducted our audit in accordance with generally accepted auditing standards and the Government Auditing Standards (1988 Revision) issued by the Comptroller General of the United States. These standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statement is free from material misstatement.

In planning and performing our audit of the financial statements of the GOS Commodity Import Program we considered GOS's internal control structure in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statement and not to provide assurance on the internal control structure.

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

- Commodity procurement and receipt procedures.
- Deposits of local currency generated in the local currency account.
- Disbursements from the local currency account to projects.
- Overall monitoring, control and coordination of the projects.

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

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

A description of reportable conditions is set out on page 16 immediately following this report.

A material weakness is a reportable condition in which the design or operation of the specific internal control structure element 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.

Our consideration of the internal control structure would not necessarily disclose all matters in the internal control structure that might be reportable conditions and, accordingly, would not necessarily disclose all reportable conditions that are also considered to be material weaknesses as defined above. However, we believe that the reportable condition noted on page 16 is not a material weakness.

Financial information contained in this report may be privileged. The restrictions of 18 USC 1905 should be considered before any information is released to the public. This report is intended solely for the information of GOS and the U.S. Agency for International Development but this is not intended to limit the distribution of the report, if a matter of public record.

Peat Marwick

CERTIFIED PUBLIC ACCOUNTANTS

NAIROBI

Date: 2nd June 1993

4.1 Introduction

4.1.1 Definition

American Institute of Certified Public Accountants (AICPA) Codification of Auditing Standards, section 319, defines an organization's internal control structure as consisting of the policies and procedures established to provide reasonable assurance that a specific entity's objectives will be achieved. The internal control structure is composed of three elements:

- . the control environment;
- . the accounting system;
- . control procedures.

The control environment reflects the overall attitude, awareness and actions of management. The accounting system consists of methods and records established to identify, assemble, analyze, classify, record and report transactions. Control procedures are those policies and procedures in addition to the control environment and accounting system that management has established to safeguard the organization's resources.

We have classified the internal control structure of GOS on a functional basis, relating to the administration of the Grant as follows:-

- Commodity procurement and receipt procedures.
- Deposits of local currency generated in the local currency account.
- Disbursements from the local currency account to projects.
- Overall monitoring, control and coordination of the projects.

4.2 Findings

4.2.1 Authorization of Project disbursements by GOS/MEEPER

Observation

GOS/MEEPER is required to authorize project payment vouchers prior to submission to GOS/MOF for payment. It was observed that the following payment vouchers were not formally authorized by GOS/MEEPER prior to payment by GOS/MOF (Note: alternative documentation was sighted evidencing GOS/MEEPER approval of the expenditures).

<u>Voucher No.</u>	<u>SR</u>	<u>US\$ Equivalent</u>
USAID P0060	240,974	48,188
USAID P0100	155,745	31,149

Recommendation No.1

GOS/MEEPER should formally authorize all project expenditures prior to submission to GOS/MOF for payment.

GOS Management Comments

GOS management advise that the payments were made without formal authorization by MEEPER on the grounds of urgency.

KPMG Peat Marwick

Certified Public Accountants

Office address	Postal address	Telephone 222862
Jubilee Insurance Exchange	P O Box 40612	Telex 25074 PMMNBI
Mama Ngina Street	Nairobi	Teletax 254-2-215695
Nairobi	Kenya	Telegrams Veritatem Nairobi
Kenya		

5. AGENCY CONTRACTED AUDIT OF THE GOVERNMENT OF SEYCHELLES (GOS) UNDER THE COMMODITY IMPORT PROGRAM GRANT AGREEMENT NO.622-K-609B, PROJECT NO.662-0011

INDEPENDENT AUDITORS REPORT ON GOS'S COMPLIANCE WITH THE GRANT AGREEMENT TERMS AND APPLICABLE LAWS AND REGULATIONS

We have audited the US Dollar Fund Accountability Statement of the GOS Commodity Import Program for the period January 1, 1991 to February 28, 1993 and the Local Currency Fund Accountability Statement of the GOS Commodity Import Program for the period June 1, 1991 to February 28, 1993 and have issued our reports thereon dated June 2, 1993.

We conducted our audit in accordance with generally accepted auditing standards and the Government Auditing Standards (1988 Revision) issued by the Comptroller General of the United States. These standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statement is free of material misstatement.

Compliance with the Grant is the responsibility of GOS. As part of obtaining reasonable assurance about whether the financial statements are free of material misstatement, we performed tests of GOS's compliance with certain provisions of the Grant. However, the objective of our audit was not to provide an opinion on overall compliance with such provisions. Accordingly, we do not express such an opinion.

Material instances of non-compliance are failures to follow requirements, or violations of prohibitions, contained in statutes, regulations, contracts or grants that cause us to conclude that the aggregation of the misstatements resulting from these failures or violations is material to the financial statements. The results of our tests of compliance disclosed the following material instance of non-compliance.

Section 5.6(a) of the Grant Agreement, "Generation and use of Local Currency", requires that "the Grantee will establish a separate non-commingled Special Account in the Central Bank of the Republic of the Seychelles and will deposit therein currency of the Republic of Seychelles in amounts equal to each shipment of eligible items". The first tranche of SR 2,938,986 (US\$ 587,797) generated from Grant No. 662-K-609B was deposited in Central Bank of Seychelles account No. 16-10, containing fund balances brought forward from Grant Nos. 662-K-606 to 662-K-609. Whilst we recognize that the tranche was later transferred to a separate non-commingled account No. 16-24, we consider that the initial commingling of Grant funds to be a material instance of non-compliance with the Grant.

We considered this material instance of non-compliance in forming our opinion on whether GOS's Commodity Import Program Fund Accountability Statements are presented fairly, in all material respects, in conformity with generally accepted accounting principles, and this report does not affect our report dated June 2, 1993 on the Fund Accountability Statements.

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

Financial information contained in this report may be privileged. The restrictions of 18 USC 1905 should be considered before any information is released to the public. This report is intended solely for the information of GOS and the U.S. Agency for International Development but this is not intended to limit the distribution of the report, if a matter of public record.

Peat Marwick
CERTIFIED PUBLIC ACCOUNTANTS

NAIROBI

Date 2nd June 1993

APPENDIX I

MINISTRY OF FINANCE & INFORMATION
FINANCIAL PLANNING & CONTROL DIVISION
P.O. Box 313, Central Bank Building, Victoria, Republic of Seychelles
Telex: 2363 FINTUR SZ Telefax: (0248) 25265 Telephone: 25252



Please address all correspondence to the Director General

Your Ref:
Our Ref:
Enquiries To: FIN/U/2/2
Telephone Ext:
Date: 30th July 1993

Mr Simon Woods
Manager
KPMG - Peat Marwick
Nairobi

Dear Sir

SEYCHELLES C I P

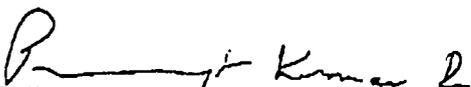
The following are our comments on the observations:-

Both payments were made directly by Ministry of Finance on grounds of urgency. However, adequate checks were exercised at the time of making the payments to ensure that the documentation were in order.

In general we are in agreement with the report.

Thanking you.

Yours faithfully


P Kumar De
CHIEF FINANCE OFFICER
for: DIRECTOR GENERAL

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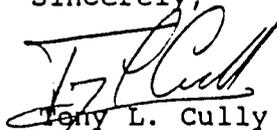
Dear Sirs,

**Re: Financial Audit -
Seychelles Commodity Import Program**

The REDSO Project Committee has reviewed the referenced draft audit report and finds the report to represent fairly the status of Government of Seychelles's accounting system, financial reporting and internal controls. REDSO has no other comment on the report.

REDSO wish to express appreciation to Peat Marwick for a job well done.

Sincerely,


Tony L. Cully
Director,
RFMC/Nairobi

cc: B. Odell, A/Dir., REDSO/ESA
: RIG/A/N.

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