

**Regional Inspector General for Audit
Singapore**

**AUDIT OF
USAID/PAKISTAN'S GRANT NO. 391-0470-G-00-8065 TO
FAMILY WELFARE COOPERATIVE SOCIETY
PAKISTAN**

**Audit Report No. 5-391-94-006-N
March 8, 1994**





U.S. AGENCY FOR
INTERNATIONAL
DEVELOPMENT

March 8, 1994

TO: John S. Blackton, Mission Director
USAID/Pakistan

FROM: Richard C. Thabet, RIG/A/Singapore 

SUBJECT: Audit of USAID/Pakistan's Grant No. 391-0470-G-00-8065 to Family Welfare Cooperative Society (FWCS)
Report No. 5-391-94-006-N

Enclosed are five copies of the subject audit report (prepared by the accounting firm of Ford, Rhodes, Robson, Morrow) for your action. The audit covered the period from September 28, 1988, to December 31, 1992. During this period, FWCS reported that it received \$320,350 and spent \$305,862 of that amount. The background information on the grant and the project is presented on pages 1 and 2 of the report.

The audit objectives were to:

- Determine whether FWCS's Fund Accountability Statement presents fairly the receipts and costs incurred under the grant;
- Report on FWCS's system of internal controls; and
- Report on FWCS's compliance with applicable laws, regulations, and terms of the grant agreement.

The auditors concluded that FWCS's:

- Fund Accountability Statement presents fairly the receipts and costs incurred under the grant;
- Internal controls had seven reportable conditions, which were not considered to be material weaknesses; and

- Operations complied in all material respects with applicable laws, regulations, and terms of the grant. There were, however, six immaterial instances of non-compliance.

This audit report contains 13 findings and recommendations which include questioned costs of \$5,761. Because of the absence of a certificate of completion from the architect (see page 19), we are questioning an additional \$15,994, an amount which represents retention money paid to the construction contractor. In their response, FWCS officials generally agreed with these findings and recommendations. Their comments are summarized after each finding in the report and presented in their entirety as Appendix E.

USAID/Pakistan needs to ensure that necessary action is taken to correct the problems noted in this audit. In addition, the following recommendations will be included in the Inspector General's recommendation follow-up system:

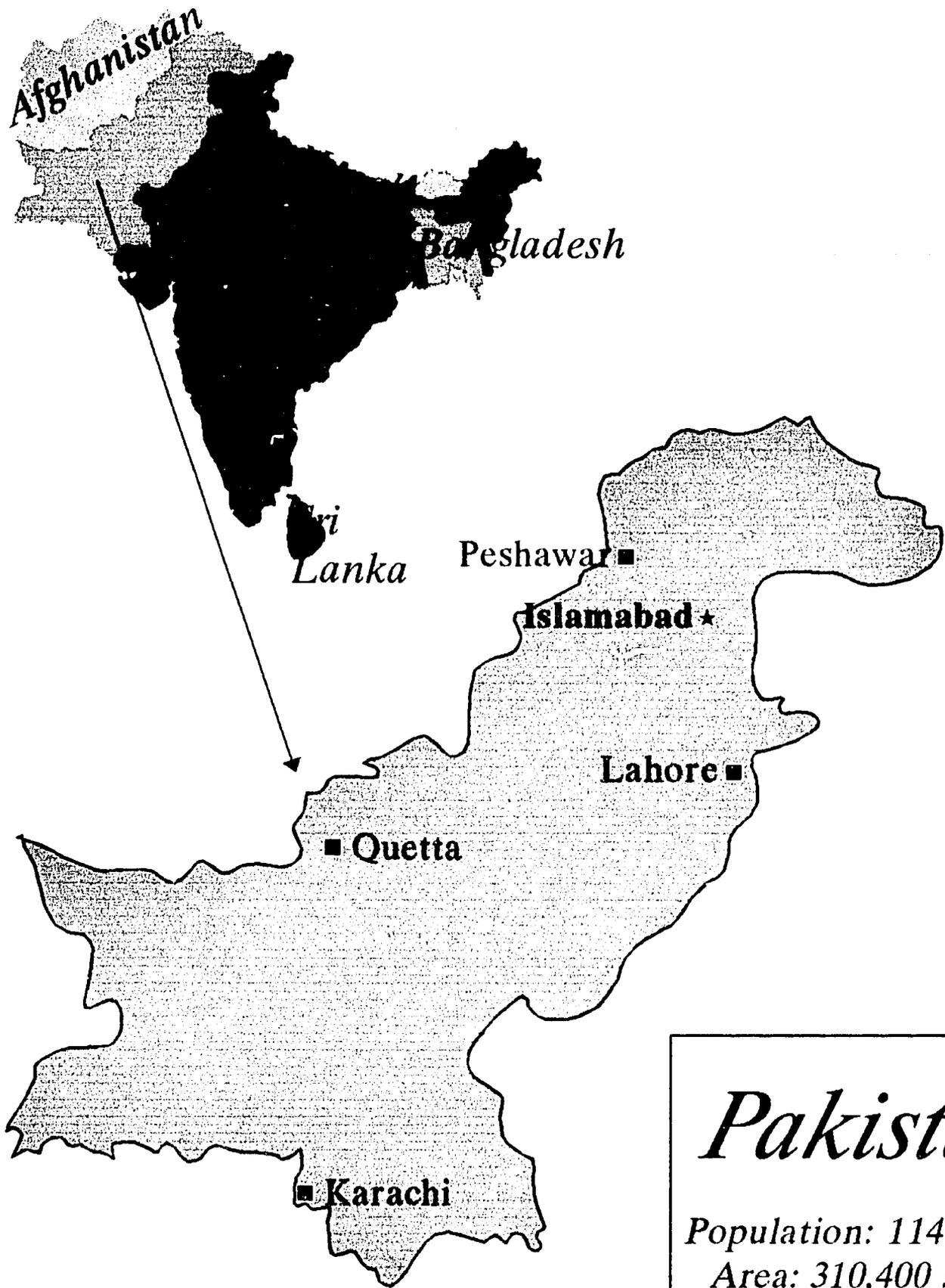
Recommendation No. 1: We recommend that USAID/Pakistan resolve the \$21,755 in questioned costs (\$21,228 ineligible and \$527 unsupported) with Family Welfare Cooperative Society and recover any amounts determined to be unallowable.

Recommendation No. 2: We recommend that USAID/Pakistan verify that Family Welfare Cooperative Society establishes and implements procedures to: (a) cancel supporting documents when bills are paid, and (b) use a petty cash imprest system with an appropriate limit for the cash fund.

We appreciate the courtesies and cooperation USAID/Pakistan and FWCS 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**

■ **Karachi**

Pakistan

Population: 114 million

Area: 310,400 sq. mi.

Capital: Islamabad



AUDIT OF

FAMILY WELFARE CO-OPERATIVE
SOCIETY (FWCS)

PERFORMED AND PREPARED BY

FORD, RHODES, ROBSON, MORROW
CHARTERED ACCOUNTANTS
LAHORE - PAKISTAN

FORD, RHODES, ROBSON, MORROW
CHARTERED ACCOUNTANTS,
2ND FLOOR, WASEEM CENTRE,
23, BLOCK A, GULBERG II
P.O. BOX NO. 104
LAHORE - PAKISTAN
TELEX : 24492 IRRM PK
PHONES : 874961 & 874216
ALSO AT KARACHI & ISLAMABAD.

**AUDIT OF
FAMILY WELFARE CO-OPERATIVE SOCIETY**

TABLE OF CONTENTS

| | <u>Page No.</u> |
|--|-----------------|
| Transmittal letter and summary: | |
| Background - Pakistan | 1 |
| FWCS - The organisation and its Programme | 2 |
| Audit Objectives and Scope of Work | 2 |
| Audit Results | 4 |
| Report on the Fund Accountability Statement: | |
| Independent Auditors' Report | 6 |
| Fund Accountability Statement | 8 |
| Notes to the Fund Accountability Statement | 9 |
| Report on the System of Internal Controls: | |
| Independent Auditors' Report | 10 |
| Findings on the System of Internal Controls | 15 |
| Report on Compliance with Agreement Terms, Applicable Laws and Regulations: | |
| Independent Auditors' Report | 21 |
| Findings of Non-Compliance | 24 |
| Appendixes: | 30 |
| A Schedule of Questioned Cost. | |
| B Items purchased without obtaining comparative statement. | |
| C Employees acknowledgement not obtained while giving advances to employees. | |
| D Amount spent for objectives not specified by USAID. | |
| E Full Text of Management Comments. | |
| F Report Distribution List. | |

FORD, RHODES, ROBSON, MORROW
CHARTERED ACCOUNTANTS

NTN 06-04-143-7506

OFFICES IN PAKISTAN AT
KARACHI & ISLAMABAD

2nd FLOOR, WASEEM CENTRE,
23, BLOCK A, GULBERG II,
P.O. BOX 104,
LAHORE.
PAKISTAN.

PHONES 874961 & 874216
TELEX 21482 FRRM PK
TELEFAX 92-42-5711425
TELEGRAMS RAPROF, LAHORE.

Ref. LHR/115/1994 January 12, 1994

Mr. Richard C. Thabet,
Regional Inspector General
for Audit, Singapore,
US Agency for International Development,
17-03, Peninsula Plaza,
111, North Bridge Road,
Singapore-0617.

Dear Mr. Thabet,

Our reports present the results of our audit of Grant No. 391-0470-G-00-8065-00 by the United States Agency for International Development in Pakistan (USAID/PAK.) to Family Welfare Co-operative Society for the construction of a two-storey hostel for working women, for the period from September 28, 1988 to December 31, 1992.

Background - Pakistan

Pakistan is the world's ninth most populous country with approximately 114 million people. The Government is continuously trying to improve industrialization in the country by privatizing state-owned industrial units and providing attractive facilities to local and foreign investors. Persistent improvement in the growth rate of GDP has been witnessed in the past two years. After sliding to a level of 4.8 and 4.67 percent in 1988-89 and 1989-90, the growth rate of GDP rose to 5.6 percent in 1990-91 and further to 6.4 percent in 1991-1992 with the progress of industrialization process.

The uplift of women's status in the country continues to be one of the Government's top priorities. The Government endeavours to provide an opportunity for their integration in every sphere of life. It has evolved strategies aimed at ensuring women's acceptance as a valuable human resource in national development. It is not only pursuing and reinforcing policies for their betterment, but also providing financial and institutional assistance, including guidance to provincial line departments and non-governmental organization in order to implement programmes for the uplift of the status of women.

Mr. Richard C. Thabet,
Regional Inspector General
for Audit, Singapore,
US Agency for International Development,
17-03, Peninsula Plaza,
111, North Bridge Road,
Singapore-0617.

In 1992, USAID/Pak. signed an agreement with the Government of Pakistan to set up the Project Design and Implementation Fund (PDIF). This fund is to be used to develop and design high priority development projects which will promote economic stability and self-sustaining growth. To contribute towards the achievement of this objective, FWCS was given a grant on September 28, 1988, to establish a working women's hostel for 50 working women in Lahore. This two-storey hostel is developed as part of the existing community centre complex at the FWCS head quarter.

FWCS - The organisation and its programme:

FWCS, established in 1954 by a small group of women in Lahore, is a non-profit social welfare organization run by an executive body consisting of 33 unpaid members and 95 full-time staff. Its primary objective is to provide women with low income, and through them their families, health care services and training in income-generating skills. The society serves approximately 60,000 women and children per year in all its projects. One of the institutions it has established is a community center where literacy classes are held and day nursery activities are conducted. This community center is also hired for weddings and other functions. Other activities of FWCS include running an industrial home which provides training in sewing, handcrafting and food processing. The skills taught in this institution are then disseminated when the women return to their villages and undertake the income-generating activities they have learnt.

Audit objective and scope of work:

We have conducted a financial audit of FWCS's Fund Accountability Statement relating to the construction and related activities of a working women's hostel under grant No.391-0470-G-00-8065-00 for the period from September 28, 1988 to December 31, 1992.

The results of our work are reflected in the accompanying Independent Auditors' Report on the -

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



FRONT ELEVATION OF F.W.C.S. WORKING WOMEN'S HOSTEL



ENTRANCE TO F.W.C.S. WORKING WOMEN'S HOSTEL



FIRST FLOOR VIEW OF F.W.C.S. WORKING WOMEN'S HOSTEL



SECOND FLOOR VIEW OF F.W.C.S. WORKING WOMEN'S HOSTEL



REAR ELEVATION OF F.W.C.S. WORKING WOMEN'S HOSTEL

Mr. Richard C. Thabet,
Regional Inspector General
for Audit, Singapore,
US Agency for International Development,
17-03, Peninsula Plaza,
111, North Bridge Road,
Singapore-0617.

The objectives of our work were to -

- (a) Determine whether the Fund Accountability Statement of FWCS presents fairly the receipts and payments and ending cash balances as they pertain to the Grant and covering the audit period noted above, in accordance with the terms of the Agreement with USAID/Pak.;
- (b) Report on the organisation's system of internal controls; and
- (c) Report on the organisation's compliance with applicable laws, regulations, agreement terms, binding policies and procedures.

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

The scope of our work included the following general procedures:-

- Holding meetings with representatives of USAID/Pak., FWCS management, their Contractors and Architects.
- Reviewing appropriate agreements, related amendments and correspondence between USAID and FWCS.
- Obtaining an understanding of the accounting, administrative and internal control systems of FWCS.
- Devising and performing appropriate tests on the transactions recorded in the Fund Accountability Statement.
- Reviewing correspondence between FWCS and their Contractors and Architects.
- 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 result of our audit.

Mr. Richard C. Thabet,
Regional Inspector General
for Audit, Singapore,
US Agency for International Development,
17-03, Peninsula Plaza,
111, North Bridge Road,
Singapore-0617.

- Testing the effectiveness of administrative controls applied by FWCS management to ensure compliance with applicable laws, regulations and agreement terms.

AUDIT RESULTS

(a) Opinion on the Fund Accountability Statement:

We carried out an audit of the Fund Accountability Statement as on December 31, 1992 and in our opinion the Fund Accountability Statement as of the above date of Grant No. 391-0470-G-00-8065-00 presents a true and fair view in all material respects of the receipts and payments of FWCS for the period from September 28, 1988 to December 31, 1992, in conformity with the basis of generally accepted accounting principles.

(b) System of Internal Controls:

In accordance with paragraph 19 of Chapter 5 of Government Auditing Standards, we limited our reliance on FWCS's internal controls as our preliminary evaluation regarding controls implemented by the management revealed that an adequate system which is generally required is not in existence due to the small size of the entity. In order to minimize audit risk, we therefore extended our samples for substantive testing.

While carrying out our audit, we noted certain matters involving the internal control structure and its operation that we considered to be reportable conditions. These matters are described as findings A to G on pages 15 to 19. However, we believe that none of these reportable conditions are material weaknesses.

(c) Compliance with agreement terms, applicable laws and regulations:

During the course of our audit, we also noted instances of non-compliance with agreement terms, applicable laws and regulations which have been described on pages from 24 to 29 of our report.

Mr. Richard C. Thabet,
Regional Inspector General
for Audit, Singapore,
US Agency for International Development,
17-03, Peninsula Plaza,
111, North Bridge Road,
Singapore-0617.

Our tests for compliance with agreement terms, applicable laws and regulations indicate that with respect to the items tested, these are duly complied with in all material respects. We also report that with respect to items not tested, nothing came to our notice that caused us to believe that FWCS 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 and recommendations from previous audits that affect the current audit objectives were noted.

Comments on findings and recommendations

The management of FWCS has given detailed comments to our findings and recommendations on internal control and non-compliance set out on pages 15 to 19 and pages 24 to 29 respectively and the comments are fully set out in Appendix-E.

Acknowledgement

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

Yours faithfully,

Fred Rhodes

AUDIT OF
FAMILY WELFARE CO-OPERATIVE
SOCIETY
REPORT ON
THE FUND ACCOUNTABILITY
STATEMENT

FORD, RHODES, ROBSON, MORROW
CHARTERED ACCOUNTANTS

NTN 06-04-143-7506

OFFICES IN PAKISTAN AT
KARACHI & ISLAMABAD

2nd FLOOR, WASEEM CENTRE,
23, BLOCK A, GULBERG II,
P.O. BOX 104,
LAHORE,
PAKISTAN

PHONES 874961 & 874216
TELEX 21482 FRRM PK
TELEFAX 92-42-5711425
TELEGRAMS RAPROF, LAHORE.

Ref. LHR/116/1994 January 12, 1994

Mr. Richard C. Thabet,
Regional Inspector General
for Audit, Singapore,
US Agency for International Development,
17-03, Peninsula Plaza,
111, North Bridge Road,
Singapore-0617.

Dear Mr. Thabet,

**FAMILY WELFARE CO-OPERATIVE SOCIETY
PERTAINING TO ITS GRANT NO.391-0470-G-00-8065-00 WITH THE
UNITED STATES AGENCY FOR INTERNATIONAL DEVELOPMENT
IN PAKISTAN**

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

1. We have audited the Fund Accountability Statement of Family Welfare Co-operative Society (FWCS) pertaining to its grant No. (391-0470-G-00-8065-00) with the United States Agency for International Development, Pakistan ("USAID/PAK") for the period from September 28, 1988, to December 31, 1992.
2. As stated in Note 2 on page 9, the Fund Accountability Statement reflects only the transactions of FWCS as they pertain to its grant for the period mentioned above and is not intended to report fairly the receipts and payments of FWCS as a whole.
3. The preparation of this Statement, comprising the receipts and payments for the above mentioned grant for the period outlined above, is the responsibility of FWCS management. Our responsibility is to express an opinion on the Statement based on our audit.

FAMILY WELFARE CO-OPERATIVE SOCIETY
PERTAINING TO ITS GRANT NO.391-0470-G-00-8065-00 WITH THE
UNITED STATES AGENCY FOR INTERNATIONAL DEVELOPMENT
IN PAKISTAN

INDEPENDENT AUDITORS' REPORT ON THE FUND
ACCOUNTABILITY STATEMENT

4. We conducted our audit in accordance with generally accepted auditing standards and US Government Auditing Standards. These standards require that we plan and perform our audit to obtain reasonable assurance on whether the Statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as reviewing the overall financial statement presentation. We believe our audit provides a reasonable basis for our opinion.
5. As described in Note 1 (b) to the Fund Accountability Statement, the Statement is prepared on a cash receipt and payment basis.
6. In our opinion, the Fund Accountability Statement is fairly presented in all material respects in conformity with the basis of accounting described in Note 1 (b) to the Fund Accountability Statement.
7. This report is intended solely for the use of the Agency for International Development and FWCS 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.


Fred, Rhodes, Robson, Morrow,
Chartered Accountants

**FAMILY WELFARE CO-OPERATIVE SOCIETY
FUND ACCOUNTABILITY STATEMENT
FOR THE PERIOD FROM SEPTEMBER 28, 1988 TO DECEMBER 31, 1992**

| <u>Revenue</u> | <u>Budget</u> Rupees *(Sept. 28, 1988 to Sept. 30, 1993). | <u>Budget</u> US \$ Equivalent *(Sept. 28, 1988 to Sept. 30, 1993). | <u>Actual</u> Rupees (Sept. 28, 1988 to Dec. 31, 1992). | <u>Actual</u> US \$ Equivalent (Sept. 28, 1988 to Dec. 31, 1992). |
|----------------------------|---|--|---|--|
| Grant received | 8,491,600.00 | 355,000.00 | 7,662,766.80 | 320,349.78 |
| <u>Cost Incurred</u> | | | | |
| Building construction | 4,341,240.80 | 181,490.00 | 4,400,082.02 | 183,949.91 |
| Furniture and equipment | 2,263,693.12 | 94,636.00 | 2,455,362.50 | 102,648.84 |
| Maintenance & supplies | 1,744,437.76 | 72,928.00 | 308,193.83 | 12,884.26 |
| Other direct cost | 142,228.32 | 5,946.00 | 152,583.31 | 6,378.90 |
| TOTAL COST INCURRED | <u>8,491,600.00</u> | <u>355,000.00</u> | <u>7,316,221.66</u> | <u>305,861.91</u> |
| CASH IN HAND | | | <u>346,545.14</u> | <u>14,487.87</u> |

* The Grant was given for period from September 28, 1988, to September, 30, 1993.

The notes on page 9 forms an integral part of this statement.

FAMILY WELFARE CO-OPERATIVE SOCIETY
NOTES TO THE FUND ACCOUNTABILITY STATEMENTS

1. Significant Accounting Policies

- (a) The Fund Accountability Statement, expressed in Pakistan Rupees, has been prepared in accordance with the historical cost convention. Pakistan rupee amounts have been translated to their US dollar equivalent using the monthly average of exchange rate prevalent during the statement period.
- (b) Receipts and payments relate to amounts received and paid respectively in cash. The surplus funds for the period represent the closing cash balances.

2. Component unit of FWCS

The Fund Accountability Statement reflects only the transactions of FWCS as they pertain to its Grants received from USAID/PAK and is not intended to present fairly the receipts and payments of FWCS as a whole.

AUDIT OF
FAMILY WELFARE CO-OPERATIVE
SOCIETY
REPORT ON
THE SYSTEM OF INTERNAL
CONTROLS

FORD, RHODES, ROBSON, MORROW
CHARTERED ACCOUNTANTS

2nd FLOOR, WASEEM CENTRE,
23, BLOCK A, GULBERG II,
P.O. BOX 104,
LAHORE.
PAKISTAN

NTN 06-04-143-7506

OFFICES IN PAKISTAN AT
KARACHI & ISLAMABAD

PHONES 874961 & 874216
TELEX 21482 FRM PK
TELEFAX 92-42-5711425
TELEGRAMS RAPROF, LAHORE.

Ref. LHR/117/1994 January 12, 1994

**FAMILY WELFARE CO-OPERATIVE SOCIETY
PERTAINING TO ITS GRANT NO 391-0470-G-00-8065-00
WITH THE
UNITED STATES AGENCY FOR INTERNATIONAL DEVELOPMENT
IN PAKISTAN**

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

1. We have audited the Fund Accountability Statement of Family Welfare Co-operative Society (FWCS) pertaining to its grant No. 391-0470-G-00-8065-00 for the period from September 28, 1988, to December 31, 1992. The statement and its accompanying notes are set out on pages 8 to 9. We have issued our report thereon dated January 12, 1994.
2. We conducted our audit in accordance with generally accepted auditing standards and US Government Auditing Standards, issued by the Comptroller General of the United States. These standards require that we plan and perform our audit to obtain reasonable assurance on whether the Fund Accountability Statement is free of material misstatement.
3. In planning and performing our audit of FWCS, we considered its internal control structure in order to determine the extent and nature of 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.

FAMILY WELFARE CO-OPERATIVE SOCIETY
PERTAINING TO ITS GRANT NO 391-0470-G-00-8065-00
WITH THE
UNITED STATES AGENCY FOR INTERNATIONAL DEVELOPMENT
IN PAKISTAN

INDEPENDENT AUDITORS' REPORT ON THE SYSTEM
OF INTERNAL CONTROLS

4. The management of FWCS is responsible for establishing and maintaining a system of internal control. In fulfilling this responsibility, estimates and judgments by the management were used to determine 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 the Fund Accountability Statement in accordance with the basis of accounting described in Note 1(b) to the Fund Accountability Statement. Because of inherent limitations in any system of internal control, 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 due to changes in conditions or that the effectiveness of the design and operation of policies and procedures may deteriorate.
5. For the purpose of this report, we have classified the significant internal control structure, policies and procedures into the following categories:
- Accounting Controls:
 - Bank Receipts
 - Cash Disbursements
 - Bank Disbursements
 - Payroll
 - Administrative Controls:
 - Cost allocations and allowability
 - Monitoring
 - Reporting
6. For all the internal control structure categories listed above, we obtained an understanding of the design of relevant policies and procedures, observed that these controls have been placed in operation, and assessed control risk.

FAMILY WELFARE CO-OPERATIVE SOCIETY
PERTAINING TO ITS GRANT NO 391-0470-G-00-8065-00
WITH THE
UNITED STATES AGENCY FOR INTERNATIONAL DEVELOPMENT
IN PAKISTAN

INDEPENDENT AUDITORS' REPORT ON THE SYSTEM
OF INTERNAL CONTROLS

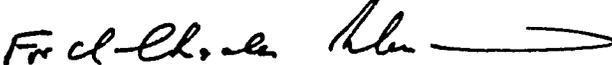
7. As a result of these procedures, and in accordance with US Government Auditing Standards, we limited our reliance on the internal control structure as, due to the small size of the entity, an adequate structure for the purpose of audit reliance was considered not to be in existence. Accordingly, we adopted an extensive substantive testing approach in our audit of the Fund Accountability Statement.
8. We noted certain matters involving the internal control structure and its operation that we considered to be reportable conditions under standards established by the American Institute of Certified Public Accountants. Reportable conditions involve matters coming to our attention representing significant deficiencies in the design or operation of the internal control structure which, in our judgment, could adversely affect the organization's ability to record, process, summarize, and report financial data consistent with the assertions of management in the Fund Accountability Statement. The reportable conditions noted are described in detail on pages 15 to 19.
9. A material weakness is a reportable condition where the design or operation of a 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 Fund Accountability Statement being audited, may occur and may not be detected on a timely basis by employees in the normal course of performing the assigned task.
10. Our consideration of internal control structure does not necessarily disclose all matters in the internal control structure that might be reportable conditions and accordingly, does not necessarily disclose all reportable conditions that are also considered to be material weaknesses as defined above. However, we believe that none of the reportable conditions are material weaknesses.

FAMILY WELFARE CO-OPERATIVE SOCIETY
PERTAINING TO ITS GRANT NO 391-0470-G-00-8065-00
WITH THE
UNITED STATES AGENCY FOR INTERNATIONAL DEVELOPMENT
IN PAKISTAN

INDEPENDENT AUDITORS' REPORT ON THE SYSTEM
OF INTERNAL CONTROLS

We also noted other matters involving the internal control structure and its operations that we have reported to the management of FWCS in a separate communication dated December 26, 1993.

11. This report is intended solely for the use of Agency for International Development and FWCS 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.


Ford, Rhodes, Robson, Morrow,
Chartered Accountants.

FAMILY WELFARE CO-OPERATIVE SOCIETY
SUMMARY OF REPORTABLE CONDITIONS

- A. Payment vouchers and their supporting documents were not defaced after payment.
- B. Quotations were not called for while purchasing goods.
- C. Acknowledgements were not obtained while giving advances to employees.
- D. Physical verification of assets was not carried out.
- E. Cash book was not reviewed by management.
- F. Provision of agreement between FWCS and Architect was not complied with.
- G. Imprest system for cash disbursements was not properly implemented.

FAMILY WELFARE CO-OPERATIVE SOCIETY
REPORT ON THE SYSTEM OF INTERNAL CONTROLS

A. Payment Vouchers

Condition

Payment vouchers and their supporting documents are not cancelled with a "Paid" stamp after payments are made.

Criteria

Cancellation of supporting documents at the time of payment is a feature of a good internal control system as it prevents the resubmission of vouchers for payment.

Cause

FWCS management did not recognize the need for such practice.

Effect

Same supporting documents can be used to support more than one payment.

Recommendation

All payment vouchers and their supporting documents should be properly defaced after payment to minimize chances of their reuse against subsequent payments.

Management Comments

Observation has been noted for future compliance.

B. Competitive quotations

Condition

We noted that, although prices obtained were generally reasonable, competitive quotations were not obtained for purchase of items listed in (Appendix -"B").

Criteria

Competitive quotations from various sources facilitate availing most favourable terms and conditions.

**FAMILY WELFARE CO-OPERATIVE SOCIETY
REPORT ON THE SYSTEM OF INTERNAL CONTROLS**

Cause

Inadequate system of internal controls over purchase.

Effect

A single supplier can take advantage by charging more or giving unfavourable terms.

Recommendation

We recommend that quotations be obtained for purchases of fixed assets and their comparative statement be prepared to avail the most favourable terms available in the market.

Management Comments

All purchases were made after thorough survey of the local market by our Executive Committee Members although quotations in writing were not obtained.

C. Advances to employees

Condition

We observed that acknowledgements were not obtained from employees while giving them advances for office purchases (Appendix "C").

Criteria

All advances to employees should be supported by acknowledgements of respective personnel.

Cause

As very few people in the organisation are allowed to take such advances, the management is of the view that there is no need for such acknowledgements.

Effect

It is difficult to hold someone responsible in case of a default.

FAMILY WELFARE CO-OPERATIVE SOCIETY
REPORT ON THE SYSTEM OF INTERNAL CONTROLS

Recommendation

We recommend that all advances given be duly acknowledged by the concerned official to make them accountable for funds received.

Management Comments

Observation has been noted for future compliance.

D. Physical verification of furniture, fixtures and equipment.

Condition

FWCS does not have any system requiring physical verification of its fixed assets on a regular basis.

Criteria

Regular physical verification of assets is essential to have adequate control over their custody and condition.

Cause

Management represented that assets are physically checked by the statutory auditor once a year and hence, there is no need to check it again by the management.

Effect

Fixed assets may not be properly safeguarded.

Recommendation

The management should carry out a regular physical check of its fixed assets, reconcile the results of physical check with records and investigate differences.

Management Comments

Proper record of all assets is maintained by the Hostel Warden and checked and verified by auditors at the time of annual audit. However periodical verification will also be done by a member of the Executive Committee in future.

FAMILY WELFARE CO-OPERATIVE SOCIETY
REPORT ON THE SYSTEM OF INTERNAL CONTROLS

E. Cash book

Condition

We did not find any evidence to support that cash book is checked by a responsible official of FWCS.

Criteria

In order to have better control, the cash book should be regularly checked and initialled by a responsible official.

Cause

According to the management checks have been made but the officer did not initial as evidence.

Effect

In the absence of proper control over cash book transactions, chances of mistakes and errors are increased.

Recommendation

We recommend that the cash book be regularly checked and initialled for evidence by a responsible official.

Management Comments

Cash book is checked every month by Chairperson of the Hostel Management Committee, it will be initialled in future.

F. Provision of agreement between FWCS and Architect was not complied with.

Condition

We did not find any official completion and maintenance certificate signed by architects for the completion of the hostel. Also, final payment to the contractor was made without any completion certificate.

**FAMILY WELFARE CO-OPERATIVE SOCIETY
REPORT ON THE SYSTEM OF INTERNAL CONTROLS**

Criteria

According to clause 59(b) of the agreement between the architect and FWCS, the architect was required to issue a completion certificate upon satisfactory completion of the work by the contractor.

Cause

The architect was not satisfied with the work of the contractor, and, therefore, he did not issue a completion and maintenance certificate.

Effect

In the absence of a proper completion certificate issued by the architect, the quality of the work carried out by the contractor cannot be relied upon. Moreover, the architect would not be held responsible for any major defects if found in future.

Recommendation

We recommend that all efforts be made to satisfy the architect and a proper completion certificate be obtained.

Management Comments

Final bill of the contractor was paid after the approval of the architect. The approval was considered as certificate of completion.

G. Petty cash

Condition

We noted that the imprest system for cash disbursements is not properly implemented. Moreover, no limits have been set for payments made out of the cash fund.

Criteria

A good system of internal controls requires a proper system of petty cash.

FAMILY WELFARE CO-OPERATIVE SOCIETY
REPORT ON THE SYSTEM OF INTERNAL CONTROLS

Cause

Management did not recognize any need for such a system.

Effect

Excess cash may be used for personal expenditures, and the risk of cash being misappropriated is increased.

Recommendation

We recommend that a proper petty cash imprest system be introduced specifying the limit of cash balance in hand and maximum amount of payments that can be made in cash.

Management Comments

Observation has been noted for future compliance.

AUDIT OF

FAMILY WELFARE CO-OPERATIVE
SOCIETY

REPORT ON

COMPLIANCE WITH AGREEMENT
TERMS, APPLICABLE LAWS AND
REGULATIONS

FORD, RHODES, ROBSON, MORROW
CHARTERED ACCOUNTANTS

2nd FLOOR, WASEEM CENTRE,
23, BLOCK A, GULBERG II,
P.O. BOX 104,
LAHORE.
PAKISTAN

NTN 06-04-143-7506

OFFICES IN PAKISTAN AT
KARACHI & ISLAMABAD

PHONES 874961 & 874216
TELEX 21482 FRRM PK
TELEFAX 92-42-5711425
TELEGRAMS RAPROF, LAHORE.

Ref. LHR/118/1994 January 12, 1994

**FAMILY WELFARE CO-OPERATIVE SOCIETY
PERTAINING TO ITS GRANT NO. 391-0470-G-00-8065-00
WITH THE UNITED STATES AGENCY FOR INTERNATIONAL
DEVELOPMENT IN PAKISTAN**

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

1. We have audited the Fund Accountability Statement of Family Welfare Co-operative Society ("FWCS") pertaining to its grant No. (391-0470-G-00-8065-00) with United States Agency for International Development, Pakistan ("USAID/PAK"), for the period from September 28, 1988 to December 31, 1992. The statement, together with the notes thereon, are set out as pages 8 to 9. We have issued our report thereon date January 12, 1994.
2. We conducted our audit in accordance with generally accepted auditing standards and U.S. Government Auditing Standards. Those standards require that we plan and perform the audit to obtain reasonable assurance on whether the Fund Accountability Statement is free of material misstatement.
3. Compliance with agreement terms, laws and regulations applicable to FWCS, is the responsibility of the FWCS management. As part of obtaining reasonable assurance about whether the Fund Accountability Statement is free of material misstatement, we performed tests checking compliance by the management of FWCS with relevant provisions of the agreement, and applicable laws and regulations. However, our objective was not to provide an opinion on compliance with such provisions.
4. The results of our tests of compliance indicate that with respect to the items tested, FWCS complied in all material respects with the provisions referred to above. With respect to items not tested, nothing came to our attention which caused us to believe that FWCS had not complied, in all material respects, with those provisions.

FAMILY WELFARE CO-OPERATIVE SOCIETY
PERTAINING TO ITS GRANT NO. 391-0470-G-00-8065-00
WITH THE UNITED STATES AGENCY FOR INTERNATIONAL
DEVELOPMENT IN PAKISTAN

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

We also noted certain instances of immaterial non-compliance with applicable laws, regulations and agreement terms that we reported to the management of FWCS in a separate communication dated December 26, 1993.

5. This report is intended solely for the use of the Agency for International Development and FWCS 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.


Ford, Rhodes, Robson, Morrow,
Chartered Accountants.

FAMILY WELFARE COOPERATIVE SOCIETY
SUMMARY OF AUDIT FINDINGS ON NON-COMPLIANCE ISSUES

- A. FWCS has not complied with provisions of agreement with USAID.
- B. Amounts not spent for objectives specified by USAID.
- C. Proper documentation not kept to support the cost incurred under the grant.
- D. Fixed assets register was not properly maintained.
- E. Reporting requirements under the agreement were not complied with.
- F. Interest received on bank account not immediately remitted to USAID.

FAMILY WELFARE CO-OPERATIVE SOCIETY
SCHEDULE OF FINDINGS OF NON-COMPLIANCE

A. Non-compliance with the provisions of agreement with USAID.

Condition

We noted that an amount of Rs. 33,977 (US \$ 1,420.44) was spent on an advertisement for working women's hostel for which no written approval was obtained from the grant officers in USAID/PAK.

Criteria

According to Attachment III, clause 1 (4) (b) of the agreement between USAID & FWCS, approval of grant officers should be obtained in writing before incurring advertisement costs.

Cause

We understand from the management that they had obtained an oral approval from the grant officer for the expense.

Effect

Non-compliance with the terms of the agreement resulted in questioned cost.

Recommendation

We recommend that USAID/PAK resolve the questioned costs and recover all unallowable amounts.

Management Comments

Advertisements were made with prior approval of Miss Kaneez Fatima, NGO Coordinator, USAID Mission, although permission was not taken in writing.

B. Amounts not spent for objectives specified by USAID.

Condition

We observed that funds of USAID were also utilized for purposes not allowed by the agreement (For detail please refer (Appendix "D")).

**FAMILY WELFARE CO-OPERATIVE SOCIETY
SCHEDULE OF FINDINGS OF NON-COMPLIANCE**

Criteria

As the funds are given to FWCS for construction of the hostel and its related activities, any amount spent on items other than its main objective is ineligible.

Cause

According to the FWCS management, these costs were eligible.

Effect

Non-compliance with the terms of the agreement resulted in questioned costs amounting to Rs. 91,219.00 (US \$ 3,813.50).

Recommendation

We recommend that USAID/PAK resolve the questioned costs with FWCS and recover any amounts determined to be ineligible.

Management Comments

The academy and office buildings were painted out of the USAID's funds because during the construction process of the hotel these buildings were badly affected. The under ground tank for the hospital was constructed in place of the old hospital tank which is nearer to the hostel building and since then being exclusively used by the hostel.

C. Proper documentation is not kept to support the cost incurred under the grant.

Condition

A payment of Rs. 12,607 (US \$ 527.05) was made to the architect as service charges for designing and purchase of furniture, which was not supported by any formal agreement.

Criteria

In accordance with the mandatory standard provisions for maintenance of accounting record, proper documentation should be kept to support the costs incurred under the grant.

**FAMILY WELFARE CO-OPERATIVE SOCIETY
SCHEDULE OF FINDINGS OF NON-COMPLIANCE**

Cause

Management did not recognize the need for any separate agreement.

Effect

The reasonableness and allowability of such costs can not be ascertained in the absence of a proper agreement. Therefore, Rs. 12,607 (US \$ 527) is accordingly questioned.

Recommendation

All work assigned to outsiders should be properly agreed in writing to avoid any subsequent disputes. We recommend that USAID/PAK resolve the Rs. 12,607 (US \$ 527) in questioned cost with FWCS, and recover any amount determined to be disallowable.

Management Comments

Point is noted for future compliance.

D. Fixed assets register was not properly maintained

Condition

We noted that fixed assets register maintained by FWCS does not provide adequate information regarding the location, date of purchase and cost of various assets.

Criteria

In accordance with the mandatory standard provisions of USAID agreement, proper and sufficient accounting records should be maintained.

Cause

FWCS management did not recognize the need.

Effect

In the absence of the above information, results of physical verification cannot be easily reconciled to accounting records.

FAMILY WELFARE CO-OPERATIVE SOCIETY
SCHEDULE OF FINDINGS OF NON-COMPLIANCE

Recommendation

Proper maintenance of a fixed assets register provides better controls over fixed assets.

Management Comments

Observation has been noted for future compliance.

E. Non-compliance with reporting requirements under the grant agreement

Condition

We were not provided with any evidence indicating that the FWCS management has complied with the Program Performance Reporting requirements as specified in the grant agreement.

The above can be supported by the following observations:

- Copies of Advance Status Report for the following quarters were missing:

| | | |
|--------------------|---|-------------------|
| September 30, 1991 | - | December 31, 1991 |
| December 30, 1991 | - | March 31, 1992 |
| March 31, 1992 | - | June 30, 1992 |

- Progress reports for the following quarters were missing:

| | | |
|--------------------|---|--------------------|
| July 15, 1991 | - | September 30, 1991 |
| September 30, 1991 | - | December 31, 1991 |
| December 31, 1991 | - | March 31, 1992 |
| March 31, 1992 | - | June 30, 1992 |

Criteria

Attachment I (E) of the Grant Agreement required:

- Progress reports to be submitted quarterly on the latest progress made regarding the project.
- Cash Advance Status Report containing the movement of funds during the quarter be submitted quarterly.

FAMILY WELFARE CO-OPERATIVE SOCIETY
SCHEDULE OF FINDINGS OF NON-COMPLIANCE

Cause

The above was due to negligence on the part of the management regarding non-compliance of above provisions.

Effect

The above instances of non-compliance with terms of the grant agreement indicates absence of a proper system for monitoring this project.

Recommendation

A proper system should be introduced to ensure compliance with the reporting requirements.

Management Response

Noted for compliance, in future periodical reports will be sent regularly.

F. Interest received on bank account not immediately remitted to USAID

Condition

We noted a delay in remittance of the interest received on USAID funds to USAID.

Criteria

According to the clause 3(a) of Attachment III of the agreement interest received should be remitted to USAID upon receipt.

Cause

The above was due to oversight on the part of the management.

FAMILY WELFARE CO-OPERATIVE SOCIETY
SCHEDULE OF FINDINGS OF NON-COMPLIANCE

Effect

Non-compliance with the terms of agreement.

Recommendation

Any amount of interest received on USAID balances should be remitted to USAID upon receipt.

Management Response

In future interest will be remitted to USAID immediately upon receipt.

APPENDIXES

APPENDIX - "A"

FAMILY WELFARE CO-OPERATIVE SOCIETY
SCHEDULE OF QUESTIONED COST

| FINDING | CONDITION | QUESTIONED COST BASIS OF QUESTIONABILITY | AMOUNT Rupees | EQUIVALENT US \$ |
|--|--|---|-------------------|---------------------|
| A. of schedule of non-compliance. | Expenses incurred for advertisement. | Advertisement cost is only eligible if prior approval of grant officer is obtained. | 33,977.00 | 1,420.44 |
| B. of schedule of non-compliance. (detail on appendix-D) | Amount spent on academy and hospital of the organization. | Funds are only given for construction of hostel and its activities. | 91,219.00 | 3,813.50 |
| C. schedule of non-compliance. | Amount paid to architect as designing fee for furniture without any agreement. | Allowability, reasonableness and accuracy can not be ascertained. | 12,607.00 | 527.05 |
| | | | <u>137,803.00</u> | <u>5,760.99</u> |

The above balances have been converted into US \$ using an exchange rate of US \$ = Rs. 23.92 (Monthly average of exchange rates prevailing during the period from August 9, 1990 to December, 1992).

APPENDIX - "B"

ITEMS PURCHASED WITHOUT OBTAINING
COMPARATIVE QUOTATIONS

(as referred to in para b of Report on the
System of Internal Controls)

| <u>Description</u> | <u>Amount</u> Rupees | <u>Amount</u> US \$ |
|--|-------------------------|------------------------|
| Generator | 452,300 | 18,908.86 |
| Photocopier (total cost 175,500 (US \$ 7,336.90) partly paid) | 100,000 | 4,180.60 |
| Televisions | 32,000 | 1,337.79 |
| Refrigerators | 47,200 | 1,973.24 |
| Deep Freezers | 19,800 | 827.76 |
| Typewriter | 16,200 | 677.26 |
| | <u>667,500</u> | <u>27,905.51</u> |

APPENDIX - "C"

EMPLOYEE ACKNOWLEDGEMENT NOT OBTAINED AT THE
TIME OF GIVING ADVANCES FOR OFFICE PURCHASES

(as referred to in para C of Report on the
System of Internal Controls)

| <u>Particulars</u> | <u>Date of voucher</u> | <u>Amount Rupees</u> | <u>Amount US \$</u> |
|-----------------------------|----------------------------|--------------------------|-------------------------|
| Advance to Mrs. Riffat | Aug 18,91 | 10,000 | 418.06 |
| Advance for metal lettering | Aug 18,91 | 8,000 | 334.45 |
| Advance to Mrs. Zubaida | Jul 28,91 | 50,000 | 2,090.30 |
| Advance to Mrs. Farooq | Aug 19,91 | 50,000 | 2,090.30 |
| | | <u>118,000</u> | <u>4,932.81</u> |

APPENDIX - "D"

**AMOUNTS NOT SPENT FOR OBJECTIVES
SPECIFIED BY USAID**

(as referred to in para B of Schedule of
Findings of Non-Compliance)

| <u>Particulars</u> | <u>D a t e of bill</u> | <u>Amount Rs.</u> | <u>Amount US \$</u> |
|---|----------------------------|-----------------------|-------------------------|
| Cost of painting and vinyal emulsion of academy | Oct 6,91 | 19,258 | 805.10 |
| Cost of painting of main office building and academy for Governors visit. | Jul 31,91 | 11,804 | 493.48 |
| Cost of construction of an under-ground tank to provide water supply exclusively to the hospital. | Nov 28,91 | 60,157 | 2,514.92 |
| | | <u>91,219</u> | <u>3,813.50</u> |



Family Welfare Co-operative Society (Regd.)

Ref. No. _____

Dated 15-11-93.

M/s Ford, Rhodes, Robson, Morrow
Chartered Accountants
1st Floor, Wasim Centre
23, Block A, Gulberg II
Lahore.

Subject:- Audit of US ID Grant No. 391-0470-G-00-86065-00
given to Family Welfare Cooperative Society
Working Women's Hostel.

Dear Sir,

With reference to your Draft Report of the audit you carried out of the amount given to Family Welfare Cooperative Society by US ID for the construction and equipment of Working Women Hostel under the above Grant we are happy to note that you found that our Fund Accountability Statement presented a true and fair view in all material respects of the receipts and payments.

The points raised by you in the Summary of Reportable Conditions have been noted. Our point by point comments are as under.

- A. Noted for future compliance.
- B. Although quotations in writing were not called for, yet all purchases were made after thorough survey of the local market by our responsible Executive Committee Members.
- C. As desired in future all advances given to employees will be duly acknowledged by them although in our opinion it is a mere formality.
- D. Proper record of all assets is maintained by the Hostel Warden and annually checked and verified by our auditors at the time of annual audit. Physical checking of these assets was also made by your auditors and no discrepancy was found. However henceforth periodical verification will also be done

by a member of the Executive Committee.

Ph: 310149 - 223233 - 238408

Cont'd p/2...



Family Welfare Co-operative Society (Regd.)

Ref. No. _____ :-2-: Dated _____

- E. This point is raised perhaps due to some misunderstanding as Cash Book is thoroughly reviewed every month by Mrs. Attiya Asghar Chairperson of the Hostel Management Committee. In future she will also sign in token of her verification.
- F. Final bill of the building contractor was paid after the approval of the Architect. The approval was considered as her certificate of completion.
- G. In future imprest money will be given according to the instructions of your auditors as personally discussed with them.

SCHEDULE OF FINDINGS, OF NON-COMPLIANCE.

- A. US AID approved the grant for construction, equipment and other -direct charges of the Hostel and advertisements are one of the items of other direct charges. Moreover advertisements in newspapers were given with the approval of Ms. Kaneez Fatima, NGO Coordinator, US AID Mission as they were extremely necessary. During the meeting with US AID representatives held in your office this point was raised by you and Ms. Kaneez Fatima informed the meeting that the advertisements were given on her instructions. So this point may be waived.

~~The Academy and office buildings were painted out of the US AID A/cn because during the construction process of the Hostel these buildings were badly affected. The underground tank for the Hospital was constructed in place of the old Hospital tank which is nearer to the Hostel building and since then being exclusively used by the Hostel.~~
- C. Noted for future compliance.
- D. Arrangements have already been made to keep the Assets Register as instructed by your auditors.
- E. Noted for compliance. In future periodical reports will be sent regularly.
- F. In future interest will be remitted to US AID immediately on receipt from the Bank.

Yours Sincerely,

Muhammad Laz Khan

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