

PD-ABK-668
01-0000

**Regional Inspector General for Audit
Singapore**

**AUDIT OF USAID/INDONESIA'S HOST COUNTRY
CONTRACT WITH PRICE WATERHOUSE
CONTRACT NO. S.3 1 33/M/90**

**Audit Report No. 5-497-95-010-N
March 10, 1995**



FINANCIAL INFORMATION IN THIS REPORT MAY BE
PRIVILEGED. THE RESTRICTIONS OF 18 USC 1905
SHOULD BE CONSIDERED BEFORE ANY
DISSEMINATION OR REVELATION TO THE PUBLIC.





U.S. AGENCY FOR
INTERNATIONAL
DEVELOPMENT

March 10, 1995

TO: Charles F. Weden, Mission Director, USAID/Indonesia

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

SUBJECT: Audit of USAID/Indonesia's Host Country Contract with Price Waterhouse under the Financial Markets Project No. 497-0360
Report No. 5-497-95-010-N

Enclosed are five copies of the subject audit report (prepared by the accounting firm, Johan Malonda & Rekan) for your action. The audit covered the period from April 24, 1990 to July 31, 1994. During this period, Price Waterhouse reported that \$2,330,570 was expended under the contract in Indonesia. The background information on the contract and the project is presented on page 1 of the report.

The audit objectives were to:

- Determine whether Price Waterhouse's Fund Accountability Statement presents fairly the expenditures incurred under the contract;
- Report on Price Waterhouse's compliance with applicable laws, regulations, and terms of the contract.

The audit report concluded that:

- Except for \$23,020 in questioned costs, the Fund Accountability Statement presents fairly, in all material respects, the expenditures incurred under the contract;
- Price Waterhouse's operations complied in all material respects with applicable laws, regulations, and terms of the contract. The auditors reported two immaterial instances of non-compliance.

This audit report contains two findings and recommendations resulting in \$23,020 in questioned costs.

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

Recommendation No. 1: We recommend that USAID/Indonesia resolve \$23,020 (\$1,627 ineligible and \$21,393 unsupported) in questioned costs with Price Waterhouse and recover any amounts determined to be unallowable.

We appreciate the courtesies and cooperation USAID/Indonesia and MIDAS 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

**FINANCIAL AUDIT OF
GOVERNMENT OF INDONESIA'S MINISTRY OF FINANCE
HOST COUNTRY CONTRACT WITH PRICE WATERHOUSE**

**Committed under
Project Implementation Letter Nos. 11, 14, 14A, 24, 25, and 30
under the Financial Markets Project - Contract No.S.3133/M/90
(USAID/Indonesia No. 497-0360)**

For the period from April 24, 1990 through July 31, 1994



**KANTOR AKUNTAN
DRS JOHAN, MALONDA & REKAN
REGISTERED PUBLIC ACCOUNTANTS**



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FINANCIAL AUDIT OF

**GOVERNMENT OF INDONESIA'S MINISTRY OF FINANCE
HOST COUNTRY CONTRACT WITH PRICE WATERHOUSE**

**Committed under
Project Implementation Letter Nos. 11, 14, 14a, 24, 25, and 30
under the Financial Markets Project - Contract No.S.3133/M/90
(USAID/Indonesia No. 497-0360)**

For the period from April 24, 1990 through July 31, 1994

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January 28, 1995

Mr. Richard C. Thabet
Regional Inspector General for Audit/Singapore
United States Agency for International
Development (USAID)
#03-01/04 Tong Building
302 Orchard Road
Singapore 0932

Dear Mr. Thabet,

Subject: Audit of Government of Indonesia's Ministry of Finance Host Country Contract with Price Waterhouse, committed under Project Implementation Letter Nos. 11, 14, 14A, 24, 25, and 30 under the Financial Markets Project - Contract No.S.3133/M/90 (USAID/Indonesia Project No. 497-0360)

This report presents the results of our audit of Government of Indonesia's Ministry of Finance Host Country Contract with Price Waterhouse, committed under Project Implementation Letter Nos. 11, 14, 14A, 24, 25, and 30 under the Financial Markets Project - Contract No. S.3133/M/90 (USAID/Indonesia Project No. 497-0360) for the period from April 24, 1990 through July 31, 1994.

This undertaking was performed in Indonesia under the Indefinite Quantity Contract (IQC) No. 497-0353-I-02-4044-00.

A. PROJECT BACKGROUND

The USAID/Indonesia granted the Government of Indonesia (GOI), technical assistance to provide support to the GOI's Ministry of Finance (MOF) Financial Markets Project under USAID/Indonesia Project No. 497-0360.

The Financial Markets Project is a multi-year effort which comprised of four distinct components, namely : (1) capital market development, (2) money market development, (3) privatization, and (4) training. The main goal of the capital market component is to increase the availability of long-term investment capital by supporting open financial markets. This is to be accomplished by increasing the



number of equity securities available to investors, and by increasing the trading volume of these securities.

The capital market component focuses on three major outputs in capital markets which include: (1) market regulatory adjustment; (2) an increased supply of long-term investment capital; and (3) improved trading capability and structure of the capital markets.

To accomplish project objectives, the GOI, through its executing agency, the MOF, engaged the services of Price Waterhouse (PW), a United States (U.S.) professional firm based in Washington, D.C. The main objective of the engagement was for PW to provide technical assistance to the Capital Market Supervisory Agency (BAPEPAM), MOF in the implementation of the capital market component of the project, under the direction of the Directorate of Financial Institution and Accountancy, MOF.

The engagement contract of GOI with PW (Contract No. S.3133/M/90) took effect on April 24, 1990 and expired on December 31, 1994. The contract was funded through Project Implementation Letter Nos. 11, 14, 14A, 24, 25, and 30. The total budget of the contract amounted to US\$8.04 million. As of July 31, 1994, the total amount committed was US\$8.04 million whereas the total amount expended by PW was about US\$7.79 million. Approximately 30% of the expenditures were incurred in Indonesia while the other 70% of the costs were incurred in the U.S. The entire amount expended by PW in Indonesia was covered by the audit.

B. OBJECTIVES AND SCOPE OF WORK

Our audit was conducted in accordance with generally accepted auditing standards, as promulgated by the American Institute of Certified Public Accountants (AICPA), and government auditing standards issued by the Comptroller General of the U.S. ("Yellow Book", 1988 Revision).

The objectives of our work were to:

- Express an opinion on whether the Fund Accountability Statement of PW presents fairly the receipts and expenditures and fees for the period from April 24, 1990 through July 31, 1994 in accordance with the terms of the Contract Agreement with MOF, and in conformity with the cash basis of accounting;



- Perform tests to determine whether PW has complied in all material respects with applicable laws, regulations and agreement terms, and express positive assurance on those items tested and negative assurance on those items not tested. This includes identification of all material instances of noncompliance noted and all indications of illegal acts.

The scope of our work covered the locally incurred expenditures for the period from April 24, 1990 through July 31, 1994 as reflected in the fund accountability statement on page 7 and included the following general procedures:

- Holding meetings with PW, USAID/Indonesia, and RIG/A/S officials;
- Reviewing the Project Papers, Project Contract, Project Implementation Letters and their appropriate amendments, Office of Management and Budget (OMB) circulars, USAID Handbook regulations, periodic reports prepared by PW, and all other related documentation;
- Devising and performing appropriate tests on the transactions recorded in the Fund Accountability Statement;
- 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; and
- Testing the effectiveness of administrative controls applied by PW's management to ensure compliance with applicable laws, regulations and agreement terms.

C. RESULTS OF AUDIT WORK

The results of our work are as follows:

- Report on the Fund Accountability Statement - In our opinion, PW's Fund Accountability Statement presents fairly, in all material respects, the receipts and expenditures and fees for the period from April 24, 1990 through July 31, 1994 as they



pertain to PW's contract agreement with MOF, except for Rp.45,761,923 (US\$23,020) in questioned costs (see Exhibit - I).

- Report on Compliance - Our tests for compliance with applicable laws, regulations and agreement terms indicated that for the items tested, PW complied in all material respects with those provisions for the period under our review, except for those instances set out under Finding Nos. 1 and 2.

For the items not tested, nothing came to our attention that caused us to believe that PW had not complied in all material respects with those provisions.

D. MANAGEMENT COMMENTS

The management of PW generally agreed with our findings. Their comments can be found on the relevant pages of our findings and are set in their entirety as Appendix A in this report.

E. ACKNOWLEDGMENT

We would like to take this opportunity to express our gratitude for the assistance given to us by the management and staff of PW during the course of our audit.

Very truly yours,



Johan Yoranouw
Managing Partner



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**FINANCIAL AUDIT OF
GOVERNMENT OF INDONESIA'S MINISTRY OF FINANCE
HOST COUNTRY CONTRACT WITH PRICE WATERHOUSE**

**Committed under
Project Implementation Letter Nos. 11, 14, 14a, 24, 25, and 30
under the Financial Markets Project - Contract No.S.3133/M/90
(USAID/Indonesia No. 497-0360)**

For the period from April 24, 1990 through July 31, 1994

**INDEPENDENT AUDITOR'S REPORT
ON THE FUND ACCOUNTABILITY STATEMENT**

**Mr. Richard C. Thabet
Regional Inspector General for Audit/Singapore
United States Agency for International
Development (USAID)
#03-01/04 Tong Building
302 Orchard Road
Singapore 0932**

We have audited the fund accountability statement of PW for the activities related to its contract agreement with MOF committed under Project Implementation Letter Nos. 11, 14, 14A, 24, 25, and 30 under the Financial Markets Project - Contract No. S.3133/M/90 (USAID/Indonesia Project No. 497-0360) for the period from April 24, 1990 through July 31, 1994. The fund accountability statement, set out on pages 7 and 8, is the responsibility of the PW's management. Our responsibility is to express an opinion on the statement based on our audit.

We conducted our audit in accordance with the AICPA generally accepted auditing standards and the U.S. Government auditing standards (1988 Revision). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the fund accountability statement is free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the fund accountability statement. An audit also includes assessing the accounting principles used and significant estimates made by the management, as well as evaluating the overall fund accountability statement presentation. We believe our audit provides a reasonable basis for our opinion.



The results of our tests disclosed the following questioned costs amounting to Rp. 45,761,923 (US\$23,020 - see Finding Nos. 1 and 2).

In our opinion, except for the effects of the questioned costs as discussed in the preceding paragraph, the fund accountability statement referred to above presents fairly in all material respects the receipts and expenditures and fees for the period from April 24, 1990 through July 31, 1994 in accordance with the terms of the contract agreement referred to on page 2 of this report and in conformity with the basis of accounting stated as Note 1 (b) on page 8 of this report.

This report is intended for the information of MOF, PW, and USAID. However, upon acceptance by the USAID Office of the Inspector General, this report is a matter of public record and its distribution is not limited.



Drs. Johan Yoranouw
Registered Accountant No. D-537

January 24, 1995



DRS JOHAN, MALONDA & REKAN

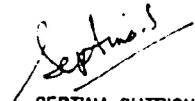
GOVERNMENT OF INDONESIA'S MINISTRY OF FINANCE
HOST COUNTRY CONTRACT WITH PRICE WATERHOUSE

Committed under
Project Implementation Letter Nos. 11, 14, 14A, 24, 25, and 30
under the Financial Markets Project - Contract No. S.3133/M/90
(USAID/Indonesia No. 497-0380)

FUND ACCOUNTABILITY STATEMENT
For the period from April 24, 1990 through July 31, 1994

BUDGET/ COMMITTED (US \$)	Total		ACTUAL				
	In Indonesian Rupiah (Rp'000)	In US Dollar Equivalent (US \$)	Incurred in (In Indonesian Rupiah - Rp'000) the U.S. Indonesia		Incurred in (In US Dollar Equivalent - US\$) the U.S. Indonesia		
RECEIPTS							
Reimbursements received from USAID/Indonesia	8,044,823	15,789,762	7,778,603	11,051,864	4,737,698	5,454,715	2,321,888
EXPENDITURES							
Base salaries	1,328,819	2,579,685	1,274,358	2,579,885	-	1,274,358	-
Indirect costs	2,626,308	5,116,288	2,526,430	5,116,288	-	2,526,430	-
Training	71,095	128,918	87,401	128,918	-	87,401	-
Allowances	787,489	1,488,498	731,335	-	1,488,498	-	731,335
Travel and per diem	187,275	354,278	177,399	-	354,278	-	177,399
Other direct costs	536,153	1,138,268	559,809	-	1,138,268	-	559,809
Commodities :							
Contractor support	138,982	308,975	131,041	-	308,975	-	131,041
GOI requirements	282,838	413,480	201,072	-	413,480	-	201,072
Short term technical assistance	1,885,700	3,464,478	1,703,529	2,843,418	821,062	1,298,358	405,171
Fixed fee	422,384	839,039	412,913	585,561	253,478	238,170	124,743
Total	8,044,823	15,807,881	7,785,285	11,051,864	4,756,017	5,454,715	2,330,570
UNREIMBURSED EXPENDITURES	0	(18,119)	(8,882)	0	(18,119)	0	(8,882)


MARK CAMSTRA
CHIEF OF PARTY
INDONESIA FINANCIAL MARKETS PROJECT
PRICE WATERHOUSE


SEPTINA SUTRISNA
OFFICE MANAGER
INDONESIA FINANCIAL MARKETS PROJECT
PRICE WATERHOUSE

The notes on page 8 form an integral part of this statement

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GOVERNMENT OF INDONESIA'S MINISTRY OF FINANCE
HOST COUNTRY CONTRACT WITH PRICE WATERHOUSE

Committed under
Project Implementation Letter Nos. 11, 14, 14a, 24, 25, and 30
under the Financial Markets Project - Contract No.S.3133/M/90
(USAID/Indonesia No. 497-0360)

FUND ACCOUNTABILITY STATEMENT (continued)
For the period from April 24, 1990 through July 31, 1994

Notes to Fund Accountability Statement

Note 1 - Significant Accounting Policies

- (a) The Fund Accountability Statement, expressed in Indonesian Rupiah and its US Dollar equivalent, is prepared in accordance with the historical cost convention.
- (b) The fund accountability statement is prepared using the cash basis of accounting, which is a comprehensive basis of accounting other than generally accepted accounting principles. This basis of preparation is in line with the practice of the Indonesian government and is permitted to be used under the agreement terms with MOF.
- (c) For the purpose of quantifying U.S. Dollar values into Indonesian Rupiah, the following average exchange rates are used for the entire period :

1990 -	US\$ 1 = Rp. 1,883
1991 -	US\$ 1 = Rp. 1,965
1992 -	US\$ 1 = Rp. 2,037
1993 -	US\$ 1 = Rp. 2,087
1994 -	US\$ 1 = Rp. 2,144

Note 2 - Component Unit of PW

The Fund Accountability Statement presents only the transactions of PW as they pertain to its contract agreement with MOF committed under Project Implementation Letter Nos. 11, 14, 14A, 24, 25, and 30 under USAID/Indonesia Project No. 497-0360 and is not intended to present fairly the receipts and expenditures of PW as a whole.



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FINANCIAL AUDIT OF

GOVERNMENT OF INDONESIA'S MINISTRY OF FINANCE
HOST COUNTRY CONTRACT WITH PRICE WATERHOUSE

Committed under
Project Implementation Letter Nos. 11, 14, 14a, 24, 25, and 30
under the Financial Markets Project - Contract No.S.3133/M/90
(USAID/Indonesia No. 497-0360)

For the period from April 24, 1990 through July 31, 1994

INDEPENDENT AUDITOR'S REPORT
ON COMPLIANCE

Mr. Richard C. Thabet
Regional Inspector General for Audit/Singapore
United States Agency for International
Development (USAID)
#03-01/04 Tong Building
302 Orchard Road
Singapore 0932

We have audited the fund accountability statement of PW for the activities related to its contract agreement with MOF committed under Project Implementation Letter Nos. 11, 14, 14A, 24, 25, and 30 under the Financial Markets Project - Contract No. S.3133/M/90 (USAID/Indonesia Project No. 497-0360) for the period from April 24, 1990 through July 31, 1994. The fund accountability statement, set out on pages 7 and 8, is the responsibility of the PW's management. Our responsibility is to express an opinion on the statement based on our audit.

We conducted our audit in accordance with the AICPA generally accepted auditing standards and the U.S. Government auditing standards (1988 Revision). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the fund accountability statement is free of material misstatement.

Compliance with agreement terms and laws and regulations applicable to PW is the responsibility of PW's management. As part of obtaining reasonable assurance about whether the fund accountability statement is free of material misstatement, we performed tests of PW's compliance with certain



provisions of agreement terms, laws and regulations. However, our objective was not to provide an opinion on the overall compliance with such provisions. Accordingly, we do not express such an opinion.

The results of our tests indicate that, with respect to the items tested, PW complied, in all material respects, with the provisions referred to in the preceding paragraph. With respect to items not tested, nothing came to our attention that caused us to believe that PW had not complied, in all material respects, with those provisions.

We noted certain immaterial instances of noncompliance that we have reported on pages 11 to 13 of the report.

This report is intended for the information of MOF, PW, and USAID. However, upon acceptance by the USAID Office of the Inspector General, this report is a matter of public record and its distribution is not limited.



DRS. Johan Yoranouw
Registered Accountant No.D-537

January 24, 1995



FINANCIAL AUDIT OF
GOVERNMENT OF INDONESIA'S MINISTRY OF FINANCE
HOST COUNTRY CONTRACT WITH PRICE WATERHOUSE

Committed under
Project Implementation Letter Nos. 11, 14, 14A, 24, 25 and 30
under the Financial Markets Project - Contract No.S.3133/M/90
(USAID/Indonesia Project No. 497-0360)

For the period from April 24, 1990 through July 31, 1994

SCHEDULE OF AUDIT FINDINGS

Finding 1. - Expenditures Over Charged/Claimed Twice

Condition

Expenditures amounting to Rp. 3,187,628 (US\$1,627) were either over charged due to inaccurate computation or erroneously claimed for reimbursement and paid by USAID/Indonesia twice (see Exhibit - I).

Criteria

Costs and expenses chargeable to the project are only for valid expenditures.

Cause

According to PW's Office Manager, these over charged or double claimed expenditures resulted from input errors by the project bookkeeper. Moreover, we noted that supporting documents were not cancelled at the time of payment, which could also be a factor for the double recording.

Effect

These expenditures are ineligible for payment.



Recommendation

The aforementioned amount should either be refunded back to USAID/Indonesia by PW or USAID should deduct this against subsequent reimbursement by PW.

Management's Comments

Management agreed with the findings and recommendation and will offset the amount against their subsequent billing to the project. They will ensure that records will be maintained properly and invoices reviewed closely to prevent the same error happening in the future.

Finding 2. – Inadequate Supporting Documentation

Condition

We noted certain expenditures amounting to Rp. 42,574,295 (US\$ 21,393) which are not supported by documents substantiating costs actually incurred (see Exhibit - I).

Criteria

General provision No. 10, Attachment I of the project agreement requires that PW maintain books, records, documents, and other evidence adequate to substantiate costs incurred or in connection with the contract.

Cause

According to the management of PW, supporting documents were either misplaced or lost.

Effect

Without the appropriate documents supporting costs charged to the project, PW was unable to substantiate actual costs incurred. Accordingly, we have questioned the Rp. 42,574,295 (US\$ 21,393) costs due to the lack of adequate supporting documents.



Recommendation

We recommend that PW resolve the above Rp. 42,574,295 (US\$ 21,393) in questioned costs with USAID/Indonesia and repay the amount determined to be unallowable.

Management's Comments

PW's policy requires expense reports should be supported by original documents and these are kept on file by their Accounting Department in Washington D.C. These original documents will be made available for review as needed. However, they submitted photocopies of the original supporting documents to substantiate the expenses.



DRS JOHAN, MALONDA & REKAN

Exhibit - I

**GOVERNMENT OF INDONESIA'S MINISTRY OF FINANCE
HOST COUNTRY CONTRACT WITH PRICE WATERHOUSE**

Committed under
Project Implementation Letter Nos. 11, 14, 14A, 24, 25, and 30
under the Financial Markets Project - Contract No. S.3133/M/90
(USAID/Indonesia No. 497-0360)

LIST OF EXPENDITURES QUESTIONED BY AUDITOR

<u>Particulars</u>	<u>Voucher No.</u>	<u>Amount</u>		<u>Remarks</u>
		<u>Indonesian Rupiah</u>	<u>U. S. Dollar</u>	
Expenditures Over Charged/Claimed Twice				
Other Direct Costs - Medical expense of Project Administrative Secretary	Exp 5	127,650	65	Double charged to and paid from the project
Other Direct Costs - Year end bonus of Project Administrative Secretary	Exp 6	169,143	86	Over charged due to erroneous computation
Other Direct Costs - Courier/Postage costs	Exp 10	2,710,835	1,380	Double charged to and paid from the project
Contractor Support Commodities - Computer	Exp 2	180,000	98	Overstatement of cost due to erroneous recording
Sub-total		<u>3,187,628</u>	<u>1,627</u>	
Expenditures with Inadequate Supporting Documentation				
Allowances - Dungan - Rental of furniture	Exp 11	4,323,000	2,200	Supporting document misplaced
Travel and Per Diem - M. Camstra - International air travel	Exp 25	2,798,667	1,341	Supporting document misplaced
Short-term Technical Assistance - Air fare of J. Evans, a technical consultant	Exp 8	6,252,630	3,182	Ticket stubs lost
Short-term Technical Assistance - Air fare of J. Evans, a technical consultant	Exp 24	4,478,615	2,145	No supporting document evidencing payment
Contractor Support Commodities - Computer	Exp 4	1,698,583	901	No supporting document evidencing payment
Contractor Support Commodities - Auto lease	Exp 3	8,526,800	4,528	No supporting lease contract agreement
Contractor Support Commodities - Auto lease	Exp 5	5,000,000	2,544	No supporting lease contract agreement
Contractor Support Commodities - Auto lease	Exp 31	9,500,000	4,552	No supporting lease contract agreement
Sub-total		<u>42,574,295</u>	<u>21,393</u>	
Grand Total		<u>45,761,923</u>	<u>23,020</u>	
		=====	=====	

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INDONESIA FINANCIAL MARKETS PROJECT
MINISTRY OF FINANCE

APPENDIX A

28 January 1995

Bapak Drs. Johan Yoranouw
Managing Partner
Kantor Akuntan
Drs. Johan, Malonda & Rekan
Jl. Pluit Raya 200 Blok V No. 1-5
Jakarta

**Subject: Financial Audit of the Government of Indonesia's
Ministry of Finance Host Country Contract with
Price Waterhouse PIL Nos. 11, 14, 14A, 24, 25 and 30**

Dear Sir,

This letter is in response to the draft report on the financial and compliance audit of the Price Waterhouse host country contract (relating to the Financial Markets Project) with the Government of Indonesia's Ministry of Finance dated 24 January 1995 which was prepared by the auditing firm of Kantor Akuntan, Drs. Johan Malonda & Rekan. We have reviewed the draft audit report and believe that the findings and comments contained in the report will be resolved.

The questioned cost of US\$1,627 was an error on our part and we will offset the amount against our subsequent billing to the project. We will ensure that records will be maintained properly and invoices reviewed closely to prevent the same error happening in the future.

With regard to the unsupported costs amounting to US\$21,393, we attached to this letter photocopies of the original supporting documents to substantiate the expenses. Price Waterhouse's policy requires expense reports should be supported by original documents and these are kept on file by our Accounting Department in Washington, D.C. These original documents will be made available for review as needed.

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We hope that we have satisfied your requirement to resolve the above questioned costs. Should you need further clarification, please do not hesitate to call me at phone nos. 384 7441 or 384 7445 and fax no. 3456 437.

Very truly yours,

A handwritten signature in black ink, appearing to read "Mark Canstra". The signature is written in a cursive, flowing style.

**Mark Canstra
Chief of Party**

Encl.: as stated