

**Regional Inspector General for Audit
Singapore**

**PREAWARD AUDIT OF
ASIA FOUNDATION
SRI LANKA FIELD OFFICE**

**Audit Report No. 5-383-95-009-N
March 8, 1995**



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



J.S. AGENCY FOR
INTERNATIONAL
DEVELOPMENT

March 8, 1995

TO: David A. Cohen, Mission Director
USAID/Sri Lanka

FROM: Richard C. Thabet, RIG/A/Singapore *Richard C. Thabet (for)*

SUBJECT: Preaward Audit of The Asia Foundation's Sri Lanka Field Office
Report No. 5-383-95-009-N

Enclosed are five copies of the subject audit report (prepared by the accounting firm of Ernst and Young) for your action. The audit objective was to provide an opinion on the management and financial capability and internal control structure of The Asia Foundation (TAF) as they relate to the proposed grant from USAID/Sri Lanka under the Citizens Participation (CIPART) project. The background information on the proposed grant and project is presented on page 1 of the report.

The audit objectives were to:

- Determine whether TAF's management is capable of providing sufficient administration of the CIPART project;
- Determine whether TAF has sufficient financial capability to conduct the project activities; and
- Verify the adequacy of TAF's internal controls.

The auditors concluded that:

- TAF possesses satisfactory management capability to administer the proposed grant;
- TAF has satisfactory financial capability to conduct project activities; and

- TAF's internal controls were adequate.

There are no findings in the audit report. As a result, there are no recommendations to be included in the Inspector General's recommendation follow-up system. If you have any questions, please feel free to contact us.

We appreciate the courtesies and cooperation USAID/Sri Lanka and the TAF extended to the auditors and our staff during the course of this audit.

Attachment: a/s

THE ASIA FOUNDATION

**PRE-AWARD SURVEY
OF THE PROPOSED CITIZENS PARTICIPATION PROJECT
CIPART**

IQC Contract No 383-0499-C-3452-00

THE ASIA FOUNDATION

PRE-AWARD SURVEY OF THE PROPOSED CITIZENS PARTICIPATION PROJECT

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WRHF/DTR/SK

November 28, 1994

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

Dear Sirs

The report submitted herewith, details the results of the Pre-Award Survey of The Asia Foundation, Sri Lanka field office, conducted by us at the request of the United States Agency for International Development, Sri Lanka.

The Asia Foundation proposes to implement two major components of the Citizen's Participation project (CIPART) namely the Modernised Legal Systems and the Media, in an effort to increase public participation in decision making, governance and public life in Sri Lanka.

The ensuing Independent Auditors Report contains our opinion on the management and financial capability and the internal control structure of the Foundation, as they relate to the proposed grant from USAID/Sri Lanka under the Citizens Participation (CIPART) project.

Our review of the Asia Foundation systems did not reveal any material weaknesses and those which we do not consider material are disclosed on pages 8 and 9.

We wish to place on record our appreciation of the co-operation and assistance extended to us by the officials of USAID Sri Lanka and TAF Sri Lanka field office.

Yours faithfully

(Sd) Ernst & Young.

WRHF/DTR/CF

The Board of Trustees
The Asia Foundation
San Francisco
CA 94111
U S A.

INDEPENDENT AUDITOR'S REPORT

We have completed the Pre-Award Survey of the Asia Foundation, Sri Lanka field office as requested by the United States Agency for International Development, Sri Lanka (USAID). Our responsibility is to examine and express an opinion on the management and financial capability of The Asia Foundation as they relate to the proposed grant of US \$ 5,331,087 from USAID/Sri Lanka under the CIPART project. We are also required to report on the internal accounting controls of the organisation.

We conducted our review in accordance with the scope of work detailed in the relevant Delivery Order and the U.S. Government Auditing Standards where applicable. We believe that our review procedures provide a reasonable basis for our opinion.

In our opinion, The Asia Foundation possesses satisfactory management and financial capabilities to administer the proposed grant from USAID/Sri Lanka under the CIPART Project. Further, we noted no material weaknesses involving the internal control structure and its operations.

This report is intended for the information of The Asia Foundation and the U.S. Agency for International Development (A.I.D). However, upon acceptance by the A.I.D office of the Inspector General, this report is a matter of public record and its distribution is not limited.

(Sgd.) Ernst & Young.

September 23, 1994

1.0 BACKGROUND

1.1 The Project

The Citizen's Participation (CIPART) project, to be implemented under the auspices of the United States Agency for International Development (USAID) Mission to Sri Lanka, intends strengthening the democratic environment of the country. This will enhance opportunities for citizens to address their social, economic and political development needs.

The Asia Foundation (TAF), has been proposed as the lead implementing organization for two CIPART program areas namely; modernised legal systems and media. The CIPART program, whose beneficiaries include women, youth, disadvantaged groups, the poor, the rural community and those displaced by the war, comprises the following core objectives:

- Modernised Legal Systems
 - To enhance public awareness of fundamental rights and the legal procedures available for conflict resolution
 - To establish a better trained and more public service oriented legal profession
 - To modernize the court of appeals.
- The Media
 - To provide technical assistance to and inculcate a sense of professionalism amongst media personnel, thus encouraging responsible reporting.
 - To promote the participation of media associations with regard to related policy decisions.
 - To incorporate development issues and issues germane to democratic development into the present university degree program in journalism.

TAF, in its endeavour to facilitate greater access to justice and information within an implementation time frame of five years, will undertake the following activities:

- Modernised Legal Systems
 - Modernisation of the present court system.
 - Providing technical assistance to and training of officials engaged in conflict resolution.
 - Supporting legal aid clinics and groups involved with fundamental rights issues.
 - Conducting legal awareness programs.
 - Augmenting university curricula on constitutional issues.

- The Media
 - Providing senior journalists and editors with exposure to international journalistic practices.
 - Upgrading university journalism programs.
 - Appointment of a press ombudsman.
 - Development of a public polling capacity in the media.
 - Strengthening the representative capacity of the media in dealing with government and other institutions.

1.2 The Grantee

The Asia Foundation, an American grant making organisation with headquarters in San Francisco, established its Sri Lankan office in 1954. The primary objective of the Sri Lankan field office was to co-operate in social development programs of the country, while providing assistance in the following areas of interest.

- Implementation of programs, designed to enhance the role of women and youth in national development.

The Asia Foundation

- To facilitate greater co-operation between Sri Lanka and the United States, as well as with countries in the Asia/Pacific region.
- To provide books and professional journals on educational, scientific and professional developments in the United States.
- To provide financial and non-financial assistance in areas of law, special fellowships and internships in public services and communication and small scale business management.

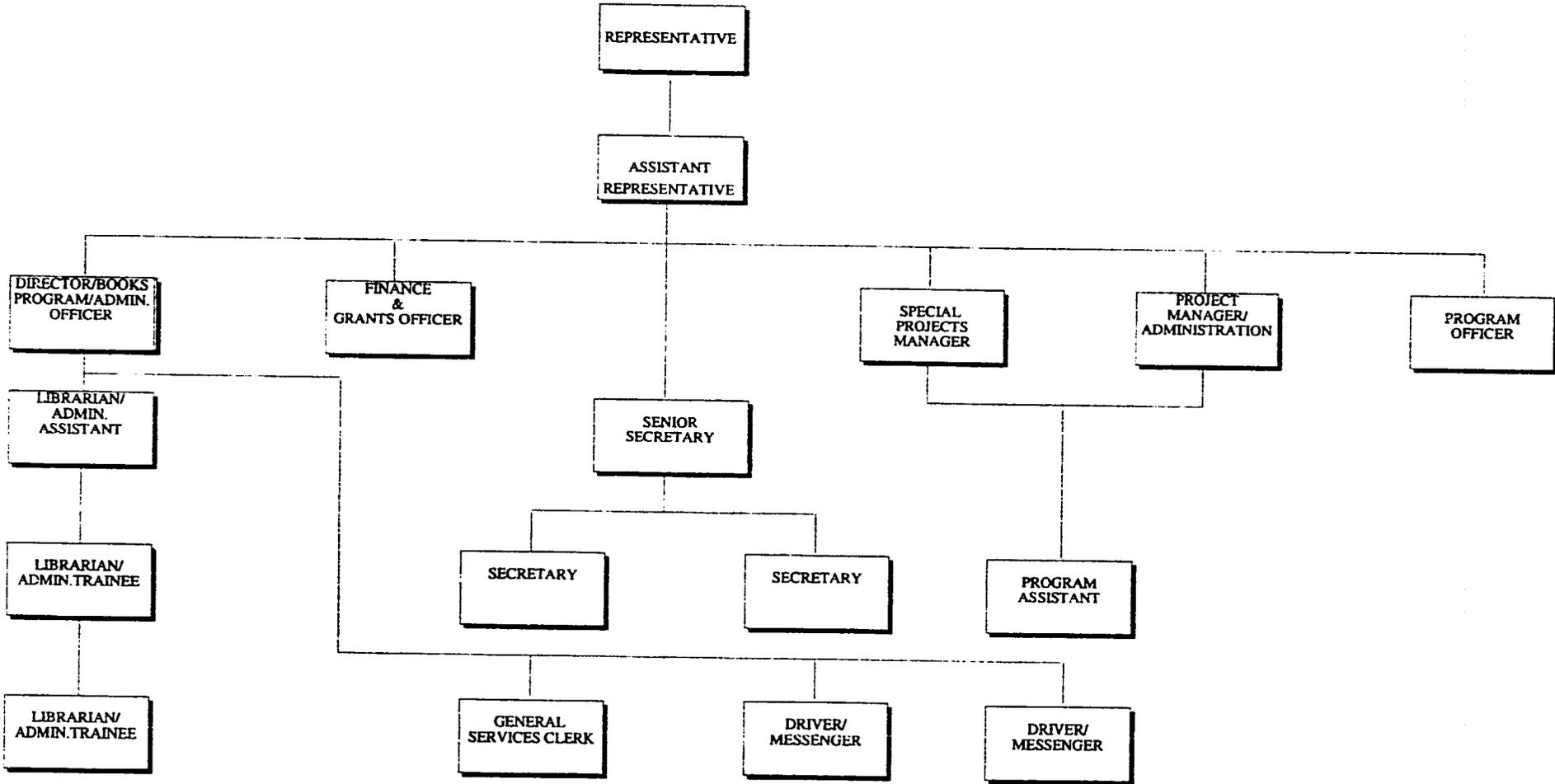
The Foundation provides various forms of assistance such as cash grants, training awards, provision of books and instructional material and consultancy services.

The Sri Lankan field office is staffed by a 17 member team of permanent and contracted employees. Additional staff is expected to be employed once the CIPART project grant is received. The present organization chart is depicted in Exhibit 1.1.

The Asia Foundation is governed by a board of leading American citizens and is funded by the public and private sectors, in the U.S.A. and the Asia region. The accounting system is centralised at the Foundation's headquarters in San Francisco based on information provided by the 14 field offices, inclusive of Sri Lanka.

THE ASIA FOUNDATION

ORGANISATION CHART



2.0 PRE-AWARD SURVEY

USAID, Sri Lanka requested M/s Ernst & Young to carry-out a pre-award survey to examine the operations of TAF on the following areas:

- Structure of internal controls
- Financial capability
- Management capability

The survey was intended to express an opinion on the adequacy and effectiveness of the above areas, as they relate to the proposed grant extended by USAID/Sri Lanka under the CIPART project.

2.1 Objectives of the Survey

- 2.1.1 To ascertain the Grantee's management capability in providing sufficient administration and span of control to the CIPART project.
- 2.1.2 To determine whether the Grantee has sufficient financial management capability to conduct the activities designed in the CIPART project.
- 2.1.3 To verify the adequacy of the Grantee's internal control systems which will affect the execution of the activities under the proposed project.

2.2 Review Methodology

- 2.2.1 Held an entrance conference with representatives from TAF/Sri Lanka and USAID/Sri Lanka on September 2, 1994.
- 2.2.2 Reviewed the following documents;
 - Handbook 13-Grants and Co-operative Agreements, the CIPART project paper, project agreement with the Government of Sri Lanka and the project implementation order/technical specification (PIO/T).
 - The CIPART project proposal submitted by TAF.
 - Grantee work programs and budgets for the grant period.

- Reviewed Reports prepared by Lanka Asia Management Systems Co. (Pvt) Ltd. (LAMSCO), the management consultants appointed by USAID..
 - Grant and related files/reports maintained by USAID/SL and TAF
 - Annual audited financial reports prepared by KPMG Peat Marwick for the TAF Headquarters.
- 2.2.3 Reviewed the status of action taken by TAF, on findings reported in prior audits and reviews.
- 2.2.4 Documented the existing accounting systems and reviewed the adequacy of the internal controls in place.
- 2.2.5 Reviewed and documented the inventory control procedure of the organisation, including the maintenance of assets
- 2.2.6 Performed walk-through tests and observed the client procedures to ensure proper implementation of the documented system.
- 2.2.7 Reviewed the adequacy of monitoring of sub-grants contracted to third parties.
- 2.2.8 Held discussions with the management and reviewed the CIPART project proposal submitted by TAF to ensure that the management is aware of all the relevant USAID procedures and policies.
- 2.2.9 Through discussions with the management , ensured the adequacy of logistics, staffing, storage and maintenance of documents, time allocation of existing staff etc. in respect of the proposed CIPART project.
- 2.2.10 Reviewed the funding sources available to TAF to ensure that the organisation has adequate financial resources.

2.3 Scope Limitation

As mentioned previously , all accounting records of the organisation are maintained by the Head-office in San Francisco, U.S.A. based on weekly financial information provided by its field offices. Hence, TAF Sri Lanka is not involved in the maintenance of ledgers and preparation of financial statements.

Therefore our review in this regard was limited to the weekly financial reporting system. However, we reviewed management letters pertaining to the Head office and discussed same with the local management.

3.0 RESULTS OF THE SURVEY

3.1 Internal Control Structure

We have carried out the pre-award survey of TAF/Sri Lanka as per the procedures detailed in Section 2.2. Accordingly, for the purpose of this report, we have evaluated the significant internal and accounting controls, policies and procedures under the following categories:

- Cash disbursements
- Payroll
- Procurement

During the course of our review, we observed that there is a lack of segregation of duties due to the size of the organisation. Examples of such instances are as follows:

- The Administration Officer prepares the purchase orders and accepts the goods.
- The Finance and Grants Officer maintains the Cash Book and performs the month end bank reconciliations as well.

However, we appreciate that it is not practical for an organisation of the size of TAF/SL to employ additional personnel, purely for the purpose of internal control.

Therefore, we reviewed the control consciousness of the management of the organisation and conclude favourably. We are also satisfied with the overall controls in effect with regard to weekly cash sheets sent to TAF/USA.

We have also noted the proposal to employ additional staff and find it sufficient to enhance the internal controls especially with regard to the proposed grant from USAID/Sri Lanka

Notwithstanding the above, we draw attention to two areas that need to be rectified, which however, are not considered material in forming our opinion on the internal control systems of The Asia Foundation. These instances are detailed overleaf.

3.1.1 Non adherence to the USAID specifications

Condition

From the letters of agreement entered into between TAF and the 3 sub-grantees, that were perused by us, it was clearly evident that for the sub grants given out of the USAID funds, no standard provisions were included as specified in the Handbook 13.

<u>Name of Subgrantee</u>	<u>Funding Source</u>	<u>Obligated Amount (US \$)</u>
1. Organisation to Safeguard the Life & Environment (OSLEN)	USAID 322	11,892
2. Environment Foundation Ltd. (EFL)	USAID 322	21,171

Criteria

The Special provision 9 (b) of Hand Book 13 stipulates that all sub grant agreements should contain the relevant standard provisions.

Cause

The management had not included the standard provisions since it was not stated in the agreement between USAID and TAF and since the management considered the sub grant agreements to be comprehensive; even without such provisions.

Effect

Non adherence to the Hand Book 13 provisions could lead to disagreements with USAID in the future.

Recommendations

We recommend that TAF/Sri Lanka obtain from USAID a list of standard provision which should be included in subgrants and establish a system to include such provisions in same.

Management 's Comments

3.1.2 Backlog of Work

Condition

The TAF 211 form which has to be prepared by TAF/SL after the sub-grant period elapses giving details of the final financial results has not been done for some of the grants which ended in 1992 and 1993.

eg :

	<u>Name of Sub-grantee</u>	<u>Grant No.</u>	<u>End of Grant Period</u>	<u>Obligated Amount (US \$)</u>
1.	Organisation to Safeguard the Life & Environment (OSLEN)	SL 1071	Dec. 31, 1992	11,892
2.	Environment Foundation Ltd. (EFL)	SL 1067	Dec. 31, 1992	21,171

Criteria

For all sub-grants that end, a TAF 211 form should be completed and sent to the Head Office no sooner the final TAF 209 form, which consists of the quarterly disbursements, expenditure incurred, counterpart contribution etc., is filled and submitted by the Sub-grantee

However, it is noted that periodical financial monitoring is carried out by the Head Office through weekly expenditure statements.

Cause

The TAF 211 is used by the Foundation's Head Office in USA to evaluate the financial results of projects implemented by its field offices. This form which is required to be completed at the end of each sub grant, entails the following: Purpose of Grant, disbursements by TAF, direct expenditure by TAF, Sub-grantees' own contribution etc.

Effect

In the absence of a TAF 211 form, the Head Office may not be able to evaluate the projects completed by its field offices. Since the ultimate responsibility for achieving the objectives of a grant vests with TAF Head Office, we believe that it is imperative for TAF/SL to submit the said documents on time for evaluation by the Head Office.

Recommendation

TAF/SL should diligently adhere to the procedure of preparing and submitting sub-grant evaluatives (TAF 211). Also, the Head Office should have adequate controls to follow up on the receipt of such forms.

Management Comments.

3.2 Financial Capability

The main sources of funding for projects managed by TAF are the United States Government (USG - General Grant) and the USAID. The proportion for 1994, appeared to be equal between these two funding institutions.

3.3 Management capability

Since establishing its Sri Lankan office in 1954, TAF has managed and implemented several development projects successfully. It has undertaken more than 14 major projects in the last three years.

During the 1994 financial year, TAF has undertaken projects which involve nearly 175 sub projects with a total fund value of US\$ 2.2 Million.

It was also noted that in the past, TAF had undertaken several projects funded by USAID and successfully implemented same.

According to the management, there have been no allegations nor instances of mismanagement regarding the operation of the Foundation.

3.4 Review of Audit Reports

From our review of the Auditors Report for the financial year end September 30, 1993 and the Management letter submitted to the TAF headquarters we did not note any matters involving the internal control structure and its operations that we consider to be material weaknesses. Some of the comments that have been disclosed by KPMG which relate to the field offices are given below along with the follow-up procedure adopted by TAF/SL:.

1 Comment

The field offices do not insist on the grant given to the sub grantees to be audited.

Follow up

The above finding does not relate to TAF/Sri Lanka since all the sub grants disbursed do not exceed the audit threshold of US \$ 100,000, which came into effect in July 8, 1994 with retrospective effect.

2 Comment

The sub grantees do not document the counterpart contribution.

Follow up

All the agreements entered into by TAF/Sri Lanka with their sub-grantees states clearly that the counterpart contribution should be disclosed on the reverse of the expenditure statement; i.e. TAF 209. During the course of our review out of a sample of 8, we came across two instances where the counterpart contribution was not documented.

3. Comment

The TAF 211 form which details the final results of a particular sub-grant has not been fully completed by the field offices.

Follow Up

During the course of our review we observed that the TAF 211 forms have not been completed for projects which ended in the last two years.

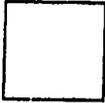
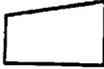
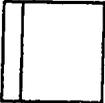
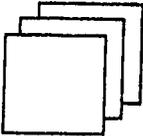
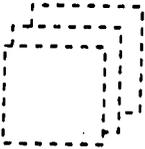
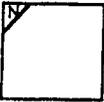
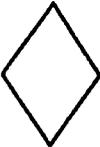
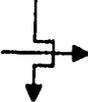
4. Comment

For sub-grants disbursed from the USAID funds, the agreement entered into between TAF and the sub-grantee does not include the standard provisions which have been specified in the co-operative agreement entered into between USAID and TAF.

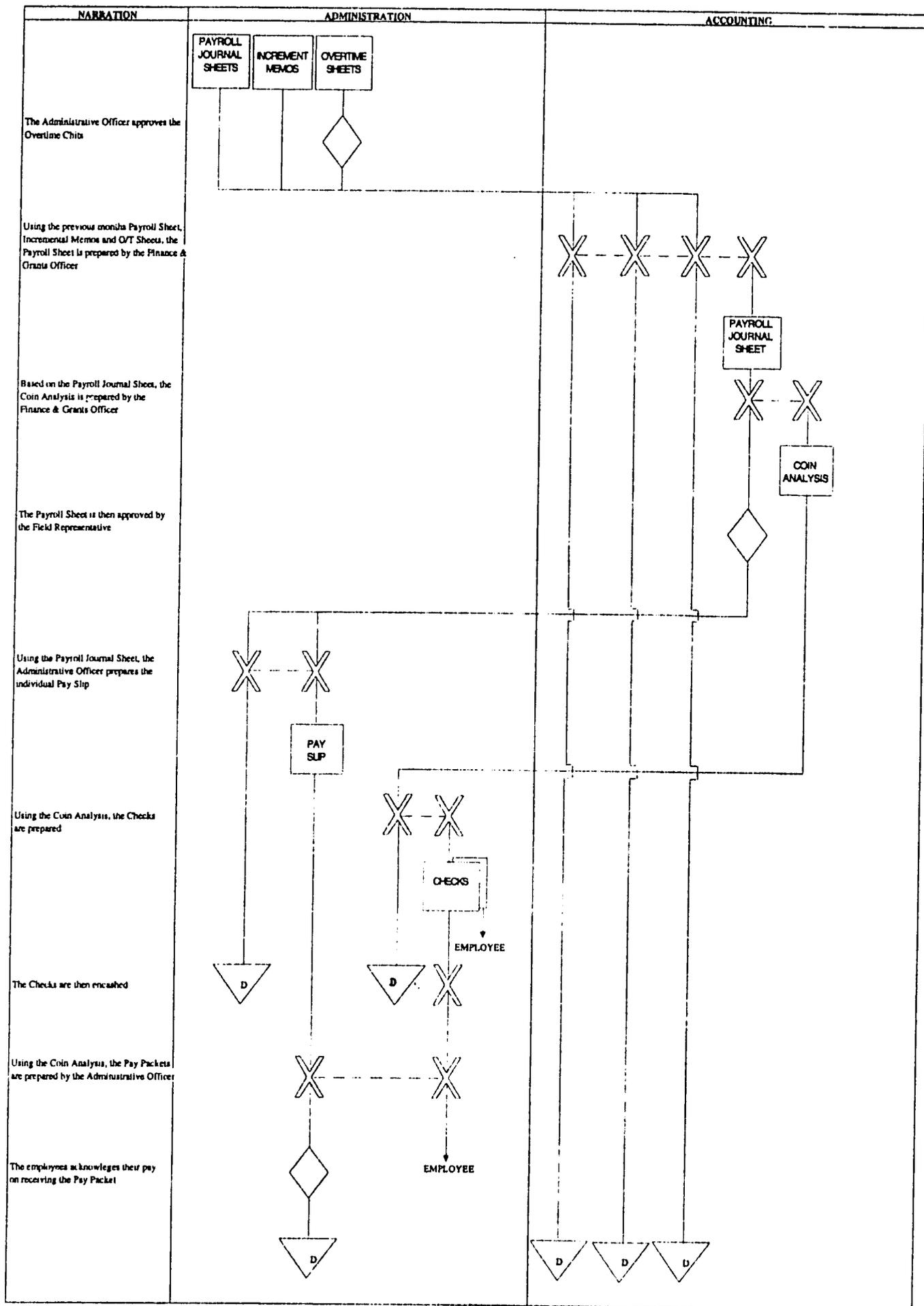
Follow up

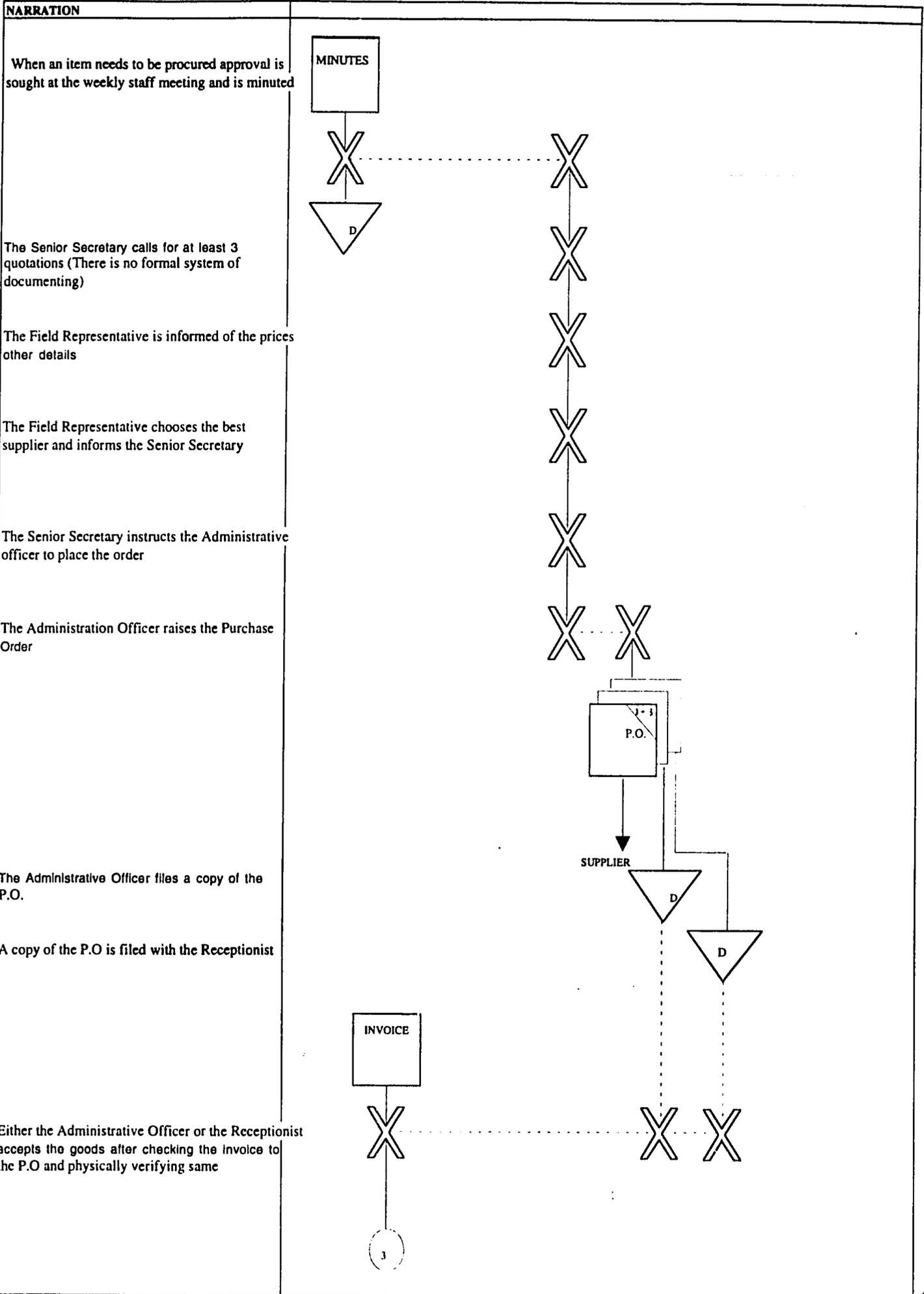
TAF/Sri Lanka intends to include the applicable standard provision numbers in the future letters of agreements, so that the sub-grantee could then refer up the relevant standard provisions from the appropriate books available at TAF.

FLOW CHART SYMBOLS

	DOCUMENT		COMPUTER OPERATION
	ACCOUNT BOOK		CONNECTOR
	3 PARTS/COPIES		OPERATION
	'GHOSTING' OF DOCUMENTS		ALTERNATIVE ROUTINE
	PRENUMBERED SET		DOCUMENT FLOW
	CHECK/INSPECTION		INFORMATION FLOW
	FILE		TIME FLOW OF DOCUMENT
			DOCUMENT CROSSING

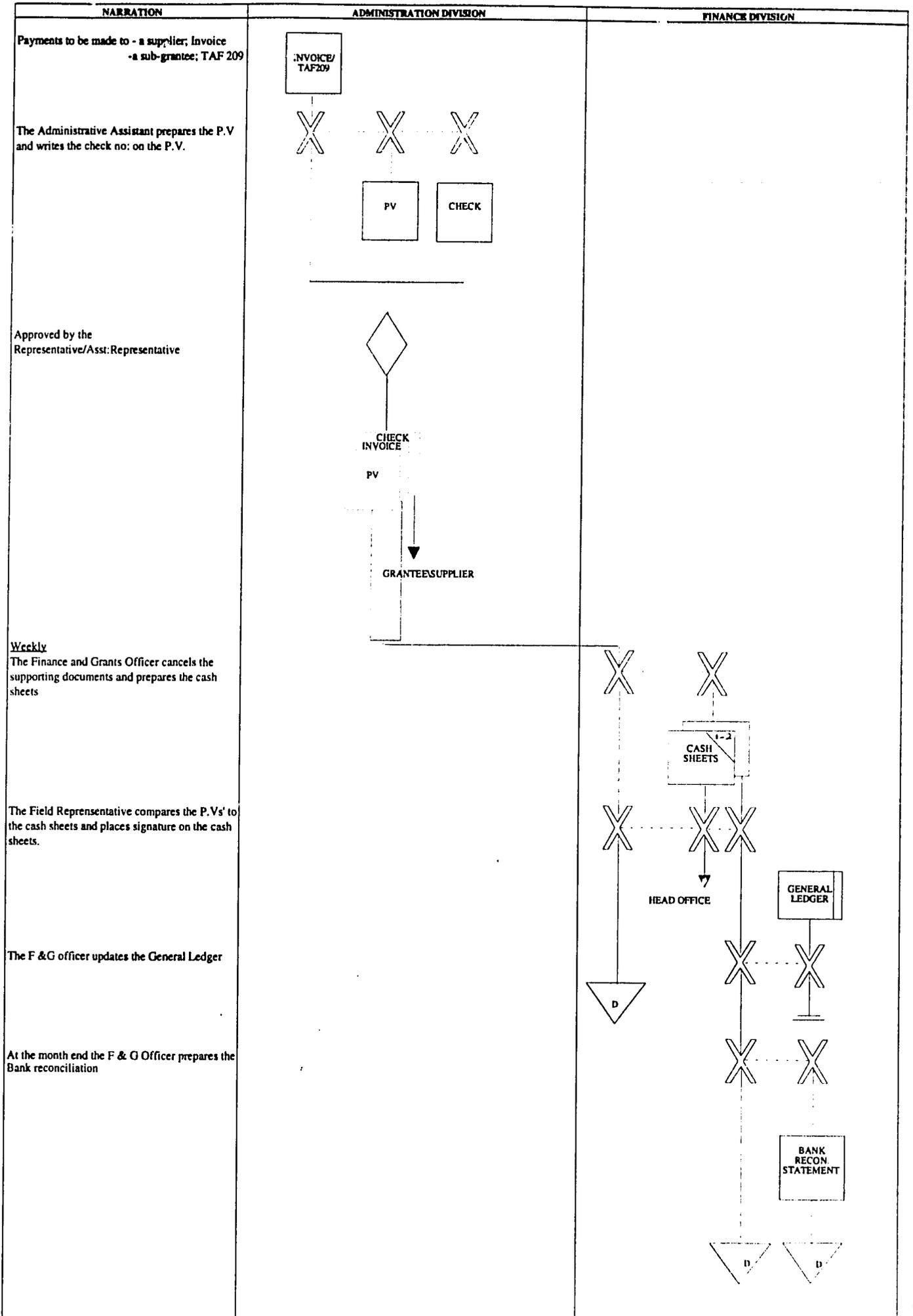
SALARIES SYSTEM



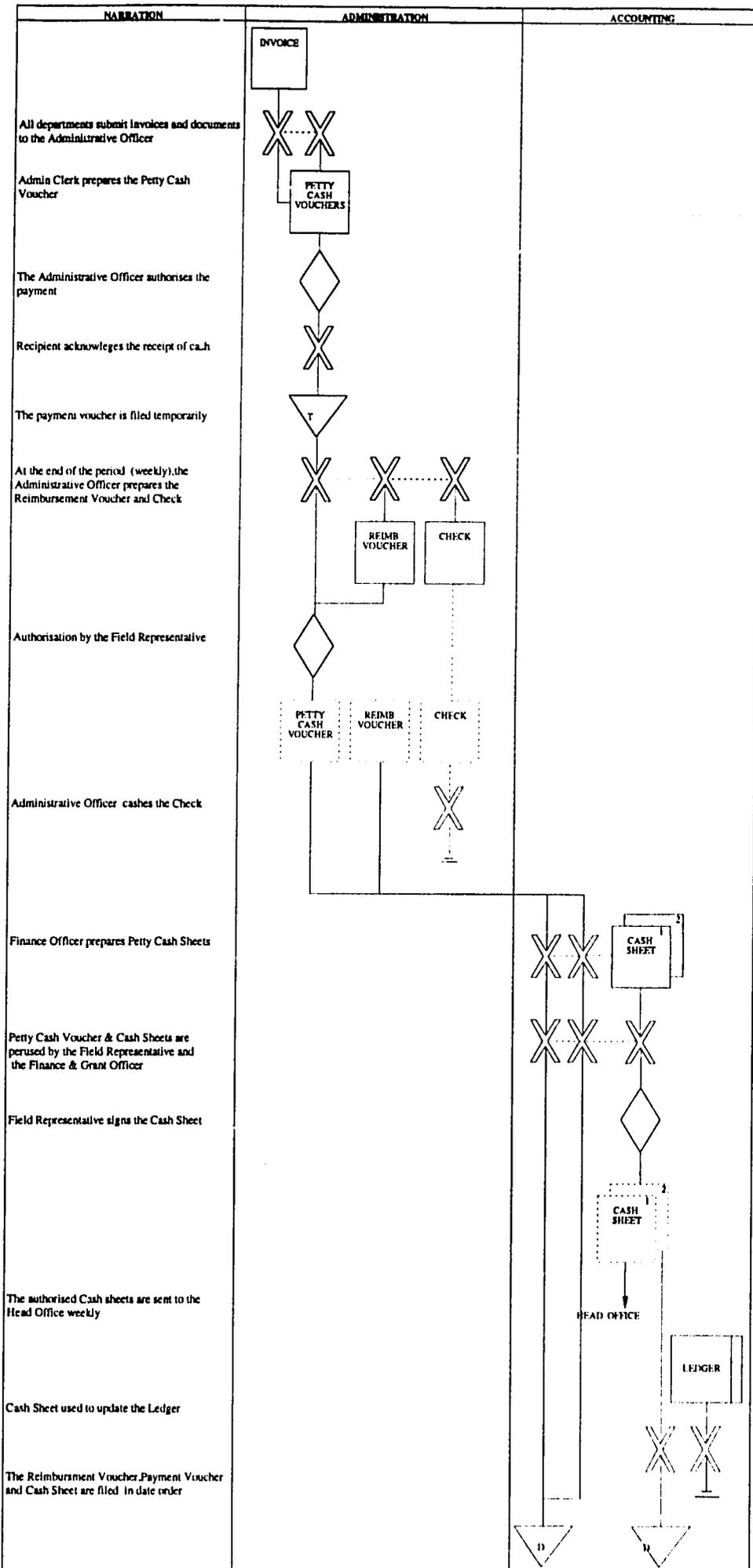


PAYMENTS SYSTEM

ANNEXURE II



PETTY CASH SYSTEM



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