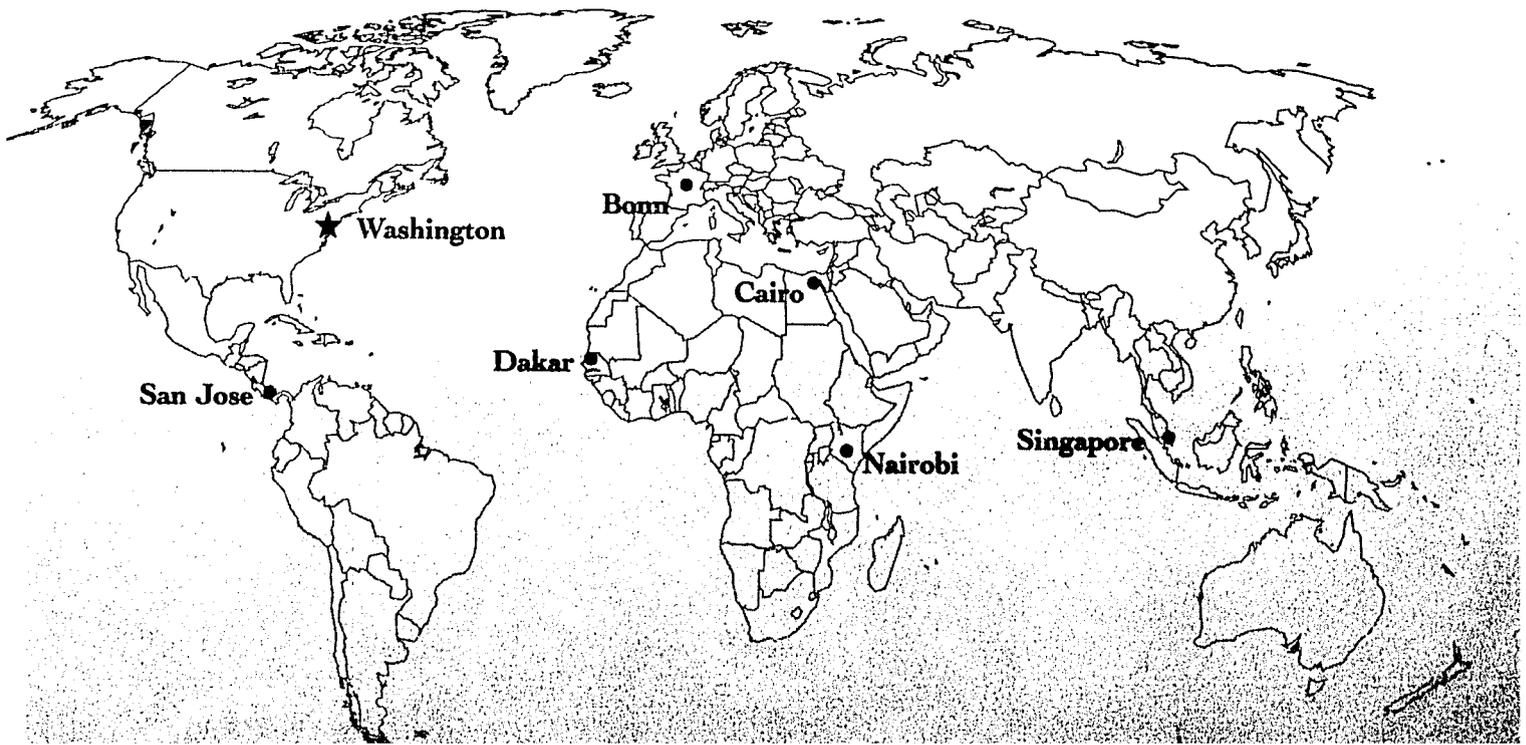


PD-ABK-777

Regional Inspector General for Audit
San José, Costa Rica

**Audit of RDO/C's
St. Kitts Southeast Peninsula Area
Development Project Activities Managed by the
Ministry of Agriculture, Lands, Housing, and Development
September 17, 1986 to September 30, 1993**

**Audit Report No. 1-538-95-02-N
February 24, 1995**



U.S. AGENCY FOR INTERNATIONAL DEVELOPMENT



AGENCY FOR INTERNATIONAL DEVELOPMENT
OFFICE OF THE REGIONAL INSPECTOR GENERAL
SAN JOSE, COSTA RICA

Unit 2521
APO AA 34020
Telephone 220-4545
FAX: (506) 220-3573

February 24, 1995

MEMORANDUM

TO: Director RDO/C, Mosina H. Jordan

FROM: RIG/A/San Jose, *Coinage N. Gothard*
Coinage N. Gothard

SUBJECT: Audit of RDO/C's St. Kitts Southeast Peninsula Area Development Project Activities, Managed by the Ministry of Agriculture, Lands, Housing, and Development, September 17, 1986 to September 30, 1993

This report presents the results of a financial closeout audit of the grant and loan agreement for the St. Kitts Southeast Peninsula Area Development Project activities, RDO/C Project No. 538-0138.01, managed by the Ministry of Agriculture, Lands, Housing and Development (Ministry) for the period September 17, 1986 to September 30, 1993. The audit firm of KPMG Peat Marwick prepared the report dated December 28, 1993.

The project is part of an overall infrastructure expansion and maintenance project of the eastern Caribbean. The components of the project were road construction, water system and other utility system installations, land use and environmental management, revegetation/soil erosion control, and a fiscal recovery program. The final amounts of funding available were loan funds of \$11,500,000 and grant funds of \$1,144,479, of which \$12,497,390 was disbursed. The required counterpart contribution from the Government of St. Kitts and Nevis was \$4,131,000. The project assistance completion date was September 30, 1993.

The objectives of the audit were to determine whether: (1) the Ministry's fund accountability statement presents fairly, in all material respects, the agreements' financial situation, (2) the Ministry's internal control structure was adequate to manage its agreement activities, and (3) the Ministry complied with the terms of the agreements and applicable laws and regulations. The scope of the audit included an examination of the

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Ministry's activities and transactions to the extent considered necessary to issue a report thereon for the audit period.

KPMG Peat Marwick was of the opinion that the fund accountability statement presents fairly, in all material respects, the Ministry's receipts and expenditures under the grant and loan agreements. No questionable costs were noted.

Regarding the internal control structure, the auditors identified no material weaknesses. And concerning the Ministry's compliance with the terms of the agreements and applicable laws and regulations, the audit firm identified one instance of noncompliance that they considered to be immaterial.

The project ended September 30, 1993, and according to RDO/C officials, they do not plan to use the Ministry as an implementing entity in the future. We therefore have not made any recommendation to correct the procedural deficiency identified by this report in the Office of the Inspector General's audit recommendation follow-up system.

The audit firm reported that in discussions of this report with representatives of the Ministry, although acknowledging the requirement for separate books of account for project transactions, they stated that the amount of USAID funds for which they were responsible did not warrant separate records.

This final report is being transmitted to you for your information.

**Regional Inspector General for Audit
San José, Costa Rica**

**Audit of RDO/C's
St. Kitts Southeast Peninsula Area
Development Project Activities Managed by the
Ministry of Agriculture, Lands, Housing, and Development
September 17, 1986 to September 30, 1993**

**Audit Report No. 1-538-95-02-N
February 24, 1995**

**ST. KITTS SOUTHEAST PENINSULA
AREA DEVELOPMENT PROJECT
USAID/RDO/C PROJECT NO. 538-0138.01**

**Implemented by the Ministry of
Agriculture, Lands, Housing
and Development**

**September 17, 1986 to
September 30, 1993**

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ST. KITTS SOUTHEAST PENINSULA AREA DEVELOPMENT PROJECT

USAID/RDO/C PROJECT NO. 538-0138.01

Implemented by the Ministry of Agriculture, Lands, Housing and Development

September 17, 1986 to September 30, 1993

CONTENTS

	<u>Pages</u>
1. Transmittal Letter and Summary	
• Background	1
• Audit Objectives and scope	2 - 3
• Results of audit	3 - 5
• Summary of Management Comments	6
2. Fund Accountability Statement	
• Auditors' Report	7 - 8
• Fund accountability statement	9
• Notes to Fund accountability statement	10 - 12
3. Internal Control Structure	
• Auditors' Report	13 - 15
4. Prior Audit Recommendations	
• Auditors' Report	16 - 17
5. Compliance with Agreement Terms and Applicable Laws and Regulations	
• Auditors' Report	18 - 19
• Findings	20
• Management's Comments on Exceptions	21



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December 28, 1993

Mr. Coinage N. Gothard
Regional Inspector General for Audit
U.S. Agency for International Development
800 Metros al Norte de la Embajada Americana
Rohrmoser
San Jose, Costa Rica
Central America

Dear Mr. Gothard:

This report presents the results of our financial audit of the St. Kitts Southeast Peninsula Area Development Project (the Project), implemented by the Ministry of Agriculture, Lands, Housing and Development (the Ministry) for the period from September 17, 1986 to September 30, 1993.

BACKGROUND

Description of the Program

The Project is part of the overall infrastructure expansion and maintenance systems project of the Eastern Caribbean. The components of the Project are road construction, water system and other utility system installations, land use and environmental management, revegetation/soil erosion control, and a fiscal recovery program. The Project Assistance Completion Date (PACD) is September 30, 1993.

In September 1986 the Government of St Kitts and Nevis (GOSKN) represented by the Prime Minister and the Government of the United States represented by the U.S. Agency for International Development (USAID), through its Regional Development Office/Caribbean (RDO/Caribbean), signed the Project Loan and Grant Agreement (Loan No. 538-K-030). The agreement provided for US \$1,800,000 in loan funds and US\$700,000 in grant funds. Since then the agreement was amended on six occasions to increase the amount of resources available for the Project. The amount of loan funds finally available was US\$11,500,00 and the amount of grant funds was US\$1,144,479. At September 30, 1993 the total amount of funds committed by USAID under the Project was US\$12,644,479 of which US\$12,497,390 was disbursed. The Government's counterpart contributions under the agreement amounted to US\$4,131,000. At September 30, 1993, the Government of St. Kitts and Nevis (GOSKN) had contributed the amount as required.





December 28, 1993

Mr. Coinage N. Gothard
Regional Inspector General for Audit

Audit Objectives and Scope

We performed a financial audit of the Project for the period September 17, 1986 to September 30, 1993.

The objectives of the audit were:

- to perform a financial audit in accordance with generally accepted auditing standards, and financial and compliance elements of the "Standards for Audit of Governmental Organization, Programs Activities and Functions" issued by the Comptroller General of the United States, 1988 Revision (The Yellow Book);
- to review direct and indirect costs if applicable, to ensure the propriety and allocability of charges to USAID and to ensure that overhead costs allocated to the Project are equitable and related to benefits received;
- determine whether the internal control structure of the Ministry is adequate to manage the program's operations;
- determine whether the Ministry complied, in all material respects, with agreements terms, memoranda of understanding, and applicable laws and regulations and express positive assurance on those items tested and negative assurance on those items not tested. All material instances of non-compliance and all indication of illegal acts should be identified.

Our examination was performed in accordance with generally accepted auditing standards, and the United States Controller General's "Government Auditing Standards" (The Yellow Book). Accordingly, our audit included such tests of the accounting records as we considered necessary in the circumstances.



December 28, 1993

Mr. Coinage N. Gothard
Regional Inspector General for Audit

The scope of our work consisted of the following:

- Review of vote book(s), cash disbursements, cash receipts and other Project records
- Establishment of the allowability of costs charged to the Project
- Establishing that programs met criteria of the agreement
- Review and testing of internal controls over cash disbursements and cash receipts.

A vote book is a government departmental record of receipts and disbursements.

RESULTS OF AUDIT

Fund Accountability Statement

We have audited the accompanying fund accountability statement of the Project for activities implemented by the Ministry for the period September 17, 1986 to September 30, 1993. The total funds audited represented the cost elements of supervisory engineering, road construction and water system installation and revegetation/soil erosion control. The results of our examination did not reveal any questionable costs in respect of the items examined.

In our opinion the fund accountability statement examined by us presents fairly, in all material respects, the financial situation of the Project's activities implemented by the Ministry for the period September 17, 1986 to September 30, 1993.

Internal Control Structure

We evaluated the Ministry's internal control structure in regard to the Project, for the period September 17, 1986 to September 30, 1993 in order to assess control risk and to determine our auditing procedures for the purpose of expressing an opinion on the fund accountability statement, and not to provide assurance on the Ministry's internal control structure taken as a whole.



December 28, 1993

Mr. Coinage N. Gothard
Regional Inspector General for Audit

Our evaluation of the Ministry's internal control structure, did not disclose any material weaknesses in the internal control structure.

Prior Audit Recommendations

We reviewed the status of the actions taken by the Ministry on prior audit recommendations that could have an effect on the current audit objectives, in order to determine our auditing procedures for the purpose of expressing an opinion on the fund accountability statement.

The results of our tests did not reveal any findings and recommendations from previous audits which required corrective action by the Ministry.

Compliance with Agreement Terms and Applicable Laws and Regulations

We evaluated the Ministry's compliance with agreement terms and applicable laws and regulations in relation to the Project as part of the audit to express an opinion on the fund accountability statement of such Project for the period September 17, 1986 to September 30, 1993, and not to provide assurance on the Ministry's overall compliance with such provisions.

Our evaluation of the Ministry's compliance with agreement terms and applicable laws and regulations disclosed the following immaterial instance of non-compliance:

- Separate account books were not maintained for recording accounting transactions of the Project.

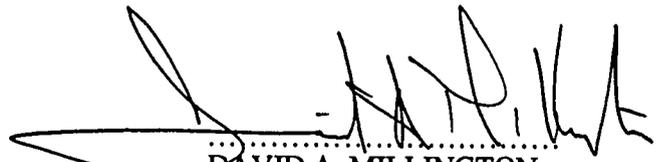


December 28, 1993

Mr. Coinage N. Gothard
Regional Inspector General for Audit

The results of our tests indicate that with respect to items tested, except for the instance of non-compliance mentioned in the preceding paragraph, the Ministry has complied, in all material respects, with agreement terms and applicable laws and regulations. In regard to items not tested, nothing came to our attention that causes us to believe that the Ministry had not complied in all material respects, with those provisions.

Yours truly,
PEAT MARWICK



DAVID A. MILLINGTON

A handwritten signature in black ink is written over a horizontal dotted line. The signature is stylized and appears to read 'D. A. Millington'. Below the dotted line, the name 'DAVID A. MILLINGTON' is printed in a bold, sans-serif font.

DAM/aw

Copy to: USAID-RDO/C

ST. KITTS SOUTHEAST PENINSULA AREA DEVELOPMENT PROJECT

Summary of Management's Comments on Exceptions in Compliance with Agreement Terms and Applicable Laws and Regulations

September 17, 1986 to September 30, 1993

Although recognising that the use of separate books of account to record Project transactions was a requirement of the agreement with USAID, the Government of St. Kitts and Nevis (GOSKN) did not consider the funds for which they were responsible to be significant enough to warrant the use of separate accounting records. Recording of transactions was therefore done in specific accounts in the Government's general ledger.



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ST. KITTS SOUTHEAST PENINSULA AREA DEVELOPMENT PROJECT

USAID/RDO/C PROJECT NO. 538-0138.01

Implemented by the Ministry of Agriculture, Lands, Housing and Development

September 17, 1986 to September 30, 1993

REPORT ON FUND ACCOUNTABILITY STATEMENT

Independent Auditors' Report

We have audited the accompanying fund accountability statement of the St. Kitts Southeast Peninsula Area Development Project (the Project), implemented by the Ministry of Agriculture, Lands, Housing and Development (the Ministry), for the period September 17, 1986 to September 30, 1993, the Project Assistance Completion Date (PACD). The fund accountability statement is the responsibility of the Project's management. Our responsibility is to express an opinion on the fund accountability statement based on our audit.

Except as mentioned in the following paragraph, we conducted our audit in accordance with generally accepted auditing standards and the United States Comptroller General's "Government Auditing Standards". 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 management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

We did not have an external quality control review by an unaffiliated audit organization as required by paragraph 46 of Chapter 3 of the "Government Auditing Standards" since no such quality review program is offered by professional organizations in Barbados. We believe that the effect of this departure from the financial audit requirements of Government Auditing standards is not material because we participate in the Klynveld Peat Marwick Goerdeler (KPMG) worldwide internal quality control program which requires the KPMG-Barbados office to be subjected, every three years, to an extensive quality control review by partners and managers from KPMG offices.





The results of our examination did not reveal any transactions that in our opinion are questionable costs.

In our opinion, the fund accountability statement referred to above, presents fairly, in all material respects, Project receipts and disbursements for the period September 17, 1986 to September 30, 1993 in conformity with the basis of accounting described in Note 1.

Peat Marwick

Chartered Accountants
Bridgetown, Barbados
December 28, 1993

St. Kitts Southeast Peninsula Area Development Project

Fund Accountability Statement

September 30, 1993

(Expressed in United States dollars)

		Budget			Cumulative			Questioned
	Loan	Grant	Total	Loan	Grant	Total	Costs	
Revenue								
Proceeds	\$ <u>11,500,000</u>	<u>1,144,479</u>	<u>12,644,479</u>	<u>11,500,000</u>	<u>968,419</u>	<u>12,468,419</u>	-	
Expenditure								
Cost Element								
Supervisory engineering	\$ 1,229,445	-	1,229,445	1,229,422	-	1,229,422	-	
Road Construction and Water System Installation (note 5)	10,032,522	59,969	10,092,491	10,032,522	58,992	10,091,514	-	
Land use and Environmental management (note 4)	112,166	1,084,510	1,196,676	112,166	968,419	1,080,585	-	
Revegetation/Soil Erosion Control	125,867	-	125,867	125,867	-	125,867	-	
Fiscal Recovery Program (note 4)	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	-	
	\$ <u>11,500,000</u>	<u>1,144,479</u>	<u>12,644,479</u>	<u>11,499,977</u>	<u>1,027,411</u>	<u>12,527,388</u>		
Unutilised proceeds/ (reimbursable expenses)	\$ <u>-</u>	<u>-</u>	<u>-</u>	<u>23</u>	<u>(58,992)</u>	<u>(58,969)</u>		

The attached notes form an integral part of the Fund Accountability Statement.

Approved on Behalf of the Government of St. Christopher and Nevis

..... Ministry of Agriculture, Lands, Housing and Development

..... Ministry of Finance



1. Summary of Significant Accounting Policies

(a) Books

Accounting transactions relating to the Project are recorded as follows:

- Disbursements relating to cost elements funded.
 - Separate account books are not maintained for recording accounting transactions.

However, where applicable, these transactions are assigned to specific heads in the respective Ministries' vote books.

- Proceeds represent reimbursable expenditure in respect of both the loan and grant elements of the Project which was reported to and approved by USAID during the period.
- In respect of the Road Construction and Supervisory Engineering cost elements, reimbursement is made after the expense is incurred. However, in respect of the Revegetation/Soil Erosion Control cost element, advances are made prior to expenses being incurred.

(b) Disbursements

Disbursements are recognised in the period in which they occur.

(c) Reporting Period

The reporting period of the Project (Loan No.538-K-030) is September 17, 1986 to September 30, 1993.

(d) Translation of Local Currency

Local currency (EC\$) is translated to United States (US\$) currency at the rate of US\$1 = EC\$2.6882 for the entire reporting period.

(e) Basis of Preparation

The accompanying Fund Accountability Statement is prepared on a cash basis and not on an accrual basis which is in accordance with generally accepted accounting principles.



2. Life of Project Budget

At September 30, 1993, USAID had obligated a cumulative amount of US\$12,644,479 which represents the total life of the Project budget.

3. Cumulative Costs Reimbursed

This amount represents the total costs reimbursed from the inception of the Project to September 30, 1993.

4. General

(a) During the course of the Project, direct payments to U.S. based payees were made under the following cost components:

1. Supervisory Engineering
2. Road Construction and Water System Installation
3. Land Use and Environmental Management

Such payments are outside the scope of our audit requirements and hence have not been included in the exercise. However, the subsequently acquired assets, commodities, and services remained within the scope of our audit and have been audited accordingly.

(b) The Fiscal Recovery Program component was also outside the scope of our audit, since the contract under which the activities were performed was not within the scope of the Regional Development Office/Caribbean's audit responsibility and the Project under which it was funded, which was separate and distinct from the St. Kitts Southeast Peninsula Area Development Project, has been long completed.

5. Road Construction and Water System Installation

The grant portion of this component has been included to assist the Ministry in correcting a rock fall problem along the highway. The claim for reimbursement has been submitted to RDO/C but to date has not been reimbursed.



6. Counterpart Contribution

As part of its contribution to the Project, the Government of St. Kitts and Nevis (GOSKN) was required to contribute not less than the equivalent of US\$4,131,000 including costs borne on an in-kind basis. As at September 30, 1993, GOSKN had contributed the required amount.

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**ST. KITTS SOUTHEAST PENINSULA AREA DEVELOPMENT PROJECT
USAID/RDO/C PROJECT NO. 538-0138.01**

Implemented by the Ministry of Agriculture, Lands, Housing and Development
September 17, 1986 to September 30, 1993

Independent Auditor's Report on Internal Control Structure

We have audited the fund accountability statement of the St. Kitts Southeast Peninsula Area Development Project (the Project), implemented by the Ministry of Agriculture, Lands, Housing and Development (the Ministry) for the period September 17, 1986 to September 30, 1993, and have issued our report thereon dated December 28, 1993.

Except for not conducting an external quality review by an unaffiliated audit organization as further explained in our opinion on the fund accountability statement, we conducted our audit in accordance with generally accepted auditing standards and Government Auditing Standards issued by the Comptroller General of the United States. 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.

In planning and performing our audit of the Project implemented by the Ministry we considered the internal control structure of the Ministry in order to determine our auditing procedures for the purpose of expressing our opinion on the fund accountability statement and not to provide assurance on the internal control structure.





Management of the Ministry is responsible for establishing and maintaining an internal control structure. In fulfilling this responsibility, estimates and judgments by management are required to assess the expected benefits and related costs of internal control structure policies and procedures. The objectives of an internal control structure are to provide management with reasonable, but not absolute, assurance that the assets are safeguarded against loss from unauthorized use or disposition, and that transactions are executed in accordance with management's authorization and recorded properly to permit the preparation of the fund accountability statement in accordance with the basis of accounting described in Note 1 to the fund accountability statement. Because of inherent limitations in any internal control structure, errors or irregularities may nevertheless occur and not be detected. Also, projection of any evaluation of the structure to future periods is subject to the risk that procedures may become inadequate because of changes in conditions or that the effectiveness of the design and operation of policies and procedures may deteriorate.

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

- Organizational controls
- Cash receipts
- Cash disbursements
- Purchasing and procurement procedures
- Cash management
- Vote book

A vote book is a government departmental record of receipts and disbursements.

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



Our consideration of the internal control structure would not necessarily disclose all matters in the internal control structure that might be material weaknesses under standards established by the American Institute of Certified Public Accountants. A material weakness is a reportable condition in which the design or operation of one or more of the specific internal control structure elements does not reduce to a relatively low level the risk that errors or irregularities in amounts that would be material in relation to the fund accountability statement being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control structure and its operation that we consider to be material weaknesses as defined above.

This report is intended for the information of management, and others within the Ministry and within United States Agency for International Development. This restriction is not intended to limit the distribution of this report, which is a matter of public record.

Peat Marwick

Chartered Accountants
Bridgetown, Barbados
December 28, 1993

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**ST. KITTS SOUTHEAST PENINSULA AREA DEVELOPMENT PROJECT
USAID/RDO/C PROJECT NO. 538-0138.01**

Implemented by the Ministry of Agriculture, Lands, Housing and Development
September 17, 1986 to September 30, 1993

Independent Auditor's Report on Prior Audit Recommendations

We have audited the fund accountability statement of the St. Kitts Southeast Peninsula Area Development Project (the Project) implemented by the Ministry of Agriculture, Lands, Housing, and Development (the Ministry) as of and for the period September 17, 1986 to September 30, 1993, and have issued our report thereon dated December 28, 1993.

Except for not conducting an external quality review by an unaffiliated audit organization as further explained in our opinion on the fund accountability statement, we conducted our audit in accordance with generally accepted auditing standards and government auditing standards, issued by the Comptroller General of the United States. 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.

In planning and performing our audit of the Project implemented by the Ministry we considered the existence of prior audit recommendations that could have an effect on the current audit objectives in order to determine our auditing procedures for the purpose of expressing our opinion on the fund accountability statement. Our objective was also to determine whether prompt and appropriate corrective actions had been taken by the Ministry.

The results of our tests indicate that there were no findings and recommendations from previous audits which will require corrective action by the Ministry.





This report is intended for the information of the management and others within the Ministry and within the United States Agency for International Development. This restriction is not intended to limit the distribution of this report, which is a matter of public record.

Peat Marwick

Chartered Accountants

Bridgetown, Barbados

December 28, 1993



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**ST. KITTS SOUTHEAST PENINSULA AREA DEVELOPMENT PROJECT
USAID/RDO/C PROJECT NO. 538-0138.01**

Implemented by the Ministry of Agriculture, Lands, Housing and Development
September 17, 1986 to September 30, 1993

Independent Auditor's Report on Compliance

We have audited the fund accountability statement of the St. Kitts Southeast Peninsula Area Development Project (the Project) implemented by the Ministry of Agriculture, Lands, Housing, and Development (the Ministry) as of and for the period September 17, 1986 to September 30, 1993, and have issued our report thereon dated December 28, 1993.

Except for not conducting an external quality review by an unaffiliated audit organization as further explained in our opinion on the fund accountability statement, we conducted our audit in accordance with generally accepted auditing standards and government auditing standards, issued by the Comptroller General of the United States. 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 the Project is the responsibility of the Ministry. As part of obtaining reasonable assurance about whether the fund accountability statement is free of material misstatement, we performed tests of the Ministry's compliance with certain provisions of agreement terms and applicable laws and regulations. However, our objective was not to provide an opinion on overall compliance with such provisions.





Material instances of noncompliance are failures to follow requirements, or violations of prohibitions, contained in statutes, regulations, contracts, or grants that cause us to conclude that the aggregation of the misstatements resulting from those failures or violations is material to the financial statements.

The results of our tests of compliance disclosed the following immaterial instance of non-compliance:

- Separate account books were not maintained for recording accounting transaction of the Project.

Except for the instance of non-compliance mentioned in the preceding paragraph, the results of our tests of compliance indicate that, with respect to the items tested, the Ministry has complied, in all material respects, with the provisions of agreement terms and applicable laws and regulations of the Project. With respect to items not tested, nothing came to our attention which caused us to believe that the Ministry has not complied, in all material respects, with those provisions.

We have reported the instance of non-compliance to the Ministry in a separate letter dated December 28, 1993.

This report is intended for the information of the management, and others within the Ministry and within the United States Agency for International Development. This restriction is not intended to limit the distribution of this report, which is a matter of public record.

Peat Marwick

Chartered Accountants
Bridgetown, Barbados
December 28, 1993

ST. KITTS SOUTHEAST PENINSULA AREA DEVELOPMENT PROJECT

Compliance Findings

September 17, 1986 to September 30, 1993

Accounting Records

Condition

Separate records of account were not used by the Ministry to record the transactions of the Project.

Criteria

Separate books of account are required to record Project transactions.

Cause

Transactions of the Project were recorded in the books of account of the Government of St. Kitts and Nevis.

Effect

The Government failed to comply with the provisions of the agreement terms and applicable laws and regulations.

Recommendation

Having considered the maintenance of separate books of account onerous, the Government should have approached USAID with a suitable alternative for approval prior to its implementation.

ST. KITTS SOUTHEAST PENINSULA AREA DEVELOPMENT PROJECT

Management's Comments on Exceptions in Compliance with Agreement Terms and Applicable Laws and Regulations

September 17, 1986 to September 30, 1993

Accounting Records

The Government of St. Kitts and Nevis (GOSKN) recognised the use of separate books of account to record Project transactions as a requirement of the agreement with USAID. However, the funds for which the Government had responsibility were not considered significant enough to require separate accounting records. To maintain control over advances and disbursements, transactions were recorded in specific accounts in the Government's general ledger.