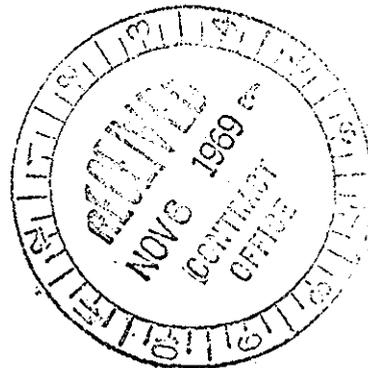


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UNITED STATES
AGENCY FOR INTERNATIONAL DEVELOPMENT
MISSION TO NEPAL
KATHMANDU, NEPAL



AUDIT REPORT
PANCHAYAT DEVELOPMENT
PROJECT NO. 367-11-810-090

PERIOD COVERED: From July 1, 1967
To December 31, 1968

REPORT NO. 70-4

OFFICE OF FINANCIAL MANAGEMENT
AUDIT BRANCH
SEPTEMBER 29, 1969

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9 p.

Proj. 367-11-810-090.

1. Auditing - Community development - NP. 2. Com-
munity development - NP. 3. Villages - NP. 4.
Local currency - NP. I. Title.

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ATTACHMENTS:

- Exhibit "A" - Distribution of Local Currency Project Funds
- Exhibit "B" - Local Currency Income and Expenditures
- Exhibit "C" - Project Costs and Audit Coverage
- EXHIBIT "D" - Distribution of Audit Report

C

PANCHAYAT DEVELOPMENT
Project No. 367-11-810-090

I - SCOPE OF EXAMINATION

Our review of the Panchayat Development project was made to determine the propriety of expenditures, and to review project records and project implementation in comparison with the general objectives and specific goals of the project agreements.

The audit was made in accordance with the guidelines contained in AID Manual Order No. 793.1 and included an examination of pertinent financial records, observations of project activities, and discussions with US AID/N technicians and officials of H.H. Government of Nepal (GON). This audit covers the period July 1, 1967 to December 31, 1968, and was carried out at the offices of the Ministry of Home and Panchayat, the Panchayat Leadership Training Center, the Women's Affairs and Extension Center, and included field visits to District Panchayat Offices at Makwanpur, Parsa, Bara, Rautahat, Chittau, Nepalgunj and Jhapa, and to the Training Institutes at Rampur, Jhapa, and Nepalgunj.

II - BACKGROUND INFORMATION

A. Project History and Objectives

The first Panchayat Development Project Agreement was signed on January 17, 1963, and was closely related to two predecessor activities namely Local Self-government and Village Development. The history and objectives of the project through FY 1967 are contained in Audit Reports No. 65-B-25 and 68-12. Although significant progress had been made through FY 1967 in the development of the Panchayat institutional framework, at the district and village levels, the FY 1968 and 1969 project agreements stated the necessity to design simplified office procedures and provide continuing support for the planning and implementation of rural development projects. Additionally, emphasis would be placed on coordinating the activities of all the technical programs operating at the district and village levels into a unified Panchayat program. To this end, the objectives were 1) institutional and field training and 2) coordinated development planning in selected districts.

It was also planned to assign US AID/N officials and GON training personnel to provide technical advice and planning assistance.

A considerable number of specific goals were listed in the project agreements, which will be discussed in Section V.G. of this report.

- 1 -

B. Financial Provisions

The project agreements for FY 1968 and 1969, as amended, through January 2, 1969, provided financial support for the following types of assistance:

By US AID/Nepal

1. U.S. Technicians- Seven advisors in FY 1968 and three in FY 1969.
2. Participant Training in the U.S. or third countries for 26 Nepalese in FY 1968 and for an unspecified number in 1969.
3. Commodities for \$1,373.88 and Rs.3,444.45 IC.
4. Other Costs for Rs.3,681,678.86 IC, equivalent to \$487,771.

By H.H. Government of Nepal

5. Contribution-in-Cash amounting to Rs.1,387,261.36 NC, equivalent to \$140,461.97.

In addition, there was available with US AID/N, as of June 30, 1967, unliquidated dollar balances for Technicians, Participants and Commodities and with the GON unexpended balances of local currency project funds as shown in Audit Report No. 68-12.

Actual project costs, as of December 31, 1968, are shown in dollars and dollar equivalents in Exhibit "C".

III - SUMMARY OF MAJOR FINDINGS

In general, project implementation was satisfactory but the lack of U.S. technicians' services resulted in the abandonment of several activity targets and in a substantial retrenchment of field activities (Section V.G.).

Expenditures of local currency project funds were found generally in order but included a large amount of uncleared advances and accounting records and reports, although improved as compared to prior audit findings, were still inadequate and incomplete. (See Section V.D.2.c. and d., Recommendation Nos. 1 and 2).

IV - FOLLOW-UP ON PRIOR AUDITS

Two prior audits were made of the Panchayat Development project:

<u>Report No.</u>	<u>Date</u>	<u>Title</u>	<u>Period Covered</u>
65-B-25	7/28/65	Panchayat Development	1/17/63 - 6/30/64
68-12	12/22/67	Panchayat Development	7/01/64 - 6/30/67

All recommendations contained in these reports were found closed at the time of our current review.

V - AUDIT FINDINGS AND RECOMMENDATIONS

A. U.S. Technicians

According to the project agreements seven U.S. technicians were planned for FY 1968 and three for FY 1969, which would correspond to 102 man-months through December 31, 1969. According to the records of the US AID/N Panchayat Development and Administration Division the following U.S. technicians have served as project advisors during the periods indicated:

<u>Name</u>	<u>Job Title</u>	<u>From</u>	<u>To</u>
BLACKWELL, Dr. James E.	Community Devt. Adv.	7/01/67	12/31/68
BELL, George E.	General Engineer	9/19/67	Date
ECKER-RACZ Nicholas	Junior Officer	7/01/67	3/11/68
BRANBLE, Norman R.	Junior Officer	7/01/67	3/11/68
CLUETT, Cristopher	Junior Officer	7/01/67	6/27/68

This represents approximately 51 man-months or 50% of the advisory services programmed for the project.

Total dollar expenditures for direct hire Personnel Services, charged to the project ledgers during the period audited, amounted to \$118,672.00. The auditors reviewed these expenditures, to the extent deemed necessary, and found them in order.

B. Participants Training

For FY 1968 four participants were selected and dispatched for training in the U.S. and the Philippines. Additionally 23 participants completed study tours in India, Pakistan and the Philippines. For FY 1969 five participants were selected for a teacher exchange program but did not depart prior to the cut-off date of our audit. During the period audited, 34 participants financed under prior years PIO/Ps completed their training and returned to Nepal. The Mission Training Office maintained detailed participants records and follow-up on the employment of returned participants. This information is reflected in a Returnee Directory published by US AID/N.

The GON is contributing to the program by continuing the participants salary and providing air transportation between Nepal

and India from project funds. International air travel is paid by US AID/N from Indian currency funds and is shown in Section V.f., of this report. Net dollar expenditures for participants training during the period audited amounted to \$75,068.26. We have examined PIO/Ps and project ledgers entries and found them in order.

C. Commodities

The FY 1968 project agreement provided \$1,373 for procurement of books, periodicals and training aids and two PIO/Cs were issued for this amount. Total payments for commodities during the period audited amounted to \$10,498.20 of which \$10,277.96 was paid against prior years PIO/Cs. We have examined the project ledgers and the supporting documentation and found them in order.

Commodities received during the period consisted of two jeeps, spare parts, books and printing supplies. These commodities were turned over to the GON, Home and Panchayat Ministry, and used by the Materials Production Center, the Leadership Training Center, and by district training institutions. Property records maintained by these institutions were not always complete and the auditors brought this to the attention of the officials in charge. We made a selective end-use observation of commodities and found no exceptions.

D. Other Costs - Local Currency

1. Project Income

a. Carryover of Prior Year Funds:

As stated in Audit Report No. 68-12, expenditure records for the period ended June 30, 1967, were inadequate and did not permit us to prepare a complete statement of expenditures. Recommendation No. 4, of the above audit report recommended that the Ministry adjust its accounts and include all funds which were not properly reported as expended and to include these amounts in the budget for the following fiscal year. Our current examination of the records of various sub-activities disclosed that this recommendation had been, at least, partially implemented and an amount of Rs.1,257,155.90NC of unexpended prior years project funds was carried forward into FY 1968.

b. US AID/N Releases and GON Contributions:

In accordance with the project agreements, as amended, US AID/N released to the Ministry of Home and Panchayat for the Panchayat

Development project, through December 31, 1968, a total of Rs.2,593,556.68 Indian currency, equivalent to Rs.3,501,299.52 Nepalese currency. During the same period the GON contributed in cash from its Development Budget a total of Rs.936,761.36 Nepalese currency.

c. Miscellaneous Receipts and Total Funds Available:

The Ministry's records disclosed the following miscellaneous receipts credited to the project:

Sale of Scooter (See Report No.68-12, Rec.No.1)	Rs.2,000.00
Loan from Home Science Section	<u>81,208.11</u>
Total NC Rs.	<u>83,208.11</u>

Total local currency available for project purposes during the period audited amounted to Rs.5,778,424.89 NC.

2. Project Expenditures

a. Distribution of Funds:

The Home and Panchayat Ministry distributed project funds to two main sub-activities, the Panchayat Leadership Training Center and the Women's Affairs Training and Extension Center and to the district officers of the 75 District Panchayats of the country. The Leadership Training Center distributed a part of its receipts to the training institutes at Rampur, Chandragarhi, and Nepalgunj, and the Women's Affairs Center also sent advances to the districts to cover the expenses of field training for women. We have summarized in Exhibit "A" of this report the results of this distribution through December 31, 1968, on the basis of the records made available to us; these records did not fully balance and required an adjustment of Rs.2,479.66.

b. Budgetary Expenses:

The project activity budgets for FY 1968 and for the first two quarters of FY 1969 provided for expenditures of Rs.6,012,253. On the basis of the available expenditure reports and our examination of the records of sub-activities visited by us during our review, we determined that recorded expenditures during the period amounted to Rs.4,188,083.10 which we have adjusted for refunds of Rs.50,165.91 as shown in Exhibit "B" of this report. The amount of Rs.50,165.91 NC represented miscellaneous refunds from District Panchayats, identified as originating from FY 1968 and 1969 transactions.

Our examination disclosed that the expenditures were generally proper and made for the purposes of the project as authorized by the project activity budgets.

c. Uncleared Advances:

Included in the expenditures of Rs.4,137,917.19 NC were un-cleared advances. That is, funds advanced to sub-activities district offices, suppliers and employees for which no actual expenditures or refunds have either been reported or recorded. Advance ledgers were maintained but we found that these ledgers were not always credited with actual expenditures upon receipt of expenditure reports or refunds. The status of uncleared advances for FY 1968 and FY 1969, according to the records available as of January 13, 1969, follows:

<u>Sub-activity</u>	<u>Amount NC</u>
Training Institute Rampur	105,487.78
" " Nepalgunj	33,239.96
" " Chandragarhi	33,270.37
Men's Field Training	66,148.81
Women's Field Training	257,574.19
Women's Affairs Training Center	<u>50,153.00</u>
Total Rs. NC	<u>545,874.11</u>

d. Accounting Records and Reports:

We found the accounting records for local currency project funds maintained by the Ministry and by the various sub-activities inaccurate and incomplete. Considerable differences were found between amounts recorded by the Ministry as distributed and by the sub-activities as received. Differences existed between book balances and cash balances because bank statements were either not received or not reconciled with the cash books. Expenditures reports were not submitted regularly and those submitted were often found inaccurate by the Internal Audit Section of the Ministry. In some cases expenditure reports listed advances instead of actual expenditures. An amount of Rs.100,000 NC from FY 1968 funds, advanced for the establishment of a Panchayat Training Institute at Pokhara was unaccounted for at the time of our audit.

We noted, however, that there has been a certain measure of improvement in the quality of record keeping and in financial reporting as compared to our last audit of the Panchayat Development project (See Audit Report No. 68-12, page 8), however, further efforts are obviously required to maintain adequate accounting records and to produce accurate expenditure reports.

Recommendation No. 1

US AID/N should invite the attention of the Home and Panchayat Ministry to the large amount of project funds recorded as uncleared advances and request that every effort be made to obtain and record proper expenditure vouchers or refunds and keep the accounting records up to date and accurate.

ACTION: Panchayat Development & Administrative Division

Recommendation No. 2

US AID/N should continue to advise and assist the Ministry of Home and Panchayat in maintaining adequate accounting records and in the timely preparation of accurate expenditure reports by sub-activities and district offices.

ACTION: Panchayat Development & Adm. Division

E. GON Regular Budget and Contributions-in-Kind

According to the project agreements the GON, in addition to its cash contribution, was committed to contribute from its Regular Budget and contributions-in-kind an amount of Rs.15,728,460 NC. We have seen evidence that the GON is making certain contributions to the project in the form of personnel, office space, and equipment. There are, however, no auditable records or reports on the actual value of these contributions nor have we found any reference to such contributions in project accounting records made available to us. We have therefor excluded both items from project costs and audit coverage shown in Exhibit "C".

F. Direct Mission Expenditures

During the period covered by this audit US AID/N has expended directly from its allotment of Indian currency, for project and Mission support, the amounts listed below:

US Technicians	Rs. 45,307.75
Participants	271,716.60
Commodities	3,444.44
Miscellaneous	<u>74,842.82</u>
Total	<u><u>Rs.395,311.61 IC</u></u>

We have reviewed these expenditures as recorded in the Indian currency project ledgers and found them in order.

G. Project Implementation

We have reviewed the available progress reports and particularly the detailed Project Appraisal Report, dated March 31, 1969. We noted that the activity targets in the project agreements were based on the availability of 102 man-months of U.S. technicians services and local currency expenditures of Rs.6,012,253 NC. Actually available during the period were only 51 man-months of U.S. technicians services and expenditures were considerably less than the Rs.4,188,083 Nepalese currency reported in Exhibit "B", because of unspent advances. This resulted in the abandonment of several activity targets and in a substantial retrenchment of field operations. In general, however, the implementation of the project has been satisfactory, as indicated by the following summary of accomplishments:

1. Panchayat training institutes were established, provided with supplies and equipment and hostel facilities for trainees. Operating on a regional basis these institutes have given training courses of various length and contents to the numbers of individuals listed below.

<u>Training Institute</u>	<u>Government Employees</u>	<u>Local Leaders</u>	<u>Total</u>
Rampur	416	68	484
Nepalgunj	41	289	330
Chandragarhi	<u>43</u>	<u>275</u>	<u>318</u>
	<u>500</u>	<u>632</u>	<u>1,132</u>

2. A Materials Production Center was established at Jawlakhel. This center has developed much needed and improved instructional materials for field training and for the institutes.
3. Under the Teacher Exchange Program, the three principals of the training institutes and two officers of the Home and Panchayat Ministry were sent to India and Pakistan and three Indians and one Pakistani participated in training activities in Nepal.
4. US AID/N and the GON co-sponsored the first all Nepal Panchayat Instructors Seminar in February 1968. A second seminar, called Panchayat Development Conference was held in November 1968. Both seminars were considered successful.
5. The Rampur and Chandragarhi institutes have selected one village panchayat each for operational research and for practical demonstrations of planning and training.
6. Panchayat Training Assistants have been appointed to all 75 districts to visit the villages and conduct training sessions for village leaders.

7. The Women's Affairs Training Center has given institutional training to 156 women. Women workers are serving in 68 districts, teaching the concepts of "Panchayat Democracy" and giving lessons in tailoring, knitting etc.

PANCHAYAT DEVELOPMENT

Report No.70-4
Exhibit "A"

Distribution of Local Currency Project Funds by Sub-activity
For the Period July 1, 1967 to December 31, 1968

In Nepalese Rupees

<u>Sub-Activities</u>	<u>Distribution</u>	<u>Expenditures</u>	<u>Balances</u>
1. Home and Panchayat Ministry	81,246.17	-	81,246.17
2. Leadership Training Center	695,179.78	167,637.87	527,491.91
3. Women's Affairs Training and Extension Center	511,640.90	306,156.21	205,484.69
4. Training Institute Rampur	886,042.37	791,977.88	94,064.49
5. Training Institute Nepalgunj	892,877.56	835,904.88	56,972.68
6. Training Institute Chandragarhi	1,081,350.72	928,532.88	152,817.84
7. Chief District Officer, for Men's Field Training	897,968.60	532,371.54	365,597.06
8. Chief District Officer, for Women's Field Training	679,805.04	625,451.84	54,353.20
9. Chief District Officer, Pokhara	100,000.00	-	100,000.00
10. Auditor's Adjustment, See Section V.D.2.a.	2,479.66	-	2,479.66
Totals	<u>5,828,590.80</u>	<u>4,188,083.10</u>	<u>1,640,507.70</u>

10

PANCHAYAT DEVELOPMENTLocal Currency Income and Expenditures
For the Period July 1, 1967 to December 31, 1968^{a/}In Nepalese Rupees

Balance, July 1, 1967		1,257,155.90
<u>Income</u>		
US AID/N Releases	3,501,299.52	
GON Cash Contributions	936,761.36	
Miscellaneous Receipts	<u>83,208.11</u>	<u>4,521,268.99</u>
Total Funds Available		5,778,424.89
<u>Expenditures (Including Advances)</u>		
Salary	1,288,114.13	
Allowances	313,505.73	
Travel Allowance & Daily Allowance	246,679.38	
Stationery, Printing & Postal Charges	86,872.55	
Books, Newspapers & Magazines	44,703.19	
Rent & Other Utility Service Charges	17,453.20	
Repairs & Maintenance	97,953.16	
Transportation Charges	108,709.96	
Food and Grain	11,259.43	
Grant-in-Aid	505,141.36	
Expendable Goods	270,013.85	
Contingency, Miscellaneous	9,630.72	
Tools and Spare Parts	53,335.27	
Furniture	51,712.10	
Building and Constructions	784,810.27	
All Other Capital Goods	<u>298,188.80</u>	
Total Expenditures	<u>4,188,083.10</u>	
Less: Unclassified Refunds	<u>50,165.91^{b/}</u>	
Net Expenditures		<u>4,137,917.19^{c/}</u>
Cash Balance, December 31, 1968		<u><u>1,640,507.70^{d/}</u></u>

Notes:

- a/ Includes transactions to January 13, 1969, in GON financial records.
- b/ See Section V.D.2.b. for comments.
- c/ See Section V.D.2.c. for comments.
- d/ As listed in Exhibit "A".

PANCHAYAT DEVELOPMENT

Report No. 70-4
Exhibit "C"

Project Costs and Audit Coverage
As of December 31, 1968

In U.S. Dollars and Dollar Equivalents

<u>US AID/Nepal</u>	Net Obligations ^{1/}	EXPENDITURES			Unliquidated Balance
		Prior Audits	This Audit	Total	
<u>Dollar Funds:</u>					
Technicians	456,912	313,145	118,678	431,823	25,089
Participants	306,124	168,366	75,068	243,434	62,690
Commodities	40,625	29,552	10,498	40,050	575
Sub-total Dollars	<u>803,661</u>	<u>511,063</u>	<u>204,244</u>	<u>715,307</u>	<u>88,354</u>
Plus - Accruals					
Total Per Report No. U-203					
<u>Local Currency Funds</u>					
Other Costs - Releases	2,388,685	1,834,104	341,258	2,175,362	213,323
Direct Mission Expenditures:					
Technicians	14,893	8,932	5,728	14,660	233
Participants	55,108	8,849	34,317	43,166	11,942
Commodities	453	-	453	453	-
Miscellaneous	22,894	12,980	9,718	22,698	196
Sub-total Local Currency	<u>2,482,033</u>	<u>1,864,865</u>	<u>391,474</u>	<u>2,256,339</u>	<u>225,694</u>
Total per Report No. U-204 dollar equivalent					
Total US AID/Nepal	<u>3,285,694</u>	<u>2,375,928</u>	<u>595,718</u>	<u>2,971,646</u>	<u>314,048</u>
<u>H. N. Government of Nepal</u>					
Contributions-in-Cash	<u>2,492,144</u>	<u>2,356,934</u>	<u>91,302</u>	<u>2,448,236</u>	<u>43,908</u>
Grand-Total Project Costs	<u>5,777,838</u>	<u>4,732,862</u>	<u>687,020</u>	<u>5,419,882</u>	<u>357,956</u>

^{1/} 1/17/63-12/31/68

12.

PANCHAYAT DEVELOPMENT
Project No. 367-11-810-090

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Memorandum

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FROM : AA/NESA, Edward M. Vinson *EMV*
SUBJECT: Nepal Audit Report No. 70-4
Panchayat Development Project 090

DATE: November 4, 1969
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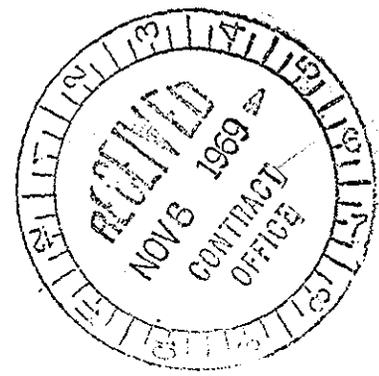
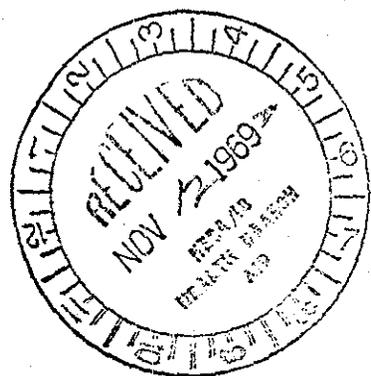
Attached is a copy of the subject audit report for your review and use. A copy of this report has been provided the Nepal Desk by the Mission.

Major findings are on page 2 and the two recommendations presented are for action by USAID/Nepal and the Home and Panchayat Ministry. (See pages 6 and 7).

The report indicates that accounting records for the local currency project funds maintained by the Ministry and sub-activities were incomplete and inaccurate, although some improvement was noted since the last audit.

Although the report indicates that several activity targets were abandoned and there was a substantial retrenchment in field operations, in general the implementation of the project has been satisfactory. (See pages 8 and 9)

cc: NESA/SA, CHRees
NESA/SA, AMWithers



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14

TO: Mr. William C. Ide, Director

DATE: September 29, 1969

E. M. Mendenhall
FROM: Erwin M. Mendenhall, Controller

SUBJECT: Audit Report No. 70-4
Panchayat Development
Project No. 367-11-810-090

Attached is one copy of subject audit report. The division concerned has reviewed a draft copy of the report and has concurred with our findings and recommendations.

In accordance with M.O. 798.4, please indicate your concurrence with the audit report findings and recommendations by signing the attached action memorandum and returning it to the Controller's Office for distribution.