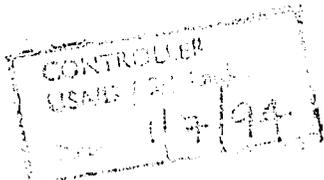


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**UNITED STATES AGENCY FOR
INTERNATIONAL DEVELOPMENT
MISSION TO SRI LANKA**

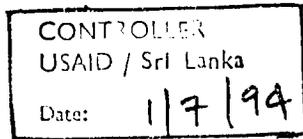
**ASSESSMENT OF FINANCIAL
MANAGEMENT SYSTEMS OF HOST
COUNTRY IMPLEMENTING
AGENCIES**

CONTRACT NO : 383-0499-C-00-3453-00
DELIVERY ORDER NO : 383-0499-C-01-3453-00

**SECRETARIAT FOR INFRASTRUCTURE
DEVELOPMENT AND INVESTMENT**

December 1993

**Coopers
& Lybrand**



Our reference: PDR/327/93

30 December 1993

Miss Linda Tarpeh-Doe
Financial Controller
United States Agency for International Development
356 Galle Road
Colombo 3

Dear Madam

SECRETARIAT FOR INFRASTRUCTURE DEVELOPMENT
AND INVESTMENT (SIDI)

1 In accordance with the instructions given and terms of reference set out in Article IV of the Delivery Order No 383-0499-C-01-3453-00 we are pleased to present our report on the Assessment of Financial Management System of SIDI. The detailed report which is attached was discussed with Mr Nihal Amresekere, Senior Counterpart Director to the Chief of Party, and his observations and suggestions have been incorporated in the report.

2 Our comments, findings and recommendations are given in eight chapters; one chapter being devoted to each work task defined in the terms of reference.

3 The more important comments and findings are given below as an executive summary.

The project and organisation structure

4 SIDI was set up under the Ministry of Policy Planning and Implementation to assist in the implementation of the Promotion of Private Infrastructure (PPI) project.

5 The PPI has been established under a grant agreement between the Government of Sri Lanka and the Government of the United States of America.

6 The project implementation has been contracted to the Center for Financial Engineering in Development (CFED) based in Washington DC.

7 The accredited subcontractor of CFED is COMINDTAX Management Services Limited, a company incorporated in Sri Lanka.

8 The value of the subcontract for a three year period beginning financial year 1993 is US \$ 988,317.

u

9 The project components and the organisational structure with specific reference to the Finance Division are given under Chapter 1.

Management capability

10 As explained in Chapter 2 we have no reason to doubt the administrative and management capability of the organisation or to doubt the competence and technical ability of key officials of the finance division of SIDI.

Internal control

11 Chapters 3 and 4 describe the control procedures in operation and our recommendations to improve the existing system. The internal control system is also documented in the form of flow charts which are given as Appendices to Chapters 3. The more important internal control issues can be summarised as follows:

<u>Paragraph reference</u>	<u>Description</u>
3.2	It is recommended that COMINDTAX maintains separate ledger folios to record the SIDI office expenditure.
3.8	There is a risk of duplicate payments being made erroneously or fraudulently because the documents supporting a payment are not cancelled with a "PAID" Stamp.
3.14 to 3.15	Control procedures relating to overtime payments need to be strengthened and it is recommended that prior approval be obtained for work to be done after office hours.
3.21 to 3.22	All bank transactions relating to SIDI are made through the common bank account of COMINDTAX which also records transactions relating to the other operations of COMINDTAX. This could lead to erroneous or fraudulent claims. The maintenance of separate bank account for SIDI is recommended.
3.23 to 3.25	An expenditure control account needs to be established to enhance controls of completeness of expenditure and reimbursements.
4 30	Due to limited staff several accounting and disbursement functions relating to the pay roll are concentrated in the hands of the Budget Officer.
4.5 to 4.6	In other operating areas the accounting function and handling of cash and cheques are concentrated in the hands of the Accounts Executive.

We have recommended that incompatible duties be separated. Under the existing circumstances arising from limited staff, we have accepted the supervision carried out by the Directors of COMINDTAX and the record keeping functions carried out at the COMINDTAX office as providing the best available controls.

Value for money reviews

12 As explained in paragraph 4.12, in the implementation of a project it is necessary to ensure that there is economy in the commitment of funds, that operations are carried out efficiently and the project objectives are accomplished effectively. For this purpose we have recommended that cost indicators and performance indicators be developed and the performance be assessed periodically. Although such cost indicators and performance indicators have not been developed, procedures to control costs appear to operate effectively.

Procurement procedure

13 We have agreed in paragraph 5.4 that elaborate procurement procedures may not be necessary at SIDI because the majority of the purchases relate to stationery items. We have however made certain recommendations to strengthen the procurement procedures.

Control over commodities

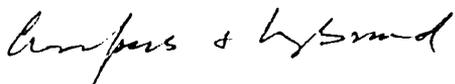
14 SIDI maintains a fixed assets register which we consider adequate although certain recommendations have been made in paragraph 6.7 to enhance the effectiveness of the control procedures. Since an annual verification of fixed assets is carried out (refer paragraphs 6.8) you may consider having independent auditors to observe and review the physical verification procedure in order to ensure the accuracy of the findings.

General

15 If you require any further information or clarification, please contact the Engagement Partner Mr P D Rodrigo or the Manager Mr Sanjay Niles.

16 We wish to place on record our sincere appreciation of the assistance rendered to us by Mr Nihal Sri Ameresekere, Senior Counterpart Director, SIDI, Mr P A Piyadasa, Budgetary Officer, SIDI and Ms Vasanthi Sellathurai of COMINDTAX Management Services Limited and the other members of staff of SIDI.

Yours truly



C O N T E N T S

C H A P T E R	PARAGRAPH REFERENCE	PAGE
1 TASK (A)		
Introduction/Background	1.1 - 1.5	4
Goals of SIDI	1.6 - 1.10	5
Organisation structure	1.11 - 1.14	6
Finance division	1.15 - 1.20	7
Sources of finance	1.21 - 1.23	8
Organisation structure	Appendix A	10
Names and designations of officials	Appendix B	16
2 TASK (B)		
Administrative and management capability	2.1 - 2.2	17
Finance division	2.3 - 2.4	17
3 TASK (C)		
Accounting system	3.1 - 3.4	19
Internal control system	3.5 - 3.6	20
Acknowledgement of payments	3.7	20
Payment procedure	3.8 - 3.10	20
Filing of documents	3.11 - 3.13	21
Attendance of staff	3.14 - 3.17	21
Cash cheques	3.18 - 3.20	22
Bank account	3.21 - 3.22	22
Completeness of income and expenses	3.23 - 3.25	23

C O N T E N T S

C H A P T E R	PARAGRAPH REFERENCE	PAGE
Authorisation of petty cash vouchers	3.26 - 3.27	23
Revenue expenditure flow chart	Appendix A	26
Capital expenditure flow chart	Appendix B	30
Overtime system flow chart	Appendix C	39
Petty cash system flow chart	Appendix D	42
4 TASK (D)		
Segregation of duties	4.1	45
Functions of the Budget Officer (BO)	4.2 - 4.3	45
Preparation and payment of salaries	4.4	47
Functions of the Accounts Executive (AE)	4.5 - 4.7	47
Job descriptions	4.8 - 4.9	48
Budgetary control	4.10 - 4.11	49
Value for money (VFM)	4.12 - 4.16	49
5 TASK (E)		
Contract management	5.1 - 5.2	51
Tender procedure	5.3 - 5.6	52
Contracting manuals regulations and guidelines	5.7 - 5.8	53
Contracts of capital nature	5.9	53

C O N T E N T S

C H A P T E R	PARAGRAPH REFERENCE	PAGE
6 TASK (F)		
Commodity arrivals	6.1 - 6.3	54
Issues	6.4 - 6.5	54
Fixed Assets Register (FAR)	6.6 - 6.7	55
Physical verification of fixed assets	6.8	56
7 TASK (G)		
Non compliance with laws and regulations	7.1	57
8 TASK (H)		
Counterpart funds	8.1 - 8.4	58

CHAPTER 1

TASK - (A)

*"REVIEW & COMMENT ON THE LEGAL STATUS,
GOALS, ORGANISATION STRUCTURE,
STRUCTURE OF THE FINANCE DIVISION
AND SOURCES OF FUNDING"*

SECRETARIAT FOR INFRASTRUCTURE DEVELOPMENT AND INVESTMENT

INTRODUCTION/ BACKGROUND

- 1.1 The Secretariat for Infrastructure Development and Investment (SIDI) was set-up under the Ministry of Policy Planning and Implementation (MPPI) of the Democratic Socialist Republic of Sri Lanka.
- 1.2 The primary objective of SIDI is the promotion facilitation and co-ordination of activities, in implementing the Promotion of Private Infrastructure Project (PPI).
- 1.3 PPI was initiated under a grant agreement between the Governments of the Democratic Socialist Republic of Sri Lanka (GOSL) and of the United States of America.
- 1.4 The implementation aspects of this project have been contracted to the Center for Financial Engineering in Development (CFED) of Washington D.C, who in effect are the contractors of the United States Agency for International Development (USAID) Mission to Sri Lanka.

1.5 COMINDTAX Management Services Limited, a Company incorporated in Sri Lanka, actively involved in business, financial engineering and management consultancy is the accredited subcontractor of CFED.

Goals of SIDI

1.6 The goals of SIDI are to promote the economic infrastructure in several sectors island wide such as power, water supply and treatment, telecommunications, transportation, waste management and disposal and industrial estates/ facilities and to this end to assist the Government of Sri Lanka to develop a market for private financing and management of economic infrastructure.

1.7 The project is structured into the following components:

- o Private Infrastructure Network Component

Establishing of the Government of Sri Lanka's (GOSL) policies and institutional framework to facilitate the promotion and implementation of the development of infrastructure facilities with private sector participation. The training of the staff of the line agencies of the GOSL in the implementation of these projects is also to be carried out.

- o Public Awareness Component

The dissemination of knowledge and information about the program to the line agencies and the investing public.

- o Marketing component

The marketing component will seek to engender the participation of the maximum number of qualified private

investors, both foreign and local, while marketing specific projects .

- o Private Sector Window Component

1.8 Under this component, SIDI envisages the establishing of a Private Sector Infrastructure Development Fund (PSIDF). The Fund would provide the catalysing money on a longterm basis for Build Operate and Own (BOO) and Build Operate and Transfer (BOT) type projects.

1.9 The management of the Fund would be carried out with external expertise. SIDI would ensure that sufficient credit lines are made available to the Fund, in order to prevent projects undertaken being handicapped due to the lack of longterm funds.

1.10 We were also informed that USAID has made a significant contribution to this Fund amounting to US \$ 30 million, to be utilised for environmental oriented projects.

Organisation Structure

1.11 The organisation structure presently under discussion at the SIDI office is of a matrix nature. The proposed structure is such that it would facilitate the close coordination and functioning of the office as a whole.

1.12 The Senior Counterpart Director, SIDI, who was instrumental in setting-up this structure was of the opinion that this concept of operation would be ideal for the working of SIDI, producing the following advantages:

- o Flexibility of structure
- o Multiparty/project disciplines

- o Better coordination and project chasing
 - o Teamwork and transparency
 - o Elimination of bottlenecks.
 - o Facilitation of future growth.
- 1.13 The proposed organisation structure, is set out as Appendix A to this chapter.
- 1.14 The names and designations of officials in the proposed organisation structure are given in Appendix B to this Chapter.

Finance Division

- 1.15 The expenditure incurred at the SIDI office, is initially met either by COMINDTAX Management Services Limited, which is the subcontractor of the USAID contractor the center for Financial Engineering in Development (CFED) of Washington DC, or directly by CFED itself.
- 1.16 All local expenses of the SIDI office are predominantly expended by COMINDTAX who in turn get themselves reimbursed either from the Ministry of Policy Planning and Implementation (MPPI) or from their contractors, CFED. The reimbursements from MPPI is considered to be the counterpart contribution to the project by the GOSL.
- 1.17 These procedures are provided under the agreement. COMINDTAX submits fortnightly reimbursement statements to CFED and monthly reimbursement statements to MPPI. CFED in turn incorporates the COMINDTAX claim into their master claim from USAID. In this manner both the contractor and subcontractor are in effect ultimately reimbursed by USAID.

- 1.18 It was also brought to our attention that the local component of the SIDI office expenditure, met by COMINDTAX is only approximately 20% of total expenditure. Thus the major portion of total expenditure is met directly by CFED.
- 1.19 It is understood, that COMINDTAX maintains its books of account pertaining to its function at SIDI, at its own office. As such there is no separately identifiable finance division at SIDI.
- 1.20 The Budget Officer is responsible for the establishment and maintenance of the financial systems and accounting procedures in keeping with the standards required to account for all funds and their disbursement, under the direction of the Senior Counterpart Director.

Sources of Finance

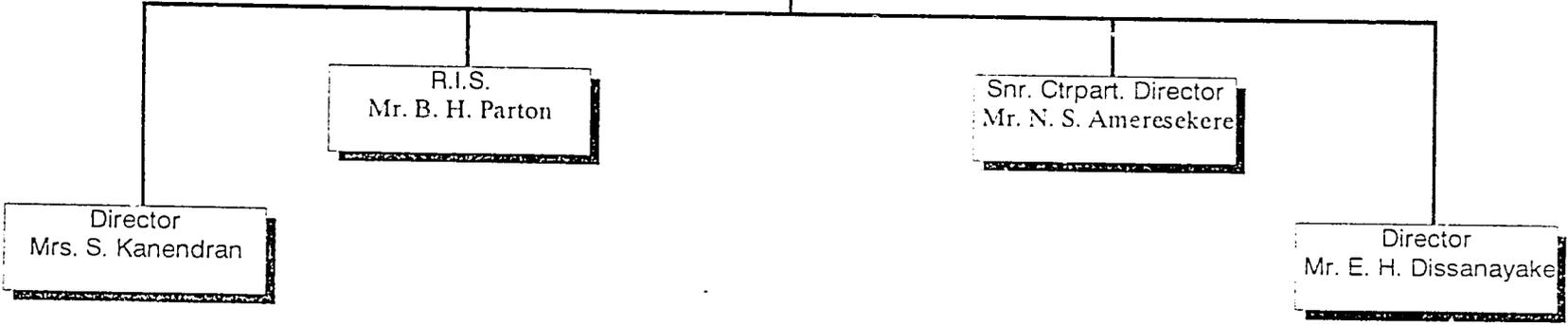
- 1.21 As SIDI has been established by an agreement between the USAID and the GOSL it receives funds only from these two sources. The USAID component is channelled through CFED and COMINDTAX.
- 1.22 In cases of extreme urgency and when substantial amounts of expenditure are involved, (like in the purchase of fixed assets), COMINDTAX expends funds requested and advanced by the GOSL (Ministry of Policy Planning and Implementation), who in turn get themselves reimbursed from USAID. However, this procedure has taken place only on two occasions, and we were informed that it will not be made use of in the future.
- 1.23 Under the agreement the Government of Sri Lanka (GOSL) reimburses the following expenses of the SIDI office.
- o The monthly electricity bill of the premises.

- o Vehicle running and maintenance expenditure
- o Repairs and maintenance of the SIDI building.
- o The cost of staff seconded by the Ministry of Policy Planning and Implementation (MPPI)

EXECUTIVE

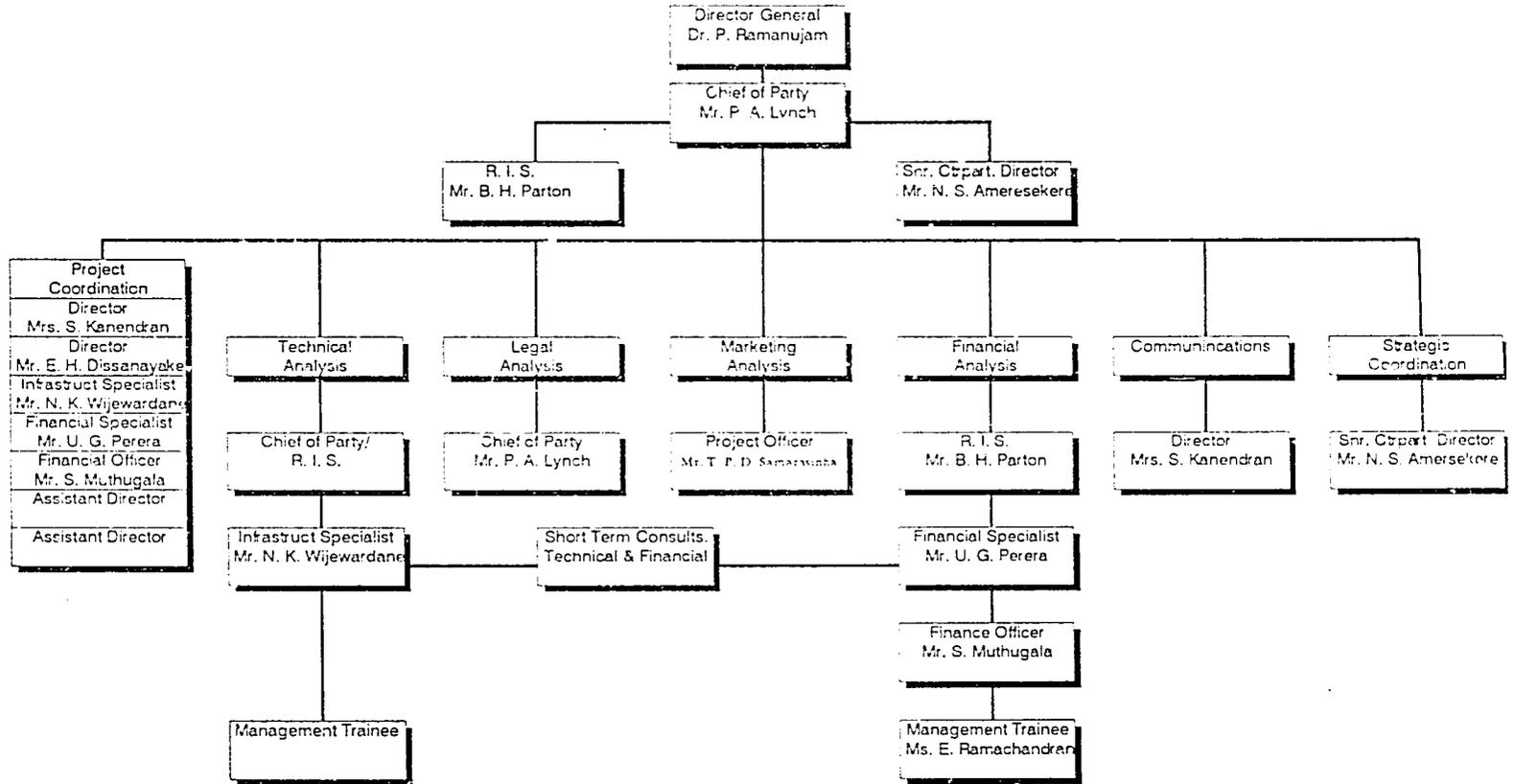
Director General
Dr. P. Ramanujam

Chief of Party
Mr. P. A. Lynch

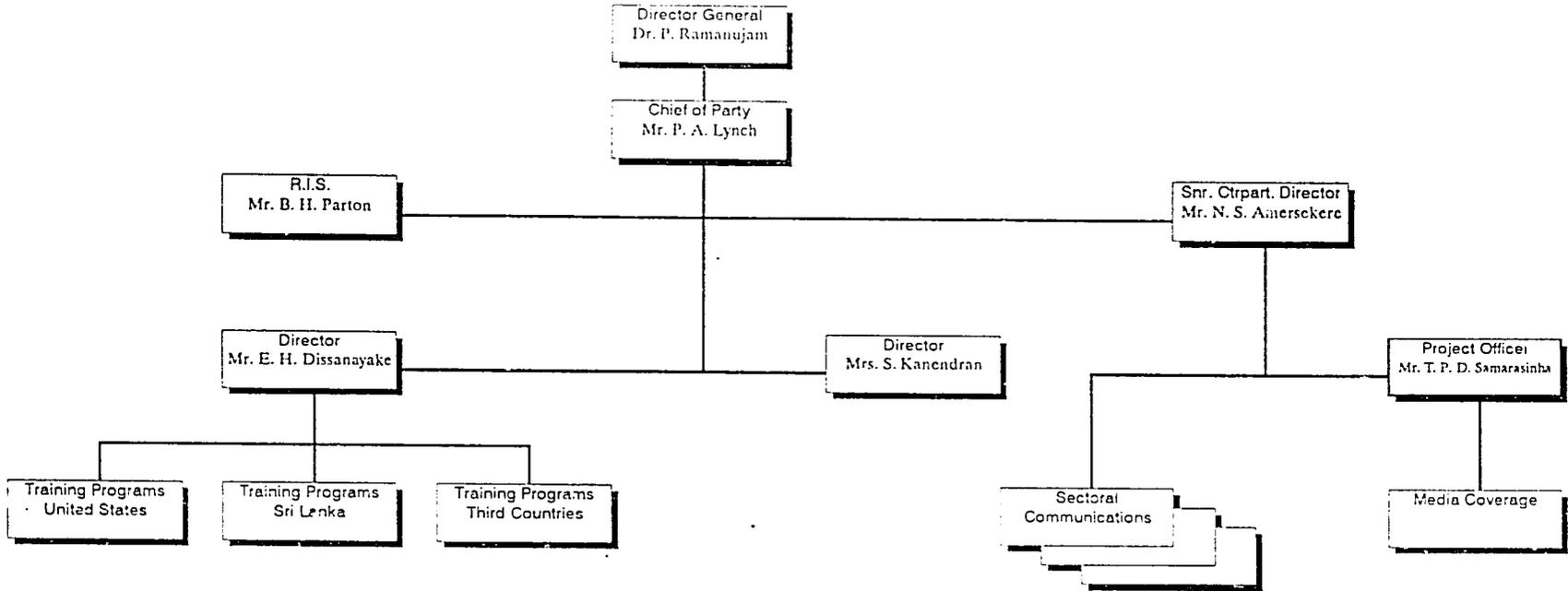


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COMPONENT I - PROJECTS

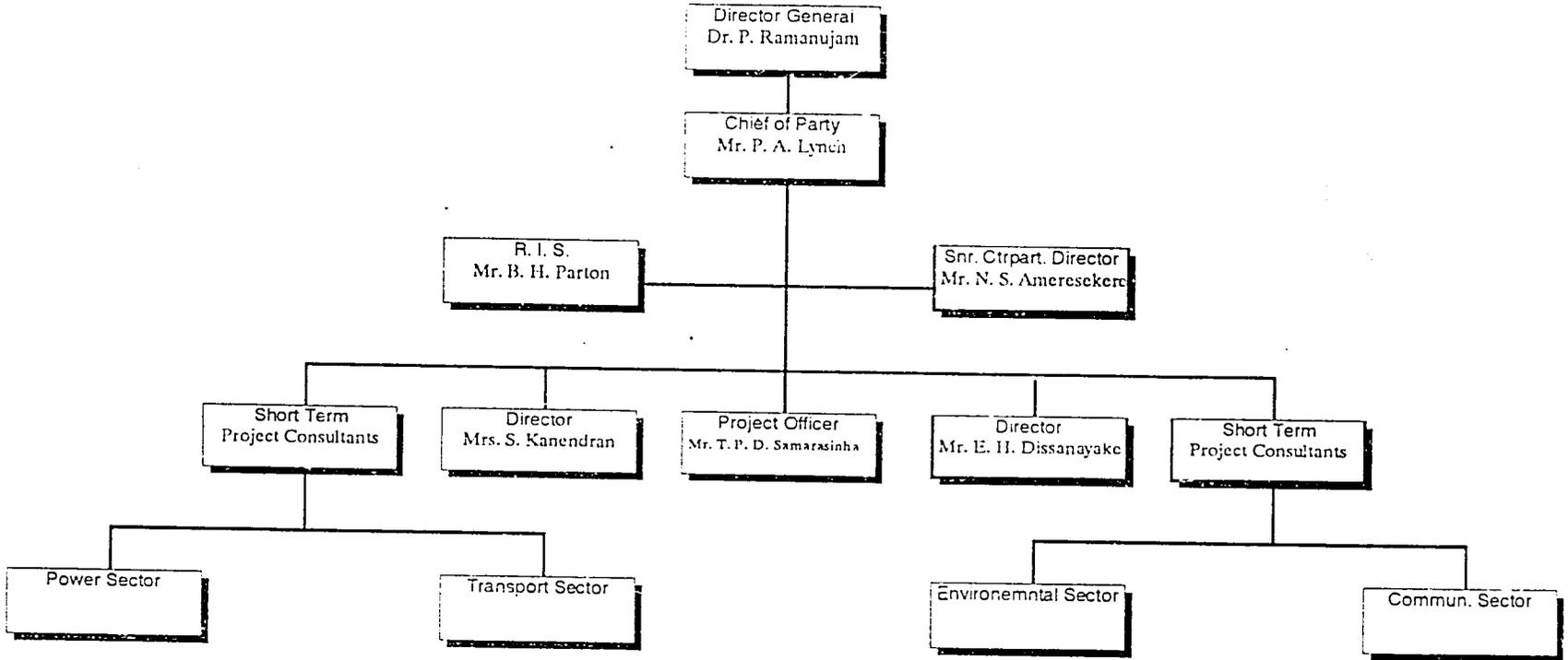


COMPONENT II - PUBLIC AWARENESS

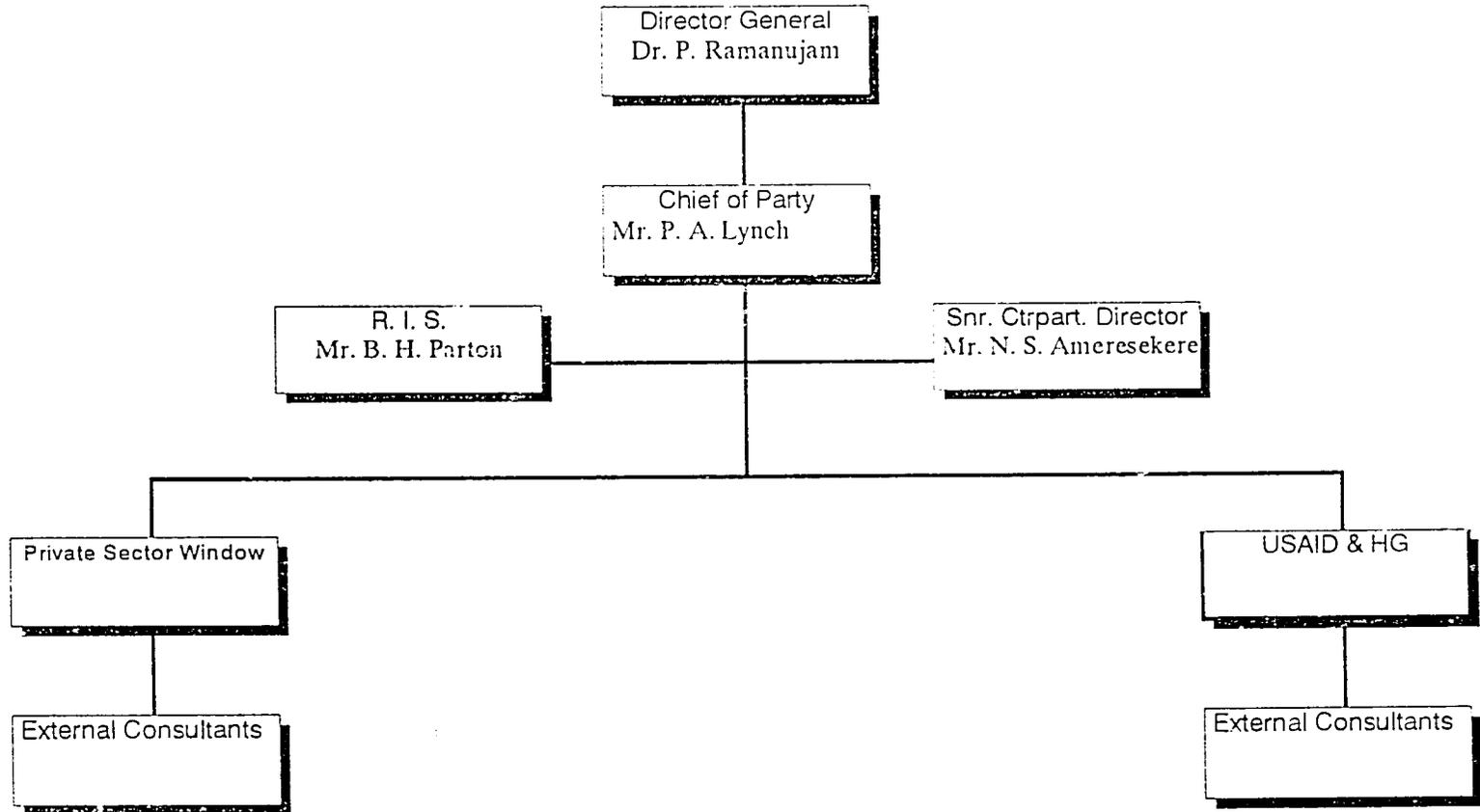


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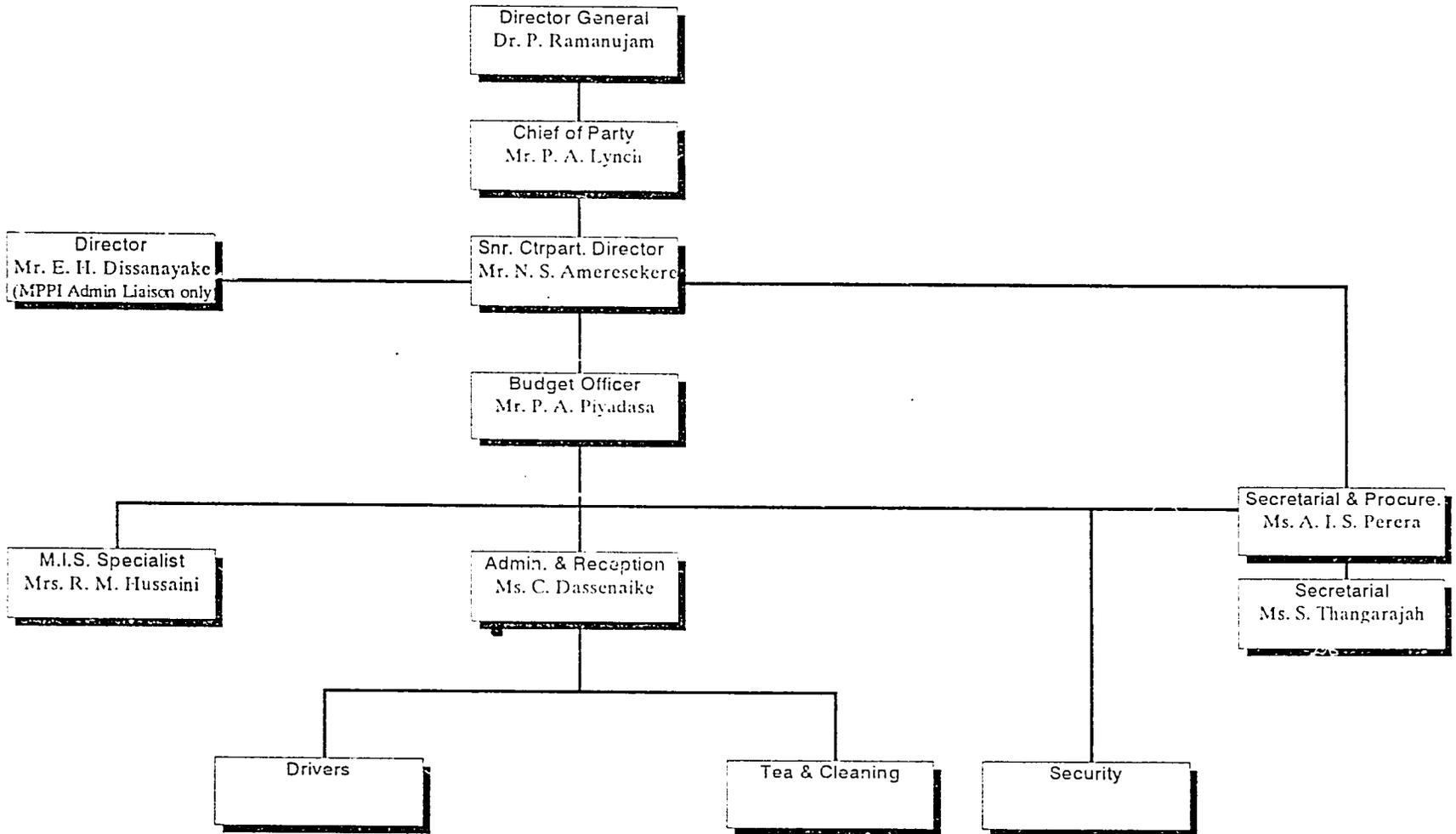
COMPONENT III - MARKETING PPI PROJECT



COMPONENT IV – DEVELOPING PRIVATE SECTOR MECHANISMS & INSTRUMENTS



ADMINISTRATION



15

NAMES AND DESIGNATIONS OF OFFICIALS OF THE ORGANISATION

DESIGNATION	NAME
<u>SIDI OFFICIALS</u>	
Director General	Dr P Ramanujam
Government Director	Mr E H Dissanayake
Government Director	Mrs S Kanendran
Chief of Party (COP)	Mr Paul Lynch
Resident Investment Specialist (RIS)	Mr Bennet Parton
<u>STAFF EMPLOYED BY COMINDTAX</u>	
Senior Counterpart Director (SCD) to the (COP)	Mr Nihal Sri Ameresekere
Infrastructure Specialist	Mr Nalin Wijewardane
Finance Officer	Mr S Muthugala
Finance Specialist	Mr U G Perera
Project Officer	Mr T Samarasinghe
Budget Officer	Mr P A Piyadasa
Secretary	Ms Indramali Perera
Secretary	Ms Selvi Thangarajah
Receptionist cum Secretary	Ms Cryshanthi Dasanayake
Management Trainee	Ms Easha Ramachandran
P C Software Specialist	Ms Roshni Hussaine

Local and overseas consultants are recruited and employed as and when required.

The following minor staff are also employed at the SIDI office.

2 Peons and

3 Drivers

The posts of two Assistant Government Directors seconded by MPPI, and of a management trainee are to be filled, depending on requirements.

CHAPTER 2

TASK - (B)

"REVIEW AND COMMENT ON THE ADMINISTRATIVE AND MANAGEMENT CAPABILITY OF THE ORGANISATION. THE ADMINISTRATIVE AND MANAGEMENT CAPABILITY OF THE FINANCE DIVISION SHOULD ALSO BE ADDRESSED WITH PARTICULAR EMPHASIS ON THE MANAGEMENT OF THE AID PROJECT"

Administrative and management capability

- 2.1 The Additional Director General of the Ministry of Policy Planning and Implementation (MPP), Dr P Ramanujam, is the Director General of SIDI. Dr Ramanujam has considerable experience in the public sector. The Chief of Party (COP) Mr Paul Lynch and the Resident Investment Specialist (RIS) Mr Bennet Parton have been assigned to the SIDI mission by CED. The suitability of these personnel has been assessed against the criteria set by USAID.
- 2.2 Therefore we do not have any reason to doubt the Administrative and Management capability of the Organisation.

Finance Division

- 2.3 Mr N S Ameresekere who functions as Director COMINDTAX, is a Fellow of the Chartered Institute of Management Accountants (CIMA), UK and of the Institute of Chartered Accountants of Sri Lanka (ICASL). The Budget Officer Mr P A Piyadasa is an Associate Member of CIMA and a Fellow of ICASL. He also possesses a Bachelor of Arts degree.

COMINDTAX we understand has successfully undertaken several large assignments of this nature both in the State and public sector, including the privatisation of the transport industry the Central Transport Board (CTB).

2.4 We have therefore, no reason to doubt that the key officials of the Finance Division of SIDI have the required competence and technical ability to carry out the tasks assigned to them.

CHAPTER 3

TASK - (C)

"REVIEW, DOCUMENT AND COMMENT ON THE ACCOUNTING SYSTEM IN PLACE, ACCOUNTING RECORDS MAINTAINED, INTERNAL CONTROLS AND THE PAYMENT PROCEDURE (FLOW CHARTS MAY BE USED WHEREVER NECESSARY WITH ADEQUATE NARRATIVE EXPLANATION).

IN CONNECTION WITH THE ABOVE ALSO ASSESS THE ADEQUACY OF THE ORGANISATION'S INVOICE EXAMINATION CAPABILITY, PAYMENT PROCEDURES AND INTERNAL CONTROLS IN CONNECTION WITH APPROVAL AND PAYMENT OF INVOICES"

Accounts and Audit

- 3.1 The Accounts of SIDI are maintained by COMINDTAX at its office, but no separate set of books is maintained for SIDI. Instead, the disbursements in respect of SIDI, and all other projects handled by COMINDTAX, are maintained in a single set of books of account. Further the General Ledger (GL) does not include separate folios in respect of the expenditure of SIDI. Additionally the expenditure of the various projects do not have distinct codes in the payment cash book in order to avoid any confusion which could arise during the updating of the GL. Thus there is a possibility of expenditure pertaining to one project being erroneously charged to another project.
- 3.2 We recommend that COMINDTAX maintains separate ledger folios to record SIDI office expenditure.
- 3.3 Time sheets, leave application etc of COMINDTAX employees who are seconded for service to SIDI, are also filed at the COMINDTAX office. These are approved by the Budget Officer.
- 3.4 The accounts of COMINDTAX is subject to an annual audit. As independent firm of Chartered Accountants appointed by the Board of Directors of COMINDTAX have audited the accounts upto the year ended 31 March 1992.

Internal Control System

3.5 The payment procedure relating to the revenue and capital expenditure is given in flow chart form as Appendix A and B to this Chapter.

The payment procedure relating to overtime and the petty cash system are also given as flow charts in Appendix C and D to this Chapter.

3.6 Our observations in the system are given in the ensuing paragraphs.

Acknowledgement of payments

3.7 The Budget Officer (BO) makes it a point to obtain signatures of suppliers on the cheque payment vouchers in making payments. This ensures that the same cheque payment vouchers are not used to make duplicate payments.

Payment procedure

3.8 Payment Requisition Vouchers (PRV), Petty Cash Vouchers (PCV) and documents supporting such vouchers are not cancelled with a "PAID" stamp. Thus the documents could be produced again in support of another payment before they are despatched to CFED, erroneously or fraudulently.

3.9 All vouchers and documents supporting payments must be cancelled with a "PAID" stamp which should record the number and date of the cheque issued. For control to be effective, cheque signatories should ensure that the number and date on the cancelled document correspond to those of the cheque being signed.

3.10 However, we were assured that control over PRVs is ensured by the maintenance of a register. Although PRVs are not serially pre-numbered, the entries in the PRV register are maintained serially. In the opinion of the BO this would prevent the reproduction of a used PRV

in support of another payment. We were also informed that the cheque number is written on the PRV at the point of payment.

Filing of Documents

- 3.11 The originals of documents supporting the payments are despatched to CFED for reimbursement on a fortnightly basis, and COMINDTAX keeps photocopies of the documents despatched to CFED. However, we note that these photocopies are not attached to the payment vouchers and are filed separately. Therefore considerable difficulty is experienced in tracing these documents to the relevant Payment Requisition Voucher (PRV).
- 3.12 It was brought to our attention that separate files are maintained for each and every fortnightly reimbursement. These files consist of photocopies of reimbursement statements, PRVs and supporting documents.
- 3.13 Therefore if a third party, such as auditors, requires the photocopies of the documents supporting any given payment, they would have to refer to these files, if they are unable to locate such information in the COMINDTAX Payment Voucher files.

Attendance of Staff

- 3.14 SIDI maintains a staff attendance register. Overtime payments are applicable only to minor staff and are based on the overtime sheets filled in by the employees themselves. Therefore the only control over the accuracy of time charged as overtime is exercised by the Secretary who initials the daily entries in the overtime sheets on the day following the overtime working day. These are also signed by the Budget Officer and sent to COMINDTAX to obtain payments.
- 3.15 We recommend that prior approval to be obtained for working overtime. The official who requires the minor staff to work overtime should make

an entry in the Approval Register which is in the custody of the Budget Officer (BO). The reasonability of overtime hours worked is checked based on the work load. Drivers overtime hours are endorsed in the vehicle running charts under the supervision of the security staff.

- 3.16 The BO checks the accuracy and reasonability of the vehicle running charts before authorising overtime claims.
- 3.17 The receptionist is in charge of checking the work load and approving overtime worked by the other minor staff of SIDI.

Cash Cheques

- 3.18 Cash cheques are drawn only for the purpose of making payment of salaries, reimbursement of petty cash and purchase of stationery from wholesale outlets.
- 3.19 Such cheques, by their very nature are susceptible to losses and frauds, since they could be encashed by any person who gains access to them.
- 3.20 On bringing this to the attention of the Senior Counterpart Director (SCD) who is also the Director of COMINDTAX, we were informed that the above risk is borne entirely by COMINDTAX, and that there is no cause for concern since funds are accounted for as expenses of SIDI only after the delivery of goods. This results from the fact that SIDI has no funds of its own.

Bank account

- 3.21 COMINDTAX maintains a common bank account for its entire operations. It handles funds pertaining to several different ventures. As a result it is difficult to identify transactions pertaining to individual ventures.

3.22 If the funds pertaining to SIDI operations are significant in comparison to the overall operations of COMINDTAX, we recommend that, a separate bank account be maintained for SIDI operations.

We have also been informed that COMINDTAX presently intends adopting this procedure.

Completeness of income and expenses

3.23 SIDI has no income of its own. Any reimbursement of costs for "Request for Proposal" documents as well as any other income of any nature will be recorded in the Receipts Book and such funds will be transferred to MPPI. Therefore completeness of income depends on the procedure that requires an acknowledgement receipt to be issued for funds received.

3.24 The completeness of expenditure of the SIDI office is ensured at the point of reimbursement. All reimbursement statements prepared by the Accounts Executive (AE) of COMINDTAX, are checked and authorised by the Director COMINDTAX, who is also the Senior Counterpart Director (SCD), SIDI.

3.25 We have been informed that it is intended to setup an expenditure control account to ensure completeness of expenditure incurred at the SIDI office and to control reimbursements received.

Authorisation of petty cash vouchers

3.26 SIDI maintains a petty cash imprest of SLK 15,000. During the "walk through" tests we performed on the system we observed that certain low value petty cash vouchers had not been authorised by the Budget Officer. The details of some of the unauthorised vouchers are given below:

Payment Requisition Voucher 205 (raised for petty cash reimbursement)

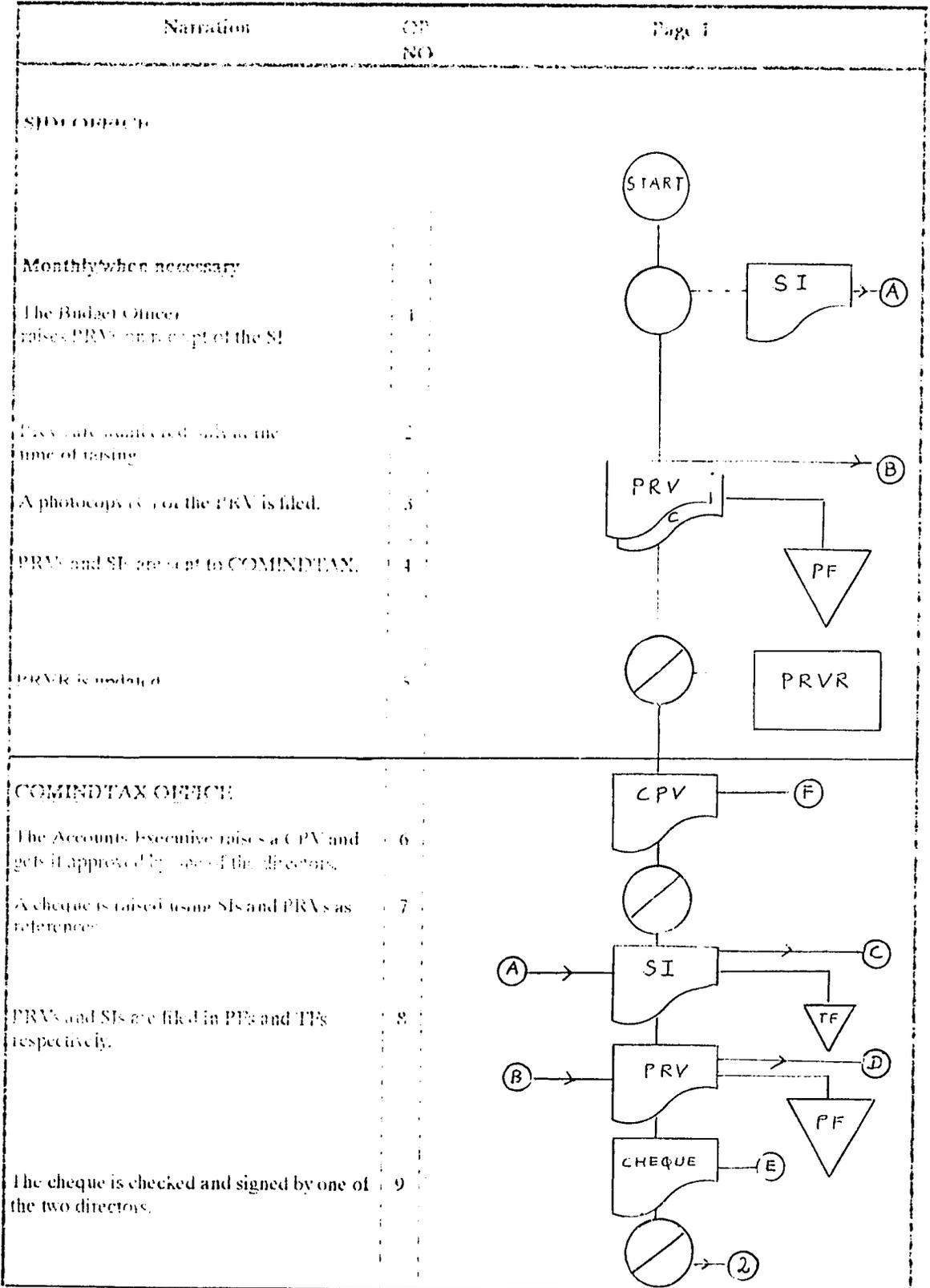
- o Petty cash payment voucher No 9 - Rs 50/-
- o - do - 10 - Rs 50/-
- o - do - 17 - Rs 525/-

3.27 These irregularities were instantaneously sorted out during our discussions, and we were assured that they were due to genuine error.

**ABBREVIATIONS USED IN THE FLOW CHARTS GIVEN AS
APPENDICES A B C AND D TO CHAPTER THREE**

AE	Accounts Executive
BO	Budget Officer
CA	Certificate of Acceptance
CB	Cash Book
CPV	Cheque Payment Voucher
DG	Director General
E	End
ERS	Expenditure Reimbursement Statement
FAE	Fixed Asset Register
GL	General Ledger
GOSL	Government of Sri Lanka
MPPI	Ministry of Policy Planning and Implementation
OP NO	Operation Number
OT	Overtime
OTR	Overtime Register
PCPV	Petty Cash Payment Voucher
PCRS	Petty Cash Reimbursement Statement
PF	Permanant File
PII	Project Implementation Letter
PO	Purchase Order
PRV	Payment Requisition Voucher
PRVR	Payment Requisition Voucher Register
SA	Statement of Acceptance
SI	Suppliers Invoice
SIDI	Secretariat for Infrastructure Development and Investment
SLR	Sri Lanka Rupee
SQ	Schedule of Quotations
TF	Temporary File
USAID	United States Agency for International Development

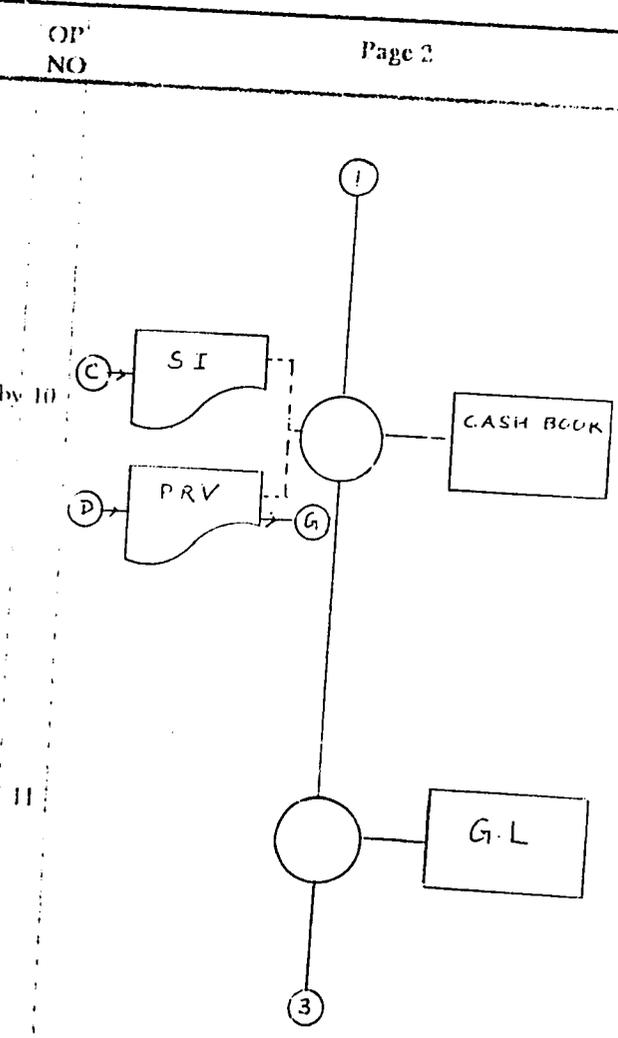
**SYSTEMS REVIEW:
REVENUE EXCISE DUTY**



COMINTEAX OFFICE

Accounts Executive updates the cash book by 10
referring to PRV and SI.

Cash book entries are posted to relevant
ledger accounts in the G.L.

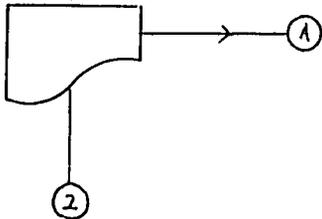


**SYSTEMS REVIEW
REVENUE EXPENDITURE**

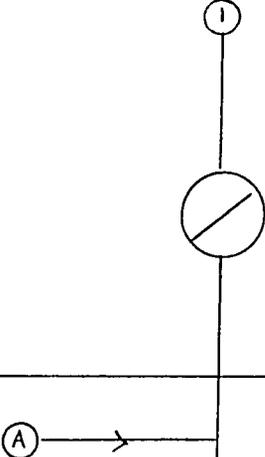
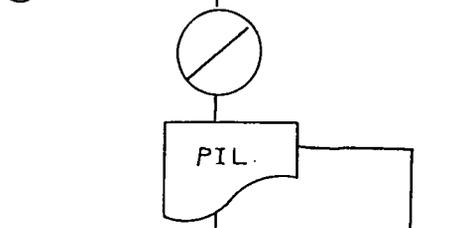
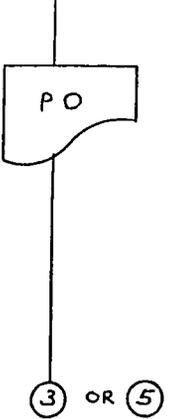
Narration	OP NO	Page 3
<p><u>COMINDTAX OFFICE</u></p> <p>The Accounts Executive gets the cheques encashed if necessary.</p>	12	
<p><u>SIDI / COMINDTAX</u></p> <p>The Budget Officer accepts the cash / cheque and signs on the PRV.</p>	13	
<p>The Budget Officer makes the payments</p>	14	
<p>The supplier signs the CPV and accepts payment.</p>	15	

Narration	OP NO	Page 4
COMINDTAX OFFICE		<pre>graph TD; H((H)) --> PRV[PRV]; I((I)) --> CPV[CPV]; PRV --> 3((3)); PRV --> PF((PF)); CPV --> PF; CPV --> END((END));</pre>

SYSTEMS REVIEW
 PROCUREMENT OF FIXED ASSETS (GENERAL PROCEDURE)

Narration	OP. NO	Page 1
SIDI OFFICE:		REQUIREMENT IDENTIFIED AND NOTIFIED TO THE BUDGET OFFICER/ COMINTAX CONSULTANT.
Discussion at progress review meetings involving representatives of USAID and GOSI	1	
The Budget Officer or another Official obtains atleast 3 quotations over the phone or by visiting the suppliers. No Newspaper advertisements are placed.	2	
The Budget Officer checks with a GOSI official at SIDI, or the USAID office whether USAID regulations on procurement are complied with.	3	
A SO is prepared by the Budget Officer.	4	

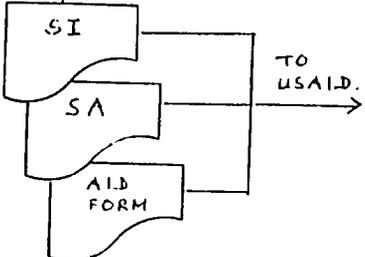
**SYSTEMS REVIEW
PROCUREMENT OF FIXED ASSETS (GENERAL PROCEDURE)**

Narration	OP. NO	Page 2
<p>SIDI OFFICE</p> <p>The schedule of quotations (from atleast 3 suppliers) will be authorised by the DG and transmitted to USAID.</p>	5	
<p>USAID OFFICE</p> <p>Evaluation and selection of a supplier and issue of PIL.</p>	6	
<p>SIDI OFFICE</p> <p>The PIL is received.</p> <p>PO is placed by the Budget Officer (no formal PO is raised)</p>	7 8	

**SYSTEMS REVIEW
PROCUREMENT OF FIXED ASSETS (GENERAL PROCEDURE)**

Narration	OP NO	Page 3
<p>SIDI OFFICE</p> <p>SIs are received.</p>	9	
<p>Goods are checked on delivery by the Budget Officer or a secretary.</p>	10	
<p>SA is prepared by the Budget Officer</p>	11	
<p>SA is authorised by a GOSI official at SIDI.</p>	12	
<p>Budget Officer checks to see if the cost is more than US \$ 2,500.</p>	13	
<p>If cost is greater than US \$ 2,500, then AID form 1450-4 is raised.</p>	14	
<p>If not AID form 1034 is raised.</p>	15	

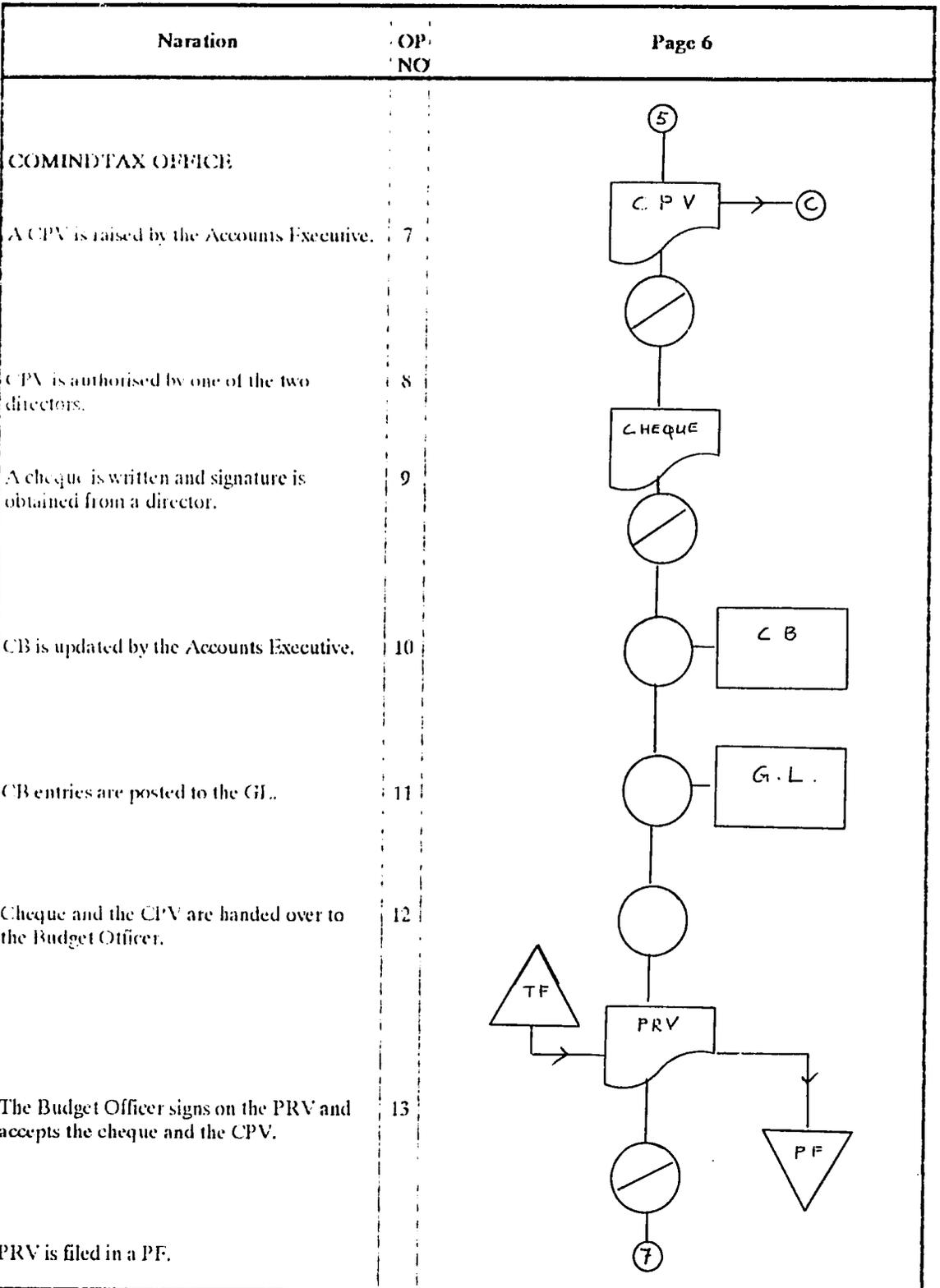
SYSTEMS REVIEW
 PROCUREMENT OF FIXED ASSETS (GENERAL PROCEDURE)

Narration	OP. NO.	Page 4
SIDE OFFICE		
All documents are authorised by the D.G.	16	
All documents are sent to USAID.	17	
USAID will directly pay the supplier on receipt of the documents.	18	

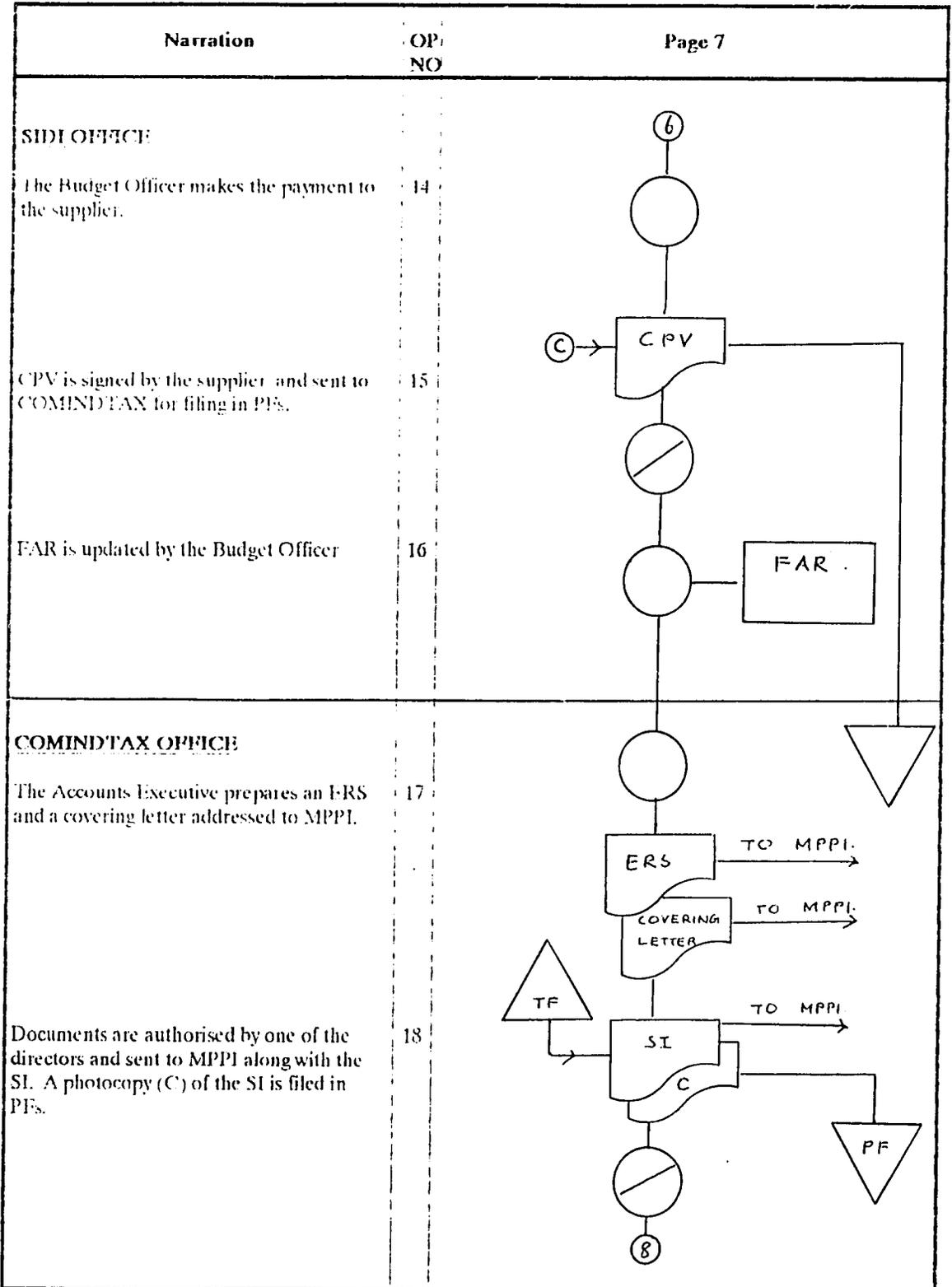
SYSTEMS REVIEW
 PROCUREMENT OF FIXED ASSETS (EXCEPTIONAL PROCEDURE)

Narration	OP NO	Page 5
<p><u>SIDI OFFICE</u></p> <p>SI is received</p> <p>Goods are checked on delivery by the Budget Officer or a secretary.</p> <p>PRV is raised by the Budget Officer.</p> <p>A photocopy (C) is filed.</p> <p>PRVR is updated.</p>	<p>1</p> <p>2</p> <p>3</p> <p>4</p> <p>5</p>	
<p><u>COMINDTAX OFFICE</u></p> <p>Documents are received at COMINDTAX office</p>	<p>6</p>	

SYSTEMS REVIEW
PROCUREMENT OF FIXED ASSETS (EXCEPTIONAL PROCEDURE)



SYSTEMS REVIEW
PROCUREMENT OF FIXED ASSETS (EXCEPTIONAL PROCEDURE)



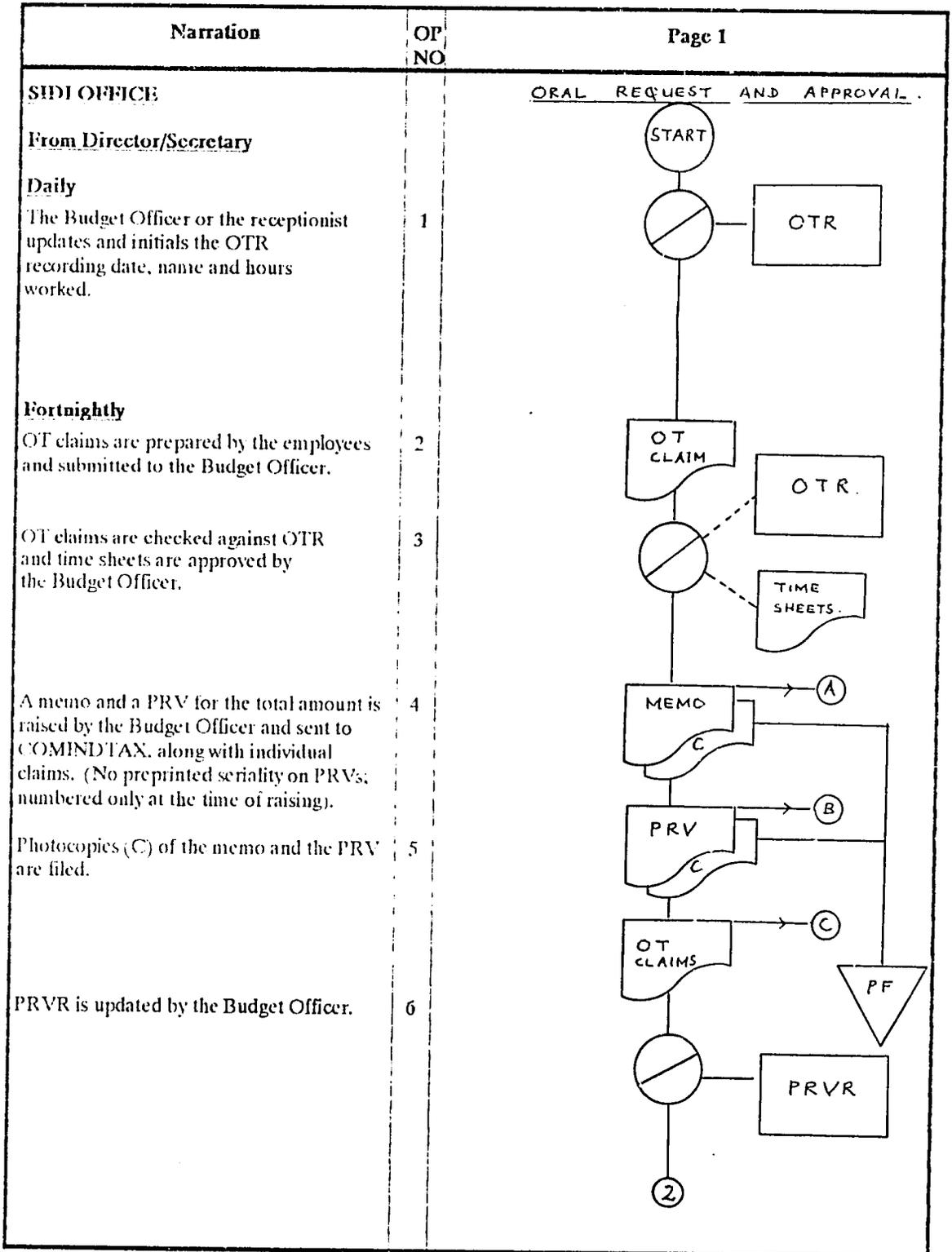
SYSTEMS REVIEW
PROCUREMENT OF FIXED ASSETS (EXCEPTIONAL PROCEDURE)

Narration	OP. NO	Page 8
On receipt of the reimbursement cheque from MPPI the CB is updated by the Accounts Executive.	19	
The cheque is deposited	20	
SIDI OFFICE		
A CA is prepared by the Budget Officer.	21	
This is Authorised by a GOSI. official at SIDI.	22	
Value of the purchase is checked.	23	
If the value is greater or equal to US \$ 2500 AID form 1450-4 is raised.	24	
If not AID form 1034 is raised.	25	

SYSTEMS REVIEW
 PROCUREMENT OF FIXED ASSETS (EXCEPTIONAL PROCEDURE)

Narration	OP NO	Page 9
<p><u>MPPI</u></p> <p>The documents are authorised by the DG and submitted to USAID for reimbursement.</p>	<p>26</p>	<pre> graph TD 8((8)) --- SI[SI] SI --- CA[CA] CA --- AF1[AID FORM 1450-4] AF1 --- AF2[AID FORM 1034] AF2 --- TOUSAID[TO USAID] TOUSAID --> END((END.)) A((A)) --- SI D((D)) --- CA E((E)) --- AF1 F((F)) --- AF2 SI --- C1(()) CA --- C1 AF1 --- C1 AF2 --- C1 C1 --- TOUSAID </pre>

**SYSTEMS REVIEW
OVERTIME**



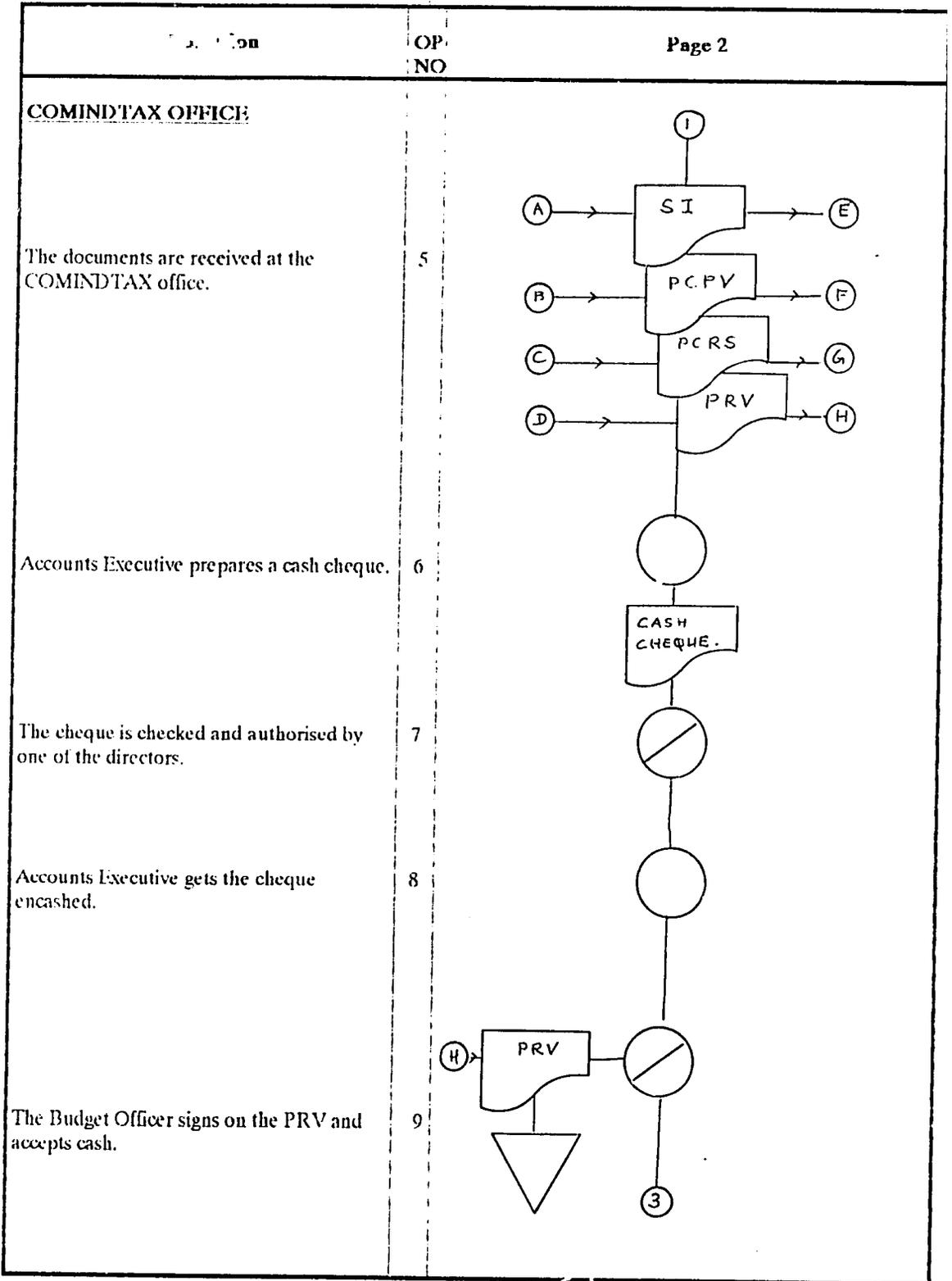
SYSTEMS REVIEW
OVERTIME

Narration	OP NO	Page 3
<p>SIDI OFFICE</p> <p>The Budget Officer prepares PCPVs for individual amounts by referring to the memo.</p> <p>Cash is collected by the employees after signing on PCPVs.</p>	<p>13</p> <p>14</p>	<pre> graph TD 2((2)) --- PCPVs[PCPVs] MEMO[MEMO] -.- PCPVs PCPVs --- slash((/)) </pre>
<p>COMINDTAX OFFICE</p> <p>PCPVs are filed by the Accounts Executive along with memos, PRVs and OT claims.</p>	<p>15</p>	<pre> graph TD PCPVs[PCPVs.] --- END((END.)) PCPVs --- triangle[▽] </pre>

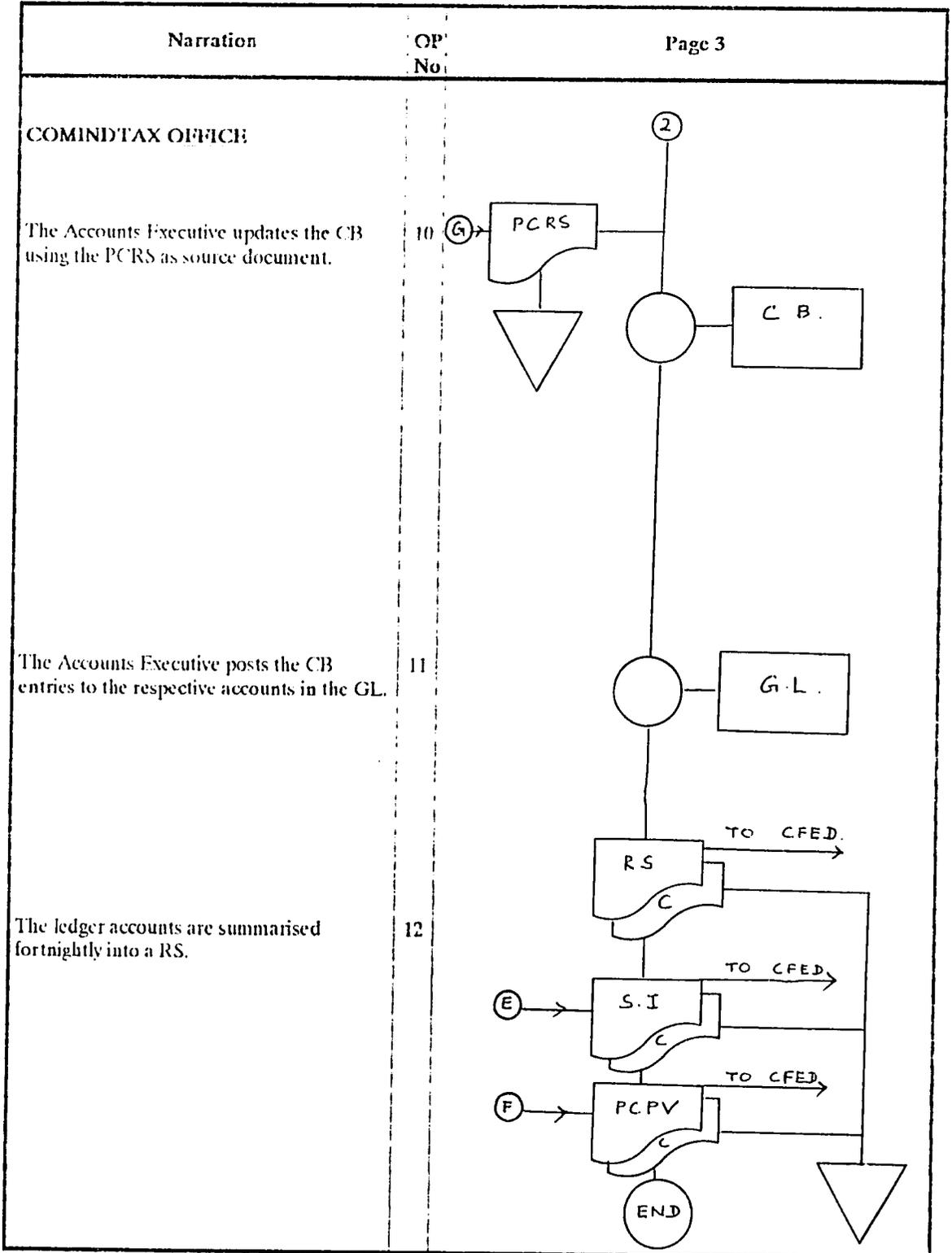
SYSTEMS REVIEW
 PETTY CASH SYSTEM

Narration	OP NO	Page 1
<u>SIDI OFFICE</u>		
A PCRS is raised by the Budget Officer. The source document is either the SI or the PCPV in the absence of the former.	1	
Imprest is less than or equal to SLR 7,000.	2	
A PRV is raised for the total amount. Seriality is maintained manually.	3	
PRV register is updated by the Budget Officer.	4	
<p>Observations</p> <ul style="list-style-type: none"> - no independent check - no daily petty cash disbursement records are maintained. - No petty cash account is maintained due to the low number of requisitionists. 		

**SYSTEMS REVIEW
PETTY CASH SYSTEM**



**SYSTEMS REVIEW
PETTY CASH SYSTEM**



CHAPTER 4

TASK - (D)

"REVIEW AND COMMENT ON THE INTERNAL CONTROL SYSTEM TO DETERMINE:

(a) THE ADEQUACY OF SEGREGATION OF DUTIES AND RESPONSIBILITIES IN THE FOLLOWING FUNCTIONAL AREAS:

- (1) ACCOUNTING,*
- (2) PROCUREMENT (CONTRACTING),*
- (3) VOUCHER PAYMENTS,*
- (4) REPORTING; AND*

(b) THE EFFECTIVENESS OF THE CURRENT INTERNAL CONTROL SYSTEM ON THE MANAGEMENT OF FUNDS"

Segregation of duties

4.1 Our observations on the segregation of duties and responsibilities between the functional areas of accounting, procurement, collection and reporting are set out below.

Functions of the Budget Officer (BO)

4.2

- o Responsible for all finances and the proper maintenance of all accounting records, documents, files, vouchers etc.
- o Responsible for general administration and running of the office, including recruiting and supervising office staff. Ensuring that all positions are filled by qualified personnel.
- o Responsible for personnel management function including ensuring

that payroll and payroll related taxes/dues are paid. Ensuring that matters relating to benefits and problems are handled as they arise expeditiously.

- o Setting up controls and inventory of all assets of the organisation including procurement and identification. Ensuring proper and regular maintenance of all equipment.
- o Responsible for procurement of stationery and all other office supplies. Ensuring proper accounting and controls. Maintaining inventory record and adequate stocks.
- o Ensuring that all equipment, furniture and other assets of the organisation are properly insured.
- o Responsible for all arrangements in relation to the opening and closing of the office, including custody and control of keys.
- o Responsible for management of the motor vehicle pool and ensuring proper and regular maintenance of all vehicles, with requisite controls on fuel and vehicle deployment.
- o Providing security arrangements and guard service for the office and checking on same and ensuring the proper maintenance of the premises.
- o Processing and preparing requisite information for quarterly and annual progress reporting.
- o Secondly responsible for working on project financial analysis including economic analysis of project capability.

4.3 As noted above the functions of procurement, collection and payment are all concentrated with this officer. Further, he is responsible for preparing, authorising, and making certain payments, besides custody of petty cash. Whenever possible the functions of preparation of salaries and payment of salaries should also be segregated.

Preparation and payment of salaries

4.4 At the end of each month the Budget Officer (BO) obtains a computer printout giving details of all salary scales of the personnel employed at the SIDI office. These are sent to COMINDTAX and the Accounts Executive (AE) transfers this information onto pay-sheets. The accuracy of the pay-sheets is checked by the AE and the BO after which a cheque is drawn for the total amount. Pay packets are prepared by the AE at the COMINDTAX office and he then takes these along to the SIDI office. Payment of salaries is made at a predetermined time and place under the direct supervision of the BO and AE. Although the degree of independent self check which is fundamental to the functioning of a proper internal control system is somewhat lacking, the Senior Counterpart Director (SCD) was of the opinion that the chances of an erroneous claim being processed are slim, especially because all reimbursement statements (inclusive of COMINDTAX employee salaries) are checked personally by him before these claims are forwarded for reimbursement.

The concentration of the duties with the BO, referred to, above, is mainly due to the lack of staff to perform the administrative duties of SIDI at lower levels.

Functions of the Accounts Executive (AE)

4.5 The following tasks are carried out by the Accounts Executive (AE).

- o Entering the data in payments and receipts cash books

- o Updating the ledger
- o Entering the payroll data
- o Preparation of pay advises
- o Preparation of pay packets
- o Writing all the cash cheques
- o Getting cheques encashed
- o Banking all the cheques received from CFED
- o Preparation of fortnightly reimbursement statements to be submitted to CFED

4.6 As shown above the accounting functions and the preparation of cheques and pay packets are carried out by the Accounts Executive. To enhance the effectiveness of the internal control system, the accounting function should be kept separate from the operations of cash and cheques.

4.7 We were however informed, that these two functions are in fact not concentrated in the same official. There is a separate official at COMINDTAX who does the book keeping under the supervision of the Accounts Executive.

Job descriptions

4.8 The descriptions have been prepared for the administrative and secretarial staff at SIDI and therefore their individual roles are clear to them, facilitating their proper functioning.

4.9 Job descriptions have been published recently in a booklet titled "Organisation and Procedures" and is available for reference at the SIDI office. Therefore, the degree of ambiguity amongst the SIDI officials in performing their duties is not an issue for concern.

Budgetary control

4.10 CFED and COMINDTAX have agreed on the budget for the period of the project. Expenditure is incurred on the basis that the total of individual budgeted line items do not exceed the amount budgeted for the entire project.

4.11 Control over the funds expended on fixed assets is maintained through an authorisation procedure which requires the approval of USAID prior to their purchase.

Value For Money (VFM)

4.12 SIDI has not developed a procedure to identify whether Value For Money (VFM) is obtained from its operations. VFM is based on the three Es, economy, efficiency and effectiveness. These could be broadly defined as follows:

Economy : The practice by management of virtues of thrift and good housekeeping. An economical operation acquires resources in appropriate quality and quantity at the lowest cost.

Efficiency : Making sure that the maximum useful output is gained from the resources devoted to each activity, or that only the minimum level of energy and work necessary is used for a given level of output

Effectiveness: Ensuring that the output from any given activity is achieving the desired result.

- 4.13 We recommend that SIDI should take steps to develop performance indicators to measure efficiency and effectiveness of operations and cost indicators to measure economy of transaction. This would enable SIDI to manage the funds and implement the project most effectively.
- 4.14 SIDI officials consider the development of performance indicators to evaluate VFM aspects of the project would be premature as SIDI is still in its formative years. Further, the measurement of professional time and correlating this to achievement of objectives is in the present circumstances, a very difficult task. VFM, we were told, would be more applicable and meaningful in future periods, once the envisaged projects proper get going.
- 4.15 SIDI has developed certain cost control and cost reduction techniques at its premises. A close control over costs of recurring nature is exercised. The use of stationery, private use of telephone, by staff and the cost of developing any manuals in house, are closely monitored. Any sudden and unreasonable cost escalations are immediately looked into and appropriate corrective action is initiated.
- 4.16 Fuel is pumped on account and a close monitoring is carried out before the settlement of such accounts. Further, the presence of the BO during the filling of the vehicle fuel tanks, strengthens controls over malpractices.

CHAPTER 5

TASK - (E)

"REVIEW AND COMMENT ON THE CONTRACT MANAGEMENT CAPABILITIES AND PROCEDURES TO ADVERTISE, SOLICIT, NEGOTIATE, AWARD AND ADMINISTER CONTRACTS BOTH FOR COMMODITIES AND SERVICES.

WITH REGARD TO THE ABOVE, REVIEW AND COMMENT ON THE NATURE AND TYPE OF CONTRACTS EXECUTED BY THE ORGANISATION. IS CONTRACTING FOR SERVICES OR COMMODITIES A REGULAR AND CONTINUING FUNCTION OF THE ORGANISATION? IF NOT, IS THE PROCUREMENT TO BE UNDERTAKEN LIKELY TO BE A LIMITED OR ISOLATED EXPERIENCE WITH LITTLE OR NO INSTITUTIONAL BENEFIT WARRANTING USE OF THE HOST COUNTRY CONTRACTING MODE? IS THE ORGANISATION FAMILIAR WITH CONSTRUCTION CONTRACTING ? DOES THE ORGANISATION FUNCTION WITH REASONABLE EFFICIENCY AND RESPONSIVENESS TO SCHEDULE DEADLINES? ALSO, ARE THERE TECHNICALLY QUALIFIED PROCUREMENT OFFICIALS WHO ARE CAPABLE OF SOLICITING COMPETITION, EVALUATING, AND SELECTING CONTRACTORS?

FURTHER, IN CONNECTION WITH THE ABOVE, AN ASSESSMENT OF THE CONTRACTING MANUALS, REGULATIONS AND GUIDELINES SHOULD BE CARRIED OUT. THIS SHOULD INCLUDE DOCUMENTING THE TENDERING PROCEDURES OF THE ORGANISATION".

Contract management

- 5.1 SIDI has presently entered into only two types of contracts.
- o Contract for cleaning and janitorial services
 - o Contract for security services.
- 5.2 The office of SIDI, located at Horton Place, is fully furnished, except for a few additions to take place. As such the fixed assets requirements of the SIDI office have been fully met. The capital items procured had been done by calling quotations from a minimum of three suppliers.

All procurements presently being handled by SIDI are of recurring nature, the main purchase being stationery.

Tender procedure

- 5.3 Quotations are called for from suppliers of goods and services as and when required by the Budget Officer who is responsible for the purchase of stationery and other consumable items. Calling quotations for the procurement of furniture is handled by a secretary. The supplier is selected with the concurrence of USAID. Stationery items for the SIDI office are purchased at a wholesale price, thus getting good value for money.
- 5.4 Due to the size and nature of the operations of SIDI, large purchases are not expected in the future, and purchases of sundry items, are expected to be of a regular and recurring nature. Therefore, elaborate tender procedures may not be required. We recommend the following procedure for consideration:
- o Annually SIDI should call for registration of suppliers of materials required during the year. The prices of such material should also be quoted by the intending suppliers.
 - o SIDI should compile a data base of prospective suppliers for its reference. Procedures should be instituted to black list suppliers who do not meet delivery deadlines or not conform to the required standards.
 - o Quotations should be called for from suppliers in the list.
 - o A supplier should be selected after quotations are evaluated against criteria previously set by SIDI.

- o The actual supply should be compared against the quotation after delivery of goods to ensure that the supply conforms to the quotations.
- 5.5 Suppliers for services such as security and janitorial services should preferably be selected after obtaining quotations from not less than three firms. Such quotations should be received as sealed bids and evaluated by at least two senior officials.
- 5.6 During our discussions with the COMINDTAX director, the flexibility of the private sector in running the office was stressed and we were requested to take that into account before any attempts are made to lay down stringent methods of doing so.

Contracting manuals, regulations and guidelines

- 5.7 SIDI has not developed any formal contracting manuals, regulations or guidelines. SIDI is however bound by both the Government of Sri Lanka (GOSL) and USAID regulations, as it is these two parties who provide the funds for its operations.
- 5.8 Subsequently, it is envisaged that SIDI would be converted into an Authority. It is expected that, at this stage, regulations and guidelines would be developed on all operative and administrative aspects of SIDI.

Contracts of capital nature

- 5.9 SIDI has not undertaken any contracts of capital nature. When taking into consideration the nature and magnitude of infrastructure projects envisaged, it is understood that dependency would have to be placed on external contractors, for such projects.

CHAPTER 6

TASK - (F)

"REVIEW AND DOCUMENT THE INVENTORY CONTROL PROCEDURES OF THE ORGANISATION. THIS SHOULD INCLUDE THE INVENTORY CONTROL PROCEDURES AND THE COMMODITY ARRIVAL AND DISPOSITION SYSTEMS. ALSO REVIEW AND COMMENT ON THE ADEQUACY OF MAINTENANCE OF THE FIXED ASSETS REGISTERS OF THE ORGANISATION"

Commodity arrivals

- 6.1 Fixed assets and other items are procured in accordance with the procedure set out in the flow charts which are given in the Appendix to Chapter three.
- 6.2 On receipt of the goods they are checked by the Budget Officer or a Secretary, and entered in the stock book or the Fixed Assets Register (FAR). No goods received note (GRN) or any other document acknowledging the receipt of goods is raised.
- 6.3 It was brought to our attention that the only material receipt of stocks which takes place at the SIDI office is that of stationery. All stationery stocks, as and when received, are checked against the invoices and entered in a stock book by the receptionist, who also initials same. The control objective achieved by way of using GRNs is achieved in this manner.

Issues

- 6.4 Issue of stationery and other consumable items is done by the Secretary cum Receptionist as and when required. No formal requisition notes are raised, instead an oral request is made.

6.5 If the items being issued are of low value, then no formal requisition procedures will be necessary. Instead as is the present practice, the person requesting such items could initial the stock book against the issue being made. Alternatively a separate register could be maintained to record all issues including the date, item and quantity issued. There should be space in the book for the person requesting such items to initial the book as evidence of having accepted the items.

Fixed Assets Register

6.6 The Budget Officer maintains a Fixed Assets Register (FAR) giving details of the date of purchase, supplier's name, cost etc of all purchases made for SIDI. All assets so purchased are given a distinct code, and the code, too, is entered in the FAR.

6.7 We observe, that no provision exists to enter the details of disposal of fixed assets, should such a disposal occur. We recommend that provision should be made to record the following information on disposal of fixed assets of SIDI.

- o Date of disposal
- o Name and address of purchaser
- o Sale proceeds
- o Authorisation for disposal and sale price

Except for the above, the FAR maintained at SIDI is sufficient for the operations of SIDI.

Physical verification of fixed assets

6.8 SID: has initiated procedures to carry out a verification of fixed assets. An annual verification of all fixed assets is carried out and we were assured that any losses or damages are looked into and action is taken to recover the value of these items from the persons concerned or from insurance. A physical verification of crockery and cutlery items is carried out once a month.

CHAPTER 7

TASK - (G)

"REVIEW AND COMMENT ON THE COMPLIANCE WITH LAWS AND REGULATIONS BY THE AGENCY"

Non compliance with laws and regulations

- 7.1 SIDI was set up under an agreement between the Government of Sri Lanka (GOSL) and the Government of the United States of America. This highlights the fact that SIDI is not a sperate legal entity. As a result, no formal set of rules and regulations has been drawn up. During our review, we did not note any instances of non compliance with the laws and regulations of the GOSL.

CHAPTER 8

TASK - (H)

"REVIEW THE ADEQUACY OF THE RECORDING AND REPORTING PROCEDURES OF THE COUNTERPART CONTRIBUTION UNDER THE AID GRANT"

Counterpart funds

- 8.1 The contribution of the Government of Sri Lanka (GOSL) to SIDI comes in the following forms:
- o Salary of the Director General, SIDI.
 - o Salary of two Directors seconded to this project from the Ministry of Policy Planning and Implementation (MPPI).
 - o Settling of the electricity bill of the SIDI office.
 - o Reimbursement of fuel costs, and motor vehicle maintenance costs.
 - o Reimbursement of travelling and other incidental expenses.
 - o Reimbursement of building repairs and maintenance costs.
- 8.2 The salaries of the Directors are paid direct from MPPI. These funds are obtained from the General Treasury of the GOSL at the end of each month.

- 8.3 Travelling and other incidental costs are paid from the petty cash imprest by the Budget Officer. Periodically these vouchers are sent to COMINDTAX for accounting purposes. COMINDTAX prepares a statement of amounts reimbursable by the MPPI on a monthly basis. On receipt of this statement the MPPI reimburses the amounts which are debited to the SIDI account at the General Treasury.
- 8.4 Accounting records relating to the counterpart contribution are maintained at COMINDTAX and MPPI. The records of MPPI have not been covered in our review since the MPPI is distinct from SIDI.