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FUELWOOD PRODUCTION
USAID PROJECT : 685 0219

(F.A.R.FO.B.)

REPORT ON REVIEW OF PROJECT
ACCOUNTS AND INTERNAL CONTROL

JULY 27, 1984

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July 27, 1984

USAID/Dakar
c/o American Embassy
DAKAR, Senegal

Dear Sirs,

FUELWOOD PRODUCTION - USAID PROJECT 685 0219/PARFOB

1. INTRODUCTION

The following report is the result of a review of the accounts and system of internal control at the abovementioned project.

This assignment was one of a number of similar reviews of USAID funded projects in Senegal carried out by Price Waterhouse in July 1984.

Our examination of project records has been carried out in accordance with the scope of work established by AID DAKAR. We have therefore, reviewed and tested the accounting procedures and documents to the extent we considered necessary in order to form an opinion on the accounting records maintained.

In general, the projects under review were of a size whereby a sophisticated system of internal control could not be expected to be operated. As such, there are inherent limitations that should be recognised in considering the potential effectiveness of the system of internal accounting control. In the performance of most control procedures, errors can result from misunderstanding of instructions, mistakes of judgement, carelessness or other personal factors. Control procedures whose effectiveness depends upon the segregation of duties, as is the case with most of these projects, can be circumvented by collusion. Further projection of any evaluation of internal accounting control to future periods is subject to the risk that the procedures may become inadequate because of changes in conditions and that the degree of compliance with the procedures may deteriorate.

Price Waterhouse

2. OPINION

We have reviewed the accounting station "Projet Autonome de Reboisement de la Forêt de Bandia (P.A.R.FO.B.)" for the project Fuelwood Production n° 685-0219. Our review was performed in accordance with the scope of work provided under Contract n° 68-0000-C-00-3156-00 and work order n° 3 and was conducted in accordance with generally accepted auditing principles.

In our opinion this accounting station does not have a system of accounting and internal control which will provide adequate identification of U.S. Government funds and control over the receipt and expenditure of those funds, for the following reasons :

- (A) At the time of our review, approximately twenty cheques had been issued by the project for which no entries had been made in the bank journal. The accounting records are therefore incomplete since they do not show the current level of expenditure.
- (B) The project does not maintain an encumbrance journal to record commitments and unpaid invoices. As a result, the project records do not indicate whether total expenditure (actual and committed) is within the amount of the available budget.

This is of particular importance because :

- I) the project is reaching the end of its funding, and
- II) the project often delays payments to suppliers for several months.

- (C) Vouchers and other supporting documents are not properly or systematically filed. As a result the accountant (Mr. Diop) is the only person who is able to locate documents.

This may lead to problems should the accountant be absent for any period of time.

In order to rectify the above deficiencies we recommend :

- (A) The project accountant be instructed to record all payments as and when incurred.
- (B) The project accountant must maintain an encumbrance journal in line with A.I.D. requirements.

As the project financing is nearing completion it is particularly important that the level of both actual and future expenditure is closely followed. A recently issued A.I.D. procedures manual ("Le Courrier du Comptable n° 1 Avril - Juin 1984") gives full details of the format of ~~this type of journal~~.

- (C) The accountant must be instructed to file all vouchers and other supporting documentation in a systematic and orderly manner.

The project accountant (Mr. Diop) works in a rather disorganised manner. As a result documents may be located in several different places. Since he has been involved in the project from the beginning Mr. Diop is usually able to locate the required documents. It is very unlikely, however, that documents could be found by anyone else should the need arise.

It is important therefore, that Mr. Diop has separate and clearly labelled files in which to keep documents such as ; vouchers supporting bank payments, payroll journals, bank statements, unpaid invoices etc.

3. COMMENTARY

The project is now in its final stages, there being approximately F CFA 15 million remaining to be spent under the current budget.

Administration of the project is handled principally by three persons, the project manager (Mr. Sidibé), co-manager (Mr. R. Jones) and the accountant (Mr. Diop). Mr Jones is employed directly by A.I.D. and appears to have kept very good control over the type and amount of expenditure incurred.

The level of internal control is adequate. Both the project manager and co-manager are required to sign cheques while the bank journal is maintained by the accountant. Payroll calculations are also performed by the accountant. However both recruitment and payment of personnel are outside of his control.

The principal accounting record is a bank journal, analysed by budget category. This journal has been kept reasonably and records both expenditure for the period, and cumulative expenditures, but it was not up to date at the time of our review.

Filing of documents also requires some improvement, as the accountant is a little disorganised in his way of working. In consequence, supporting vouchers may be filed in various places and only the accountant is able to find them. This may lead to problems during periods when the accountant is absent, and the situation must be improved at the earliest opportunity (as indicated in section 2). However, supporting vouchers were properly authorised by the management personnel.

The project has a basic accounting system in place but steps must be taken to ensure that the filing of documents is improved, that cheques are entered in the bank journal when issued and that an

encumbrance journal is established. These matters are important in order to ensure that budgeted expenditure is not exceeded, particularly as the project funding is nearing completion.

Additionally the following matters were noted

- (A) Three of the four cars used in the project did not have current insurance. The project manager, Mr. Sidibé, informed us that the cars were effectively insured by verbal agreement with the insurance company. The project has now requested insurance certificates. The vehicles in question are :
- a) Peugeot 404 Pick-up 8203-TTA 1
 - b) Peugeot 404 Pick-up 8204-TTA 1
 - c) Ford 1700 Flatbed 9875-SIK
- (B) No invoice was available in support of a payment of F CFA 1 137 500 made in December 1985.

4 OTHER RECOMMENDATIONS DESIGNED TO IMPROVE ACCOUNTING SYSTEM AND CONTROL

- 4.1 Advances of petty cash funds should not be given until the accountant has received the vouchers supporting payments made out of the previous advance

The project makes advances to one of the engineers (Mr. SY) who is responsible for making small cash disbursements in the "field". At the time of our review we noted that Mr. SY was holding vouchers in support of three different petty cash advances. These vouchers should be presented to the accountant once an advance has been completely spent, and as justification for a further advance of petty cash funds.

- 4.2 The project accountant should update the fixed asset register to take account of all items counted during the "End-Use Study"

During January and February 1984 an "End-Use Study" was undertaken by Mr. Neil Mahoney. This document lists all the fixed assets purchased by the project. The accountant should use the report as a basis for updating the fixed asset register, preferably by asset type. This will ensure that the project has full fixed asset details. The register may then be used as the base document for future physical inventories.

- 4.3 The project should introduce stock records to control use of small tools and vehicle spare parts

Following the "End-Use Study" it was found that a large number of small tools were missing. The project now has a place in which such items can be stored. Therefore by establishing stores records and making one person responsible for the issue of such items, control should be improved.

4.4 Invoices should, as far as possible, be signed by the supplier as evidence that he has received payment

While it is not always possible to obtain signatures from suppliers (for example when payment is sent by post) we believe that this area could be improved upon.