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ISN 42407

RENEWABLE ENERGY

USAID PROJECT : 685 0937.7

WATER & FOREST

REPORT ON REVIEW OF PROJECT
ACCOUNTS AND INTERNAL CONTROL

JULY 27, 1984

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Dear Sirs,
RENEWABLE ENERGY - USAID PROJECT 685 0937.7 / WATER & FOREST

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.

Pris Waterhouse

2. OPINION

We have reviewed the accounting station "Eaux et Forêts" for the project Renewable Energy n° 685-0937.7. Our review was performed in accordance with the scope of work provided under Contract n 681-0000-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) Cheques drawn on the project bank account require only one signature. The project is administered principally by Mr. Diédhiou who is both project director and project accountant. Therefore he has responsibility to authorize payments, record payments and sign cheques. Thus there is a complete lack of segregation of duties in these key functions.
- (B) The project does not have an adequate procedure to completely follow the advances given for expenditure to be made in the "field" (Koumpertain) and their subsequent justification against supporting expense vouchers.

At present the accountant attempts to justify each advance made against specific expense vouchers, with the consequence that there are always slight differences between the amount of the advance and the amount of the vouchers (both over and under). This is due to the fact that at any one point in time,

a balance of petty cash will be held by the technical agent (Mr. El-Hadj NDiaye) responsible for making disbursements in the field.

The accountant should therefore establish a cash system in order to control such advances and expenditure (detailed in section E9-EII) as these constitute a significant part of the projects activities. This will then enable expenditure to be properly allowed between budget categories.

- (C) The project does not have an adequate procedure to account for the expenditure funded out of the proceeds from the sale of charcoal.

It has been agreed with A.I.D. that proceeds from the sale of charcoal should be used to fund activities outside of the original A.I.D budget, and are not to be deposited in the project bank account. However it appears that certain project expenses have also been funded out of these proceeds because the project funds were insufficient to cover immediate requirements. This expenditure will have to be subsequently reimbursed by the project.

To date no written record has been maintained of such disbursements and therefore the actual level of project expenditure cannot be readily ascertained.

In order to properly control such expenditure a separate book must be kept to record the sale proceeds, expenditure and subsequent reimbursement.

In order to rectify the above deficiencies we recommend :

- (A) A.I.D. should insist that two signatures be required for cheques drawn on the project bank account.

It is understood that Mr. Sène (Director of Forestry) is also authorized to sign cheques, but that one signature

only is required at present. It should be a simple matter to instruct the bank to require the signatures of both Mr. Sène and Mr. Diédhiou (project director) on all cheques issued. This will then provide some supervisory control over Mr. Diedhiou.

(B) The following should be implemented to establish adequate procedures over advances and expenditure made in the field

- 1) The project accountant should maintain a petty cash journal to record advances made for expenditure to be incurred in the field.

When the accountant issues a cheque for such an advance, it should be recorded in the bank journal as disbursement under the heading "Petty Cash Funding". The same amount will also be recorded in the petty cash journal and the resultant balance should also be entered in the journal.

- 2) As and when expense vouchers are received from the field, they should be recorded as payments in the petty cash journal and analysed by budget category.

The petty cash journal should have the same budgetary headings as the bank journal. Each time a payment voucher is recorded in the petty cash journal the resultant balance should also be entered in the journal.

- 3) The accountant should sequentially number the petty cash vouchers received and file them separately from those vouchers supporting payments made by cheque.

Such a procedure will enable entries in the petty cash journal to be more easily traced to the supporting vouchers.

- 4) The technical agent (Mr. El-Hadj NDiaye) responsible for making payments in the field, should maintain his own memorandum register of petty cash transactions to record advances received and payments made.

It is our understanding, based on discussion with Mr. Diédhiou (project director), that no formal record of expenditure is maintained by Mr. NDiaye. We recommend therefore that Mr. NDiaye be instructed to keep a simple register to record advances and payments.

This should take the following format :

Date	Description	Vouchers N°	Payments (F. CFA)	Advances Received (F. CFA)	Balance (F. CFA)
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There is no need for the document to record budget categories, this analysis will be kept by the project director.

- 5) At the end of each month the technical agent should count the cash fund and agree the amount to the balance in the above mentioned expenditure register.

This should be done in order to prove the accuracy of the cash balance held. Details of such cash counts should be given to the project director.

- 6) Each month the project director should compare the petty cash journal with the register of expenditure to be maintained by Mr. NDiaye to ensure the two sets of records are in agreement. Any discrepancy must be promptly investigated.

This should be done to ensure that the accounting records maintained by the project director reflect the actual expenditure and balance of cash in hand.

NOTE : In order for the above procedure to be put into operation the project director must establish a suitable start date from which to begin such a system. The balance of cash in hand at this start date must be recorded in both sets of records, to ensure that they begin from a common base.

- (C) The following should be implemented to establish adequate control over expenditure funded out of the revenue from the sale of charcoal :

- 1) The project accountant must maintain a separate cash journal to record the receipt of proceeds from the sale of charcoal, expenditure paid out of these receipts and any subsequent reimbursement in respect of project expenses initially paid out of this cash fund.

It is our understanding that proceeds from the sale of charcoal are to be used to fund expenses not covered by the A.I.D. budget. However, it seems that some project expenses have also been paid out of this fund because there were insufficient funds in the project bank account to cover immediate requirements. This cash journal will therefore have to record four different elements ;
 (a) receipt of sale proceeds (b) non-project expenditure
 (c) project expenditure and (d) reimbursement of the cash fund by the project bank account for project expenditure initially paid out of sale proceeds.

The journal might follow the following format :

Date	Nature of Transaction	Vouchers Reference	Payments		Sale Proceeds	Balance
			Non Project F. CFA	Project F. CFA	Reimbursements F. CFA	

- 2) On a monthly basis payments made on behalf of the project should be reimbursed through the project bank account.

The cheques written to reimburse the fund will be supported by the vouchers entered in this cash journal. The project accountant should analyse this cheque payment by budget category in the normal way, by reference to these supporting vouchers.

- 3) The accountant should sequentially number the expense vouchers and file them separately from other vouchers.

This will enable entries in the journal to be easily traced to the supporting vouchers. When a reimbursement of expenditure is received from the project bank account the corresponding vouchers should be removed from this file and placed in the bank journal file as justification of the cheque payment made on the project account.

- 4) The accountant should make periodic reconciliation between quantities of charcoal produced and the quantities of charcoal sold.

The project produces details of the quantities of charcoal produced at each training session. Additionally the accountant has details of quantities sold by training session. The accountant should therefore be able to compare these two sets of information to ensure that losses of charcoal are not excessive.

3. COMMENTARY

The project is administered by Mr. Diédhiou who acts as both project director and project accountant and is also the sole signatory on the project bank account. Thus there is no segregation of duties as far as the accounting function of the project is concerned.

The accounting records in the past were not maintained in an orderly manner but from our review we noted that the bank journal has been kept in good order for the last two quarters (to June 6, 1984). Similarly, supporting vouchers have been filed properly in cheque sequence.

Mr. Diédhiou does not have an accounting background, which has manifested itself in his inability (to date) to establish a petty cash procedure to follow advances and expenditures in the "field". In consequence, such advances and expenditures are not fully controlled and the analysis of these disbursements is not always properly allocated between budget categories.

It is therefore apparent that Mr. Diédhiou requires assistance in setting-up both a suitable petty cash procedure for "field" expenditure, and a procedure to record revenue received from the sale of charcoal and disbursements out of this fund. Once procedures are established, these should be closely monitored during the initial period.

Additionally the following matters were noted :

- 1) The bank reconciliation included in the latest financial report submitted (to June 6, 1984) does not show the correct situation. The bank balance and bank journal balance on the reconciliation are correct, but in arriving at the bank journal balance as shown, certain adjustments should have been made in the bank journal. These adjustments have not

yet been made and the accountant has only obtained the correct balance by changing the brought forward bank journal balance at February 17, 1984 to agree to the balance per the bank statement at this date, as follows :

Balance per bank journal	
February 17, 1984	F. CFA (98 868) overdrawn
Balance per bank statement	
February 17, 1984	F. CFA 24 126 in hand
Difference - adjusted in bank	
without supporting entries	<u>F CFA 122 994</u>
	F. CFA 122 994

This difference is explained by the following :

- (a) Cheque number 127038 (November 1983) F. CFA 60 000
This cheque was cancelled but has not been written back in the bank journal.

Recommended action : Write-back F CFA 60 000 in the bank journal thereby reducing expenditure (budget category "salaries") included in the next financial report.

- (b) Unexplained credit (receipt) in the bank statement for October 1983 of F. CFA 62 832

The bank statement for October 1983 was not available, and the amount was calculated by taking the differences between the bank statement balances as at September 30, 1983 and November 1, 1983.

Recommended action : The accountant should request the bank to provide a copy of the October 1983 bank statement in order to ascertain the nature of this receipt. Adjustment should then be made, if necessary, to the bank journal.

- (c) Two differences between the cheque amount recorded in the bank journal and the amount debited on the bank statement
 - Cheque number 127028 (July 1983) - per bank journal
 F CFA 8122, per bank statement F CFA 7972, difference
 F CFA 150
- 1) Cheque number 127056 (November 1983) - per bank journal
 F. CFA 76012, per bank statement F. CFA 76 000 - difference
 F. CFA 12

Recommended action : As the differences are insignificant the bank journal should be adjusted to record the same amounts as shown by the bank statement.

Summary of differences - (a) 60 000 + (b) 62 832 + (c) 162 =
 F. CFA 122 994

- 2) The latest financial report (as at June 6, 1984) includes an amount of F. CFA 2 699 950 as cash expenditure. This represents principally advances made for "field" expenditure. The amount should therefore be analysed by budget category and not shown as one payment item.
- 3) Full supporting vouchers were not seen for all expenditure made in the "field" which are included in the above amount of F.CFA 2 699 950. It appears that the accountant is still awaiting vouchers from the "field".
- 4) No supporting voucher was available for payment under cheque number 127073 for F.CFA 62.860

4. OTHER RECOMMENDATIONS DESIGNED TO IMPROVE THE ACCOUNTING SYSTEM AND CONTROL

Our audit review revealed the following areas which we believe may be usefully improved :

4.1 The project director should sign all invoices as evidence of both approval and receipt of goods

We noted that invoices are not always authorised by the project director. This is particularly important with regard to reception of goods, as delivery advices are not normally available, except in the case of goods having a value greater than F. CFA 300 000 when a notice of reception is completed.

4.2 The project accountant should keep a record of petrol coupons received from A.I.D and issued to vehicles and ensure that each vehicle maintains a "carnet de bord" to record petrol usage

At present the project has no records to follow petrol consumption. Records should be maintained by both the project director and the drivers of the vehicles. The director should maintain a book recording number of coupons received from A.I.D., number of coupons issued and date issued and the vehicle for which the coupons were issued.

The vehicle drivers should each maintain a "carnet de bord" recording details as follows :

Date	Reason for Travel	Kilometres	Number of Coupons received	Litres of Petrol received

The director should periodically review the "carnets de bord" to ensure petrol consumption is reasonable , and sign the book as evidence of this review.

4.3 Records should be maintained of the quantity, location and condition of small tools etc used by the project :

No records of these items e.g. rakes, forks, gas lamps, etc. are kept at present.