



BDO Barrett & Partners

MILLENNIUM CHALLENGE ACCOUNT – VANUATU

**Audit Report on the
Fund Accountability Statement**

For the Period 1st January 2008 to 30th June 2008 (3rd Option Period)

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Mr. Tony Sewen
Acting Director
Millennium Challenge Account – Vanuatu
PMB 9053
Port Vila
Vanuatu

23rd September 2008

Dear Tony,

We submit our reports on the Millennium Challenge Account - Vanuatu program activities relating to the period 1st January 2008 to 30th June 2008 in accordance with our contract terms of reference dated 2nd July 2007 and amendments dated 14th December 2007.

Yours sincerely

BDO Barrett & Partners


Adrian Sinclair
Review Partner

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INTRODUCTION

Background

On 28th April 2006, the United States Government through the Millennium Challenge Corporation (**MCC**) entered into a Compact agreement with the Government of Vanuatu to implement a program proposed by Vanuatu to enhance its efforts in achieving economic growth and poverty reduction. Under the Compact agreement, Vanuatu established the Millennium Challenge Account – Vanuatu (**MCA Vanuatu**); the accountable entity to oversee the implementation of the program.

The total funding is for USD65.69 million over a period of five years from 28th April 2006 to fund the following four areas:

1. Transport Infrastructure Activity USD 54.47 million

This activity is to assist with civil works to re-build priority public transportation infrastructure on the eight selected islands. The works focus on roads, wharfs, airstrips, ports, bridges and public facilities like warehousing.

2. Institutional Strengthening USD 6.22 million

This involves the provision of technical assistance in organisational reform and policy changes with emphasis on the Public Works Department.

In addition, to support the priority areas expenditure will be incurred on the following key areas to support and monitor the program.

3. Program administration and audit review USD3.63 million

Funding is provided for the establishment of MCA Vanuatu to be housed within the Ministry of Finance. MCA Vanuatu is charged with the overall facilitation and management of the Compact activities.

4. Monitoring and Evaluation (M&E) USD1.37 million

The Project Coordinating Committee is charged with Monitoring and Evaluating the program during the five-year period.

ENGAGEMENT

BDO Barrett & Partners have been engaged to audit the books of the 'Accountable Entity' in relation to the MCC disbursements and re-disbursements during the period. The 3rd Option period under audit is 1st January 2008 to 30th June 2008.

This is the fourth audit of the Fund Accountability Statement of the MCC funded resources under the management of MCA Vanuatu. Hence, there are prior audit recommendations to be followed up.

The period audited does not include provision for 'Indirect Cost rates'.

The Fund Accountability Statement reports all revenues and costs incurred as a result of the MCC provided funds.

AUDIT OBJECTIVES

The objectives of our audit are:

1. To conduct an audit of the Fund Accountability Statement comprising of Disbursements, Costs incurred and the accompanying notes to the Statement.
2. To express an opinion on whether MCA Vanuatu's implementation of internal controls are satisfactory and that procedural steps are observed so as to comply with related standards, laws and regulations.
3. To determine whether the Fund Accountability Statement has been accounted for and presented in accordance with relevant auditing and accounting standards and guidelines to provide reasonable assurance as to whether it is free of material misstatement and that it presents a true and fair view of the Compact activities.

AUDIT SCOPE

The scope of our audit is as follows:

1. Pre-audit review of all applicable documents, and information related to various MCC programs. A review and understanding of applicable standards and guidelines in order to conduct the audit;
2. Conduct a risk assessment of Internal Controls in place to ensure the efficient execution and process of the MCC funded programs;
3. Review policies and procedures related to the MCC disbursements and commitments;
4. Audit the Fund Accountability Statement with emphasis on:
 - a. Identifying and verifying significant variances between Budgeted and Actual amounts;
 - b. Review funds received from the MCC during the period;
 - c. Capital assets acquired and costs incurred during the period;
 - d. Services directly procured by the MCC for MCA Vanuatu, and
 - e. Compliance with MCC's Chapter 37 Cost Principles.
5. Our audit also included evaluation of compliance procedures in relation to applicable Laws and Regulations to determine any instances of possible fraud or illegal acts of non-compliance.

These procedures have been undertaken to form an opinion as to whether, in all material respects, the Fund Accountability Statement is presented fairly in accordance with applicable accounting concepts and standards and statutory requirements so as to present a view which is consistent with our understanding of the Fund Accountability Statement.

AUDIT SCOPE LIMITATIONS

Education Program:

We do not have a continuing education program that fully satisfies the requirement set forth in Chapter 3, paragraph 3.46 of U.S. Government Auditing Standards. However, our current program provides for at least 50 hours of continuing education and training every two years. We are taking appropriate steps to implement a continuing education program that fully satisfies the requirement.

External Quality Control Review:

We did not have an external quality control review by an unaffiliated audit organisation as required by Chapter 3, paragraph 3.55 of U.S. Government Auditing Standards, since no such program is offered by professional organisations in Vanuatu. We believe that the effects of this departure from U.S. Government Auditing Standards is not material because we participate in the BDO International worldwide internal quality control review program which requires our firm to be subjected, every three years, to an extensive quality control review by partners and managers from other affiliate offices.

SUMMARY OF AUDIT RESULTS**Fund Accountability Statement:**

The Fund Accountability Statement has been prepared on the basis of cash received and disbursed over the period, which is a comprehensive basis of accounting which departs from generally accepted accounting standards.

Analytical Review:

There has been an overall under spend of approximately \$1.2 million due to the following activities.

- An underspend of \$801,739 for the Infrastructure activity relates to the delay of the design and build for the Efate Ring Road.
- An underspend of \$198,452 for Institutional Strengthening is due primarily to delays in purchasing for the Government's Public Works Department \$159,500 worth of vehicles to support the main infrastructure activity.
- An underspend of \$49,543 for Program Management is due predominately to reduction in use of legal services and the non use of the Bid Challenge Panel budget totalling \$36,779.
- An underspend of \$19,774 for Monitoring and Evaluation relates predominately to MCA Vanuatu Site visits, Road Side Enterprise survey and Traffic Count survey due to the delay in the commencement of the main infrastructure activity.
- An underspend of \$65,646 for Fiscal and Procurement agents cost is due predominately to \$30,050 in relating to the Procurement agent fees for May and \$32,471 relating to storage facilities for MCA Vanuatu still to be initiated.
- An under spend of \$42,000 for Audit relates to monies unpaid for external audit fees for the 1st and 2nd Option period. A delay in the finalisation of the draft and final reports resulted in a delay in the approval of payments.

Internal Control:

We have obtained an understanding of the design of relevant control policies and procedures and determined whether they have been implemented. We have assessed the control risk in order to determine the level of our substantive procedures for the purpose of expressing our opinion on the Fund Accountability Statement and not to provide an opinion on internal control. Two areas of non material deficiencies in operation of internal controls were identified and included in a management letter to MCA Vanuatu.

The risk associated with internal controls has been evaluated as low. As a result, reliance was placed on these controls and were considered satisfactory.

Indirect Cost Rates:

There were no indirect cost rates to review.

Prior Audit Recommendations:

The following prior period recommendations have now been complied with as at July 2008.

- Petty cash counts are being done by the Fiscal Agent as from June 2008.
- Reimbursement of Government funds are being undertaken when sufficient funds are available.
- Our testing reveals imprests are being allocated to the correct ledger accounts.
- Funds held on credit are being recorded by the Procurement agent.
- The Internal Audit department of the Ministry of Finance and Economic Development have commenced quarterly audits in the period.
- The Minister for Finance and Economic Development has certified on 18th August 2008 that the Government of Vanuatu will self insure assets of MCA Vanuatu.

However the following prior audit recommendations have not been implemented satisfactorily after being reported previously.

- The Steering Committee minutes for July and December 2007 are not posted or confirmed as no meetings.

These have been carried forward as findings in this current audit period.

Summary of Findings:

Our current findings have incorporated our recommendations and responses of MCA Vanuatu. These are documented in the Schedule of Findings on page 24 of this audit report.

1. There has been a two month delay in reconciliation of receipts of an imprest totalling \$8,365 in relation to entertainment for the opening ceremony to mark the commencement of the main infrastructure work.
2. There is a credit balance of \$2,708 held with the local airline as at 30th June 2008.
3. There has been no appointment of a Webmaster by the Fiscal Agent.
4. Steering Committee and summary Flying minutes for the current audit period are not posted to MCA Vanuatu website as per Governance agreement.

**Independent Auditor's Report on the Fund Accountability
Statement of MCA Vanuatu for the period
1st January 2008 to 30th June 2008**

Independent Auditor's Report on the Fund Accountability Statement of Millennium Challenge Account – Vanuatu for the period 1st January 2008 to 30th June 2008.

Steering Committee
Millennium Challenge Account – Vanuatu
PMB 9053
Port Vila
Vanuatu

We have audited the fund accountability statement of MCA Vanuatu for the period 1st January 2008 to 30th June 2008. The fund accountability statement is the responsibility of MCA Vanuatu's management. Our responsibility is to express an opinion on the fund accountability statement based on our audit.

Except for the qualifications below, we conducted our audit of the fund accountability statement in accordance with *U.S. Government Auditing Standards* issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the fund accountability statement is free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the fund accountability statement. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

We do not have a continuing education program that fully satisfies the requirement set forth in Chapter 3, paragraph 3.46 of *U.S. Government Auditing Standards*. However, our current program provides for at least 50 hours of continuing education and training every two years. We are taking appropriate steps to implement a continuing education program that fully satisfies the requirement.

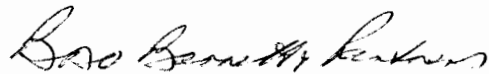
We did not have an external quality control review by an unaffiliated audit organisation as required by Chapter 3, paragraph 3.55 of *U.S. Government Auditing Standards*, since no such program is offered by professional organisations in Vanuatu. We believe that the effects of this departure from *U.S. Government Auditing Standards* is not material because we participate in the BDO International worldwide internal quality control review program which requires our firm to be subjected, every three years, to an extensive quality control review by partners and managers from other affiliate offices.

The results of our tests disclose questioned costs totalling \$5,354 detailed in the fund accountability statement. The amount comprises of \$2,646 and \$2,708 which are ineligible costs. This is due to the fact that these funds were subsequently reimbursed to MCA Vanuatu after June 2008.

In our opinion, except for the effects of the questioned costs discussed in the preceding paragraph, the fund accountability statement referred to above presents fairly, in all material respects, program revenues, costs incurred and reimbursed, and commodities and technical assistance directly procured by the Millennium Challenge Corporation (MCC) for the period then ended in accordance with the terms of the agreements and in conformity with the basis of accounting described in Note 1.

In accordance with *U.S. Government Auditing Standards*, we have also issued our reports dated 23rd September 2008, on our consideration of MCA Vanuatu's internal control over financial reporting and our tests of its compliance with certain provisions of laws and regulations. Those reports are an integral part of an audit performed in accordance with *U.S. Government Auditing Standards* and should be read in conjunction with this Independent's Auditor's Report in considering the results of our audit.

This report is intended for the information of MCA Vanuatu and the MCC. However, upon release by the MCC, this report is a matter of public record and its distribution is not limited.



BDO Barrett & Partners

23rd September 2008

**Independent Auditor's Report on Internal Control
For the period 1st June 2008 to 30th June 2008**

Steering Committee
Millennium Challenge Account – Vanuatu
PMB 9053
Port Vila
Vanuatu

We have audited the fund accountability statement of Millennium Challenge Account (MCA) Vanuatu for the period 1st January 2008 to 30th June 2008, and have issued our report on it dated 23rd September 2008.

Except for the qualifications below, we conducted our audit in accordance with *U.S. Government Auditing Standards* issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the Fund Accountability Statement is free of material misstatement.

We do not have a continuing education program that fully satisfies the requirement set forth in Chapter 3, paragraph 3.46 of *U.S. Government Auditing Standards*. However, our current program provides for at least 50 hours of continuing education program that fully satisfies the requirement.

We did not have an external quality control review by an unaffiliated audit organisation as required by Chapter 3, paragraph 3.55 of *U.S. Government Auditing Standards*, since no such program is offered by professional organisations in Vanuatu. We believe that the effect of this departure from *U.S. Government Auditing Standards* is not material because we participate in the BDO International worldwide internal quality control review program which requires our firm to be subjected, every three years, to an extensive quality control review by partners and managers from other affiliated offices.

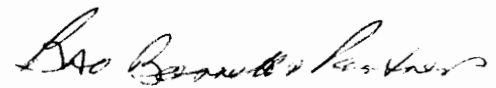
The management of MCA Vanuatu is responsible for establishing and maintaining internal control. In fulfilling this responsibility, estimates and judgments by management are required to assess the expected benefits and related costs of internal control policies and procedures. The objectives of internal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

In planning and performing our audit of the fund accountability statement of MCA Vanuatu for the period ended 30th June 2008, in accordance with *U.S. Government Auditing Standards*, we considered MCA Vanuatu internal control over financial reporting (internal control) as a basis for designing our auditing procedures for the purposes of expressing our opinion on the fund accountability statement, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we do not express an opinion on the effectiveness of the entity's internal control.

Our consideration of internal control was for the limited purpose described in the preceding paragraph and would not necessarily identify all deficiencies in internal control that might be significant deficiencies or material weaknesses. A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that a material misstatement of the fund accountability statement will not be prevented or detected by the entity's internal control. We did not identify any deficiencies in internal control that we consider to be material weaknesses, as defined above.

However, we noted certain matters involving internal control and its operation that we have reported to the management of MCA Vanuatu in a separate letter dated 19th September 2008.

This report is intended for the information of MCA Vanuatu and the Millennium Challenge Corporation (MCC). However, upon release by the MCC, this report is a matter of public record and its distribution is not limited.



BDO Barrett & Partners

23rd September 2008

**Independent Auditor's Report on Compliance
For the period 1st January 2008 to 30th June 2008**

Steering Committee
Millennium Challenge Account – Vanuatu
PMB 9053
Port Vila
Vanuatu

We have audited the fund accountability statement of Millennium Challenge Account (MCA) Vanuatu as of and for the period 1st January 2008 to 30th June 2008 and have issued our report on it dated 23rd September 2008.

Except for the qualification noted below, we conducted our audit in accordance with *U.S. Government Auditing Standards* issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the fund accountability statement is free of material misstatement resulting from violations of agreement terms and laws and regulations that have a direct and material effect on the determination of the fund accountability statement amounts.

We do not have a continuing education program that fully satisfies the requirement set forth in Chapter 3, paragraph 3.46 of *U.S. Government Auditing Standards*. However, our current program provides for at least 50 hours of continuing education program that fully satisfies the requirement.

We did not have an external quality control review by an unaffiliated audit organisation as required by Chapter 3, paragraph 3.55 of *U.S. Government Auditing Standards*, since no such program is offered by professional organisations in Vanuatu. We believe that the effect of this departure from *U.S. Government Auditing Standards* is not material because we participate in the BDO International worldwide internal quality control review program which requires our firm to be subjected, every three years, to an extensive quality control review by partners and managers from other affiliated offices

Compliance with agreement terms and laws and regulations applicable to MCA Vanuatu is the responsibility of MCA Vanuatu's management. As part of obtaining reasonable assurance about whether the fund accountability statement is free of material misstatement, we performed tests of MCA Vanuatu's compliance with certain provisions of agreement terms and laws and regulations. However, our objective was not to provide an opinion on overall compliance with such provisions. Accordingly, we do not express such an opinion.

The results of our tests disclosed no instances of noncompliance that re required to be reported her under *U.S. Government Auditing Standards*.

We noted certain immaterial instances of noncompliance that we have reported to the management of MCA Vanuatu in a separate letter dated 19th September 2008.

This report is intended for the information of MCA Vanuatu and the Millennium Challenge Corporation (MCC). However, upon release by the MCC, this report is a matter of public record and its distribution is not limited.


BDO Barrett & Partners

23rd September 2008

FUND ACCOUNTABILITY STATEMENT

**MILLENNIUM CHALLENGE ACCOUNT - VANUATU
FUND ACCOUNTABILITY STATEMENT
1st January 2008 to 30th June 2008**

FUND ACCOUNTABILITY STATEMENT

	BUDGET USD	ACTUAL USD	QUESTIONED COSTS		NOTES
			INELIGIBLE USD	UNSUPPORTED USD	
REVENUE					
<u>Grant No: MCA-VAN 18-09</u>	12,654,889	12,654,888			
TOTAL REVENUE	<u>12,654,889</u>	<u>12,654,888</u>	<u>0</u>	<u>0</u>	2
COSTS INCURRED					
Infrastructure activity	11,752,613	10,950,874			4
Institutional Strengthening activity	310,037	111,585			5
Program management	174,885	125,342	5,354	0	6
Monitoring and Evaluation	52,079	32,305			7
Fiscal and Procurement agents	221,945	156,299			8
Audit	75,600	33,600			9
TOTAL COST INCURRED	<u>12,587,159</u>	<u>11,410,005</u>	<u>5,354</u>	<u>0</u>	
Outstanding Fund Balance	<u>500,000</u>	<u>1,700,682</u>			11

Accompanying notes 1 to 14 on pages 18 to 23 form part of the Fund Accountability statement.

NOTES TO THE FUND ACCOUNTABILITY STATEMENT

MILLENNIUM CHALLENGE ACCOUNT - VANUATU

For six month period ended 30th June 2008

(Expressions in US Dollars)

1. Summary of significant accounting policies

The Fund Accountability Statement has been prepared on a cash basis, according to the disbursements and costs incurred at the time of the respective processing in the bank account. A detailed budget and actual expenditure to date has been disclosed in Note 14.

The Fund Accountability Statement has been prepared from the accounting records of the Ministry of Finance (Fiscal Agent). All related transactions were obtained from the accounting system to enable the Accountable entity to prepare the Fund Accountability Statement.

a) Foreign currency transaction

The Fund Accountability Statement is prepared in USD which is the reporting currency. The transactions during the period were carried out in both USD and VATU (local currency). The exchange rates used are those ruling on the dates transfers are made from the US dollar account to the Vatu account. These were 95.31 and 94.58 for the period. There were no foreign exchange restrictions.

b) Assets

The entity's assets consist of motor vehicles, computers, office equipment and furniture which were recognised as expenses on acquisition. These are subject to normal wear and tear conditions over the life of the project.

2. Revenue

Disbursement request No 9 was received in two instalments from MCC on the 17th April and 16th June for \$10,534,543 and \$2,120,345 respectively.

3. Interest received

Interest received on funds held in the bank totalled \$2,219 for the period. Of the \$6,501 owed to the MCC \$5,392 was returned leaving a balance of \$1,109 as at 30th June 2008.

4. Infrastructure activity

Preliminary work commenced on the main infrastructure work and a 20% advance payment of \$10,791,375 was paid to the main contractor Downer EDI Works.

5. Institutional Strengthening activity

The expenditure relates solely to the Engineering Supervision Unit who supports EDI Downer Works and Queensland Consulting Project Partners in the main infrastructure activity.

6. Program management

Program management is made up of the following expenses;

Personnel	86,906
Office Furniture and Equipment	922
Computer Equipment	137
Other operating costs	37,377
	<u>\$125,342</u>

Ineligible questioned costs are included in our findings on Page 24 and relate to the following;

1. Unused entertainment funds of \$2,646 was included as part of a \$8,365 imprest advance in June 2008 which was recorded on the ledger. The unused funds of \$2,646 were not returned or reconciled back to the ledger until September 2008.
2. A credit balance of \$2,708 was held with the local airline for a ticket that was paid for in advance but was not used as at 30th June 2008.

7. Monitoring and Evaluation

Expenditure totalling \$29,929 relates to the Data Quality Auditor who audits the statistics, basis of calculations and methodology used to monitor the program activities.

8. Fiscal and Procurement Agents

Expenditure totalling \$134,845 relates to the Procurement Agent GRM International Pty Ltd contract invoices. The balance of \$21,454 relates to the Fiscal Agent and includes salary and stationery costs.

9. Audit

Of the \$33,600, \$15,600 relates to the Base period and the balance to the 1st Option period.

10. Reconciliation of outstanding fund balance

Reconciliation as per bank statement:

MCA Vanuatu – Call A/c	1,676,666
Plus: Funds reimbursable to the MCC by the Government	25,125
Less: Interest payable to MCC as at 30 th June 2008	-1,109

Net fund balance as at 30th June 2008

\$1,700,682

Petty cash imprests are held by MCA Vanuatu and the Fiscal Agent for \$311 and \$105 respectively. The Vatu equivalent has been obtained from the Government and is reimbursed periodically after funds are used to pay MCA program expenditure.

11. Accruals

Material accruals total \$183,563 for the period and comprises of the following;

- \$72,000 - Audit fees which includes 1st, 2nd and 3rd Option audit periods.
- \$57,050 - Procurement agent fees for May and June 2008.
- \$54,513 - Technical assistance fees for the Government's Public Works Department.

12. Post Fund Accountability Statement events

The MCA Director's employment was terminated by the Steering Committee on 26th June 2008 after being requested by the MCC on 11th June 2008. Subsequently the MCA Vanuatu Engineer took up the post as acting Director followed to date by Tony Sewen the Economist after the incumbent Acting Director resigned from his position as Engineer and Acting Director of MCA Vanuatu.

As at the date of this audit report MCA Vanuatu were looking to appoint a permanent Director and Engineer.

13. Tourism Survey

The tourism survey which is now funded by AusAID was originally included in the Compact agreement to be funded by the MCC. This change was due to expenditure not budgeted for within the Procurement Agent budget. The funds received from AusAID totalled \$290,713 in June 2007.

14. Budgeted and actual expenditure to date
28th April 2006 to 30th June 2008

	<u>BUDGET</u>	<u>ACTUAL</u>	<u>QUESTIONED COSTS *</u>	
	<u>USD</u>	<u>USD</u>	<u>INELIGIBLE</u>	<u>UNSUPPORTED</u>
	<u>USD</u>	<u>USD</u>	<u>USD</u>	<u>USD</u>
REVENUE				
Grant No: MCA-VAN 18-09	65,690,000	14,661,496		
TOTAL REVENUE	65,690,000	14,661,496	0	0
COSTS INCURRED				
Infrastructure activity				
1.1 Design and build firm	0	0		
1.2 Prequalification Evaluation Expert for design/build contract	2,022	2,022		
1.3 Bid Documents Evaluation Expert for design/Build contract	17,462	17,462		
1.4 Pre Bid Conference	19,031	19,031		
2 Efate Ring Road	56,118,175	10,791,375		
3 Santo - East Coast Road	0	0		
4 Santo - South Coast Road bridge	0	0		
5 Malekula - Norsop Lakatoro Litzlitz Road	0	0		
6 Malekula - South West Bay Airstrip	0	0		
7 Pentecost - Lolong Road and N-S Road	0	0		
8 Tanna - Whitesands Road	0	0		
9 Epi - Lamén Bay	0	0		
10 Ambae - Road Creek Crossing	0	0		
11 Malo - Road Upgrade	0	0		
12 Warehouses	0	0		
13 Technical Assistance to PWD	1,847,580	146,892		
19 Environment: Assessment Firm	260,115	12,606		
	<u>58,264,385</u>	<u>10,989,388</u>	<u>0</u>	<u>0</u>
Institutional Strengthening Activity				
14 PWD Equipment	1,595,000	14,697		
15 Equipment through Civil Contracts	0	0		
16 PWD Institutional Strengthening - Supervision Unit	728,432	111,585		
	<u>2,323,432</u>	<u>126,282</u>	<u>0</u>	<u>0</u>
Program management				
17.1 MCA Program Administration	1,428,344	621,903	8,652	6,182
17.2 Customs and Inland Revenue	185,276	0		
17.3 Department of Labour	64,613	0		
	<u>1,678,233</u>	<u>621,903</u>	<u>8,652</u>	<u>6,182</u>
Fiscal and Procurement Agents				
17.5 Fiscal agent fees	319,056	43,588		
17.6 Procurement agent fees	1,711,800	967,551		
	<u>2,030,856</u>	<u>1,011,139</u>	<u>0</u>	<u>0</u>
Audit				
17.7 External audit	330,000	57,000	0	0
Monitoring and Evaluation				
18.1 Household Income Expenditure	607,595	97,595		
18.2 Database Reporting Systems and Manuals	17,000	0		
18.3 Data Quality Auditor	120,000	53,873		
18.4 Tourism Survey (funded by AusAID) - See Note 13	0	0		
18.5 MCA Vanuatu Site Visits	50,500	685		
18.6 Hotel Capacity & Occupancy Survey	15,999	629		
18.7 Road-side Enterprise survey	13,000	1,579		
18.8 Traffic Count survey	35,000	741		
18.9 Outer Island Wharf & Warehouse Survey	4,000	0		
18.10 Final evaluation	200,000	0		
18.11 Investor survey	0	0		
	<u>1,063,094</u>	<u>155,102</u>	<u>0</u>	<u>0</u>
TOTAL COST INCURRED	65,690,000	12,960,814	8,652	6,182

* The questioned costs throughout the life of the project have been repaid or fully accounted for as at 23rd September 2008

As a result of the increase in bid prices the MCA program was restructured in 2008. During the re-scoping and re-specification process it was agreed with MCC that all monies originally budgeted to the infrastructure project activities should be combined and allocated to the Efate Ring Road budget for construction, design and build.

During this period other budgets have been modified to reflect non requirement and modification of the original Compact agreement.

SCHEDULE OF FINDINGS

Our findings and recommendations have incorporated the responses of MCA Vanuatu and includes two non material deficiencies in operation controls and two non-compliance issues including two questioned costs.

Internal controls:

1. Entertainment Imprest

Condition Entertainment imprest totalling \$8,365 relating to the opening ceremony for the main infrastructure work in June 2008 has not been reconciled with receipts to date.

Criteria All imprests should be reconciled as soon as possible to ensure eligible expenditure and funds are accounted for.

Cause There were delays in collating all the receipts.

Effect Unreconciled imprests could lead to ineligible costs, misuse of funds or overstatement of expenditure.

Amount \$2,646

Development Accountant comments – Out of the \$8,365, imprest \$5,719 was accounted for leaving the balance of \$2,646 to be credited to the ledger.

2 Credit balance

Condition There is a credit balance held with the local airline Air Vanuatu equivalent to \$2,708 as at 30th June .

Criteria All refunds and credit balances relating to expenditure should be identified and reported.

Cause Air fare tickets purchased were subsequently cancelled and the balance owing was held as a credit.

Effect Expenditure in the Fund Accountability statement is overstated.

Amount \$2,708.

Office Supervisor comments – All procurements are now done by the Procurement Agent and details are available from them.

Non compliance:

1. Webmaster

Condition	There has been no appointment of a Webmaster by the Fiscal Agent.
Criteria	A Webmaster should be appointed in order to maintain MCA Vanuatu's website according to the Compact agreement.
Cause	The delay in the appointment is due to a dispute relating to claims for allowances by the designated officer.
Effect	MCA Vanuatu website is not being updated with Minutes and Audit Reports.
Head of Fiscal Agent comments: – The Fiscal Agent is currently negotiating a new contractual arrangement with the designated person. Payment for past work has been settled.	

2. Steering Committee minutes

Condition	Steering Committee and summary Flying minutes are not posted to MCA Vanuatu website.
Criteria	All minutes should be posted to the website as per Compact agreement.
Cause	Due to absence of a Webmaster to regularly update and post minutes onto the website.
Effect	External auditors and the public are not currently up to date with the progress of the Compact.
Acting Director comments: – All minutes will be posted to the website in September 2008.	