



BDO Barrett & Partners

MILLENNIUM CHALLENGE ACCOUNT – VANUATU

**Audit Report on the
Fund Accountability Statement**

For the Period 1st July 2008 to 31st December 2008

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Mr. Johnson Wabaiat
Director
Millennium Challenge Account – Vanuatu
P O Box 192
Port Vila
Vanuatu

14th May 2009

Dear Johnson,

We submit our reports on the Millennium Challenge Account - Vanuatu program activities relating to the period 1st July 2008 to 31st December 2008 in accordance with our contract terms of reference dated 4th February 2009.

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 Base period under audit is 1st July 2008 to 31st December 2008.

This is the fifth audit of the Fund Accountability Statement of the MCC funded resources under the management of MCA Vanuatu. 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 \$3.1 million due to the following activities;

- An underspend of \$1.87 million for the Infrastructure activity relates to the delay in the build of the road due to adverse weather conditions.
- An underspend of \$1.16million for the Institutional Strengthening is due primarily to delays in payment of a Grader and Rubber Tire Roller. Furthermore the purchase of heavy duty equipment was not purchased due to the tender bid period being expired. The surplus budget will be reallocated in the future.
- An underspend of \$110,600 for the Program Management is due predominately to reduction in use of legal services, the non use of the Bid Challenge Panel budget and vacant positions relating to MCA Director and Engineer.
- An underspend of \$12,353 for Monitoring and Evaluation relates predominately to MCA Vanuatu Site visits and Database, reporting systems and manuals due to the delays in the main infrastructure activity.
- An underspend of \$7,110 for the Fiscal and Procurement Agents' costs are due predominately to the Fiscal Agents outstanding appointment of a Website Developer.
- An overspend of \$6,000 for audit fees is due to late payment in the current period for cost due in the previous period.

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 April 2009.

- Imprest totalling \$8,365 has now been retired and fully accounted for as at September 2008.
- No credit balance is held with the local airline as at 30th June 2008.
- Steering Committee and flying minutes are being posted to MCA Vanuatu website.

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

- There has been no appointment of a Webmaster by the Fiscal Agent but the website appears to be updated.
- There is a disagreement in balances outstanding between MCA Vanuatu and the local airline, Air Vanuatu due to unsatisfactory accounting records by Air Vanuatu. This has 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.** Standing petty cash imprest expenses incurred in the audit period were not initially reflected in ledger because the Fiscal Agent did not post the journal expense until the time of the audit.
- 2.** Lack of recording accurate accounts has resulted in a disagreement of the amount outstanding for payment between Air Vanuatu and MCA Vanuatu.
- 3a** An incident relating to misappropriation of MCA Vanuatu funds was not initially disclosed to the Steering Committee by the Acting Director.
- 3b** The employee who allegedly misappropriated funds was subsequently appointed Petty Cash holder despite the matter being unresolved.
- 3c** An accountable imprest has been misappropriated by a MCA Vanuatu staff as a result of another employee not following the correct procedures for retiring surplus cash imprests.

**Independent Auditor's Report on the Fund Accountability
Statement of MCA Vanuatu for the period
1st July 2008 to 31st December 2008**

Independent Auditor's Report on the Fund Accountability Statement of Millennium Challenge Account – Vanuatu for the period 1st July 2008 to 31st December 2008.

Steering Committee
Millennium Challenge Account – Vanuatu
P O Box 192
Port Vila
Vanuatu

We have audited the fund accountability statement of Millennium Challenge Account (MCA) Vanuatu for the period 1st July 2008 to 31st December 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.

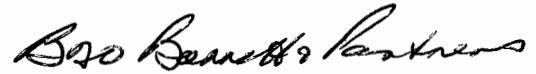
The results of our tests disclose questioned costs totalling \$1,619 detailed in the fund accountability statement. The amount relates to misappropriated funds which are to be reimbursed in due course.

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.

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In accordance with *U.S. Government Auditing Standards*, we have also issued our reports dated 14th May 2009, 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

14th May 2009

**Independent Auditor's Report on Internal Control
For the period 1st July 2008 to 31st December 2008**

Steering Committee
Millennium Challenge Account – Vanuatu
P O Box 192
Port Vila
Vanuatu

We have audited the fund accountability statement of Millennium Challenge Account (MCA) Vanuatu for the period 1st July 2008 to 31st December 2008, and have issued our report on it dated 14th May 2009.

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 1 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 31st December 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 14th May 2009.

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

14th May 2009

Independent Auditor's Report on Compliance For the period 1st July 2008 to 31st December 2008

Steering Committee
Millennium Challenge Account – Vanuatu
P. O Box 192
Port Vila
Vanuatu

We have audited the fund accountability statement of Millennium Challenge Account (MCA) Vanuatu as of and for the period 1st July 2008 to 31st December 2008 and have issued our report on it dated 14th May 2009.

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 are required to be reported here 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 14th May 2009.

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

14th May 2009

FUND ACCOUNTABILITY STATEMENT

**MILLENNIUM CHALLENGE ACCOUNT - VANUATU
FUND ACCOUNTABILITY STATEMENT
1st July 2008 to 31st December 2008**

FUND ACCOUNTABILITY STATEMENT

	BUDGET USD	ACTUAL USD	QUESTIONED COSTS		NOTES
			INELIGIBLE USD	UNSUPPORTED USD	
REVENUE					
Grant No: MCA-VAN 18-09	16,499,590	11,155,688			
TOTAL REVENUE	16,499,590	11,155,688	0	0	2
COSTS INCURRED					
Infrastructure activity	13,876,788	12,005,960			4
Institutional Strengthening activity	1,685,646	522,194	1,619		5
Program management	199,582	88,982			6
Monitoring and Evaluation	14,933	2,580			7
Fiscal and Procurement agents	235,237	228,127			8
Audit	54,000	60,000			9
TOTAL COST INCURRED	16,066,186	12,907,843	1,619	0	
Outstanding Fund Balance	293,492	-51,472			11

Accompanying notes 1 to 15 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 31st December 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 project budget and costs 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) Revenues and costs

On this basis, revenue is recognised on the date of receipt and costs when paid rather than incurred.

b) 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 99.79, 105.16, 115.32 and 118.36. There were no foreign exchange restrictions.

c) 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

Total revenue received for the period was \$11,155,688. This comprised of \$7,172,705 direct to MCA Vanuatu bank account and \$3,982,983 via the Common Payment System.

3. Interest received

Interest received on funds held in the bank totalled \$177 for the period. Of the \$1,286 owed to the MCC \$1,115 was returned leaving a balance of \$171 as at 31st December 2008.

4. Infrastructure activity

The value of the contract for the Efate Ring Road has received certified payments of \$22,424,079 (inclusive of \$10,486,581 advance payment) out of a budget of \$56,118,175. which includes a contingency of \$2,161,298.

To date 59% of the design and 30% of the main infrastructure work for the Efate Ring Road budget has been incurred.

5. Institutional Strengthening activity

The expenditure relates to the Engineering Supervision Unit who support the main infrastructure work of Downer EDI Works and Queensland Consulting Project Partners. Furthermore capital expenditure has been incurred to upgrade the quality of roads throughout the major islands of Vanuatu.

Ineligible questioned costs are included in our findings on Page 24 and include unretired imprest of \$1,619.

6. Program management

Program management is made up of the following expenses;

Personnel	69,393
Office Furniture and Equipment	0
Computer Equipment	0
Other operating costs	19,589
	<hr/>
	\$88,982

On the 27th June 2008 Alan Faerua the MCA Vanuatu Engineer was appointed Acting Director in addition to his post as Engineer. He subsequently resigned both posts with effect from 21st August 2008.

Tony Sewen was subsequently appointed Acting Director in addition to his existing post as Economist Analyst.

7. Monitoring and Evaluation

Expenditure totalling \$2,528 relates solely to the Traffic Count survey.

8. Fiscal and Procurement Agents

Expenditure totalling \$180,300 relates to the Procurement Agent GRM International Pty Ltd. The balance of \$21,676 relates to the Fiscal Agent and includes salary, equipment and stationery costs.

9. Audit

Payments consist of fees for 2nd and 3rd Option periods.

10. Reconciliation of outstanding fund balance

Reconciliation as per bank statement:

MCA Vanuatu – Call A/c	24,585
Less: Funds reimbursable to the Vanuatu Government by MCC	75,886
Less: Interest payable to MCC as at 31 st December 2008	171

Net fund balance as at 31st December 2008**\$(51,472)**

Standing 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 \$312,333 for the period and comprises of the following:

- \$89,294 – Queensland Consulting Project Partners.
- \$30,050 - Procurement agent
- \$177,159 – Downer EDI Works
- \$42,000 – Audit fees
- \$2,474 – Air Vanuatu
- \$1,356 - Performance related pay
- \$75,866 – Vanuatu Government

12. Post Fund Accountability Statement events

As at February 2009 MCA Vanuatu appointed a permanent Director and Engineer. Johnson Wabaiat and Hans Euscher respectively.

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. Detailed project budget and costs to date

	TOTAL PROJECT BUDGET USD	COSTS TO DATE USD	QUESTIONED COSTS * USD	
			USD	USD
REVENUE				
Grant No: MCA-VAN 18-09	65,690,000	25,817,184		
TOTAL REVENUE	65,690,000	25,817,184	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	22,202,630		
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 - Loltong 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	632,830		
19 Environment: Assessment Firm	260,115	121,374		
	<u>58,264,385</u>	<u>22,995,349</u>	<u>0</u>	<u>0</u>
Institutional Strengthening Activity				
14 PWD Equipment	1,595,000	486,016		
15 Equipment through Civil Contracts	0	0		
16 PWD Institutional Strengthening - Supervision Unit	728,432	162,460	1,619	0
	<u>2,323,432</u>	<u>648,476</u>	<u>1,619</u>	<u>0</u>
Program management				
17.1 MCA Program Administration	1,492,959	705,151	8,652	6,182
17.2 Customs and Inland Revenue	185,276	5,734		
17.3 Department of Labour	0	0		
	<u>1,678,235</u>	<u>710,885</u>	<u>8,652</u>	<u>6,182</u>
Fiscal and Procurement Agents				
17.5 Fiscal agent fees	319,054	64,413		
17.6 Procurement agent fees	1,711,800	1,174,851		
	<u>2,030,854</u>	<u>1,239,264</u>	<u>0</u>	<u>0</u>
Audit				
17.7 External audit	330,000	117,000	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	3,322		
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>157,683</u>	<u>0</u>	<u>0</u>
TOTAL COST INCURRED	65,690,000	25,868,657	10,271	6,182

* Questioned costs throughout the life of the project have been fully accounted for as at 14th May 2009 with the exception of \$1,619

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.

Other budgets have also been modified to reflect non requirement and modification of the original Compact agreement.

15. Contingency

EDI Downer Works has extracted 17,817 cubic metres of quarry aggregates from Efate as at 31st December 2008. The value that has been agreed to be paid by MCA Vanuatu and Downer EDI Works is \$4.20 per cubic metre making a total of \$74,810.

The Mines & Minerals Act stipulates that the Commissioner of Mines determines the price in a prescribed fee schedule. The price is disputed by the Commissioner due to the fact that he had no input in the negotiations.

SCHEDULE OF FINDINGS

Our findings and recommendations have incorporated the responses of MCA Vanuatu and includes four non reportable conditions, one non-compliance issue including a misappropriation incident and question cost.

Internal controls:

1. Standing Petty Cash Imprest expenditure

Condition Standing Petty Cash imprest expenditure for MCA Vanuatu and the Fiscal Agent which have been incurred during the audit period has not been recorded on the ledger until the subsequent period when the imprest was replenished.

Criteria Standing Petty Cash imprest expenditure incurred within audit periods must be fully accounted within the correct period.

Cause Delays by the Petty Cash Officer in retiring imprest and the Fiscal Agent not implementing the correct period end procedures.

Effect Although not material it demonstrates that the Fiscal Agent has not followed the period end procedures and as a result the ledger does not reflect the correct expenditure for the period.

Amount \$261

Director comments: – A meeting with the Fiscal Agent staff was held and they have resolved to strengthening procedures to ensure future timely treatment of year end procedures. Standing cash imprest expenditure has now been correctly recorded for audit period.

2. Outstanding balance disagreement:

Condition There is disagreement between the local airline Air Vanuatu and MCA Vanuatu regarding the amount outstanding for payment.

Criteria It is the responsibility of the Procurement Agent to ensure all procurements are authorised and records maintained to ensure timely payments of invoices.

Cause Tickets procured by the Procurement Agent that are cancelled or unused are not reported to the Procurement Agent. Subsequently unused tickets are used without the knowledge of the Procurement Agent or sometimes of the Fiscal Agent authorisation.

Effect The Procurement Agent and Fiscal Agent do not have accurate records to reflect the correct outstanding balance with the Air Vanuatu in order that they can confidently dispute the outstanding balance.

Amounts: \$2,474

Head of Fiscal Agent comments: –MCA Vanuatu and the Fiscal Agent have requested a breakdown and evidence of the outstanding amount of \$2,474. This includes the name of passengers, date travelled and destinations. The Director is to convene a meeting with the Procurement Agent and Fiscal Agent to put in place a procedure to ensure all unused or cancelled tickets after procurements are reported to the Procurement Agent to ensure accurate records are maintained by the Procurement Agent

3a. Reporting incidents

Condition An instance relating to an alleged misappropriation was not brought to the attention of the Steering Committee.

Criteria All instances relating to issues relating to misappropriation or alleged fraud must be brought to the attention of the Steering Committee.

Cause The Acting MCA Director did not inform the Steering Committee.

Effect Misappropriation or fraud can become undetected and no appropriate action or controls put in place to prevent or detect further instances.

Director comments: – The Acting Director had taken management initiative to deal with the matter when brought to his attention. An interview was arranged with the alleged officer and further followed up with a letter of warning dated 11th February 2009. Staff constraints contributed as extenuating circumstance to the matter. The current Director advised the Chairman of the Steering Committee as soon as he was made aware of the incident. The next meeting of the Steering Committee was scheduled for 24th April 2009 and the misappropriation is included on the agenda.

3b. Standing Petty Cash Imprest holder

Condition An MCA Vanuatu employee has been appointed the Petty Cash officer despite allegations of misappropriation relating to an unretired cash imprest which has not been resolved.

Criteria Any unresolved misappropriation issues or alleged fraud relating to MCA Vanuatu staff should be resolved before extending fiduciary trust

Cause The appointment was made due to the fact that the Secretary always remained in the office

Effect Unresolved matters can lead to other or additional allegations if not addressed.

Director comments: – Earlier decision by the Acting Director was reviewed resulting in new procedures:

- i) The MCA-Vanuatu Director will be responsible for Petty Cash.
- ii) Petty Cash is to be handled by Fiscal Agent to allow access for use by MCA Vanuatu office staff.

Non compliance:

3c. Fraud and Illegal incidence

Condition An employee has misappropriated MCA Vanuatu funds as a result of an accountable imprest holder incorrectly retiring cash relating to an imprest to the unauthorised employee on 18th November 2008.

Criteria As stated in all MCA Vanuatu employment contracts under duties and responsibilities employees must use MCA Vanuatu resources in a lawful and proper manner and behave honestly and with integrity. Furthermore it is the responsibility of the employee who applied for the accountable imprest to retire any cash and receipts to the authorised officer.

Cause Retired receipts and cash became in the hands of an unauthorised employee because the authorised Imprest Officer was not available at the time.

Effect Cash was misappropriated because it fell into the hands of an unauthorised employee.

Amount \$1,619

Director comments: – Instructions have been sent to the payroll section to deduct monies to recover the amount as per Financial Regulations. I have agreed in principle with the Government Director of Finance that the full amount will be replenished in May 2009 by the Government of Vanuatu.