



**BDO Barrett & Partners**

**MILLENNIUM CHALLENGE ACCOUNT – VANUATU**

**Audit Report on the  
Fund Accountability Statement**

**For the Period 28<sup>th</sup> April 2006 to 31<sup>st</sup> December 2006**

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Mr Lennox Vuti  
Chief Executive Officer  
Millennium Challenge Account – Vanuatu  
PMB 9053  
Port Vila  
Vanuatu

26<sup>th</sup> October 2007

Dear Lennox,

We submit our reports on the Millennium Challenge Account - Vanuatu program activities relating to the period 28<sup>th</sup> April 2006 to 31<sup>st</sup> December 2006 in accordance with our contract terms of reference dated 2<sup>nd</sup> July 2007.

Yours sincerely

BDO Barrett & Partners



Adrian Sinclair

Partner

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## INTRODUCTION

### Background

On 28<sup>th</sup> 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 28th April 2006 to 31st December 2006.

This is the first audit of the Fund Accountability Statement of the MCC funded resources under the management of MCA Vanuatu. Hence, there are no prior Audit recommendations

In January 2007, the Office of the Inspector General (**OIG**) through the MCC delivered a report on Risk Assessment of MCA Vanuatu. The assessment identified cash operations and procurement processes as being 'moderate risk'. However the assessment did not suggest any recommendations to be followed up.

The period audited does not include provision for 'Indirect Cost rates' nor 'Cost Sharing arrangements'. 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;
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 underspend relating to the budgets. This has been due to delays in the procurement process.

The MCA Vanuatu consultancy fees exceeded its budget by USD23,920. This is related to legal fees for reviewing the Compact and supplementary agreements.

### **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. Three areas of non reportable conditions were identified and included in a management letter to MCA Vanuatu. We have documented these in our **Internal Control Status Report**.

The risk associated with internal controls has been evaluated as low. As a result reliance was made on these controls.

### **Compliance:**

VAT paid on expenses remained unclaimed for VAT purposes as at 31<sup>st</sup> December 2006. These amounts will be classed as questioned costs until they are reclaimed and offset in the subsequent audit period.

### **Indirect Cost Rates:**

There were no indirect cost rates to review.

### **Prior Audit Recommendations:**

There were no prior audit recommendations to review.

### **Summary of Findings:**

Our findings have incorporated our recommendations and responses of MCA Vanuatu. These are documented in the Schedule of Findings and Questioned Costs at the end of this audit report.

1. The fixed asset register was being updated. at the time of the audit
2. Provident Fund expense incorrectly includes USD15,299.
3. A section on the Procurement Requisition form does not indicate whether suppliers have been checked against the official lists of prohibited suppliers
4. We could not identify any procedures for authorisation, timing and amounts relating to the reimbursement of Government funds for expenses paid by the Government on behalf of MCA Vanuatu.



**Independent Auditor's Report on the Fund Accountability  
Statement of MCA Vanuatu for the period  
28th April 2006 to 31st December 2006**

**Independent Auditor's Report on the Fund Accountability Statement of  
Millennium Challenge Account – Vanuatu for the period 28th April 2006 to 31st  
December 2006**

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

We have audited the Fund Accountability Statement of MCA Vanuatu for the period 28th April 2006 to 31st December 2006. 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 disclosed the following questioned costs of USD332 detailed in the Fund Accountability Statement as ineligible because they are prohibited by the terms of the agreements.

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 Millennium Challenge Corporation (MCC) for the period ended in 28<sup>th</sup> April 2006 to 31<sup>st</sup> December 2006 in accordance with the terms of the agreements and in conformity with the basis of accounting described in Note I.

In accordance with U.S. *Government Auditing Standards*, we have also issued our reports dated 26<sup>th</sup> October 2007, 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 MCC. However, upon release by MCC, this report is a matter of public record and its distribution is not limited.

  
BDO Barrett & Partners

26<sup>th</sup> October 2007

## Independent Auditor's Report on Internal Control

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

We have audited the Fund Accountability Statement of MCA Vanuatu for the period 28<sup>th</sup> April 2006 to 31<sup>st</sup> December 2006, and have issued our report on it dated 26<sup>th</sup> October 2007.

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 *US 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 31<sup>st</sup> December 2006, we obtained an understanding of internal control. With respect to internal control, we obtained an understanding of the design of relevant policies and procedures and whether they have been placed in operation, and we assessed control risk in order to determine our auditing procedures for the purpose of expressing our opinion on the Fund Accountability Statement and not to provide an opinion on internal control. Accordingly, we do not express such an opinion.

The accounting system used to manage the transactions of MCA Vanuatu is 'SmartStream'; the Information System within the Ministry of Finance. We did not review the general controls or control environments surrounding the Ministry of Finance Information system.

Our consideration of internal control would not necessarily disclose all matters in internal control that might be material weaknesses under standards established by the American Institute of Certified Public Accountants (AICPA). A material weakness is a reportable condition in which the design or operation of one or more of the specific internal control elements does not reduce to a relatively low level the risk that errors or fraud in amounts that would be material in relation to the fund accountability statement may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving internal control and its operation 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 14<sup>th</sup> August 2007 as stated below:

- A fixed asset register of all MCA Vanuatu assets has not been recorded
- Non review of budget variances has lead to misallocation of a budget item
- Procurement Requisition forms are not fully signed off.

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

  
BDO Barrett & Partners

26<sup>th</sup> October 2007

## Independent Auditor's Report on Compliance

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

We have audited the Fund Accountability Statement of MCA Vanuatu as of and for the period 28<sup>th</sup> April 2006 to 31<sup>st</sup> December 2006 and have issued our report on it dated 26<sup>th</sup> October 2007.

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 *US 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 the terms and conditions of the Compact and related 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.

Material instances of non compliance are failures to follow requirements or violations of agreement terms and laws and regulations that cause us to conclude that the aggregation of misstatements resulting from those failures or violations is material to the Fund Accountability Statement. The results of our compliance tests disclose the following material instances of non compliance, the effects of which are shown as question costs in MCA Vanuatu's 31<sup>st</sup> December 2006 Fund Accountability Statement:

- Questioned costs include USD332 of ineligible costs that pertained to unclaimed Value Added Tax as at 31<sup>st</sup> December 2006.

We consider these material instances of non compliance in forming our opinion on whether MCA Vanuatu's 31st December 2006 Fund Accountability Statement is presented fairly, in all material respects, in accordance with the terms of the agreements and in conformity with the basis of accounting described in Note 1 of the Fund Accountability Statement, and this report does not affect our report on the Fund Accountability Statement dated 26<sup>th</sup> October 2007.

We noted certain immaterial instances of noncompliance that we have reported to the management of MCA Vanuatu in a separate letter dated 14<sup>th</sup> August 2007 as stated below:

- Could not identify any procedures for authorisation, timing and agreed amounts for reimbursements to the Government of Vanuatu.

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

  
BDO Barrett & Partners

26<sup>th</sup> October 2007

**FUND ACCOUNTABILITY STATEMENT**



**MILLENNIUM CHALLENGE ACCOUNT - VANUATU**  
**28th April 2006 to 31st December 2006**

	BUDGET USD	ACTUAL USD	QUESTIONED COSTS		NOTES
			INELIGIBLE USD	UNSUPPORTED USD	
<b>REVENUE</b>					
Grant No: MCA-VAN 18-09	1,457,505	1,574,624			2
<b>TOTAL REVENUE</b>	<b>1,457,505</b>	<b>1,574,624</b>	<b>0</b>	<b>0</b>	
<b>COSTS INCURRED</b>					
<u>Personnel expenses</u>					
Permanent Wages	78,402	53,520			4
Daily Rated Allowances	0	422			
Family Allowance	936	114			
Housing Allowances	12,040	9,840			
Home Island Passage Allowances	814	0			
Special Allowances	18,372	15,299			5
Provident Fund	4,665	2,372			
Subsistence Allowances	661	92			
	<u>115,890</u>	<u>81,659</u>	<u>0</u>	<u>0</u>	
<u>Consultancy Fees</u>					
Procurement Agent	460,986	283,684			6
Legal fees	32,115	56,035			7
Other Consultant Fees	241,000	0			
	<u>734,101</u>	<u>339,719</u>	<u>0</u>	<u>0</u>	
<u>Audit Fees</u>	<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>	
<u>Capital expenditure</u>					
General Equipment	22,340	488			
Computer equipment	12,948	5,105			
Computer Software	40	40			
Office Furniture	14,207	5,262			
Motor Vehicles	22,810	22,810			
	<u>72,345</u>	<u>33,705</u>	<u>0</u>	<u>0</u>	
<u>Direct costs</u>	<u>35,169</u>	<u>21,847</u>	<u>332</u>	<u>0</u>	8
<b>TOTAL COSTS INCURRED</b>	<b>957,505</b>	<b>476,930</b>	<b>332</b>	<b>0</b>	
<b>Outstanding Fund Balance</b>	<b>500,000</b>	<b>1,097,694</b>			9

## NOTES TO THE FUND ACCOUNTABILITY STATEMENT

### MILLENNIUM CHALLENGE ACCOUNT - VANUATU For period ended 31 December 2006 (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.

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: 110.08, 110.93, 109.22, and 106.44. There were no foreign exchange restrictions.

##### b) *Assets*

The entity's assets consist of motor vehicles, 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

The first instalment of \$1.57million was made by MCC and entered the bank account of MCA in June 19, 2006.

#### 3. Interest Received

Interest received on funds held in the bank totalled \$21,177 for the period. \$18,322 was returned leaving \$2,855 payable to MCC as at 31<sup>st</sup> December 2006.

#### 4. Permanent Wages

The permanent wage expense consists of the salaries for MCA Vanuatu staff.

#### 5. Special allowances

A bonus of 30% on MCA staff year salaries was paid in December 2006 totalling \$15,299.

## 6. Procurement Agent

Bureau Central d'Etudes pour les Equipements d'Outre-Mer (BCEOM) was terminated during the audit period. A settlement fee of \$283,684 was agreed representing 20% of the total fee contract was agreed to by MCC, MCA Vanuatu and BCEOM. GRM International Pty Ltd was appointed in March 2007. During the interim period Emerging Marketing Group (EMG) assisted MCA Vanuatu with procurements.

## 7. Legal Fees

The overspend of consultancy fees (actual \$56,035, budget \$32,115) paid by MCA Vanuatu is due to budget under estimation.

## 8. Direct Costs

Local Accommodation	158
Vehicles Fuel	2,899
Local Medical Treatment	1,353
Vehicles Hire	287
Office Cleaning	172
Advertising	4,521
Postage	148
Printing	484
Stationery	1,695
Telephone / Fax	4,786
Incidentals	1,952
Official Entertainment	814
Buildings Repairs & Maintenance	824
Equipment Repairs & Maintenance	687
Vehicles Repairs & Maintenance	215
Local Travel	494
Bank Charges	27
Value Added Tax	332
	<b>\$21,848</b>

The VAT expense amount represents unclaimed VAT for the months of November and December 2006. This is an ineligible question cost as this is a reimbursable expense which has been reclaimed in the subsequent audit period.

## 9. Reconciliation of Funds Balance

Balance per Bank Statement as at 31 December 2006	1,136,527
Less: Funds reimbursable to Government	-35,978
Less: Interest payable to MCC as at period end	-2,855
	-38,833
<b>Net fund balance as at 31 December 2006</b>	<b>\$1,097,694</b>

### 10. Program Administration

The total cost for the administration of the Compact for the period ending 31st December 2006 is broken down as follows:

Personnel	81,658
Legal fees (Note 7)	56,035
Computer & equipment	5,633
Office Furniture	5,262
Motor Vehicles	22,810
Direct costs (Note 8)	21,848
	<b><u>\$193,246</u></b>

## SCHEDULE OF FINDINGS AND QUESTIONED COSTS

Our findings and recommendations have incorporated the responses of MCA Vanuatu and include three non reportable conditions, one non-material, non-compliance and one questioned cost

### Internal controls:

#### 1. Fixed Assets

<b>Condition</b>	A fixed asset register of all MCA Vanuatu assets has not been fully recorded
<b>Criteria</b>	An asset register should be maintained identifying cost funded by the Government of Vanuatu and /or MCA Vanuatu, indicating cost, location and signature approving the register
<b>Cause</b>	Due to the recent appointment of the Development Accountant in July 2007 this has led to delays in updating the Fixed Asset Register
<b>Effect</b>	Assets are not located and used for the purpose for what they were intended

**Management comments** – MCA Vanuatu fixed assets are being added to the Government of Vanuatu fixed asset system at the moment. The assets purchased by MCA Vanuatu will be separately identified and included in the Fund Accountability Statement to the end of June 2007.

#### 2. National Provident Fund

<b>Condition</b>	Provident Fund totalling USD17,670 stated in the Fund Accountability Statement includes year end bonuses of USD15,299 for MCA Vanuatu staff
<b>Criteria</b>	Bonuses for staff should be classified special allowances
<b>Cause</b>	No review of budget allocation or variance was undertaken
<b>Effect</b>	Misallocation of budgets can lead to large variances with budgets

**Management comments** - We would like to correct this and re-present in the Fund Accountability Statement. The actual amount of bonuses paid that was incorrectly charged to Provident Fund employer contributions is USD15,299 which will be transferred to Special Allowances.

### 3. Approved (or Prohibited) Suppliers

**Condition** There is an official list of prohibited supplier providers. There is no indication as to whether BCEOM or any other supplier has been checked against this list in the space provided in the Procurement Requisition form.

**Criteria** The requisition request form needs to indicate whether excluded parties to contracts have been checked

**Cause** The requisition request form requires an indication whether a suppliers has been checked against the approved list. This was not completed.

**Effect** Potential for prohibited suppliers to be contracted

**Management comments** - The procurement agent checks that any suppliers are not included in the US Government prohibited suppliers list. The procurement agent during the audit period (BCEOM) and the subsequent procurement agent (GRM) were checked against this list by the team that performed the evaluation of the technical proposals for the Procurement Agent and this is confirmed in their evaluation report. A copy of this report can be provided if required.

## Non compliance:

### 1. Reimbursable Funds

**Condition** Cannot identify any procedures for authorisation, timing and agreed amounts for reimbursements to the Government of Vanuatu for expenses paid on behalf of MCA Vanuatu.

**Criteria** Procedures state that reimbursement of Government Funds should be done at least monthly

**Cause** There was no Development Accountant appointed during the audit period to ensure implementation of procedures

**Effect** Surplus funds held in the bank account could lead to under estimation of Disbursement requests leading to delays in the project activity

**Management comments** - The Fiscal Accountability Agreement states that reimbursements of Government funds from the MCA Vanuatu bank account should be done on at least a monthly basis. In the initial 12 month period when there was no Development Accountant reimbursements have happened at varying intervals as the amount to be reimbursed became material.

The rolling financial plan and quarterly disbursement requests are based on actual disbursements and commitments (outstanding Local Purchase Orders) from both the Government of Vanuatu bank account and the MCA Vanuatu bank account. There has been no risk that surplus funds held in the account could lead to an under estimation of disbursement requests.

In any case the MCA Vanuatu Development Accountant is in the process of putting in procedures for monthly reimbursements from now on.

## **2. Payment of Valued Added Tax (VAT)**

**Condition** VAT paid on expenses remains unclaimed for VAT purposes as at 31<sup>st</sup> December 2006. These amounts will be classed as questioned costs until they are reclaimed and offset in the subsequent audit period. We could not locate any procedures for authorisation, timing and agreed amounts for reimbursements to the Government for expenses paid on behalf of MCA Vanuatu

**Criteria** VAT should be excluded as a expense item in the FAS and should be reclaimed on a monthly basis.

**Cause** The refund of VAT is normally done automatically in the "Smart Stream" accounting system. The MCA Vanuatu ledgers which is a project module within "Smart Stream" does not refund VAT automatically and hence manual journals are required.

**Effect** VAT could accidentally be permanently included as an expense in the FAS

**Management comments** - VAT returns are done monthly and refund journals are posted in ledger against the cost centres that incurred the VAT expense. This process is automated within our accounting system and no cash is actually exchanged between the VAT office and the Government Consolidated bank account. The MCA Vanuatu accounts are maintained in the Projects module which does not automatically pick up these entries for the VAT refunds. A manual process is in place for the MCA Vanuatu Development Accountant to post this journal to the projects module and ensure that the ledger and project modules are reconciled. The project journals for November and December were not posted and rather than show this line item as an ineligible or questioned cost we would like to post this journal now (to 31/12/2006) and adjust the fund accountability statement accordingly. The effect of this change is to reduce expenses by USD332 and reduce the outstanding reimbursements to be made to the No 1 account by the same amount.