



**BDO Barrett & Partners**

**MILLENNIUM CHALLENGE ACCOUNT – VANUATU**

**Audit Report on the  
Fund Accountability Statement**

**For the Period 1<sup>st</sup> January 2007 to 30<sup>th</sup> June 2007 (1<sup>st</sup> Option period)**

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

1<sup>st</sup> April 2008

Dear Lennox,

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

Yours sincerely

BDO Barrett & Partners

  
Mark Stafford

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 1<sup>st</sup> Option period under audit is 1<sup>st</sup> January 2007 to 30<sup>th</sup> June 2007.

This is the second 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'

There has been a 'Cost Sharing arrangement' set up between MCA Vanuatu and AusAID for \$288,000. AusAID has funded the Tourism survey costs which has been budgeted for in the original Compact agreement but due to a settlement claim totalling \$283,684 being paid to the first procurement agent project funds were reduced by this amount. The total amount received by AusAID was \$290,713 due to a conversion exchange rate gain.

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 under spend relating to the budgets. This primarily is due to the delays in the procurement processes.

- The expected revenue funding by MCA Vanuatu was optimistic due to anticipation of commencement of infrastructure activity.

- Infrastructure activity was under spent by \$85,000 due to the non appointment and non commencement of the main design and build contractor work.
- Program management under spend by \$18,248 is due predominately to delays in the appointment of Customs Compliance and Labour officers.
- Monitoring and evaluation under spend is primarily due to Database reporting systems, a Data Quality auditor and a Traffic Count survey being implemented late. These are \$10,500, \$11,500 and \$4,250 respectively.
- The Fiscal and Procurement Agents under spends are \$66,084 and \$49,231 respectively. The Fiscal Agent has not claimed the dedicated Development Accountants' salary costs since they were not appointed until the 2<sup>nd</sup> Option period (1<sup>st</sup> July 2007 to 31<sup>st</sup> December 2007).
- An under spend of \$33,000 related to external audit fees is due to the delays in the appointment of the auditor until July 2007.

## **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.

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 January 2008;

- The Fixed Asset register is being maintained and up to date.
- Unclaimed VAT is no longer being treated as a program expense. The questioned cost identified has been corrected in the period being audited.
- Suppliers are being checked against the prohibited supplier list, although not checked off on the Procurement requisition form.

However the following recommendations have not been implemented in this 1<sup>st</sup> Option period due to the fact that at the time of audit of the Base period the issues were identified and reported on in July 2007, after the 1<sup>st</sup> Option period.

- Lack of review of budget variances by the Fiscal Agent and MCA Vanuatu.
- Lack of procedures for the authorisation, timing, and agreed amounts for reimbursements of the Government of Vanuatu for expenditures paid on behalf of MCA Vanuatu.

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

## **Summary of Findings:**

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

1. The Fund Accountability Statement is not being reviewed for anomalies relating to budgets before submission for audit by either MCA Vanuatu or the Fiscal Agent.

2. Budgets agreed as part of the financial plan and reports are not being correctly updated by the Fiscal Agent onto the budget ledger within the Smart Stream accounting system.
3. A payment of \$49,222 in June 2007 was journalised late on the ledger in July 2007.
4. Assets are not insured as per Compact agreement.
5. Steering Committee minutes for January, February, March and May are not posted to MCA Vanuatu website as per Governance agreement.
6. The Base Option Audit report has not been posted to MCA Vanuatu website.
7. Quarterly internal audits have not been undertaken since the commencement of the program expenditure.
8. It is the Fiscal Agent's responsibility to prepare quarterly cashflow projections and monthly reports. This is currently being done by MCA Vanuatu.
9. Questioned costs totalling \$3,184 relates to assets as indicated in Note 6 of the Fund Accountability Statement.

**Independent Auditor's Report on the Fund Accountability  
Statement of MCA Vanuatu for the period  
1<sup>st</sup> January 2007 to 30<sup>th</sup> June 2007**

**Independent Auditor's Report on the Fund Accountability Statement of Millennium Challenge Account – Vanuatu for the period 1<sup>st</sup> January 2007 to 30<sup>th</sup> June 2007.**

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 1<sup>st</sup> January 2007 to 30<sup>th</sup> June 2007. 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.

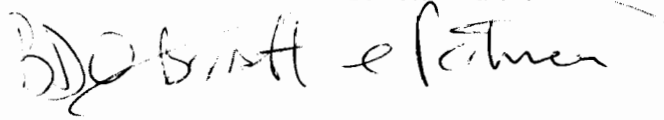
The results of our tests disclose questioned costs of USD3,184 detailed in the Fund Accountability Statement as unsupported as these assets are not insured contrary to the Compact agreement.

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 ended in 1<sup>st</sup> January 2007 to 30<sup>th</sup> June 2007 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 1<sup>st</sup> April 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

A handwritten signature in black ink that reads "BDO Barrett & Partners". The signature is written in a cursive, flowing style.

1<sup>st</sup> April 2008

**Independent Auditor's Report on Internal Control  
For the period 1<sup>st</sup> January 2007 to 30<sup>th</sup> June 2007**

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 1<sup>st</sup> January 2007 to 30<sup>th</sup> June 2007, and have issued our report on it dated 1<sup>st</sup> April 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 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 30<sup>th</sup> June 2007, 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 'Smart Stream'; 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 25th February 2008 as stated below:

- There is no final management review of the Fund Accountability Statement prior to submission for audit.
- Approved budgets are not being maintained correctly on Smart Stream.
- A payment of \$49,222 was posted late on to the ledger in the subsequent audit period which is the 2<sup>nd</sup> Option period.

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



1<sup>st</sup> April 2008

**Independent Auditor's Report on Compliance  
For the period 1<sup>st</sup> January 2007 to 30<sup>th</sup> June 2007**

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 1<sup>st</sup> January 2007 to 30<sup>th</sup> June 2007 and have issued our report on it dated 1<sup>st</sup> April 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 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 30<sup>th</sup> June 2007 Fund Accountability Statement:

- Assets purchased are not insured as per Compact agreement requirements.

We consider these material instances of non compliance in forming our opinion on whether MCA Vanuatu's 30<sup>th</sup> June 2007 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 1<sup>st</sup> April 2008.

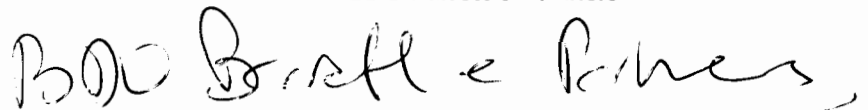


We noted certain immaterial instances of noncompliance that we have reported to the management of MCA Vanuatu in a separate letter dated 12<sup>th</sup> March 2008 as stated below:

- Could not identify any procedures for authorisation, timing and agreed amounts for reimbursements to the Government of Vanuatu.
- Some Committee minutes and the base period Audit report are not disclosed on MCA Vanuatu's website.
- No quarterly internal audits have been undertaken since the commencement of the Compact.
- The Fiscal Agent is not providing monthly reporting and cashflow projections.

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



1<sup>st</sup> April 2008

**Independent Auditor's Review Report on the Cost-Sharing Schedule  
For the period 1<sup>st</sup> January 2007 to 30<sup>th</sup> June 2007**

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

We have reviewed the accompanying schedule of counterpart contributions of AusAID for the period 1<sup>st</sup> January 2007 to 30<sup>th</sup> June 2007. Our review was conducted in accordance with standards established by the American Institute of Public Accountants (AICPA). The purpose of our review was to determine if cost-sharing schedule is fairly presented in accordance with the basis of accounting described in Note 1 to the cost-sharing schedule and to determine if cost sharing contributions were provided in accordance with terms of agreement. We also considered internal control related to provision of and accounting for cost sharing contributions.

A review consists principally of inquires of recipient personnel and analytical procedures applied to financial data. It is substantially more limited in scope than an examination, the objective of which is to express an opinion on cost-sharing schedule. Accordingly, we do not express such an opinion.

Based on our review, nothing came to our attention that caused us to believe that MCA Vanuatu did not fairly present the cost-sharing schedule, in all material respects, in accordance with the basis of accounting used to prepare the cost-sharing. Furthermore, nothing came to our attention that caused us to believe that the recipient has not provided and accounted for cost-sharing contributions, in all material respect, in accordance with the terms of the agreements.

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

1<sup>st</sup> April 2008

**FUND ACCOUNTABILITY STATEMENT**

**AND**

**COST-SHARING SCHEDULE**

**MILLENNIUM CHALLENGE ACCOUNT - VANUATU  
FUND ACCOUNTABILITY STATEMENT  
1st January 2007 to 30th June 2007**

	BUDGET USD	ACTUAL USD	QUESTIONED COSTS		NOTES
			INELIGIBLE USD	UNSUPPORTED USD	
<b>REVENUE</b>					
Grant No: MCA-VAN 18-09	1,457,505	146,448			
<b>TOTAL REVENUE</b>	<b>1,457,505</b>	<b>146,448</b>	0	0	2
<b>COSTS INCURRED</b>					
Infrastructure activity	87,022	2,022			4
Institutional Strengthening activity	0	0			5
Program management	174,915	156,667		3,184	6
Monitoring and Evaluation	129,125	98,168			7
Fiscal and Procurement agents	369,003	253,688			8
Audit	33,000	0			9
	793,065	510,545			
<b>TOTAL COST INCURRED</b>	<b>1,081,065</b>	<b>510,545</b>	0	0	
<b>Outstanding Fund Balance</b>	<b>500,000</b>	<b>782,819</b>			10

**NOTES TO THE FUND ACCOUNTABILITY STATEMENT****MILLENNIUM CHALLENGE ACCOUNT - VANUATU****For six month period ended 30<sup>th</sup> June 2007****(Expressions in US Dollars)****11. 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. This was 102.36 for the period. 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.

**11. Revenue**

The second disbursement request to date of \$146,448 was made by MCA Vanuatu and was credited to the bank account in February and March 2007.

**11. Interest received**

Interest received on funds held in the bank totalled \$17,069 for the period. Of the \$17,069, \$12,162 was returned to the MCC leaving \$4,908 payable to the MCC as at 30<sup>th</sup> June 2007.

**11. Infrastructure activity**

The delay in the procurement process has led to little activity in the main infrastructure work. Cost to date relate to consultancy fees for an evaluation expert for the design and build procurement process.

## **11. Institutional Strengthening activity**

To date, and as expected, there has been no activity budgeted for or expended.

## **11. Program management**

Program management is made up of the following expenses.

Personnel	<b>81,742</b>
Computer equipment & software	<b>3,465</b>
Other operating costs	<b>71,460</b>
	<b><u>\$156,667</u></b>

Included in computer equipment and software are a Laptop computer and Power Point projector totalling \$3,184. These are classed as questioned cost due to the fact that they are not insured. These are included in our schedule of findings on Page 25.

## **11. Monitoring and Evaluation**

The expenditure relates predominately to the Household Income survey and amounts to \$97,595

## **11. Fiscal and Procurement Agents**

The total cost relates to the Procurement Agent GRM International Pty Ltd contract invoices.

## **11. Audit**

No audit costs were incurred for the period due to the delay in appointment of the Auditors.

**10. Reconciliation of outstanding fund balance**

Balances as per bank statement at 30th June 2007:	
MCA Vanuatu - Call A/c	\$930,027
Less: Funds reimbursable to Government	-139,446
Less: Interest payable to MCC as at period end	-7,762
	<hr/>
	-147,208
	<hr/>
<b>Net fund balance as at 30th June 2007</b>	<b>\$782,819</b>

**11. Accruals**

Accruals totalled \$1,768 at the period end and consist of legal fees and telephone charges.

**12. Post Fund Accountability Statement events**

There has been a delay in the commencement of the main infrastructure activity. This is due to the fact that the tenders received far exceeded the budgets of MCA Vanuatu. As a result the original tender has been annulled and a re-scoping exercise has been carried out to reduce costs. There is a requirement for a re tender and it is anticipated that the main contractor will be appointed in April 2008 and the main infrastructure activity will commence in July 2008.

**13. Budgeted and actual expenditure to date**
**28th April 2006 to 30th June 2007**

	BUDGET USD	ACTUAL USD	QUESTIONED COSTS	
			INELIGIBLE USD	UNSUPPORTED USD
<b>REVENUE</b>				
Grant No: MCA-VAN 18-09	65,690,000	1,721,072		
<b>TOTAL REVENUE</b>	<b>65,690,000</b>	<b>1,721,072</b>	0	0
<b>COSTS INCURRED</b>				
<b>Infrastructure activity</b>				
1.1 Design and build firm	4,676,383	0		
1.2 Prequalification Evaluation Expert for design/Build contract	2,022	2,022		
1.3 Bid Documents Evaluation Expert for design/Build contract	30,000	0		
1.4 Pre Bid Conference	16,285	0		
2 Efate Ring Road	20,300,000	0		
3 Santo - East Coast Road	15,000,000	0		
4 Santo - South Coast Road bridge	1,630,000	0		
5 Malekula - Norsop Lakatoro Litzlitz Road	1,530,000	0		
6 Malekula - South West Bay Airstrip	400,000	0		
7 Pentecost - Lolong Road and N-S Road	1,870,000	0		
8 Tanna - Whitesands Road	3,240,000	0		
9 Epi - Lamén Bay	860,000	0		
10 Ambae - Road Creek Crossing	940,000	0		
11 Malo - Road Upgrade	810,000	0		
12 Warehouses	610,000	0		
13 Supervision: Engineering Firm	2,000,000	0		
19 Environment: Assessment Firm	200,000	0		
	54,114,690	2,022	0	0
<b>Institutional Strengthening Activity</b>				
14 PWD Equipment	1,390,000	0		
15 Equipment through Civil Contracts	4,350,000	0		
16 PWD Institutional Strengthening - Supervision Unit	733,127	0		
	6,473,127	0	0	0
<b>Program management</b>				
17.1 MCA Program Administration	1,428,343	349,914	332	3,814
17.2 Customs and Inland Revenue	185,276	0		
17.3 Department of Labour	64,613	0		
	1,678,232	349,914	332	3,814
<b>Fiscal and Procurement agents</b>				
17.5 Fiscal agent fees	319,056	0		
17.6 Procurement agent fees	1,711,800	537,372		
	2,030,856	537,372	0	0
<b>Audit</b>				
17.7 External audit	330,000	0	0	0
<b>Monitoring and Evaluation</b>				
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	0		
18.4 Tourism Survey ( funded by AusAID )	0	0		
18.5 MCA Vanuatu Site Visits	50,500	0		
18.6 Hotel Capacity & Occupancy Survey	11,000	573		
18.7 Road-side Enterprise survey	8,000	0		
18.8 Traffic Count survey	35,000	0		
18.9 Outer Island Wharf & Warehouse Survey	3,000	0		
18.10 Final evaluation	18,000	0		
18.11 Investor survey	193,000	0		
	1,063,095	98,168	0	0
<b>TOTAL COST INCURRED</b>	<b>65,690,000</b>	<b>987,476</b>	0	0



**MILLENNIUM CHALLENGE ACCOUNT - VANUATU  
COST-SHARING SCHEDULE  
1st January 2007 to 31st June 2007**

	<u>BUDGET</u>	<u>ACTUAL</u>	<u>SURPLUS</u>	QUESTIONED COSTS	
	USD	USD	USD	<u>INELIGIBLE</u>	<u>UNSUPPORTED</u>
				USD	USD
<b>CASH</b>					
AusAID	288,000	290,713	2,713		
<b>IN-KIND</b>	0	0	0		
<b>TOTAL</b>	<u><u>288,000</u></u>	<u><u>290,713</u></u>	<u><u>2,713</u></u>	<u><u>0</u></u>	<u><u>0</u></u>

**NOTES TO THE COST-SHARING SCHEDULE**

**MILLENNIUM CHALLENGE ACCOUNT - VANUATU  
For six month period ended 30<sup>th</sup> June 2007  
(Expressions in US Dollars)**

**1. Cash**

A cost sharing arrangement has been agreed with Australian Government through AusAID. AusAID is to fund the Tourism survey cost at \$288,000 due to a loss in funds from the procurement budget. The loss occurred due to a settlement claim being agreed with the previous Procurement Agent of \$283,684. The \$288,000 budget was included in the original Compact agreement as part of Monitoring and Evaluation.

**2. Surplus**

The surplus funds are due to an exchange rate conversion gain from AUD to USD. The rate used was 0.8465.

## SCHEDULE OF FINDINGS AND QUESTIONED COST

Our findings and recommendations have incorporated the responses of MCA Vanuatu and includes four non reportable conditions, five non-compliance issues including one questioned cost.

### Internal controls:

#### 1. Budgets

**Condition** Budgets agreed in the financial reports by MCA Vanuatu and the MCC are not being updated by the Fiscal Agent onto the budget ledger within Smart Stream accounting system.

**Criteria** All budgets should be accurately loaded onto Smart Stream budget ledger once endorsed by MCC.

**Cause** Due to lack of communication and division of responsibility has lead to budgets not being accurately loaded.

**Effect** Incorrect budgets can lead to misleading information reporting

**Management comments** – Agreed. Procedures will be put in place to ensure that this happens. This will be incorporated as part of the next audit period.

#### 2. Management review

**Condition** The Fund Accountability Statement is not being reviewed for anomalies or budget variances by either MCA Vanuatu or of the Fiscal Agent before submission for audit.

**Criteria** The Fund Accountability Statement should be independently reviewed and signed off by the Fiscal Agent and MCA Vanuatu.

**Cause** MCA Vanuatu and the Fiscal Agent appear unclear of their responsibilities when submitting the Fund Accountability Statement for audit.

**Effect** Detailed review is initiated by the Auditors and reliance on budget figures become suspect.

**Management comments** – Agreed that this should happen and will be incorporated as part of the next audit period.

### 3. Reimbursement of 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** Monthly reimbursements will commence at the end of April 2008.

### 4. Journals

**Condition** The \$49,222 paid to the Procurement Agent in 1<sup>st</sup> Option period was actually journal on to the ledger in the 2<sup>nd</sup> Option period

**Criteria** Actual payments of expenditure should be reflected in the ledger on the dates made.

**Cause** There was no Development Accountant appointed during the first option period.

**Effect** The Fund Accountability Statement will show an under spend against budget.

**Management comments** – Agreed due to the newly appointed Development Accountant in July 2007 led to numerous journal entries being posted around the period end.

## **Non compliance:**

### **1. Insurance of Assets**

<b>Condition</b>	All MCA Vanuatu assets are not insured.
<b>Criteria</b>	Assets should be insured as per Compact agreement..
<b>Cause</b>	MCA Vanuatu has followed the National Government policy by not insuring any assets.
<b>Effect</b>	If essential assets are damaged or written off this could lead to additional program expenditure not budgeted for including public liability.
<b>Amount</b>	The value of the items are vehicles USD57,000 and other assets USD66,000.

**Management comments** - The Fiscal Agent will establish insurance systems given that the Government does not take insurance cover for its assets.

### **2. Steering Committee minutes**

<b>Condition</b>	Steering Committee minutes for January, February, March and May are not posted to MCA Vanuatu website.
<b>Criteria</b>	All Steering Committee minutes should be posted to the website as per Governance agreement.
<b>Cause</b>	Lack of monitoring by MCA Vanuatu.
<b>Effect</b>	Causes concern from the general public relating to progress to date particularly as there are already delays in the project.

**Management comments:-** The minutes have been posted to the website on 1<sup>st</sup> April 2008.

### **3. Disclosure of Audit report**

<b>Condition</b>	The Base period audit report has not been posted to MCA Vanuatu website.
<b>Criteria</b>	Audit reports should be posted to MCA Website as per Compact agreement.
<b>Cause</b>	A delay has arisen due to contents contained in the report relating to the previous Procurement Agent.
<b>Effect</b>	Non publication on the website will be deemed as non compliance with the Compact and disclosure of progress.

**Management comments:-** The Base Audit report has been posted to the website on 1<sup>st</sup> April 2008.

## **4. Internal audits**

**Condition** Quarterly internal audits have not been undertaken since the commencement of the program expenditure.

**Criteria** This is a requirement under the Fiscal Agent agreement.

**Cause** The Fiscal Agent has not allocated resources or time to provide for this function.

**Effect** Areas of weaknesses or concerns may not be followed up in detail by MCA Vanuatu or the Auditor.

**Management comments:-** The Fiscal Agent will implement this responsibility in April 2008.

## **5. Preparation of reports**

**Condition** It is the Fiscal Agent's responsibility to prepare quarterly cashflow projections and monthly reporting. This is currently being done by MCA Vanuatu.

**Criteria** It is the Fiscal Agent's responsibility to prepare financial plans and cashflow projections as per Fiscal Agent agreement.

**Cause** MCA Vanuatu and the Fiscal Agent appear unclear of their responsibilities for financial reporting.

**Effect** Overlap of responsibilities can lead to inefficiencies and "disownership" of errors.

**Management comments:-** The Fiscal Agent with the assistance of MCA Vanuatu will implement this responsibility in 2008.

