



BDO Barrett & Partners

MILLENNIUM CHALLENGE ACCOUNT – VANUATU

**Audit Report on the
Fund Accountability Statement**

For the Period 1st July 2007 to 31st December 2007 (2nd Option Period)

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

28th April 2008

Dear Lennox,

We submit our reports on the Millennium Challenge Account - Vanuatu program activities relating to the period 1st July 2007 to 31st December 2007 in accordance with our contract terms of reference dated 2nd July 2007 and amendments dated 14th December 2007.

Yours sincerely

BDO Barrett & Partners



Mark Stafford

Engagement 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 2nd Option period under audit is 1st July 2007 to 31st December 2007.

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

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

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

AUDIT OBJECTIVES

The objectives of our audit are:

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

AUDIT SCOPE

The scope of our audit is as follows:

1. Pre-audit review of all applicable documents, and information related to various MCC programs. A review and understanding of applicable standards and guidelines in order to conduct the audit;
2. Conduct a risk assessment of Internal Controls in place to ensure the efficient execution and process of the MCC funded programs;
3. Review policies and procedures related to the MCC disbursements and commitments;
4. Audit the Fund Accountability Statement with emphasis on:
 - a. Identifying and verifying significant variances between Budgeted and Actual amounts;
 - b. Review funds received from the MCC during the period;
 - c. Capital assets acquired and costs incurred during the period;
 - d. Services directly procured by the MCC for MCA Vanuatu;
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 due predominately to the delay in the implementation of the main infrastructure activities.

- Delays in the appointment of the supervisory engineering and the environment assessment firms account for \$315,000 and \$66.667 respectively of the \$427,952 under spend relating to the main infrastructure activities.

- The purchase of three vehicles totalling \$111,111 and salary related cost of \$45,216 account for the majority of under spend of \$202,868 for the institutional strengthening activities.
- Due to the delay in the appointments of a Labour and a Custom and Inland Revenue Officers totalling \$40,955 and Legal fees of \$30,796 accounts for the majority under spend relating to program management.
- The shortfall in expenditure relating to monitoring and evaluation are due to various surveys totalling \$15,500 and a database reporting systems and manual totalling \$10,500.
- The shortfall in expenditure relating to the Fiscal and Procurement agents relate solely to the Fiscal Agents delay in appointing the Secondary Development Accountant and the purchase of a permanent storage facility for MCA Vanuatu records totalling \$40,577.
- The under spend of \$42,600 relating to the external audit is due to the fact that the audit for the current period and previous period was expected to be completed in the current 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. 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 April 2008;

- Readily and satisfactory explanations were given by the Fiscal Agent to explain variances to budget.
- It appears budgets are being allocated correctly onto Smart Stream as there were no need for any adjustments during our audit in the current period.
- Year end journals indicate that they have been correctly posted in the correct period.
- The Steering Committee minutes and the Base Audit report have now been posted to MCA Vanuatu website.
- A satisfactory arrangement between MCA Vanuatu and the Fiscal Agent have been agreed in order to assist each other in relation to financial reporting.

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

- No formal insurance procedure is in place in the event of loss, stolen or damage assets.
- The Fiscal Agent agreement reimbursement procedures have not been complied with.

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. There was no petty cash count undertaken at 31st December 2007.
2. There are no procedures for reimbursement of Government funds.
3. Retirement of imprests have not been allocated to their correct account.
4. Air fares that have been paid for in advance but subsequently not used are incorrectly shown as a expenditure in the ledger. This is included as a question cost in the Fund Accountability Statement.
5. Assets are not insured as per Compact agreement. This is also included as a question cost in the Fund Accountability Statement.
6. Steering Committee minutes for July and December are not posted to MCA Vanuatu website as per Governance agreement.
7. No quarterly internal audits have been undertaken since the commencement of the program expenditure.

**Independent Auditor's Report on the Fund Accountability
Statement of MCA Vanuatu for the period
1st July 2007 to 31st December 2007**

Independent Auditor's Report on the Fund Accountability Statement of Millennium Challenge Account – Vanuatu for the period 1st July 2007 to 31st December 2007.

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

We have audited the fund accountability statement of MCA Vanuatu for the period 1st July 2007 to 31st December 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.

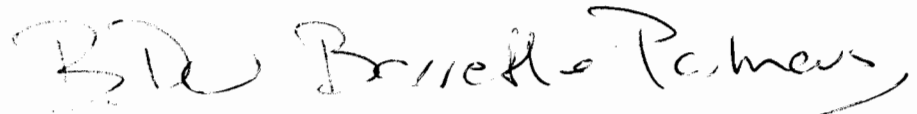
The results of our tests disclose questioned costs of \$5,334 detailed in the fund accountability statement. Of the total questioned cost \$2,966 relate to ineligible costs for air fares and \$2,368 relate to unsupported costs as these are computer equipment that are not insured.

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 1st July 2007 to 31st December 2007 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 28th 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

28th April 2008

**Independent Auditor's Report on Internal Control
For the period 1st July 2007 to 31st December 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 1st July 2007 to 31st December 2007, and have issued our report on it dated 28th 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.

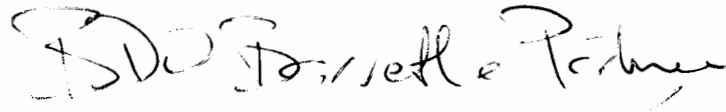
The management of MCA Vanuatu is responsible for establishing and maintaining internal control. In fulfilling this responsibility, estimates and judgments by management are required to assess the expected benefits and related costs of internal control policies and procedures. The objectives of internal 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 31st December 2007, 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 22nd April 2008.

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



BDO Barrett & Partners

28th April 2008

**Independent Auditor's Report on Compliance
For the period 1st July 2007 to 31st December 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 1st July 2007 to 31st December 2007 and have issued our report on it dated 28th 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 31st December 2007 fund accountability statement:

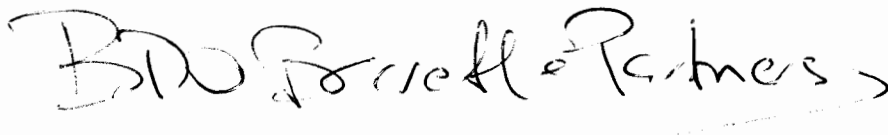
- Assets purchased are not insured as per Compact agreement requirements.

We consider these material instances of non compliance in forming our opinion on whether MCA Vanuatu's 31st December 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 28th April 2008.

We noted certain immaterial instances of noncompliance that we have reported to the management of MCA Vanuatu in a separate letter dated 22nd April 2008.

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

BDO Barrett & Partners

A handwritten signature in black ink that reads "BDO Barrett & Partners" with a long horizontal flourish extending to the right.

28th April 2008

FUND ACCOUNTABILITY STATEMENT

**MILLENNIUM CHALLENGE ACCOUNT - VANUATU
FUND ACCOUNTABILITY STATEMENT
1st July 2007 to 31st December 2007**

	BUDGET	ACTUAL	QUESTIONED COSTS		NOTES
			INELIGIBLE	UNSUPPORTED	
	USD	USD	USD	USD	
REVENUE					
Grant No: MCA-VAN 18-09	285,536	285,536			2
TOTAL REVENUE	285,536	285,536	0	0	
COSTS INCURRED					
Infrastructure activity	427,952	36,493			4
Institutional Strengthening activity	202,868	14,697			5
Program management	233,374	135,704	2,966	2,368	6
Monitoring and Evaluation	63,452	24,629			7
Fiscal and Procurement agents	358,043	317,466			8
Audit	66,000	23,400			9
TOTAL COST INCURRED	1,351,689	552,389	2,966	2,368	
Outstanding Fund Balance	500,000	466,743			10

NOTES TO THE FUND ACCOUNTABILITY STATEMENT**MILLENNIUM CHALLENGE ACCOUNT - VANUATU
For six month period ended 31st December 2007
(Expressions in US Dollars)****1. Summary of significant accounting policies**

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

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

a) Foreign currency transaction

The Fund Accountability Statement is prepared in USD which is the reporting currency. The transactions during the period were carried out in both USD and VATU (local currency). The exchange rates used are those ruling on the dates transfers are made from the US dollar account to the Vatu account. This was 105.67 for the period. There were no foreign exchange restrictions.

b) Assets

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

2. Revenue

The second disbursement request to date of \$285,536 was made by MCA Vanuatu and was credited to the bank account in September 2007.

3. Interest received

Interest received on funds held in the bank totalled \$10,266 for the period. Of the \$18,028 owed to MCC \$13,746 was returned leaving \$4,282 as at 31st December 2007.

4. 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 evaluation experts for the design and build procurement process.

5. Institutional Strengthening activity

The expenditure to date relates solely to the purchase of a Traffic Counter recorder.

6. Program management

Program management is made up of the following expenses

Personnel	121,006
Office Furniture and Equipment	1,604
Computer equipment	2,368
Other operating costs	13,447
	<u>\$138,425</u>

Personnel expenses includes \$38,045 which relates to 30% bonus paid to the administrative staff every year. This bonus forms part of each staff's contract.

Ineligible questioned costs totalling \$2,966 relate to airfares paid in the current and prior audit periods but were subsequently not used as at 31st December 2007.

Unsupported questioned costs totalling \$2,368 relate assets that are not insured which have been included in compliance report on Page 15.

7. Monitoring and Evaluation

The \$23,944 expenditure relates solely to the Data Quality Auditor cost who audits the statistics, basis of calculations and methodology used to monitor the program activities.

8. Fiscal and Procurement Agents

\$295,334 expenditure relates to the Procurement Agent GRM International Pty Ltd contract invoices. The balance of \$22,132 relates to the Fiscal Agent and includes salary, equipment and stationary costs.

9. Audit

Audit costs were incurred for the period was \$23,400 and related to the first audit for the Base period.

10. Reconciliation of outstanding fund balance

Balances as per bank statement at 31st December 2007:	
MCA Vanuatu - Call A/c	\$672,294
Less: Funds reimbursable to Government	-201,269
Less: Interest payable to MCC as at period end	-4,282
Net fund balance as at 31st December 2007	\$466,743

11. Accruals

Accruals totalled \$15,727 at the period end and consist of audit fee of \$15,600 and telephone bills \$127.

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 tenders have been annulled and a re-scoping exercise has been carried out to reduce costs.

A new tender has now been issued in February 2008 options to carry out selected infrastructure activities in order to fall within the available budgets.

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. The total expenditure for the period and to date is \$96,355.

14. Budgeted and actual expenditure to date

28th April 2006 to 31st December 2007

	BUDGET	ACTUAL	QUESTIONED COSTS	
			INELIGIBLE	UNSUPPORTED
	USD	USD	USD	USD
REVENUE				
Grant No: MCA-VAN 18-09	65,690,000	1,721,072		
TOTAL REVENUE	65,690,000	1,721,072	0	0
<u>COSTS INCURRED</u>				
Infrastructure activity				
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	17,462		
1.4 Pre Bid Conference	16,285	19,030		
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	38,514	0	0
Institutional Strengthening Activity				
14 PWD Equipment	1,390,000	14,697		
15 Equipment through Civil Contracts	4,350,000	0		
16 PWD Institutional Strengthening - Supervision Unit	733,127	0		
	6,473,127	14,697	0	0
Program management				
17.1 MCA Program Administration	1,428,343	499,228	3,298	6,182
17.2 Customs and Inland Revenue	185,276	0		
17.3 Department of Labour	64,613	0		
	1,678,232	499,228	3,298	6,182
Fiscal and Procurement agents				
17.5 Fiscal agent fees	319,056	22,132		
17.6 Procurement agent fees	1,711,800	832,706		
	2,030,856	854,838	0	0
Audit				
17.7 External audit	330,000	23,400	0	0
Monitoring and Evaluation				
18.1 Household Income Expenditure survey	607,595	97,595		
18.2 Database Reporting Systems and Manuals	17,000	0		
18.3 Data Quality Auditor	120,000	23,944		
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	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	122,797	0	0
TOTAL COST INCURRED	65,690,000	1,553,474	3,298	6,182

SCHEDULE OF FINDINGS

Our findings and recommendations have incorporated the responses of MCA Vanuatu and includes four non reportable conditions, three non-compliance issues including two questioned costs.

Internal controls:

1. Petty Cash

Condition There was no evidence of a cash petty cash count undertaken at 31st December 2007.

Criteria Cash counts should be undertaken a least every calender 6 months and independently countersigned.

Cause The Petty Cash Officer was unaware of her responsibility to ensure that this was done for the period concerned above.

Effect Differences in cash counts and records could lead to incorrect posting on the ledger or misappropriation.

Management comments – Agreed petty cash count will be independently counted and endorsed at each audit period end namely 30th June and 31st December by the Fiscal Agent.

2. Reimbursement of Funds

Condition The procedures for monthly reimbursement of Government funds have not been complied with.

Criteria The Fiscal Agent agreement states that reimbursement of Government funds should be done at least monthly.

Cause Development Accountants appointed during the audit period were not fully conversant with the Fiscal agreement requirements.

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.

3. Retirement of imprest

Condition Retired imprest was posted to the incorrect account. The Fiscal agent could not readily identify whether the posting was correct or not.

Criteria There should be clear tracking procedures for allocating retired imprest to the correct accounts.

Cause Retired imprest has not been matched to initial imprest advances.

Effect Misallocation will lead to accounts being over or under stated with expenditure.

Amount \$5,226

Management comments The retired imprest was incorrectly posted to the wrong account and will be corrected in the current period.

4. Credit held on account

Condition It was established that Credit notes held in the name of MCA Vanuatu were outstanding as at 31st December 2007 with the local airline.

Criteria MCA Vanuatu should monitor all credit balances held with suppliers on a regular basis.

Cause Due to cancellation of flights and non monitoring of statements from the airline this information is not being readily recognised until purchases are required.

Effect This could lead to misappropriation and/or unauthorised travel or overstated expenditure since payments have already been made and recorded on the ledger.

Amount \$2,966.

Management comments Agreed that the MCA Vanuatu's Secretary will in monitor this and any other suppliers credit balances.

Non compliance:

1. Insurance of Assets

Condition	All MCA Vanuatu assets are not insured..
Criteria	Assets should be insured as per Compact agreement.
Cause	MCA Vanuatu has followed the National Government policy by not insuring any assets.
Effect	If essential assets are damaged or written off this could lead to additional program expenditure not budgeted for including public liability.
Amount	Computer equipment USD2,368

Management comments – The Government will notify MCC by letter of their self-insurance policy and a guarantee that in the event of damage and/or destruction of MCA Vanuatu's assets then the Government will pay for restoration and/or replacement of items.

2. Steering Committee minutes

Condition	Steering Committee minutes for July and December are not posted to MCA Vanuatu website.
Criteria	All Steering Committee minutes should be posted to the website as per Governance agreement.
Cause	Lack of follow up on postings of meetings not held by MCA Vanuatu and the Fiscal Agent.
Effect	Causes concern from the general public relating to progress to date particularly as there are already delays in the project.

Management comments:-There were no meetings for the above months and information will be posted on the website in May 2008 to this effect.. This will be undertaken for future months were meetings are not held.

3. 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 new Head of the Fiscal Agent only became aware of the requirement once she commenced her post February 2008.

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

Management comments:- The Fiscal Agent has initiated internal audit work to be completed by May 2008.