Ministry of Rural Rehabilitation and Development (MRRD)

Pre-award assessment report

March 2013

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## Executive summary

### Key findings – observations

**CORE FUNCTION AREA: FINANCIAL MANAGEMENT AND ACCOUNTING SYSTEM**

<table>
<thead>
<tr>
<th>Issue</th>
<th>Cause</th>
<th>Recommendation</th>
<th>Key analysis</th>
</tr>
</thead>
</table>
| Cash disbursement cycle   | Lack of segregation of duties and ineffective management of petty cash. Due to this:  
  a. The Ministry might not be able to realize its cash resources.  
  b. Potential risk of contracting with suppliers/beneficiaries having links with terrorist organizations. |  
  a. Adequate segregation of duties over cash management should be introduced.  
  b. Periodic surprise cash counts should be performed. Results should be appropriately reported to relevant authorities.  
  c. Controls over staff and supplier advances should be strengthened.  
  d. Recommendations made by the auditors should be complied.  
  e. Mechanism over screening of beneficiaries for their possible links with terrorist organizations should be developed and implemented. | 150  
|                           | Due to absence of required information, we remained unable to assess the appropriate implementation of authorization controls. |  
|                           | None.                                                                  | 150  |

**Management Comments:**

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**KPMG Response to management Comments:**

- The management did not provide response to the above finding. Accordingly, the issue has been retained in the final report.
### Executive summary

**Key findings – risks and mitigation measures**

<table>
<thead>
<tr>
<th>Issue</th>
<th>Implication</th>
<th>Impact</th>
<th>Probability</th>
<th>Score</th>
<th>Suggested mitigation measures</th>
<th>Key analysis</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>CORE FUNCTION AREA: FINANCIAL MANAGEMENT AND ACCOUNTING SYSTEM – contd.</strong>&lt;br&gt;&lt;br&gt;Cash disbursement cycle&lt;br&gt;&lt;br&gt;- Controls over staff and supplier advances are not implemented. The internal auditors have raised issues with regards receivable amounts from suppliers against cancelled contracts, etc. further, certain staff advances are outstanding since long. Please refer Annexure S for detailed description of internal audit observations.&lt;br&gt;- A mechanism has not been developed for screening of beneficiaries for their possible links with terrorist organizations before signing contracts or providing funds to the suppliers.&lt;br&gt;- We were not provided with the completed Form-50 (List of signatories and authorization limits).&lt;br&gt;- Lack of segregation of duties.&lt;br&gt;- Ineffective management of petty cash.&lt;br&gt;- The Ministry might not be able to realize its cash resources.&lt;br&gt;- Potential risk of contracting with suppliers/ beneficiaries having links with terrorist organizations.&lt;br&gt;- Due to absence of required information, we remained unable to assess the appropriate implementation of authorization controls.</td>
<td>Serious</td>
<td>Frequent</td>
<td>Critical</td>
<td>• Adequate segregation of duties over cash management should be introduced.&lt;br&gt;• Periodic surprise cash counts should be performed. Results should be appropriately reported to relevant authorities.&lt;br&gt;• Controls over staff and supplier advances should be strengthened.&lt;br&gt;• Recommendations made by the auditors should be compiled.</td>
<td>150</td>
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• All receipts are required to be deposited in designated bank account of MRRD. On weekly basis MRRD collection manager obtains bank statement from DAB along with deposit slips which provides the details of amount deposited. Bank receipts are sorted by type of revenue and verified with the help of the concerned directorates to ensure that revenue is tracked and accounted for in appropriate code. On the basis of verified receipts, receipt number, date, amount and type of revenue is entered in excel sheet and submitted to MoF for recording.

7.10 Cash Disbursement Cycle

a) Benchmark

• Adequate controls should be in place over petty cash to mitigate risk of embezzlement.
• Adequate controls should be in place to ensure that payments are reasonable and allowable against budgetary allocations;
• Contractor/vendor invoices should be reviewed to prevent billing of inappropriate and ineligible expenses;
• Disbursements should be made after review of invoices/ supporting documents by authorized personal;
• Significant payments should be made though banking channels and only crossed checks should be issued to beneficiaries. Check issuance should require signatures of at least two employees and banks should be informed about the authorized signatories along with limits assigned to each signatory. Void or damaged checks should be properly marked as cancelled; and
• Appropriate segregation of duties in respect of check issuance, recording and bank reconciliations should be in place.

b) Observations and conclusion

• Controls over staff and supplier advances are not implemented. The internal auditors have raised issues with regards receivable amounts from suppliers against cancelled contracts, etc. further, certain staff advances are outstanding since long. Please refer Annexure S for detailed description of internal audit observations.
• A mechanism has not been developed for screening of beneficiaries for their possible links with terrorist organizations before signing contracts or providing funds to the suppliers.
• We were not provided with the completed Form-50 (List of signatories and authorization limits).