

Donor Consortia

8

Final Report

Agreed Upon Procedures Review of
BRAC
as at December 31, 1996



DONOR LIAISON OFFICE
* Date: 09-02-98
Rd. 4 (B) Banani

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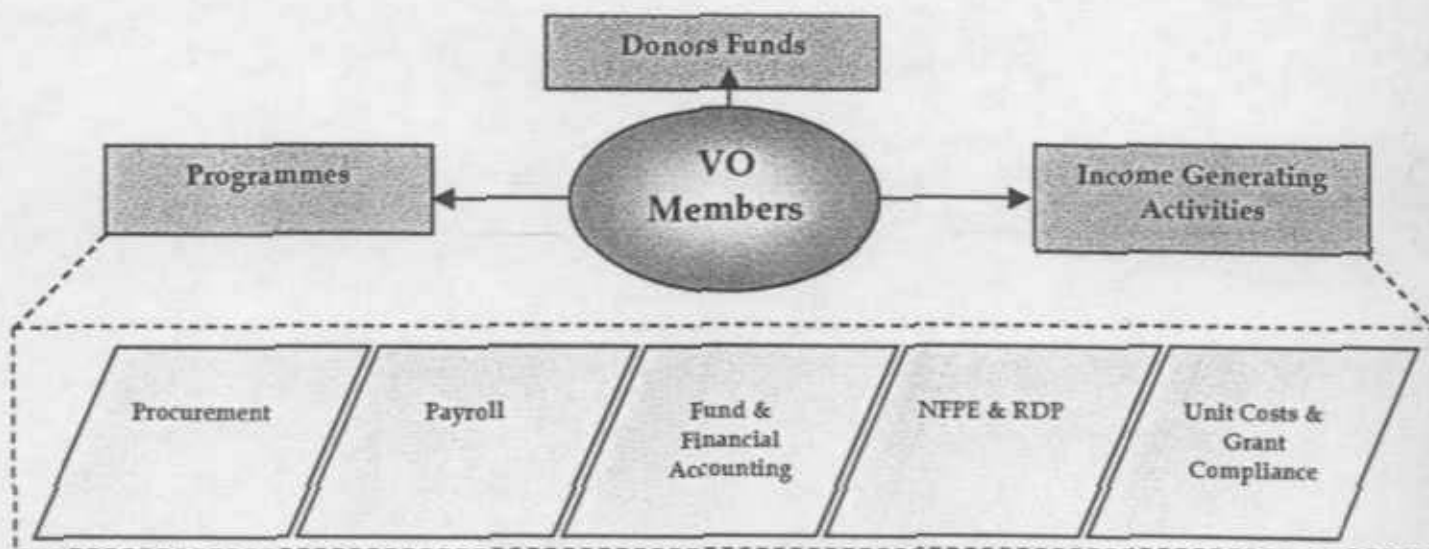
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(All amounts in Bangladesh Taka, unless otherwise specified)

1.1 EXECUTIVE SUMMARY

A. The scope of our work

The purpose of our review was to address the key objectives specified by the Donor Consortia and are presented below:



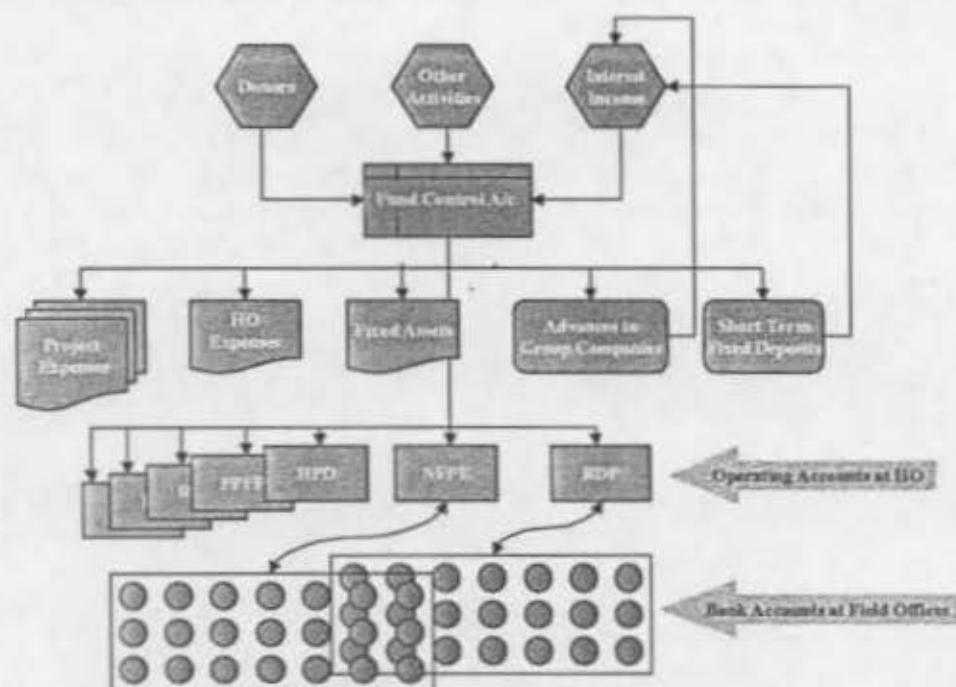
B. Assessment of the present system

BRAC has taken significant initiatives to evolve financial controls that support the programmes being carried out. These include process improvements in transaction controls and the management control environment. Further, steps have been initiated to enable periodic evaluation of the present processes and their functional effectiveness. While the overall management and organisational controls are adequate there is a need to improve and develop focused process risk controls that create preventive rather than detective organisational mechanisms. The focus would include addressing the need for physical safeguard controls over assets and monitoring controls over key programmes, strengthening of the authorisation controls over the payroll and procurement activities. Further, the management needs to shift emphasis from reliance on the internal audit function as a detective mechanism to establishing preventive controls highlighted in the following pages.

C. Significant observations and recommendations

The Fund Accounting Mechanism

The present mechanism for sources and application of funds is depicted below:



Donor grants are classified as a liability on receipt and on utilisation transferred to income (for operation expenses), investments in fixed assets and investment in loan fund. At the end of the project, the balances of the fixed assets fund are transferred to the programme capital fund.

All donor funds and receipts from other transactions are deposited into a commercial bank account maintained for all the projects. Subsequently, funds are transferred to the various operating bank accounts maintained at the HO. These HO operated bank accounts are collectively accounted and referred to as the fund control account. The fund control account is sub-divided into various project accounts. Hence, the fund control account of a project means, the project bank balance in the HO bank account at a certain point of time. The total of all fund control balances is equivalent to the total of bank balances maintained at HO.

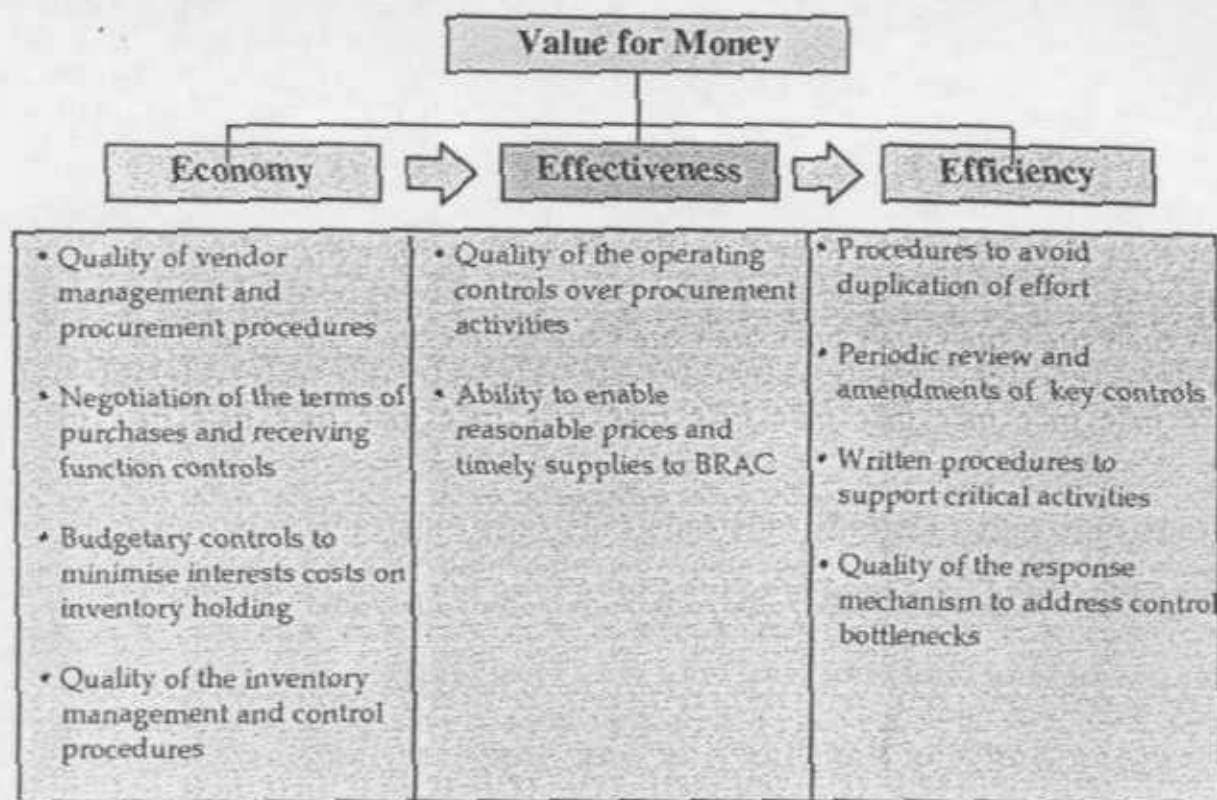
Expenditure and income is tracked for all the projects/programmes, and the accounting system facilitates adequate monitoring of programme costs/revenues.

Periodic reports of programme costs are submitted to donors and are reconciled with the fund control account and total programme expenditure.

The present accounting system enables tracking of BRAC and donor fund balances. However, as the mechanism for the receipts and payments of funds is common for all BRAC activities (including donor receipts), a periodic reconciliation between programme expenditure and donor fund balances should be incorporated in the reports submitted to donors. This will enable a clearer reflection of movement of funds between the various activities of BRAC and provide timely information to the stakeholders of BRAC's surpluses.

Procurement

BRAC has centralised purchases for its projects operating throughout Bangladesh. We focussed on the Value For Money Concept to address the economy, effectiveness and the efficiency of the procurement procedures and controls. In specific the focus was on:



Our review indicates an immediate need to introduce/strengthen key controls. These include:

- Evaluation of alternative sources of purchases internationally for high value items;
- Developing written procedures to control warehousing activities;
- Improving procurement planning and inventory management procedures;
- Establishing and utilising a vendor master data base to control quality and prices of purchases and periodically review vendor performance;
- Introducing adequate physical safeguard controls over inventories;
- Negotiation of effective credit terms with vendors.

BRAC's comments

- Written policies will be developed for warehousing activities.
- Procurement planning and inventory management procedures will be improved upon.
- Vendor performance will be monitored periodically.
- BRAC will review insurable risk of inventories.
- The present payment terms enable BRAC to attract good quality products at the least offered price. Therefore credit would not be preferred.

AA's response

- As highlighted in section 2.4.3, BRAC should explore international procurement sources as far as practicable. Tendering may be used as a tool for such high value prices.
- In the absence of monitoring of vendor performance, a comment on negotiation of effective prices by BRAC would be difficult and thus need to be improved upon.

Payroll

With staff strength of over 16,000 regular employees and 30,000 project and service staff, payroll is the single largest component of BRAC's annual expenditure. The transaction processing and supervisory controls over the cycle need substantial improvement. BRAC needs to:

- Consider maintenance of detailed personnel files, as suggested in section 2.3.2;
- Strengthen accounting controls over monthly payroll processing and the supervisory review controls;
- Emphasise on gender in reward and evaluation mechanisms;
- Strengthen access controls to the payroll database.

BRAC's comments

- We note the auditors' comments on maintenance of personnel files.
- By reviewing monthly payroll processing system, necessary accounting control will be strengthened.
- BRAC will be undertaking study to strengthen staff evaluation and reward mechanism.
- Computer data security and access is being re-designed to strengthen access controls to the payroll database.

NFPE

Spanning 34,175 schools and 1.1 million students, the programme aims at providing quality education to children. As over 98 percent of the programme expenditure is routed through payroll and procurement activities, the quality of organisation controls and rectifying the weaknesses highlighted above will determine the effective utilisation of programme funds. BRAC should consider strengthening controls over:

- Evaluation and performance monitoring;
- MIS reporting and school supplies;
- Review functioning and monitoring controls of ESP schools.

The focus should be on timely assimilation of information to enable BRAC to exercise real-time preventive control as highlighted in section 2.5.1. Also, the management needs to initiate immediate remedial action to address the weaknesses highlighted in "Results of procedures performed".

BRAC's comments

Since NFPE has already established over 34,000 schools within Bangladesh, the programme is now focussing on quality issues that need to be addressed within these institutions. However, to create and control "quality" effectively, certain measures need to be implemented upon, over which NFPE has already begun its work. Therefore, the audit team's ideas, created on "Evaluation and Performance Monitoring", in "Opportunities for Improvement" report will assist NFPE further in providing opportunities for control. NFPE feels that some of the points suggested may well be incorporated within the NFPE structure.

RDP

The programme proposes to utilise over Tk 4.6 billion during the project period 1996-2000 for various activities. Considering the significance and the levels of cash involved, BRAC needs to consider strengthening:

- Procedures for collection and accounting of cash at the VOs;
- Monitoring of internal targets to actuals and analysis of reasons for variances;
- Pro-active monitoring of the sector programmes;
- Group performance by each category, system and other shortcomings of the Credit Management System.

BRAC's comments

- A workshop is presently underway and is expected to bring about positive changes in VO functioning and collection mechanisms.
- We will monitor internal targets on programme monitoring and initiate necessary steps.
- The CMS programme file and related documents will be handed over on completion of the development stage. In order to safeguard the risk of losing critical data, arrangements will be made to store a second backup in a separate place.

EDP Environment

The general EDP controls need improvement. BRAC should focus on:

- Duplicating key master files at regular intervals and stored at a remote location, outside the BRAC Centre.
- Preparing a written contingency plan with back-up and off-site storage procedures to enable support to critical applications.
- Testing of recovery and restart procedures on a recurring basis.
- Developing a long term EDP blue print that will cater to the needs of the organisation.

Further, all users on standalone PCs should be encouraged to take regular back-ups and store them in a safe location.

BRAC's comments

- Arrangements will be made to store a second backup copy outside the BRAC centre.
- An EDP blue print incorporating a contingency plan for disaster recovery will be prepared.
- All users of standalone PCs will be encouraged to take regular backup of files.

D. Next steps

BRAC should focus on:

- Developing/adapting written procedures for various activities highlighted in the following sections.
- Emphasising the importance of preventive control to middle level managers and field personnel through regular training.
- Reviewing the progress made by various departments in initiating action to implement the recommendations and progress made from time to time.
- Enabling training of personnel to adhere to and assist in improving compliance with written procedures.

1.2 INTRODUCTION

A. Background and scope of work

At the request of the Donor Consortia, we have performed an agreed upon procedures review of BRAC as at December 31, 1996.

The detailed scope of work is contained in our arrangement letter of August 4, 1997. In performing our work, we have relied upon:

- financial statements of BRAC as provided to us;
- discussions with management regarding the operations of the organisation; and
- supporting information/clarifications provided by management.

B. Scope limitations

The significant limitations involved in the work performed by us are:

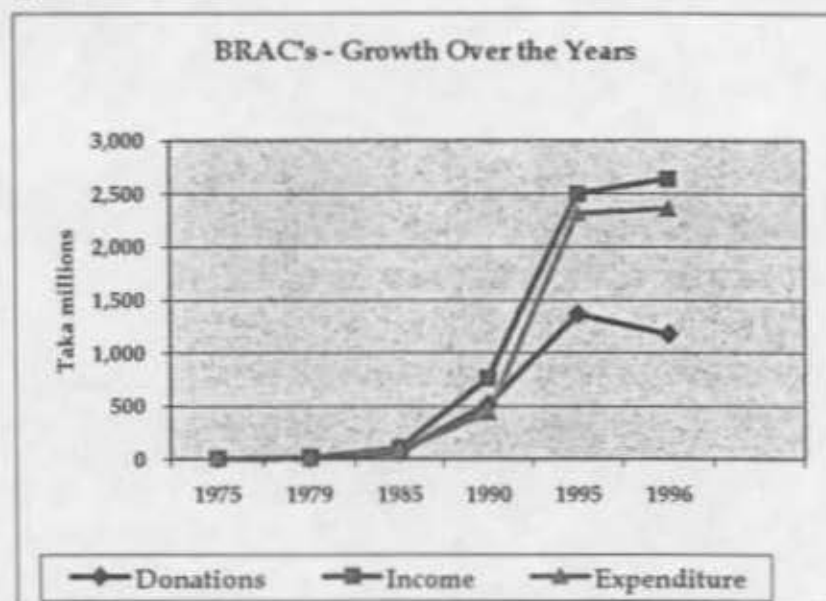
- Our review has been limited to detailed discussions with BRAC management and limited testing of transactions.
- The scope of our work did not involve us in performing audit tests for the purposes of expressing an opinion on the fairness or accuracy of any financial or analytical information included in our report. However, had we performed additional procedures or conducted an audit in accordance with generally accepted auditing standards, other matters might have come to our attention, which would have been reported to you.
- The work performed on the unit costs computation for the NFPE programme was limited to a discussion based review of the assumptions used for computation of unit costs.
- The work performed on the compliance with the donor grant conditions was limited to a discussion based review of administrative compliance with such requirements. We have not examined whether such compliance is in accordance with and meets the donor requirements (i.e. we have only determined whether the reports/compliance requirements as required by the grant documents have been submitted/complied with or not).
- Our comments are limited to issues and risks arising out of financial matters. We have not examined the implementation of the socio-economic issues arising out of the transactions entered into by BRAC.

We make no representation regarding the sufficiency of these procedures for your purposes. Our work is designed to address all matters which we believe to be of significance within the scope of our work, but does not necessarily disclose matters which are not apparent from the available information.

C. Organisation profile

BRAC, formerly Bangladesh Rural Advancement Committee, was established in 1972, as Bangladesh Rehabilitation Assistance Committee, to provide relief to the war affected people of Bangladesh and to make arrangements for their resettlement. The Committee started its work as a relief agency in Sulla area of Sylhet district in North-East Bangladesh. The thrust of activities was shifted from relief to alleviation of poverty and empowerment of the poor. BRAC is a society registered under the Societies Registration Act.

BRAC has a strong presence in the entire country and operates a series of development initiatives, funded by international donor agencies like the ODA, NOVIB, DGIS and KfW. These agencies contributed over 85% of the donor funds in 1996, and the balance by organisations like Pathfinder International, AKF, CIDA, UNICEF, UNFPA, DANIDA, GoB, the EU among others.



Over the years BRAC's operations have undergone two major transitions:

- from relief to development work;
- from community development effort to target group development.

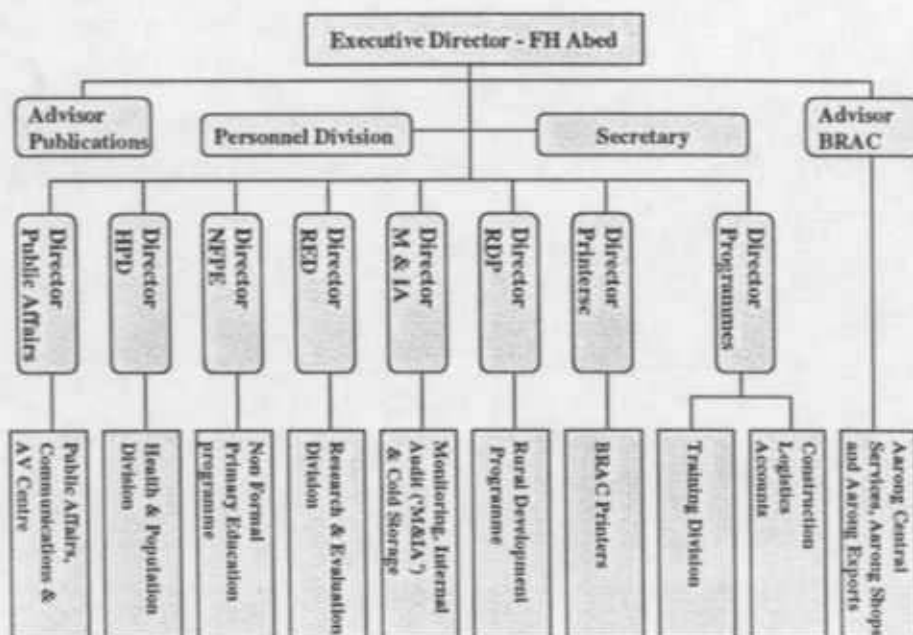
Since 1993, BRAC has been focusing on programmes specifically directed towards women and children, particularly on rural women, placed in a helpless position economically and socially.

Operations

BRAC operates a number of programmes for eradication of poverty and upliftment of the rural landless. To support these programmes, BRAC undertakes a number of activities, which provide employment opportunities. A summary of such activities is given below:

Programme	Activity Type		
	Disbursement	Income Generating	Revolving fund
Gonokendra Journal	✓		
RDP	✓	✓	✓
RHDC	✓		
NFPE	✓		
VGD Credit Program	✓		✓
TARC	✓		
Printing & Publication	✓		
RCP			✓
Strengthening RED Activities	✓		
FP Facilitation Program	✓		
Emergency Relief & Rehabilitation Program	✓		
Integrated Nutrition Program	✓		
SLDP	✓		✓
NFPE (GER)	✓		
Social Science Immunization	✓		
Educating the Rural Voters on National Election	✓		
BRAC Dairy & Food Project		✓	
BRAC Housing Project		✓	
BRAC Printers		✓	
Aarong Rural Craft Centre		✓	

D. Organisation structure



BRAC has over 16,000 regular employees and operates through a network of 36 regional offices throughout Bangladesh. A profile of the key departments and their role in BRAC is as follows:

The RED was set up to perform studies, conduct independent evaluations and impact assessment studies with the assistance of international research and academic institutions for all programmes and projects initiated by BRAC. In order to make RED findings more accessible to the field staff of BRAC, a research compendium named 'Nirjash' is published in Bangla, the local language.

The first TARC was set up to undertake capacity building and professional development of BRAC personnel. Currently, there are 14 TARCs that provide training to field staff for better programme implementation. In 1995, under the Gender Quality Action Learning ('GQAL') programme, gender resource centres were established with the aim to create gender sensitivity among the employees of the organisation. The Training Division handles the functions of human and skill development and management.

The Monitoring Department was set up, to develop an effective monitoring mechanism for RDP. The department's responsibility was extended to other programmes subsequently. The department provides feedback to the management on the basis of its testing and data analysis. Further, the director in-charge is also responsible for the Internal Audit Function, which aims at creating greater transparency and accountability in BRAC's operations.

The Public Affairs and Communication Department was set up for creating awareness amongst the general public and within the organisation about BRAC's activities. This

department issues all press releases and provides information on ongoing activities through a newsletter named 'Access.'

The Programmes Department oversees critical support services, to enable successful implementation of the programmes. Logistics of procurement, transportation and distribution of programme supplies are dealt by a team for each programme. Further, the Construction Department facilitates physical expansion of the organisation.

The Publications Department develops education materials and publishes books required for NFPE schools and libraries.

The Personnel Department is responsible for recruitment of staff and managers and to maintain personnel files of the employees.

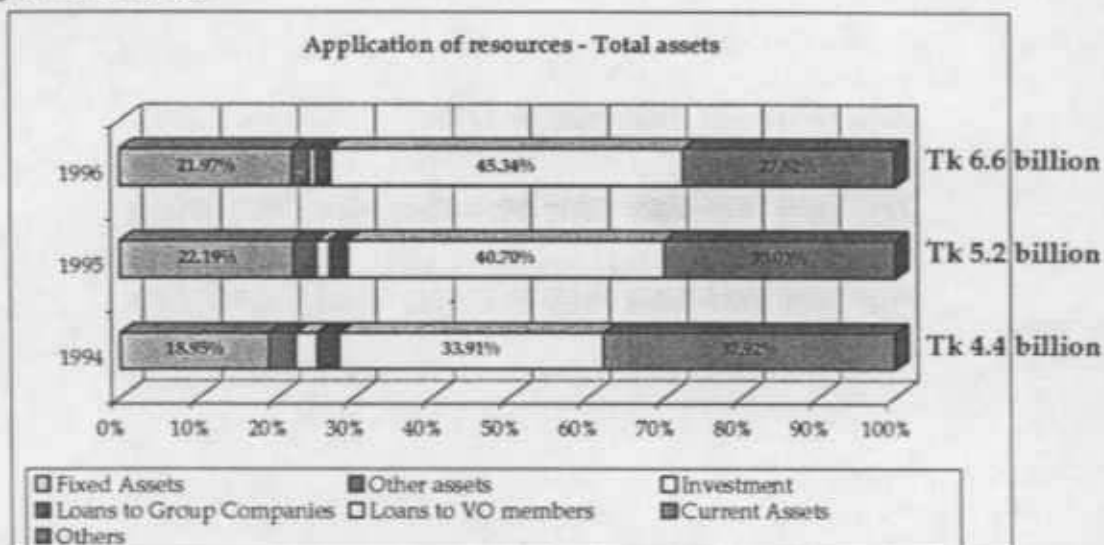
The EDP Department of BRAC comprises primarily of the loan accounting system that caters to the RCP and RDP programmes. The department also provides support to the accounting function, in consolidating the income and expenditure accounts of the branches every month and generating the financial statements for BRAC at year-end. The main objective of EDP function is maintenance of an updated database on the credit operations of RDP/RCP.

BRAC's commercial operations include the Aarong Handicraft shops, BRAC Printers and a cold storage facility operated by BRAC Industries. The Aarong shops are a series of retail shops opened by BRAC, and act as a marketing outlet for rural artisans. These shops are located in all major cities of Bangladesh and sell handicrafts, garments and textile products. The shops are operated on a cost plus recovery basis, with the products being produced by VO members and rural artisans. BRAC Printers is a profitable enterprise that provides service to businesses, government organisations and to BRAC. The cold storage has been set-up to enable farmers to store their produce to realise a better price. Further, a milk processing plant is currently under construction at Ghazipur and is expected to be operational by December 1997. In the near future BRAC plans to set up a BRAC Bank and a BRAC University.

2.1 THE FINANCE FUNCTION AND FUND ACCOUNTING

A. Background

In 1996, the total income of BRAC was over Tk 2.6 billion and assets were over Tk 6.6 billion. To account for these, BRAC has developed an extensive accounting network. The following pages summarise the finance function organisation and the mechanism for receipt, utilisation and accounting of donor funds.



B. Finance function organisation

A brief profile of the organisation structure and management responsibility is given below:



The organisation's financial and accounting systems are steered under the executive director's guidance. The Director-Programmes is administratively responsible for this function.

The Finance Manager ('FM') is responsible for the treasury operations of BRAC, i.e. ensuring the availability of funds, to meet the programme expenditure and requirements of the other income generating activities of BRAC. Periodically, based on daily cash reports and cash forecasts, the FM invests/disinvests money in short term deposits ('STDs'). On receipt of funds from donors, the monies are put into STD accounts to earn interest income.

The Chief Management Accountant ('CMA') is responsible for the day to day functioning of the accounting and financial reporting activities. The CMA performs a critical role, being a connecting link between departments. The CMA's key activities are:

- Control of procurement activities;
- Monitoring of programme and budget variances and preparation of operating reports;
- Consolidation of the financial operations;
- Preparation of annual accounts, audit and compliance with local laws and donor contractual obligations;
- Preparation and distribution of programme specific MIS.

Further, the CMA is a part of the strategic think tank of BRAC, providing inputs for development and improvement of projects. These activities involve estimation and budgeting, and modification in approach, based on the existing situations.

The Financial Accountant ('FA') manages the accounts payable function. This involves the processing and recording of all payments made to suppliers for programme expenditure. The FA also administers compilation, disbursement, and recording of salaries, wages and advances to the employees at the head office.

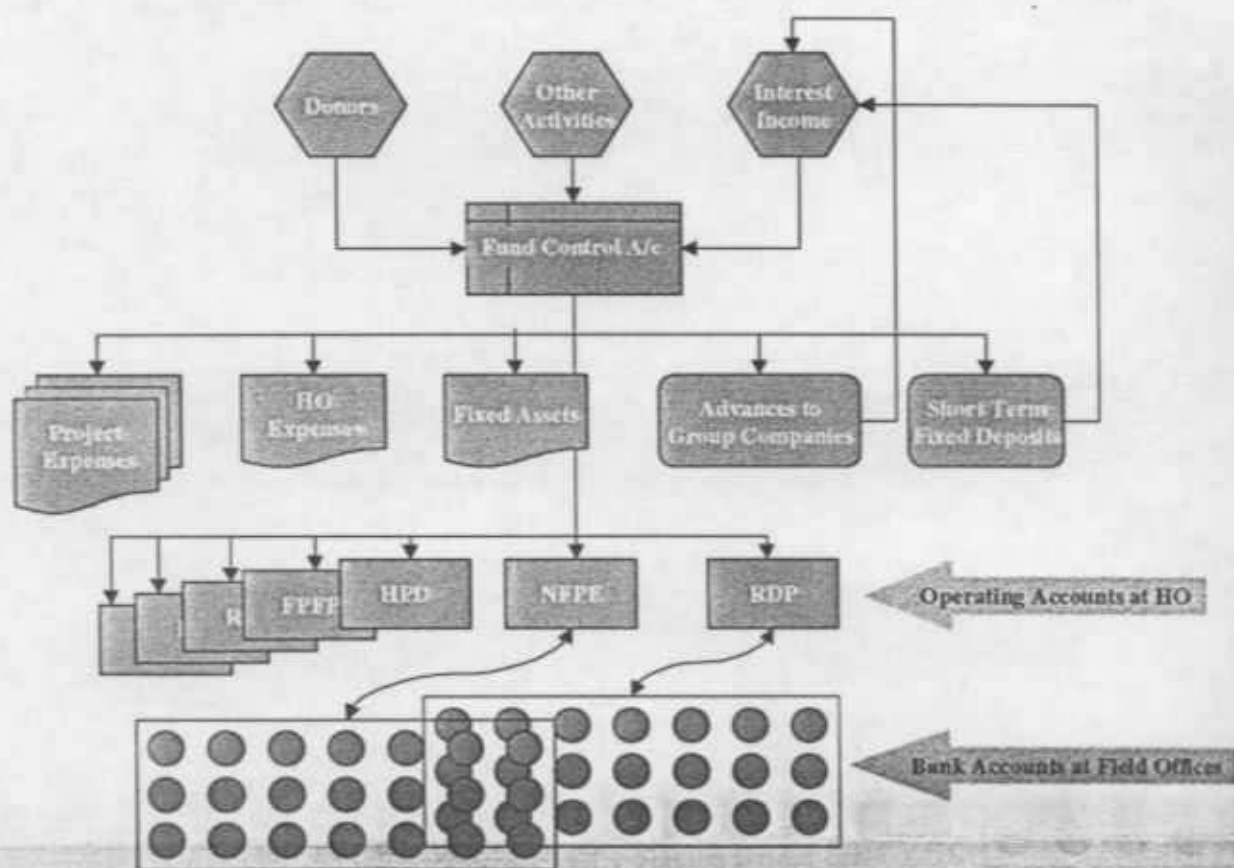
C. Sources and application of funds

A number of programmes, funded by different donors, are executed by BRAC simultaneously. In the event of any delays in receipt of programme funds, BRAC has two main options:

- discontinue/delay the execution of the programmes, leading to hardships for the beneficiaries, slackening of controls and loss of organisation image, or,
- arrange for alternative sources of funds for a short term.

BRAC aims to provide consistent service to its target group. BRAC therefore endeavours to utilise its resources in an efficient manner to enable the programmes to continue at an even pace.

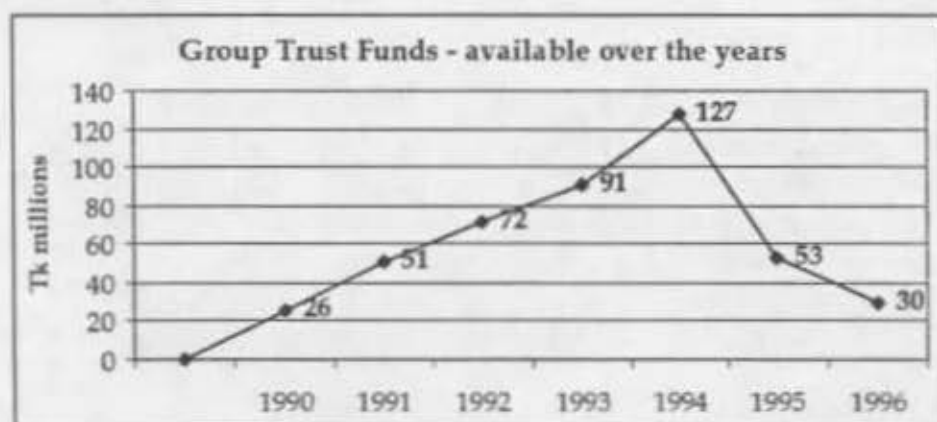
The present mechanism for sources and application of funds is depicted below:



Other than loan repayments and interest recoveries, the major sources for BRAC are:

- Group savings deposits received from the VO members (Tk 373 million at 1996 year-end) are not recycled for providing loans. These savings are utilised by BPF and the VO members are given interest at the rate of 6 per cent from the BPF. Hence, in case of a deficit in the donor accounts, BPF bears the interest cost of 6 per cent paid for the savings of the VO members.

- Expenditure on motorcycles, given to field personnel as part of the programmes, is recovered in installments from the employees. On recovery of the cost, the ownership of the motorcycle is transferred to the employee. The recovered amount is however used by BRAC for any purpose it deems necessary, in the intervening period. The balance in the motorcycle replacement fund on December 31, 1996 was Tk 108 million.
- The liability for expenses is incurred on receipt of service/goods, though the payment is made subsequently. This gap (approximately Tk 200 million at 1996 year-end), between the value of services/goods availed and the amount paid for the same, is the financed amount. As purchasing is a constant activity, this gap is always present.
- Interest earned on short-term deposits is credited to the BRAC Project Fund ('BPF').
- Programme fund deficit is also covered by amounts borrowed from RCP. In 1996, total interest at 11.5 per cent per annum, paid by RDP for RCP deficit financing was Tk 5.5 million based on the month-end deficit balance. Further, in case the overdraft facility is used for deficit financing, a part of the overdraft interest is also allocated.
- In the earlier phases of RDP, the amounts recovered as the Group Trust Funds ('GTF') and Insurance Fund, at 4 per cent and 1 per cent respectively, of the loan amount disbursed, was free for utilisation as per requirements. The GTF account balances for RDP and RCP over the years are shown below:



This balance, however, is now being refunded to the VOs and a balance of Tk 25 million appeared in the books on June 30, 1997.

The sources and application of funds for NFPE and RDP for the year ended December 1996 are attached as **Annexure A** (Page 23-24).

The AOs/ROs and TARC, have been built based on the budgets as provided in the different phases of the programmes. A statement of capital cost of the offices is attached as **Annexure B** (Page 25).

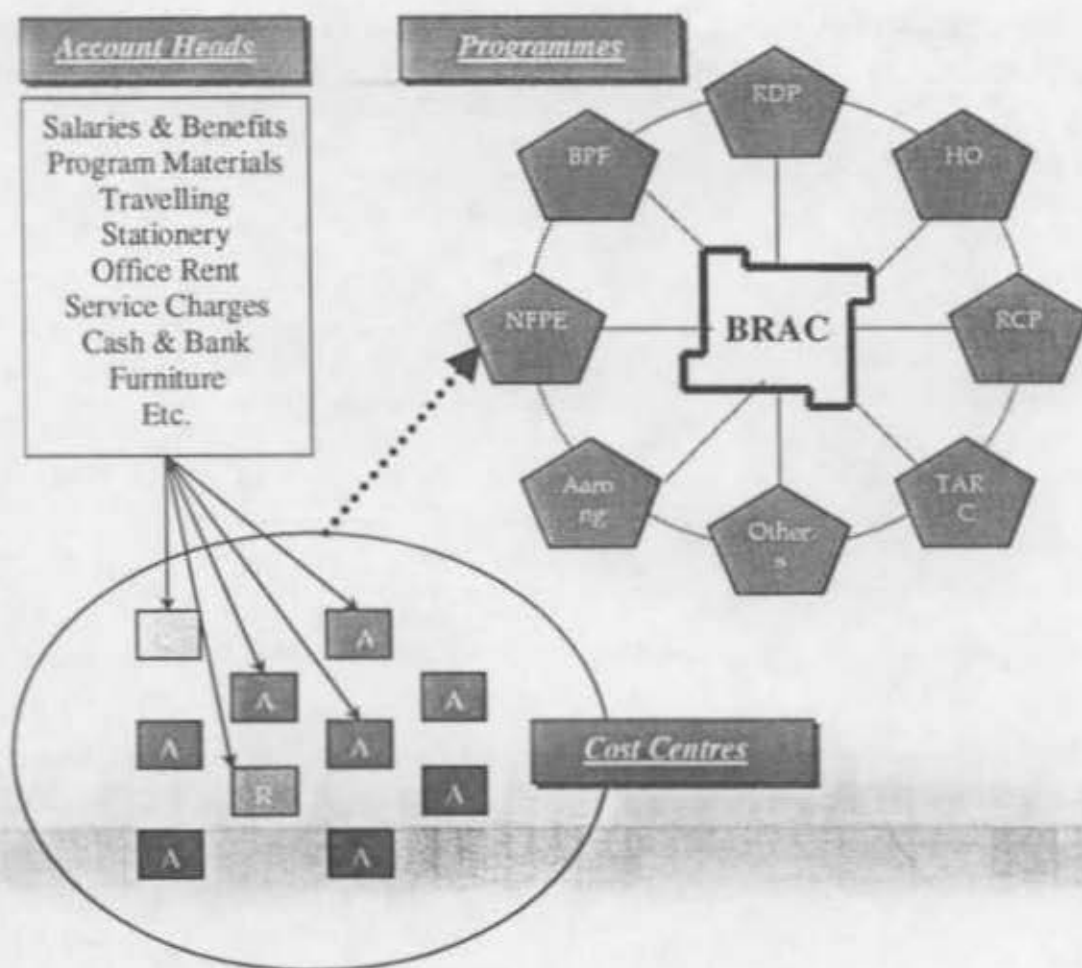
D. The accounting framework

The donor grants are classified as a liability on receipt and on utilisation transferred to income (for operation expenses), investments in fixed assets and investment in loan fund. At the end of the programme, the balances of the fixed assets fund are transferred to the programme capital fund.

All donor funds and receipts from other transactions are deposited into a bank account maintained for all the programmes. Subsequently, funds are transferred to one of the 28 operating bank accounts maintained at the HO. These HO operated accounts are collectively accounted and referred to as the fund control account. The fund control account is sub-divided into various programme accounts. Hence, the fund control account of a programme means, the programme bank balance in the HO bank account at a certain point of time. The total of all fund control balances is equivalent to the total of bank balances maintained at HO. Expenditure and income is tracked for all the programmes, and the accounting system facilitates adequate monitoring of programme costs/revenues.

The accounting framework of BRAC, takes into account each of the 23 existing programmes, having its own unique identification code. The second level of the code identifies the sector of the programme ie, area office/regional office, etc. These are supported by account type item codes, which are same across all programmes.

This is depicted by:



For a programme, each of the AOs', ROs' and the HO, is a 'Cost Centre,' and are accounted for separately.

For example, the item code for teachers' salary paid by a Team Office ('TO'), under NFPE, would be 0601206:

Programme code:	06
Sector code:	01
Teachers' Salary:	206

This code would be accounted for separately for the 82 AOs, 10 ROs and the HO of the NFPE programme, as a programme cash/bank book and ledger is maintained in each of these offices.

The expenditure is incurred programme-wise, however, the coding system enables the generation of donor expenditure statements.

Transactions between cost centres are routed through the HO/RO/AO current accounts.

Presently, the cost centres are as follows:

Programme	AOs	ROs	HO	Total
RCP	140	12	1	153
RDP	142	14	1	157
NFPE	82	10	1	93
VGDEP	53	-	1	54
SLDP	40	-	1	41
FPPF	10	-	1	11
BINP	6	-	1	7
RHDC	24	-	1	25
TARC	14	-	1	15
Total	511	36	9	556

The ROs receive the month-end accounts by the 4th - 5th of the next month, and forward these to the HO by the 6th of the following month. At the HO, the accounts are consolidated for each programme, through a COBOL based programme to generate BRAC-wide accounts.

Allocation of HO Logistics and Management Expenses ('HO costs')

HO costs are incurred by the common support functions. These include the finance and accounts department, the personnel division, monitoring and internal audit, logistics and administration, EDP, and programme support staff.

Salaries and benefits of the programme staff, upto the level of the RM are funded by programmes. Salaries beyond this level are treated as a part of HO costs. These include training and development costs, transport, stationery, repairs and maintenance and audit fees.

Further, approximately 15 per cent of the HO costs (in 1996) relate to the notional rental expense for the BRAC owned premises, being recovered from the various programmes. The income for the same is being credited to the BRAC Project Fund.

The HO costs are recovered from 9 donor-funded programmes and 3 BRAC in-house activities.

As per the terms of the project proposal, the recovery from RDP IV and NFPE II, has an upper limit of 10 per cent of programme expenditure. These costs are recovered every month at 10 per cent of the allowable programme expenditure. Any excess recovery / shortage is adjusted at the year-end based on the actual costs. Other donor-funded programmes are also allocated HO costs on the above basis. The recovery from BRAC in-house activities is based on management calculations.

E. Donor reporting

Periodic reports of programme costs are submitted to donors and these are also reconciled with the fund control account and total programme costs.

In a practical scenario, the programme fund control account balance will not necessarily reflect the donor fund balance. This is due to the programme fund control account being utilised for programme activities that are not reflected in the donor accounts, for instance, items like prepayments, advances and deposits for programme materials, stocks and stores, employee advances etc. Thus, a reconciliation would be required between the *programme accounts* and the *donor accounts* to arrive at the net balance in the programme bank account, i.e. the programme fund control account.

Accordingly, the fund control account balance of the *programme accounts* can be reconciled to the fund balances in the *donor accounts* by reducing the impact of all items that do not relate to the donor accounts. This exercise has been done for the year ended December 31, 1996 for RDP and NFPE.

The reconciliation of net expenditure as per *programme accounts* and the *donor accounts* of RDP IV and NFPE for the year ended December 1996 are as follows:

In Taka '000s

Particulars	NFPE	RDP IV	
Expenditure as per Annual Accounts	796,462		1,231,967
<i>Add/(Less):</i>			
Stocks & Stores	51		(8,489)
Advance, Deposits & Prepayments	720		(7,335)
Housing Loan - Staff	-		90,178
Accounts Receivable	963		54,057
Current Account with Area Offices	7,507		29,988
<i>Decrease in Other Liabilities:</i>	(1,155)		
Housing Loan transferred - VO Members		(117,201)	
Housing Loan transferred - Staff		(90,178)	
Current Account with Area Offices		14,126	(193,253)
RCP Branches Financed	-		117,201
Loan Loss Reserve	-		31,813
Savings Deposits Fund Refunded	-		240,000
Other Project Income	-		(26,851)
Working Capital of Prawn Hatchery	-		183
<i>RDP - Funds Recycled</i>			
Interest on Loan	-	(103,233)	
Loan Realised	-	(577,907)	
Interest Receivable	-	(69,141)	(750,281)
Expenditure as per Donor Statement	804,548		809,178

The donor fund balance as at December 31, 1996 can be analysed as follows:

In Taka '000s

Particulars	NFPE		RDP IV
Expenditure as per Donor Statement			(809,178)
NFPE I (Jan-Mar 1996)	(318,320)		
NFPE II (Apr-Dec 1996)	(486,228)	(804,548)	
Donor Funds Received		850,491	719,630
Fund Balance		45,943	(89,548)

In Taka '000s

Particulars	NFPE		RDP IV	
Fund Control Balance as in Annual Accounts		74,090		343,350
Add:				
Stock, Stores & Spares	(38)		42,908	
Advance, Deposits & Prepayments	596		22,212	
Accounts Receivable	86		461	
Current Account with Area Offices	(3,600)		30,358	
Cash & Bank Balances	12,811	9,855	67,288	163,227
Less:				
Motor Cycle Replacement Fund	(27,265)		(34,845)	
Liabilities For Expenses	(10,591)		(46,966)	
Group Savings Deposits	-		(372,951)	
Group Trust Fund	-		(3,338)	
Group Current & Project Accounts	(3,401)		(442)	
Loan Loss Provision	-		(18,788)	
Capital Fund Adjusted	3,255		(1,594)	
Capital Fund Adjusted - Housing Loan of RCP	-	(38,002)	(117,201)	(596,125)
Balance as on December 31, 1996		45,943		(89,548)

The programme fund control accounts making the main fund control account as on December 31, 1996 is as follows:

<i>Projects with +ve balances</i>	<i>Taka '000s</i>	<i>Projects with -ve balances</i>	<i>Taka '000s</i>
RDP	343,350	BRAC Project Fund	(406,089)
NFPE	74,090	Gonokendra	(80)
TARC	13,160	HPD	(20,340)
Printing & Publication	10,498	VGD Credit Programme	(114,793)
RCP	5,206	RED	(629)
Boar Development	10,086	NFPE (Garments)	(3,577)
FPFP	11,284	BRAC Dairy & Food Project	(4,146)
Integrated Nutrition Programme	3,109	Aarong	-
SLDP	79,385	BRAC Printers	-
Social Science Immunization	1,526	Head Office	(37,708)
BRAC Housing Project	45,075		
	596,769		(587,362)

Net balance in Fund Control Account	9,407
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The present accounting system enables tracking of BRAC and donor fund balances. However, as the mechanism for the receipts and payments of funds is common for all BRAC activities (including donor receipts), a periodic reconciliation between programme expenditure and donor fund balances should be incorporated in the periodic reports submitted to the donors. This will enable a clearer reflection of movement of funds between the various activities of BRAC and provide timely information to the stakeholders of BRAC's surpluses.

The statement on fund flows, reflecting the sources and applications of funds in RDP, NFPE, BPF and others is presented below for the year ended December 31, 1996.

In Taka '000s

Inflows	RDP	NFPE	BPF	Others	Total
Opening Balance	268,315	135,156	(213,914)	29,073	218,630
Bank Interest Income		86	25,573	33,812	59,471
Bank Overdraft				28,461	28,461
Current Account with Area Offices	27,590	7,507		6,594	41,691
Decrease in Interest Receivable	69,141			(65,668)	3,473
Donations	719,630	733,809		192,748	1,646,187
Group current and project account	(672)		(24,822)	29,733	4,237
Group Savings Deposit	128,122			251,468	379,590
Group Trust Fund	(11,974)			(11,716)	(23,690)
Income from Investment			3,750	(3,750)	
Interest on Loan	103,233		20,963	538,488	662,684
Other Liabilities	(190,855)	(1,155)	41,346	209,695	59,030
Liabilities for expenses	(243,233)	3,057	3,654	76,890	(159,632)
Liabilities for goods				344	344
Liabilities for other finance		5,076	17,602	(22,678)	
Loan from RCP			150,000	(150,000)	
Loan Realised	577,907			3,706,959	4,284,866
Long Term Loan Received				140,101	140,101
Motor Cycle Replacement Fund		6,178		(6,178)	
Other Funds	5,285		60,902	50,792	116,979
Other Project Income	26,851		20,609	21,987	69,447
Revenue from Sales			1,329	556,589	557,918
Training Income				60,327	60,327
Loans to Associated Companies				22,317	22,317
Total	1,479,340	889,715	106,992	5,696,385	8,172,431

In Taka '000s

Outflows	RDP	NFPE	BPF	Others	Total
Salary & Benefits	217,778	167,625	458	327,869	713,730
Cost of material sold	0	0	949	403,628	404,577
Management Loss	0	0	13,086	(13,086)	0
Furniture, Rent & Utilities	17,372	85,400	791	82,670	186,233
Maintenance & General Expenses	7,363	10,909	13	23,748	42,033
Tax Paid	0	0	60	(60)	0
Fixed Assets	60,828	14,228	262,647	30,979	368,682
Other Assets	0	0	(33,316)	30,466	(2,850)
Short Term Investments	0	0	223,652	(5,848)	217,804
Stocks & Stores	8,490	(50)	0	48,751	57,191
Advances, Deposits & Prepayments	(82,843)	(720)	35,151	16,012	(32,402)
Sundry Debtors/ Acts Receivable	(54,057)	(963)	25,508	(3,941)	(33,453)
Travelling & Transportation	33,384	24,997	0	49,746	108,127
Teachers' Salary	0	226,645	0	1,964	228,609
Teachers' Training	0	28,769	0	904	29,673
Staff Training & Development	17,522	6,976	0	10,327	34,825
Program Materials & Supplies	42,980	173,955	1,849	66,357	285,140
HD Logistics & Management Expenses	33,770	65,046	0	(98,816)	0
HD Members Training	30,354	0	0	52,700	83,054
Interest Expense	5,723	0	0	91,199	96,922
Loans Disbursed	730,039	0	0	4,460,333	5,190,372
	0	0	0	0	0
Total	1,068,702	802,816	530,847	5,575,901	7,978,266
End Control Account	343,350	74,090	(423,854)	46,068	39,654
Bank Balances at Field Offices	67,288	12,811		74,417	154,516
Net Closing Cash & Bank Balance	410,638	86,901	(423,854)	120,485	194,170

Statement of Capital Cost

Project	Year	Land		Building		Furniture	Total
		Nos	Cost - Tk	Nos	Cost - Tk	Cost - Tk	Cost - Tk
Area Offices							
RCTP	1984-85	30	3,678,726	35	28,672,794	2,380,440	34,731,960
RDP - Phase I	1986-89	25	3,649,101	20	19,554,666	5,224,502	28,428,269
RDP - Phase II	1990-92	65	17,719,309	65	73,693,702	12,396,307	103,809,318
RDP - Phase III	1993-95	105	37,859,589	105	166,178,397	15,335,128	219,373,114
RDP - Phase IV	1996	40	14,662,635			6,111,316	20,773,951
		265	77,569,360	225	288,099,559	41,447,693	407,116,612
Training and Resource Centres							
RDP - Phase II	1990-92	2	9,733,084	6	48,765,007	3,438,003	61,936,094
RDP - Phase III	1993-95	3	6,469,138	3	39,322,528	9,660,205	55,451,871
		5	16,202,222	9	88,087,535	13,098,208	117,387,965
MDP Rural Campus (Rajenderapur)							
RDP - Phase II	1990-92	1	1,299,061	1	29,030,887	9,368,841	39,698,789
RDP - Phase III	1993-95	Extension			20,057,980		20,057,980
		1	1,299,061	1	49,088,867	9,368,841	59,756,769

BRAC Centre

Project	Year	Land		Building		Furniture	Total
		Nos	Cost - Tk	Nos	Cost - Tk	Cost - Tk	Cost - Tk
Principal Management Training Centre (part of BRAC Centre)							
RDP - Phase II	1990-92	1	5,557,346	1	24,098,736	295,066	29,951,148
RDP - Phase III	1993-95	Extension			40,036,194		40,036,194
		1	5,557,346	1	64,134,930	295,066	69,987,342
Head Office							
RDP-Phase I	1986-89					3,594,619	3,594,619
RDP-Phase II	1990-92					12,992,021	12,992,021
RDP-Phase III	1993-95					33,610,034	33,610,034
RDP-Phase IV	1996					2,902,456	2,902,466
						53,099,130	53,099,130
RCP Loan	1993				150,000,000		150,000,000
FPFP - USAID	1994					5,200,000	5,200,000
BPF			13,000,000		31,500,000		44,500,000
		1	18,557,346	1	245,634,930	58,594,196	322,786,472

A. Background

Under RDP, BRAC aims to eradicate poverty and empower the poor target groups, specifically, women and children. The target group is characterised by low income earning day labourers, fishermen without fishing tools, cycle cart pullers, farmers owning less than half an acre of land, petty traders and craftsmen for whom BRAC has operated as a self help initiator. The RDP at the end of 1996 covered nearly 32,102 villages and had a membership of approximately 1.84 million.

The activities of the programme, started in 1986, can be categorised as:

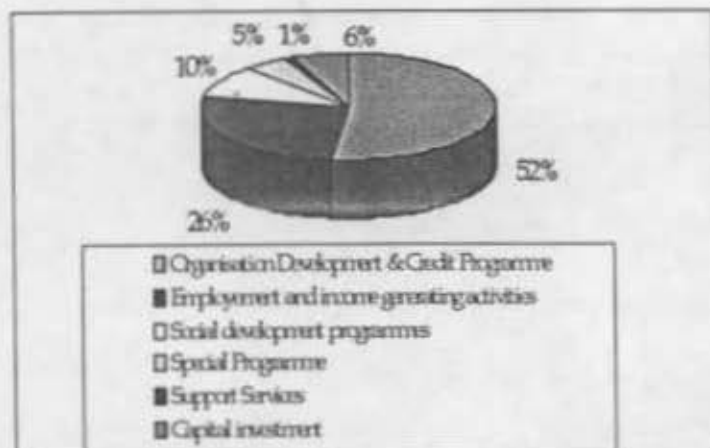
- Organisation development, weekly meetings, issue based meetings
- Savings and loan disbursements
- Poultry, livestock, sericulture, fisheries, social forestry, agriculture and irrigation
- Human rights & legal education
- Essential health care
- Vulnerable group development programmes
- Orientation course for Village Organisation ('VO') members and staff training
- Monitoring and research

Objectives of RDP

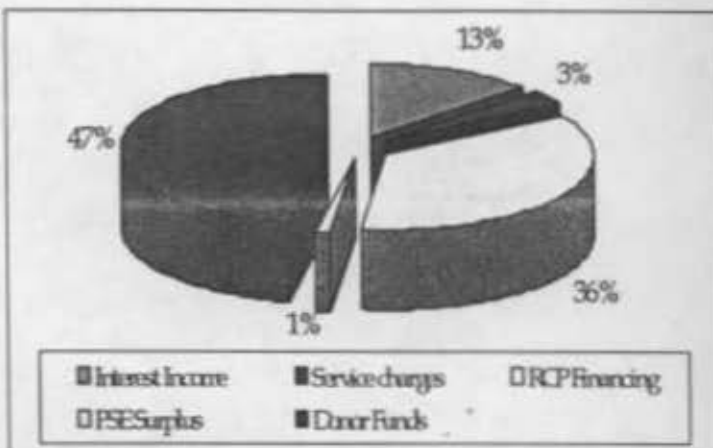
- To improve the lives in a sustainable manner by developing appropriate, effective and functional organisations of participating households;
- Increased income and employment generation in poultry, livestock, fisheries, sericulture, social forestry and vegetable production;
- Increased knowledge and action by villagers with respect to their legal and human rights;
- Increased income for the poorest women in the poverty group;
- Improved health and sanitation of participating households.

The programme proposes to utilise over Tk 4.6 billion during the project period 1996-2000 for various activities. The amount would be expended and financed as under:

Deployment of funds

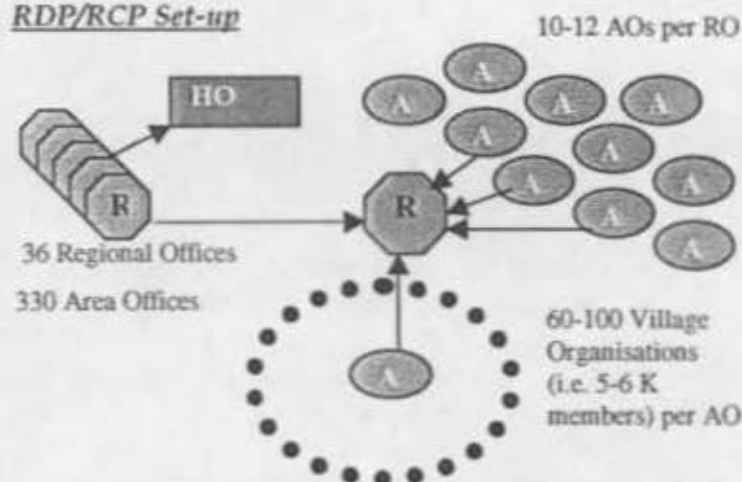


Sources of funds



B. Organisation structure and key components

RDP/RCP Set-up



RDP aims at establishment of VOs' for sustainable development and upliftment, by credit disbursements and facilitating a habit of savings, particularly in women. A VO comprises about 40 members in the age group of 18-54 years, divided into groups of five and lead by a group leader who does not belong to any other similar organisation. Approximately 60-100 VOs are covered under one Area Office ('AO'). An Area Manager ('AM'), who is assisted by Programme Organisers ('PO') and Programme Assistants ('PA') heads the AO. A Regional Manager ('RM') is in charge of approximately 10-15 AOs, and he directly reports to the Programme Managers ('PM') at the Head Office ('HO'). There are four PMs, one for savings and credit, one for social development, one for employment and income generation and the fourth for MIS.

The RDP expenses can be broadly classified into the following categories:

- Organisation development and credit programme: Comprises expenditure incurred on VO workshops, salaries and benefits given to RM, AM, PO and PA, travel expenses, staff training and development, office rent and general maintenance. It also includes loans given to VO members;
- Employment and income generating programme: Comprises expenditure incurred for training and development of the various income generating activities, salaries and benefits given to PA and PO;
- Social development and special programmes: Comprises expenditure incurred for training and development of the various HRLE activities, health care and environment development programme. It also includes travel expenses and salaries given to project and service staff;
- Support services: Comprises expenditure incurred on research and evaluation activities;
- Capital investment: Comprises expenditure incurred for acquisition of branch office, land and buildings, motor cycles and furniture and fixtures etc.

The project income comprises:

- Interest income on loan: It represents interest receivable on loans to VO members less provisions for losses;
- Service charges: It represents service charges earned on various income generating activities;
- RCP financing: It represents loan funds and assets brought out by RCP;
- Surplus of Poultry and Small Enterprises: It represents surplus received from poultry farm, feed mill etc.

Key components

Savings

- BRAC encourages the concept of savings amongst its VO members. VO members who are a part of the target group are encouraged to save through different socio-economic activities and projects, which aim at providing basic necessities.
- Members make three types of savings;
 - *Compulsory* - a minimum of Tk 5 to a maximum of Tk 20 from every member on a weekly basis,
 - *Forced* - mandatory savings deposit of 5 per cent of the loan amount, retained at the time of loan disbursement;
 - *Voluntary* - savings of VO members deposited with BRAC.
- Group members are allowed a refund of their savings only after completion of five years

as members. The members are paid an interest of 6 per cent per annum on the savings.

Disbursement of Loans

- BRAC provides loans to VO members on a pre-condition that the member makes personal savings. The various types of loans provided are:
 - General loan: A loan given for undertaking activities in the nature of animal husbandry, chick rearing and small trading etc;
 - Joint asset loan: This loan is given for acquiring assets, to undertake commercial activities like fish culture, chicken feed factory etc;
 - Housing loan: This loan is distributed for construction of houses for VO members;
 - Loan for personal consumption: This loan meets the emergency needs of the VO members.
- A member is eligible to obtain a loan after being a member of the VO for a period of 8 weeks.
- Loans are provided to the VO members for projects without any collateral security in the range of Tk 1,000 to Tk 10,000.
- These loans may be short term, mid term and long term with the repayment period being from 46 to 156 weeks on a flat interest rate of 15 per cent.

The following table summarises the minimum savings balance required to obtain a loan:

Type of loan	Savings balance required
First loan	2% of loan amount
Second loan	5% of loan amount
Third loan	10% of loan amount
Fourth loan	15% of loan amount
Fifth loan and above	5% increase with a maximum of 50 %

- Loan application is filled up and signed by the borrower. This application is signed by the VO President and is examined and checked by the PA. The PO verifies the form, before it is sent for approval to the AM;
- The PA fills up the guarantee bond and obtains signatures of the borrower and VO President;
- The PO (Accounts), disburses loans to the members after filling up the disbursement sheet and obtains the signatures of the borrowers after affixing a revenue stamp;
- Mandatory savings deposit of 5 per cent of the loan amount is retained at the time of disbursement;
- The PA then makes an entry in the loan collection sheet and updates the pass book with

We noted the following significant weaknesses during the course of our review:

A. Savings and loan collections

- The PAs responsible for collection of cash from the VO members do not follow certain preventive control procedures during cash collection. Some of the discrepancies noted during such meetings were:
 - Cash is directly collected from the VO member by the PAs', without being counted by VO President/Cashier.
 - Entries in the pass book of members are made in excess/short of actual cash collected. This may be due to:
 - (a) Cash collected from one member entered in another member's passbook;
 - (b) Wrong counting of cash collected; and
 - (c) Entry made based on promise to pay later in the day.

Total cash collected is not counted at the end of the VO meeting to re-check amounts collected as per the collection sheet and pass book.

An example of discrepancies is presented below:

		Amount as per			
Name of VO member	Date	PA collection sheet	Pass Book	PA collection sheet	Pass Book
		Weekly savings		Loan collection	
Saurya Bani	August 5, 1997	0	5		
	August 12, 1997	10	5	150	75
	August 26, 1997	10	5		
Rokeya	August 5, 1997	5	0		
	August 12, 1997	5	0		
Folema	August 19, 1997			100	50
Monowara	August 19, 1997	0	5		
	August 26, 1997			0	50
Nisima	August 19, 1997			0	50
Geeta Rani	August 5, 1997	5	0		
Kavita Rani	August 19, 1997	0	5		

B. Accounting system

- There were cases wherein blank cheques had been signed by the PO (Accounts) at the time of his transfer. This was done as the process of change in authorised signatories would take time, hence during such period, only one person was operating the bank account. Further, we noted that the process of informing the bank regarding change in authorised signatures had not commenced, even one month after the PO (Accounts) being transferred.
- A daily cash certification is to be performed by the PO (Accounts) and the area manager. During our review, we noted that the cash and bankbooks had not been signed for confirmation regularly.
- Further, we noted instances of PA collection sheets not tying in to those prepared by the PO (Accounts).

C. Programme monitoring

The programme monitoring controls of RDP indicate that the focus of controls is only on the loan collection process. Hence, related activities, e.g. sector programmes are not monitored as intensively. Each of the sector activities such as poultry, livestock, sericulture etc. is the responsibility of PA at the AO's. The sector PA reports to the RSS at the Regional Office. The RSS consolidates reports from all the AO's to present the regional performance to the RM.

Our review indicated the following:

- The AMs' are administratively responsible for all sector programmes operating under their area. However, the sectors PAs' are functionally reporting to the RSS and not the AM.
- The comparison of actuals to internal targets is weak. The internal targets are not scientific and do not take in to account the seasonal variations in production. The yearly targets are equally divided over the four quarters. Further, the reasons offered for variations are not properly quantified and documented.
- A high cash in hand balance increases the risk of misappropriation and theft of cash.
- Loans are given without furnishing a guarantee or bond from the borrowers guardian. This increases the risk of non-recovery in case of the members' death, insolvency, insanity etc.

D. Assessment of the CMS

Strengths

A major benefit arising out of the above system is the time saved by the AM, who no longer would be required to come from the field for reconciliation of such accounts.

Further, the CMS package has a number of in-built checks for verification and validation of data. The major control features of the system are:

- The data punched in from the collection sheets for each of the members is consolidated for each VO and confirmed with the amount as per the VO-wise cash collection sheet prepared by the PO-(Accounts) of the area office;
- The system has three levels of access:
 - The data entry operator with basic functions for data entry only;
 - The supervisor for certain administrative matters, including correction of wrongly entered data;
 - The system administrator/manager level, for complete access to all records and functions.
- All new member set-ups and new loan disbursements during a period are fed twice into the system by different data entry operators for cross verification;
- In case, there are mistakes in the weekly collection sheets or during the data entry process, the particular VO sheet goes into a pending mode, wherein the specific weekly collection sheet is vetted by the supervisor, including manual addition of amounts, and only then the correction is made on the system;
- Data for month '0' can only be entered in month '1' and no entries/amendments relating to month '0' will be accepted by month '2' or later, unless the manager modifies the system date;
- Generation of various reports relating to the loans, for VOs', AOs', ROs' and sector schemes;
- Other features at the system manager user level include:
 - facility for generation of audit trail reports;
 - amendment and set-up of new loan types;
 - review of pending/incomplete VO collection reports;
 - dumping of standing data into the master file;
 - set-up and amendment of user identification access;
 - back up facility;
 - transfer of a member from one AO to another; and
 - review of user reports displaying the work done by data entry operators (based on number of keys punched) to determine their wages.

Weaknesses

Our review of the system indicated the following weaknesses:

- The above system does not improve the time lag in the availability of information for real-time control. The time lag continues at approximately one month.
- An assumption made in the system is the provision of the pre-printed weekly collection sheets, before the end of the month, to which the collections relate. In case, there is a delay in the receipt of the completed collection sheets from the AOs, it would delay the whole process of information processing.
- Further, the former weekly collection reports provided the AM with a summary of VO collections, enabled real time management control. The new system, however, does not generate a collection summary for the VO, each week. Thus, as compared to the brief report on the collection performance for each of the VOs' every week, the AM now has access to such information only at the month-end. This poses a risk of slackening of the loan collection and monitoring process.
- The CMS program file and its related documentation has not been provided to BRAC, even though, BRAC has paid for the development of the software. This inhibits possibilities of in-house modification of the program. Instead, BRAC will have to be dependent on the external consultant's, (Southtech's) programmers. Further, the same needs to be documented, as with a change in Southtech's 'BRAC project team, and it will be difficult to modify the program.
- The CMS has been in operation since June 1997, but till August 1997 end, the audit trail report has not been printed for review. This is primarily due to the fact that, CMS does not have a facility for a preview and no option is provided to the user to specify the activity period to be reviewed.
- The CMS does not have the facility to delete/deny access to a user once the same has been set-up. This is a major security flaw, as it allows the user access even on leaving the organisation.
- The back up of the CMS database is with the Systems Manager, on the same floor as the work area. In case of any casualty/damage to the premises, BRAC runs the risk of loosing critical data.

D. Implications for BRAC

- Risk of misappropriation/defalcation due to incorrect recording;
- Loss on account of bad loans made, due to non-payment by VO members.

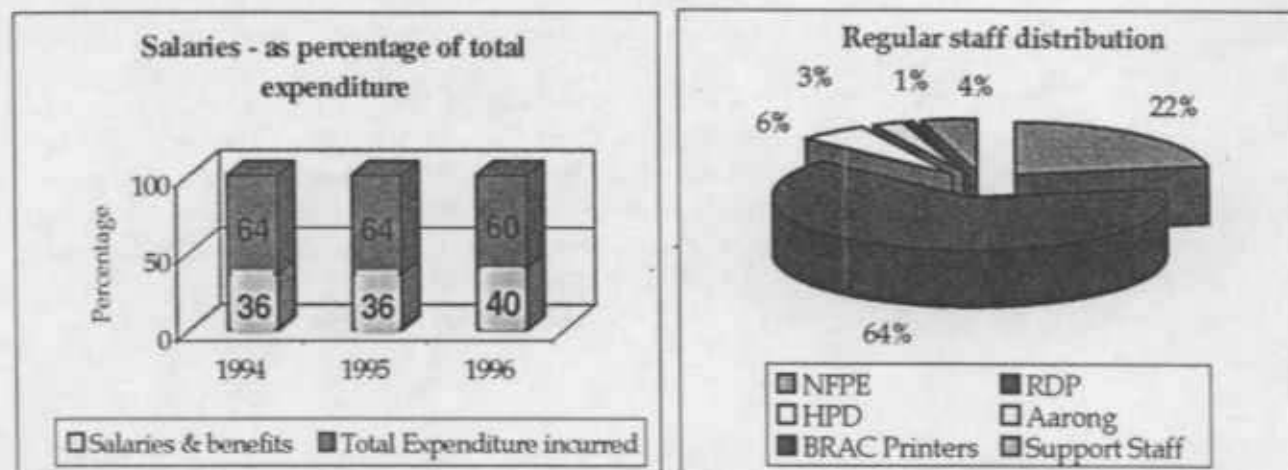
A. Loan collections, MIS and accounting system

- The VO President, PA and PO (Accounts) should sign the collection sheets. This will enable timely rectification of discrepancies, if any.
- The cash balance at the end of the day should not exceed an amount determined by management. This amount should be adequate to meet the petty cash expenses of the branches. Any amount in excess should be deposited in the bank at the end of the day.
- Pre-signed cheques should not be retained. This control should be emphasized to the authorised signatories during the course of their training.
- Necessary controls need to be introduced to enable compliance with the following procedures:
 - The total cash received, as indicated in the PA collection sheet should match amount in the cash collection register, and discrepancies if any should be accounted for;
 - The total loans disbursed, as indicated in the loan disbursement sheet to match the loan subsidiary ledger and discrepancies if any should be accounted for;
 - The savings and the collection ledger to be updated;
 - A physical count of cash should be taken and recorded on the cash count sheet;
 - The cash count sheet should indicate the denominations of currency notes and coins;
 - The PO (Accounts) and the Area Manager should sign the cash and bankbooks on a daily basis.
- AMs' should be encouraged to monitor the sector programmes on a proactive basis. Further, the PAs should ensure accurate recording in the member's passbook and PA collection sheets. This is essential to avoid discrepancies between pass books and PA collection sheets;
- The collection register and the saving and collection register should be updated periodically, to avoid any transposition errors, or errors of omission and commission;
- The targets for the projects should be calculated in a scientific and realistic manner. They should take into account seasonal impact of operations. Further, target oriented exception monitoring mechanism should be introduced
- Comparisons should be properly made in MIS reports. The targets should be clearly communicated to the concerned personnel and field reports reviewed to ensure clear understanding of targets by field personnel.

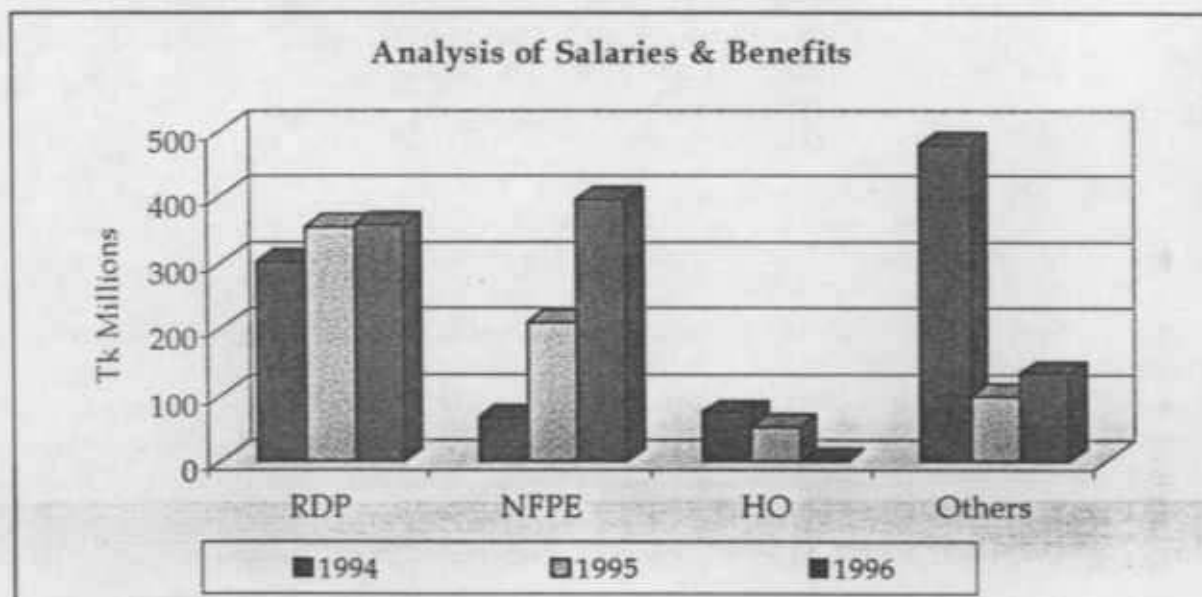
2.3 PAYROLL

A. Background

With staff strength of over 16,000 regular employees and 30,000 project and service staff, payroll is the single largest component of BRAC's annual expenditure. The following graphs provide an analysis of payroll expenditure over the three previous years and distribution of regular staff as on December 31, 1996:

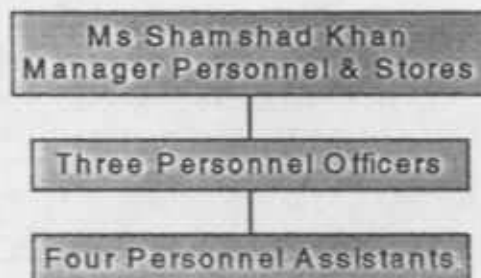


Further, the programme wise analysis of payroll costs is given below.



B. Organisation structure

The Personnel Department located at the HO is responsible for staff related activities, such as recruitment, transfer, promotions, etc and is structured as follows:



The personnel manager is primarily responsible for recruitment and decisions on annual increment and promotions, apart from having overall responsibility for day to day functions of the personnel department. The personnel officers are responsible for processing of the payroll records on a monthly basis, which includes deductions on account of excess leave or late attendance etc. One personnel officer each is responsible for the payroll of NFPE, RDP among others.

C. Present activities

Recruitment

Recruitment is done at the HO except for service staff who are recruited locally by the AO. The process begins with the publishing of an advertisement in newspapers. The applications are scrutinised by the recruitment committee comprising of the personnel manager and the programme/department head. Selected candidates take a written examination conducted by BRAC and are interviewed by the recruitment committee, after initial screening.

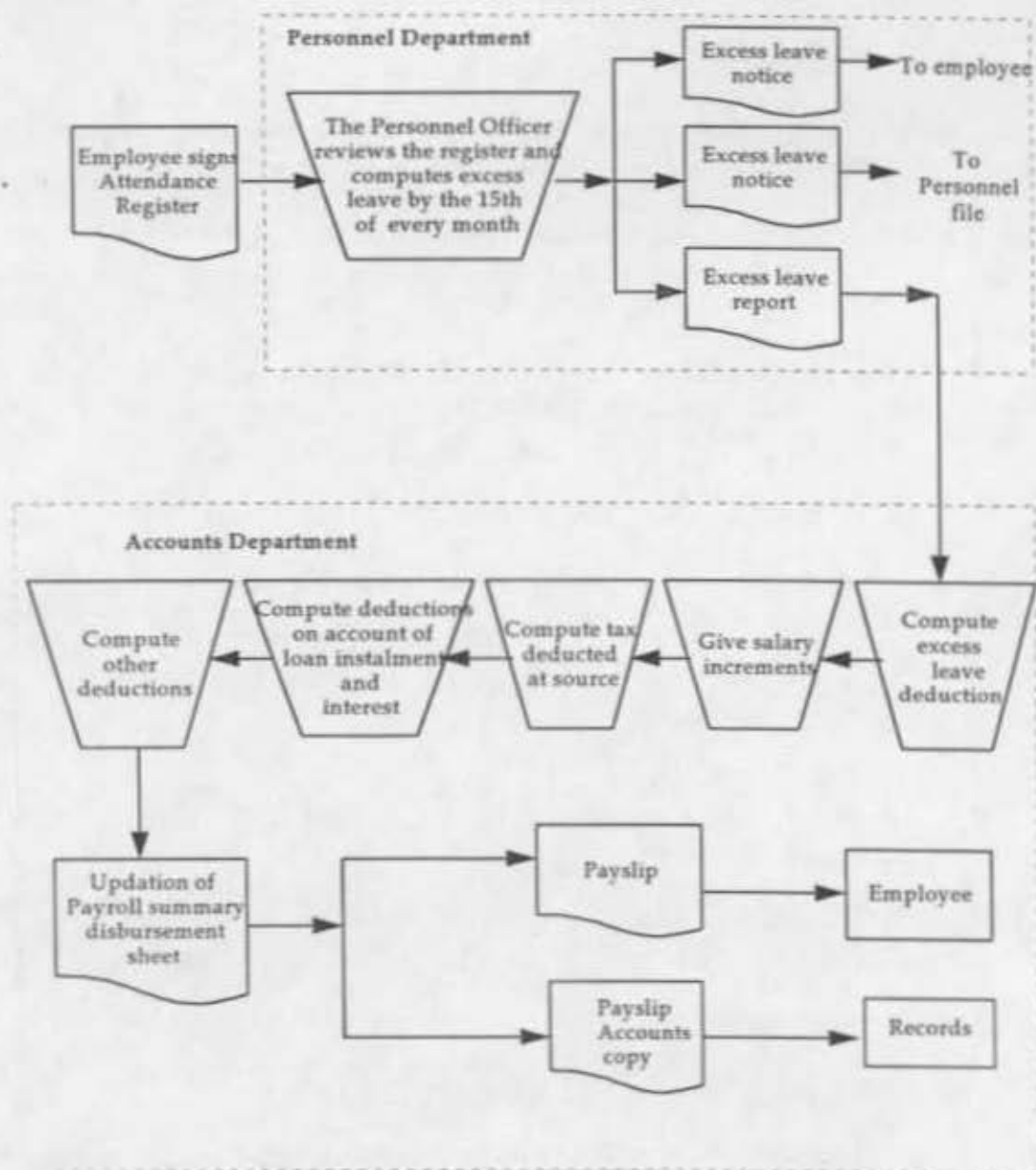
Payroll processing

The key payroll records maintained by the Personnel department are:

- Personnel files - These files are maintained at the HO for regular employees and at the regional offices, for project and service staff. These files have a copy of the letter of appointment, letter of confirmation by employer, performance appraisal from training's, promotions and details of the increments, etc. Other documents maintained are copies of loan agreements, details of leave without pay and reports of any disciplinary action, etc.

Disbursement of salaries

The process for disbursement of salaries is presented below:



2.3.1 RESULTS OF PROCEDURES PERFORMED

We noted the following significant weaknesses during the course of our review:

A. Recruitment

- The password to access the employee database is common to all users. There is no facility for a separate login or password for individual users;
- Functionally personnel assistants are assigned to separate projects, i.e. the NFPE, RDP and HPD respectively. However these assistants have access to the payroll records of employees in other projects;
- Project and service staff increments are not given based on merit. Such increments are presently based on the number of years of service and the current level of the employees only;
- A formal performance evaluation mechanism is yet to be put in place.
- As per the personnel procedures manual, a unique six digit code, called the PIN is to be used for employee codes. We, however, noted PINs of two digits;

B. Payroll processing

- The accounts department at the HO does not maintain the payroll records for regular staff at the regions. The regional manager is solely responsible for the disbursements;
- The attendance register is not periodically authorised by any designated individual;
- We noted several instances of closed personnel files being incomplete:

Name of employee	PIN	Reasons for closure	Missing information
Golan Nasiruddin	4256-4	Termination	<ul style="list-style-type: none">• Clearance certificate• Copy of disciplinary proceeding• Recovery of embezzled amount
Md Masiduzamman	3174	Termination	<ul style="list-style-type: none">• Clearance certificate• Copy of disciplinary proceeding• Recovery of embezzled amount
Tahmina Akhtar	3578-2	Retirement	<ul style="list-style-type: none">• Clearance certificate
Mahena Rahman	0013-3	Retirement	<ul style="list-style-type: none">• Deduction of Taka 10,056 from retirement benefits, on account of personal telephone calls.

C. Disbursement of salaries

- The staff salary analysis sheet and the pay slips are test checked by the financial accountant, however, a formal recheck is not performed;
- Payroll deductions are not verified prior to payment;
- Salaries are paid mostly in cash;
- No comparative analyses are made between the payroll cost incurred in the current and previous months and reconciliations prepared.

D. Implications for BRAC

- Unauthorised access to payroll database, may result in fraudulent amendments being made;
- Increments based on the number of years of service, and performance appraisals not being discussed, may lead to employee dissatisfaction;
- Salary being disbursed in cash, increases the risk of misappropriation and fraudulent payments;
- Irregularities/weaknesses greatly increase the risk of incorrect processing.

A. Payroll processing and employee maintenance

- Personnel files should be maintained for all employees and should contain educational background, an up-to-date salary history, performance evaluations, transfer sheet, training evaluation details and other matters. This system will keep a track of all amendments made, to the payroll database;
- The personnel manager at the HO and the Regional Manager at the offices should periodically supervise the distribution of payroll slips/cash on an unannounced basis to ensure the existence of employees being paid;
- The employees of the personnel department should have their own login facilities and personalised passwords to access the payroll database;
- Procedures should be established to formally document changes made to the payroll master files, including comparison of control totals by the personnel and accounts departments. Any changes made should be reviewed to be sure that the payroll changes were authorized and properly calculated;
- BRAC should consider generating a "payroll change listing" which notes any pay increases, pay scale revisions and transfers to other divisions/departments. This report should be reviewed by the financial accountant before processing of the payroll to ensure pay changes and revisions are appropriately approved and;
- BRAC should institute a formal evaluation process, whereby the performance of employees may be fairly analysed. Consideration should be given to gender and difficulties in performing the operational role. See Annexure D (Page 72).

B. Disbursement of salaries

- BRAC should consider entering in to an agreement with a bank, whereby the salary of the employee would be credited to the employee's account, based on an employee-wise salary statement prepared by the accounts payroll department, wherever practicable.
- The disbursement process should be computerised;
- Accounts assistants should verify the gross salary paid to the employee database, to ensure accuracy of amounts paid; and
- Payroll deductions should be independently verified by accounts assistants, prior to payment;

2.4 PROCUREMENT

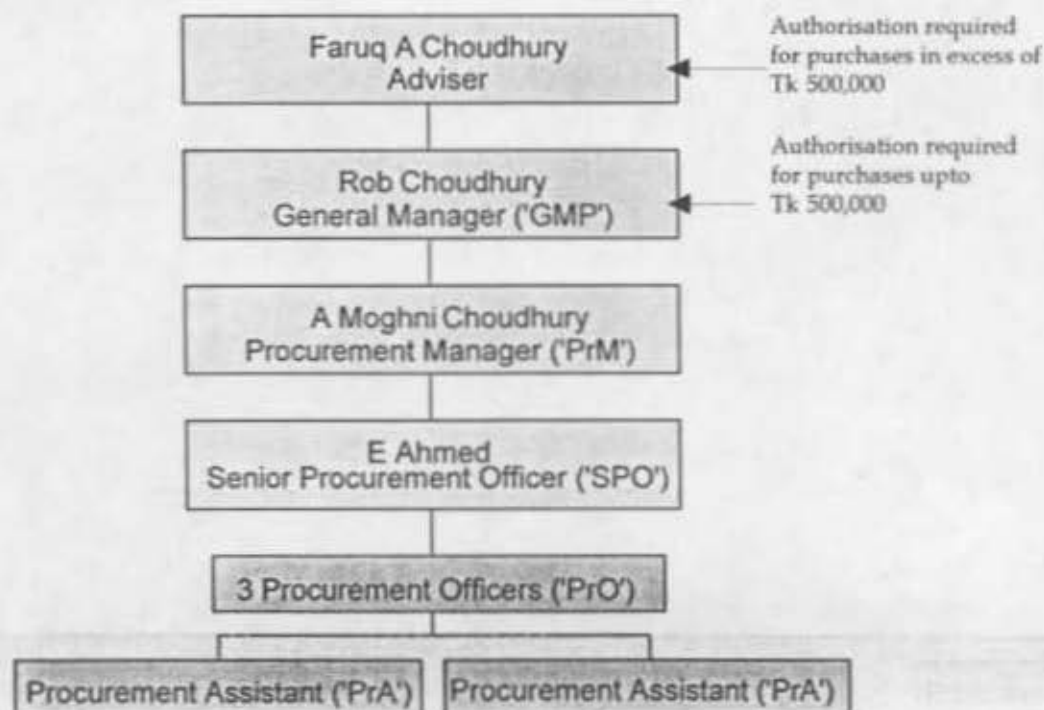
A. Background

In 1996, BRAC purchased materials and assets worth over Tk 700 million. These purchases were made for various programmes operated through the country and consisted of items from cars and motorcycles to books and poultry feed. Considering the above volumes and the fact that local purchases are not always possible, BRAC procures its materials centrally to ensure better standard control over quality, price and to economise on bulk purchases. The following table summarises the purchases made by the NFPE and RDP on a quarterly basis:

In Taka '000s

	1996						1997	
	Apr-Jun		Jul-Sep		Oct-Dec		Jan-Mar	
	Budgeted	Actual	Budgeted	Actual	Budgeted	Actual	Budgeted	Actual
NFPE	52,379	18,504	38,397	17,640	23,727	12,563	79,983	31,277
RDP	12,175	8,190	33,238	11,466	8,035	14,687	20,643	10,220

B. Organisation structure



The centralised Procurement Department ('PD') of BRAC is located at the HO and is headed by a General Manager. The PD is responsible for purchasing all goods, as specified by the requisitioning department within a designated time frame. Further, on some occasions, local purchases are also made with the

consent of the RM. These are in the nature of vaccines, medicines, day old chicks, etc.

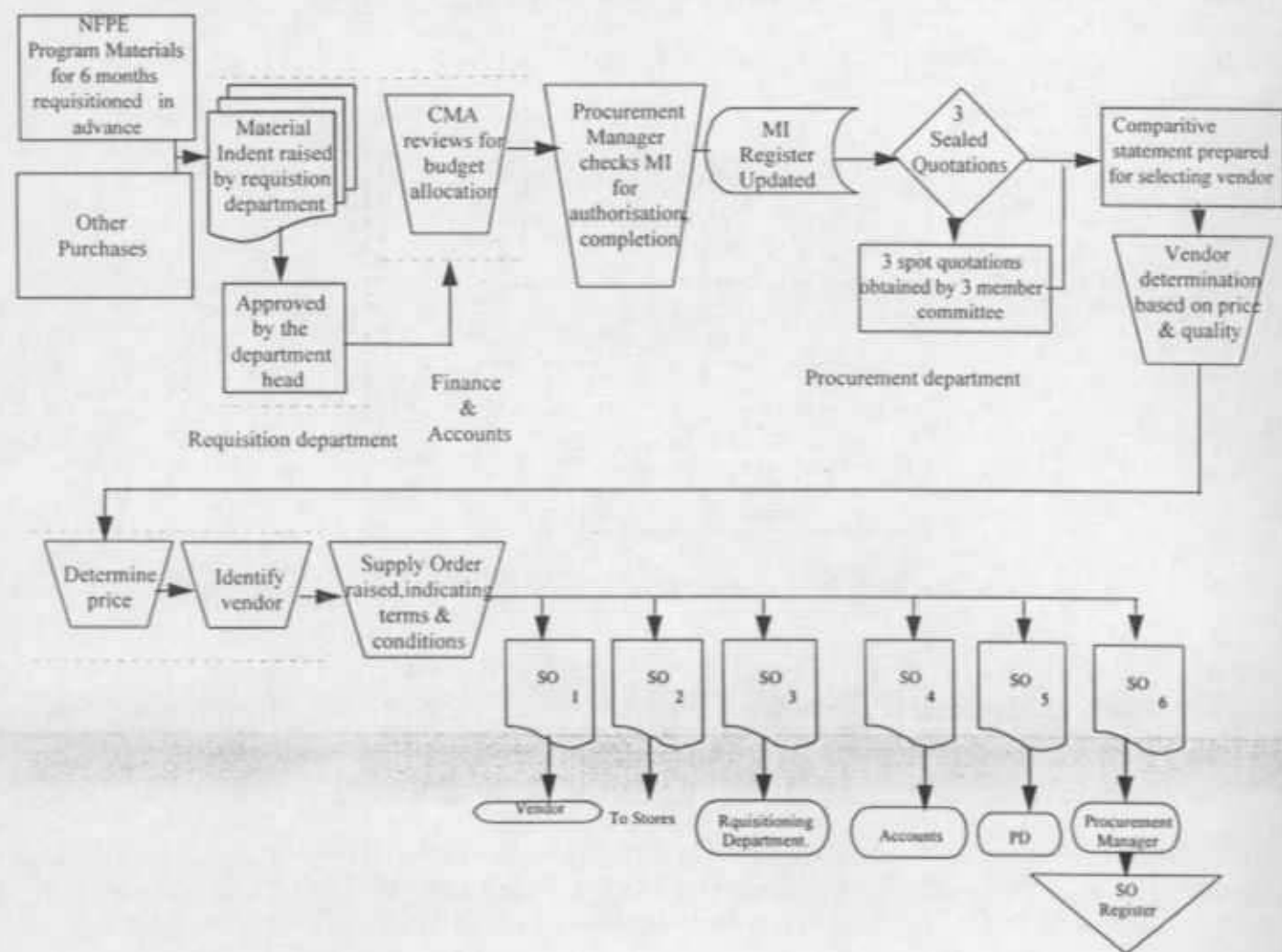
The overall responsibility for the day to day management is with the GM, who is authorised to make, purchases upto a monetary limit of Tk 500,000. Purchases in excess of Tk 500,000 are authorised by the Adviser. The procurement manager supervises Material Indent ('MI') preparation and the supplier payments.

The PrOs and PrAs help the procurement manager ensure that supplies and outstanding MI's are being received as per schedule within the time limits and follow up with vendors in case of delays.

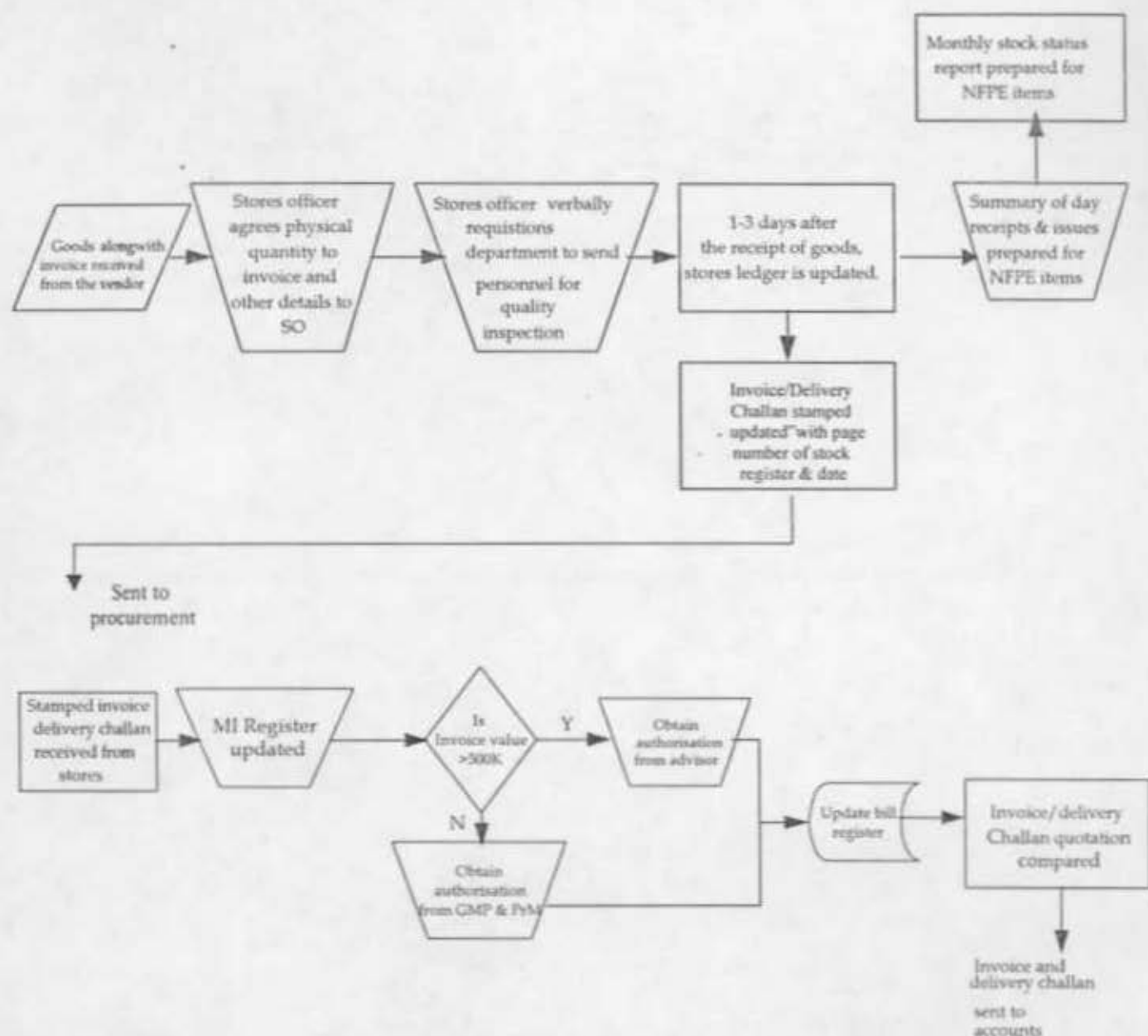
C. Present activities and key components

Purchasing Function

The purchasing activity begins with the raising of the MI by the requesting department (ie RDP, NFPE etc). The purchasing function consists of the following activities:



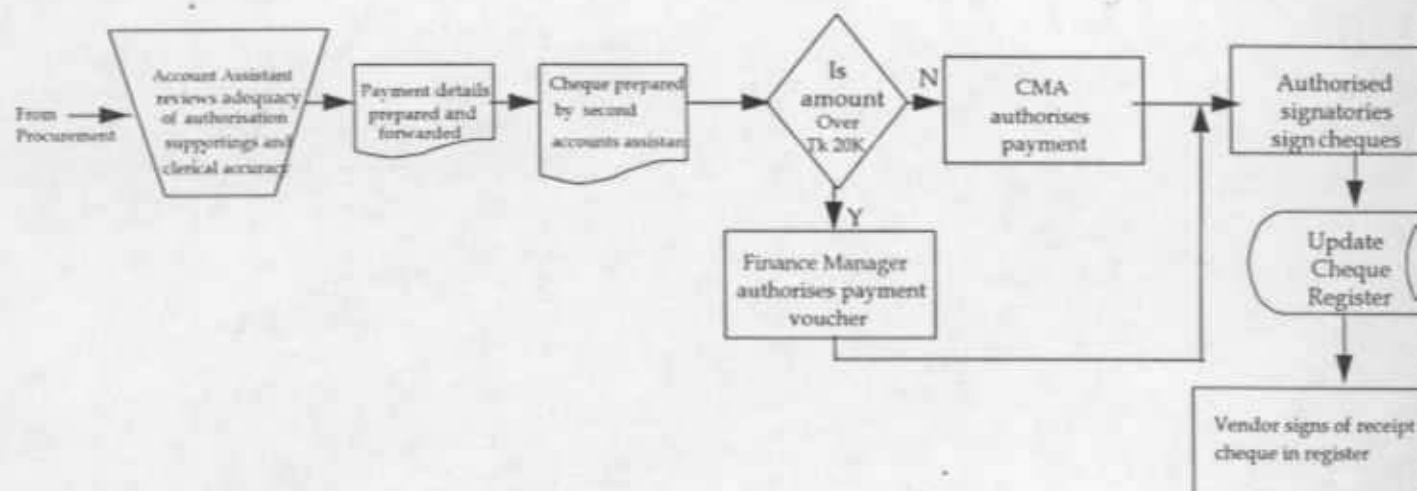
The *Receiving Function* consists of the following activities:



Accounts Payable

- BRAC does not recognise any accounts payable and makes payment within 2-3 days of receiving the invoice from the supplier

Cash disbursements

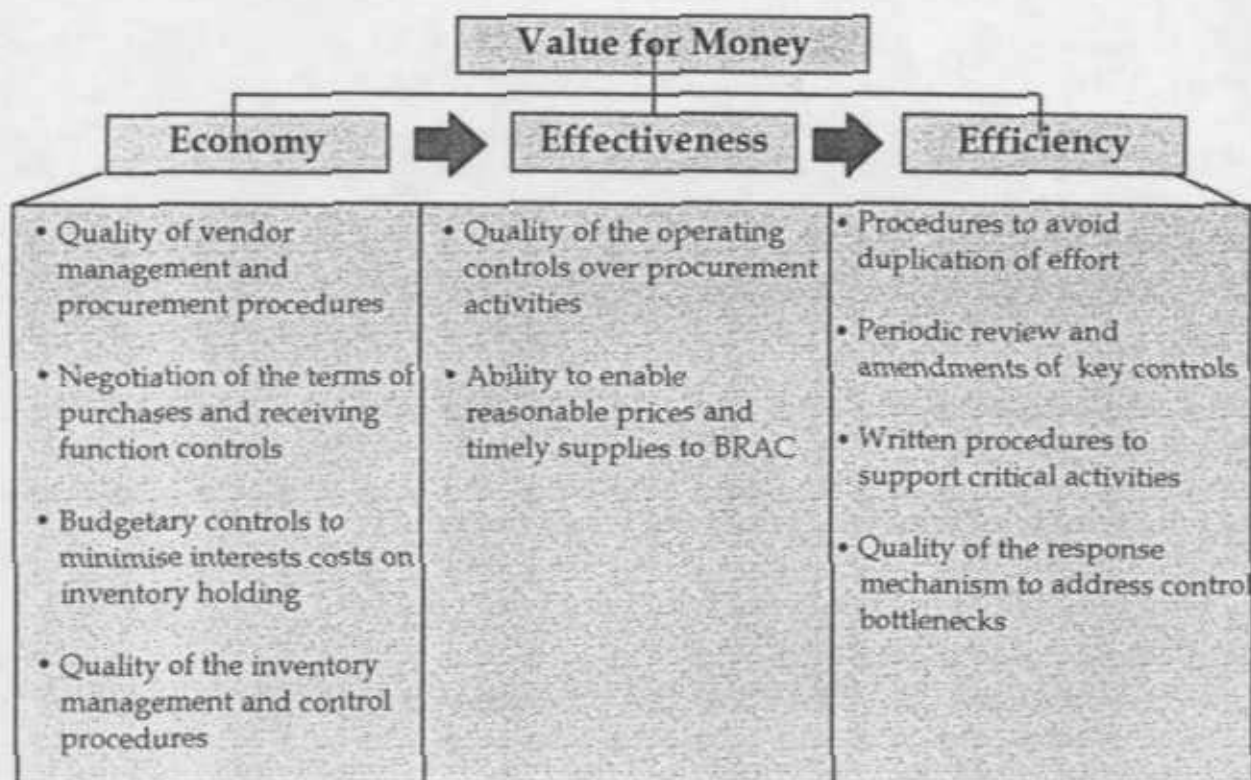


At the end of the month, the Bank register is prepared from the daily cash disbursement summary. The bank reconciliations are prepared and the accounts assistant follows up on cheques issued but not presented for payment.

2.4.1 RESULTS OF PROCEDURES PERFORMED

A. Value for money

During the course of our review, we also focussed on the Value for Money Concept and performed certain procedures to review the economic effect and efficiency of the procurement procedures and controls:



The following summarise the material weaknesses noted by us during the course of our review:

B. Purchasing

- Presently, tenders or quotations related advertisements are not published in newspapers, except for NFPE items. As per policy, all purchases with a value of Tk 25,00,000 are however to be made only through advertisements in local newspapers.
- Database on vendors/suppliers, except for NFPE items, is not maintained. Hence, BRAC does not have a history on defaulting suppliers, as regards delayed supply, poor quality, etc, for future reference.
- Terms of credit for purchases are not negotiated with vendors and presently, all purchases are settled within a week.
- BRAC does not have a policy on purchases made for emergency purposes. During our review of the emergency purchase made in June 1996 in excess of TK 20,000, we noted that such purchases were regularly being made.

IOU number	Description	Amount
1165, 1092	Purchase of toner and microphone	34,000
971, 1009	Electrical fixtures	24,844
1053	Electrical fixtures	48,595
1064, 1103	Purchase of office equipment	21,534
1101, 1140	Purchase of office equipment	42,978

- During the course of our review of competitiveness of purchase prices, we noted instances of purchases made at prices higher as compared to market rates prevailing in neighbouring countries. Considering that a vendor performance appraisal system is not in place, BRAC should evaluate maintaining a documented trail of such decisions. An example of the potential benefits to BRAC, if such items are imported is provided below:

Description of item	Cost of acquisition (A)	Price in India (B)	Rate of duty	Custom duty and clearing charges (C)	Cost of acquisition (D=B+C)	Savings (E=A-D)
80 cc Motorcycle	88,500	24,700	Basic 45% VAT 15% Others 7.5%	19,600	44,300	44,200
50 cc Motorcycle	68,600	20,000	Basic 45% VAT 15% Others 7.5%	15,800	35,800	32,800

C. Receiving

- Presently, the warehousing operations are the administrative responsibility of the Personnel Manager. This inhibits effective supervision of the warehousing activities.
- No written procedures exist for:
 - receiving of goods;
 - warehousing activities;
 - identification of slow/non-moving and obsolete items;
 - dispatch of goods from stores.
- Goods Received Notes ('GRN') are not generated on receipt of goods.
- We noted several weaknesses in the inventory accounting and management mechanism:
 - Physical inventory issues do not follow a First in First out mechanism and issues are made at random from stores.
 - Program and commercial inventories are not segregated; and
 - Inventories are presently valued at the last purchase price and not in accordance with generally accepted accounting principles;
- Our review of the HO stores in July end indicated that approximately 20 per cent of the inventory worth more than Tk 16 million was over seven months old. Further, about 25 per cent of these goods are obsolete.

An aging analysis as of July end is presented below:

In Takas

Description of items	Year					Total as of July 31, 1997
	1993	1994	1995	1996	1997	
Publication material	342,961	326,552	847,654	1,950,973	1,388,079	4,856,219
Stationary - HO for RDP and WHDP	0	0	70,710	140,115	4,409,702	4,620,527
NFPE 1st and 2nd year books	0	0	965,334	657,829	5,328,062	6,951,225
NFPE 3 rd , 4th and 5th year books	0	31,423	515,044	366,058	19,013,118	19,925,643
NFPE story books	0	0	0	44,495	5,274,657	5,319,152
NFPE stationary	7,330	0	448,420	1,397,006	16,097,669	17,950,425
NFPE pads	0	89,750	516,280	6,796,227	299,228	7,701,485
NFPE others	0	0	101,420	621,186	298,4724	3,707,330
Motor cycles:						
Honda 50 c.c.	0	0	0	0	3,430,000	3,430,000
Honda 80 c.c.	0	0	0	0	12,213,000	12,213,000
Total	350,291	447,725	3,464,862	11,973,889	70,438,239	86,675,006
% of total	0.27	0.41	3.44	15.79	80.09	100

As indicated above, most of the aged materials relate to NFPE inventories. This is because six months worth of purchases are placed six months in advance. This is done as follows:

- the total number of schools to be opened/closed during the six months period are estimated;
- total children are estimated on an average of 32 per school;
- the total requirement of books, stationery and 'Khatas' (notebooks) per child for six months as per programme is tabulated;
- the above two are multiplied to arrive at quantitative requirement as per schedule.

However, this approach, does not take into consideration, the existing stocks at the field offices. Further, the stores ledger is not updated regularly.

C. Implications for BRAC

- Absence of a vendor database, list of defaulting suppliers, may result in purchasing poor quality of items from vendors;
- Excessive emergency purchases may result in higher prices for purchases;
- Completeness of accounting for purchases made and physical control over inventories cannot be ensured.
- Incorrect valuation of inventories as generally accepted accounting principles require use of FIFO, weighted average, etc.
- Blockage of funds and capital.

2.4.2 OPPORTUNITIES FOR IMPROVEMENT

A. Purchasing

BRAC should consider minimising use of emergency purchases. Departmental heads may be made responsible for poor purchase planning leading to such purchases being made.

- In view of the present level of inventories the following purchase planning and vendor monitoring techniques should be utilised:
 - Reviewing inventory turnover on a regular basis;
 - Using systems software to achieve timely and accurate materials requirements planning and inventory control;
 - Improving vendor performance. Such projects as vendor inspection, reduced lot sizes and just-in-time deliveries may be appropriate;
 - Establishing performance reporting. This involves determining and assigning specific responsibilities for inventory management (purchasing, projects management, material control, etc.), defining performance criteria and implementing a reporting system;
 - Monitoring performance: Results should be monitored at a level of detail and frequency to facilitate timely corrective action;

B. Receiving

- We noted that BRAC does not use receiving reports at field offices to document receipts of inventory, well equipment, etc. We suggest that a prenumbered receiving report form should be prepared by field personnel to document receipt of equipment. The copies can be distributed as follows:
 - one copy to vendor;
 - one copy forwarded to Head Office accounts;
 - third copy with receiving office;
- Presently, BRAC determines its inventory value based on the last invoice price. This method of recording perpetual inventory is inaccurate and not a generally acceptable accounting practice. Accordingly, BRAC should consider remedying this practice:
- Inventory should be reviewed on an ongoing basis for non-moving items and excess stock. A usage report, by item, would help to highlight obsolete or excess stock levels as, efforts could then be directed towards disposing or identifying alternative uses for such items
- As BRAC's inventory levels continue to grow along with operations, the significance of proper inventory count procedures at all locations and the importance of the stores manager will become increasingly important. Hence, appropriate procedures need to be incorporated to :
 - ensure that all inventory items are properly accounted for and
 - ensure that inventory shrinkage is detected on a timely basis.

A model set of inventory count procedures and a role profile of the Stores Manager have been presented in Annexure E (Page 76) and Annexure F (Page 78).

- In an effort to provide adequate insurance coverage, we recommend that:
 - Annually, BRAC should review its insurable risks with its insurance broker and develop a programme to insure those risks at an economic cost to BRAC. Some of the areas that should be reviewed include inventory, property loss or damage etc;
- A quality control mechanism should be set up at stores for inspection of receipts and prenumbered payment vouchers.

C. Disbursements

- BRAC should consider minimising its interest costs through effective negotiation of the credit periods with vendors and utilisation of an effective accounts payable function
- The receiving department should maintain a sequential log of receiving reports (with hardcopy backup on file) and copies of these logs should be forwarded to accounts payable department weekly to verify recording of receipts via batch balancing.
- Access to cheques that are in process of being approved should be restructured.

A. Background

The NFPE has established 34,175 schools in the backward areas of the country providing education to over 1.1 million students, over 70% being girls. The programme is based on two basic school models, the NFPE model for children in the age group of 8-10 years and the Basic Education for Older Children ('BEOC') for children between 11-14 years.

In 1992, the NFPE programme was extended to cover children living in the urban slum areas. To cultivate a reading habit amongst the children, who graduate from NFPE, Kishori School Libraries have been formed. BRAC has also promoted the establishment of The Reading Circle or Path Kendras and the Union Libraries or the Gono Kendras to create a learning environment in the villages.

The budgeted expenditure for NFPE for the period April to December 1996 was Tk 618.87 million, whereas the actual expenditure incurred was Tk 486.26 million.

The following chart, illustrates the allocation of the budgeted and actual expenditure on the above mentioned heads, for the period April to December 1996.

Description	Budgeted		Actual	
	Tk millions	%	Tk millions	%
Teachers cost	242	40%	225	46%
Students books & supplies	209	33%	129	26%
Field Operations	80	12%	80	17%
Research & evaluation	5	1%	4	1%
HO Logistics & Management support	53	9%	39	8%
Library Program	18	3%	6	1%
Innovative program & material development	12	2%	3	1%
<i>Total</i>	619	100%	486	100%

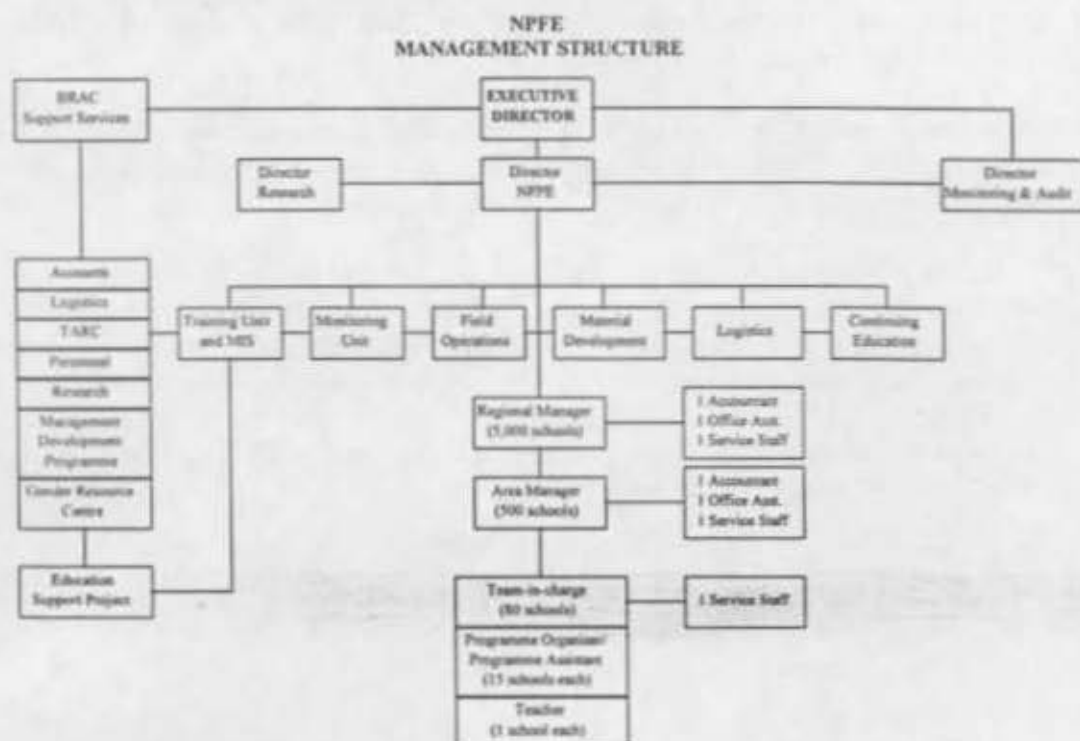
Over 98 percent of the NFPE expenses are school related and are incurred on supplies and teachers' salaries. The results of our review of payroll and procurement activities have been presented in the previous sub sections, hence the above have a significant impact on the NFPE expenditure and operations.. Other expenses include the expenditure incurred on the library programme (approximately Tk18 million) and on innovative programme and material development (approximately Tk12 million)

B. Objectives of NFPE

- To reach the target children, ie the children from the poor families, non-enrolled and school drop outs;
- To promote the education of girls, with cost effective and quality education;
- To recruit a cadre of teachers, predominantly women and to maintain a teacher-student ratio of 1:33 to ensure individual attention by the teacher;
- To undertake teacher training and continuous teacher development courses supported by need based teaching materials;
- To hold monthly parents meetings and to discuss issues significant to the school;
- To establish one class schools based on the two-school model of NFPE and BEOC.

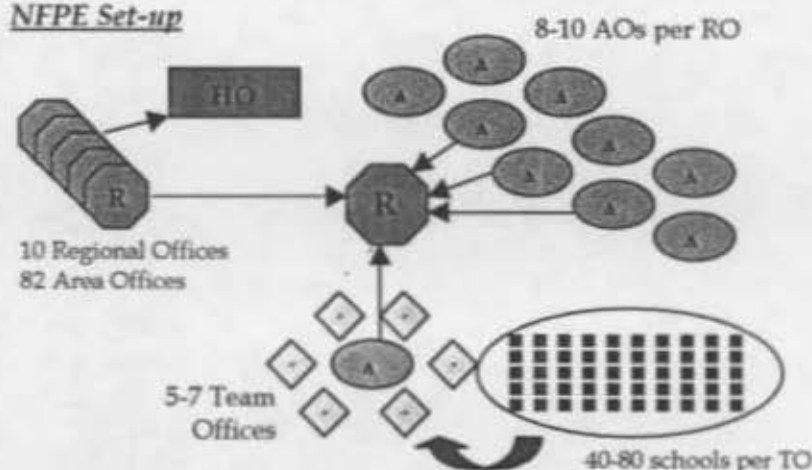
BRAC undertook the Education Support Programme ('ESP') in 1991, to mobilise partnership for NFPE with small NGO's, by providing technical and financial assistance aimed towards the eradication of illiteracy. This programme was undertaken to share its expertise with these NGO's on school organisation and supervision, teacher and staff training, class room management and instruction, community participation, progress monitoring and curriculum development to enable them to replicate BRAC's NFPE model successfully.

C. Organisation structure and key components



The overall responsibility of the programme is with the Executive Director. The day to day supervision of the Programme is carried out by the Director, who is responsible for developing programme policies, concepts, experiments and ensure implementation of every component of the programme at the field level. The Director is assisted by a education specialist who plans the teachers training, develops the training material and advises on matters relating to staff and teacher development.

NFPE Set-up

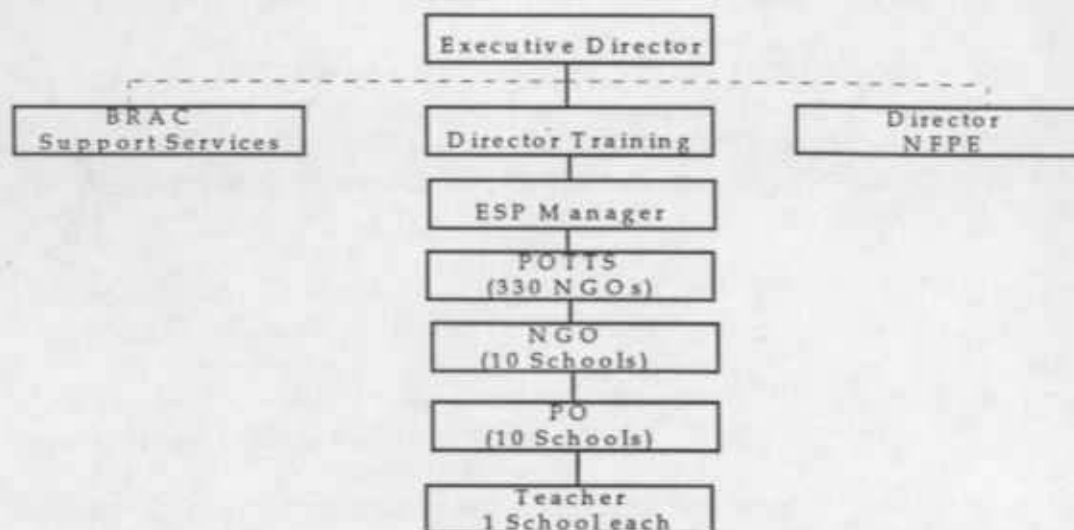


The RM who is responsible for approximately 5,000 schools manages the field operations. He is assisted by an Area Manager ('AM') who is responsible for operation of approximately 500 schools.

A team headed by a team-in-charge is responsible for approximately 80 schools and is assisted by one Programme Organiser ('PO') and four Programme Assistants ('PA').

The ESP is headed by the Director Training, though the day to day management rests with the ESP Programme Manager ('ESPM'). The ESPM is assisted by 29 Programme Officer Technical Support Specialist ('POTSS'), who have an experience of minimum 2 years as PO's in NFPE. One of the main tasks of the POTSS is to visit the partner NGO on a monthly basis and see to it that everything is in order. The ESP department monitors and implements the programme in consultation with the Director Programmes and Director NFPE.

The ESP department is structured as follows:



ESP has provided technical and financial support to 331 NGOs' covering approximately 5,419 schools. The financial support has been provided to 278 NGOs' for 2,995 schools. The estimated cost of the financially aided schools for a period of three years is Tk 158,097,384, with the average cost per child per year being Tk 689.

C. Key Components

Teacher's cost: This head of expenditure mainly comprises of salaries paid to the teachers, based on their pay scale:

Category of teacher	Salary
Class I	550
Class II	575
Class III	600

The records of salary disbursements are maintained at the AO and it is the responsibility of the PO to ensure correct and timely payment.

The other component of this head is the expenditure incurred on training of these teachers at the TARC centers and on the monthly refresher courses, teacher aids and supplies.

Students' books and supplies: It comprises of expenditure incurred on Students books and supplies, reading materials, class room supplies, etc.

Field Operations: It mainly comprises of team office cost, salaries and benefits of team leaders, salaries and benefits, traveling and transportation charges of PO and PA, school and office rent, utilities and stationeries of the AO's, RO's and team offices.

Research and Evaluation: Represents cost incurred at the HO by RED on NFPE.

HO Logistics and Management Support: Represents HO cost apportioned to NFPE upto a limit of 10 per cent of total programme expenditure.

Teachers training and school monitoring

- Basic training and orientation course: After selection, the teachers have to undergo a 21-day practical training at the TARC. This training prepares the teachers as classroom facilitators and provides them with an understanding of the NFPE process. This training is followed by a three day orientation programme;
- Monthly refresher courses: These are conducted for teachers on a monthly basis and are of 42 days duration over the three year academic span;
- A special 12-day training in Math's and English is conducted for the BEOC schoolteachers on course completion of 24 months of the school.
- Daily assessments for students are made at the end of each lesson, and it may be in the form of oral questions and answers, writing on the slate board, class assignments etc;
- Weekly and monthly assessments, taking written tests of the children at the end of the week/month for each subject taught. The teacher notes the grade obtained, through this grade is not disclosed to the pupil or to the parents. It is on the basis of these grades that the teacher evaluates the student and provides extra guidance, if necessary;
- Standardised Achievement Tests and assessment of basic competency are conducted to evaluate the progress of the student and also to assess the efficiency of the curriculum.

However, scientific evaluation of the effectiveness of these activities is not carried out. We have presented such instances as a part of opportunities for improvement identified by us.

2.5.1 RESULTS OF PROCEDURES PERFORMED

We also noted the following significant weaknesses during the course of our review:

A. ESP schools

- The selection criterion adopted does not include verification of financial information of the NGOs. Statements of receipts and expenditure are not available for partner NGOs.
- ESP provides the partner NGO with books, khattas and other supplies on an annual basis, to meet the yearly requirements. On our visit to the NGO called Social Advancement Through Unity ("SATU"), we noted that on September 3, 1997 there were 6,000 khattas in stock which appeared to be high in view of the expected consumption.
- SATU was paying salaries to the teachers and the PO by the third of the following month and not at the end of the month. Further, the PO was being paid only Tk 1,800 and not the stipulated Tk 2,000 as salary;
- There was no segregation of inventory at the SATU stores between NGO stock and ESP stock;
- The POTSS usually visit three schools per NGO in a month, thereby each school is visited, on an average, once in three months;

B. MIS reports

- Our review at the Tangail Team Office, on September 2, 1997, revealed that reporting formats required as per HO guidelines were not being adhered. A summary of our observations is attached as Annexure C (Page 62).

C. Implications for BRAC

- Misappropriation of funds by NGO;
- Project objectives may not be met;
- Misappropriation of school supplies, due to excessive inventory;
- The reporting objectives may not be achieved, as reports are not prepared on time or in the prescribed format;
- Ineffective monitoring of students performance.

2.5.2 OPPORTUNITIES FOR IMPROVEMENT

A. Evaluation and performance monitoring

- The teacher should record the performance of the student. See Annexure G (Page 79).
- The teacher should discuss a student's performance with the parents during monthly meetings for all ratings below a certain specified score.
- The PO to investigate reasons for poor performance of the students in a particular NFPE school, and take appropriate steps.
- The NFPE schools should have a facility of maintaining student records. These records should be locked and kept in a manner so as to prevent damage from water, dust, etc.

B. ESP Schools

- The organisation profile should be accompanied by a copy of the last three years audited financial statements for the last three years.
- If the statements have not been audited, the NGO head should certify the authenticity of the financial statements.
- In cases where the assistance exceeds Tk 1,000,000 per year, the internal auditors of BRAC should certify the existence of controls of the NGO.
- Excessive supplies at these schools increases the risk of pilferage, misuse and damage.
- We recommend that the following steps be initiated by BRAC to ensure adequate control over school supplies.
 - NGO to submit on a quarterly basis the inventory status report
 - Supplies to be made on a quarterly basis to partner NGOs based on estimated requirements for the next quarter
 - The balances at six-monthly intervals to be verified by POTSS
 - NGO to keep a separate stores register for ESP school suppliers, which should be signed by the POTSS at the time of physical verification of stock
 - Any excess inventory at the end of the cycle, should be duly accounted for and returned to BRAC
 - BRAC's internal audit team to visit at least five schools for every partner NGO, and to submit a report to ESP Manager and Finance Manager on an annual basis.
- To keep a record of correct and timely disbursements of salaries, both to PO and the teacher, a report should be submitted by the NGO on a monthly basis
- A monitoring questionnaire should be filled by the POTSS, on their visit to the ESP school. See Annexure H (Page 80).

C. MIS Reporting and school supplies

- It should be the responsibility of the AM, to ensure that all reporting formats are adhered to and the deviations if any, should be approved by the HO.
- The PM at the HO should maintain a checklist to ensure timely and correct submission of MIS reports from the individual Area Offices. See Annexure I (Page 85).

2.5.3 UNIT COSTS

A. Background

The terms and conditions of donor agreements, require BRAC to compute the cost of educating a student per year in the NFPE schools ('unit cost'). BRAC presented the computation of this unit cost to the donors of NFPE at the time of submitting its proposal, based on an estimated expenditure on the NFPE schools. This unit cost is compared with the actuals and the variances are reported to the donors.

B. Present computation mechanism

- The unit cost is computed based on the various heads of expenditure, which are incurred in the NFPE Schools and is presented below;

Head of expenditure	Projected unit cost (Taka)	Actual unit cost (Taka)*
Teachers Cost	27,212	26,996
Student Books & Supplies	26,570	23,361
Field Operation	8,658	9,061
HO Management & Support Services	6,244	5,942
Research & Evaluation	624	594
Innovative Programme & Materials	1,249	1,188
Total cost per school (with 33 children) over a three year period	70,558	67,141
Total cost per child per year	713	678

* Actuals relate to the period Apr-Dec 1996

- The actual expenses incurred during the reporting period are divided by the number or quantity, corresponding to the head of expenditure;
- The unit cost per month for the expense head obtained is multiplied by 36 to obtain the unit for the cycle, ie 36 months;
- In case, the expenditure is incurred once in a cycle, for example the teacher's 15 day training, the amount is not multiplied by 36.
- The total 36 month cycle cost per school is then divided by three and the number of children per school (ie 33) to arrive at the per child per year cost.

Computation of Teachers cost

- The 15 days cost for teachers basic training and teachers aid and supplies is computed on the assumption that 30 % of new teachers would be hired on account of opening of new schools and 10 % of the teachers would be replaced on account of resignation, termination and death.
- The teachers' unit cost for the three-day orientation course is computed, based on the number of teachers trained. However BRAC has erroneously divided the unit cost obtained by three, thereby understating the unit cost.

Cost of books and supplies

- Students' books and supplies cost are on the basis of cash purchases made during the period.

General assumptions

- Travelling and transportation charges are assumed at the time of preparation of the budget to be 21 % of the 1/3 cost of salary of PO and PA and 30 % of the salary of the team incharge, area manager, store keeper, Regional Manager and the Monitor.
- The teachers and learners' books and supplies unit cost computation includes 1/3 cost of salary of PO, PA and Area Team office staff, and 1/3 cost of Area team office rent, office utilities, stationery and general maintenance.

Cost of field operations

- Budgeted staff training & development cost based on historical trend is assumed to be 10 % of the total salary. BRAC has always charged the actual amount incurred.
- The total unit cost arrived at includes:
 - 10 % of the total expenses as HO management and services, adjusted subsequently at year-end for actuals;
 - Expenses on Research and Evaluation (1% of total expenses as per budget)
 - Expenses on Innovative programmes and material development costs. (2% of total expenses as per budget)

The unit costs are however not being utilised by BRAC for its monitoring or review of the programme activities.

C. Opportunities for improvement

BRAC should develop a scientific and accurate basis to allocate expenses considered in the unit costs and report changes periodically to donors.

Computation of Teacher costs

- The actual expenditure incurred on teachers' supplies should be calculated as follows:
 - The opening value of stock at the beginning of the period
 - Add: Cash purchases during the period
 - Less: Closing value of stock at the end of the period.

Cost of books and supplies

- The actual expenditure incurred on books and supplies should be calculated as follows:
 - The opening value of stock at the beginning of the period
 - Add: Cash purchases during the period
 - Less: Closing value of stock at the end of the period.

Tangail NFPE team office - Summary of HO reporting compliance

Form No	Description of Form	Discrepancies noted
1/N	Survey on boys/girls (8-10) years	<ul style="list-style-type: none"> The format as per HO requirements was not being adhered to The form was not dated or the form was not signed
1/K	Survey on older boys/girls (11-16) years	<ul style="list-style-type: none"> The form was not dated or signed
02	Possible list of teachers	<ul style="list-style-type: none"> The last date of preparation was November 1995
03	List of school house	<ul style="list-style-type: none"> The format as per HO requirements was not being adhered to
4/N	Selected learners list (8-10) years	<ul style="list-style-type: none"> The last date of preparation was in 1995
05	Selected teachers bio-data	<ul style="list-style-type: none"> The last date of preparation was in 1994
06	Budget for extension development of school	<ul style="list-style-type: none"> Last date of preparation was March 1997
07	Interim budget for extension development of school	<ul style="list-style-type: none"> Last date of preparation was January 1997
08	Village Committee	<ul style="list-style-type: none"> Last date of preparation was 1994
10	Weekly school visit report	<ul style="list-style-type: none"> The last report prepared was for the week ended August 22, 1997, but the report for the week ended August 30, 1997 was not prepared
11	Monthly school visit report	<ul style="list-style-type: none"> Last date of preparation was July 1997
12	Monthly parents meeting	<ul style="list-style-type: none"> Last date of preparation was July 1997
15	School opening date	<ul style="list-style-type: none"> The report was not dated The report was not signed
21	Information of course completed learners	<ul style="list-style-type: none"> The school opening date was May 1994 and closing was January 1997 ie 2.5 years was the duration of the school

2.6 ADMINISTRATIVE COMPLIANCE - DONOR GRANTS

The following table summarises certain key conditions laid out in the grant documents not complied with by BRAC. BRAC should consider initiating action steps to enable compliance or obtain necessary waivers from the concerned donors.

PROJECT	SYNOPSIS OF REQUIREMENT	COMMENTS ON NON-COMPLIANCE
NFPE/RDP	Interest earned on project funds to be utilised for project	As per our discussions, the donor funds usually are in deficit, resulting in interest costs. Interest earned on project funds are not credited to the project
NFPE/RDP	Procurement of goods and services as proposed by EU	<p>As per our discussions and review, the non-compliance generally related to:</p> <ul style="list-style-type: none"> • invitation to tender not being published in the press, other than for NFPE items; • the appropriate representative of the EU not being a part of the committee that assessed and awarded the contracts. <p>We have been informed that as the contract with the EU was signed only in March 1997, BRAC did not adequately monitor/comply with the EU procurement procedures.</p>
NFPE/RDP	Procurement of goods and services as proposed by DGIS <ul style="list-style-type: none"> • All goods and works contracts exceeding Dfl 1 million to be procured through International Competitive Bidding ('ICB') • If contract value is less than Dfl 1 million, a minimum of three international bids without open advertisements is required through Limited International Bidding ('LIB') • If contract value is less than Dfl 0.5 million, procurement may be made by comparing price quotations obtained from three different suppliers under International Shopping ('IS') • Direct purchases to be made if contract value is less than Dfl 25,000 	Supply Order raised by the Procurement Manager does not specify the Liquidated damages clause and the Settlement of disputes clause
NFPE/RDP	Prior approval required for 10 % variations under Tk 50 million or 5% variations in line items over Tk 50 million	We have been informed that no prior approval is taken, however, the quarterly reports to the donors indicate the variations

PROJECT	SYNOPSIS OF REQUIREMENT	COMMENTS ON NON-COMPLIANCE
NFPE/RDP	BRAC to obtain insurance for all owned properties	BRAC has obtained insurance for motor vehicles only. BRAC Center, TARC centers and other offices owned, including furniture and fixtures are not insured.
NFPE/RDP	All items costing over GBP 500 and having an estimated useful life of over 1 year, to be treated as property of ODA and BRAC to maintain all records as regards identification number, description of item, date of purchase and value. These items are not to be sold without consent of ODA	As per our discussions with BRAC personnel, this clause in the agreement has been verbally deleted, as it was not possible to identify individual purchases for a particular donor

2.7 SCHEDULE OF ACRONYMS

AKF	Aga Khan Foundation
AM	Area Manager
AO	Area Office
BEOC	Basic Education for Older Children
BINP	Bangladesh Integrated Nutrition Programme
BPF	BRAC Project Fund
CIDA	Canadian International Development Agency
CMA	Chief Management Accountant
CMS	Credit Management System
DANIDA	Danish International Development Agency
DFL	Dutch Florence Guilder
DGIS	Directorate-General for International Cooperation, Netherlands
EDP	Electronic Data Processing
EHC	Essential Health Care
ESP	Education Support Programme
ESPM	ESP Programme Manager
EU	European Union
FA	Financial Accountant
FM	Finance Manager
FPFP	Family Planning Facilitation Programme
GoB	Government of Bangladesh
GBP	Great Britain Pound
GMP	Gender Management Programme
GQAL	Gender Quality Action Learning
GRN	Goods Received Note
GTF	Group Trust Fund
HO	Head Office
HPD	Health & Population Division
HRLE	Human Rights & Legal Education
IGVGD	Income Generation for Vulnerable Group Development
KfW	Kreditanstalt für Wiederaufbau, Germany
M&IA	Monitoring & Internal Audit
MI	Material Indent
MIS	Management Information System
NFPE	Non Formal Primary Education
NGO	Non Government Organisation
NOVIB	Netherlands Organisation for International Development Cooperation
ODA	Overseas Development Administration
PKSF	Polli Kormo Shohayok Foundation
PA	Programme Assistant
PC	Personal Computer
PD	Procurement Department
PM	Programme Manager
PO	Programme Organiser

POTSS	Programme Officer Technical Support Specialist
PrA	Procurement Assistant
PrM	Procurement Manager
PrO	Procurement Officer
RCTP	Rural Credit & Training Programme
RCP	Rural Credit Project
RDP	Rural Development Programme
RED	Research & Evaluation Division
REP	Rural Enterprise Project
RHDC	Reproductive Health & Disease Control
RM	Regional Manager
RO	Regional Office
RSS	Regional Sector Specialist
SATU	Social Advance through Unity
SLDP	Smallholder Livestock Development Programme
SO	Stores Officer
STD	Short Term Deposits
STO	Senior Procurement Officer
Tk	Taka
TARC	Training And Resource Centre
UNFPA	United Nations Food Programme
UNICEF	United Nations Children's Fund
USAID	US Agency for International Development
VFM	Value For Money
VGd	Vulnerable Group Development
VGDEP	Vulnerable Group Development Education Programme
VO	Village Organisation
WHDP	Women's Health & Development Programme

3.1 DONOR COMMENTS AND AA RESPONSE

A. DFID - NFPE

(a) Comment

It may be useful to highlight certain points more emphatically in the 'Significant Observations and Recommendations' section.

Response

We have suitably incorporated the points highlighted in our 'Executive Summary'. Please refer to section 1.1.

(b) Comment

The appraisal system being recommended in Annexure B, D and E (revised Annexure numbers E, G and H) may not be appropriate for a developmental organisation.

Response

The modifications suggested are based on the existing appraisal forms in use by BRAC. The annexures seek to highlight the need for objective staff/student evaluations. Changes, if any, more suited to performances based on development initiatives, can be made by BRAC.

B. DFID - RDP/ OTHERS

(a) Comment

In respect of controls, detective systems are necessary before preventive systems are introduced. Are the detective mechanisms in place and effective?

Response

BRAC has written procedures governing various activities/functions. However, presently the emphasis is only towards detective mechanisms. We therefore, recommend strengthening of existing detective mechanisms and increasing reliance on preventive organisational controls to minimise possibilities of funds being misused.

(b) Comment

Payroll

We suggest some attention be given to gender in reward and evaluation mechanism.

Response

We have amended our recommendation to include "BRAC needs to emphasise on gender in reward and evaluation mechanisms". This recommendation is further explained in the section "Opportunities for improvement".

(c) Comment

RDP

We recommend group performance by category needs to be incorporated in the terms of the CMS.

Response

Our amended recommendation is "BRAC should consider strengthening:

- Group performance by each category, system and other shortcomings of the Credit Management System."

C. NOVIB

(a) Comment

The report does not clearly highlight the movement of funds or resources between BRAC programmes, other BRAC activities, conditions of such movement etc.

Response

As clarified during the DC meeting on December 11, 1997, presently the accounting framework employed by BRAC distinguishes between donor and BRAC funds. However, all monies received from the donors, interest earned on short-term deposits and income from BRAC's development/commercial activities are routed through common bank accounts. Therefore, it is not possible to separately identify between BRAC and non BRAC sources of funds and correspondingly their utilisation. The donors and BRAC would need to address changes desired. Further, the examples highlighted relate to:

- acceptance of a loan by BRAC from the RCP project for construction of office space; and
- the present practice whereby, assets relating to a project are transferred to BPF at the end of the project life.

D. European Union ('EU')

(a) Comment

The report should include a list of acronyms

Response

The same is presented in Section 2.7.

(b) Comment

The arrangement letter was discussed at length on August 14, 1997, and amended, with most of the members of the Donor Consortium. No reference of this discussion has been made in the report.

Response

The points relating to the arrangement letter were discussed in the meeting of August 14, 1997 and the suggestions were incorporated in the arrangement letter signed and dated August 4, 1997.

(c) Comment

Arthur Andersen should assess whether BRAC's administrative compliance is in accordance with and meets donor requirements.

Response

We have reviewed the compliance with the donor conditions by BRAC during the course of our assignment. However, as procedural compliance is only one of the elements, we have specified that we are unable to comment on whether the reports submitted meet the donors' requirement. For example, in respect of submission of quarterly audit reports, though it may be possible to comment on the timeliness, we would not be in a position to determine whether the same meets donor requirements.

(d) Fund accounting system and short term deposits

- As highlighted previously the present fund management mechanism does not enable separate identification of funds relating to BRAC and donors.
- BRAC and donors would need to finalise the mechanism for treatment of interest income on short term deposits and the same may be reviewed at the consortia meetings.
- See response to C (a).

(e) Procurement procedures and balance of fixed assets fund

- The EU procurement guidelines were subsequently made available and comments have accordingly been incorporated.
- The allocation of balance of fixed assets fund can be reviewed at the donor consortia meeting.

(f) Other comments

- Figures used to establish graph on "BRAC - Growth Over the Years"

In Tk millions

Year	Donations	Income	Expenditure
1975	3.87	3.92	3.49
1979	7.85	14.84	12.77
1985	62.48	106.22	83.88
1990	516.34	763.14	437.57
1995	1364.63	2500.56	2316.95
1996	1178.07	2640.40	2360.49

- Difference between development projects and commercial projects

Development projects essentially relate to those with a primary emphasis on social or economic development whereas commercial projects primarily aim at generating revenue surpluses and may also support development.

- Whether BRAC has a prospective/planning department?

As per our review of the organisation structure, there is no such separate department. However, the key departments have a core think-tank/leadership team.

- How are the loans to group companies financed? Are they from Donor Funds and is this technically possible?

As highlighted previously the present fund management mechanism does not enable separate identification of funds relating to BRAC and donors.

- What are the 'other income generating activities' and are these BRAC's commercial activities?

These refer to activities that make available to BRAC income or surpluses without end use restrictions.

- Was the system of 'motorcycle' replacement fund mentioned in the proposal and is there an interest/service charge?

As per our understanding, the replacement fund was not a part of the proposal. Interest is recovered along with the installment, from employees and EU may need to discuss with BRAC on treatment of the interest earned.

- Does the upper limit of 10% for recovery of overheads from the programmes as per 'contract' mean the project proposal?

The contract referred to is the project proposal and necessary amendment has been incorporated in the report.

- Does the interest earned really constitute 13% of the sources of funds of the RDP?

The interest earned constitutes 13% of the source of the funds for RDP IV. The key component of the interest earned is the interest earned on the loans to the VO members.

- Does this imply that the development money allocated in the frame of RDP and NFPE could be/is also used to cover the staff expenses of BRAC's other activities, including commercial activities?

The accounting framework facilitates tracking of employee related costs separately for individual projects based on initial identification of persons employed to projects. In respect of common services and facilities deployed for project activities and other activities of BRAC, allocations are made to projects based on management estimates.

- Certain questions/ comments referred to in the letter dated November 5, 1997, have not been addressed as these would need to be clarified by BRAC. It would appear that for this reason, these have not been included in the letter dated January 20, 1998.

3.2 FORMATS FOR CERTAIN IMPROVEMENT OPPORTUNITIES

ANNEXURE D

Page 1 of 4

SIDE-A

Confidential

BRAC

STAFF APPRAISAL FORM

To be filled in by immediate supervisors

[For one year from September 1 to August 31]

- In case of confirmed staff this form must be filled in and submitted to the Personnel Department by September 30 of each year. (The Quarterly Staff Position must also be attached.)
- For non-confirmed staff this form must be duly filled in and submitted every six months.

1. Name of the staff _____ PIN _____ Level _____

Designation _____ Project and Area _____ Joining Date _____ Number of years of service _____

2. Personal Information : (Tick () wherever appropriate)

a. Marital Status ☐ Unmarried ☐ Married ☐ Widower ☐ Widow ☐ Divorced

b. Education ☐ S.S.C ☐ H.S.C. ☐ Bachelors Degree ☐ Masters ☐ Others

Qualification : _____

c. Number of Children : Total _____ Male _____ Female _____

TOTAL	1	2	Comments
3(I) Personal Characteristics <ul style="list-style-type: none"> Exhibits a positive attitude Works well with other team members Demonstrates ability to evaluate and interpret data/information Demonstrates understanding of own role Understands target segments specific needs Communicates with target segment on a regular basis Shows concern and regard for target segment Able to gain co-operation of co-workers Accepts additional responsibilities Delegates work to maximise individual performance 			

TOTAL	1	2	Comments
<ul style="list-style-type: none"> Relationship with colleagues Team spirit Communication skills (English and Bangla) Ability to express in Bangla (verbal and written) Ability to express in English (verbal and written) 			
ii) Inherent Qualities			
<ul style="list-style-type: none"> Seeks help when needed Maintains poise under pressure Exhibits high standards of professionalism Is familiar with BRAC services and resources Manages own time effectively Seeks feedback on performance and acts on it Demonstrates desirable self confidence Commitment and dedication Honesty and integrity Creativity and willingness to learn Analytical ability 			
iii) Job Performance			
<ul style="list-style-type: none"> Understands and tries to exceed expectations of supervisor. Follows through from beginning to end on areas of responsibility. Knows when to communicate technical or administrative issues to the supervisor Understanding of particular project and its specific needs Understanding and use of information technology Suggestions for teams creativity Identification of operational problems and proposes solution to supervisor Meets deadlines and goals set Job Knowledge Effectiveness Decision making/leadership quality Punctuality/leave habit 			

Total

Grand Total -

- To be filled by first and second supervisor

Score	Rating
4	Excellent
3	Good
2	Average
1	Unsatisfactory
No basis	No opportunity to demonstrate behaviour described in the evaluation scale

1. Summary of Appraisal

(a) State 3 strengths of the staff

- i.
- ii.
- iii.

(b) State *weaknesses/areas for improvement of the staff*

- i.
- ii.
- iii.

2. Recommendation: (Tick () the appropriate box)

- May be confirmed
- Confirmation may be extended for _____ months
- May be promoted
- Prepared for additional responsibility
- May be terminated (if the average score is less than 70)

Individual's comments

This evaluation has been discussed with me by the evaluator. I understand its content and the performance expected of me if I am to continue to progress.

Signed _____ Date _____

First Supervisor

Signature_____

Name_____Pin:_____

Designation_____

Date_____

Second Supervisor

Signature_____

Name_____Pin:_____

Designation_____

Date_____

3.

- For use by Personnel Department only
- Warning notices/Suspension orders/Showcase notice

To be filled in by Programme/Dept. Head

Program/Dept. Head

Approved/Disapproved

Signature.....

Name.....

Comments :

Designation.....

Date.....

Executive Director

Signature_____

PHYSICAL COUNT PROCEDURES

- A coordination meeting should be held prior to the start of the physical inventory to clearly define responsibilities and duties for the supervisors and count personnel. This would provide assurance that each individual has a clear understanding of his role in the counting and that the inventory count is completed in accordance with management's plan.
- Inform and ensure that all warehouse personnel understand the purpose and importance of an accurate count and that all are aware of their responsibilities.
- The responsibility for supervising the counting should be designated to more than one individual. Major areas such as individual warehouses should be assigned to specific supervisors who would be responsible to answer questions and ensure accurate counts. These people would be available to answer any subsequent questions, which might arise during processing of the annual inventory.
- BRAC personnel, designated as checkers, should perform internal reviews of the counting procedures. The checkers should be sure that all counts are being accurately taken and recorded and that all items within assigned areas are counted.
- Direct accounting department involvement will provide greater assurance that effect of errors will be considered in the valuation of the inventory. Errors that may be identified would include not counting damaged goods and the effect of dispatch and receiving activity. This involvement is especially important in the cutoff area. Hence, for a short period of time before and after year-end physical inventory, all receiving and shipping documents should be stamped "before inventory" or "after inventory".
- No movement of goods from one inventory location to another should occur during the physical counting. Movement of goods will surely increase the chance of error. Any required movement should be done prior to the counting or should be deferred until completion of the counting.
- Count sheets or tags should be prenumbered before the count begins. All pages or tags issued should then be accounted for, batted and processed. Standard controls should exist to ensure that all data sent for processing is included in the final listing.
- Each individual responsible for the count in the various warehouses should ensure that a comprehensive review of the area is made in advance of the count. This review should achieve the following:
 - Make all areas to be counted, neat and orderly to facilitate a complete, efficient and accurate count.
 - Clearly identify those items not to be counted. This is particularly important when inexperienced counters are being used.
 - Ensure all part numbers or other identifying characteristics are clearly evident on all items to be counted.
 - Inventory tags should be attached to the front of the inventory items. Tags displayed in such a

manner can then be readily reviewed for completeness and accuracy of information.

- Individual tags should be prepared for each location for items in more than one location to avoid double counting or uncounted goods.
 - Tags should be used in sequential order and attached to items in an orderly manner. For example, all tags used on a row of goods should follow numerical sequence. This procedure would facilitate the review process by enabling management to ensure that inventory tags are not lost or misplaced. Furthermore, a break in numerical sequence would indicate that inventory items in another location remain to be reviewed or that unused tags are to be returned.
 - Personnel should be required to remain at the inventory until all tags are accounted for. No tags should be removed until the area has been reviewed and cleared by a supervisor.
- Overall planning and coordination of the physical inventory will result in time saving to BRAC and avoid problems, which may result in inventory errors.

ROLE OF THE STORES MANAGER

The Stores Manager should be an executive officer at the policy-making level and should submit the necessary reports and analysis relating to the stores and inventory on a monthly basis to the Finance Department. These monthly reports should include:

- An aging analysis;
- total receipts during the month for all items received;
- Total issues during the month for all items issued;
- Statement of obsolete and damaged stocks;
- Scrap details;
- Details of items, waiting quality inspection;
- Details of goods returned to suppliers on account of poor quality, improper specifications;
- Exception report to be prepared on a quarterly basis for all shortages/excessive inventory noted at the time of physical count, as compared to book balances;
- Listing indicating the serial number for all Goods Receipt Notes ('GRN'), Material Dispatch Note ('MDN') for all issued and canceled notes.

- The Stores Manager should become an integral part of financial management and planning and should perform the following functions:

- Attend management meetings and to be exposed to all elements of BRAC;
- Establish financial and internal control policies (such as physical inventory instructions, monthly data cutoff routines, liaison with EDP etc.);
- Establish formal budgeting procedures and be aware of the BRAC's long-range goals;
- Be responsible for the accuracy and completion of all aspects of financial reporting, including management and outside reporting;
- BRAC can monitor the performance of individuals and their compliance, with BRAC policies by segregating duties and responsibilities;
- Maintenance of the accounting records. This would include, among other things, critically reviewing the existing records and record-keeping methods to see if they can be improved, simplified and computerized; and
- Establishment and maintenance of a sound system of controls. This would include the overall accounting systems and standard control of paper flow as well as specific aging analysis, obsolescence review and stores management.

BRAC
NFPE Student Evaluation Form

School Category:
Name of School:
Name of teacher:

Name of student:
Class:
Date:

Basis of Evaluation	Rating scale				
	1	2	3	4	5
Punctuality					
Attitude towards other students					
Regularity of home work					
Alertness during class					
Interest in class activities					
Confidence levels					
Reading and comprehension skills in English					
Reading and comprehension skills in Bangla					
Spelling ability					
Writing ability					
Number concepts					
Social studies concepts					

Average marks obtained in weekly tests: _____

Signature of teacher _____ Signature of PO _____
Name of Teacher _____ Name of PO _____
Name: _____ Name: _____

Rating

- 1? Very Unsatisfactory
2? Unsatisfactory
3? Meets Expectations
4? Good
5? Outstanding

ESP/BRAC

Monitoring of NFPE
Undertaken by Partner Organisation

Name of organisation :

Name of School :

Name of teacher :

Date of last visit :

Number of school : class I -

class II -

class III -

Total -

Name of NFPE PO(s) :

		<u>Rank the following</u>					<u>Comments(if rating is below 3)</u>
		<u>Not good</u>		<u>Good</u>		<u>Excellent</u>	
1	Preservation Storage of NFPE materials	1	2	3	4	5	
2	Maintenance of registers	1	2	3	4	5	
3	Documentation and filing	1	2	3	4	5	
4	Reporting	1	2	3	4	5	
5	Preparation of weekly action plan by P.O.	1	2	3	4	5	
6	Organisation and facilitation of monthly teacher refresher course	1	2	3	4	5	
7	School visit by P.O.	1	2	3	4	5	
8	Organisation and facilitation of parents meeting	1	2	3	4	5	

		<u>No good</u>	<u>Good</u>	<u>Excellent</u>	<u>Comments(if rating is below 3)</u>	
9	<i>On time</i> Timely supply of NFPE materials to schools	1	2	3	4	5
10	Regular payment of teacher salaries	1	2	3	4	5
11	Physical environment of schools	1	2	3	4	5
12	Placement and usage of blackboards and calendars	1	2	3	4	5
13	Punctuality of teachers	1	2	3	4	5
14	Preparation of lesson plan by teachers	1	2	3	4	5
15	Teachers behaviour <i>with</i> towards students	1	2	3	4	5
16	Instructional strategies followed by teachers	1	2	3	4	5
17	Evaluation of students achievement and application of corrective procedures	1	2	3	4	5
18	Correction of home work and providing feedback	1	2	3	4	5
19	Attendance of students	1	2	3	4	5
20	Alertness of students	1	2	3	4	5
21	Confidence of students	1	2	3	4	5
22	Students participation in classroom activities	1	2	3	4	5

		<u>Not good</u>		<u>Good</u>	<u>Excellent</u>	<u>Comments(if rating is below 3)</u>
23	Students reading skill and comprehension in Bengali	1	2	3	4	5
24	Spelling ability of students	1	2	3	4	5
25	Writing skills of students	1	2	3	4	5
26	Students' ability to read key words in social studies	1	2	3	4	5
27	Concepts of students in social studies	1	2	3	4	5
28	Students' concepts of numbers	1	2	3	4	5
29	Students' concepts of addition	1	2	3	4	5
30	Students' concepts of subtraction	1	2	3	4	5
31	Students' concepts of multiplication	1	2	3	4	5
32	Students' concepts of division	1	2	3	4	5
33	Students' reaction speed to the problem of addition, subtraction and multiplication	1	2	3	4	5
34	Students' performance in curricular activities	1	2	3	4	5
35	Students' reading, writing and spelling ability in English	1	2	3	4	5

		<u>Not good</u>		<u>Good</u>	<u>Excellent</u>	<u>Comments(if rating is below 3)</u>
36	Adherence to curriculum formulated by BRAC	1	2	3	4	5
37	Teacher-student ratio, to ensure individual attention	1	2	3	4	5
38	Regularity of parent-teachers meeting	1	2	3	4	5
39	Periodic assessment of lessons and subjects	1	2	3	4	5
40	Maintenance of records of students performance	1	2	3	4	5
41	Adequate safeguards of school supplies	1	2	3	4	5
42	Regular and correct payment of PO salaries	1	2	3	4	5
43	Preparation of statement showing all costs incurred	1	2	3	4	5
44	Preparation of records for all school activities	1	2	3	4	5
45	Updated stores records	1	2	3	4	5
46	Number of full working days per year	1	2	3	4	5
47	Regularity and completeness of reports to be submitted as per agreement	1	2	3	4	5

Number of assessment tests taken during the month

Number of students appearing for the test

Average scores in the given tests

Is there an improvement over the average in the last period

How does this average compare to that of other schools

- managed by the same NGO
- managed by different NGOs

Whether prior communicated discrepancies have been dealt with.

Scores : Total -

Average:

Name and Signature:

Date :

NFPE
MIS Report Checklist

Name of Area:

Name of Area Manager:

Number of villages covered:

Number of NFPE Schools:

Form Number	Description of Form	Expected date of submission	Actual date of submission	Discrepancies, if any

Signature:

Programme Manager: _____

Date : _____