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PROPOSALS FOR THE ESTABLISHMENT OF AN ACCOUNTING AND INTERNAL  
AUDITING SYSTEM FOR THE AFRICAN DEVELOPMENT BANK

A Study

(by the Executive Secretary)



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PROPOSALS FOR THE ESTABLISHMENT OF AN ACCOUNTING AND INTERNAL  
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INTRODUCTION

In pursuance of the mandate conferred on the Committee of Nine by para. 1 (b) of resolution 3 on Preparatory Work for the Establishment of the African Development Bank, adopted by the Conference of Finance Ministers in Khartoum at its final plenary session on 4 August 1963, the Committee requested the Executive Secretary of the United Nations Economic Commission for Africa to undertake a preliminary study of a suitable accounting and internal auditing system for the African Development Bank.

The Committee considered the study submitted by the Executive Secretary in compliance with this request, at its third and fourth sessions (16 to 20 March and 13 to 18 July 1964) and requested the Executive Secretary to amend it in the light of the discussion and transmit it to the first President of the African Development Bank.

## I. THE STRUCTURE OF THE ACCOUNTING SYSTEM

1. It is assumed that the Bank - at its outset - will wish to set up a rather simple accounting system which would gradually expand as the business of the Bank progress and develop. This, however, will reflect and show clearly the operations and other financial activities undertaken by the Bank in pursuance of the provisions of its Agreement and in accordance with its internal rules and regulations. Moreover, it will - as required by the ADB Agreement (Arts. 11(1) and 13(4)) - be designed and operate in such a manner as to provide that the accounts of each Special Fund are kept "entirely separate from other Special Funds" and that the financial statements of the Bank "show the ordinary operations and the special operations of the Bank separately."

Registers

2. The accounting system may include the following registers:

(a) Member's Register

3. This register may also be called "Shareholder's Register" or "Member's Register." It should show full particulars concerning each Member State, including: subscriptions to the capital stock of the Bank and their sub-division into paid-up and callable shares; instalments due in respect of the paid-up capital and payments made thereto; the number of votes allowed to each Member State.

4. From this register it should be possible, at any time, to extract up-to-date lists showing the position of each Member State.

5. Any change in the shareholding due to an increase in the capital stock of the Bank as well as all matters relating to suspension of membership, withdrawals and liquidation should be indicated in this register.

6. The register will be test-checked by the Internal and Outside Auditors.

(b) Direct Loans and Guarantee Registers

7. These registers will record, in summary form, all the main features of loans and guarantees granted by the Bank as they appear in the corresponding loan or guarantee agreements.
8. There should be two or more registers for loans and guarantees - registers recording such operations of the Bank made against its ordinary capital resources, and separate registers recording similar operations made against Special Funds or other special resources of the Bank. (Art. 11, ADB Agreement).
9. Information relating to the amount of a loan, instalments or other amounts withdrawn, interest due, dates and amounts of repayments, cancellations, alterations, etc. will also be recorded in these registers.
10. The registers must be kept up-to-date. They should be checked from time to time by the Department of Operations and by the Internal and Outside Auditors.
11. Statements should be capable of extraction at any time and show the up-to-date position of any or all loans and guarantees whether financed from the ordinary capital resources or from Special Funds and, within these two categories, whether with its own or borrowed funds.
12. Data concerning projects or programmes financed partly out of ordinary or special resources should be contained in separate registers.
13. These registers should provide information on loans and guarantees of national, regional and international nature financed from ordinary or special resources of the Bank out of its own or borrowed funds. Such information will be important to the President and the Board of Directors, particularly when deciding about the Bank's financial policy or when preparing the Annual Report and the Quarterly Statements (Art. 41(3), ADB Agreement).

(c) Investment Registers

14. These registers should give adequate and up-to-date information on:
- (i) Short and long-term investments in stocks, securities, bonds, etc. of surplus - ordinary or special funds - whether own or borrowed. Fixed deposits may also be recorded; and
  - (ii) Investments in capital equities of ordinary or Special resources owned or borrowed or specially called (from callable capital).
15. Particulars about original value, market value, rate of interest, dividends and dates of payments thereof, sale, amortization, refund, etc. should be clearly indicated.
16. Separate registers shall be kept for ordinary capital resources and for special funds unless separate code numbers are utilized.
17. Statements setting out the position and nature of all investment according to the required classification should be capable of extraction at any time. Such information would be of value to the Director of the Finance Department, the President and the Board of Directors.
18. The registers should be at the disposal of the Department of Operations and be verified by the Internal and Outside Auditors.
19. The foregoing registers are not "Accounting Books." They gather the information contained therein from accounting entries, documents, agreements, correspondence etc. coming to the Finance Department.
20. Copies of agreements, contracts and other supporting evidence should be kept in the Accounting Division for reference and audit. Copies of the resolutions of the Board of Directors should also be kept in that Division.
21. The above "registers" may be kept:

- in book - form; or
- in loose - leaf form

and written up by hand or by ordinary typing or accounting machines.

#### Books and Records

22. It is thought advisable to keep, from the outset, the following accounts books:

##### (a) General Ledger

23. A General Ledger (in book-form or cards or business machine registers) will give balances of control accounts useful for daily and monthly Trial Balances and the compilation of Financial Statements and Profit and Loss Statements (ADB Agreement, Art. 41(3)). The main accounts of assets and liabilities and income and expenditure should be kept in this ledger. Details of income and expenditure, personal and other accounts should be kept in subsidiary ledgers.

24. A clear distinction (preferably, by code numbers) should be made between ordinary and special operations (as required by Art.11 (1), ADB Agreement).

##### (b) Subsidiary Ledgers

25. One or more subsidiary ledgers (in book-form or cards or business machine registers) should be kept in order to give detailed figures and information on:

- (i) Accounts receivable and accounts payable;
- (ii) Cash funds, investments, loans etc. (investments and loans may be extracted from Investment and Loan Registers);
- (iii) Sources of income (commissions, fees etc.);
- (iv) Direct and indirect expenditure (classified as ordinary, special and joint (the joint expenditure has to be apportioned on an agreed basis)). Another classification may be made



according to departments: Departmental Direct and Indirect Expenditure (Executive Office sub-divided: Secretariat, Advisors, Internal Audit etc.). It seems also advisable to departmentalize the payroll;

- (v) Letters of Guarantee and Letters of Credit; and
- (vi) Dealings with International, Regional and National Institutions (correspondents and agents). Transactions through Branches (if any) should be separately detailed.

26. Such subsidiary ledgers could be kept, again, by hand or machines according to the volume of work.

27. Sub-control Accounts may be used to facilitate reconciliation between Control Accounts and the individual detailed balances. Sectional balancing is advisable in order to spot errors in reconciliation.

(c) Journals

28. The Journals may be simple or columnar (preferably columnar) and kept in book-form or cards processed by hand or by machine or may be replaced by journal vouchers serially controlled in a business machine or electronic data processing system. The recording would be done on the basis of the slip-system i.e., the slip (containing information for the entry) is first entered in the Journal and passed on to the person keeping the ledger to record it therein. Care should be taken to have the slip marked as to entry in the Journal and in the ledger or sub-ledger.

29. Two other alternatives, however, may be utilized in recording prime entry and ledger accounts:

- (i) A system of Journal-Ledgers may be used for the main Control Accounts for General Ledger. Subsidiary Journal-Ledgers may also be used to give the sub and individual accounts. Under this system Personal Ledgers (or Cards) should be kept for Accounts Receivable, Accounts Payable and Debtors and Creditors.  
One main Journal-Ledger and one or two subsidiary Journal-Ledgers and one or two Personal Ledgers may be required

under this system. This, however, is designed for a relatively small volume of operations.

- (ii) A system (kept by hand or machine) where recording is made as journal and at the same time as ledger by inserting a ledger card (which is taken away after the entry is made). This system is designed, again, as a time saver when a small number of transactions and entries is envisaged.

30. The number and design of books (or cards) to be kept to record the Bank's varied transactions and operations should be left to the choice and experience of the Accountant of the Bank.

31. The design of forms and documents required by the Finance Department (including the Accounting Division) and other departments have not yet been considered at this stage.

#### Filing System

32. An up-to-date and well designed filing system of documents, accounting vouchers, correspondence etc. is essential. The checking of incoming and outgoing mail is also of great importance. However, it would seem that a detailed system for this can be better designed after the structure of services of the Bank has been determined and the responsibilities of the different departments and services have been defined.

#### Currencies and Languages

33. It is thought that all the Bank's transactions and operations should be recorded in terms of the unit of account as defined in Art. 5 (1) (b) of the ADB Agreement, i.e. a unit equivalent to 0.88867088 gramme of fine gold (corresponding at present to one United States dollar).

34. Accordingly, all accounting entries should be made on that basis. Conversion from one into other currencies has to be made at recognized rates established after consultation with the International Monetary Fund (Art. 26). It may be practical to work on the basis of "standard

rates" which may be reviewed as and when found necessary. Difference between actual rates and standard rates may be taken to difference in Exchange Account. However, certain transactions concerning expenses etc. at the Principal Office or Branches of the Bank may be recorded in local currency and periodically converted into units of account.

35. For accounting and record purposes it may be useful to use, in addition to the unit of account, the actual currency in which the transaction or operation has taken place.

36. As regards languages, both English and French may be used as working languages. To avoid duplication and unnecessary expense it is suggested that accounts should be kept either in English or in French on the understanding that the staff should know English and French. However, the Quarterly and Annual Financial Statements, Profit and Loss Statement, and Annual Reports should be drawn up in both languages. Agreements, documents, forms, correspondence etc., may be maintained or done in both or in either language as it may be deemed appropriate.

#### Form of Final (and Quarterly) Financial Statement

37. The ADB Agreement states that "the Bank shall publish and transmit to its members an Annual Report containing an audited statement of accounts. It shall also transmit quarterly to the members a summary statement of its financial position and a profit and loss statement showing the results of its operations" (Art. 41 (3)). The Annual Report will contain, inter alia, the General Balance Sheet and the Statement of Profit and Loss of the Bank as well as any other detailed financial statement showing the results of the Bank's operations.

38. The following forms for the General Balance Sheet, the Profit and Loss Statements and the quarterly financial statements of the Bank should serve as guidance. The final form of its accounts should be decided by the President and the Board of Directors in consultation with the Outside Auditors.

39. The forms set out below are designed to provide the President and the Board of Directors with a maximum amount of information. Combined or separate statements may be extracted and published or circulated to the Member Governments (in accordance with the ADB Agreement). For purposes of publication, the annual statements of accounts and the quarterly summary statements (Art. 41 (3)), ADB Agreement) would, as usual, group details contained in these forms under appropriate headings. This should be done in such a manner as to show the results of ordinary and special operations of the Bank separately (see para. 37 above). In order to ensure the separation between ordinary and special operations, it is suggested to use different code numbers of accounts (see para. 42).

40. In the form suggested below ordinary and special operations, although shown separately, appear in a single statement. This method, which differs from what is currently adopted by other international financial institutions - i.e., two separate sets of financial statements for ordinary and special operations, respectively - may prove appropriate for the ADB, provided there is no great discrepancy between the number of entries for ordinary and special operations. The method suggested below aims to offer the maximum of information in the most consolidated way, and it attempts to show the aggregate of the ordinary and special operations of the Bank, while maintaining the principle of separation of accounts.

41. There is a tendency in modern accountancy to set out financial statements in a manner similar to the forms reproduced below, i.e. liabilities following in vertical order the assets. This new way of arranging the entries appears to be simple, clear and informative to professionals and laymen.

Financial Statement as at 31 December 196- 1/

	<u>Ordinary</u>	<u>Special</u>	<u>Total</u>
	<u>UA</u>	<u>UA</u>	<u>UA</u>
<u>Current Assets</u>			
Cash on Hand and at Bank and Correspondents	x	x	x
Gold and Convertible Currencies	x	x	x
Fixed Term Deposits	x	x	x
Short Term Investments in Stocks and Shares	x	x	x
Bills Receivable	x	x	x
Accounts Receivable	x	x	x
Sundry Debit Balances (including prepaid exp.)	x	x	x
<u>Quasi Fixed (or Current) Assets</u>			
Direct Loans: Original value			
<u>Less:</u> Unwithdrawn to-date	x	x	x
Other Participation	x	x	x
Investment in Capital Equities	x	x	x
<u>Fixed Assets (Cost less Depreciation)</u>			
Land and Buildings	x		x
Motor Vehicles	x		x
Furniture and Fixtures	x		x
<u>Preliminary Expenses</u> original amount			
<u>Less:</u> written off			

1/ A more comprehensive General Balance Sheet may be worked out from this format.

	<u>Ordinary</u> <u>UA</u>	<u>Special</u> <u>UA</u>	<u>Total</u> <u>UA</u>
<u>Contra Accounts</u>			
Letters of Credit	x	x	x
Letters of Guarantee	x	x	x
Discounted Bills	x	x	x
Bills for Security and Collateral Guarantee			
	<u>x</u>	<u>x</u>	<u>x</u>
<u>Liabilities</u>			
<u>Authorized Capital</u>	<u>x</u>		<u>x</u>
Callable Capital	<u>x</u>		<u>x</u>
<u>Paid-Up Capital:</u> Total Instalments			
<u>Less:</u> Unpaid to-date	x		x
Special Reserve (Art. 20)	x		x
Special Funds		x	x
Obligations (Debentures and Bonds)	x	x	x
Loans (borrowed funds)	x	x	x
<u>Current Liabilities</u>			
Depositors	x	x	x
Banks and Other Institutions A/Cs	x	x	x
Accounts Payable	x	x	x
Bills Payable	x	x	x
Staff Pensions and Indemnities	x	x	x
Accounts Payable	x	x	x
Sundry Credit Balances	x	x	x
<u>Profit and Loss Account</u>			
Surplus	x	x	x
Net Profit for the year	<u>x</u>	<u>x</u>	<u>x</u>
	<u>x</u>	<u>x</u>	<u>x</u>

	<u>Ordinary</u> <u>UA</u>	<u>Special</u> <u>UA</u>	<u>Total</u> <u>UA</u>
<u>Contra Accounts</u>			
Direct Guarantees	x	x	x
Letters of Credit	x	x	x
Letters of Guarantee	x	x	x
Bills Discounted	x	x	x
Bills for Security and Collateral Guarantee			
	<u>x</u>	<u>x</u>	<u>x</u>

N.B. (1) The unit of account is equivalent to one U.S.\$

(2) Assets and Liabilities may be classified as follows:

(a) Current Assets	x	x	x
<u>Less: Current Liabilities</u>	<u>x</u>	<u>x</u>	<u>x</u>
<u>Working Capital</u>	<u>x</u>	<u>x</u>	<u>x</u>
(b) <u>(add or deduct)</u>			
Long-term Assets (Loan, Guarantees etc.)			
Investments	x	x	x
<u>Less: Long Term</u> <u>Liabilities (Obligations,</u> <u>Loans etc.)</u>	<u>x</u>	<u>x</u>	<u>x</u>
<u>Net Long Term Finances</u> ( - or + )	<u>x</u>	<u>x</u>	<u>x</u>
(c) <u>Add: Net Fixed Assets</u>	<u>x</u>	<u>x</u>	<u>x</u>
<u>Networth "Equity Value"</u>	<u>x</u>	<u>x</u>	<u>x</u>

Equity Value represented as follows:

Authorized Capital	<u>x</u>	<u>x</u>
<u>Callable Capital</u>	<u>x</u>	<u>x</u>
<u>Paid-Up Capital</u>	x	x

	<u>Ordinary</u> <u>UA</u>	<u>Special</u> <u>UA</u>	<u>Total</u> <u>UA</u>
Special Reserve	x		x
Other Reserves	x	x	x
Surplus Account	x	x	x
Profit and Loss Account	<u>x</u>	<u>x</u>	<u>x</u>
	<u>x</u>	<u>x</u>	<u>x</u>

Statement of Profit and Loss for the year ended 31 December 196-

	<u>Ordinary</u> <u>UA</u>	<u>Special</u> <u>UA</u>	<u>Total</u> <u>UA</u>
<u>Income</u>			
Commissions, Fees and Other Charges	x	x	x
Interest on Loans and Guarantees	x	x	x
Interest on Fixed Deposits	x	x	x
Income from Short Term Investments	x	x	x
Income from Investments in Capital Equities	x	x	x
Income from Sale of Investments	x	x	x
Differences in Exchange	x	x	x
Other Income	x	x	x
<u>Less: Direct Charges</u>			
Commissions, Fees and Other Charges	x	x	x
Interest on Borrowed Money	x	x	x
Obligations Interest	x	x	x
Interest paid to Depositors	x	x	x
Fees on Sale of Investment	x	x	x
Exchange Differences	x	x	x
Other Direct Charges	<u>x</u>	<u>x</u>	<u>x</u>
<u>Gross Profit</u>	x	x	x



	<u>Ordinary</u> <u>UA</u>	<u>Special</u> <u>UA</u>	<u>Total</u> <u>UA</u>
<u>Less: General and Administrative Expenses</u>			
(prorated between Ordinary and Special operations on a suitable basis decided by the President			
Salaries and Wages (Including all emoluments)	x	x	x
Residence and Accommodation	x	x	x
Travelling Expenses	x	x	x
Transportation Expenses (Cars etc.)	x	x	x
Rent, Water, Light and Air Conditioning	x	x	x
Office Cleaning and Maintenance	x	x	x
Printing and Stationery	x	x	x
Subscriptions and Periodicals	x	x	x
Advertising and Publicity	x	x	x
Entertainment and Donations	x	x	x
Bank Charges	x	x	x
Audit Fees and Displacement Expenses	x	x	x
Legal Fees and Charges	x	x	x
Directors Attendance Expenses	x	x	x
Postage, Telephones and Telegrams	x	x	x
Insurance	x	x	x
Medical Expenses	x	x	x
Miscellaneous	x	x	x
Depreciation of Fixed Assets	<u>x</u>	<u>x</u>	<u>x</u>
	x	x	x
<u>Net Profit</u> transferred to Financial Statement (B/S)	x	x	x
	===	===	===

- N.B. (1) For purposes of publication or circulation of the Annual or Quarterly Accounts the foregoing details are usually grouped under appropriate headings. The Statements as designed above are meant to give maximum information to the President and the Board of Directors.
- (2) The column "Total" is inserted to provide a means of proving the correctness in recording both ordinary and special funds. If accounting machines were used, the balancing would be done automatically.

Code of Accounts (Accounts Plan)

42. It seems appropriate to use from the beginning an accounts code in "numbers". This may prove useful for the eventual utilization of accounting machines. In this connexion, attention is called to the following principles:

- (1) Separate code numbers should be used for Ordinary and Special Operations.
- (2) Code numbers for control accounts of the General Ledger should be designed to cover General Balance Sheet and Profit and Loss Items. The sectional and detailed accounts should have sub-numbers branching off from the main control account number.

Personal Ledger Accounts should be given independent numbers to designate individual accounts. Their total would agree with the Control Account in the General Ledger.

- (3) Sub-Code numbers should be used to give both details and totals of expenditure according to nature and on a department basis. (Joint expenditure may be allocated on a reasonable plan).

(4) The code should therefore be planned to provide:

- (a) Main Trial Balance
- (b) Sub-Trial Balances for:
  - (i) Personal and Other Accounts
  - (ii) Income and Direct Expenditure
  - (iii) General and Administrative Expenses
  - (iv) Expenditure Departmentalized
  - (v) Assets and Liabilities and Income and Expenditure is split between Ordinary and Special Resources and Operations.

## II. THE AUDITING SYSTEM

### Loans and Guarantees Control

43. It is thought that control over the execution of loans and guarantees granted by the Bank should be exercised by the Finance Department in co-operation with the Department of Operations. The Department of Operations, assisted by the Research Department, should build up a team of experienced inspectors who could carry out inspections on the spot and report on the progress of projects and programmes financed or guaranteed by the Bank. Inspection reports would then be submitted to the Finance Department which would take action accordingly. The Internal Auditor, too, should carry out substantial test-checks in this field and submit his remarks and recommendations to the President and the departments concerned.

### Internal Audit

44. It is suggested that an Internal Auditor should be attached to the Executive Office (cf. doc.- E/CN.14/ADB/43) to ensure his independence from other services. The functions and objectives of internal audit may be defined as follows:

- (a) Reviewing and appraising the soundness, adequacy and application of accounting, financial and operating controls.
- (b) Ascertaining the extent of compliance with established policies, plans, and procedures.
- (c) Reviewing the system of accounts to verify that these correctly and adequately exhibit the financial status and operation of the Bank.
- (d) Ascertaining the reliability of accounting and other data developed within the organization.

Once the functions and objectives have been defined, the auditors would plan and operate the audit programmes required to satisfy these objectives. The detailed procedures in this connexion could only be drawn up after the accounts have been inspected and these would depend, among others, on the form of accounts adopted and the adequacy of internal controls in operation.

Finance Department - Accounting Division

(a) Ledgers (bound, loose leaf or cards)

General Ledger

(Incorporating Control Accounts of Main Items of Assets & Liabilities & Profit & Loss A/Cs)

## Subsidiary Ledgers

<u>Loans &amp; Guarantees Ledger</u>	<u>Personal Ledger</u>	<u>Impersonal Ledger</u>
Loans C/Cs	A/Cs Receivable	<u>Imp. A/Cs of Assets and Liabilities</u>
Guarantees	A/Cs Payable	
Loans A/Cs	Staff Advances	
	Sundry Debtors	
	Sundry Creditors	<u>Income &amp; Expenditure</u>
		<u>Direct Income and Exp.</u>
		<u>General and Administrative Exp.</u>
		(Classified by Nature)
		also by Department

Executive Office	Finance	Dept.	Open Dept.	Research Dept.

**(b) Journals**

Main Journal (Journal Ledger Form)

Subsidiary Journals for: (or Columnar Journal)

Main Cash -- Bank Accounts -- Petty Cash -- Loans -- Guarantees -- Bills Receivable -- Aux. Journal

## III

Register of Members      Register of Loans      Register of Guarantees      Register of Investments  
Stocks and Shares      Capital Equities

N.B. (1) Ordinary and Special operations are to be kept separately by use of distinct code numbers.

(2) Machine accounting (IBM or NCR or others) would easily provide separate records and statements relating to ordinary and special operations of the Bank (Art. 13(4), ADB Agreement).