

**UNITED NATIONS DEVELOPMENT PROGRAMME**  
**Office of Audit and Investigations**



*Empowered lives.  
Resilient nations.*

**AUDIT**

**OF**

**UNDP COUNTRY OFFICE**

**IN**

**TIMOR-LESTE**

**Report No. 1720**  
**Issue Date: 31 October 2016**

## Report on the Audit of UNDP Timor-Leste Executive Summary

The UNDP Office of Audit and Investigations (OAI) conducted an audit of UNDP Timor-Leste (the Office) from 6 to 14 September 2016. The audit aimed to assess the adequacy and effectiveness of the governance, risk management and control processes relating to the following areas and sub-areas:

- (a) governance and strategic management (organizational structure and delegations of authority, leadership/ethics and values, risk management, planning, business continuity, monitoring and reporting, financial sustainability);
- (b) United Nations system coordination (development activities, Resident Coordinator Office, Harmonized Approach to Cash Transfers);
- (c) programme activities (programme management, partnerships and resource mobilization, project management); and
- (d) operations (human resources, finance, procurement, information and communication technology, general administration, safety and security).

The audit covered the activities of the Office from 1 January 2015 to 31 August 2016. The Office recorded programme and management expenditures of approximately \$14 million in 2015 and \$6 million as at August 2016. The last audit of the Office was conducted by OAI in 2012.

The audit was conducted in conformance with the *International Standards for the Professional Practice of Internal Auditing*.

### Overall audit rating

OAI assessed the Office as **partially satisfactory**, which means, "Internal controls, governance and risk management processes were generally established and functioning, but needed improvement. One or several issues were identified that may negatively affect the achievement of the objectives of the audited entity." This rating was mainly due to weaknesses in governance and strategic management, and operations.

**Key recommendations:** Total = 13, high priority = 3

The 13 recommendations aim to ensure the following:

Objectives	Recommendation No.	Priority Rating
Achievement of the organization's strategic objectives	1	High
	2, 3, 6	Medium
Reliability and integrity of financial and operational information	8	High
	7,	Medium
Effectiveness and efficiency of operations	9, 10	Medium
Safeguarding of assets	12	High
	11	Medium
Compliance with legislative mandates, regulations and rules, policies and procedures	4, 5, 13	Medium

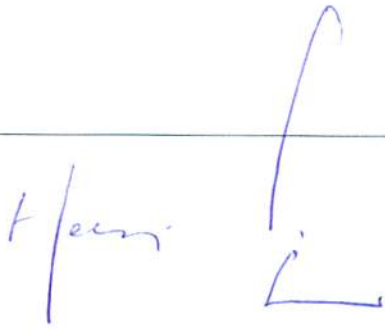
For high (critical) priority recommendations, prompt action is required to ensure that UNDP is not exposed to high risks. Failure to take action could result in major negative consequences for UNDP. All high (critical) priority recommendations are presented below:

Declining extrabudgetary reserves (Issue 1)	The Office's sustainability was of concern due to the decreasing extrabudgetary resources. The main reasons were the decline in revenue and increase in expenses.
	<u>Recommendation:</u> The Regional Bureau for Asia and the Pacific and the Office should enhance the management of extrabudgetary resources by: (a) reducing costs through enhancing related business processes at the Office level and considering clustering of services; and (b) increasing the Office's financial and programme delivery.
Weaknesses in cost recovery for services provided (Issue 8)	The Office's cost recovery for implementation support services provided to UN agencies and projects had declined from \$200,000 in 2014 to \$40,000 in 2015. The audit noted that costs for services provided may have not been fully recovered due to the lack of a tracking system for services provided to projects and UN agencies. Furthermore, there was inadequate application of Direct Project Costing for services provided by programme staff.
	<u>Recommendation:</u> The Office should enhance its cost recovery for implementation support services by: (a) establishing a tracking system to record the services rendered to UN agencies and development projects and recovering the relevant costs at regular intervals (i.e. quarterly)– this should include efforts to recover costs for services provided to them during 2014 and 2015; and (b) ensuring that the staff costs attributed to development projects are applied as proportionate Direct Project Costing.
Weaknesses in vehicle management (Issue 12)	The Office had a large fleet of 34 vehicles that were not fully utilized. For instance, four of the six vehicles in one project had not been used for a year and another project with one staff had three vehicles. There were also weaknesses in vehicle disposal, maintenance, and monitoring.
	<u>Recommendation:</u> The Office should ensure compliance with the 'UNDP Programme and Operations Policies and Procedures' relating to vehicle management. This should include: (a) undertaking an analysis of vehicle requirements of the Office and the projects so that vehicles in excess of the requirements can be disposed; (b) developing a vehicle maintenance schedule and implementing procedures to ensure vehicles are maintained in line with this schedule; and (c) developing procedures for local use of official vehicles and establishing a tracking system to record and monitor unofficial use of Office vehicles.

### Management comments and action plan

The Resident Representative accepted all 13 recommendations and is in the process of implementing them. Comments and/or additional information provided had been incorporated in the report, where appropriate.

Issues with less significance (not included in this report) have been discussed directly with management and actions have been initiated to address them.

A handwritten signature in blue ink, which appears to read 'Helge S. Ostveiten', is positioned above the printed name. The signature is enclosed within a rectangular box.

Helge S. Ostveiten  
Director  
Office of Audit and Investigations