



AUDIT

OF

UNDP TIMOR-LESTE

**ENHANCING THE DEMOCRATIC RULE OF LAW THROUGH STRENGTHENING
THE JUSTICE SYSTEM IN TIMOR-LESTE
(Directly Implemented Project No. 00014955)**

Report No. 909
Issue Date: 12 March 2013

Report on the audit of UNDP Timor-Leste - Enhancing The Democratic Rule of Law Through Strengthening the Justice System in Timor-Leste (Project ID 14955) Executive Summary

From 3 to 30 April 2012 the Office of Audit and Investigations (OAI) of the United Nations Development Programme (UNDP), through Lochan & Co. (the audit firm), conducted an audit of Audit of Enhancing The Democratic Rule of Law Through Strengthening the Justice System in Timor-Leste, Project ID 00014955 (the Project), which is directly implemented and managed by the UNDP Country Office in Timor-Leste (the Office). The audit firm was under the general supervision of OAI in conformance with the *International Standards for the Professional Practice of Internal Auditing*.

The Project reported expenditure totalling \$4.8 million during the period from 1 January to 31 December 2011. The following donors contributed to the Project: Swedish International Development Cooperation Agency, Netherlands, Portugal, Norway, Office of the High Commissioner for Human Rights and UNDP.

Audit scope and objectives

The audit firm conducted a combined financial audit and audit of internal controls and systems to express an opinion on whether the financial statements present fairly, in all material aspects, the Project's operations, as well as assess compliance with UNDP regulations, rules, policies and procedures, and donor agreements. The audit covered the Project's Statement of Expenditure (Combined Delivery Report) for the period from 1 January to 31 December 2011 and Statement of Assets as of 31 December 2011. It also reviewed the relevant systems, procedures and practices in place as they relate to the Project, in the areas of: organization and staffing, project management, human resources management, financial and cash management, procurement, asset management, and general administration.

Audit rating

Based on the audit report and corresponding management letter submitted by the audit firm, OAI assessed the management of the Project as **satisfactory**, which means "Internal controls, governance and risk management processes were adequately established and functioning well. No issues were identified that would significantly affect the achievement of the objectives of the audited entity." The details of the audit results are presented in Figures 1 and 2.

Figure 1: Summary results of the financial audit

Project Expenditure			Project Assets			Cash	
Amount (in \$ '000)	Opinion	NFI (in \$ '000)	Amount (in \$ '000)	Opinion	NFI (in \$ '000)	Amount (in \$ '000)	Opinion
4,790	Qualified	47	227	Qualified	208	-	Not applicable*

NFI = Net Financial Impact

*No separate bank account was held by the project

The audit firm qualified its opinion on project expenditure due to absence of supporting documents to support travel expenses of international consultants amounting to \$47,000.

The audit firm qualified its opinion on project assets due to unavailability of the details of assets valued at \$208 000.

Figure 2: Internal controls and systems audit ratings summary

Audit Areas	Not Assessed/ Not Applicable	Unsatisfactory	Partially Satisfactory	Satisfactory
1. Organization and staffing				
2. Project management				
3. Human resources management				
4. Financial and cash management				
5. Procurement				
6. Asset management				
7. Information systems				
8. General administration				

Key issues and recommendations

The audit raised seven issues and resulted in six recommendations, of which two (29 percent) were ranked high (critical) priority meaning, "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 and may affect the organization at the global level."

Finance
Issue 4 Travel expenses paid without ensuring that staff travelled. The validity of \$ 47,000 paid as lump sum travel expenses could not be assessed as the supporting documents for reimbursement were not available. OAI recommends that the Office review the validity of these expenses and take appropriate action.

Asset
Management
Issue 7 Lack of physical verification of assets. The Project did not have adequate controls over assets. Assets procured prior to 2011 were not being monitored. The Statement of Inventory of Assets and Equipment was also incorrect as it did not include assets amounting to \$208,000 held by the project. OAI recommends that the Office enhance controls over the project assets by performing physical verification and ensuring that all assets are included in the assets list.

Management's comments

The Country Director accepted all recommendations and is in the process of implementing them.



Helge S. Osttveiten
Director
Office of Audit and Investigations

United Nations Development Programme Timor-Leste



Financial Audit Report

Strengthening the Justice System in Timor-Leste

Project ID: 00014955

Audit Period – 01 January 2011 to 31 December 2011

Lochan & Co.
Chartered Accountants

Head Office

B-1, Dharma Apartments
Indraprastha Extension,
New Delhi 110092 (India)
Tel 2272 7502, 2272 3101
Fax 2272 1859
E mail: rajeev.lochan@lochanco.com,
sharad.agarwal@lochanco.com
Website : www.lochanco.com

Contents

Financial Statements Certification

Page No.

Certification of Statement of Expenditure

1

Certification for Statement of Assets and Equipments

2

Statement of Cash Position

3

Annexures

Annexure- I

4

Annexure- II

8

**UNDP TIMOR-LESTE Project ID 14955
Strengthening the Justice Systems in Timor-Leste**

Certification for Statement of Expenditure

We have audited the accompanying Combined Delivery Report ("the statement") of the UNDP project **00014955 (Award ID: 14955), Strengthening the Justice System in Timor-Leste** for the period 01 January 2011 to 31 December 2011. The statement is the responsibility of the management of **Strengthening the Justice System in Timor-Leste** project. Our responsibility is to express an opinion on the statement based on our audit.

We conducted our audit in accordance with International Standards of Auditing. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the statement is free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the statement. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall presentation of the statement. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the attached statement of expenditure, except for the reasons indicated below in paragraph (1), presents fairly, in all material respects, the expenditure of **US\$ 4,789,085.76** incurred by the project "Strengthening the Justice System in Timor-Leste" for the period 01 January 2011 to 31 December 2011 in accordance with the accounting policies set out in the note to the statement. The expenditures incurred were: (i) in conformity with the approved project budgets; (ii) for the approved purposes of the project; (iii) in compliance with the relevant regulations and rules, policies and procedures of UNDP; and (iv) supported by properly approved vouchers and other supporting documents.

- (1) An amount of US\$ 46,802 incurred on the travel expenses of the international consultants (appointed by Timor-Leste Government) are not supported by any documentary evidence.



Rajeev Lochan FCA
Partner

Lochan & Co
Chartered Accountants

Dated: 28th January 2013
Place: New Delhi

**UNDP TIMOR-LESTE Project ID 14955
Strengthening the Justice Systems in Timor-Leste**

Certification for Statement of Assets and Equipments

We have audited the accompanying schedule of assets ("the schedule") of the UNDP project number **00014955 (Award ID: 14955), Strengthening the Justice System in Timor-Leste** as at 31 December 2011. This schedule is the responsibility of the management of the project. Our responsibility is to express an opinion on the statement based on our audit.

We conducted our audit in accordance with International Standards of Auditing. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the schedule is free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the schedule. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall presentation of the schedule. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the attached schedule of assets, except for the reasons indicated below in paragraph (1) presents fairly in all material respects the balance of inventory of US\$ 227,460.24 incurred by the project as at 31 December 2011

- (1) The total of value of assets available with project was US\$ 435,257.00 but project has provided the list of only US\$ 227, 460.24. Statement of Assets and Equipments does not include the assets amounting to US\$ 207,816.76 (121 items). The country office had incorporated the assets in Statement of Asset and Equipments based on physical verification. The items in addition to list which were in asset records were not included.



Rajeev Lochan FCA
Partner
Lochan & Co
Chartered Accountants

Dated: 28th January 2013
Place: New Delhi

UNDP TIMOR-LESTE Project ID 14955
Strengthening the Justice Systems in Timor-Leste

Statement of Cash Position
As at 31 December 2011

Since the project does not have its separate bank account, certification on Statement of Cash Position is not applicable.



Rajeev Lochan FCA
Partner

Lochan & Co
Chartered Accountants

Dated: 28th January 2013
Place: New Delhi

ANNEXURE - I

Combined Delivery Report By Project

UN Development Programme
Port ID: ungl143p

Page 1 of 4
Run Time: 18-04-2012 11:04:44

Section Criteria:

Business Unit : TLS10
Period : Jan-Dec (2011)
Selected Award Id : ALL
Selected Fund Code : ALL
Selected Dept. IDs : ALL
Selected Projects : 00014955

Award Id : 00014955 Support to Justice Sector		Period :	Jan-Dec (2011)		
Project # : 00014955 Support to Justice Sector		Impl. Partner :	02988 Direct Execution		
		Location :	East Timor		
	Govt Disb	UNDP Disb	UN Agencies	Encumbrance	Total Exp

Dept: 40201 (East Timor - Central)

Fund : 30000 (Programme Cost Sharing)

71205 - Intl Consultants-Sht Term-Tech	0.00	- 93.80	0.00	0.00	- 93.80
71305 - Local Consult.-Sht Term-Tech	0.00	- 10.40	0.00	0.00	- 10.40
72420 - Land Telephone Charges	0.00	- 85.05	0.00	0.00	- 85.05
72425 - Mobile Telephone Charges	0.00	69.46	0.00	0.00	69.46
72430 - Postage and Pouch	0.00	65.47	0.00	0.00	65.47
72520 - Electronic Media	0.00	0.00	0.00	0.00	0.00
75105 - Facilities & Admin - Implement	0.00	11.02	0.00	0.00	11.02
75115 - Facilities & Admin - OH & Ind	0.00	- 14.96	0.00	0.00	- 14.96
Total for Fund 30000	0.00	- 58.06	0.00	0.00	- 58.06
Total for Dept : 40201	0.00	- 58.06	0.00	0.00	- 58.06

Dept: 40204 (East Timor - Dem. Governance)

Fund : 04000 (TRAC (Lines 1.1.1 and 1.1.2))

71205 - Intl Consultants-Sht Term-Tech	0.00	35,374.00	0.00	0.00	35,374.00
Total for Fund 04000	0.00	35,374.00	0.00	0.00	35,374.00

Fund : 04160 (TRAC 3 CONF PREV AND RECOVERY)

61305 - Salaries - IP Staff	0.00	6,894.98	0.00	0.00	6,894.98
72505 - Stationery & other Office Supp	0.00	- 37.50	0.00	0.00	- 37.50
Total for Fund 04160	0.00	6,857.48	0.00	0.00	6,857.48

Fund : 04240 (Regional Activities - RBAP)

72105 - Svc Co-Construction & Engineer	0.00	47,268.00	0.00	0.00	47,268.00
74599 - UNDP cost recovery chrgs-Bills	0.00	0.00	0.00	0.00	0.00
Total for Fund 04240	0.00	47,268.00	0.00	0.00	47,268.00

Fund : 26920 (CPR TTF - Conflict - Open)

61305 - Salaries - IP Staff	0.00	32,722.55	0.00	0.00	32,722.55
61310 - Post Adjustment - IP Staff	0.00	14,888.75	0.00	0.00	14,888.75
62310 - Contrib to Jt Staff Pens Fd-IP	0.00	9,694.40	0.00	0.00	9,694.40
62315 - Contrib. to medical, social in	0.00	656.60	0.00	0.00	656.60
62320 - Mobility, Hardship, Non-remova	0.00	8,169.22	0.00	0.00	8,169.22
62330 - Rental Supplements - IP Staff	0.00	12,030.71	0.00	0.00	12,030.71
63335 - Home Leave Trvl & Allow-IP Stf	0.00	3,110.90	0.00	0.00	3,110.90
63530 - Contribution to Separations	0.00	1,190.27	0.00	0.00	1,190.27
63535 - Contribution to Security	0.00	1,904.45	0.00	0.00	1,904.45
63540 - Contribution to Training	0.00	1,190.27	0.00	0.00	1,190.27
65115 - Contributions to ASHI Reserve	0.00	2,380.57	0.00	0.00	2,380.57
65135 - Payroll Mgt Cost Recovery ATLA	0.00	345.26	0.00	0.00	345.26
71205 - Intl Consultants-Sht Term-Tech	0.00	794,740.08	0.00	0.00	794,740.08
71305 - Local Consult.-Sht Term-Tech	0.00	41,127.84	0.00	0.00	41,127.84



Combined Delivery Report By Project

UN Development Programme
ort ID: ungh143p

Page 2 of 4
Run Time: 18-04-2012 11:04:45

ward Id : 00014955 Support to Justice Sector	Period : Jan-Dec (2011)
roject # : 00014955 Support to Justice Sector	Impl. Partner : 02988 Direct Execution
	Location : East Timor



Combined Delivery Report By Project

UN Development Programme
ort ID: ungl143p

Page 3 of 4
Run Time: 18-04-2012 11:04:45

ward id : 00014955 Support to Justice Sector	Period :	Jan-Dec (2011)			
oject # : 00014955 Support to Justice Sector	Impl. Partner :	02988 Direct Execution			
	Location :	East Timor			
	Govt Disb	UNDP Disb	UN Agencies	Encumbrance	Total Exp
71550 - UNV-Resettlement Allowance	0.00	2,568.96	0.00	0.00	2,568.96
71560 - UNV-Intl Appoint/Sep incl Trvl	0.00	6,364.80	0.00	0.00	6,364.80
71605 - Travel Tickets-International	0.00	129,410.68	0.00	0.00	129,410.68
71615 - Daily Subsistence Allow-Intl	0.00	5,803.39	0.00	0.00	5,803.39
71620 - Daily Subsistence Allow-Local	120.00	27,325.60	0.00	0.00	27,445.60
71635 - Travel - Other	1,982.00	2,031.73	0.00	0.00	4,013.73
72105 - Svc Co-Construction & Engineer	149.25	77,087.28	0.00	0.00	77,236.53
72135 - Svc Co-Communications Service	0.00	19,047.60	0.00	0.00	19,047.60
72205 - Office Machinery	0.00	1,008.97	0.00	0.00	1,008.97
72210 - Machinery and Equipment	174.00	3,736.40	0.00	0.00	3,910.40
72220 - Furniture	225.00	5,011.87	0.00	0.00	5,236.87
72310 - Minerals,Mining & Metal Prdcts	0.00	7,038.73	0.00	0.00	7,038.73
72405 - Acquisition of Communic Equip	0.00	804.28	0.00	0.00	804.28
72410 - Acquisition of Audio Visual Eq	0.00	5,033.00	0.00	0.00	5,033.00
72420 - Land Telephone Charges	0.00	22,150.96	0.00	0.00	22,150.96
72425 - Mobile Telephone Charges	770.00	6,497.51	0.00	0.00	7,267.51
72430 - Postage and Pouch	0.00	244.55	0.00	0.00	244.55
72440 - Connectivity Charges	0.00	4,400.88	0.00	0.00	4,400.88
72445 - Common Services-Communications	0.00	23,022.19	0.00	0.00	23,022.19
72505 - Stationery & other Office Supp	852.20	11,684.97	0.00	0.00	12,537.17
72510 - Publications	0.00	572.32	0.00	0.00	572.32
72705 - Hospitality-Special Events	2,150.00	6,623.91	0.00	0.00	8,773.91
72805 - Acquis of Computer Hardware	0.00	4,411.16	0.00	0.00	4,411.16
72815 - Inform Technology Supplies	0.00	3,603.04	0.00	0.00	3,603.04
73105 - Rent	970.00	70,226.66	0.00	0.00	71,196.66
73107 - Rent - Meeting Rooms	70.00	2.80	0.00	0.00	72.80
73110 - Custodial & Cleaning Services	180.00	69.60	0.00	0.00	249.60
73120 - Utilities	0.00	1,706.07	0.00	0.00	1,706.07
73125 - Common Services-Premises	0.00	843.13	0.00	0.00	843.13
73405 - Rental & Maint-Other Office Eq	0.00	399.36	0.00	0.00	399.36
73410 - Maint, Oper of Transport Equip	1,552.34	10,411.30	0.00	0.00	11,963.64
74210 - Printing and Publications	32.00	13,471.52	0.00	0.00	13,503.52
74220 - Translation Costs	0.00	14,494.34	0.00	0.00	14,494.34
74230 - Audio & Visual Equipment	0.00	62.40	0.00	0.00	62.40
74510 - Bank Charges	12.00	229.28	0.00	0.00	241.28
74515 - Claims and Adjustments	0.00	26.37	0.00	0.00	26.37
74525 - Sundry	0.00	0.00	0.00	0.00	0.00
74599 - UNDP cost recovery chrgs-Bills	0.00	0.00	0.00	0.00	0.00
74725 - Other L.T.S.H.	0.00	74.88	0.00	0.00	74.88
75105 - Facilities & Admin - Implement	0.00	196,147.18	0.00	0.00	196,147.18
75115 - Facilities & Admin - OH & Ind	0.00	49,981.24	0.00	0.00	49,981.24
76125 - Realized Loss	0.00	46.11	0.00	0.00	46.11
76135 - Realized Gain	0.00	-218.96	0.00	0.00	-218.96
77325 - Rep Allow (excl hsp pyl)-TA	0.00	14,282.84	0.00	0.00	14,282.84
otal for Fund 30000	10,540.79	3,629,507.16	0.00	- 11,700.00	3,628,347.95
otal for Dept : 40204	11,280.75	4,897,490.07	0.00	- 119,627.00	4,789,143.82
otal for Project : 00014955	11,280.75	4,897,432.01	0.00	0.00	4,789,085.76
ward Total :	11,280.75	4,897,432.01	0.00	0.00	4,789,085.76

Signed By :

Harshant Gaba

Date :

24/4/12
19/04/12

For Lochan & Co
Chartered Accountants

Rajeev Lochan, FCA
Partner



Combined Delivery Report By Project

Page 4 of 4
Run Time: 18-04-2012 11:04:49

UN Development Programme
int ID: ungl143p

Selection Criteria:

Business Unit: TLS10
Period: Jan-Dec (2011)
Selected Award Id: ALL
Selected Fund Code: ALL
Selected Dept. IDs: ALL
Selected Projects: 00014955

Award Id : 00014955 Support to Justice Sector		Period : Jan-Dec (2011)			
Project # : Support to Justice Sector		Impl. Partner : None			
		Location : East Timor			
	Govt Disb	UNDP Disb	UN Agencies	Encumbrance	Total Exp
40201 - East Timor - Central	0.00	- 58.06	0.00	0.00	- 58.06
40204 - East Timor - Dem. Governance	11,280.75	4,897,490.07	0.00	- 119,627.00	4,789,143.82



JUSTICE PROJECT

BUSINESS UNIT	OPERATING UNIT	ASSET ID	ASSET TYPE	PROFILE ID (Electricals, vehicles etc)	CATEGORY	LIFE	TAG NUMBER	SERIAL ID	DESCRIPTION	LOCATION (physical)	CUSTOMER NAME	ACQUISITION DATE	Quantity (sho uld be 1)	Acquisition cost (USD)	Current value (USD)	FUND CODE	Implementing Agency	Donor	PROJECT ID (4-digits)	DEPT ID (4-digits)	Activity
TL510	JUSTICE PROJ.ECT	000000000479	EQUIPMENT	ELECTRICAL			000000000479	TOC1067638	Air conditioner	TL5-JUS-IT	MARQUES Cesar	10/25/2005	1	1075.900	USD	30000	001981	00055	00014955	40204	
TL510	JUSTICE PROJ.ECT	000000000480	EQUIPMENT	ELECTRICAL			000000000480	PDB75021143U01	Video projector	TL5-JUS-PMU	PIAZZA ANDRE BROKEN	10/25/2005	1	1091.250	USD	30000	001981	00055	00014955	40204	
TL510	JUSTICE PROJ.ECT	000000000736	FLEET	VEHICLES			000000000736	JTEBK26.600030200	TOYOTA LAND CRUISER PRADO	TL5-JUS-PMU	GOMES MARIO	10/25/2005	1	21582.960	USD	30000	001981	00055	00014955	40204	
TL510	JUSTICE PROJ.ECT	000000000827	FLEET	VEHICLES			000000000827	PE2ET771715B03132	VEHICLE FORD ESCAPE	TL5-JUS-PMU	SANCHO PMU	8/17/2008	1	19000.000	USD	54050	001981	00055	00014955	40204	
TL510	JUSTICE PROJ.ECT	000000000828	FLEET	VEHICLES			000000000828	PE2ET771715B03131	VEHICLE FORD ESCAPE	TL5-JUS-IT	LINDALVE JOSE LTC	8/17/2008	1	19000.000	USD	54050	001981	00055	00014955	40204	
TL510	JUSTICE PROJ.ECT	000000001027	FLEET	VEHICLES			000000001027	PE2ET771715B03140	VEHICLE FORD ESCAPE	TL5-JUS-PMU	SALDANHA Amanda	8/17/2008	1	19000.000	USD	54050	001981	00055	00014955	40204	
TL510	JUSTICE PROJ.ECT	000000001028	FLEET	VEHICLES			000000001027	JTEBK26.600045579	Land Cruiser Prado	TL5-JUS-PMU	MISQUITA Mourzinho	1/26/2009	1	20882.290	USD	54050	001981	00187	00014955	40204	
TL510	JUSTICE PROJ.ECT	000000001029	FLEET	VEHICLES			000000001028	JTEBK26.600043749	Land Cruiser Prado	TL5-JUS-DEC	RIBEIRO NUNO	1/26/2009	1	20882.290	USD	54050	001981	00187	00014955	40204	
TL510	JUSTICE PROJ.ECT	000000001184	FLEET	VEHICLES			000000001029	JTEBK26.600043642	Land Cruiser Prado	TL5-JUS-DEC	GUSMAD Francisco	1/26/2009	1	20882.290	USD	54050	001981	00187	00014955	40204	
TL510	JUSTICE PROJ.ECT	000000001186	EQUIPMENT	ELECTRICAL			000000001184	MNB5F5E06W521119	VEHICLE FORD RANGER	TL5-JUS-DEC	JOAO JOSE LEMOS LTC	8/16/2008	1	15917.500	USD	30000	001981	00055	00014955	40204	
TL510	JUSTICE PROJ.ECT	000000001192	EQUIPMENT	ELECTRICAL			000000001186	3001140108237280	Satellite Phone	TL5-JUS-BAU	OFFICE BAUCAU	12/20/2008	1	1585.000	USD	30000	001981	00055	00014955	40204	
TL510	JUSTICE PROJ.ECT	000000001193	EQUIPMENT	ELECTRICAL			000000001192	3001140108232290	Satellite Phone	TL5-JUS-PMU	SPARE PMU	12/20/2008	1	1585.000	USD	30000	001981	00055	00014955	40204	
TL510	JUSTICE PROJ.ECT	000000001194	EQUIPMENT	ELECTRICAL			000000001193	CNF 83832YM	LAPTOP	TL5-JUS-PMU	SPARE PMU	11/12/2008	1	1039.900	USD	30000	001981	00055	00014955	40204	
TL510	JUSTICE PROJ.ECT	000000001212	FLEET	VEHICLES			000000001194	S611932414	LCD Projector	TL5-JUS-IT	SPARE IT	10/25/2005	1	1091.250	USD	30000	001981	00055	00014955	40204	
TL510	JUSTICE PROJ.ECT	000000001220	FURNITURE	FURNITURE			000000001212	ENGJNE JB81E1332992	Motorbike Supra X 125CC	TL5-JUS-IT	OFFICE IT	10/20/2008	1	1500.000	USD	54050	001981	00555	00014955	40204	
TL510	JUSTICE PROJ.ECT	000000001379	EQUIPMENT	ELECTRICAL			000000001220	0038195	SAFE BOX	TL5-JUS-IT	OFFICE IT	11/6/2008	1	1369.900	USD	30000	001981	00055	00014955	40204	
TL510	JUSTICE PROJ.ECT	000000001380	EQUIPMENT	ELECTRICAL			000000001379	CNG01194	COPIER MACHINE	TL5-JUS-BAU	OFFICE OFFICE BAUCAU	5/28/2009	1	3450.000	USD	30000	001981	00187	00014955	40204	
TL510	JUSTICE PROJ.ECT	000000001381	EQUIPMENT	ELECTRICAL			000000001380	CNG01194	COPIER MACHINE	TL5-JUS-BAU	OFFICE LTC	8/12/2009	1	3450.000	USD	30000	001981	00187	00014955	40204	
TL510	JUSTICE PROJ.ECT	000000001382	EQUIPMENT	ELECTRICAL			000000001381	CNG01207	COPIER MACHINE	TL5-JUS-PMU	OFFICE PMU	8/12/2009	1	3450.000	USD	30000	001981	00187	00014955	40204	
TL510	JUSTICE PROJ.ECT	000000001383	EQUIPMENT	ELECTRICAL			000000001382	CNG01239	COPIER MACHINE	TL5-JUS-DEC	OFFICE OCELOSSE	8/12/2009	1	3450.000	USD	30000	001981	00187	00014955	40204	
TL510	JUSTICE PROJ.ECT	000000001384	EQUIPMENT	ELECTRICAL			000000001383	CNG01370	COPIER MACHINE	TL5-JUS-COA	OFFICE LTC	8/12/2009	1	3450.000	USD	30000	001981	00187	00014955	40204	
TL510	JUSTICE PROJ.ECT	000000001394	EQUIPMENT	ELECTRICAL			000000001384	CNG01373	COPIER MACHINE	TL5-JUS-SUA	OFFICE SUAI	8/12/2009	1	3450.000	USD	30000	001981	00187	00014955	40204	
TL510	JUSTICE PROJ.ECT	000000001395	EQUIPMENT	ELECTRICAL			000000001394	300015010604880	SATELLITE PHONE	TL5-JUS-IT	STOCK PMU	8/13/2009	1	1525.000	USD	30000	001981	00187	00014955	40204	
TL510	JUSTICE PROJ.ECT	000000001396	EQUIPMENT	ELECTRICAL			000000001395	300015010604870	SATELLITE PHONE	TL5-JUS-IT	PIAZZA ANDRE	8/13/2009	1	1525.000	USD	30000	001981	00187	00014955	40204	
TL510	JUSTICE PROJ.ECT	000000001397	EQUIPMENT	ELECTRICAL			000000001396	300015010703000	SATELLITE PHONE	TL5-JUS-DEC	OFFICE OCELOSSE	8/13/2009	1	1525.000	USD	30000	001981	00187	00014955	40204	
TL510	JUSTICE PROJ.ECT	000000001398	EQUIPMENT	ELECTRICAL			000000001397	300015010605860	SATELLITE PHONE	TL5-JUS-PMU	STOCK PMU	8/13/2009	1	1525.000	USD	30000	001981	00187	00014955	40204	
TL510	JUSTICE PROJ.ECT	000000001399	EQUIPMENT	ELECTRICAL			000000001398	300015010605870	SATELLITE PHONE	TL5-JUS-PMU	STOCK PMU	8/13/2009	1	1525.000	USD	30000	001981	00187	00014955	40204	
TL510	JUSTICE PROJ.ECT	000000001400	EQUIPMENT	ELECTRICAL			000000001399	300015010606880	SATELLITE PHONE	TL5-JUS-PMU	STOCK PMU	8/13/2009	1	1525.000	USD	30000	001981	00187	00014955	40204	
TL510	JUSTICE PROJ.ECT	000000001466	FLEET	VEHICLES			000000001440	1880507936	CAMERA	TL5-JUS-PMU	KEARNY KRISTINA	8/26/2009	1	1146.480	USD	30000	001981	10218	00014955	40204	
TL510	JUSTICE PROJ.ECT	000000001605	FLEET	VEHICLES			000000001466	RC11E1416244	Motorbike Supra X 125CC	TL5-JUSTIC	OFFICE PMU	5/27/2009	1	1400.000	USD	30000	001981	00055	00014955	40204	
TL510	JUSTICE PROJ.ECT	000000001606	FLEET	VEHICLES			000000001605	JTEBK26.70H000966	VEHICLE	TL5-JUS-IT	Neves Florentino	10/5/2009	1	26150.930	USD	30000	001981	00134	00014955	40204	
TL510	JUSTICE PROJ.ECT	000000001955	EQUIPMENT	ELECTRICAL			000000001955	PDB5490198031	OLP PROJECTOR BENG MP670	TL5-JUSTIC	PIAZZA ANDRE	3/17/2011	1	1024.000	USD	30000	001981	00187	00014955	40204	

TOTAL : 227,460.24

Deafina Ferreira

30/12/2011

Luís B. Soares
30.12.11

FOR LUCA BRUCCHERI

PO GOV.

Approved by: Ermira Basla 30/12/2011

Basla
Operations Manager

For Lochan & Co.
Chartered Accountants

Rajeev Lochan, FCA
Partner





United Nations Development Programme Timor-Leste



Management Letter

Strengthening the Justice System in Timor-Leste

Project ID: 00014955

Audit Period – 01 January 2011 to 31 December 2011

Lochan & Co.
Chartered Accountants

Head Office

B-1, Dharma Apartments
Indraprastha Extension,
New Delhi 110092 (India)
Tel 2272 7502, 2272 3101
Fax 2272 1859
E mail: rajeev.lochan@lochanco.com,
sharad.agarwal@lochanco.com
Website : www.lochanco.com

Contents

SECTION – I		Page No.
1.0	Executive Summary	1
1.1	Audit rating	1
1.2	Key issues and recommendations	1
	Rating Summary	2
 SECTION - II		
2.0	Audit Objectives, Scope and Operational Overview	3
2.1	Audit Objectives and Scope	3
2.2	Operational Overview	4
 SECTION - III		
3.0	Detailed Audit Observations	5
3.1	Organization and Staffing	5
3.2	Project Management	5
3.3	Human Resource	7
3.4	Finance and Cash Management	10
3.5	Procurement	12
3.6	Asset Management	13
3.7	Information System	14
3.8	General Administration	14
 SECTION - IV		
4.1	Categorization of audit findings by priorities	15
4.2	Definition of Standard Audit Ratings	15
 SECTION – V		
	Annexures	16

SECTION – I

1.0 Executive Summary

We have been engaged by the Office of Audit and Investigations (OAI) of the United Nations Development Programme (UNDP) to conduct audit of the project **Strengthening the Justice System in Timor-Leste [Project ID: 00014955; Award ID: 00014955] (Project)** directly implemented by UNDP Timor-Leste. The audit was conducted from 17 April 2012 to 30 April 2012.

The audit included a combined financial audit and audit of internal controls and systems to express an opinion on whether the financial statements present fairly in all material aspects, the result of the Project's operations, as well as assess compliance with UNDP regulations, rules, policies and procedures, and donor agreements. The audit covered the review of the Project's Statement of Expenditure (Combined Delivery Report) for the period 1 January 2011 to 31 December 2011 and Statement of Asset as of 31 December 2011. We also reviewed the relevant systems, procedures and practices in place as they relate to the Project, in the areas of organization and staffing, project management, human resources management, financial and cash management, procurement, asset management information systems and general administration.

During the period reviewed, the Project recorded expenditures totalling **US\$ 4,789,085.76**.

1.1 Audit rating:

Audit assessed the Project Office as **satisfactory**, which means that "internal controls, governance and risk management processes were adequately established and functioning well. No issues were identified that would significantly affect the achievement of the objectives of the audited entity."

1.2 Key issues and recommendations:

The audit raised 6 issues, which were mainly caused by inadequate planning and inadequate guidance or supervision at country office level. To address these issues, six recommendations were made, of which 2 were ranked **High (Critical)** priority. Failure to take action could result in negative consequences for UNDP.

Finance and Cash Management

- In some travel claims sufficient supporting documents were not attached with the payment vouchers for lump sum payment. Further in some cases travel claims was released without ensuring that concerned staff had undertaken travel (Recommendation No.4)

Asset Management

- Physical verification of project assets was not conducted twice a year as required under Internal Control Framework (ICF) guidelines. The Statement of Inventory of Assets and Equipments prepared for 2011 is incorrect (Recommendation No. 5).

We wish to express our appreciation to the management and staff of UNDP Timor-Leste for the assistance and cooperation extended to the audit team.



Rajeev Lochan FCA

Partner

Lochan & Co

Chartered Accountants

Place: New Delhi

Date: 25th February 2013

Rating Summary

In our opinion, the overall level of internal control with respect to the project "Strengthening the Justice System in Timor-Leste [Project ID: 00014955; Award ID: 00014955]" is considered to be **Satisfactory**.

Area	Rating	Unsatisfactory	Partially Satisfactory	Satisfactory
Organization and Staffing	Satisfactory			
Project Management	Satisfactory			
Human Resources	Partially Satisfactory			
Finance and Cash Management	Partially Satisfactory			
Procurement	Satisfactory			
Assets Management	Partially Satisfactory			
Information Systems	Not Applicable			
General Administration	Satisfactory			
Follow up on Previous Audit	Not Applicable			

SECTION - II

2.0 Audit Objectives, Scope and Operational Overview

2.1 Audit Objectives and Scope

The overall objectives and scope of the audit are detailed below.

Audit Objectives

- Provide an assurance that there exists an adequate operational and internal control systems to ensure that the projects are properly managed in accordance with the policies and procedures of UNDP for the achievement of their objectives with due regard for economy and efficiency.
- Express an opinion on whether the expenditure incurred and recorded in the Combined Delivery Reports of the Project for the period from 01 January 2011 to 31 December 2011 present fairly the expenditure incurred on the projects and whether the expenditure were incurred according to the approved budgets, for the approved purposes of the projects and were incurred according to the UNDP policies and guidelines and were supported by properly approved vouchers and invoices; and
- Express an opinion on the Statement of Assets and Equipment held by the Project as at 31 December 2011 whether the statements of inventory present fairly the balance of the inventory of the projects in all material respects.

The overall objective of the audit is to assess the management of the project operations with the view of obtaining reasonable assurance towards the achievement of the project objectives. The areas of focus include:

- a) reliability and integrity of project financial and operational information;
- b) effectiveness and efficiency of project operations;
- c) safeguarding of assets and
- d) compliance with legislative mandates, regulations and rules, policies and procedures, as well as donor agreements.

Audit Scope

The audit reviewed the operations for one year period covering the following areas:

- Overall Organization and Staffing
- Donors' Arrangements
- Project Management
- Human Resources
- Finance and Cash Management
- Procurement
- Assets Management
- Information System
- General Administration and
- Follow up of Previous Audits

The audit was carried out in accordance with the International Standards on Auditing. This includes an approved planning memorandum and risk assessment exercise carried out prior to the audit, based on information provided by UNDP Timor-Leste as per list of documents sent with announcement letter. Relevant samples of documents and transactions for the period of audit were reviewed. Discussions were held with UNDP Timor-Leste staff and in the field throughout the audit.

As informed by the country office, no audit for the project has been conducted in the last three years; therefore follow up of previous year audit is not applicable.

2.1.1 Project Audit Visit Data

The audit was carried out at the UNDP CO, Timor-Leste during the period 17 April 2012 to 30 April 2012. The debriefing meeting was held on 30 April 2012 to discuss the key issues/ observations noticed during our audit. The preliminary audit findings were communicated to the Project on 10 July 2012. Management responses to our findings were received on 26 July 2012. The management's responses have taken care into consideration in finalizing this audit report.

2.2 Operational Overview

2.2.1 Project Background

The UNDP 'Strengthening the Justice System in Timor-Leste' project, or the 'Justice System Programme' (JSP), is a comprehensive capacity development programme for the justice sector, originally launched in 2003. An evaluation mission conducted in late 2007 recommended significant modifications to the scope, structure and size of the project and in light of these recommendations, the project document was revised in consultation with multiple stakeholders. The project document was finalized and signed in December 2008 by the Ministry of Justice, the President of the Court of Appeal, the Prosecutor-General and UNDP for the 5-year period.

The revised Justice System Programme (JSP) aims to achieve the following key outputs:

- Improve skills and competencies of justice sector actors
- Decentralization of the formal justice system
- Improve security infrastructure in the prisons and capacity development of the Prison Service
- Establishment of IT infrastructure for all judiciary institutions
- Improve access to justice and greater public confidence in justice institutions

2.2.2 Management

The management structure of the project will be as follows: -

• **Steering Committee (Project Board)**

- The project is directly implemented (DIM) by the UNDP Country Office, which is held accountable for all aspect of management of the project. The Council of Coordination is the Steering Committee responsible for making management decisions for the project when guidance is required by the Chief Executive Officer, who is the Project Manager.

• **Advisory Committee**

- The Advisory Committee is a consultative body providing advice to the Council of Coordination on issues pertaining to the justice sector. The committee is comprised of nominees of the Courts, Prosecution, MoJ, Public Defender's Office, Provedoria for Human Rights and Justice (PDHJ), United Nations Integrated Mission in Timor-Leste (UNMIT), United Nations Country Team (UNCT), development partners, two Community Support Organization (CSO) nominees, and representatives of national and international staff serving in the justice system.
- The committee is convened by the Chief Executive Officer and/or the International Justice Programme Specialist, who also serves as the Secretary of the committee.

2.2.3 Project operations

The Project Manager of the JSP, which is a key post filled by a Timorese national, has the authority to run the project on a day-to-day basis on behalf of the Project Board, within the constraints laid down by the Project Board. The Project Manager is responsible for day to day management and decision-making for the project and ensures that the project produces the results specified, to the required corporate standards for the JSP and within the specified constraints of time and cost.

2.2.4 Monitoring and Evaluation

The monitoring and evaluation mechanism is in place as mentioned in the project document. The Project Management Unit (PMU) is working for implementation of the project. PMU is reporting to the Project Board.

2.2.5 Brief Overview of the Project

Project duration	December 2008 to November 2013
Audit period	January 2011 to December 2011
Total Budget of project	US\$ 34,225,000.00
Budget during the audit period -2011	US\$ 5,068,758.00
Expenditure during the audit period	US\$ 4,789,085.76
Percentage Utilisation	94.48%

SECTION – III

3.0 Detailed Audit Observations

3.1 Organization and Staffing

Satisfactory

No observation

3.2 Project Management

Satisfactory

Observation No. 1: Variances between budgeted and actual expenditure

- The project expenditures are required to be analyzed regularly and explanations obtained / documented for significant exceptions (example: larger than 20 percent).
- The budget and actual expenditure are compared in two tables. The first comparison is for Activity wise comparison and the second for Account code wise comparison (refer Table – A and Table - B attached as annexure).
- **Activity wise comparison :**
 - In **activity 4:** “Support to correction services”, the actual expenditure was US\$ 177,193.10 compared to the budgeted expenditure of US\$ 305,231.14. Thus there was an under utilization of US\$ 128,038.04 (41.95%).
 - In **activity 5:** “Support to Decentralisation”, the actual expenditure was US\$ 686,300.37 compared to the budgeted expenditure of US\$ 887,000.00. Thus there was under utilization of US\$ 200,699.63 (22.63%).
 - In **activity 6:** “Support to Gender Equality”, the actual expenditure was US\$ 194,688.49 compared to the budgeted expenditure of US\$ 49,296.00. Thus there was over utilization of US\$ 145,392.49 (294.94%).
 - In **activity 7:** “Support to Prosecution service”, the actual expenditure was US\$ 642,335.07 compared to the budgeted expenditure of US\$ 842,274.06. Thus there was under utilization of US\$ 199,938.99 (23.74%).
- **Account code wise comparison:**
 - From the account code wise comparison as mentioned in Table- C, following points were concluded:
 - In 12 account codes there was no budget but expenditure of US\$ 1,151,917.33 is charged under these account codes.
 - In 4 account codes expenditure is over utilized which are ranging from 276.32% to 80.21%.
 - In 7 account codes, the expenditure is underutilized ranging from 99.80% to 31.08%.
 - On the basis of analysis, audit firm has concluded that either there was lacking in budget preparation or the transactions were not recorded in the correct accounting codes.
- The management explained that variances between budget and actual expenditure are common due to the nature and unpredictability of UNDP's work.
- The audit firm understands that some deviations are bound to occur between the budgeted and actual expenditure as the anticipation cannot be hundred percent correct at any time. However, as already stated only major deviations have been considered (i.e. more than 20%). The difference in some of the items ranging to more than 100% reflects the lack of proper planning.

Cause	Inadequate Planning
--------------	---------------------

Risk	Programmatic
-------------	--------------

Priority	Medium (Important)
-----------------	--------------------

Impact:

- The variations between budgeted and actual expenditure reflects lacking in budgetary monitoring which may affect effective implementation of project activities.

Recommendation 1:

- Project management team should exercise more effective monitoring over the budget and expenditure. This should include:
 - Ensuring that expenditure is recorded in the same donor, activity and accounting code where it is budgeted.

- Comparing the project expenditure on regular basis and reasons for significant variances should be documented. Further follow up action should be undertaken for such variances.

Management Comments:

- The management to monitor, analyse and report on quarterly basis on budget management issues.

Responsible Manager: PM

Expected Completion Date: December 2012

Status of Recommendation:

3.3 Human Resource

Partially Satisfactory

Observation No. 2: Variation between planned positions and actual positions

The deployment of project staff for the project is required to be in accordance with the planned positions in AWP. However

- some positions included in AWP 2011 were not actually filled such as:
 - PD Lecturer
 - ICT Specialist
 - 4 Translator Trainee
- Further some personnel were recruited based on the requirements from the national counterparts, but the positions were not budgeted for in the AWP such as:
 - Advisor Midterm Evaluation
 - Access to Justice Officer
 - District Court Judge
 - Public Defender Clerk
 - LTC Lawyer Lecturer
 - Interpreter/ translator
 - LTC Library Adviser
 - Driver
- The management explained that during the year, the project took into account emerging needs and requests from the national counterparts that were in line with the overall objective of the AWP and the signed project document. Further, it is not an abnormal issue and it does not pose any risk to UNDP as long as the structure in place is efficient and cost-effective for delivery of the project results
- The reasons provided by management for vacancy of different positions may be correct, but in such case, the question arises why these changes were not reflected in the revised AWP and revised budget.

Cause	Inadequate Planning
--------------	---------------------

Risk	Programmatic
-------------	--------------

Priority	Medium (Important)
-----------------	--------------------

Impact:

The delay in recruitment or recruitment for a period less than the planned period may affect the efficiency and effectiveness of the project activities. It also has an impact for the lower financial delivery of the project.

Recommendation 2:

- For effective implementation of project activities the project personnel should be recruited as envisaged in the AWP. The duration of the contract of project personnel should be for the period as planned in AWP.
- Where there is change in requirements of project personnel due to future development in project the reasons for the same should be recorded and the revised budget and AWP should be approved from competent authority.

Management Comments:

- While serious considerations are given to the deployment of staff in accordance to the AWP, it has to be considered that the planning process is initiated the year before the implementation of the plan and during the implementation period the plan has to be flexible enough to accommodate emerging needs in line with the overall structure and scope of the programme. The project, through the AWP is estimating the support and activities required for the respective year. Experience has proven that in implementing assistance, flexibility and the ability to react in a timely fashion are extremely important factors. In this context, a rigid recruitment plan for the whole year is virtually impossible to envisage in the beginning of each calendar year, and potentially undesirable. For every change in the recruitment plan caused for whatever reason, the JSP consulted and requested advice from UNDP Country Office through Governance Unit.

- Despite the above clarifications, the recommendations will be considered within the framework of AWP 2013.

Responsible Manager: Project Manager

Expected Completion Date: 1st Qtr 2013

Status of Recommendation:

Observation No. 3: Maintenance of Leave records

- Apart from the general type of employees (FTA, TA, SSA etc), many employees appointed in project under the Letter of Agreement (LOA) modality. In this modality, the employees were directly appointed by Government of Timor-Leste and a LOA was signed for each employee between UNDP, TL and Govt. of TL. These employees were termed as LOA employees.
- In case of LOA staff as per attachment 2 of the contracts entered into between UNDP and Govt. of TL, the maintenance of leave records and payments accordingly was the joint responsibility of UNDP, TL and Govt. of TL.
- In 10 cases for LOA employees, as per time sheet attached with payment vouchers, the employee taken the excess leaves but payment was processed for full month salary. As per the appointment letter of LOA employees, they are not eligible for so much leaves. They were not also having accumulated leaves as they were contractual employees for one year or more.
- For example in case of one of the staff, he was on travel from 13.06.2011 to 8.07.2011 but the full month salaries were paid for June 2012 and July 2012. The complete list of such instances is attached as **Table - C** as annexure.
- So it can be concluded that the payments were disbursed without considering the number of leaves taken by LOA employees.
- The management explained that as per agreement with each of the institutions, LoA type advisers are allowed to 2.5 days of holidays per month. The 5 days holidays every 12 weeks was cancelled in 2010. Advisers are allowed to carry over leaves when contract is renewed. After revision of leave balance of all the advisers as per supporting documentation of the auditors, the statement should be corrected, since none of the 10 advisers (or any other) goes over the allowed limit of paid leave as per signed documents.
- However, the audit firm has received no documents evidencing that the staff has availed stipulated leaves only and that there are no excess leave taken by them.
- Further if the explanation of management is accepted, each employee is eligible for 30 days annual leave. Audit firm has further checked the leaves availed by 10 consultants and found that the leaves are more than the 30 days in case of 8 consultants. In one case the leaves are for 80 days. The detail of total leaves availed by consultants has been mentioned in the **Table - C** below. However it is further to be checked that whether the consultant was having the accumulated leaves when they have availed the leaves.

Cause	Lack of or inadequate guidance or supervision at country office level
Risk	Operational
Priority	Medium (Important)

Impact:

- Availing excess leaves than the maximum permissible limit and payment of fees/salary without considering the effect of excess leaves may affect the organization financially

Recommendation 3:

- The project management should ensure that the leave availed by personnel recruited under Letter of Agreement is in compliance with their terms of recruitment. Any excess leave availed should be recovered from their salary.

Management Comments:

- In coordination with UNDP Country Office and the relevant national institutions, JSP will improve the system of leave management. This system will be integrated into new Letter of Agreement to be monitored and enforced accordingly, and updated as required on a yearly basis.

Responsible Manager: PM

Expected Completion Date: December 2012

Status of Recommendation:

3.4 Finance and Cash Management

Partially Satisfactory

Observation No. 4.1: Weakness in Letter of Agreement

- The payment for any expense should be supported by the documents evidencing the correctness, completeness and authenticity of the same.
- In case of LOA staff, as per the attachment 2 of the LOA between UNDP and TL-Government, there is provision for reimbursement of travel expenses at the time of joining of duty or completion for travel from home country to Timor-Leste or vice versa.
- Audit firm has observed that clauses in LOA agreements are ambiguous. At one place it is mentioned lump sum amount will be paid at the time of travel and in other clause it has been mentioned that amount will be paid on reimbursement basis.
- So due to the above ambiguity, in some cases supporting vouchers are attached with the payment vouchers and in some cases, supporting vouchers are not attached.

Observation No. 4.2: Travel Expenses paid without ensuring that the staff has travelled

- In continuation of the above observation it was noticed that in 22 cases of LOA international staff, the lump sum travel payments amounting to US\$ 46,802 was paid to staff without any supporting documentation. Further at the time of payment of lump sum payment to LOA international staff, the concerned staff was actually present on the work (refer Table - D as annexure).
- So, it may be concluded that the payment of travel expenses of US\$ 46,802 was paid on the basis of contractual provision without ensuring that the staff member actually travelled.
- The management explained that travel expenses are generally paid lump sum and not through reimbursement method. When lump sum method is used, no supporting documents are required. However, the management is open and flexible to improve if the method of submitting supporting documentation is deemed as more efficient and at lower transactional cost.

Cause 4.1	Lack of or inadequate country office policies or procedures
------------------	---

Cause 4.2	Lack of or inadequate guidance or supervision at country office level
------------------	---

Risk	Organizational
-------------	----------------

Priority	High (Critical)
-----------------	-----------------

Impact:

- Improper documentation endangers the authenticity and propriety of the expenditure.

Recommendation 4.1:

- The Letter of Agreement clauses should be drafted with clear contents to avoid confusion at the time of implementation of clauses. Project management should revisit the clause with respect to travel expense payment to LOA international staff and should clearly mention that how and when the payment for travel expenses will be paid. It may be lump sum payment or it may be reimbursement of travel expenses on submission of supporting vouchers subject to limit of expenses. In drafting the clauses of the LOA, UNDP procedures should be kept in mind.

Recommendation 4.2:

- UNDP CO management should review the payments to 22 consultants for US\$ 46,802 and if the payments were processed without actual travel by LOA international consultants in contravention of the clauses of respective LOA, the amount should be recovered from the consultants.
- For future, UNDP CO should strengthen the internal control system with respect to LOA international consultant travel expenses. It should be ensured that travel expenses should be paid only if the consultant actually travelled as per the condition of LOA.

Management Comments:

- The CO will strengthen the oversight at each unit level to ensure that travel expenses are paid only as per the conditions stipulated in LOA

Audit Firm's Comment on management comment:

- Project management has not responded on the recommendation with respect to recovery of US\$ 46,802. Further action should be taken as suggested in the recommendation.

Responsible Manager: Head of Programme Units

Expected Completion Date: December 2012

Status of Recommendation:

3.5 Procurement

Satisfactory

Observation No. 5: Procurement Planning

- The UNDP Procurement procedures require that a procurement plan should be prepared and implemented.
- Though the project management prepared the procurement plan, however there were weaknesses in the procurement plan as discussed below:
 - The items included in procurement plan did not match with AWP. As per procurement plan, the total items (except HR cost) were 4 amounting to US\$ 66,000 while as per AWP total items (except HR cost) were 9 amounting to US\$ 167,865. So there were significant differences in AWP items and procurement plan items. The comparative list is attached as **Table - E** as an annexure. It may be seen two items mentioned in procurement plan were not in AWP and one item mentioned in AWP was not part of procurement plan.
 - As per template of procurement plan, there were certain columns which used for further tracking of the status of procurement. However only procurement plan was prepared. Template was not used to track the status of procurement plan.
- Management explained that template being referred to is neither mandatory nor a corporate one. Each CO has flexibility to maintain own system of planning and monitoring purposes. In no case there is an absolute match between Procurement Plan and AWP
- Audit firm has compared the two documents and raised the issue that both the documents are not matching while both the documents were at the planning stage. So the management has not responded the issue properly.

Cause	Inadequate planning
--------------	---------------------

Risk	Operational
-------------	-------------

Priority	Medium (Important)
-----------------	--------------------

Impact:

- The mismatch between the AWP and the procurement plan reveals that the procurement plan is prepared without taking into consideration the Annual Work Plan.

Recommendation 5:

- The Project should ensure compliance with the UNDP Procurement procedures. This should include preparing procurement plan keeping in view the activities included in the approved Annual Work Plan. The procurement plan should be regularly reviewed to track the progress of actual procurement.

Management Comments:

- Training on procurement plan in line with AWP to be provided to the PM and PO.

Responsible Manager: PM and Procurement Unit

Expected Completion Date: December 2012

Status of Recommendation:

3.6 Asset Management

Partially Satisfactory

Observation No. 6.1: Physical verification of assets

- ICF Guidelines of UNDP requires that the assets should be physically verified twice a year at the end of June and December and verification report should be documented and signed by relevant authority.
- There was no physical verification of assets at the end of June 2011.
- For the purpose of IPSAS compliance, physical verification was undertaken at the end of the year i.e. in December 2011. But the verification was not properly conducted. The asset list prepared for the year ending 31.12.2011 was only based on the physical verification of the assets conducted but it was not supported by any documentation. Further in the asset verification list, condition of asset was not recorded.
- The management explained that clear guidelines for development assets were provided through Interoffice Memorandum sent by Chief of Administrative Services Division in New York only by 10 June 2011. Until that period, physical verification and certification at intervals of twice a year was valid only for management assets.
- Audit firm disagrees with management explanation as ICF guidelines clearly states that all the assets should be physically verified twice a year at the end of June and December. The ICF guidelines are equally applicable to management assets as well as project assets.

Observation No. 6.2: Incorrect Statement of Asset and Equipment List for 2011

- The Statement of Asset and Equipment List should contain all the assets and equipment held by the project at the end of the year.
- The project provided the "The Statement of Asset and Equipment List" for the period ending 31.12.2011. The total value of 32 assets was US\$ 227,460.24.
- Project also provided the list of assets as on 31.12.2010. The total value of assets was US\$ 425,698.91 and having 145 items. During the year, project procured 8 items amounting to US\$ 9,578.00. As informed by the project, there was no transfer, disposal or loss of assets during the year.
- So "The Statement of Asset and Equipment List" as on 31.12.2011 should be for the value for US\$ 435,276.91 containing the total items 153. The difference in value is US\$ 207,816.76 and 121 items were less reported.
- The management explained that the project assets are certified based on complete information provided by the CO to UNDP HQ within the deadline set, based on the list certified by the Project Manager including but not limited only to assets physical verification. Reference made to list of assets for 2010 was not relevant as many changes occurred throughout 2011.
- However the audit firm disagrees with the management's comment that the list for the year 2010 is not relevant. The asset list for 2011 can be prepared only on the basis of the preceding year's data, and after adjusting the current year additions and deletions.

Cause	Lack of or inadequate guidance or supervision at country office level
Risk	Operational
Priority	High (Critical)

Impact 6.1:

- Lack of physical verification dilutes the control over assets and increases the risk which might lead to loss and/ or misuse of the assets.

Impact 6.2:

- Non inclusion of the assets in the statement of assets and equipments reflect an incorrect picture of the state of affairs of the organization.

Recommendation 6.1:

- The physical verification of the assets should be conducted in accordance with the ICF guidelines.
- The details prepared at the time of the physical verification of the assets should include the condition, location etc. of the assets.

Recommendation 6.2:

- The project management must ensure that the Statement of Asset and Equipments should be prepared with complete details such that no eligible asset is missed out from such list.
- The list of assets and equipments must be prepared considering the additions, deletions etc. for each year and the same should be taken as the base for the preparation of assets details for the subsequent periods.
- Project management should revise "The Statement of Asset and Equipment List" as on 31.12.2011 with the value of US\$ 435,276.91 containing the total items 153.

Management Comments 6.1:

- Physical verification and in general the management of DIM projects assets is no longer an issue. It is addressed at corporate level with IPSAS implementation. Hence, regular and comprehensive process of projects assets has started to be carried out as of mid-2012 onwards, process being led, monitored and completed/signed off by the CO. As already mentioned in this document, evidence of the statement is the huge work done by the CO and DIM projects personnel as well during 2011 Year-End Closure as well currently to verify physically all the assets; document and report them properly as per the corporate requirements and standards within the deadline of 20 July 2012.

Management Comments 6.2:

- The project will review the 2010 and 2011 "The Statement of Asset and Equipment List" to identify discrepancies and reconcile to the extent possible.

Responsible Manager: PM

Expected Completion Date 6.1: Already in place

Expected Completion Date 6.2: December 2012

Status of Recommendation:

3.7 Information System

Not Applicable

3.8 General Administration

No observation

Satisfactory

SECTION – IV

4.1 Categorization of audit findings by priorities

The audit recommendations are categorized according to priority, as a further guide to UNDP management in addressing the issues. The following categories are used:

High (Critical) 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 and may affect the organization at the global level.

Medium (Important) Action is required to ensure that UNDP is not exposed to significant risks. Failure to take action could result in negative consequences for UNDP.

Low Action is desirable and should result in enhanced control or better value for money. Low priority recommendations, if any, are dealt with by the audit team directly with the Office management, either during the exit meeting or through a separate memo subsequent to the fieldwork. Therefore, low priority recommendations are not included in this report.

4.2 Definition of Standard Audit Ratings:-

Standard Rating	Definition
Satisfactory	Internal controls, governance and risk management processes were adequately established and functioning well. No issues were identified that would significantly affect the achievement of the objectives of the audited entity.
Partially Satisfactory	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.
Unsatisfactory	Internal controls, governance and risk management processes were either not established or not functioning well. The issues identified were such that the achievement of the overall objectives of the audited entity could be seriously compromised.

SECTION - V

5.0 Annexure

Table - A

Activity wise Budget Analysis for 2011

(Amount in US\$)

Activity/ Outcome	Budgeted Expenditure (A)	Actual Expenditure (B)	Difference (A-B)	% Difference
Access to Justice	1,311,019.84	1,465,994.99	(154,975.15)	-11.82%
Project Management	890,249.90	872,903.54	17,346.36	1.95%
Professional Skills Development	783,687.06	756,467.12	27,219.94	3.47%
Support to Correction Services	305,231.14	177,193.10	128,038.04	41.95%
Support to Decentralization	887,000.00	686,300.37	200,699.63	22.63%
Support to Gender Equality	49,296.00	194,688.49	(145,392.49)	-294.94%
Support to Prosecution Service	842,274.06	642,335.07	199,938.99	23.74%
Grand Total	5,068,758.00	4,795,882.68	272,875.32	5.38%

Table - B

Account code wise Budget Analysis for 2011

Amount in US\$

Account code	Description	Budgeted Expenditure (A)	Actual Expenditure (B)	Difference (A-B)	% Difference
61300	Salary & Post Adjustment Cost-IP Staff	-	613,353.72	(613,353.72)	-100.00%
62300	Recurrent Payroll Costs-IP Staff	-	305,579.15	(305,579.15)	-100.00%
63300	Non-Recurrent Payroll - IP Staff	-	30,545.10	(30,545.10)	-100.00%
63500	Insurance and Security Costs	-	59,640.09	(59,640.09)	-100.00%
64300	Staff Mgmt Costs - IP Staff	-	48,917.44	(48,917.44)	-100.00%
65100	After Service Insurance	-	34,767.08	(34,767.08)	-100.00%
71100	ALD Employee Costs	-	64.48	(64.48)	-100.00%
71200	International Consultants	2,367,322.02	2,354,049.33	13,272.69	0.56%
71300	Local Consultants	214,595.58	147,892.60	66,702.98	31.08%
71400	Contractual Services – Individual	331,900.00	182,157.30	149,742.70	45.12%
71500	UN Volunteers	305,000.00	208,747.45	96,252.55	31.56%
71600	Travel	191,523.00	173,511.40	18,011.60	9.40%

Account code	Description	Budgeted Expenditure (A)	Actual Expenditure (B)	Difference (A-B)	% Difference
72100	Contractual Services - Companies	130,848.23	143,552.13	(12,703.90)	-9.71%
72200	Equipment and Furniture	-	10,156.24	(10,156.24)	-100.00%
72300	Materials & Goods	-	7,038.73	(7,038.73)	-100.00%
72400	Communication & Audio Visual Equip	35,000.00	63,072.07	(28,072.07)	-80.21%
72500	Supplies	115,252.38	14,050.37	101,202.01	87.81%
72700	Hospitality/ Catering	5,000.00	9,199.27	(4,199.27)	-83.99%
72800	Information Technology Equipment	30,000.00	8,066.20	21,933.80	73.11%
73100	Rental & Maintenance- Premises	20,000.00	75,264.26	(55,264.26)	-276.32%
73400	Rental & Maintenance of Other Equip	-	12,950.56	(12,950.56)	-100.00%
74200	Audio Visual & Print Prod Costs	-	28,829.86	(28,829.86)	-100.00%
74500	Miscellaneous Expenses	133,820.09	271.81	133,548.28	99.80%
74700	Transport, Shipping and handle	-	74.88	(74.88)	-100.00%
75100	Facilities & Administration	102,212.71	246,124.48	(143,911.77)	-140.80%
76100	Foreign Exchange Currency Loss	-	(6.64)	6.64	-100.00%
77300	Salary and related costs-TA/IP	1,086,283.99	18,013.32	1,068,270.67	98.34%
	Grand Total	5,068,758.00	4,795,882.68	272,875.32	5.38%

Table - C

Payment of full fees even if the resource has taken excess leaves

(Amount in US\$)

Name of Staff	Amount (US\$)	Total leaves during year 2011	Discrepancy
Staff-1 (Vendor ID 4592)	For Jan -15,306 After Jan - 3,660 p.m.	40	As per the attendance sheet, it has been observed that leave has been taken for the periods 1-14 Jan, 13 June to 8 July, 19 Dec to 31 December but still full payments of fees have been made.
Staff-2 (Vendor ID 4591)	3,660	33	As per the attendance sheet, it has been observed that leave has been taken for the periods 1-11 Jan, 21-31 Mar, 5-30 Sep but still full payments of fees has been made. Further there is no time sheet for October.
Staff-3 (Vendor ID 3322)	Till April- 14,356 p.m. After April- 4,359 p.m.	38	As per the attendance sheet, it has been observed that leave has been taken for the periods 1-7 Jan, 24th July to 11th August, 19-31 Dec but still full payments of fees have been made.
Staff-4 (Vendor ID 5266)	3,660 p.m.	39.50	As per the attendance sheet, it has been observed that leave has been taken for the periods 1-9 January, 9-24 August, 17-31 December but still full payments of fees has been made.
Staff-5 (Vendor ID 5435)	14,246 p.m.	27	As per the attendance sheet, it has been observed that leave has been taken for the periods There is no attendance sheet for the month of December. 11-20 April, 29th June to 22nd July but still full payments of fees has been made.
Staff-6 (Vendor ID 4488)	Till Feb- 15,306 p.m. After Feb- 3,660 p.m.	56	As per the attendance sheet, it has been observed that leave has been taken for the periods 3-7 Jan, 30 May to 3rd June, 15 July to 1 August, 13-31 October (medical), 12-31 December (Sick Leave) but still full payments of fees has been made.
Staff-7 (Vendor ID 5454)	3,660 p.m.	30	As per the attendance sheet, it has been observed that leave has been taken for the periods 11-18 February, 26th February to 18th March, 12-22 August but still full payments of fees have been made.
Staff-8 (Vendor ID 5640)	3,660 p.m.	80	As per the attendance sheet, it has been observed that Anabela has worked for 5 days in the months of January and she is on full leave for the month of August and September but still she has been paid full fees of US\$ 3660 for the month of January, August and September.
Staff-9 (Vendor ID 5299)	3,660 p.m.	45	As per the attendance sheet, it has been observed that leave has been taken for the periods 3-7th January, 19th May to 20th June,

Name of Staff	Amount (US\$)	Total leaves during year 2011	Discrepancy
			8-12 august, 14-31 December but still full payments of fees has been made for such months.
Staff-10 (Vendor ID 5647)	3,660 p.m.	65	As per the attendance sheet, leave has been taken for 65 days during the year 2011 but she has been paid full fees for 11 months during the year 2011. Only in case of February, fees have been paid after deducting fees for 8 days. Further we cannot verify the attendance of the February as no sheet of February is provided.

Table - D

Insufficient supporting documents related to travel payments

(Amount in US\$)

Vendor ID	Voucher Number	Amount of travel Expenses (US\$)
4591	46644	660.00
5910	47491	2,510.00
5609	47773	2,500.00
3322	45977	2,200.00
5266	46397	2,500.00
4542	46404	2,586.00
5389	46664	2,535.00
4144	47616	2,510.00
4579	47775	1,260.00
4592	46531	2,000.00
5249	46401	2,406.00
5436	47881	760.00
5493	46801	635.00
5299	46400	2,200.00
4365	46403	2,510.00
5728	48515	1,500.00
5105	46800	2,500.00
5231	47774	2,500.00
3930	46537	3,000.00
4488	46399	2,510.00
5071	46576	2,510.00
5435	48342	2,510.00
	Total	46,802.00

Table - E

Difference between Procurement Action Plan and AWP

(Amount in US\$)

S. No	Particulars	Procurement Action Plan (A)	AWP (B)	Difference (A-B)
1	Printing	10,000.00	5,000.00	5,000.00
2	Becora main distribution board	4,000.00	7,500.00	(3,500.00)
3	Internet Connectivity	42,000.00	42,000.00	-
4	Furniture	10,000.00	10,000.00	-
5	Rental Generator	-	20,640.00	(20,640.00)
6	UPS installation	-	12,000.00	(12,000.00)
7	Security	-	36,000.00	(36,000.00)
8	Glano prison electrical connection	-	13,725.00	(13,725.00)
9	Glano prison water rehabilitation	-	21,000.00	(21,000.00)
	Total	66,000.00	167,865.00	(101,865.00)

Glossary

AWP	Annual Work Plan
CEO	Chief Executive Officer
CO	Country Office
CSO	Community Support Organization
DIM	Direct Implementation
FCA	Fellow Chartered Accountant
FTA	Fixed Term Agreement
HQ	Headquarters
HR	Human Resource
ICF	Internal Control Framework
ICT	Information and Communication Technology
IP	Implementing Partner
IPSAS	International Public Sector Accounting Standard
IT	Information Technology
JSP	Justice System Programme
LOA	Letter of Agreement
LTA	Long Term Agreement
MoJ	Ministry of Justice
OAI	Office of Audit and Investigations
PD	Project Document
PDHJ	Provedoria for Human Rights and Justice
PM	Project Manager
PMU	Project Management Unit
RADT	Request for Asset Transfer or Disposal
RR	Resident Representative
SSA	Special Service Agreement
TA	Temporary Agreement
TL	Timor-Leste
UNCT	United Nations Country Team
UNDP	United Nations Development Programme
UNMIT	United Nations Integrated Mission in Timor-Leste
UN	United Nations
US\$	United States Dollar

