



**AUDIT**

**OF**

**UNDP TIMOR-LESTE**

**STRENGTHENING EARLY RECOVERY FOR COMPREHENSIVE AND SUSTAINABLE  
REINTEGRATION OF INTERNALLY DISPLACED PEOPLE  
(Directly Implemented Project No. 00063615)**

**Report No. 912**  
**Issue Date: 12 March 2013**

## Report on the audit of UNDP Timor-Leste - Strengthening Early Recovery for Comprehensive and Sustainable Reintegration of Internally Displaced People (Project ID 63615) 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 Strengthening Early Recovery for Comprehensive and Sustainable Reintegration of Internally Displaced People (Project ID 63615) (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 \$0.4 million during the period from 1 January to 31 December 2011. The following donors contributed to the project: Australian Agency for International Development, Sweden 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 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	Amount (in \$ '000)	Opinion	Amount (in \$ '000)	Opinion
389	Unqualified	Nil	Not applicable	-	Not applicable*

\*No separate bank account was held by the project

Figure 2: Internal controls and systems audit ratings summary

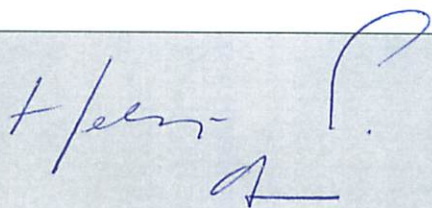
Audit Areas	Not Assessed/ Not Applicable	Unsatisfactory	Partially Satisfactory	Satisfactory
1. Organization and staffing				
2. Project management				
3. Human resources management				
4. Financial and cash management				
5. Procurement				
6. Asset management				
7. Information systems				
8. General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

### Key issues and recommendations

The audit raised six issues and resulted in six recommendations, all ranked medium (important) priority, meaning "Action is required to ensure that UNDP is not exposed to significant risks. Failure to take action could result in negative consequences for UNDP." These recommendations include actions to address variances between project budget and actual expenditures, non-availability of field visit reports and lack of a procurement plan.

### 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 Early Recovery for Comprehensive and  
Sustainable Reintegration of IDPs (SERC)**  
**Project ID: 00063615**  
**Audit Period – 01 January 2011 to 31 December 2011**

**Lochan & Co.**  
Chartered Accountants

**Head Office**

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**UNDP TIMOR-LESTE**  
**Project ID 63615**  
**“Strengthening Early Recovery for Comprehensive and Sustainable Reintegration of Internally Displaced People (IDPs)”**

**Certification for Statement of Expenditure**

We have audited the accompanying Combined Delivery Report (“the statement”) of the UNDP project **00063615 (Award ID 51193), Strengthening Early Recovery for Comprehensive and Sustainable Reintegration of IDPs** for the period 01 January 2011 to 31 December 2011. The statement is the responsibility of the management of **Strengthening Early Recovery for Comprehensive and Sustainable Reintegration of IDPs** 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 presents fairly, in all material respects, the expenditure of **US\$ 388,634.91** incurred by the project ‘Strengthening Early Recovery for Comprehensive and Sustainable Reintegration of IDPs (SERC)’ 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.



Rajeev Lochan FCA  
Partner

Lochan & Co  
Chartered Accountants

Dated: 28<sup>th</sup> January 2013  
Place: New Delhi

**UNDP TIMOR-LESTE**  
**Project ID 63615**  
**Strengthening Early Recovery for Comprehensive and**  
**Sustainable Reintegration of IDPs (SERC)**

**Certification for Statement of Assets and Equipments**

We have audited the accompanying schedule of assets ("the schedule") of the UNDP project number **00063615 (Award ID 51193), Strengthening Early Recovery for Comprehensive and Sustainable Reintegration of IDPs (SERC)** 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 presents fairly, in all material respects, the balance of inventory of the UNDP **project number 00063615**, amounting to **US\$ Nil** as at 31 December 2011



Rajeev Lochan FCA

Partner

Lochan & Co  
Chartered Accountants

Dated: 28<sup>th</sup> January 2013

Place: New Delhi

**UNDP TIMOR-LESTE**  
**Project ID 63615**  
**Strengthening Early Recovery for Comprehensive and**  
**Sustainable Reintegration of IDPs (SERC)**

**Statement of Cash Position**  
As at 31 December 2011

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



Rajeev Lochan FCA  
Partner

Lochan & Co  
Chartered Accountants

Dated: 28<sup>th</sup> January 2013  
Place: New Delhi



Combined Delivery Report By Project



UN Development Programme  
Port ID: ungh143p

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Section Criteria:

Business Unit: TLS10  
Period: Jan-Dec (2011)  
Selected Award Id: 00051193  
Selected Fund Code: ALL  
Selected Dept. IDs: ALL  
Selected Projects: 00063615

Award Id : 00051193 SERC		Period : Jan-Dec (2011)			
Project #: 00063615 Support to reintegration		Impl. Partner : 99999 UNDP			
		Location : Timor-Leste			
	Govt Disb	UNDP Disb	UN Agencies	Encumbrance	Total Exp

Project: 40203 (East Timor -Crisis Prev & Rcvry)

Fund: 26941 (CPR EARLY R AND CROSS CUTTING)

71210 - Intl Consultants-Sht Term-Supp	0.00	11,556.48	0.00	0.00	11,556.48
71305 - Local Consult -Sht Term-Tech	0.00	637.73	0.00	0.00	637.73
71620 - Daily Subsistence Allow-Local	0.00	97.76	0.00	0.00	97.76
72105 - Svc Co-Construction & Engineer	0.00	1,139.59	0.00	0.00	1,139.59
72125 - Svc Co-Studies & Research Serv	0.00	11.29	0.00	0.00	11.29
72425 - Mobile Telephone Charges	0.00	-78.00	0.00	0.00	-78.00
72605 - Grants to Instit & other Benef	0.00	-16.90	0.00	0.00	-16.90
73125 - Common Services-Premises	0.00	3,706.47	0.00	0.00	3,706.47
74220 - Translation Costs	0.00	431.97	0.00	0.00	431.97
74510 - Bank Charges	0.00	46.80	0.00	0.00	46.80
74599 - UNDP cost recovery chrgs-Bills	0.00	0.00	0.00	0.00	0.00
74705 - Port Operation	0.00	161.20	0.00	0.00	161.20
<b>Total for Fund 26941</b>	<b>0.00</b>	<b>17,694.39</b>	<b>0.00</b>	<b>0.00</b>	<b>17,694.39</b>

Fund: 26951 (CPR - TTF GENDER)

71210 - Intl Consultants-Sht Term-Supp	0.00	6,792.24	0.00	0.00	6,792.24
71405 - Service Contracts-Individuals	0.00	6,653.33	0.00	0.00	6,653.33
71605 - Travel Tickets-International	0.00	195.52	0.00	0.00	195.52
71615 - Daily Subsistence Allow-Intl	0.00	97.76	0.00	0.00	97.76
71620 - Daily Subsistence Allow-Local	360.00	405.44	0.00	0.00	765.44
72125 - Svc Co-Studies & Research Serv	0.00	89.55	0.00	0.00	89.55
72605 - Grants to Instit & other Benef	0.00	14,926.84	0.00	0.00	14,926.84
73110 - Custodial & Cleaning Services	0.00	31.20	0.00	0.00	31.20
73410 - Maint, Oper of Transport Equip	0.00	84.24	0.00	0.00	84.24
74599 - UNDP cost recovery chrgs-Bills	0.00	0.00	0.00	0.00	0.00
<b>Total for Fund 26951</b>	<b>360.00</b>	<b>29,276.12</b>	<b>0.00</b>	<b>0.00</b>	<b>29,636.12</b>

Fund: 30000 (Programme Cost Sharing)

63535 - Contribution to Security	0.00	1,018.37	0.00	0.00	1,018.37
64310 - Separations - IP Staff	0.00	3,927.04	0.00	0.00	3,927.04
65135 - Payroll Mgt Cost Recovery ATLA	0.00	172.63	0.00	0.00	172.63
71205 - Intl Consultants-Sht Term-Tech	0.00	21,278.40	0.00	0.00	21,278.40
71210 - Intl Consultants-Sht Term-Supp	0.00	66,066.00	0.00	0.00	66,066.00
71305 - Local Consult -Sht Term-Tech	0.00	13,019.91	0.00	0.00	13,019.91
71310 - Local Consult -Short Term-Supp	0.00	465.92	0.00	0.00	465.92
71405 - Service Contracts-Individuals	0.00	5,977.14	0.00	0.00	5,977.14
71615 - Daily Subsistence Allow-Intl	0.00	293.28	0.00	0.00	293.28
71620 - Daily Subsistence Allow-Local	0.00	1,808.56	0.00	0.00	1,808.56
71625 - Daily Substst Allow-Mtg Partic	920.00	36.80	0.00	0.00	956.80
72125 - Svc Co-Studies & Research Serv	0.00	397.58	0.00	0.00	397.58
72145 - Svc Co-Training and Educ Serv	0.00	3,179.80	0.00	0.00	3,179.80
72410 - Acquisition of Audio Visual Eq	298.00	11.92	0.00	0.00	309.92
72425 - Mobile Telephone Charges	0.00	1,127.36	0.00	0.00	1,127.36
72440 - Connectivity Charges	0.00	1,263.25	0.00	0.00	1,263.25
72445 - Common Services-Communications	40.00	1.60	0.00	0.00	41.60
72505 - Stationery & other Office Supp	0.00	737.88	0.00	0.00	737.88
72605 - Grants to Instit & other Benef	14,806.25	104,184.32	0.00	0.00	118,990.57
72705 - Hospitality-Special Events	443.00	17.72	0.00	0.00	460.72



UN Development Programme  
Sport ID: ungl143p

Combined Delivery Report By Project

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Award Id : 00051193 SERC	Period :	Jan-Dec (2011)			
Project # : 00063615 Support to reintegration	Impl. Partner :	99999 UNDP			
	Location :	Timor-Leste			
	Govt Disb	UNDP Disb	UN Agencies	Encumbrance	Total Exp
73105 - Rent	70.00	2.80	0.00	0.00	72.80
73110 - Custodial & Cleaning Services	0.00	113.93	0.00	0.00	113.93
73405 - Rental & Maint-Other Office Eq	337.00	13.48	0.00	0.00	350.48
73410 - Maint. Oper of Transport Equip	0.00	92.04	0.00	0.00	92.04
74210 - Printing and Publications	0.00	772.72	0.00	0.00	772.72
74220 - Translation Costs	0.00	2,408.36	0.00	0.00	2,408.36
74225 - Other Media Costs	0.00	4,651.99	0.00	0.00	4,651.99
74510 - Bank Charges	43.00	44.36	0.00	0.00	87.36
74599 - UNDP cost recovery chrgs-Bills	0.00	0.00	0.00	0.00	0.00
75105 - Facilities & Admin - Implement	0.00	10,010.44	0.00	0.00	10,010.44
75115 - Facilities & Admin - OH & Ind	0.00	11,674.09	0.00	0.00	11,674.09
77305 - Salaries - IP Staff-TA	0.00	19,859.12	0.00	0.00	19,859.12
77310 - Post Adjustment - IP Staff-TA	0.00	10,887.99	0.00	0.00	10,887.99
77320 - Assg hardship & mob allow-TA	0.00	3,538.60	0.00	0.00	3,538.60
77345 - Dep Allowances-IP Staff-TA	0.00	1,523.08	0.00	0.00	1,523.08
77357 - Repat. Grt/Comm Ann Lv-IP-TA	0.00	5,821.47	0.00	0.00	5,821.47
77375 - Contrib-Jt Staff Pens Fd-IP-TA	0.00	5,200.32	0.00	0.00	5,200.32
total for Fund 30000	16,957.25	301,600.27	0.00	0.00	318,557.52
total for Dept : 40203	17,317.25	348,570.78	0.00	0.00	365,888.03
dept: 40204 (East Timor - Dem. Governance)					
und : 26951 (CPR - TTF GENDER)					
71405 - Service Contracts-Individuals	0.00	8,426.13	0.00	0.00	8,426.13
total for Fund 26951	0.00	8,426.13	0.00	0.00	8,426.13
und : 30600 (Programme Cost Sharing)					
71205 - Intl Consultants-Sht Term-Tech	0.00	0.00	0.00	0.00	0.00
71305 - Local Consult.-Sht Term-Tech	0.00	11,450.40	0.00	0.00	11,450.40
72130 - Svc Co-Transportation Services	0.00	140.92	0.00	0.00	140.92
72310 - Minerals,Mining & Metal Prdcts	0.00	1,360.20	0.00	0.00	1,360.20
73410 - Maint. Oper of Transport Equip	0.00	367.57	0.00	0.00	367.57
74510 - Bank Charges	0.00	31.20	0.00	0.00	31.20
75105 - Facilities & Admin - Implement	0.00	912.05	0.00	0.00	912.05
75115 - Facilities & Admin - OH & Ind	0.00	58.41	0.00	0.00	58.41
total for Fund 30000	0.00	14,320.75	0.00	0.00	14,320.75
total for Dept : 40204	0.00	22,746.88	0.00	0.00	22,746.88
total for Project : 00063615	17,317.25	371,317.66	0.00	0.00	388,634.91
award Total :	17,317.25	371,317.66	0.00	0.00	388,634.91

Signed By :

Date :

*Jose Carlos Pereira, Project Manager, PRASE*  
*Jose M. Cabral Belo, Hou*

24/4/12

9/5/2012

12/03/2012

For Lochan & Co.  
Chartered Accountants

Rajeev Lochan, FCA  
Partner



UN Development Programme  
Report ID: ungl143p

Combined Delivery Report By Project

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Selection Criteria :

Business Unit : TLS10  
Period : Jan-Dec (2011)  
Selected Award Id : 00051193  
Selected Fund Code : ALL  
Selected Dept. IDs : ALL  
Selected Projects : 00063615

Award Id : 00051193	SERC	Period :	Jan-Dec (2011)		
Project # :	Support to reintegration	Impl. Partner :	None		
		Location :	Timor-Leste		
	Govt Disb	UNDP Disb	UN Agencies	Encumbrance	Total Exp
40203 - East Timor - Crisis Prev & Recvry	17,317.25	348,570.78	0.00	0.00	365,888.03
40204 - East Timor - Dem. Governance	0.00	22,746.88	0.00	0.00	22,746.88







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# United Nations Development Programme Timor-Leste



## Management Letter

### Strengthening Early Recovery for Comprehensive and Sustainable Reintegration of IDPs (SERC)

Project ID: 00063615

Audit Period – 01 January 2011 to 31 December 2011

**Lochan & Co.**  
Chartered Accountants

#### Head Office

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## 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 Early Recovery for Comprehensive and Sustainable Reintegration of IDPs (SERC)** [Project ID: 00063615; Award ID: 00051193] (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\$ 388,634.91**.

### 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 which were ranked '**Medium (important)**' priority

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: 28<sup>th</sup> January 2013

### Rating Summary

In our opinion, the overall level of internal control with respect to the project “Strengthening Early Recovery for Comprehensive and Sustainable Reintegration of IDPs (SERC) [Project ID: 00063615; Award ID: 00051193]” is considered to be **Satisfactory**.

Area	Rating	Unsatisfactory	Partially Satisfactory	Satisfactory
Organization and Staffing	Satisfactory			
Project Management	Partially Satisfactory			
Human Resources	Satisfactory			
Finance and Cash Management	Satisfactory			
Procurement	Satisfactory			
Assets Management	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.

The audit objectives were:

- 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.

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.

#### 2.1.2 Project Audit Visit Data

The audit was carried out at the UNDP 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 SERC project engages both former Internally Displaced People (IDPs) and their wider communities in identifying shared priorities and fostering through participatory planning processes, the restoration of communal bonds, as well as broadening the scope of beneficiaries beyond IDPs. The Project's key activities include the following:

- Skills of the Ministry of Social Solidarity (MSS) enhanced to conduct participatory planning and assessment of small community infrastructure projects.
- Assistance provided to MSS to identify needs, plan and implement small community infrastructure projects in a participatory manner.
- Early recovery coordination facilitated to support the implementation of the National Recovery Strategy and relevant national priorities.

### 2.2.2 Management

The project is executed by UNDP and the National Directorate for Social Assistance (NDAS) of the (MSS).

A Project Board (PB) is established, comprising representatives from UNDP, MSS, Ministry of State Administration and Territorial Management and Ministry of Infrastructure. Other participants, such as NGOs and donors' representative, were invited to join the PB. The PB will provide strategic guidance and oversight on project implementation, including making management decisions upon request by the Project Coordinator.

### 2.2.3 Project operations

The Project Team for Outputs 1 and 2 hosted at NDAS for better integration with on-going initiatives and institutional set up. An international CTA/ Project Manager is recruited in order to lay the basic foundations for implementation and ensure daily management and follow-up of this project component. A national Deputy Project Manager was also recruited for support and transfer of knowledge and experience.

With regard to Output 3, an Early Recovery Adviser and Information Management Specialist was recruited for the Office of the UN Resident Coordinator (RCO) to whom they will report. They will be also accountable to the PB through the Project Coordinator. The Early Recovery Support Team, consisting of an Early Recovery Cluster Coordinator and a national Early Recovery Officer reported to the UNDP Senior Management through the Assistant Country Director/ Crisis Prevention and Recovery.

### 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	Not Available
Audit period	January 2011 to December 2011
Total Budget of Project	US\$ 3,656,000.00
Budget during the audit period -2011	US\$ 397,350.74
Expenditure during the audit period	US\$ 388,634.91
Percentage Utilisation	97.81%

## 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/documentated for significant exceptions (example: larger than 20 percent).
- The budget and actual expenditure are compared in three tables. The first comparison is for Activity wise comparison, the second for Donor code wise comparison and third for Account code wise comparison (refer Table - A, Table - B and Table - C attached as annexure).
- Activity wise comparison**
  - In **activity 1**: “Participatory Planning” the actual expenditure was US\$ 131,692.49 compared to the budgeted expenditure of US\$ 104,067.23. Thus there was an over utilization of US\$ 27,625.26 (- 26.55%).
  - In case of **activity 3**: “Early Recovery Coordination” the actual expenditure was US\$ 105,035.10 compared to the budgeted expenditure of US\$ 146,056.08. Thus there was an under utilization of US\$ 41,020.98 (28.09%)
- Account code wise comparison**
  - From the account code wise comparison as mentioned in Table - C, following points were concluded:
    - In 8 account codes there was no budget but expenditure of US\$ 29,920.51 is charged under these account codes.
    - In 6 account codes expenditure is over utilized which are ranging from 1768.76% to 77.61%.
    - In 2 account codes, the expenditure is underutilized ranging from 96.61% to 35.43%.
  - 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 has explained that variances between budget and actual expenditure are common due to the nature and unpredictability of UNDP’s work.
- The audit firm does not agree with the management explanations. Management has provided general explanations. The variances due to the above reasons may be nominal (less than 20%) but the variances pointed out in the observation are significant (i.e. more than 20%). So all such variances should be analysed and proper explanations should be provided.

<b>Cause</b>	Inadequate Planning
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<b>Risk</b>	Programmatic
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<b>Priority</b>	Medium (Important)
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##### 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:

- Training on project budget management and budget revisions to PO and PMs to be conducted by December 2012.

- Establish a mechanism for mandatory review of project budget at least twice a year, July and November each year.

**Responsible Manager:** New PM, PO and CO OM and Finance Unit

**Expected Completion Date:** December 2012

**Status of Recommendation:**

**Observation No. 2: Non availability of field visit reports**

- UNDP Programme and Operations Policies and Procedures (POPP) requires that Project undertake field visits to determine whether project results are being activated. Further field visits undertaken be documented.
- The Project did not share any field visit reports with the audit firm. As such there was no evidence if field visit conducted during the year for monitoring of project.
- The management explained that there are no specific reports on monitoring or field visit activities, however, the implementation processes reported on quarterly basis through its progress reports.
- Since no such reports were shared with the audit team, project progress or implementation issue may not be detected and resolved.

<b>Cause</b>	Lack of or inadequate guidance or supervision at country office level
<b>Risk</b>	Operational/ programmatic
<b>Priority</b>	(Medium) Important

**Impact:**

- In event of non availability of the field reports it is difficult to ascertain the outcomes and the value for money achieved by a program activity.

**Recommendation 2:**

- The Project should undertake monitoring that includes regular field visits and the results of field visit be appropriately documented and used to monitor the progress of the project.

**Management Comments:**

- The recommendation is valid and noted for compliance in the future. This issue will be included as part of training to new Project Managers on all issues related to project management.
- PO and PM to take the LMS online training on project management.

**Responsible Manager:** Head of CPR Programme

**Expected Completion Date:** December 2012

**Status of Recommendation:**

### 3.3 Human Resource

Satisfactory

#### Observation No. 3: 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 Annual Work Plan (AWP). However

- Some positions included in AWP 2011 were not actually filled:
  - International Lead Engineer
  - Early Recovery Advisor
  - Early Recovery Cluster Coordinator
  - Information Management Specialist (RCO)
  - National Recovery Officer
- The management explained that 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 as per the update Annual and Quarterly Work Plans that take into considerations the staffing needs as they emerged and response to the priority identified by the national institutions.
- 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.

<b>Cause</b>	Inadequate Planning
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<b>Risk</b>	Programmatic
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<b>Priority</b>	Medium (Important)
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#### 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 3:

- For effective implementation of project activities the project personnel should be recruited as envisaged in the 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:

- The recommendations will be considered in the near future when new projects will start because the SERC projects ends in December 2012.

**Responsible Manager:** N/A

**Expected Completion Date:** N/A

**Status of Recommendation:**

### 3.4 Finance and cash Management

Satisfactory

#### Observation No. 4: Approval of vouchers

- According to the Internal Control Framework (ICF) guidelines, the payment voucher should be processed after approval of requisition by the approving authority.
- The Audit firm has noticed certain cases where the approval date on the requisition sheets submitted by the project staff is later than the date of payment voucher.
- This clearly reveals that the internal controls over processing of payment and segregation of duties are circumvented at one place or the other.
- The list of such vouchers on which approval date is later than the voucher date is mentioned in **Table - D** as an annexure.

<b>Cause</b>	Lack of or inadequate guidance or supervision at country office level
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<b>Risk</b>	Operational
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<b>Priority</b>	Medium (Important)
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#### Impact:

- Non compliance of the payment procedures may lead unauthorised payments which may cost the organization in financial terms

#### Recommendation 4:

- The project management should ensure compliance with ICF. This should include that the requisitions are approved before payment are processed.

#### Management Comments:

- The observation and recommendation are valid and it will be handled and addressed during training on project management to be provided to the PM and PO.
- PO and PM to take the LMS online training on project management.

**Responsible Manager:** Head of CPR Programme

**Expected Completion Date:** December 2012

**Status of Recommendation:**

#### Observation No. 5: Excess payment of DSA

- As per the ICF guidelines the requisition authority, approving authority and disbursing authority should ensure before approving any payment that the advance payment paid are adjusted.
- As per Voucher No. 44588 dated 14th March 2011 for US\$ 188 paid to a staff as 80% DSA for 5 days. Similarly as per Voucher No. 44589 dated 14th March 2011 for US\$ 188 paid to another staff as 80% DSA for 5 days.
- When the next payments for remaining 20% DSA were processed, the 100% DSA were paid vide Voucher No. 44807 dated 10th April 2011 for US\$ 235 to the first staff for 5 days and Voucher No. 44808 dated 10th April 2011 for US\$ 235 to the second staff for 5 days.
- It is worth noting that the requisition prepared initially were for 20% payment but it was overwritten and 100% DSA was approved
- From the above details, it is concluded that excess DSA of US\$ 376 were paid.
- The management has assured that the staff member who still works for the organization will be informed accordingly in order to reimburse of fund that have been paid to them due to excess payment and for the staff member who had left the project, no action will be taken, however, close oversight will be taken in the future and will be fixed in due course.

<b>Cause</b>	Human error
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<b>Risk</b>	Financial
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<b>Priority</b>	Medium (Important)
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**Impact:**

Loss of funds to the organization to the tune of US\$ 376.

**Recommendation 5:**

- (a) The management should establish control over the payments disbursed to vendors. The disbursements should be checked thoroughly and adjusted for any advance payments before disbursing further amount. This should include enhancing control over the payment of Daily Subsistence Allowance.
- (b) Action should be initiated to recover the excess payment of US\$ 376 disbursed to the employees through Voucher No. 44588 dated 14<sup>th</sup> March 2011.

**Management Comments:**

- As already explained and confirmed, the Programme staff have been following on this issue with respective project until. The full amount will be recovered. In addition to the above, the CO will take some measures to strengthen monitoring tools to avoid such cases in the future.

**Responsible Manager:** Head of CPR programme

**Expected Completion Date:** December 2012

**Status of Recommendation:**

### 3.5 Procurement

Satisfactory

#### Observation No. 6: Preparation of Procurement Plan for 2011

- The UNDP Procurement procedures require that a procurement plan should be prepared and implemented.
- Audit noted that the Project did not prepare procurement plan for 2011.
- As per the AWP and budget for 2011, under the accounting code 72600, there was provisions for procurement of the contractual services were awarded to contractors for civil work for community infrastructure development for US\$ 143,461.35.
- However it has been noticed that no procurement plan was prepared for the same.

<b>Cause</b>	Inadequate planning
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<b>Risk</b>	Operational
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<b>Priority</b>	Medium (Important)
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#### Impact:

- Non preparation of procurement plan as envisaged in the Procurement User Guide of UNDP might affect the value being received for the money spent and may also lead to delays in the procured goods/ services.

#### Recommendation 6:

- 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:** CO Procurement Unit

**Expected Completion Date:** December 2012

**Status of Recommendation:**

### 3.6 Asset Management

Satisfactory

No observation

### 3.7 Information System

Not Applicable

### 3.8 General Administration

Satisfactory

No observation



## 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.

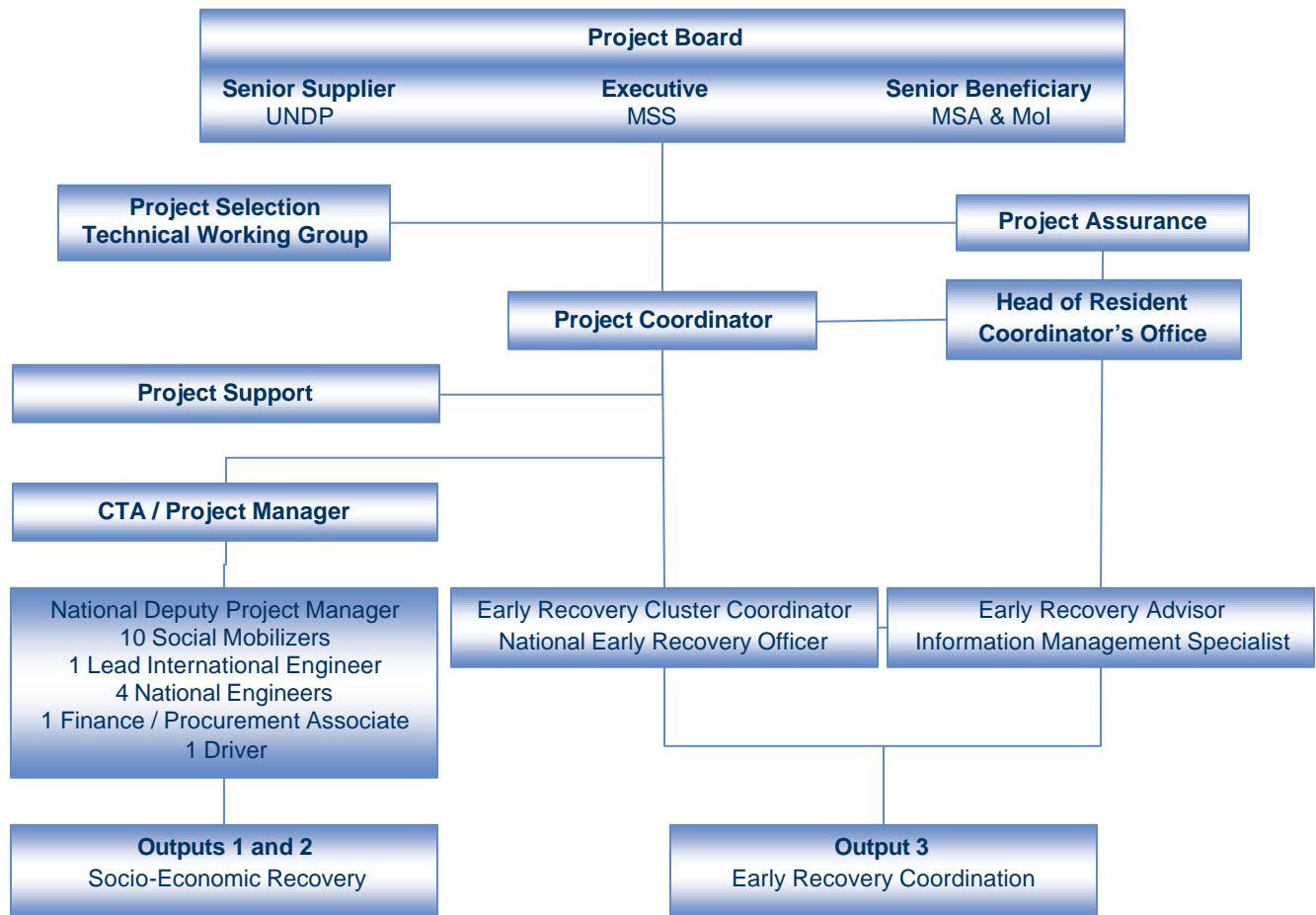
**Medium (Important)** Action is required to ensure that UNDP is not exposed to significant risks. Failure to take action could result in negative consequences for UNDP.

**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.

### 4.3 Project Organization Structure



## 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
ACTIVITY 1 – Participatory planning	104,067.23	131,692.49	(27,625.26)	-26.55%
ACTIVITY 2 - Community infrastructure	147,227.43	151,907.32	(4,679.89)	-3.18%
ACTIVITY 3 - Early recovery coordination	146,056.08	105,035.10	41,020.98	28.09%
<b>Total</b>	<b>397,350.74</b>	<b>388,634.91</b>	<b>8,715.83</b>	<b>2.19%</b>

**Table - B**

#### Donor wise Budget Analysis for 2011

(Amount in US\$)

Donor code	Donor	Budgeted Expenditure (A)	Actual Expenditure (B)	Difference (A-B)	% Difference
11234	AUS AID	337,508.59	332,612.44	4,896.15	1.45%
231	SWE	56,984.82	55,756.64	1,228.18	2.16%
10714	UNDP(JPAA)	2,857.33	265.83	2,591.5	90.70%
<b>Total</b>		<b>397,350.74</b>	<b>388,634.91</b>	<b>8,715.83</b>	<b>2.19%</b>

**Table - C**

#### Account code wise Budget Analysis for 2011

(Amount in US\$)

Account code	Account Description	Budgeted Expenditure (A)	Actual Expenditure (B)	Difference (A-B)	% Difference
63500	Insurance and Security Costs	-	1,018.37	(1,018.37)	-100.00%
64300	Staff Mgmt Costs - IP Staff	-	3,927.04	(3,927.04)	-100.00%
65100	After Service Insurance	-	172.63	(172.63)	-100.00%
71200	International Consultants	43,146.59	105,693.12	(62,546.53)	-144.96%
71300	Local Consultants	3,141.00	25,573.96	(22,432.96)	-714.20%
71400	Contractual Services - Individual	1,838.26	21,056.60	(19,218.34)	-1045.46%
71600	Travel	3,766.08	4,215.12	(449.04)	-11.92%
72100	Contractual	146,402.46	4,958.73	141,443.73	96.61%

Account code	Account Description	Budgeted Expenditure (A)	Actual Expenditure (B)	Difference (A-B)	% Difference
	Services-Companies				
72300	Materials & Goods	-	1,360.20	(1,360.20)	-100.00%
72400	Communication & Audio Visual Equip	1,500.00	2,664.13	(1,164.13)	-77.61%
72500	Supplies	750.00	737.88	12.12	1.62%
72600	Grants	143,461.35	133,900.51	9,560.84	6.66%
72700	Hospitality/ Catering	-	460.72	(460.72)	-100.00%
73100	Rental & Maintenance-Premises	210.00	3,924.40	(3,714.40)	-1768.76%
73400	Rental & Maintenance of Other Equip	1,385.00	894.33	490.67	35.43%
74200	Audio Visual & Print Prod Costs	1,650.00	8,265.04	(6,615.04)	-400.91%
74500	Miscellaneous Expenses	-	165.36	(165.36)	-100.00%
74700	Transport, Shipping and handle	-	161.20	(161.20)	-100.00%
75100	Facilities & Administration	-	22,654.99	(22,654.99)	-100.00%
77300	Salary and related costs-TA/IP	50,100.00	46,830.58	3,269.42	6.53%
<b>Total</b>		<b>397,350.74</b>	<b>388,634.91</b>	<b>8,715.83</b>	<b>2.19%</b>

Table - D

**Details of vouchers where approval date is late than voucher date**

Amount in US\$

S. No.	Voucher No.	Voucher Date	Particulars	Account code used	Amount (US\$)	Remarks
1	44506	8-Mar-11	Supply and fabrication of Rope pump hand dug well	72605	1,050.00	Approved on 10th March, 2011
2	44591	13-Mar-11	Toner, photo copies, lamination of reports, aqua	72605	373.85	Approved on 15th March, 2011
3	44812	27-Mar-11	Additional Works for Lasaun	72605	500.00	Approved on 30th March, 2011

## Glossary

AUSAID	:	Australian Agency for International Development
AWP	:	Annual Work Plan
CO	:	Country Office
DSA	:	Daily Subsistence Allowance
FCA	:	Fellow Chartered Accountant
ICF	:	Internal Control Framework
IDP	:	Internally Displaced People
IP	:	Implementing Partner
MSS	:	Ministry of Social Solidarity
NDAS	:	National Directorate for Social Assistance
OAI	:	Office of Audit and Investigations
PB	:	Project Board
PM	:	Project Manager
PMU	:	Project Management Unit
POPP	:	Programme and Operations Policies and Procedures
RCO	:	Office of the UN Resident Coordinator
SERC	:	Strengthening Early Recovery for Comprehensive and Sustainable Reintegration
SWE	:	Sweden
TA	:	Temporary Agreement
UNDP	:	United Nations Development Programme
US\$	:	United States Dollar



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