



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
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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. Ostveiten
Director
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