UNITED NATIONS DEVELOPMENT PROGRAMME
Office of Audit and Investigations

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AUDIT

OF

UNDP Pakistan

Early Recovery Programme in Pakistan
(Directly Implemented Project No. 77286)

Report No. 987
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Report on the audit of UNDP Pakistan
Early Recovery Programme in Pakistan (Project No. 77286)
Executive Summary

From 18 October 2012 to 15 January 2013, the Office of Audit and Investigations (OAI) of the United Nations Development Programme (UNDP), through Ernst & Young Ford Rhodes Sidat Hyder - Pakistan (the audit firm), conducted an audit of the Early Recovery Programme in Pakistan, Project No. 77286 (the Project), which is directly implemented and managed by the UNDP Country Office in Pakistan (the Office). The audit was conducted under the general supervision of OAI in conformance with the *International Standards for the Professional Practice of Internal Auditing*. The last audit of the Office was conducted by OAI in 2012.

The Project reported expenditure totalling $42.7 million during the period from 1 January 2011 to 31 March 2012. The Project was funded by Japan and the COFRA Foundation.

Audit scope and objectives

The audit work covered financial transactions as well as internal controls and systems for the purpose of expressing 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 2011 to 31 March 2012 and Statement of Assets as of 31 March 2012. 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, information systems 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 **partially satisfactory**, which means "Internal controls, governance and risk management processes were generally established and functioning, but needed improvement. One or several issues were identified that may negatively affect the achievement of the objectives of the audited entity." 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**	
Amount (in $ '000)	**Opinion**	**NFI (in $ '000)**	**Amount (in $'000)**	**Opinion**
42,652	Qualified	2,300	60	Unqualified

NFI = Net Financial Impact

The audit firm qualified its opinion on Project expenditure due to the following:

(a) Expenses amounting to $30.83 million had been classified into the incorrect chart of accounts. Included in these misclassifications were various types of expenses amounting to $17.89 million and $12.84 million for the periods ending 31 December 2011 and 31 March 2012, respectively, and which had been incorrectly recorded in the 'grants to institutions' account.

(b) Inadequate supporting documents were provided for expenses amounting to $4.1 million, thus the audit firm was unable to ascertain the acceptability and chargeability of these expenses to the Combined Delivery Report.

(c) Expenses amounting to $2.1 million were not recorded in the Combined Delivery Report for the period ending 31 March 2012. This amount related to expenses which were incurred by responsible parties during the reporting periods, but were not recorded in the Combined Delivery Report since the responsible parties were late in submitting financial reports to the Office.

(d) Advances amounting to $318,000 were recorded as expenses in the Combined Delivery Report for the period ending 31 March 2012.

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 12 issues and resulted in 1 recommendation, which was 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."

Among the issues raised in this report, those that could be considered the most significant are presented below:

Project management (Issue 2)	Weaknesses noted in civil society organization selection process. The Office hired a consultant for the capacity assessment of the responsible parties. The audit noted 19 civil society organizations for which the consultant provided a rating of "high risk" or "not recommended". However, the Office awarded 27 Project Cooperation Agreements amounting to $14.4 million to these 19 civil society organizations after obtaining approval from the technical review committee. The documentation justifying overturning the evaluation by the consultant was not available. Additionally, the audit identified two instances where the Office awarded Project Cooperation Agreements amounting to $1.2 million to two responsible parties despite not being recommended by the technical review committee.
Human resources management (Issue 3)	Lack of controls to detect addition or deletion of employees in the payroll system. The Human Resources Associate can add or delete employees in the payroll system. System generated notifications for additions or deletions of employees from the payroll could not be generated from the beginning of the Project until January 2012. There were no substitute manual controls available to mitigate the risks associated with the payroll

	system prior to January 2012
Procurement management (Issue 10)	Weaknesses in the procurement function of responsible parties. The audit noted the following weaknesses: (a) seven responsible parties did not comply with the established procurement processes for tendering and number of quotations to be raised for competitive procurement; (b) for 25 responsible parties, there were discrepancies in purchase requisitions, purchase orders, and goods received notes; (c) comparative statements were not signed or approved by the relevant authorities for seven responsible parties; and (d) for 34 responsible parties, there were control weaknesses in the procurement management of the projects, such as the lack of established policies for pre-qualified suppliers, requests for proposals and invitations to bids, purchase requisitions and purchase orders, the composition of procurement committees, and contractual provisions with vendors relating to anti-personnel mines and child labour.
Asset management (Issue 11)	Assets not returned to the Project. Eight responsible parties did not return project assets amounting to $62,775 to the Office after the completion of the Project.

Management's comments

The Resident Representative accepted the recommendation and is in the process of implementing it.

Antoine Khoury
Officer-in-Charge
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