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INTEROFFICE MEMORANDUM

MEMORANDUM INTERIEUR

OFFICE OF INTERNAL OVERSIGHT SERVICES / BUREAU DES SERVICES DE CONTRÔLE INTERNE
INTERNAL AUDIT DIVISION / DIVISION DE L'AUDIT INTERNE

TO: Mr. Abdulie Janneh, Executive Secretary

DATE: 23 December 2008

A: Economic Commission for Africa

REFERENCE: IAD: 08- 02055

FROM: Dagfinn Knutsen, Director

DE: Internal Audit Division, OIOS 

SUBJECT: **Assignment No. AA2008/710/06 - Audit of the "Initiative for Central Africa": The Cross-border Trade and Investment in Central Africa 2006-2009 - funded by the Shell Foundation**

Although the expenditures were incurred for their intended purpose and in accordance with United Nations Regulations and Rules, weak project management resulted in failure to ensure that the projects were delivered in a timely manner

1. I am pleased to present the report on the above-mentioned audit which was conducted in accordance with the International Standards for the Professional Practice of Internal Auditing.

2. Based on your comments, we are pleased to inform you that we will close recommendation 2 in the OIOS recommendations database as indicated in Annex 1. In order for us to close recommendation 1, we request that you provide us with the additional information as discussed in the text of the report and also summarized in Annex 1.

3. Please note that OIOS will report on the progress made to implement its recommendations, particularly those designated as high risk (i.e., recommendation 1), in its annual report to the General Assembly and semi-annual report to the Secretary-General.

I. INTRODUCTION

4. The Office of Internal Oversight Services (OIOS) conducted an audit of expenditures incurred by the project dealing with Cross-border Trade and Investment in Central Africa 2006-2009, under the Initiative for Central Africa (INICA). The project was funded by the Shell Foundation and the audit was undertaken at the request of the management of the United Nations Economic Commission for Africa (ECA). The audit was conducted at ECA headquarters in Addis Ababa, Ethiopia and the Sub-Regional Office East Africa (SRO-EA) in Kigali, Rwanda, where INICA had its main office.

5. Comments made by ECA are shown in *italics*.

II. AUDIT OBJECTIVES

6. The overall objective of the audit was to assess the appropriateness of project expenditure which included:

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- (a) A review of ECA's compliance with terms and conditions in the Letter of Understanding (LOU) with The Shell Foundation;
 - (b) Determining whether the project expenditures were incurred for the intended purposes and were expended in accordance with the LOU and United Nations Regulations and Rules; and
 - (c) Assessing the accuracy and reliability of ECA financial reporting to The Shell Foundation.

III. AUDIT SCOPE AND METHODOLOGY

7. The audit covered activities for the Cross-border Trade and Investment in Central Africa 2006-2009, which took place between October 2006 and August 2008. The audit covered expenditures amounting to \$117,175.

8. The audit involved interviewing ECA staff, and review of project documentation including the LOU, financial statements, payment vouchers, and records for hiring consultants.

IV. OVERALL ASSESSMENT

9. The revised financial report for the period 30 October 2006 to 15 August 2008 (summarized in Annex 2) was accurate. The funds of \$111,525 were used to purchase services for the project in accordance with the terms and conditions of the LOU. Apart from the instances cited in the report, activities were carried out in accordance with the United Nations Financial Regulations and Rules.

10. Whilst expenditures were found to be accurate, the effectiveness and efficiency of the project was hampered by inadequate consideration of factors related to project management within the United Nations environment. Consequently the project was not delivered within the originally conceived timeline, and recruitment activity was not in some cases undertaken in full compliance with the rules.

V. AUDIT FINDINGS AND RECOMMENDATIONS

A. Letter of Understanding (LOU)

Lack of timeliness in delivery of agreed outputs in the LOU

11. The project was not implemented in a timely manner, which impacts on donor perception of the ability of ECA to manage and deliver projects as agreed. Originally planned to take three months, the project took around ten months to complete. ECA attributed the delays to the following:

- The original timeframe did not take into account the United Nations operating environment: For example, the timeframe did not adequately consider time required to undertake the following activities under United Nations' Regulations and Rules: recruitment of consultants, procurement of

services, and payment for the services. The original estimates turned out to unrealistic and could not be achieved, giving a poor impression to donors on the effectiveness and efficiency of ECA.

- Delays in release of funds: The first installment of \$90,000 was not received until one month after the signing of the LOU. Agreement on timing of release of funds is critical to ensuring that donors are clear about reasons for delays in utilization of funds.
- Weak communications infrastructure: The planning timelines did not reflect that several countries involved with the project had varying levels of development of communication infrastructures and skill bases. Therefore, identifying local researchers with appropriate skills took time and execution of the research relied on, in some cases, underdeveloped communication infrastructures. This impacted adversely on the smooth running of the project.

Recommendation 1

(1) The ECA Administration should strengthen procedures dealing with creation of project agreements to ensure that they take account and reflect all factors which might affect project delivery.

12. *ECA accepted recommendation 1 and stated that it has updated the result based guidelines for the development of project documents. The Commission agrees with OIOS that the delays experienced in the mobilization of the needed funds and implementation of this project were not envisaged at the planning stage and this would have been considered as part of the risk assessment during the planning stage to guide the setting of the time frame for project completion. This was a joint project between INICA and ECA and is uniquely different from other projects. The project went through a series of internal reviews and revision to ensure that it meets the timeline and other expectations of both ECA and other stakeholders including funding partners who promised to provide funding for the project. For multi-partner and multi-donor projects of this nature, where a project proposal is usually developed before fundraising, this kind of delay is not uncommon. We have learnt a number of valuable lessons from it, which will be vital in our planning and execution of similar projects in the future. Recommendation 1 remains open pending receipt of documentation providing guidance on all factors that should be considered when establishing project timelines.*

Reports specified in the LOU were produced

13. ECA prepared and sent the interim and final reports to the Shell Foundation as agreed in the LOU.

No formal acknowledgement of receipt of funds

14. ECA did not formally acknowledge receipt of the following funds: \$90,000 on 19 October 2006, and \$30,000 on 10 November 2006 and 6 September 2007. The Office of Policy and Strategic Management (OPM) explained that they advised donors of receipt of funds through emails. This is not in compliance with United Nations Financial Rule

103.8 (a) which requires that "an official receipt shall be issued within two business days of receipt for all cash and negotiable instruments received".

Recommendation 2

(2) **The ECA Administration should put in place procedures to ensure that a formal acknowledgement is sent to donors in compliance with United Nations Financial Rule 103.8 (a) whenever funds are received.**

15. *ECA accepted recommendation 2 and commented that a memorandum has been issued by Chief Finance Officer addressed to cashiers reminding them to issue receipts to donors for all monies received. Cashiers have been reminded to adhere to Financial Rules with regard to receipt of funds. Based on the action taken by ECA, recommendation 2 has been closed.*

B. Expenditures

Expenditure was re-classified

16. All expenditures were initially recorded as international consultants although expenditures amounting to \$36,824.69 were other expenditures such as local researchers and consultants' travel. OIOS brought this to the attention of the ECA management who re-classified the expenditures and issued a revised financial statement covering the period 30 October 2006 to 15 August 2008.

Consultants hired without valid United Nations contracts

17. Fourteen consultants were hired in 2006 at a cost of approximately \$21,000 without the involvement of the Human Resources Services Section. This was contrary to existing Staff Regulations and Rules and ECA guidelines on engagement of consultants which require consultants to sign valid contracts before commencing work. This occurred because the consultant who was in charge of the project wrongly thought that he had the authority to hire the consultants. ECA had recognized the problem and taken action to regularize the situation in 2007. No further action is therefore proposed.

C. Financial reporting

18. The revised statement on Project Expenditure for the period 30 October 2006 to 15 August 2008 (summarized in Annex 2) was found to be accurate based on an analysis of the underlying records which supported the figures shown in the statement.

VI. ACKNOWLEDGEMENT

19. We wish to express our appreciation to the Management and staff of ECA for the assistance and cooperation extended to the auditors during this assignment.

cc: Ms. Lalla Ben Barka, Deputy Executive Secretary, ECA
Ms. Doreen Bongoy-Mawalla, Officer-In-Charge, Division of Administration, ECA
Mr. Urbain Zadi, Director, Office of Strategic Planning and Programme Management,
ECA
Mr. Swatantra Goolsarran, Executive Secretary, UN Board of Auditors
Ms. Maria Gomez Troncoso, Officer-in-Charge, Joint Inspection Unit Secretariat
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STATUS OF AUDIT RECOMMENDATIONS

Recom. no.	Recommendation	Risk category	Risk rating	C/ O ¹	Actions needed to close recommendation	Implementation date ²
1.	The ECA Administration should strengthen procedures dealing with creation of project agreements to ensure that they take account and reflect all factors which might affect project delivery.	Strategy	High	O	Provide documentation showing guidance on all factors that should be considered when establishing project timelines.	Not provided
2.	The ECA Administration should put in place procedures to ensure that a formal acknowledgement is sent to donors in compliance with United Nations Financial Rule 103.8 (a) whenever funds are received.	Financial	Moderate	C	Action completed.	Implemented

1. C = closed, O = open

2. Date provided by ECA in response to recommendations.

Annex 2

UNITED NATIONS ECONOMIC COMMISSION FOR AFRICA
AS AN EXECUTING AGENCY

Statement on Project Expenditures, expressed in United States Dollars
For the period from 30 October 2006 to 15 August 2008

Donor: Shell Foundation
Project Title: Cross Border Trade & Investment in Central Africa 2006-2009
Project Number: SHE/06/035-B
Account Number: HDM-7393-1678

Budget Line	Description	Total Budget	Disbursements			Unliquidated Obligations	Total Expenditures	Unencumbered balance
			2006	2007	2008			
1151	International Consultants	69,370.00	36,222.00	30,648.00	-	66,870.00	2,500.00	
1201	Local consultants	11,000.00	-	11,000.00	-	11,000.00	-	
1601	Consultant's travel costs	20,566.43	-	20,566.43	-	20,566.43	-	
2301	Contractual services	5,000.00	-	5,000.00	-	5,000.00	-	
5101	Maintenance of Equipment	258.26	-	258.26	-	258.26	-	
5400	Programme Support Cost (13%)	13,805.31	4,708.86	8,771.45	-	13,480.31	325.00	
	Total	120,000.00	40,930.86	76,244.14	-	117,175.00	2,825.00	

FUNDS FLOW SUMMARY AS AT 15 AUGUST 2008

Funds provided:	
Received on 19/10/2006	90,000.00
Received on 10/11/2006	30,000.00
Received on 06/09/2007	30,000.00
Interest Income	2,801.79
Total	152,801.79
Less funds applied	117,175.00
Funds available	35,626.79