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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
A: Economic Commission for Africa

DATE: 19 March 2009

REFERENCE: IAD: 09- 02300

FROM: Fatoumata Ndiaye, Acting Director
DE: Internal Audit Division, OIOS

Fatou

SUBJECT: **Assignment No. AA2008/710/09 - Audit of the ECA use of funds from the Ministry of Foreign**
OBJET: **Affairs of Finland**

The financial control environment needs to be strengthened to facilitate timely completion of projects

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 recommendation 1 designated as high risk, 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 the Economic Commission for Africa (ECA) use of funds from the Ministry of Foreign Affairs of Finland. The audit was conducted in accordance with the Standards for the Professional Practice of Internal Auditing.
5. The Ministry of Foreign Affairs of Finland and ECA signed a Memorandum of Understanding (MOU) on 20 October 2003, focusing on the cooperation in the development of Information and Communication Technology (ICT) in Africa. The overall objective of the project was to improve the quality of life of the urban and rural population in Africa through improved information and communication infrastructure and services.
6. The Ministry of Foreign Affairs of Finland provided \$3,082,166.72 for the project. Project expenditures from November 2003 to 16 October 2008 amounted to \$3,131,394.47, \$87,411.45 was earned as bank interest and an unspent balance of \$38,183.70 remained.
7. The audit was undertaken at the request of ECA in accordance with the terms of the MOU with Finland.

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

II. AUDIT OBJECTIVES

9. The overall objective of the audit was to assess the appropriateness of project expenditures which included to :

- (a) Determine whether the expenditures of the project were incurred for the intended purposes and in accordance with the MOU and United Nations Regulations and Rules; and
- (b) Assess the accuracy and reliability of financial and project reporting to the Ministry of Foreign Affairs of Finland.

III. AUDIT SCOPE AND METHODOLOGY

10. The audit focused on a review of project expenditures from November 2003 to October 2008. The audit was conducted in Addis Ababa, Ethiopia and involved interviewing key project staff, reviewing the MOU, project financial statements and other supporting documentation.

IV. OVERALL ASSESSMENT

11. The project expenditures of \$3,131,394 were incurred for the intended purpose and were in accordance with the Memorandum of Understanding (MOU) with Finland and the United Nations Financial Regulations and Rules. However, there was need to strengthen the financial control environment in order to: (a) ensure that budgets consider various factors that impact timely delivery of outputs; (b) resolve long outstanding obligations which contribute to delays in closing projects; and (c) enhance controls in the Integrated Management Information System (IMIS) so that payments to contractors are only made after performance evaluation data is recorded.

V. AUDIT FINDINGS AND RECOMMENDATIONS

A. Project management

Failure to close obligations delayed project completion

12. The project was not completed in a timely manner. It was originally planned to take place from November 2003 to December 2006 but was still open as at 30 June 2008. The project manager partially attributed the delay to long outstanding obligations which amounted to \$244,181.70 as at 16 October 2008. OIOS reviewed outstanding obligations for travel expenditure as at 6 October 2008 and found that 51 per cent of the obligations were over one year (Table 1).

Table 1: Long outstanding travel expenditure obligations

#	Details	No.	Percentage	Value (\$)	Percentage
1.	Obligations over 1 year	40	60	29,138.60	51
2.	Obligations less than 1 year	27	49	28,268.00	49
		67	100	57,406.60	100

13. Untimely completion of projects impacts negatively on donors' perception of the ability of ECA to manage and deliver projects as agreed. This could damage ECA's reputation and affect the donors' willingness to provide funds for future projects.

Recommendation 1

(1) The ECA Administration should liquidate the outstanding obligations and close the project.

14. *ECA accepted recommendation 1 and stated that action to liquidate the outstanding obligations has already commenced. Because the closing of the obligations and the related projects involves not only the different programme divisions in ECA, but also different offices of the United Nations Development Programme (UNDP), the process may take some time and it is envisaged that it will be completed by June 2009. Recommendation 1 remains open pending receipt of confirmation that outstanding obligations have been liquidated.*

Project extension was not formalized in accordance with the terms of the MOU

15. The project was extended from December 2006 to December 2007 after discussions and exchange of e-mails between ECA and Finland. The extension was not formalized as agreed in Article 10 of the MOU which required that "Any amendment or modification to this agreement shall be agreed between the Ministry and ECA in writing".

16. The project manager explained that they were completing some activities on the project and had obtained written clearance by e-mail from the Ministry of Foreign Affairs of Finland before proceeding. The manager also mentioned that ECA and the Ministry of Foreign Affairs of Finland were finalizing another MOU and therefore did not want to have two MOUs running concurrently.

17. *ECA stated that due process was followed for the extension of the project and related agreement. In addition to the exchange of emails, a meeting was held with the donor to discuss and agree upon the extension of the MOU. This was followed by an official exchange of letters between ECA (letter dated 14 January 2008) and Finland (official approval dated 19 February 2008). In view of this clarification, OIOS is not proposing any further action on this matter.*

B. Expenditures

Payments without performance evaluation data in the accounting application

18. Payments relating to the project were made without performance evaluation data being entered into IMIS. For example, seven payments amounting to \$72,000 (Table 2) were made without entering the supporting data for performance evaluation into IMIS.

Table 2: Payments in IMIS without performance evaluation data

#	Identity	Payee	Year	Budget line	Expenditure (\$)
1.	438415	Seck, Mactar	2005	115100	6,000
2.	438415	Seck, Mactar	2005	115100	8,000
3.	14225	Islam, Khalilullah	2005	115100	4,000
4.	14225	Islam, Khalilullah	2005	115100	5,000
5.	14225	Islam, Khalilullah	2005	115100	4,000
6.	968757	Tapper, Helena	2006	115100	39,000
7.	1126	Neuronet PLC	2008	220100	6,000
Total					72,000

19. The Project manager and Finance staff explained that the evaluation was done manually and staff responsible may have overlooked to input the data and there was no control in IMIS to prompt the staff to do so. Without this control in place, there was a risk of ECA paying contractors without satisfactory completion of assigned work, which could result in waste of resources. Since this issue was already reported to ECA through another audit (AA2008/710/07 on the ECA use of funds from the Netherlands), in which OIOS recommended that ECA should make it mandatory for the Finance staff to only make a payment when the performance evaluation data is recorded in IMIS, no recommendation is being made in the present report.

C. Reporting

Expenditure accurately stated in financial reports

20. ECA prepared and submitted periodic financial statements to the Ministry of Foreign Affairs of Finland from 2003 to 2008 in accordance with the MOU. Except for the minor errors noted below, the statement of project expenditures for the period November 2003 to 16 October 2008 accurately reflected the expenditures incurred.

- A consultant's mission travel costs were included in the consultant hire expenditure budget line 1151 instead of budget line 1601 for consultants travel; and
- Travel costs of \$1,500 were included in budget code 5201 for production and display of exhibition materials instead of lines dedicated to travel expenditure such as 1501 and 1601 for staff and consultants respectively.

Recommendation 2

(2) The ECA Administration should prepare a final financial statement for the Ministry of Foreign Affairs of Finland after correctly processing the travel costs.

21. *ECA accepted recommendation 3 and stated that all the adjusting entries have been made by JNLV-16297 & 1629 and has revised the financial statement accordingly. Based on the action taken by ECA, recommendation 2 has been closed.*

VI. ACKNOWLEDGEMENT

22. 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
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 liquidate the outstanding obligations and close the project.	Financial	High	O	Receipt of notification that outstanding obligations have been liquidated	30 June 2009
2	The ECA Administration should prepare a final financial statement for the Ministry of Foreign Affairs of Finland after correctly processing the travel costs.	Financial	Medium	C	Action completed.	Implemented

1. C = closed, O = open

2. Date provided by ECA in response to recommendations.