



INTERNAL AUDIT DIVISION

AUDIT REPORT

ECA's Sub-regional Office for Southern Africa at Lusaka

ECA needs to further engage its Sub-regional Office for Southern Africa in the implementation of its programme of work to achieve synergy and complementarity in programme delivery at the sub-region

28 March 2011

Assignment No. AN2010/710/03

United Nations  Nations Unies

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. Abdoulie Janneh, Executive Secretary

DATE: 28 March 2011

A: Economic Commission for Africa

REFERENCE: IAD: 11- **00318**

FROM: Fatoumata Ndiaye, Director

DE: Internal Audit Division, OIOS

Fatoumata

SUBJECT: **Assignment No. AN2010/710/03 - Audit of ECA's Sub-regional Office for Southern Africa at
OBJET: Lusaka**

1. I am pleased to present the report on the above-mentioned audit.
2. Based on your comments, we are pleased to inform you that we will close recommendations 6 and 7 in the OIOS recommendations database as indicated in Annex 1. In order for us to close the remaining recommendations, 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.

cc: Ms. Doreen Bongoy-Mawalla, Director, Division of Administration, ECA
Mr. Emile Ahohe, Officer-in-Charge, Sub-regional Office for Southern Africa, Lusaka
Mr. Anthony Nwanze, Chief, Partnership and Technical Cooperation Section, ECA
Mr. Swatantra Goolsarran, Executive Secretary, UN Board of Auditors
Ms. Susanne Frueh, Executive Secretary, Joint Inspection Unit
Mr. Jonathan Childerley, Chief, Oversight Support Unit, Department of Management
Mr. Byung-Kun Min, Special Assistant to the USG-OIOS
Mr. Gurpur Kumar, OIC, New York Audit Service, IAD, OIOS

INTERNAL AUDIT DIVISION

FUNCTION

“The Office shall, in accordance with the relevant provisions of the Financial Regulations and Rules of the United Nations examine, review and appraise the use of financial resources of the United Nations in order to guarantee the implementation of programmes and legislative mandates, ascertain compliance of programme managers with the financial and administrative regulations and rules, as well as with the approved recommendations of external oversight bodies, undertake management audits, reviews and surveys to improve the structure of the Organization and its responsiveness to the requirements of programmes and legislative mandates, and monitor the effectiveness of the systems of internal control of the Organization” (General Assembly Resolution 48/218 B).

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EXECUTIVE SUMMARY

Audit of ECA's Sub-regional Office for Southern Africa at Lusaka

OIOS conducted an audit of the Economic Commission for Africa's (ECA) Sub-regional Office for Southern Africa (SRO-SA) at Lusaka. The overall objective of the audit was to assess the adequacy and effectiveness of internal controls exercised by the SRO-SA in implementing its programme of work. The audit was conducted in accordance with the International Standards for the Professional Practice of Internal Auditing.

The audit concluded that ECA needs to further engage its Sub-regional Office for Southern Africa in the implementation of its programme of work to achieve synergy and complementarity in programme delivery at the sub-region.

Furthermore, improved internal controls are required in the following areas:

- In accordance with the repositioning exercise undertaken as a follow-up of the detailed action plan submitted to the 61st session of the General Assembly, SRO-SA was intended to become ECA's operational node in the sub-region. While much has been achieved towards this goal, specifically in reinforcing closer interaction of regional commissions and sub-regional offices for programming and planning, the utilization of the SRO-SA in programme implementation is marginal;
- During 2007-2009, SRO-SA implemented six projects funded from extrabudgetary resources. The Partnership and Technical Cooperation (PATCO) Section operationally closed five of these projects without ensuring that the project outcome had been achieved. Unspent balance of funds totaling \$44,944 from three of these projects was surrendered to the donors either due to overestimation of project budgets or because of non-implementation of project activities;
- SRO-SA has an authorized staffing table of 29 posts. Eight of these posts remained vacant as of 31 December 2010;
- SRO-SA did not retain copies of bank agreements for its bank accounts. As a result, the rates of transfer charges and cash withdrawal fee charged by the banks were not known to SRO-SA or to ECA headquarters. Hence, SRO-SA was not able to validate the bank charges; and
- SRO-SA was splitting purchase orders to circumvent the delegated authority for local procurement.

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I. INTRODUCTION

1. The Office of Internal Oversight Services (OIOS) conducted an audit of the Economic Commission for Africa's (ECA) Sub-regional Office for Southern Africa (SRO-SA) at Lusaka. . The audit was conducted in accordance with the International Standards for the Professional Practice of Internal Auditing.

2. The Economic and Social Council established ECA in 1958. In 1966, ECA established the Sub-regional Office (SRO) for Eastern and Southern Africa in Lusaka. The functions of an SRO are to: (a) liaise between ECA headquarters and governments in the sub-region; (b) provide the Commission's secretariat with information on the needs and problems of the sub-region for effective formulation of programmes of assistance; (c) undertake studies on economic and social development of the sub-region; (d) collect information and up-to-date documentation on various aspects of the economic and social life of the area; (e) provide advisory services at the request of the countries concerned; and (f) assist in organizing meetings, seminars, workshops and study tours aimed at building development capacity in the sub-region.

3. In 1995, the Conference of Ministers approved ECA's reform programme presented in the report, "Serving Africa Better - Strategic Directions for the Economic Commission for Africa". Further strengthening of SROs was among the key decisions of the Ministers. The plan of action to strengthen the SROs included revised mandates, creation of separate centres for Eastern and Southern Africa, and change of Multinational Programming and Operational Centres (MULPOCs) to Sub-regional Development Centres (SRDCs) to more accurately reflect their new role. In 1997, SRDC was established for Southern Africa based in Lusaka which served eleven countries: Angola, Botswana, Lesotho, Malawi, Mauritius, Mozambique, Namibia, South Africa, Swaziland, Zambia and Zimbabwe.

4. An Officer-in-Charge at the P-5 level presently heads the SRO-SA with the support of an authorized staffing strength of 29 posts. SRO-SA's allotments for the 2008-2009 biennium totaled \$5,698,369 (\$5,686,700 from the regular budget and \$11,669 from the extrabudgetary resources). Expenditures for the same period totaled \$4,014,576.

5. Comments made by the Economic Commission for Africa are shown in *italics*.

II. AUDIT OBJECTIVES

6. The main objective of the audit was to assess the adequacy and effectiveness of internal controls exercised by the SRO-SA in implementing its programme of work.

III. AUDIT SCOPE AND METHODOLOGY

7. The audit covered the 2008-2009 biennium focusing on the SRO-SA's programme delivery, financial management, procurement and human resources management. The methodology included a review of relevant records and interviews of key personnel at ECA headquarters and SRO-SA in Lusaka.

IV. AUDIT FINDINGS AND RECOMMENDATIONS

A. SRO-SA programme of work and ECA subprogrammes

8. The SRO-SA's coordination activities occur at two levels: planning and programming with the Southern Africa Development Community (SADC) and Common Market for Eastern and Southern Africa (COMESA) on the one hand, and the implementation of its programme of work with ECA headquarters on the other. While SRO-SA's role in formulating the ECA's developmental plans at the sub-regional level has been well enunciated, its role in programme delivery is still undefined and peripheral. Some ECA substantive divisions have established strong communication links with the SRO-SA and this has led to stronger partnerships specifically in areas of information and communication technology, mining and gender mainstreaming. However, not all substantive divisions involve the SROs in programme implementation, and in many cases they maintain direct communication channels with SADC and other regional commissions.

9. The current SADC/SRO-SA multi-year programme includes themes covered under ECA's Regional Integration, Infrastructure and Trade Division, the Information and Communications Technology and Science and Technology Division, the African Centre for Statistics Division, and the African Centre for Gender and Social Development Division. No such SADC/SRO-SA multi-year programme themes exist at ECA's Governance and Public Administration Division. This gap was mainly caused by not sufficiently using the programme implementation plan to harmonize and coordinate programme of work between the regional and sub-regional levels. Consequently, opportunities for synergy and complementarity in programme delivery may have been missed and potential savings lost.

10. In 2006, ECA conducted a comprehensive review of its functions with a view to repositioning it to better respond to the challenges facing Africa. One of main goals of the repositioning was to establish the SROs as ECA's operational arm to facilitate sub-regional economic cooperation and integration and to serve as centres of policy dialogue. The outcome of this review was translated into action plans and presented in the 61st session of the General Assembly. Some of the key action plans for strengthening the SROs were as follows:

- i. Creating an electronic space for networking and information dissemination
 - ii. Working for results in accordance with sub-regional priorities
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- iii. Improved coordination between ECA headquarters and SROs
 - iv. Role of Regional Advisors in SRO work
 - v. Utilizing mission reports in knowledge management processes
 - vi. Allocation of extra-budgetary resources
 - vii. Strengthening SRO staffing and staff mix
 - viii. Better integration of UN agencies in the sub-regions.
 - ix. SRO support to regional commissions in implementation of New Partnership for African Development
 - x. Communication strategy for SROs
 - xi. Training of SRO staff

11. SRO-SA implemented most of the above-mentioned action plans. It is fulfilling its role as ECA's focal point in formulating sub-regional development priorities. However, the implementations of the following action plans remain outstanding:

- Establish and operationalize an electronic platform linking each SRO to country focal points and their corresponding regional commission
- Establish a coordination section in the Office of the Executive Secretary to ensure regular consultation between the SROs and the regional commission headquarters
- Establish an ECA Liaison Office at the SADC Secretariat in Gaborone, Botswana
- Training to the SRO staff

12. *ECA commented that collaboration between the SRO-SA and ECA substantive Divisions exist on many fronts such as on gender and development and on natural resources sectors in the sub region. Furthermore, ECA has also developed, in collaboration with UNDP, a knowledge management platform which uses tools to support the achievement of Millennium Development Goals. Such knowledge management strategy has helped ECA to improve and expand its knowledge networks and to contextualize the knowledge and skills of SROs involved in the sub region and country-level development initiatives. These efforts have helped ECA build synergy and complementarities between Divisions and the SROs, thereby optimizing ECA's delivery capacity.*

Recommendation 1

(1) ECA should ensure that all remaining action plans which were submitted to the 61st session of the General Assembly to strengthen the Sub-regional Office in Southern Africa are fully implemented.

13. *ECA has accepted recommendation 1 indicating June 2011 as the implementation date. Recommendation 1 remains open pending receipt of evidence that: (a) an electronic platform linking each SRO to country focal points and their corresponding regional commission has been established and operationalized; (b) a Coordination Section in the Office of the Executive Secretary has been established to ensure regular consultation between the SROs*

and the regional commission headquarters; and (c) the SRO staff have been provided with relevant training courses.

B. Host country agreement

14. The host country agreement between ECA and the Government of Zambia was signed on 5 January 1988 and was deemed to have come into effect from 1 November 1977. This agreement did not, however, identify SRO-SA as a UN entity (UN entities are exempt from payment of local taxes and duties). The Zambian Government issued SRO-SA a taxpayer's identification and, therefore, the SRO does not pay the Government value-added tax (VAT). However, the audit showed instances of VAT payments. For example, an amount of \$3,892 was paid as VAT to Voyagers Zambia Limited on airline tickets against cheque no. 1902 dated 18 May 2008. In another case, VAT of \$173 was paid on procurement of office notice boards (cheque no. 100416 in December 2009).

15. The host country agreement also stated that the host Government would provide SRO-SA office premises. However, since 1977 the requirement of space has increased manifold and the SRO-SA is facing difficulties in managing its operations within the existing office space.

16. Therefore, the host country agreement requires a revision to incorporate provisions for identification of SRO-SA as a UN entity and for accommodating additional office space requirements.

Recommendation 2

(2) ECA should approach the Government of Zambia to revise the host country agreement with provisions for identifying the Sub-regional Office for Southern Africa as a UN entity and for accommodating additional office space requirements.

17. *ECA accepted recommendation 2 and stated that it will be implemented by June 2011.* Recommendation 2 remains open pending receipt of evidence that efforts have been made to take up the issue of updating the host country agreement with the Government of Zambia.

C. Implementation of extra budgetary-funded projects

18. The SRO-SA has implemented six extra-budgetary-funded projects during the period 2007-2010 totaling \$292,936 in project budgets. Table 1 shows the budget level and implementation status of these projects.

Table 1: Budget level and implementation status of projects

	Projects	Period	Budget (\$)	Implementation Status
1.	HDN 7451 – Multi-stakeholder Development Forum, Dec 2007, Botswana	2007-2009	64,396	Operationally closed.
2.	HDZ 7446 – Support to the ECA-SA’s Workshop on Electoral System in Southern Africa	2007-2009	49,720	Open
3.	HDN 7428 – Technical Assistance to Malawi	2007-2009	7,910	Operationally and Financially closed.
4.	HDN 7557 – Support for the organization of the workshop on Small and Medium size enterprise and the development of the Extractive Industry	2009-2010	50,000	Operationally closed.
5.	HDN 7570 – Support for the Organization of the workshop on Development Financial Institutions support to infrastructure development	2009-2010	75,710	Operationally closed.
6.	HDZ 7527 – Support to the Organization of the Forum on Mainstreaming Regional Integration into National Development Plans	2009-2010	45,200	Operationally closed.
	Total:		292,936	

Monitoring of project outcomes

19. In five out of the six projects reviewed by the audit, the Partnership and Technical Cooperation (PATCO) Section did not document project outcomes before operationally closing these projects. This is contrary to the project proposals, which clearly outlined the expected outcomes in measurable terms. As a result, there was no assurance that the project outcomes had been achieved. The only evidence of any activity having been undertaken was through the financial statements that PATCO received from the project implementing partners. Furthermore, the workshop report of the Multi-stakeholder Development Forum project (HDN 7451) was not available in SRO-SA. The project was implemented in December 2007. Consequently, the audit could not verify whether the outcomes of this project were realized.

Recommendation 3

(3) ECA should retain evidence of achievements against project outcomes before operationally closing a project.

20. *ECA accepted recommendation 3 and stated that documentation is available for all extra-budgetary funded projects, and that the projects’ objectives were satisfactorily achieved.* Recommendation 3 remains open pending receipt of evidence that the outcomes for projects HDN 7451, HDZ 7446, HDN 7557, HDN 7570 and HDZ 7527 had been documented before they were operationally closed.

Surrender of unspent project fund balances

21. Unspent project fund balances from three projects totaling \$44,944 were surrendered to the donors. High unspent project balances occurred due to either overestimation of project budgets or non-implementation of planned project activities. For example, in project HDN-7557, \$50,000 was budgeted to cover travel expenses for 20 external and three internal participants. Twenty external and five internal participants actually participated in the project event. However, the actual travel expenses for these participants totaled only \$14,000 or 28 per cent of the project budget estimate. As a result, \$18,500 or 37 per cent of the allocation in this project was surrendered to the donor. As fund allocation is done on the basis of the project proposals, it is important that estimates are as realistic as possible to prevent surrender of funds to donors.

22. In another project HDN 7570, 33 per cent or \$24,984 of the allocation of \$75,710 was surrendered to the donor. The project expenditures mainly included expenses on travel of staff although project budget estimates had included costs of holding a conference and printing a report. No expenditure was incurred on holding of the conference or printing a report.

23. In many instances the estimates were very broad and did not include details like number of participants or days of workshop/conference.

Recommendation 4

(4) The ECA Sub-regional Office for Southern Africa should prepare more realistic project budget estimates to avoid surrender of funds to donors.

24. *ECA accepted recommendation 4.* Recommendation 4 remains open pending receipt of evidence that ECA initiated action to prepare realistic budget estimates by using standard templates to document assumptions for cost estimates.

D. Human resources management

Vacancy management

25. SRO-SA has 29 approved positions out of which eight positions were vacant as of 31 December 2010. The post for the SRO-SA Director has been vacant since 31 July 2010. The current vacancy level of over 27 per cent and the leadership vacuum could affect the implementation of SRO-SA's programme of work.

26. Though the Human Resource Services Section (HRSS) has been making efforts to fill these vacancies, only two posts were actually being filled as of 31 December 2010. Table 2 provides the status of vacancy management as of 31 December 2010.

Table 2: Status of vacancy management as of 31 December 2010

Sl. No.	Post	Vacant since	Status
1.	Director - D-1	31 July 2010	No action or decision has been taken yet on the vacancy.
2.	Economic Affairs Officer – P-4	1 June 2010	Draft vacancy announcement (VA) sent to Lusaka for approval on 4 Nov 2010.
3.	Economic Affairs Officer – P-3	31 March 2010	Draft VA sent to Lusaka by HRSS on 3 November 2010 for review.
4.	Communication Officer - NOC	1 January 2010	File not traceable in HRSS.
5.	Associate Economic Affairs Officer – P-2	1 March 2008	Offer letter issued on 28 July 2010. Expected to join in December 2010.
6.	Knowledge Management Officer - NOD	1 January 2010	File not traceable in HRSS.
7.	Programme Officer - NOD	1 January 2010	VA issued on 3 November 2009 and candidate selected on 22 June 2010. Wrong offer letter issued on 6 August 2010 which was revised on 26 October 2010. Candidate has sent acceptance letter on 15 November 2010. Expected date of joining not known.
8.	Finance Assistant – G-6	1 February 2010	No action was taken to issue VA.

Recommendation 5

(5) ECA should ensure that the current vacancies in the Sub-regional Office for Southern Africa are filled on priority basis.

27. *ECA accepted recommendation 5 stating that there were only two vacancies that were yet to be filled.* Recommendation 5 remains open pending confirmation that vacancy announcements have been issued for the remaining two vacancies.

E. Financial management

Cash management

28. A review of petty cash expenditures of October-December 2009 showed that all expenditures were incurred in compliance with applicable guidelines and

were properly accounted for. The SRO-SA maintains a permanent file for the petty cash fund to document the establishment of the fund, description of the types of expenditure to be paid from the fund, designation of the custodian and alternate custodians and year end procedures for petty cash. The file is updated on a regular basis. However, the system of replenishment did not always follow the provisions of the guidelines which required that the replenishment level should always match the expenditure level.

Banking arrangements

29. The SRO-SA operates three bank accounts: (a) Dollar account with JP Morgan in New York; (b) Dollar account with Citibank in Lusaka; and (c) Kwacha account with Citibank in Lusaka. The SRO-SA informed OIOS that while JP Morgan and Citibank for the Kwacha account do not levy bank charges, Citibank charges \$10 for each cheque deposited in the bank for the Dollar account. The rate at which the bank charges for wire transfers was not known as the SRO-SA did not possess a copy of its agreement with Citibank to verify the validity of Citibank charges.

30. Verification of cheque clearing fees charged by Citibank for the Dollar account for the months of October-December 2009 from the bank statements showed that in two instances the bank charged more than \$10 for each cheque deposited, but the SRO-SA did not notice them.

Recommendation 6

(6) The ECA Sub-regional Office for Southern Africa should retain copies of all bank agreements for the accounts it operates in Lusaka to verify the validity and application of bank charges.

31. *ECA accepted recommendation 6 and stated that it has documented all bank agreements.* Based ECA's response, recommendation 6 has been closed.

F. Procurement of good and services

Splitting of purchase orders

32. SRO-SA has the delegated authority to spend up to a maximum limit of \$5,000 for individual procurement beyond which the approval of ECA headquarters is required.

33. OIOS observed that SRO-SA was splitting purchase orders to be able to procure within its financial limits. For example, BL Consulting Limited submitted a quotation of \$6,235 for removal of wooden doors and installation of four aluminum security gates in September 2009 for which three purchase orders were issued: ECA/SRO-SA/09-074 for \$1,900, ECA/SRO-SA/09-076 for \$1,913 and ECA/SRO-SA/09-077 for \$2,422. In another case, access controls were installed on four doors at a total cost of \$8,285 for which four purchase orders were issued: ECA/SRO-SA/09-100 for \$1,838, ECA/SRO-SA/09-101 for \$2,335, ECA/SRO-SA/09-102 for \$1,820 and ECA/SRO-SA/09-105 for \$2,292.

Recommendation 7

(7) The ECA Sub-regional Office for Southern Africa should ensure that purchase orders are not split to circumvent the delegation of authority.

34. *ECA accepted recommendation 7 and stated that the SRO-SA approving/certifying officers and the Local Committee on Contracts will work closely with the ECA Chief Procurement Officer to get approval in case of procurements above the delegated amount.* Based on ECA's response, recommendation 7 has been closed.

Inventory

35. OIOS reviewed SRO-SA's inventory records for the period 2008-09. There were acquisitions worth \$18,286 in 2008 and \$48,073 in 2009. Assets procured up to December 2009 were well indexed but their physical locations were not indicated in the inventory records. Assets procured after December 2009 had not been indexed and added to the inventory records.

Recommendation 8

(8) The ECA Sub-regional Office for Southern Africa should: (a) record all assets in its inventory immediately upon their receipt against valid procurement actions; and (b) assign inventory labels to each asset and indicate its physical location in the inventory register.

36. *ECA accepted recommendation 8 explaining that the inventory register is up-to-date reflecting purchases in 2009 and 2010.* Based on ECA's response, recommendation 8 has been closed.

V. ACKNOWLEDGEMENT

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

STATUS OF AUDIT RECOMMENDATIONS

Recom. no.	Recommendation	Risk category	Risk rating	C/O ¹	Actions needed to close recommendation	Implementation date ²
1.	ECA should ensure that all remaining action plans which were submitted to the 61 st session of the General Assembly to strengthen the Sub-regional Office in Southern Africa are fully implemented.	Governance	High	O	Submission of evidence that: (a) an electronic platform linking each SRO to country focal points and their corresponding regional commission has been established and operationalized; (b) a Coordination Section in the Office of the Executive Secretary has been established to ensure regular consultation between the SROs and the regional commission headquarters; and (c) the SRO staff have been provided with relevant training courses.	June 2011
2.	ECA should approach the Government of Zambia to revise the host country agreement with provisions for identifying the Sub-regional Office for Southern Africa as a UN entity and for accommodating additional office space requirements.	Governance	Medium	O	Submission of evidence of ECA taking up the issue of updating the host country agreement with the Government of Zambia.	December 2011
3.	ECA should retain evidence of achievements against project outcomes before operationally closing a project.	Operational	Medium	O	Submission of evidence that the project outcomes for projects HDN 7451, HDZ 7446, HDN 7557, HDN 7570 and HDZ 7527 had been documented before they were operationally closed.	Not provided.
4.	The ECA Sub-regional Office for Southern Africa should prepare more realistic project budget estimates to avoid surrender of funds to donors.	Operational	Medium	O	Submission of evidence that ECA initiated action to prepare realistic budget estimates by using standard templates to document assumptions for cost estimates.	Ongoing
5.	ECA should ensure that the current vacancies in the Sub-regional Office for Southern Africa are filled on priority basis.	Human Resources	Medium	O	Submission of evidence that six vacancies have been filled and that vacancy announcements have been issued for the remaining two vacancies.	30 June 2011

Recom. no.	Recommendation	Risk category	Risk rating	C/O¹	Actions needed to close recommendation	Implementation date²
6.	The ECA Sub-regional Office for Southern Africa should retain copies of all bank agreements for the accounts it operates in Lusaka to verify the validity and application of bank charges.	Financial	Medium	C	Action completed.	Implemented
7.	The ECA Sub-regional Office for Southern Africa should ensure that purchase orders are not split to circumvent the delegation of authority.	Financial	Medium	C	Action completed.	Implemented
8.	The ECA Sub-regional Office for Southern Africa should: (a) record all assets in its inventory immediately upon their receipt against valid procurement actions; and (b) assign inventory labels to each asset and indicate its physical location in the inventory register.	Compliance	Medium	O	Submission of evidence that the inventory register in SRO-SA is updated.	Not provided.

1. C = closed, O = open

2. Date provided by ECA in response to recommendations.