

*Financial Audit Report and Management Letter for the project 'Deepening Decentralization Programme' (2013-2014) - March 2015*

# **UNITED NATIONS DEVELOPMENT PROGRAMME**

## **DEEPENING DECENTRALIZATION PROGRAMME (Award 00070161, Project 00084292)**

Financial Audit Report and Management letter

Period from January 1, 2013 to  
December 31, 2014

## DEEPENING DECENTRALIZATION PROGRAMME

Financial Audit Report and Management Letter - Audit for the period from January 1, 2013 to December 31, 2014

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### Table of Acronyms

ACRONYM	NAME IN FULL
AWP	Annual Work Plan
CDR	Combined Delivery Report
NIM	National Implementation Modality
UNDP	United Nations Development Programme
DDP	Deepening Decentralization Programme
MOLG	Ministry of Local Government

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# 1 EXECUTIVE SUMMARY

BDO & Co was contracted by the United Nations Development Programme (UNDP) Office of Lesotho to carry out an audit of “Deepening Decentralization Programme” bearing project number 00084292 for the period from January 1, 2013 to December 31, 2014. The audit field-work was carried out from 09 to 20 March 2014.

## **Audit scope and objectives**

The assignment consisted of the financial audit to express an opinion whether the Combined Delivery Reports present fairly, in all material aspects, the financial expenses incurred by the project for the period from January 1, 2013 to December 31, 2014; and the funds utilization as at that date are fairly presented in accordance with UNDP accounting policies; and the value and existence of the fixed assets held by the project as at December 31, 2014 presents fairly the balance of inventory of the Project’s assets.

Project expenses incurred or undertaken at the level of “responsible parties”, or processed and approved in locations outside the country or where the supporting documentation is not retained at the level of UNDP country office are outside the scope of the audit. Furthermore, expenses in relation to support services provided by UNDP to the project are also outside the scope of the audit.

## **Audit opinion**

- a) The Combined Delivery Report (CDR) presents fairly, in all material respects, the expenditure of USD 1,425,930.33 incurred by the project “Deepening Decentralization Programme” bearing project number 00084292 for the period January 1, 2013 to December 31, 2014. The audit report is set out on page 5.
- b) The certification of assets is set out on page 13.

The issues raised during our audit, our recommendations and management response are set out in the Management Letter on pages to pages 19 to 24.

## 2 PROJECT OVERVIEW

### 2.1 Background

Building on previous collaborative work of the Government of Lesotho and UNDP/UNCDF in the area of decentralization, this project aims to accelerate progress and deepen decentralization in Lesotho. Its main purpose is to promote decentralized service delivery for social and economic growth through the development of transparent funding mechanisms and by improving the accountability of local authorities.

Specifically, the project supports the Government of Lesotho to:

- (i) Further piloting of the Local Development Fund to improve mechanisms for funding councils thus accelerating decentralization,
- (ii) Develop and implement a roadmap for improved decentralization, Integrated Financial Management Information System (IFMIS) roll out and enhanced local accountability and
- (iii) Change Management support to line ministries (including MoLG) and local authorities in decentralization through unpacking of functions at local level.

### 2.2 Funding of the Programme

The total project cost is estimated at US\$ 11,044,776 out of which US\$ 9,950,249 is funded by the European Union and the remaining by United Nations Capital Development Fund (UNCDF). The UNDP Country Office provides support to and facilitates the implementation of activities in the form of Implementation Support Services.

The implementation period of the project is 2013 to 2016.

### 2.3 Projected Results of the Programme

The intended outputs of the project were:

- (i) Improved development funding through local authorities;
- (ii) Decentralization and accountability systems at the local level promoted;
- (iii) Capacities of Line Ministries and local authorities enhanced to decentralize functions.

## 4 AUDIT OBJECTIVES AND SCOPE

### 4.1 Audit objectives

BDO & Co was contracted by the United Nations Development Programme (UNDP) office of Lesotho to carry out an audit of “Deepening Decentralization Programme” bearing project number 00084292 for the period from January 1, 2013 to December 31, 2014.

The terms of reference described the scope of the audit and the areas to be addressed. The auditor was required to:

- Express an opinion on whether the financial expenses incurred by the project for the period from January 1, 2013 to December 31, 2014 were fairly presented in accordance with UNDP accounting policies and that expenses incurred were: (i) in conformity with the approved project budgets; (ii) for the approved purposes of the project; (iii) in compliance with the relevant regulations and rules, policies and procedures of UNDP; and (iv) supported by properly approved vouchers and other supporting documents. The Combined Delivery Report (CDR) constituted the mandatory and official statements upon which the audit opinion should be expressed,
- Express an opinion on whether the statement of fixed assets presents fairly the balance of assets of the UNDP project as at the given date. This statement must include all assets available as at 31 December 2014 and not only those purchased during that period, and
- Express an opinion on whether the statement of cash held by the project presents fairly the cash and bank balance of UNDP project as at 31 December 2014 (in the case where a dedicated bank account was opened and used solely for the cash transactions). In the case where the cash transactions of the audited NIM project were made through the country office bank accounts, this type of opinion was not required.

The Financial Audit was conducted in accordance with the International Standards of Auditing (ISA), the 700 series.

## 4.2 Audit Scope

The scope of the audit relates to transactions concluded and recorded against the UNDP project for the period January 1, 2013 to December 31, 2014. The scope of the audit did not include:

- Activities and expenses incurred or undertaken at the level of “responsible parties”, unless the inclusion of these expenses was specifically required in the request for proposal; and
- Expenses processed and approved in locations outside the country such as UNDP Regional Centres and UNDP Headquarters and where the supporting documentation were not retained at the level of the UNDP country office
- Expenses incurred in respect of support services provided by UNDP to the project.

Specifically, the audit covered the following:

- a) Expenses incurred and recorded in the Combined Delivery Reports (CDR) of the project during the period January 1, 2013 to December 31, 2014;
- b) The value and existence of the fixed assets held by the project as at December 31, 2014; and
- c) The value and existence of Cash held by the project as at December 31, 2014, either cash at hand or in bank account (in the case there was a separate bank account for the project under review).

## 5 INDEPENDENT AUDITORS REPORTS ON COMBINED DELIVERY REPORTS

We have audited the accompanying Combined Delivery Report (CDR) (“the statement”) of the UNDP project Deepening Decentralization Programme bearing project number 00084292 for the period from January 1, 2013 to December 31, 2014.

Management is responsible for the preparation of the statement and for such internal control as management determines is necessary to enable the preparation of a statement that is free from material misstatement, whether due to fraud or error.

Our responsibility is to express an opinion on the statement based on our audit. We conducted our audit in accordance with the International Standards on Auditing. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the statement. The procedures selected depend on the auditor’s judgment, including the assessment of the risks of material misstatement of the statement, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the project’s preparation of the statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the project’s internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the presentation of the statement

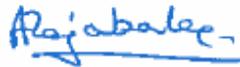
We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion

### Clean Opinion:

In our opinion, the attached Combined Delivery Report (CDR) set out on Page 6 to 12 presents fairly, in all material respects, the expenditure of USD 1,294,361 incurred by the project “Deepening Decentralization Programme” bearing project number 00084292 for the period from January 1, 2013 to December 31, 2014 in accordance with UNDP accounting policies and were: (i) in conformity with the approved project budgets; (ii) for the approved purposes of the project; (iii) in compliance with the relevant regulations and rules, policies and procedures of UNDP; and (iv) supported by properly approved vouchers and other supporting documents. The above amount excludes UNDP support services expenses amounting to USD 37,563 and EU administrative expenses amounting to USD 94,006 which are outside the scope of our audit.

  
BDO & Co  
Chartered Accountants

13 APR 2015

  
Azize Rajabalee  
Engagement Partner



# DEEPENING DECENTRALIZATION PROGRAMME

## Financial Audit Report and Management Letter - Audit for the period from January 1, 2013 to December 31, 2014



UN Development Programme  
Report ID: unglcdrb

### Combined Delivery Report by Activity

Page 2 of 5  
Run Time: 14-04-2014 16:04:58

Project Id : 00070161 Deepening Decentralization Pro	Period :	Jan-Dec (2013)		
Output # : 00084292 Deepening Decentralization Pro	Impl. Partner :	01855 National Execution		
	Location :	UNDP Lesotho		
	Govt Exp	UNDP Exp	UN Agencies Exp	Total Exp
72505 - Stationery & other Office Supp	0.00	1,082.01	0.00	1,082.01
72715 - Hospitality Catering	0.00	14,668.57	0.00	14,668.57
74210 - Printing and Publications	0.00	4,232.06	0.00	4,232.06
74525 - Sundry	0.00	152.93	0.00	152.93
75105 - Facilities & Admin - Implement	0.00	13,271.47	0.00	13,271.47
75705 - Learning costs	0.00	40,355.73	0.00	40,355.73
75709 - Learning - training of counter	0.00	49,610.07	0.00	49,610.07
76125 - Realized Loss	0.00	2,317.80	0.00	2,317.80
76135 - Realized Gain	0.00	-1,671.85	0.00	-1,671.85
<b>Total for Fund 30079</b>	<b>0.00</b>	<b>203,509.79</b>	<b>0.00</b>	<b>203,509.79</b>
<b>Total for Activity ACTIVITY2</b>	<b>0.00</b>	<b>203,509.79</b>	<b>0.00</b>	<b>203,509.79</b>
<b>Activity : ACTIVITY3 (Capacities of Line Ministries)</b>				
<b>Fund : 30079 (EUROPEAN COMMISSION)</b>				
66105 - Overtime & Night Differential	0.00	796.36	0.00	796.36
72145 - Svc Co-Training and Educ Serv	0.00	513.20	0.00	513.20
72420 - Land Telephone Charges	0.00	18.89	0.00	18.89
75105 - Facilities & Admin - Implement	0.00	2,662.36	0.00	2,662.36
75705 - Learning costs	0.00	27,020.26	0.00	27,020.26
75709 - Learning - training of counter	0.00	6,879.61	0.00	6,879.61
75710 - Participation of counterparts	0.00	2,805.36	0.00	2,805.36
76125 - Realized Loss	0.00	262.92	0.00	262.92
76135 - Realized Gain	0.00	-74.45	0.00	-74.45
<b>Total for Fund 30079</b>	<b>0.00</b>	<b>40,884.51</b>	<b>0.00</b>	<b>40,884.51</b>
<b>Total for Activity ACTIVITY3</b>	<b>0.00</b>	<b>40,884.51</b>	<b>0.00</b>	<b>40,884.51</b>
<b>Activity : ACTIVITY4 (Programme Management)</b>				
<b>Fund : 30079 (EUROPEAN COMMISSION)</b>				
61205 - Salaries - GS Staff	0.00	8,247.07	0.00	8,247.07
62205 - Dependency Allow - GS Staff	0.00	281.74	0.00	281.74
62210 - Contrib to Jt Staff Pens Fd-GS	0.00	1,589.37	0.00	1,589.37
62215 - Contrib. to Medical, social In	0.00	597.92	0.00	597.92
62240 - Annual Leave Expense - GS	0.00	329.60	0.00	329.60
63530 - Contribution to EOS Benefits	0.00	309.25	0.00	309.25
63535 - Contribution to Security	0.00	329.89	0.00	329.89
63545 - Contribution to ICT	0.00	123.70	0.00	123.70
63550 - Contributions to MAIP	0.00	16.49	0.00	16.49
63555 - Contribution to UN JFA	0.00	148.46	0.00	148.46
63560 - Contributions to Appendix D	0.00	24.73	0.00	24.73
65115 - Contributions to ASHI Reserve	0.00	659.78	0.00	659.78
65135 - Payroll Mgt Cost Recovery ATLA	0.00	134.46	0.00	134.46
71205 - Intl Consultants-Sht Term-Tech	0.00	733.90	0.00	733.90

**DEEPENING DECENTRALIZATION PROGRAMME**

**Financial Audit Report and Management Letter - Audit for the period from January 1, 2013 to December 31, 2014**



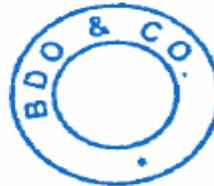
UN Development Programme  
Report ID: unglcdrb

Combined Delivery Report by Activity

Page 3 of 5  
Run Time: 14-04-2014 16:04:58

Project Id : 00070161 Deepening Decentralization Pro	Period :	Jan-Dec (2013)		
Output # : 00084292 Deepening Decentralization Pro	Impl. Partner :	01855 National Execution		
	Location :	UNDP Lesotho		
	Govt Exp	UNDP Exp	UN Agencies Exp	Total Exp
71405 - Service Contracts-Individuals	0.00	72,684.38	0.00	72,684.38
71410 - MAIP Premium SC	0.00	161.65	0.00	161.65
71605 - Travel Tickets-International	0.00	9,005.89	0.00	9,005.89
71620 - Daily Subsistence Allow-Local	0.00	5,174.48	0.00	5,174.48
72145 - Svc Co-Training and Educ Serv	0.00	4,358.19	0.00	4,358.19
72220 - Furniture	0.00	2,329.09	0.00	2,329.09
72405 - Acquisition of Communic Equip	0.00	-3,557.51	0.00	-3,557.51
72420 - Land Telephone Charges	0.00	26.04	0.00	26.04
72505 - Stationery & other Office Supp	0.00	1,197.65	0.00	1,197.65
72510 - Publications	0.00	1,108.94	0.00	1,108.94
72515 - Print Media	0.00	30.90	0.00	30.90
72705 - Hospitality-Special Events	0.00	989.18	0.00	989.18
74210 - Printing and Publications	0.00	4,066.74	0.00	4,066.74
74525 - Sundry	0.00	4,300.97	0.00	4,300.97
74599 - UNDP cost recovery chrgs-Bills	0.00	18,431.43	0.00	18,431.43
75105 - Facilities & Admin - Implement	0.00	9,394.54	0.00	9,394.54
76125 - Realized Loss	0.00	646.20	0.00	646.20
76135 - Realized Gain	0.00	-1,909.99	0.00	-1,909.99
77150 - Reimb For Med Costs (LNO)-TA	0.00	117.81	0.00	117.81
77170 - Overtime & Night Diff-NP-TA	0.00	92.79	0.00	92.79
77270 - Overtime & Night Diff-GS-TA	0.00	162.94	0.00	162.94
<b>Total for Fund 30079</b>	<b>0.00</b>	<b>142,338.67</b>	<b>0.00</b>	<b>142,338.67</b>
<b>Total for Activity ACTIVITY4</b>	<b>0.00</b>	<b>142,338.67</b>	<b>0.00</b>	<b>142,338.67</b>
<b>Total for Output : 00084292</b>	<b>0.00</b>	<b>392,616.51</b>	<b>0.00</b>	<b>392,616.51</b>
<b>Project Total :</b>	<b>0.00</b>	<b>392,616.51</b>	<b>0.00</b>	<b>392,616.51</b>

BDO & Co.  
Azize Rajabalee  
Per Azize Rajabalee F.C.C.A.  
13 APR 2015

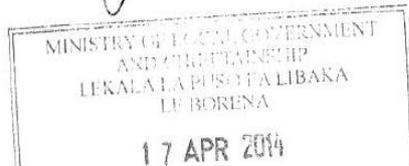


Signed By : M. Mdeji

Date : 17.04.2014

Signed By : [Signature]

Date : 17/4/2014



DEEPENING DECENTRALIZATION PROGRAMME

Financial Audit Report and Management Letter - Audit for the period from January 1, 2013 to December 31, 2014



UN Development Programme  
Report ID: unglcdrb

Combined Delivery Report by Activity

Page 4 of 5  
Run Time: 14-04-2014 16:04:59

Selection Criteria :

Business Unit : LSO10  
Period : Jan-Dec (2013)  
Selected Project Id : 00070161  
Selected Fund Code : 30079  
Selected Dept. IDs : B0344  
Selected Outputs : 00084292

Project Id : ALL	Period : Jan-Dec (2013)				
Output # : ALL	Impl. Partner :				
	Location :				
		Govt Exp	UNDP Exp	UN Agencies Exp	Total Exp
34401 - Lesotho - Central		0.00	3,458.97	0.00	3,458.97
34404 - Lesotho - Dem. Governance		0.00	389,157.54	0.00	389,157.54

**Funds Utilization**

Selection Criteria :

Business Unit : LSO10  
Period : Jan-Dec (2013)  
Selected Project Id : 00070161  
Selected Fund Code : 30079  
Selected Dept. IDs : B0344  
Selected Outputs : 00084292

Project/Award: 00070161 Deepening Decentralization Pro	Period : As Of Dec31,2013
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Output #	00084292	Impl. Partner :01655 National Execution	UNDP AMOUNT
Outstanding NEX advances			0.00
depreciated Fixed Assets			42,809.54
Inventory			3,557.51
Prepayments			0.00
Commitments			104,657.93

# DEEPENING DECENTRALIZATION PROGRAMME

## Financial Audit Report and Management Letter - Audit for the period from January 1, 2013 to December 31, 2014



UN Development Programme  
Report ID: unglcdrp

### Combined Delivery Report By Project

Page 1 of 4  
Run Time: 04-03-2015 09:03:21

#### Selection Criteria :

Business Unit : LSO10  
Period : Jan-Dec (2014)  
Selected Project Id : 00070161  
Selected Fund Code : ALL  
Selected Dept. IDs : ALL  
Selected Outputs : ALL

Project Id : 00070161 Deepening Decentralization Pro	Period :	Jan-Dec (2014)		
Output # : 00084292 Deepening Decentralization Pro	Impl. Partner :	01855 National Execution		
	Location :	UNDP Lesotho		
	Govt Exp	UNDP Exp	UN Agencies Exp	Total Exp

Dept: 34401 (Lesotho - Central)

Fund : 30079 (EUROPEAN COMMISSION)

71620 - Daily Subsistence Allow-Local	0.00	553.90	0.00	553.90
72145 - Svc Co-Training and Educ. Serv	0.00	1,059.48	0.00	1,059.48
72405 - Acquisition of Communic Equip	0.00	3,557.51	0.00	3,557.51
75105 - Facilities & Admin - Implement	0.00	381.97	0.00	381.97
76125 - Realized Loss	0.00	17.01	0.00	17.01

Total for Fund 30079 0.00 5,549.87 0.00 5,549.87

Total for Dept : 34401 0.00 5,549.87 0.00 5,549.87

Dept: 34404 (Lesotho - Dem. Governance)

Fund : 30079 (EUROPEAN COMMISSION)

61205 - Salaries - GS Staff	0.00	16,087.33	0.00	16,087.33
62205 - Dependency Allow - GS Staff	0.00	685.94	0.00	685.94
62210 - Contrib to Jt Staff Pens Fd-GS	0.00	3,100.38	0.00	3,100.38
62215 - Contrib. to Medical, social In	0.00	1,166.34	0.00	1,166.34
62240 - Annual Leave Expense - GS	0.00	733.97	0.00	733.97
63530 - Contribution to EOS Benefits	0.00	603.28	0.00	603.28
63535 - Contribution to Security	0.00	715.89	0.00	715.89
63545 - Contribution to ICT	0.00	241.31	0.00	241.31
63550 - Contributions to MAIP	0.00	80.45	0.00	80.45
63555 - Contribution to UN JFA	0.00	370.02	0.00	370.02
63560 - Contributions to Appendix D	0.00	48.27	0.00	48.27
65115 - Contributions to ASHI Reserve	0.00	1,287.02	0.00	1,287.02
65135 - Payroll Mgt Cost Recovery ATLA	0.00	268.92	0.00	268.92
66105 - Overtime & Night Differential	0.00	15.05	0.00	15.05
71305 - Local Consult.-Sht Term-Tech	0.00	3,658.07	0.00	3,658.07
71405 - Service Contracts-Individuals	0.00	46,620.68	0.00	46,620.68
71410 - MAIP Premium SC	0.00	208.77	0.00	208.77
71415 - Contribution to Security SC	0.00	1,879.12	0.00	1,879.12
71605 - Travel Tickets-International	0.00	11,171.79	0.00	11,171.79
71615 - Daily Subsistence Allow-Intl	0.00	9,115.89	0.00	9,115.89
71620 - Daily Subsistence Allow-Local	0.00	28,922.76	0.00	28,922.76
71635 - Travel - Other	0.00	3,276.31	0.00	3,276.31
72105 - Svc Co-Construction & Engineer	0.00	3,394.16	0.00	3,394.16
72145 - Svc Co-Training and Educ Serv	0.00	122,229.42	0.00	122,229.42
72311 - Fuel, petroleum and other oils	0.00	2,015.78	0.00	2,015.78
72325 - Chemical, Glass, NonMetallic Prd	0.00	0.00	0.00	0.00
72420 - Land Telephone Charges	0.00	1,040.19	0.00	1,040.19
72425 - Mobile Telephone Charges	0.00	1,395.64	0.00	1,395.64
72440 - Connectivity Charges	0.00	47.66	0.00	47.66

DEEPENING DECENTRALIZATION PROGRAMME

Financial Audit Report and Management Letter - Audit for the period from January 1, 2013 to December 31, 2014



UN Development Programme  
Report ID: unglcdrp

Combined Delivery Report By Project

Page 2 of 4  
Run Time: 04-03-2015 09:03:21

Project Id : 00070161 Deepening Decentralization Pro	Period :	Jan-Dec (2014)
Output # : 00084292 Deepening Decentralization Pro	Impl. Partner :	01855 National Execution
	Location :	UNDP Lesotho

	Govt Exp	UNDP Exp	UN Agencies Exp	Total Exp
72505 - Stationery & other Office Supp	0.00	18,137.37	0.00	18,137.37
72510 - Publications	0.00	2,842.31	0.00	2,842.31
72515 - Print Media	0.00	297.49	0.00	297.49
72710 - Hospitality-Vouchered Expenses	0.00	137.44	0.00	137.44
73110 - Custodial & Cleaning Services	0.00	53.91	0.00	53.91
73410 - Maint, Oper of Transport Equip	0.00	1,351.12	0.00	1,351.12
74120 - Capacity Assessment	0.00	23,282.00	0.00	23,282.00
74210 - Printing and Publications	0.00	33,310.58	0.00	33,310.58
74215 - Promotional Materials and Dist	0.00	54,914.81	0.00	54,914.81
74225 - Other Media Costs	0.00	-3,020.31	0.00	-3,020.31
74505 - Insurance	0.00	70.43	0.00	70.43
74510 - Bank Charges	0.00	1,095.16	0.00	1,095.16
74525 - Sundry	0.00	2,325.82	0.00	2,325.82
74599 - UNDP cost recovery chrgs-Bills	0.00	19,098.17	0.00	19,098.17
75105 - Facilities & Admin - Implement	0.00	67,406.74	0.00	67,406.74
75705 - Learning costs	0.00	26,284.45	0.00	26,284.45
75709 - Learning - training of counter	0.00	518,532.38	0.00	518,532.38
76125 - Realized Loss	0.00	3,616.49	0.00	3,616.49
76135 - Realized Gain	0.00	-14,129.78	0.00	-14,129.78
77630 - Dep Exp Owned - ITC	0.00	308.87	0.00	308.87
77660 - Dep Exp Owned -Vehicle	0.00	3,551.34	0.00	3,551.34
<b>Total for Fund 30079</b>	<b>0.00</b>	<b>1,019,847.20</b>	<b>0.00</b>	<b>1,019,847.20</b>
<b>Total for Dept : 34404</b>	<b>0.00</b>	<b>1,019,847.20</b>	<b>0.00</b>	<b>1,019,847.20</b>
<b>Dept: 34405 (Lesotho - Energy &amp; Envirnmnt)</b>				
<b>Fund : 30079 (EUROPEAN COMMISSION)</b>				
71305 - Local Consult.-Sht Term-Tech	0.00	1,874.41	0.00	1,874.41
71620 - Daily Subsistence Allow-Local	0.00	5,521.13	0.00	5,521.13
75105 - Facilities & Admin - Implement	0.00	517.69	0.00	517.69
76125 - Realized Loss	0.00	3.52	0.00	3.52
<b>Total for Fund 30079</b>	<b>0.00</b>	<b>7,916.75</b>	<b>0.00</b>	<b>7,916.75</b>
<b>Total for Dept : 34405</b>	<b>0.00</b>	<b>7,916.75</b>	<b>0.00</b>	<b>7,916.75</b>
<b>Total for Output : 00084292</b>	<b>0.00</b>	<b>1,033,313.82</b>	<b>0.00</b>	<b>1,033,313.82</b>
<b>Project Total :</b>	<b>0.00</b>	<b>1,033,313.82</b>	<b>0.00</b>	<b>1,033,313.82</b>

Project Total :	0.00	1,033,313.82	0.00	1,033,313.82
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Signed By :

*[Signature]*

Signed By :

*[Signature]*

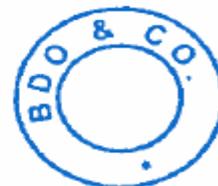
PRINCIPAL SECRETARY  
P.O. BOX  
MASERU, LESOTHO

Date : 05/03/15

Date : 5/3/2015

BDO & Co,  
Azize Rajabalee  
Per Azize Rajabalee F.C.C.A.

13 APR 2015



BDO & Co 11

**DEEPENING DECENTRALIZATION PROGRAMME**

**Financial Audit Report and Management Letter - Audit for the period from January 1, 2013 to December 31, 2014**

Period : Jan-Dec (2014)  
 Selected Project Id : 00070161  
 Selected Fund Code : ALL  
 Selected Dept. IDs : ALL  
 Selected Outputs : ALL

Project Id : ALL	Period : Jan-Dec (2014)
Output # : ALL	Impl. Partner : Location :

	Govt Exp	UNDP Exp	UN Agencies Exp	Total Exp
34401 - Lesotho - Central	0.00	5,549.87	0.00	5,549.87
34404 - Lesotho - Dem. Governance	0.00	1,019,847.20	0.00	1,019,847.20
34405 - Lesotho - Energy & Environment	0.00	7,916.75	0.00	7,916.75

**FUND UTILIZATION**

**Selection Criteria :**

Business Unit : LSO10  
 Period : Jan-Dec (2014)  
 Selected Project Id : 00070161  
 Selected Fund Code : ALL  
 Selected Dept. IDs : ALL  
 Selected Outputs : ALL

Project/Award: 00070161 Deepening Decentralization Pro	Period : As at Dec 31, 2014
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Output #	Impl. Partner	UNDP AMOUNT
00084292	:01855 National Execution	
Outstanding NEX advances		0.00
Undepreciated Fixed Assets		38,949.33
Inventory		0.00
Prepayments		0.00
Commitments		0.00

## 6 CERTIFICATION OF STATEMENT OF ASSETS

We have audited the accompanying statement of fixed assets (“the statement”) of the UNDP project number 00084292, “Deepening Decentralization Programme” as at 31 December 2014.

Management is responsible for the preparation of the statement for the project and for such internal control as management determines is necessary to enable the preparation of the statement that is free from material misstatement, whether due to fraud or error.

Our responsibility is to express an opinion on the statement based on our audit. We conducted our audit in accordance with the International Standards on Auditing (ISA). Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the statement is free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the statement. The procedures selected depend on the auditor’s judgment, including the assessment of the risks of material misstatement of the schedule, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the project’s preparation of the statement in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the project’s internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the presentation of the statement.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

### Opinion

In our opinion, the attached statement of assets set out on Page 14 presents fairly, in all material respects, the balance of inventory of the project “Deepening Decentralization Programme” amounting to USD 38,949.33 as at December 31, 2014 in accordance with UNDP accounting policies.



**BDO & Co**

*Chartered Accountants*

13 APR 2015



**Azize Rajabalee**

**Engagement Partner**



## 7 CERTIFICATION OF STATEMENT OF CASH POSITION

In accordance with the Terms of Reference for the audit of the “Deepening Decentralization Programme” project, we did not issue an opinion on the Statement of Cash Position as there was no separate bank account for the project under review.

  
BDO & Co  
Chartered Accountants

13 APR 2015

  
Azize Rajabalee  
Engagement Partner

## 8 BASIS OF PREPARATION

The project was managed by a Unit within UNDP main operation in Lesotho and therefore neither separate accounting system and procedures nor separate bank accounts were maintained. The CDR was extracted from the accounting software ATLAS.

### 8.1 Significant accounting policies

#### **Expenditure**

Expenditure in respect of goods and services received are generally recognised in the financial statements at the time of payments.

#### **Projects assets**

Cost of assets is recognised as project expenditure upon date of purchase.

#### **Foreign Currency transactions**

The Combined Delivery Report and the financial accounting records are maintained in United State Dollars (USD). Transactions in other currencies are converted at the exchange rate communicated on a monthly basis by UN Treasury.

## 9 MANAGEMENT LETTER

### 9.1 Purpose of the management letter

As set out in our Terms of Reference, a Management Letter was to be prepared if deemed necessary in order to bring to the attention of UNDP the issues arising as a result of our financial audit of the “Deepening Decentralization Programme” project for the period from January 1, 2013 to December 31, 2014 and our recommendations to address these issues.

Our audit responsibility was to consider the Project control environment, accounting systems and control techniques in accordance with International Auditing Standards (ISA 700). We have done this so that we could:

- assess the accounting systems as a basis for preparing the financial statements;
- reach an opinion on whether proper accounting records were kept; and
- decide the nature, timing and extent of our audit work.

We draw the attention on the fact that the examination of a system which we carry out for the purposes of our audit, does not necessarily disclose every weaknesses, and for this reason the matters dealt with in this letter may not be the only shortcomings which exist in the system.

Our observations and recommendations are set out in the following paragraphs.

### 9.2 General review of project progress

The financial performance of the programme in comparison to the approved budget is set out in the following table.

Year	Budgeted expenditure (USD)	Actual expenditure (USD)	% utilised
2013	764,639	392,617	51%
2014	916,287	1,033,314	113%
<b>Total</b>	<b>1,680,926</b>	<b>1,425,931</b>	<b>85%</b>

## DEEPENING DECENTRALIZATION PROGRAMME

Financial Audit Report and Management Letter - Audit for the period from January 1, 2013 to December 31, 2014

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The major activities completed from the start of the project up to December 31, 2014 include:

1. Completion of the assessment of the state of decentralization
2. Development of the decentralization policy and adoption by the Government
3. Establishment of the Local Government Association
4. Handing over of Local Development Grants to local communities

However, most activities planned under Output 3 - 'Capacities of line ministries and authorities enhanced to decentralize functions' could not be completed due to the political situation prevailing in the country during the last quarter of 2014.

### 9.3 Linkage between Annual Work Plan and CDR

<i>Observation</i>	<i>Impact</i>	<i>Priority</i>	<i>Recommendation</i>
<ul style="list-style-type: none"> <li>The budget amount indicated for each activity planned in the Annual Work Plan (AWP) is not analysed by cost components, that is the main tasks required to undertake the activity and their related costs are not specified and categorised.</li> <li>When budget revisions are made, the Annual Work Plans are not updated accordingly.</li> </ul>	<ul style="list-style-type: none"> <li>The allocation of budgeted expenses on the CDR may be mis-stated.</li> <li>Difficult to link the planned expenses with the accounts in the CDR.</li> <li>Difficult to identify activities on which budget revisions have been made.</li> </ul>	High	<ul style="list-style-type: none"> <li>A detailed breakdown by nature of expenditure be provided for each activity in the AWP.</li> <li>The AWP be updated when budget revisions are made.</li> </ul>
<p><b>Management comments:</b> Budget - UNDP uses standard AWP template, which does not include breakdown noted by the Auditors. While we acknowledge the usefulness of the breakdown, it is not a requirement for UNDP's rules and regulations. However, the project will start using the additional template as requested.</p>			

#### 9.4 VAT charged to project expenditure

Observation	Impact	Priority	Recommendation
<ul style="list-style-type: none"> <li>• VAT amounting to Maloti 452,246 has been paid on certain expenditure and has been charged to the project.</li> </ul> <p>A list of these expenses is presented in Annex I.</p> <p>We refer to section 7 of the convention on the priviledges and immunities of the United Nations which deals with tax exemption.</p> <p>We have not qualified our audit report in that respect because of the immateriality of the amount.</p>	<p>Non-compliance with UNDP Policies and Procedures.</p>	<p>Medium</p>	<p>VAT payments should be recorded in a separate accounts code and claimed back from LRA on a timely basis.</p>
<p><b>Management comments:</b></p> <p>There is a standard procedure in place to create a voucher with two lines and charge VAT into a separate funds under account 14035 fund 0001. Approving Officers will ensure that VAT amount is separated when reviewing vouchers and before a voucher is approved in the system. However, these invoices will be taken to LRA for VAT refund.</p>			

**9.5 Unrecorded transaction**

Observation	Impact	Priority	Recommendation
<p>A journal entry was raised on 18/06/2014 in accounts code 72105 amounting to Maloti 454,006.80. We understand that this entry represents a reversal of a payment made to Assess Africa Consultancy due to the fact that bank details of the latter were not correct.</p> <p>However, the new payment made was not recorded as expenditure in the project.</p>	<p>Project expenditure may not be complete.</p>	<p>Medium</p>	<p>Proper follow up be made to ensure that all corrections are properly recorded as expenditure.</p>
<p><b>Management comments</b> We acknowledge an error and the reversal for the amount deposited into the account was made in 2015.</p>			

**9.6 Project Budget Balance**

Observation	Impact	Priority	Recommendation
<p>The Project Budget Balance is a report generated from Atlas to monitor budget utilization by accounts code. We noted that budget amount is not properly analysed into account codes. For instance, for year 2013, budget for consultants amounting to US\$ 80,000 was recorded in code 71200 while the actual expenditure was recorded in code 72100. For year 2014, the total budget amount of US\$ 916,287 was recorded in only one code (75700).</p>	<p>Comparison of budgeted expenditure to actual expenditure may not be possible.</p>	<p>Low</p>	<p>The budget amount be properly analysed between accounts codes on Atlas.</p>
<p><b>Management comments</b> We acknowledge the error and proper care will be taken to choose the most appropriate budget code.</p>			

9.7 Filing of documents

Observation		Impact	Priority	Recommendation										
<p>Documents are not always filed in their respective files. We present a list of documents which were not filed but were made available on request.</p> <table border="1"> <thead> <tr> <th>Missing from permanent file</th> <th>Missing from personnel file</th> </tr> </thead> <tbody> <tr> <td>Steering Committee minutes for 2014</td> <td>Reference checks</td> </tr> <tr> <td>Technical Committee minutes</td> <td>Leave records</td> </tr> <tr> <td>Signed Statement of Assets</td> <td>Attendance records</td> </tr> <tr> <td>EU Financing Agreement</td> <td></td> </tr> </tbody> </table>		Missing from permanent file	Missing from personnel file	Steering Committee minutes for 2014	Reference checks	Technical Committee minutes	Leave records	Signed Statement of Assets	Attendance records	EU Financing Agreement		Important documents may be misplaced.	Low	All important documents be properly filed.
Missing from permanent file	Missing from personnel file													
Steering Committee minutes for 2014	Reference checks													
Technical Committee minutes	Leave records													
Signed Statement of Assets	Attendance records													
EU Financing Agreement														
<p><b>Management comments</b> We acknowledge the observation and the review of filing procedures is planned to be in 2015.</p>														

DEEPENING DECENTRALIZATION PROGRAMME

Financial Audit Report and Management Letter - Audit for the period from January 1, 2013 to December 31, 2014

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ANNEX I

LIST OF EXPENSES ON WHICH VAT WAS CHARGED TO PROJECT EXPENDITURE

Voucher No	Supplier	VAT amount paid Maloti
27425	Maseru Sun	17,987
25202	Blue Mountain Inn	10,111.19
27013	Mountain View Hotel	16,597.80
27449	New Central Guest House	19,283.60
27431	Hotel Mount Maluti	23,114.12
27372	Mohale Oa Masite Lodge	31,978.33
27178	Orion Mohale Lodge	24,069.68
26938	Seliba Holdings	22,969.80
26937	Victoria Hotels	21,446.04
26817	Mohale Oa Masite Lodge	31,644.91
26798	Mountain View Hotel	39,580.05
26791	Crocodile Inn	29,240.29
26737	Mountain View Hotel	42,003.32
26725	New Central Guest House	31,810.80
26317	Orion Mohale Lodge	22,876.25
26315	Mountain View Hotel	15,320.18
	Maseru Toyota	52,212.72
<b>TOTAL</b>		<b>452,246</b>