

To
Ministry of Foreign Affairs and Cooperation
Av. 10 de Novembro, nº 620
Maputo – Moçambique

15 May 2008

Dear Sirs,

FINANCIAL AUDIT IN RESPECT TO UNDP PROJECT Nº. 56046 – PUBLIC SECTOR REFORM /LOLE

We have completed the audit of above-mentioned Project for the period 1 January 2007 to 31 December 2007 and are therefore pleased to submit our final report. This document contains the following reports:

- Independent auditors report on the Statement of Expenditure;
- Independent auditors report on the Statement of Cash Position;
- Independent auditors report on the Statement of Assets and Equipment; and
- Management letter

We have had considerable help and co-operation from everyone whom we have come into contact with. We would like to take this opportunity to record our sincere appreciation of the co-operation and courtesy extended to us by the officials and the employees of the Project, UNDP and the Ministry during the course of our work.

Please do not hesitate to contact us if you require additional information or clarification on any aspect of this report.

Yours faithfully,

Robert Walker
Senior Partner
Assurance Services

REPORT OF THE INDEPENDENT AUDITORS TO THE MINISTRY OF FOREIGN AFFAIRS AND COOPERATION IN RESPECT TO PROJECT Nº. 56046 – PUBLIC SECTOR REFORM /LOLE FUNDED BY THE UNITED NATIONS DEVELOPMENT PROGRAMME (UNDP)

1 We have audited the accompanying Statement of Expenditure (“the Statement”) of the **UNDP Project nº. 56046 – Public Sector Reform /LOLE** for the period 1 January 2007 to 31 December 2007. The Statement is the responsibility of the management of the project. Our responsibility is to express an opinion on the Statement based on our audit.

2 We conducted our audit in accordance with International Standards on Auditing. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the Statement is free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures of the Statement. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall presentation of the Statement. We believe that our audit provides a reasonable basis for our opinion.

3 The policy of the project is to prepare the accompanying Statement on the cash receipts and disbursements basis. On this basis revenue is recognised when received rather than when earned, and expenses are recognised when paid rather than when incurred.

4 In our opinion, the accompanying Statement of Expenditure presents fairly, in all material respects, the expenditure incurred by the **UNDP Project nº. 56046 – Public Sector Reform /LOLE** for the period 1 January 2007 to 31 December 2007 in accordance with UNDP accounting requirements.

5 This report is intended solely for the information and use of UNDP and the Government of Mozambique.

PricewaterhouseCoopers, Lda.
Maputo
15 May 2008

Combined Delivery Report By Project



UNDP UN Development Programme
 Report ID: ungl143p

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 Run Time: 11-03-2008 07:03:10

Selection Criteria :

Business Unit : MOZ10
Period : Jan-Dec (2007)
Selected Award Id : 00046330
Selected Fund Code : ALL
Selected Dept. IDs : ALL
Selected Projects : 00056046

Award Id : 00046330 Support to Local Government Ef	Period : Jan-Dec (2007)
Project # : 00056046 Public Sector Reform /LOLE	Impl. Partner : 02172 National Execution
	Location :

	Govt Disb	UNDP Disb	UN Agencies	Encumbrance	Total Exp
Dept: 35804 (Mozambique - Dem. Governance)					
Fund : 04000 (UNDP-IPF / TRAC-(Trac 1.1.1 *)					
71105 - Salaries - ALD	0.00	0.00	0.00	0.00	0.00
71305 - Local Consult.-Sht Term-Tech	4,000.00	0.00	0.00	0.00	4,000.00
71310 - Local Consult.-Short Term-Supp	12,000.00	0.00	0.00	0.00	12,000.00
71405 - Service Contracts-Individuals	0.00	0.00	0.00	0.00	0.00
71605 - Travel Tickets-International	22,935.56	0.00	0.00	5,243.40	28,178.96
71610 - Travel Tickets-Local	29,926.25	0.00	0.00	0.00	29,926.25
71620 - Daily Subsistence Allow-Local	1,938.00	0.00	0.00	0.00	1,938.00
71625 - Daily Subsist Allow-Mtg Partic	11,182.30	0.00	0.00	0.00	11,182.30
71635 - Travel - Other	10,776.30	0.00	0.00	0.00	10,776.30
72145 - Svc Co-Training and Educ Serv	10,559.09	0.00	0.00	0.00	10,559.09
72220 - Furniture	18,923.70	0.00	0.00	0.00	18,923.70
72445 - Common Services-Communications	549.87	0.00	0.00	0.00	549.87
72505 - Stationery & other Office Supp	4,463.85	0.00	0.00	0.00	4,463.85
73410 - Maint, Oper of Transport Equip	2,019.22	0.00	0.00	0.00	2,019.22
74510 - Bank Charges	42.17	0.00	0.00	0.00	42.17
74525 - Sundry	34,432.72	0.00	0.00	0.00	34,432.72
Total for Fund 04000	163,749.03	0.00	0.00	5,243.40	168,992.43
Total for Dept : 35804	163,749.03	0.00	0.00	5,243.40	168,992.43
Total for Project : 00056046	163,749.03	0.00	0.00	0.00	168,992.43

Award Total :	163,749.03	0.00	0.00	0.00	168,992.43
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Signed By : _____ Date : _____

Combined Delivery Report By Project



UNDP UN Development Programme
Report ID: ungl143p

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Run Time: 11-03-2008 07:03:11

Selection Criteria :

Business Unit : MOZ10
Period : Jan-Dec (2007)
Selected Award Id : 00046330
Selected Fund Code : ALL
Selected Dept. IDs : ALL
Selected Projects : 00056046

Award Id : 00046330	Support to Local Government Ef	Period :	Jan-Dec (2007)		
Project # :	Public Sector Reform /LOLE	Impl. Partner :	None		
		Location :			

	Govt Disb	UNDP Disb	UN Agencies	Encumbrance	Total Exp
35804 - Mozambique - Dem. Governance	163,749.03	0.00	0.00	5,243.40	168,992.43

**REPORT OF THE INDEPENDENT AUDITORS TO THE MINISTRY
OF FOREIGN AFFAIRS AND COOPERATION IN RESPECT TO
PROJECT Nº. 56046 – PUBLIC SECTOR REFORM/LOLE FUNDED
BY THE UNITED NATIONS DEVELOPMENT PROGRAMME (UNDP)**

1 We have audited the accompanying Statement of Cash Position of the **UNDP Project nº. 56046 – Public Sector Reform/LOLE** as at 31 December 2007, and the cash receipts and disbursements for the year then ended and the related notes (together “the financial statements”). The financials statements are the responsibility of the management of the project. Our responsibility is to express an opinion on the financial statements based on our audit.

2 We conducted our audit in accordance with International Standards on Auditing. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall presentation of the financial statements. We believe that our audit provides a reasonable basis for our opinion.

3 In accordance with UNDP accounting requirements the financial statements have been prepared on the cash receipts and disbursements basis. On this basis revenue is recognised when received rather than when earned, and expenses are recognised when paid rather than when incurred.

4 In our opinion, the accompanying financial statements present fairly, in all material respects, the cash balance of the **UNDP Project nº. 56046 – Public Sector Reform/LOLE** as at 31 December 2007, and the cash receipts and disbursements for the year then ended and the related notes in accordance with UNDP accounting requirements.

5 This report is intended solely for the information and use of UNDP and the Government of Mozambique.

PricewaterhouseCoopers, Lda.
Maputo
15 May 2008

Project N°. 56046 – Public Sector Reform/LOLE

Movements in cash receipts and disbursements

for the year ended 31 December 2007

(USD)

	Note	31.12.2007
Receipts		169.500
Disbursements		(163.749)
Net excess of receipts over disbursements		<u>5.751</u>

Statement of Cash Position

as at 31 December 2007

(USD)

	Note	31.12.2007
Bank	4	5.787
Unadjusted difference		(36)
		<u>5.751</u>

Project N°. 56046 – Public Sector Reform/LOLE

Notes to the financial statements

for the year-ended 31 December 2007

1 Basis of preparation

1.1 Accounting basis

The financial statements have been prepared on the basis of cash receipts and disbursements. Consequently, certain funds and the related cash balances are recognised when received rather than when earned and expenses are recognised when paid rather than when incurred.

1.2 Fixed Assets

Fixed assets are expensed on acquisition.

2 Currency

The reporting currency is American Dollars (USD) as this is the currency agreed for financial reporting purposes.

3 Comparatives

Comparative information has not been presented because this is the first year of the project.

4 Cash at bank

The bank balance can be presented as follows:

	31.12.2007
Standard Bank – USD	5.787
	<hr/>
	5.787
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REPORT OF THE INDEPENDENT AUDITORS TO THE MINISTRY OF FOREIGN AFFAIRS AND COOPERATION IN RESPECT TO PROJECT Nº. 56046 – PUBLIC SECTOR REFORM /LOLE FUNDED BY THE UNITED NATIONS DEVELOPMENT PROGRAMME (UNDP)

1 We have audited the accompanying Statement of Assets and Equipment of the **UNDP Project nº. 56046 – Public Sector Reform /LOLE** (“the Statement”). The Statement is the responsibility of the management of the project. Our responsibility is to express an opinion on the Statement based on our audit.

2 We conducted our audit in accordance with International Standards on Auditing. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the Statement is free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the Statement. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall presentation of the Statement. We believe that our audit provides a reasonable basis for our opinion.

3 In accordance with the UNDP accounting requirements the Statement has been prepared on the historical cost basis as described in the accompanying notes.

4 In our opinion, the accompanying Statement of Assets and Equipment presents fairly, in all material respects, the inventory balance of the **UNDP Project nº. 56046 – Public Sector Reform /LOLE** as at 31 December 2007 in accordance with UNDP accounting requirements.

5 This report is intended solely for the information and use of UNDP and the Government of Mozambique.

PricewaterhouseCoopers, Lda.
Maputo
15 May 2008

Project N°. 56046 – Public Sector Reform /LOLE

Notes to the Statement of Assets and Equipment

1 Cost

The assets have been recorded at historical cost and no adjustment for revaluation or impairment is made.

2 Asset maintenance

Expenditure that enhances the estimated useful lives of assets is not recognised as a capital improvement and is expensed in the year in which it is paid.

3 Depreciation

No provision has been made for depreciation of assets.

4 Disposal

Assets disposed of during the course of the project's life are removed from the statement.

To
Ministry of Foreign Affairs and Cooperation
Maputo
Moçambique

15 May 2008

Dear Sirs

We have completed the audit of the **UNDP Project nº. 56046 – Public Sector Reform /LOLE**, for the year ended 31 December 2007 and we are therefore pleased to submit a copy of our final report for your review and action. As a result of our audit we have identified a number of areas where we believe it may be appropriate for management to consider improvements to the accounting and related internal control systems.

We have sought to provide constructive ideas for your assistance; therefore these may not have been fully researched in the course of our normal audit work. Some of these matters you may already be addressing and others you may decide do not warrant further attention.

It should be appreciated that the matters dealt with in this report came to our attention during the course of our normal audit procedures, which were designed primarily with a view to the expression of our audit opinion on the Statement of Expenditure, the Statement of Cash Position and Statement of Assets and Equipment of the project. Our comments cannot, therefore, be expected to include all the possible improvements to internal control which a more extensive special examination might reveal.

We have had considerable help and co-operation from everyone whom we have come into contact with. We would like to take this opportunity to record our sincere appreciation of the co-operation and courtesy extended to us by the officials and the employees of the Ministry, the Project and UNDP during the course of our work.

Please do not hesitate to contact us if you require additional information or clarification on any aspect of this report.

PricewaterhouseCoopers, Lda.

Project N°. 56046 – Public Sector Reform /LOLE

Management Letter in respect of the Accounting Procedures and Internal Control

15 May 2008

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1 RISK SEVERITY CATEGORY

The table below summarises the categorisation of audit findings by risk severity.

High	Action that is considered imperative to ensure that UNDP is not exposed to high risks (i.e. failure to take action could result in major consequences and issues).
Medium	Action that is considered necessary to avoid exposure to significant risks (i.e. failure to take action could result in significant consequences).
Low	Action that is considered desirable and should result in enhanced control or better value for money.

2 POSSIBLE CAUSES CATEGORY

The table below summarises the classification of possible causes of audit findings:

Compliance	Failure to comply with prescribed UNDP regulations, rules and procedures.
Guidelines	Absence of written procedures to guide staff in the performance of their functions.
Guidance	Inadequate or lack of supervision by supervisors.
Human error	Mistakes committed by staff entrusted to perform assigned functions.
Resources	Lack of or inadequate resources (funds, skills, staff, etc.) to carry out an activity or function.

3 DETAILED FINDINGS/RECOMMENDATIONS

3.1 Project / CDR reconciliation procedure			
Description	Recommendation	Risk severity	Possible causes
The financial information of the Combined Delivery Report (CDR) is not reconciled with the project accounting records.	We recommend the implementation of procedures that ensure the periodic, preferably monthly or quarterly, reconciliation between the CDR and the project accounting records in order to identify and correct differences on a timely basis.	High	Compliance
Management comment			
<p>Project Management: The project has been following the norms and procedures enforced by UNDP. Whenever UNDP sends the CDR we perform the respective reconciliation of the data.</p> <p>We agree with the recommendation, but not with the possible causes as shown on the table. Regarding the risk, we do not think that it is high for now; there are bank statements that support the legitimacy of expenses.</p> <p>UNDP: Project accounting matches with CDRs records.</p>			

3.2 Lack of accounting policy			
Description	Recommendation	Risk severity	Possible causes
There is lack of a properly defined policy for the preparation of the Statement of Assets and Equipment. Currently, there is no clear distinction as to moment of recording of the assets and equipment on the Statement. Some assets have been recorded on the basis of payment, other assets have been recorded on the basis of receipt of the supplier's invoice and other assets have been recorded on the basis of physical receipt of the asset.	We recommend the adoption of a clear accounting policy for the preparation of the Statement of Assets and Equipment.	Medium	Guidelines
Management comment			
<p>Project Management: We do not agree with the observation, recommendation, the risks and the possible causes reported above.</p> <p>The project maintains the same system of recording assets and sends annually to UNDP for them a schedule in which the following information is provided and provided to the auditor that performed the work: data of acquisition, description of asset, serial number of the asset purchased, invoice n^o, supplier name, location of purchase, value of purchase, quantity and physical location.</p>			

3.3 Accounting records maintained on spreadsheets			
Description	Recommendation	Risk severity	Possible causes
The accounting records are kept on spreadsheets, which do not allow the application of the double entry method. The preparation of the accounting records on spreadsheets makes analysis and reconciliation difficult.	We recommend that management consider the implementation of a software package to record the accounting transactions.	Medium	Resources
Management comment			
<p>Project Management: Your observation is that the spreadsheets do not allow the application of the double entry method and difficults the analysis and reconciliation.</p> <p>The auditor had the opportunity to verify without any difficulty all the records made on the spreadsheet and that establishes a total parallel between the FACE, financial report, bank control, bank reconciliation, expenditure report, the expense documentation, and the account listing.</p> <p>We only agree with the recommendation but require UNDP to consider. We do not concur with the risk and possible causes.</p>			

3.4 Receipts			
Description	Recommendation	Risk severity	Possible causes
Not all documents that support the fund received by the Award have attached to them the correspondence of funds transferred and received (i.e. letters sent by the UNDP and letter confirming the funds received), and the receipt issued upon receipt of the funds. The inexistence of these documents difficults the analysis of amounts recorded as cash advances.	We suggest that all supporting documentation in respect to the funds received is archived at the same place.	Low	Guidelines
Management comment			
<p>Project Management: Your observation is that it was not possible to locate documents from UNDP that confirm the amount transferred, and thus your difficulty in analysing the amounts registered.</p> <p>Even though there no written notes for the transfer of funds by UNDP, there is a strong control both by financial personnel of UNDP as well as by the project, because any transfer performed in communicated verbally and confirmed by the bank. As a result of which the subsequent financial reports which allow total control.</p> <p>We agree with the recommendation, but there is no risk and possible causes because directives exist.</p>			

3.5 Expenditure			
Description	Recommendation	Risk severity	Possible causes
3.5.1 The project has been applying low income tax percentages on salaries paid.	We recommend the application of the correct income tax brackets on salaries paid.	Medium	Compliance
Management comment			
<p>Project Management: Your observation is that the project has been calculating lower taxes on salaries.</p> <p>Annually the contracted employees of the project have been filling the mandatory tax form M/10 wherein is reported the total salaries and the total taxes withheld. We await the response of the tax department after the reconciliation. However, we apply the updated schedule for the deductions.</p> <p>As such, we do not agree with the observation, recommendation, risk and possible causes.</p>			

4 PROJECT PROGRESS

- (i) The financial reports were submitted timely. The direct payments requests were adequately processed and duly forwarded to UNDP country office for payment but considered as commitments of the year.
- (ii) The project's planned activities were met.
- (iii) From the review of the financial reports (FACE forms) submitted by the project, the UNDP accepted the activities and the expenditures performed by the project. No relevant decisions and/or recommendations were raised to the implementing partner.
- (iv) The approval and signature of the 2007 – 2009 Country Programme Action Plan (CPAP) by UNDP and Government of Mozambique was delayed affecting the signature of the Annual Work Plans and thus the late transfer of funds to the projects.
- (v) There were no implementation services provided by a UN Agency for the project.