



AUDIT

OF

UNDP TIMOR-LESTE

STRENGTHENING PARLIAMENTARY DEMOCRACY IN TIMOR-LESTE
(Directly Implemented Project No. 00073810)

Report No. 907
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**Report on the audit of UNDP Timor-Leste - Strengthening Parliamentary Democracy in Timor-Leste
(Project ID 73810)
Executive Summary**

From 3 to 30 April 2012 the Office of Audit and Investigations (OAI) of the United Nations Development Programme (UNDP), through Lochan & Co. (the audit firm), conducted an audit of Strengthening Parliamentary Democracy in Timor-Leste, Project ID 73810 (the Project), which is directly implemented and managed by the UNDP Country Office in Timor-Leste (the Office). The audit firm was under the general supervision of OAI in conformance with the *International Standards for the Professional Practice of Internal Auditing*.

The Project reported expenditure totalling \$1.6 million during the period from 1 January to 31 December 2011. The following donors contributed to the Project: Norway, Swedish International Development Cooperation Agency, Australian Agency for International Development, UNDP and Italy.

Audit scope and objectives

The audit firm conducted a combined financial audit and audit of internal controls and systems to express an opinion on whether the financial statements present fairly, in all material aspects, the Project's operations, as well as assess compliance with UNDP regulations, rules, policies and procedures, and donor agreements. The audit covered the Project's Statement of Expenditure (Combined Delivery Report) for the period from 1 January to 31 December 2011 and Statement of Assets as of 31 December 2011. It also reviewed the relevant systems, procedures and practices in place as they relate to the Project, in the areas of: organization and staffing, project management, human resources management, financial and cash management, procurement, asset management, and general administration.

Audit rating

Based on the audit report and corresponding management letter submitted by the audit firm, OAI assessed the management of the Project as **satisfactory**, which means "Internal controls, governance and risk management processes were adequately established and functioning well. No issues were identified that would significantly affect the achievement of the objectives of the audited entity." The details of the audit results are presented in Figures 1 and 2.

Figure 1: Summary results of the financial audit

| Project Expenditure | | Project Assets | | Cash | |
|---------------------|-------------|---------------------|-------------|---------------------|-----------------|
| Amount (in \$ '000) | Opinion | Amount (in \$ '000) | Opinion | Amount (in \$ '000) | Opinion |
| 1,569 | Unqualified | 97 | Unqualified | - | Not applicable* |

*No separate bank account was held by the project

Figure 2: Internal controls and systems audit ratings summary

| Audit Areas | Not Assessed/ Not Applicable | Unsatisfactory | Partially Satisfactory | Satisfactory |
|----------------------------------|---------------------------------|----------------|---------------------------|--------------|
| 1. Organization and staffing | | | | |
| 2. Project management | | | | |
| 3. Human resources management | | | | |
| 4. Financial and cash management | | | | |
| 5. Procurement | | | | |
| 6. Asset management | | | | |
| 7. Information systems | | | | |
| 8. General administration | | | | |

Key issues and recommendations

The audit raised four issues and resulted in four recommendations, of which two were ranked high (critical) priority, meaning “Prompt action is required to ensure that UNDP is not exposed to high risks. Failure to take action could result in major negative consequences for UNDP and may affect the organization at the global level”.

Asset Management Issue 3 No disposal process followed for lost assets. The Project did not follow proper disposal process for lost assets amounting to \$14,708. Management explained that the assets pertained to three to four years prior to the audited period, however, staff will be provided with asset management courses. The cost of lost assets represented 15 percent of the total assets; hence, the audit firm’s unqualified opinion on the statement of assets. OAI recommends that in the future the Project ensures compliance with the UNDP disposal process.

Issue 4 Deficiency in assets records. The Project did not maintain proper record of assets. The project did not provide the audit firm with information of assets purchased, disposed of or transferred during the audit period. Nonetheless, the auditors were able to physically verify all existing assets and tally the inventory list with the accounting records; hence, the audit firm’s unqualified opinion on the statement of assets. OAI recommends that the Project ensure asset records are maintained and all transactions of assets are recorded.

Management’s comments

The Country Director accepted all recommendations and is in the process of implementing them.



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