



OIOS

Office of Internal Oversight Services

INTERNAL AUDIT DIVISION

AUDIT REPORT

ECA use of funds from the German Agency for Technical Cooperation (GTZ) of the Federal Republic of Germany

**Project expenditures were not always covered by
the Memoranda of Understanding**

17 March 2009

Assignment No. AA2008/710/10

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 . Abdulie Janneh, Executive Secretary

DATE: 17 March 2009

A: Economic Commission for Africa

REFERENCE: IAD: 09- 02295

FROM: Fatoumata Ndiaye, Acting Director



DE: Internal Audit Division, OIOS

SUBJECT: **Assignment No. AA2008/710/10 - Audit of the ECA use of funds from the German Agency for
OBJET: Technical Cooperation (GTZ) of the Federal Republic of Germany**

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 1, 3 and 5 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 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. recommendations 2 and 4) in its annual report to the General Assembly and semi-annual report to the Secretary-General.

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
Mr. Moses Bamuwanye, Chief, Oversight Support Unit, Department of Management
Mr. Byung-Kun Min, Programme Officer, OIOS
Mr. Normand Ouellet, Chief, Nairobi Audit Service, 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 the ECA use of funds from the German Agency for Technical Cooperation (GTZ) of the Federal Republic of Germany

OIOS conducted an audit of the Economic Commission for Africa (ECA) use of funds from the German Agency for Technical Cooperation (GTZ) of the Federal Republic of Germany. The overall objective of the audit was to assess the appropriateness of project expenditures and accuracy of financial and project reporting. The audit was conducted in accordance with the International Standards for the Professional Practice of Internal Auditing.

ECA incurred expenditures of \$2,476,948.53 on four different projects funded by GTZ. Although these expenditures were incurred in accordance with the relevant United Nations Financial Regulations and Rules, there were instances where the expenditures did not comply with the terms of the Memoranda of Understanding (MOUs) with the GTZ.

OIOS found that there was need to strengthen the financial control environment and improve project management by:

- Reclassifying some expenditures and revising the financial statements accordingly in order to ensure the accuracy and reliability of financial information;
- Ensuring that procedures for estimating project expenditures take into account and reflect all factors which might affect delivery of projects;
- Resolving outstanding issues on projects and closing them promptly; and
- Strengthening internal controls to ensure that payments to contractors are only made after performance evaluation data is recorded into the Integrated Management Information System (IMIS).

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I. INTRODUCTION

1. The Office of Internal Oversight Services (OIOS) conducted an audit of use of funds from the German Agency for Technical Cooperation (GTZ) of the Federal Republic of Germany on United Nations Economic Commission for Africa (ECA) funded projects. The audit was conducted in accordance with the International Standards for the Professional Practice of Internal Auditing.
2. OIOS audited four projects, with a total expenditure of \$2,476,948.53, funded through Memoranda of Understanding (MOUs) with GTZ (Table 1).

Table 1: Projects funded by the GTZ

MOU date	Project title	Grant provided	Expenditure
21 July 2003	Strengthening ECA's capacity on issues of good governance	\$1,369,040.00	\$1,502,087.44
14 December 2006	ECA capacity building for Information and Communication Technology (ICT)	\$1,089,843.50	\$7,897.21
12 March 2007	Expert consultation on peace and security in Africa	\$19,301.21	\$22,140.97
8 October 2007	Deepening the judiciary effectiveness in combating corruption	\$38,501.92	\$944,822.91
Total		\$2,516,686.63	\$2,476,948.53

3. The audit was undertaken at the request of GTZ in accordance with the terms of the MOUs with ECA.
4. Comments made by ECA are shown in *italics*.

II. AUDIT OBJECTIVES

5. The overall objective of the audit was to assess the appropriateness of project expenditures which included to:
 - (a) Determine whether the expenditures of the projects were incurred for the intended purposes and in accordance with the MOUs and United Nations Regulations and Rules; and
 - (b) Assess the accuracy and reliability of financial and project reporting to GTZ.

III. AUDIT SCOPE AND METHODOLOGY

6. The audit focused on a review of expenditures for the four projects funded by GTZ from September 2003 to October 2008. The audit was conducted in Addis Ababa, Ethiopia and involved interviewing key project staff, reviewing the MOUs, the project financial statements and other supporting documentation.
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IV. AUDIT FINDINGS AND RECOMMENDATIONS

A. Project management

Delays in closing projects

7. There were delays in closing projects. As at 30 June 2008, all four projects should have been closed but were still open (Table 2).

Table 2: Delays in completion of GTZ projects

#	Project number	Project description	Expected completion date	Utilization of funds	Reason for delay
1.	HDG-7259-1574-6385 (GTZ03015)	Strengthening ECA's capacity on issues of good governance	Dec 2005	99%	Obligation of \$13,046.98 to be liquidated.
2.	HGD-7260-1570 (GTZ03016)	ECA capacity building for development for ICT	Dec 2005	98%	Unspent funds to be returned to GTZ
3.	HDG-7415-1574 GTZ/07/056	Expert consultation on peace and security in Africa	Apr 2007	41%	Unspent funds to be returned to GTZ
4.	HDG-7445- 1574 GTZ/07/086	Deepening the judiciary's effectiveness in combating corruption	Dec 2007	57%	-

8. The delays in closing projects were attributed to untimely liquidation of obligations and unspent funds not having been returned to GTZ. The untimely completion of projects may damage ECA's reputation and adversely affect the donors' willingness to provide funds for future projects.

Recommendation 1

(1) The ECA Administration should resolve all outstanding issues on the projects and close them.

9. *ECA accepted recommendation 1 and stated that the projects have now been operationally closed and the balance of funds returned to the donor. Based on the action by ECA, recommendation 1 has been closed.*

B. Expenditures

Expenditures beyond budget estimates in two MOUs

10. With regard to the projects “Strengthening ECA’s capacity on issues of good governance” and “ECA capacity building for ICT”, ECA incurred expenditures of \$461,225.35 on activities that were not covered by the terms of the MOUs (see details in Annex 4). The MOUs for the projects required that “the Recipient shall use the GTZ grant only for necessary and reasonable expenditures as approved in the Schedule of Estimated Expenditures”...and “the Recipient shall be entitled to spend up to 10 per cent more than the amounts mentioned above on any budget line provided that the expenditures are adjusted to the same extent in one or more of the other budget lines.” In one noted case, the expenditures exceeded the schedule far beyond the limit stipulated in the MOU and the initial budget. ECA staff travel was estimated as \$30,000 in the schedule, however, the budget was revised to \$121,598.95 without advising the donor and expenditure amounting to \$131,595.51 was recorded.

11. The project manager explained that all the expenditures were incurred on legitimate project activities and attributed the variation between the statement of estimated expenditures and the actual expenditure to the following:

- Implementation of the project over a longer period of time than was originally anticipated. For example, one project was supposed to be implemented from 1 April 2003 to 31 December 2005 but the project was still open on 16 October 2008. This exposed the project to higher operational costs such as the travel expense; and
- Inclusion of other activities identified to be critical to the success of the project after signing of the MOU.

12. Incurring expenditures outside the terms and conditions of the MOU could result in donors’ reluctance to fund future projects.

Recommendation 2

(2) The ECA Office of Strategic Planning and Programme Management should ensure that there are procedures in place to ensure compliance with the Memoranda of Understanding (MOUs) and amendments to MOUs should be done in consultation with donors before incurring expenditure beyond the estimated cost.

13. *ECA commented that all the additional activities carried out under GTZ were fully discussed and agreed with the donor before they were implemented. To this effect, ECA provided the following additional information:*

- *ECA Note for the records on the meeting between ECA and GTZ of 16 March 2005;*

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- *Email exchange between Ms. Opoku-Mensah, (the Director, ISTD and the programme Manager) requesting for inclusion of additional project activities, and Dr. Cathrine Lauckner – the GTZ Coordinator), granting ECA’s request; and*
 - *A formal amendment to the MOU.*

14. *ECA stated that it will also ensure that for all other projects, provisions are not restrictive but allow mutual consultation with donors. OIOS takes note of the additional information. Recommendation 2 remains open pending receipt of details of the procedures put in place to ensure compliance with MOUs and also to ensure that amendments to MOUs are issued before incurring expenditure beyond the estimated cost.*

Payments without performance evaluation data in the accounting application

15. Payments were made on projects funded by GTZ without performance evaluation data being entered into IMIS. For example, 30 payments amounting to \$769,981.56 (see details in Annex 3) were made without entering the supporting data on performance evaluation into IMIS. Project managers explained that the evaluation was done manually and staff responsible may have overlooked to input the data. This was confirmed by Finance staff who further added that, unlike the individual consultants, entering the data was not mandatory for institutional contractors hence there was no control to prompt the staff if they overlooked to enter the data. 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.

Expenditures for another project included in project “Expert consultation for peace and security in Africa”

16. The “Expert consultation for peace and security in Africa” project also included expenditure of \$1,396 for a staff member’s travel from Lusaka to Addis Ababa to attend a workshop on “Mutual review of development effectiveness in Africa” from 15 to 16 May 2008.

Recommendation 3

(3) The ECA Administration should reverse the travel expenses wrongly charged to the project “Expert consultation for peace and security in Africa” and charge them to the “Mutual review of development effectiveness in Africa” project.

17. *ECA accepted recommendation 3 and provided copies of entries passed to reverse the travel expenses and charge them to the “Mutual review of*

development effectiveness in Africa” project. Based on the action taken by ECA, recommendation 3 has been closed.

C. Reporting

Project performance not adequately reported against benchmarks

18. The final report to GTZ on the MOU dealing with the “Capacity building for ICT” project was not prepared according to the ECA format for producing final reports. Notably, the report did not summarize project outputs sought and produced as per benchmarks agreed in the MOU. The benchmarks (see details in Annex 5) covered the following: (1) information/outreach materials (briefing papers, video documentaries, in-house skill development in media impact evaluation); (2) demonstration, exhibition and training; and (3) support for programming in telecommunication regulation.

19. The report described the activities that were done in the focus areas and included details such as daily programmes of workshops undertaken, lists of participants, and in some cases detailed comments provided by the participants on the workshops. As the information provided did not match with what was requested, OIOS is of the opinion that the report did not clearly demonstrate the project’s performance against the agreed criteria. Therefore, it was not possible to evaluate the project’s success that may be required to sustain donor’s willingness to fund future projects.

Recommendation 4

(4) The ECA Office of Strategic Planning and Programme Management should ensure that reports to donors adequately cover performance evaluation criteria as agreed in the MOUs.

20. *ECA stated that it will ensure that reports to donors adequately cover performance evaluation criteria as agreed in the MOUs. The system is already in place to support this. As mentioned in its response to recommendation 2 above, the existing extrabudgetary project reporting format has been modified to reflect the Results Based Management approach, placing more emphasis on results and impact, effective December 2007. The reports are prepared by the Programme Division and forwarded to the Office of Strategic Planning and Programme Management (OPM) for review and quality assurance. It is then forwarded to partners to ensure conformity with the MOU. Comments received from partners are then incorporated in the finalized report. OIOS takes note of the additional information and the actions taken to date. Recommendation 4 remains open pending receipt of documentation showing that reports to donors adequately cover performance evaluation criteria agreed in the MOUs.*

Reclassification of expenditures in financial statements

21. The expenditures for the four projects (see details in Annex 2) need to be reclassified and financial statements revised accordingly in order to ensure the accuracy and reliability of the financial reports.

Recommendation 5

(5) The ECA Administration should reclassify expenditures and revise the financial statements accordingly in order to ensure accuracy and reliability of financial reports.

22. *ECA accepted recommendation 5, reclassified the expenditure and revised the financial statements.* Based on the action taken by ECA, recommendation 5 has been closed.

V. ACKNOWLEDGEMENT

23. 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.

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 resolve all outstanding issues on the projects and close them.	Operational	Medium	C	Action completed.	Implemented
2	The ECA Office of Strategic Planning and Programme Management should ensure that there are procedures in place to ensure compliance with the Memoranda of Understanding (MOUs) and amendments to MOUs should be done in consultation with donors before incurring expenditure beyond the estimated cost.	Financial	High	O	Receipt of procedures for ensuring compliance with MOUs and ensuring that amendments to MOUs are issued before incurring expenditure beyond the estimated cost.	-
3	The ECA Administration should reverse the travel expenses wrongly charged to the project "Expert consultation for peace and security in Africa" and charge them to the "Mutual review of development effectiveness in Africa" project.	Financial	Low	C	Action completed.	Implemented
4	The ECA Office of Strategic Planning and Programme Management should ensure that reports to donors adequately cover performance evaluation criteria as agreed in the MOUs.	Information Resources	High	O	Receipt of documentation showing that reports to donors adequately cover performance evaluation criteria agreed in the MOUs.	-
5	The ECA Administration should reclassify expenditures and revise the financial statements accordingly in order to ensure accuracy and reliability of financial reports.	Financial	Medium	C	Action completed.	Implemented

1. C= closed, O = open

2. Date provided by ECA in response to recommendations.

ANNEX 2

Detailed review of expenditures on projects funded by GTZ

#	Donor/Account Number	Project Title	Period for the financial statements reviewed	Budget	Expenditures	Balance	Affected budget lines	Observations	Expenditure reclassification required?
1.	HDG-7259-1574 (GTZ/01015)	Strengthening ECA's Capacity on Issues of Good Governance	September 2003 to 6 October 2008	1,506,148.11	1,502,087.44	4,060.67	5201 5300	<ul style="list-style-type: none"> Travel expenditures included in the budget line for "Reporting/translation/interpretation services" Workshop refreshments costs included in a sundries budget line. 	Yes
2.	HDG-7415-1574 GTZ/07/056	Expert Consultation for Peace & Security in Africa	23 March 2007 to 6 October 2008	19,301.21	7,897.21	11,404.00	3201	<ul style="list-style-type: none"> Includes staff travel expenditures of \$1,396.00 for a workshop on "Mutual Review of Development Effectiveness in Africa" 	Yes
3.	HDG-7445-1574 GTZ/07/086	Deepening the Judiciary's Effectiveness in Combating Corruption	9 November 2007 to 6 October 2008	38,683.95	22,140.97	16,542.98	3201	<ul style="list-style-type: none"> Travel expenditures included in the budget line for meetings 	Yes
4.	HDG-7260-1570 (GTZ/03016)	ECA Capacity Building Development for ICT	September 2003 to 6 October 2008	962,276.15	944,822.91	17,453.24	2101 3201 5202	<ul style="list-style-type: none"> Travel and "SRO" costs included in the budget line for "Sub-contract on production of Institutional contract for training on ICT for stakeholders" Travel costs included in the budget line for "Organizing workshops on skills in media evaluation". 	Yes
				\$2,526,409.42	\$2,476,948.53	\$49,460.89			

Payments without performance evaluation data in IMIS (for the four projects)

#	Payee Number	Payee Name	Month	Project Identity Code			Budget line	Expenditures
1.	1861	CEA/CERCAP	200502	7259	1574	GTZ03015	220100	23,100.00
2.	1631	Development Policy Centre	200508	7259	1574	GTZ03015	220300	24,068.00
3.	1923	CEREG	200508	7259	1574	GTZ03015	220100	34,000.00
4.	1923	CEREG	200508	7259	1574	GTZ03015	221100	25,500.00
5.	2046	AVA Dateline Production BV	200408	7260	1570	GTZ03016	210100	149,775.00
6.	2134	Ram CS Computer System & Communication plc	200412	7260	1570	GTZ03016	210200	17,400.00
7.	1782	Centre for Economic & Financial Research & Studies	200504	7259	1574	GTZ03015	220600	31,582.20
8.	1765	UNISWA Consultancy & Training Center	200506	7259	1574	GTZ03015	220800	22,089.00
9.	1623	University of Dar es Salam	200508	7259	1574	GTZ03015	220100	23,001.90
10.	1623	University of Dar es Salam	200508	7259	1574	GTZ03015	220400	15,334.60
11.	1625	Cellule D'analyse de Politique Economique	200404	7259	1574	GTZ03015	220100	9,316.14
12.	1630	University of Namibia-MRCC	200404	7259	1574	GTZ03015	220100	12,200.00
13.	1632	Centre for Basic Research	200312	7259	1574	GTZ03015	220100	28,899.00
14.	1632	Centre for Basic Research	200312	7259	1574	GTZ03015	220100	19,266.00
15.	1751	Centre Pour la Gouvernance Démocratique Burkina Faso	200409	7259	1574	GTZ03015	220100	21,900.00
16.	1753	NUL Institute of Southern African Studies	200506	7259	1574	GTZ03015	220700	22,202.73
17.	1754	Centre for Policy Research and Analysis	200506	7259	1574	GTZ03015	220900	25,047.63
18.	1755	Southern African Political Economy Series Trust	200601	7259	1574	GTZ03015	221000	23,387.70
19.	1764	Stra Consult	200404	7259	1574	GTZ03015	220100	13,200.00
20.	1763	University of Gambia Faculty of Eco & Mgt Studies	200504	7259	1574	GTZ03015	220500	20,799.00
21.	1790	ISTA/Inst Sous Régional Multisec de Tech Appliquée	200410	7259	1574	GTZ03015	220100	25,500.00
22.	1864	Rad-SA	200506	7259	1574	GTZ03015	221200	23,897.40
23.	1631	Development Policy Centre	200612	7259	1574	GTZ03015	220100	19,694.26
24.	1628	Institute for Democracy in South Africa	200612	7259	1574	GTZ03015	220100	19,700.00
25.	2559	Faculty of Economics & Political Science Cairo Univ	200704	7259	1574	GTZ03015	220100	20,000.00
26.	1754	Centre for Policy Research and Analysis	200612	7259	1574	GTZ03015	220100	20,000.00
27.	1764	Stra Consult	200612	7259	1574	GTZ03015	220100	19,121.00

28.	1633	African Centre for Economic Growth	200612	7259	1574	GTZ03015	220100	20,000.00
29.	1629	Botswana Institute for Development Policy Analysis	200612	7259	1574	GTZ03015	220100	20,000.00
30.	1790	ISTA/Inst Sous Régional Multisec de Tech Appliquée	200612	7259	1574	GTZ03015	220100	20,000.00
								\$769,981.56

ANNEX 4

ECA expenditures on activities not covered in the MOU

#	Project	Budget line	Descriptions	Budget	Expenditures
1.	Strengthening ECA's Capacity on Issues of Good Governance	1501	Staff travel (see note 1 below)	121,598.95	131,595.51
		3203	Study tour	68,916.66	59,973.11
			Sub-total	190,515.61	191,568.62
2.	ECA Capacity Building for ICT	3205	AISI Media awards	13,521.63	13,521.63
		4100	Expendable equipment	23,960.14	23,960.14
		1501	Travel and DSA for staff to participate in project activities	83,663.13	82,748.38
		3202	Travel and DSA for workshop participants	155,725.68	149,426.58
			Sub-total	276,870.58	269,656.73
			Total	\$467,386.19	\$461,225.35

Note 1 - GTZ provided for \$30,000 only in the statement of expenditures in the MOU

Benchmarks agreed by GTZ and ECA for performance measurement and evaluation for the project dealing with “Capacity building for ICT”

#	Area	Benchmarks agreed in MOU
1.	Information/outreach materials	<p>a) Briefing papers</p> <ul style="list-style-type: none"> • Number of request for briefings • Number of policy-makers requesting briefings • Extent to which the content is reproduced in the media • % of requests that come from policy makers, media practitioners, donor organizations, and civil society groups, media coverage <p>b) Video documentaries</p> <ul style="list-style-type: none"> • Number of television stations that broadcast this video and number of times shown • Extent to which the video is screened during ECA for a • Extent of request for video • Extent to which it serves ECA’s advocacy role <p>c) In house skills in media impact evaluation</p> <ul style="list-style-type: none"> • Ability of ECA staff to effectively evaluate the impact of the two information products
2.	Demonstration, exhibition and training (ITCA)	<p>a) Equipment support for exhibitions and demonstrations</p> <p>b) Production of demonstration and training materials</p> <ul style="list-style-type: none"> • Number of exhibitions undertaken • Evidence of demonstration effects through follow up correspondences, requests for support and replication of exhibitions at the national level • Extent to which equipment provided enhances ITCA’s ability to deliver on other activities <p>c) Conduct of workshops for select target groups</p> <ul style="list-style-type: none"> • No. of training programmes/number of participants • Various groups that receive training • Subjects that are addressed in the training workshops <p>d) Training of trainer courses</p> <ul style="list-style-type: none"> • Number of trainers that are trained, • Number of trainers as result of TOT/frequency of their engagement with ITCA <p>e) Applications for training programmes from African stakeholders</p>
3.	Support for programming in telecommunication regulation	<ul style="list-style-type: none"> • Amount of in-house capacity built in regulatory matters

		<ul style="list-style-type: none">• Number of countries that receive technical assistance• Number of sub-regional regulatory associations that receive technical assistance and capacity building• Extent to which regulatory issues are addressed through implementation of NICIs• Documentation produced and disseminated• Quality of expertise hired
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