

United Nations  Nations Unies

INTEROFFICE MEMORANDUM

MEMORANDUM INTERIEUR

INTERNAL AUDIT DIVISION · DIVISION DE L'AUDIT INTERNE

OFFICE OF INTERNAL OVERSIGHT SERVICES · BUREAU DES SERVICES DE CONTRÔLE INTERNE

TO: Mr. Abdoulie Janneh, Executive Secretary
A: Economic Commission for Africa

DATE: 18 January 2008

REFERENCE: AUD-74708 - 00887

FROM: Dagfinn Knutsen, Director
DE: Internal Audit Division, OIOS

SUBJECT: **Assignment No. AA2007/710/02 - Follow up audit of ECA projects funded by the Commission of the European Communities**
OBJET: **European Communities**

1. I am pleased to present the report on the above-mentioned audit, which was conducted in September 2007. The audit was conducted in accordance with the International Standards for the Professional Practice of Internal Auditing.

2. In order for us to close the 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 critical (i.e., recommendation 3), in its annual report to the General Assembly and semi-annual report to the Secretary-General.

I. INTRODUCTION

4. The Office of Internal Oversight Services (OIOS) conducted an audit of projects of the Economic Commission for Africa (ECA) funded by the Commission of the European Communities (CEC) in September 2007. This was a follow up to the previous audit of CEC funded projects conducted in 2005 (AA2005/710/09 dated 13 September 2005) covering project activities from March 2001 to March 2005. CEC requested an audit of the final project activities for the period 1 April 2005 to 27 September 2007 involving programme support cost of approximately \$88,000.

5. In accordance with the Financing Agreement dated 21 March 2001, CEC agreed to provide a grant worth Euro 1,800,000 (approximately \$1,650,000 at the United Nations exchange rate for March 2001) and ECA agreed to co-finance projects worth \$726,000 including a contribution of professional staff time for the following activities:

- (a) Annual Report on Integration in Africa (ARIA);
- (b) Scan Information and Communication Technology (ICT); and
- (c) National Information and Communication Infrastructure Plans (NICI).

6. ECA established two projects – one for ARIA and one for Scan ICT and NICI. According to the financial statements provided by ECA, total expenditures as at 27 September 2007 including programme support cost at 8.73 percent were \$316,625 for ARIA and \$781,923 for the Scan ICT and NICI project.

7. As ECA could not demonstrate why it used the rate of 8.73 percent for calculating Programme Support Costs (PSC) OIOS used the PSC ceiling limit of seven percent mentioned in the Financial and Administrative Framework Agreement between the European Community, represented by the CEC, and the United Nations signed in 2003.

8. Comments made by ECA are shown in *italics*.

II. AUDIT OBJECTIVES

9. The overall objective of the audit was to follow up on the OIOS recommendations made in the prior audit and to provide the CEC and ECA with an independent and objective assessment of the ARIA and Scan ICT / NICI project expenditures incurred between 1 April 2005 and 27 September 2007.

III. AUDIT SCOPE AND METHODOLOGY

10. The audit covered the period 1 April 2005 to 27 September 2007 and focused on an assessment of the expenditures incurred since the last audit, amounting to approximately \$88,203. The audit included following up on prior OIOS recommendations, analyses of applicable data, and reviews of relevant documentation available at the time of the audit.

IV. OVERALL ASSESSMENT

11. OIOS concluded that recommendations made in its previous report had been successfully implemented and the project expenditures had been incurred on legitimate activities in accordance with the Financing Agreement and the project document. ECA could not however substantiate using a rate of 8.73 percent for programme support costs instead of the recommended ceiling limit rate of seven percent. As a result, programme support costs were overstated by a total of \$17,479.

V. AUDIT FINDINGS AND RECOMMENDATIONS

A. The Annual Report on Integration in Africa (ARIA)

Closure of the project

12. No expenditures were incurred during the period April 2005 to September 2007. The project had been finalized and the final output, a report on 'ECA Assessing Regional Integration in Africa', had been produced. Upon receipt of this audit report ECA will close the project and refund to the CEC an unspent balance of \$115,048.

Programme support costs

13. ECA levied programme support costs at a rate of 8.73 per cent, which was higher than the ceiling limit rate of seven percent recommended in clause four of the Financial and Administrative Framework Agreement between the European Community, represented by the CEC, and the United Nations signed in 2003. Accordingly, programme support costs were overstated by a total of \$5,038.

Recommendation 1

(1) The ECA Administration should refund to the Commission of the European Communities (CEC) \$5,038 representing the excess charge for computing programme support costs at 8.73 percent instead of 7 percent as stated in the Financial and Administrative Framework Agreement between the CEC and the United Nations.

14. *ECA accepted recommendation 1 and stated that it will be implemented by 31 December 2007.* Recommendation 1 remains open pending receipt of documentation from ECA indicating that the amount of \$5,038 has been refunded to CEC.

B. Scan Information and Communication Technology (ICT) and National Information and Communication Infrastructure (NICI)

Action taken on previous recommendations

15. Expenditures totaling \$98,111 had been reversed based on recommendation AA2005/710/09/01. Also, actions proposed in recommendation AA2005/710/09/02 were implemented with respect to clearance of outstanding obligations amounting to \$25,471 that mainly related to travel authorizations whose billings were delayed from field offices of the United Nations Development Programme (UNDP). ECA reconciled the outstanding obligations and followed up with the concerned UNDP offices to submit the necessary Inter-Office Vouchers. All remaining outstanding obligations on this project had been cleared at the time of the audit in September 2007.

Closure of the project

16. There were no expenditures incurred on the Scan ICT and NICI project between April 2005 and September 2007. The project had been finalized and OIOS confirmed that final outputs were produced as follows:

- Scan ICT - websites for all countries selected for the project were completed; and
- NICI - the consultants conducted final reports, surveys, created websites and organized final workshops.

17. Upon receipt of this audit report ECA will close the project and refund to the CEC an unspent balance of \$167,102.

Programme support costs

18. ECA levied programme support costs at a rate of 8.73 per cent, which was higher than the ceiling limit rate of seven percent recommended in clause four of the Financial and Administrative Framework Agreement between the European Community, represented by the CEC, and the United Nations signed in 2003. Accordingly, programme support costs were overstated by a total of \$12,441, which has to be refunded to the CEC.

Recommendation 2

(2) The ECA Administration should refund to the Commission of the European Communities (CEC) \$12,441 representing the excess charge for computing programme support costs at 8.73 percent instead of 7 percent as stated in the Financial and Administrative Framework Agreement between the CEC and the United Nations.

19. *ECA accepted recommendation 2 and stated that it will be implemented by 31 December 2007.* Recommendation 2 remains open pending receipt of documentation from ECA indicating that the amount of \$12,441 has been refunded to CEC.

C. Terms of agreement between the European Commission and ECA

20. Although not directly related to the projects under review, OIOS noted that the clause in the Financing Agreement for the projects, which dealt with settlement of disputes, was not in accordance with the corresponding clause in the Financial and Administrative Agreement. The Financing Agreement states that disputes will be resolved in accordance with Article 352 of the revised Fourth Lomé Convention whereas the Financial and Administrative Framework Agreement states that such matters will be dealt with in accordance with the Permanent Court of Arbitration Optional Rules for Arbitration involving International Organizations and States. Although no issues arose as a result of this, OIOS is of the opinion that the correct legal framework, i.e. the Financial and Administrative Framework Agreement, should be used.

Recommendation 3

VI. The ECA Administration should ensure that project agreements signed with the European Community, represented by the Commission of the European Communities, have terms/clauses that are consistent with the Financial and Administrative Framework Agreement.

21. *ECA accepted recommendation 3 but did not indicate a timetable for implementation.* Recommendation 3 remains open pending receipt of a copy of an approved template for project agreements between the CEC and ECA, which has terms/clauses that are consistent with the Financial and Administrative Framework Agreement.

VI. ACKNOWLEDGEMENT

22. 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.

Cc: Mr. Swatantra Goolsarran, Executive Secretary, UN Board of Auditors
Mr. Jonathan Childerley, Chief, Oversight Support Unit, Department of Management
Mr. Byung-Kun Min, Programme Officer, OIOS
Mr. Abraham Indieka, Chief, Finance Section, ECA
Mr. Christopher Bagot, Acting Chief, Nairobi Audit Service, OIOS

CONTACT INFORMATION:**DIRECTOR:**

Dagfinn Knutsen, Tel: +1.212.963.5650, Fax: +1.212.963.2185,
e-mail: knutsen2@un.org

DEPUTY DIRECTOR:

Fatoumata Ndiaye: Tel: +1.212.963.5648, Fax: +1.212.963.3388,
e-mail: ndiaye@un.org

CHIEF, NAIROBI AUDIT SERVICE:

Christopher Bagot: Tel: +254.20.762.4097, Fax: +254.20.762.4125,
e-mail: christopher.bagot@unon.org

STATUS OF AUDIT RECOMMENDATIONS

Recom. no.	C/ O¹	Actions needed to close recommendation	Implementation date²
1		Receipt of documentation indicating that the amount of \$5,038 has been refunded to the Commission of the European Communities.	31 December 2007
2		Receipt of documentation indicating that the amount of \$12,441 has been refunded to the Commission of the European Communities.	31 December 2007
3		Receipt of a copy of an approved template for project agreements between the CEC and ECA, which has terms/clauses that are consistent with the Financial and Administrative Framework Agreement.	Not provided

1. C = closed, O = open

2. Date provided by ECA in response to recommendations.