



## **INTERNAL AUDIT DIVISION**

### **REPORT 2018/113**

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**Audit of financial reporting for the  
United Nations Conference on Trade  
and Development's Programme on  
Strengthening Institutions and  
Capacities in Competition and  
Consumer Protection Policies**

**Controls over financial reporting were  
adequate but efficiency could be improved  
by ensuring that the design of financial  
reports is aligned to the approved budget  
and donor reporting requirements**

**21 November 2018  
Assignment No. AE2018/340/03**

# **Audit of financial reporting for the United Nations Conference on Trade and Development's Programme on Strengthening Institutions and Capacities in Competition and Consumer Protection Policies**

## **EXECUTIVE SUMMARY**

The Office of Internal Oversight Services (OIOS) conducted an audit of financial reporting for the United Nations Conference on Trade and Development's (UNCTAD) Programme on Strengthening Institutions and Capacities in Competition and Consumer Protection Policies (COMPAL Programme). The objective of the audit was to assess: (a) the adequacy of the financial accounting and reporting systems for the third phase of the COMPAL Programme (COMPAL III); and (b) whether the final financial report for COMPAL III was accurate and correctly extracted from the underlying financial systems. The audit covered the duration of COMPAL III from February 2015 to 31 August 2018 and included a review of the financial accounting and reporting systems for COMPAL III, accuracy of the final financial report and validity of a sample of expenditures.

The audit showed that controls over financial accounting and reporting were adequate. The final financial report for COMPAL III extracted from the underlying financial systems was accurate and expenditures were matched to project objectives and adequately supported by the required approvals and documentation. However, the efficiency of the reporting process could be improved.

OIOS made two recommendations. To address issues identified in the audit, UNCTAD needed to:

- Ensure that the design of project/programme financial reports is aligned with the format of the approved budget and, where possible, with the donor's reporting requirements; and
- Ensure that sufficient supporting details are maintained for the portion of budgets to be funded from other sources that are included in the approved budget figures agreed with the donor.

UNCTAD accepted the recommendations and has initiated action to implement them.

# CONTENTS

	<i>Page</i>
I. BACKGROUND	1-2
II. AUDIT OBJECTIVE, SCOPE AND METHODOLOGY	2
III. AUDIT RESULTS	2-4
IV. ACKNOWLEDGEMENT	5
ANNEX I      Status of audit recommendations	
APPENDIX I   Management response	

# Audit of financial reporting for the United Nations Conference on Trade and Development's Programme on Strengthening Institutions and Capacities in Competition and Consumer Protection Policies

## I. BACKGROUND

1. The Office of Internal Oversight Services (OIOS) conducted an audit of financial reporting for the United Nations Conference on Trade and Development's (UNCTAD) Programme on Strengthening Institutions and Capacities in Competition and Consumer Protection Policies (COMPAL Programme).

2. The main objective of the COMPAL Programme was to promote sustainable competition and consumer protection systems by strengthening the relevant institutions and fostering a better understanding of the benefits of competition in 15 beneficiary countries in Latin America. The Programme was funded by the Swiss Confederation State Secretariat for Economic Affairs (SECO) and implemented by the UNCTAD Competition and Consumer Policies Branch. After two successful phases of the COMPAL Programme (phase one from 2005 to 2008 and phase two from 2009 to 2015) the third phase (COMPAL III), which is the subject of this audit, was implemented as an exit phase to allow for the continuation of the programme in a self-sustained and self-financed manner after SECO support to the programme is concluded.

3. COMPAL III focused on two strategies of intervention: (i) consolidation of the acquired capacities and deepening of regional cooperation; and (ii) support and compliance with competition and consumer protection rules by the private sector. It was implemented from February 2015 to August 2018. The overall budget of COMPAL III was \$2,466,050 of which \$1,791,050 was to be financed by SECO and the rest (\$675,000) relating to local costs of activities was to be funded by beneficiary countries. The actual expenditure of COMPAL III according to the final financial report was \$1,773,511.43 as shown in Table 1.

**Table 1: Final income and expenditure report for COMPAL III from February 2015 to August 2018**

<b>Income</b>	<b>Amount in US dollars</b>
Contribution for 2015	500,000.00
Contribution for 2016	791,050.00
Contribution for 2017	500,000.00
Interest	15,393.51
Other Adjustments	2,893.92
<b>Total Income</b>	<b>1,809,337.43</b>
<b>Expenditure</b>	
Staff Personnel	748,367.16
Contract Service	150,906.38
Travel	398,213.33
Operating and Other Costs	271,992.17
Programme support	204,032.39
<b>Total Expenditure</b>	<b>1,773,511.43</b>
<b>Fund Balance</b>	<b>35,826.00</b>

4. COMPAL III was managed by a P-2 Associate Legal Officer who reported to the Chief of Capacity Building and Advisory Services in the Competition and Consumer Policies Branch of UNCTAD.

5. Comments provided by UNCTAD are incorporated in italics.

## **II. AUDIT OBJECTIVE, SCOPE AND METHODOLOGY**

6. The objective of the audit was to assess: (a) the adequacy of the financial accounting and reporting systems for COMPAL III; and (b) whether the final financial report for COMPAL III was accurate and correctly extracted from the underlying financial systems.

7. This audit was included in the 2018 risk-based work plan of OIOS at the request of UNCTAD pursuant to article III of the Trust Fund Agreement between UNCTAD and SECO (the Donor Agreement) which required internal audit to certify the accuracy of the final financial report.

8. OIOS conducted this audit in October and November 2018. The audit covered the duration of COMPAL III from February 2015 to 31 August 2018. The audit reviewed the financial accounting and reporting systems for COMPAL III including: (a) the system put in place to track and account for income and expenditure relating to COMPAL III; (b) accuracy of the final financial report as extracted from underlying records; and (c) validity of a sample of COMPAL III expenditures to establish whether they were relevant to approved project activities, were appropriately certified and approved, and were adequately supported.

9. Since OIOS had reviewed the management of the COMPAL programme in a previous audit in 2016 (Report 2016/041), the current audit did not review programme/project management issues.

10. The audit methodology included: (a) interviews with key personnel; (b) reviews of relevant documentation; (c) analytical reviews of data; and (d) sample testing.

11. The audit was conducted in accordance with the International Standards for the Professional Practice of Internal Auditing.

## **III. AUDIT RESULTS**

### An appropriate system was in place to track and account for income and expenditures of COMPAL III

12. UNCTAD had established a separate ledger account for COMPAL III. The project income and expenditures were accounted for using the grant code S1-32TXB-000138 and coding block SB-002959.01 in Umoja. Prior to implementation of Umoja in November 2015, UNCTAD maintained separate COMPAL III accounts in the Integrated Management Information System (IMIS), which was the Organization's legacy system before the implementation of Umoja. An official receipt was issued for the income received each year as required, and the total amount received was accurately posted in the COMPAL III grant account. In accordance with established practices at the United Nations Secretariat, the COMPAL III funds were maintained in a pool and managed by the United Nations Treasury. OIOS verified that the proportion of interest income associated with COMPAL III funds were posted to the COMPAL III grant account. The total interest income earned from COMPAL III funds was \$15,393 and is included in the outstanding fund balance of \$35,826 which UNCTAD plans to refund to the donor in accordance with the terms of the Donor Agreement.

### The final financial report was accurate and correctly extracted from underlying records

13. Since the United Nations changed its accounting system from IMIS to Umoja in November 2015, COMPAL expenditures were accounted for in the two systems. OIOS obtained extracts of COMPAL III expenditures from Umoja and IMIS and for each expenditure category verified that the expenditures from

the two systems were correctly aggregated and reflected in the final financial report. OIOS also verified that the funds received were correctly posted to the grant account and that the final fund balance of \$35,826 matched the trial balance extracted from Umoja. Further, OIOS confirmed that the final financial report was arithmetically accurate and that the total expenditure incurred was within the approved project budget. As required by the Donor Agreement, at the time of the audit, UNCTAD had already submitted to the donor a final financial compilation for COMPAL III which displayed the aggregate expenditure at the activity level (activity level financial report). This report showed a total expenditure of \$1,777,208 which is slightly higher (by \$3,697) than the total expenditure of \$1,773,511 in the final financial report reviewed by OIOS. The difference of \$3,697 arose from the final closure of obligations which was done after the project manager had prepared and submitted the activity level financial report.

The format of the financial reports and budgets were not aligned

14. There were two versions of approved project budgets in annex III of the Donor Agreement. One was a summary budget by major outputs and the second was a detailed activity level budget. No budget was prepared by expenditure category. However, the accounting systems (Umoja and IMIS) were designed to account for expenditure by category and not by activity. The final financial report reviewed by OIOS could therefore not be compared to the budget to determine whether there were budget variations at the expenditure level. At the planning stage, UNCTAD should have ensured that the format of the approved budget was aligned to the format of the financial reports to be generated from the accounting system to facilitate budget monitoring. Further, the Donor Agreement required the Project Manager to submit activity level financial reports annually. OIOS was informed that the project manager designed separate systems and mechanisms that were used to compile the financial information at activity level, based on information from Umoja. This was inefficient and increased the risk of error. UNCTAD Finance Section indicated that Umoja has the capability to generate activity level financial reports and this was already being done for the United Nations Development Account projects. In future, it is essential that project managers liaise with the Finance Section to ensure that financial reports are generated in the format required by donors, where possible, to enhance the efficiency of the reporting process and minimize the risk of error.

**(1) UNCTAD should ensure that the design of project/programme financial reports is aligned with the format of the approved budget and, where possible, with the donor's reporting requirements.**

*UNCTAD accepted recommendation 1 and stated that it will explore possibilities within Umoja for the implementation of this recommendation. Recommendation 1 remains open pending receipt of evidence that appropriate arrangements have been incorporated in the project planning processes for project managers to consult with the Finance Section and ensure that the design of project financial reports is aligned with the approved budget and, where possible, donor reporting requirements.*

Need to maintain documentation to support the portion of budgets to be funded from other sources

15. The overall COMPAL III approved budget incorporated in the Donor Agreement was \$2,466,050 which included \$675,000 to be funded by the beneficiary countries. The \$675,000 budget was further broken down by activity, similar to the portion of the budget that was to be funded by SECO. For each activity, there was a portion of the budget to be financed by SECO and a portion to be financed by the beneficiary countries. However, there was no documentation of how the budget estimates to be financed by the beneficiary countries were derived, and what exactly was to be funded by the beneficiary countries and SECO under each activity. Maintaining clear documentation on the basis for the budgeted figures for each activity would have helped reviewers (certifying officers, approving officers or OIOS) to ensure that there was no overlap in the funding of expenditures and that the donor funds entrusted to UNCTAD were not used to pay for expenditures that should be met by beneficiary countries. For the future, UNCTAD

needs to ensure that adequate details are maintained to support all the budget figures (including those to be funded from other sources) in the approved budget included in the agreement with the Donor.

**(2) UNCTAD should ensure that adequate supporting details are maintained for the portion of budgets to be funded from other sources that are included in the approved budget figures agreed with the Donor.**

*UNCTAD accepted recommendation 2.* Recommendation 2 remains open pending receipt of evidence that appropriate measures have been incorporated in the project planning process to ensure that adequate supporting details are maintained for the portion of budgets to be funded from other sources that are included in the approved budget figures agreed with donors.

Expenditures were matched to project objectives and outputs and were adequately supported

16. OIOS selected a sample of expenditures from each expense category and checked to ensure they related to approved project activities and were supported by appropriate approvals and documentation. No significant exceptions were noted as discussed below.

- The total staff costs of \$748,367 reported in the final financial report included \$584,000 relating to the cost of a P-2 project manager and a P-3 staff member who worked on the knowledge management platform. OIOS reviewed the job descriptions and terms of reference of the staff members and confirmed that they were working for COMPAL III. The rest of the staff costs (\$164,367) related to consultants which OIOS reviewed on a sample basis, as explained below.
- OIOS reviewed 28 payments to consultants and noted that the consultancies related to COMPAL III activities such as conducting research, production of a guide, and designing, preparing and evaluating tailor-made courses. All the payments were in accordance with approved project objectives and were supported by formal contracts and evidence of work done.
- OIOS reviewed a sample of 56 travel requests and noted that all the travel requests were duly certified and authorized by designated officers, were consistent with project objectives, and were supported by mission reports. Only two of the travel requests reviewed were not raised 21 days before travel. This was because the final list of participants for the events was not received in time. The reasons for delays in raising the travel requests were documented and attached to the travel requests in Umoja, as required.
- OIOS also reviewed a sample of 17 disbursements classified as “other costs”. The disbursements included payments for venues of workshops, catering services and printing costs; they were duly authorized and related to approved COMPAL III activities.
- OIOS verified that project support costs were correctly provided for at 13 per cent of the total expenditure of the project, as stipulated in the Donor Agreement.

17. Based on the above, OIOS concluded that expenditures matched with approved project activities and were adequately supported by the required approvals and documentation.

#### **IV. ACKNOWLEDGEMENT**

18. OIOS wishes to express its appreciation to the management and staff of UNCTAD for the assistance and cooperation extended to the auditors during this assignment.

*(Signed)* Eleanor T. Burns  
Director, Internal Audit Division  
Office of Internal Oversight Services



## STATUS OF AUDIT RECOMMENDATIONS

**Audit of financial reporting for the United Nations Conference on Trade and Development's  
Programme on Strengthening Institutions and Capacities in Competition and Consumer Protection Policies**

<b>Rec. no.</b>	<b>Recommendation</b>	<b>Critical<sup>1</sup>/ Important<sup>2</sup></b>	<b>C/ O<sup>3</sup></b>	<b>Actions needed to close recommendation</b>	<b>Implementation date<sup>4</sup></b>
1	UNCTAD should ensure that the design of project/programme financial reports is aligned with the format of the approved budget and, where possible, with the donor's reporting requirements.	Important	O	Receipt of evidence that appropriate arrangements have been incorporated in the project planning processes for project managers to consult with the Finance Section and ensure that the design of project financial reports is aligned with the approved budget and, where possible, donor reporting requirements.	30 June 2019
2	UNCTAD should ensure that adequate supporting details are maintained for the portion of budgets to be funded from other sources that are included in the approved budget figures agreed with the Donor.	Important	O	Receipt of evidence that appropriate measures have been incorporated in the project planning process to ensure that adequate supporting details are maintained for the portion of budgets to be funded from other sources that are included in the approved budget figures agreed with donors.	30 June 2019

<sup>1</sup> Critical recommendations address critical and/or pervasive deficiencies in governance, risk management or control processes, such that reasonable assurance cannot be provided with regard to the achievement of control and/or business objectives under review.

<sup>2</sup> Important recommendations address important (but not critical or pervasive) deficiencies in governance, risk management or control processes, such that reasonable assurance may be at risk regarding the achievement of control and/or business objectives under review.

<sup>3</sup> C = closed, O = open

<sup>4</sup> Date provided by UNCTAD in response to recommendations.

# **APPENDIX I**

## **Management Response**

## Management Response

**Audit of financial reporting for the United Nations Conference on Trade and Development's Programme on Strengthening Institutions and Capacities in Competition and Consumer Protection Policies**

<b>Rec. no.</b>	<b>Recommendation</b>	<b>Critical<sup>1</sup>/ Important<sup>2</sup></b>	<b>Accepted? (Yes/No)</b>	<b>Title of responsible individual</b>	<b>Implementation date</b>	<b>Client comments</b>
1	UNCTAD should ensure that the design of project/programme financial reports is aligned with the format of the approved budget and, where possible, with the donor's reporting requirements.	Important	Yes	Chief, Budget and Project Finance Section	30 June 2019	UNCTAD will explore possibilities within UMOJA for the implementation of this recommendation.
2	UNCTAD should ensure that adequate supporting details are maintained for the portion of budgets to be funded from other sources that are included in the approved budget figures agreed with the Donor.	Important	Yes	Chief, Budget and Project Finance Section	30 June 2019	

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<sup>2</sup> Important recommendations address important (but not critical or pervasive) deficiencies in governance, risk management or control processes, such that reasonable assurance may be at risk regarding the achievement of control and/or business objectives under review.