



AUDIT

OF

UNDP COUNTRY OFFICE

IN

BENIN

Report No. 1015
Issue Date: 21 December 2012



LIST OF ACRONYMS

CCA	Common Country Assessment
HACT	Harmonized Approach to Cash Transfers
LEPI	Liste Electorale Permanente et Informatisée
LTA	Long Term Agreement
POPP	Programme and Operations Policies and Procedures
UNDAF	United Nations Development Assistance Framework

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Report on the audit of UNDP Benin Executive Summary

From 19 June to 2 July 2012, the Office of Audit and Investigations (OAI) of the United Nations Development Programme (UNDP) conducted an audit of UNDP Country Office in Benin (the Office). The audit covered the activities of the Office during the period from 1 January 2011 to 31 March 2012. During the period reviewed, the Office recorded programme and management expenditures totaling \$30.4 million. The last audit of the Office was conducted by OAI in 2006.

The audit was conducted in conformance with the *International Standards for the Professional Practice of Internal Auditing*. These Standards require that OAI plans and performs the audit to obtain reasonable assurance on the adequacy and effectiveness of the governance, risk management, and control processes. The audit includes reviewing and analysing, on a test basis, information that provides the basis for our conclusions.

Audit rating

OAI assessed the Office as **satisfactory**, which means “Internal controls, governance and risk management processes were adequately established and functioning well. No issues were identified that may negatively affect the achievement of the objectives of the audited entity.” This rating was given despite certain weaknesses in project management and in operations, as none of the issues identified was considered critical and as corrective actions were already being undertaken. Ratings per audit area and sub-areas are summarized below.

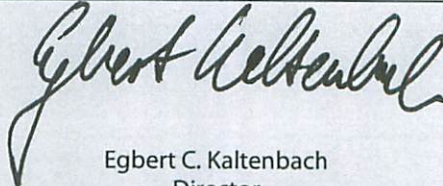
Audit Areas	Not Assessed/ Not Applicable	Unsatisfactory	Partially Satisfactory	Satisfactory
1. Governance and strategic management				
2. United Nations system coordination				
2.1 Development activities	Satisfactory			
2.2 Resident Coordinator Office	Satisfactory			
2.3 Role of UNDP – “One UN”	Satisfactory			
2.4 Harmonized Approach to Cash Transfers	Satisfactory			
3. Programme activities				
3.1 Programme management	Satisfactory			
3.2 Partnerships and resource mobilization	Satisfactory			
3.3 Project management	Partially Satisfactory			
4. Operations				
4.1 Human resources	Partially Satisfactory			
4.2 Finance	Partially Satisfactory			
4.3 Procurement	Partially Satisfactory			
4.4 Information and communication technology	Satisfactory			
4.5 Asset management & general administration	Satisfactory			
4.6 Safety and Security	Partially Satisfactory			

Key issues and recommendations

The audit raised seven issues. There are five recommendations, all of which were ranked medium (important) priority, which means “Action is required to ensure that UNDP is not exposed to significant risks. Failure to take action could result in negative consequences for UNDP.” These recommendations include actions to strengthen vendor creation and monitoring, and management of salary advances, and to ensure timely renewal of service contracts.

Management's comments

The Resident Representative accepted all the audit recommendations made and has started implementing them.

A handwritten signature in black ink, reading 'Egbert C. Kaltenbach', is enclosed in a rectangular box. Below the signature, the name and title are printed in a sans-serif font.

Egbert C. Kaltenbach
Director
Office of Audit and Investigations

I. Introduction

From 19 June to 2 July 2012, OAI conducted an audit of UNDP Benin. The audit was conducted in conformance with the *International Standards for the Professional Practice of Internal Auditing*. These Standards require that OAI plan and perform the audit to obtain reasonable assurance on the adequacy and effectiveness of the governance, risk management, and control processes. The audit includes reviewing and analysing, on a test basis, information that provides the basis for our conclusions.

Audit scope and objectives

OAI's audits assess the adequacy and effectiveness of the governance, risk management, and control processes in order to provide reasonable assurance to the Administrator regarding the reliability and integrity of financial and operational information, effectiveness and efficiency of operations, safeguarding of assets, and compliance with legislative mandates, regulations and rules, policies and procedures. They also aim to assist the management of the Office and other relevant business units in continuously improving governance, risk management, and control processes.

Specifically, this audit reviewed the following areas of the Office - governance and strategic management, United Nations system coordination, programme activities, and operations. The audit covered relevant activities during the period from 1 January 2011 to 31 March 2012. During the period reviewed, the Office recorded programme and management expenditures totaling \$30.4 million. The last audit of the Office was conducted by OAI in 2006.

II. About the Office

The Office, located in Cotonou, Benin (the Country) has been a Delivering as One self-starter since 2010. The most extensive programme in 2011 was the Elections programme [Liste Electorale Permanence et Informatisée (LEPI)], which was directly implemented by the Office. The Office had 35 staff members, comprising 5 international and 30 national staff, of which 8 were National Officers.

The Country in West Africa has an estimated population of 9.2 million, of which more than 60 percent live in rural areas. It became independent in 1960; since 1990, when it became a pluralistic democracy, it has not experienced political conflict.

The Country's Human Development Index (HDI) was 0.427 (2011), which gives it a rank of 167 out of 187 countries and places it below the regional average in Sub-Saharan Africa. The Country's economy has experienced modest growth, estimated at 3 percent in 2011; this trend is expected to continue, with projected growth rates of more than 4 percent in 2012 and 2013. The economy was mainly dependent on subsistence agriculture, cotton and regional trade. Insufficient electricity supply and weather-related phenomena such as floods affect economic growth. Basic social services and youth employment represent major challenges for the Government in its efforts to improve the living conditions.

III. Detailed assessment

1. Governance and strategic management

Satisfactory

OAI reviewed management strategies, the balanced scorecard, the Office's organigramme, the management plan, internal reporting lines, and delegation of authority.

The 2011 integrated work plan was developed in a participatory and consultative manner, involving both Programme and Operations sections of the Office. The 2010 Global Staff Survey results were within and/or above UNDP average results. Senior management maintained close consultation and constructive coordination with the local Staff Association.

OAI reviewed the extra budgetary reserves and noted that the Office was adequately managing them. At the end of December 2011, the Office held reserves equivalent to 29 months.

As no reportable issues were identified, this area was assessed as satisfactory.

2. United Nations system coordination

Satisfactory

The Country is a Delivering as One self-starter. The following United Nations agencies participate in the Delivering as One initiative: FAO, ILO, IMF, UNAIDS, UNDP, UNFPA, UNHCR, UNICEF, WFP and WHO. IMF and the World Bank are also part of Delivering as One.

Four joint projects were implemented by the United Nations agencies: Arts et Métiers Femme (award ID 00048938), Décentralisation Sécurisation Alimentation and PA3D Développement Local (award ID 00056912), Coordination et Suivi UNDAF 20 (award ID 00061735).

2.1 Development activities

Satisfactory

The current Common Country Assessment (CCA) covers the period 2009 to 2013. The process of developing the next CCA (2014-2018) has started and a first draft was produced. The United Nations Development Assistance Framework (UNDAF) also covers 2009-2013, and preparation of the next UNDAF (2014-2018) has also been initiated. Since the United Nations agencies are engaged in the One UN framework, the 2014-2018 UNDAF will include an UNDAF Action Plan and One Programme.

There were eight thematic groups, each headed by a representative from one of the United Nations agencies. The thematic groups were: Crises and natural disasters (headed by UNDP), Gender and human rights (UNDP), Programme committee (UNDP), Operation management team (WFP), Health (WHO), Social protection (UNICEF), Information and communication (UNICEF), Food security (FAO) and HIV/AIDS (UNAIDS). The thematic groups were all active and meetings were held regularly.

As no reportable issues were identified, this section was rated as satisfactory.

2.2 Resident Coordinator Office

Satisfactory

The UNDP Resident Representative was the United Nations Resident Coordinator. The United Nations Country Team held monthly meetings and additional ad-hoc meetings, as needed.

The Resident Coordination Team consisted of a Coordination Specialist (National Officer– NO-C), a Communications Analyst (NO-B) and a Coordination Assistant (General Service -GS5).

As no reportable issues were identified, this section was rated as satisfactory.

2.3 Role of UNDP - “One UN”

Satisfactory

As mentioned, the Country has been a Delivering as One self-starter since 2010. The main aspects of the One UN have not yet been implemented among the United Nations agencies, but steps have been taken to realize the Delivering as One framework. Under the leadership of the UN Resident Coordinator, all United Nations agencies signed a memorandum of understanding which laid down the principles, objectives and timeline to implement the One UN agenda.

The Government has donated land to the United Nations to construct a UN House. An architectural firm has been appointed to design and construct the house.

The new UNDAF process, led by the Office, will come into effect in 2014; the UNDAF 2014-2018 will include the aspects of One Programme through the UNDAF Action Plan, which will create a platform for United Nations agencies to adopt a harmonized and coherent approach to development. This will also include One Budget.

A communication strategy has been developed in order to facilitate coherent and harmonized external communication by the United Nations agencies.

UNDP was actively collaborating with other United Nations agencies participating in the Delivering as One initiative. The Office was chairing three thematic groups, and was also active in the United Nations Country Team (UNCT).

As no reportable issues were identified, this section was rated as satisfactory.

2.4 Harmonized Approach to Cash Transfers

Satisfactory

The Office has utilized the Harmonized Approach to Cash Transfers (HACT) since 2009. A macro assessment was prepared together with the current CCA, and a new macro assessment is planned for the new CCA (2014-2018). Micro assessments have been conducted of the implementing partners receiving funding through the HACT mechanism.

During the audit, OAI noted weaknesses in the assurance mechanisms, specifically regarding field visits and spot checks for the implementing partners receiving funds under the HACT modality. The Office agreed to implement HACT spot checks during future field visits.

As no other issues were identified, this section was rated as “satisfactory”.

3. Programme activities

Satisfactory

3.1 Programme management

Satisfactory

The Country Programme document (2009-2013) was approved by the Executive Board during its session in June 2008. Two main outcomes were identified: (a) Poverty reduction and sustainable development, and (b) Promotion of good governance and participatory development. A Country Programme Action Plan was also

developed and approved by the Government. In June 2011, the Office completed the Country Programme Action Plan mid-term review. The resource mobilization target was \$50 million.

The Office conducted reviews of its major programmes with the Government main counterparts on a yearly and quarterly basis.

As no reportable issues were identified, this area was assessed as satisfactory.

3.2 Partnerships and resource mobilization

Satisfactory

The Office's main donor was the Government, which provided cost-sharing funds to most programmes, with a total contribution of \$73.4 million. Other major donors included the European Union (\$17.2 million); Japan (\$9 million), The Netherlands (\$5.8 million), Denmark (\$4.54 million) and Belgium (\$4.44 million).

Most of the contributions were for the Elections programmes [Liste Electorale Permanente et Informatisée (LEPI), Award ID 00050805, and Appui aux Elections 2011: Award ID 00061139] with a total of \$58.2 million.

The audit team met with major donors and sent questionnaires to all partners, including the Government and United Nations agencies.

While all donors expressed satisfaction with the role of UNDP and its programmes, one donor felt a need to further improve coordination between UNDP and its donors.

As no reportable issues were identified, this audit area was assessed as satisfactory.

3.3 Project management

Partially Satisfactory

The Office was implementing 62 projects with a total budget of \$178.5 million and total expenditures of \$25.4 million in 2011. There were 22 projects directly implemented (DIM) by the Office with a total budget of \$72.2 million and total expenditures of \$16.7 million.

Programme budget and delivery were as follows:

(In \$'000)	2010	2011	2012 (Jun12)
Programme Budget	42,874	27,092	23,729
Total Programme Expenditures	41,752	25,477	9,028
Regular Resources Expenditures	4,928	4,214	2,143
Other Resources Expenditures	36,824	21,264	6,886

Source: Atlas snapshot (July2012)

In October 2011, OAI commissioned a financial audit and a review of the internal controls and systems of the Office's largest project, "Projet d'Appui pour la Réalisation de Liste Electorale Permanente Informatisée – LEPI" (Project Nos. 00062922, 00071861, 00071945, 00072676, 00072723, 00073863, 0074172, 00075471, 00076004, 00076459, 00076761, and 00077455). The project was directly implemented by the Office and incurred total expenditures of \$51 million, of which \$16.3 million were spent in 2011. The audit resulted in an overall rating of "satisfactory", which meant that internal controls, governance and risk management processes, as applicable to the project, were adequately established and functioning well.

The audit team assessed project document structure, appraisal, approval, monitoring and evaluation, annual reporting, the lessons learned log, and donor reporting.

Six projects were reviewed, representing a total delivery of \$7.5 million or 51 percent of the Office delivery (excluding LEPI project).

1. "Hydraulique Villageoise" (Award ID00051397)
2. "Gouvernance Concertée 2009" (Award ID 00046023)
3. "Appui au Programme 2009-2013" (Award ID 00056916)
4. "Appui au Renforcement des Capacites Institutionnelles du Centre de Perfectionnement aux Action post-confliktuelles de déminage et de dépollution" (Award ID 00059407)
5. "Appui aux Elections de 2011" (Award ID 00061139)
6. "Projet Villages du Millénaire" (Award ID 00061195)

Overall, OAI noted that controls were in place for project monitoring. Progress reports were completed on a quarterly basis, annual project reports were prepared, and annual project reviews were being done systematically. The audit team met with major implementing partners and Government counterparts who expressed satisfaction with and appreciation of UNDP's programmes and results achieved.

One issue, which was addressed by the Office during the audit, was related to managing advances to nationally implemented projects. The Programme and Operations Policies and Procedures (POPP) states that "advances are made for a three-month period or less depending on the needs of the programme or project, according to the envisaged activities agreed in the Annual Work Plan. Where there are long outstanding advances to an implementing partner, then no new advances may be issued to the partner even for a new project." OAI noted that: (a) advances of funds were processed before clearing outstanding advances, (b) in several cases, two or three advances were processed although no financial reports had been submitted for previous advances, and (c) some advances were made for small amounts per activity, thus creating additional transaction costs. The Office took immediate action to address the issue, requesting all staff to discontinue the practice of initiating advances without ensuring that the financial reports along with the supporting documents are reviewed and cleared.

Furthermore, OAI noted the following weaknesses in project monitoring:

(a) Atlas issue and risk logs inadequately maintained

For each project, Atlas issue and risk logs need to be maintained and managed on a regular basis. However, for three out of the six projects selected, no Atlas issue and risk logs were maintained. Without proper risk management practices in place, issues may not be noticed or addressed until they evolve into major problems, thereby affecting delivery or the credibility of the Office. The Office indicated that although risks and issues were not regularly updated in Atlas, project staff did effectively manage risks and issues outside the system and during steering committee meetings. The Office agreed to enforce the use of issue and risk logs in Atlas.

(b) Mandatory budget revisions not completed

POPP states that on the basis of the year-end combined delivery report, the Annual Work Plan shall serve as the annual budget revision while providing a realistic plan for the provision of inputs and the achievement of results for a given year. However, the Office did not complete the budget revisions and, as a result, some projects were showing deficits at the end of December 2011 (Projects: 35059, 32449, 75216, and 71861). The Office committed to ensure that the mandatory budget revisions are completed every year.

(c) Budget not reflective of agreed work plans

According to POPP, within the year and in the interest of sound financial management, budgets must be kept up to date and aligned with agreed plans in order to properly assess progress and performance. OAI noted that there were differences between the Annual Work Plan approved by the national counterparts and the budget available in Atlas. Thus, it was difficult to monitor project budgets generated from Atlas. Following the audit fieldwork, the Office acknowledged that there were some issues of synchronization between the standardized budget ID/codes and actual descriptions of activities and that this was a challenge. However, it had decided to incorporate the Atlas code corresponding to the respective activities in the Annual Work Plan.

(d) Inactive projects not closed in Atlas

The Bureau of Management requested all offices to financially close in Atlas all operationally closed projects in preparing for IPSAS (International Public Sector Accounting Standards) implementation, and as a follow up on the UN Board of Auditors recommendation. The audit found that out of 125 projects shown as open in Atlas at the time of the audit, 55 were inactive projects, including 44 projects, which had been inactive for two years (2010 and 2011). The Office indicated that most of the old projects had been financially closed but were re-opened temporarily upon request and approval by Headquarters to clear small outstanding balances. Subsequent to the audit mission, the Office financially closed 49 projects and operationally closed 10 additional projects (including six projects from 2011).

The Office recruited a Senior Monitoring and Evaluation Officer to ensure the effective use of Atlas in project monitoring.

As these issues have been resolved during and after the audit mission, OAI does not raise any recommendations.

4. Operations

Partially Satisfactory

4.1 Human resources

Partially Satisfactory

OAI reviewed the processes and documentation related to recruitment, separation from service, learning, career development as well as payroll, benefit and advances.

Two reportable issues were identified, related to service contract holders and to the management and approval of salary advances. This section has been rated partially satisfactory.

Issue 1 Service contracts not signed in a timely manner

According to the Service Contract User Guide (section 4.6 on Budget Planning), the budget planning and funds sufficiency checks must be carried out prior to the processing and approval of hiring and extension of all service contracts. If the service contract is to continue during a financial year beyond the initial contract period, UNDP Offices must ensure that budget provision is made and incorporated in the request for allotment for the relevant financial year.

In four out of six cases reviewed, service contracts were not signed up to three months after the individual had started working. The service contracts were only signed after the project Annual Work Plan was signed. The Annual Work Plan process was often delayed and, as a consequence, the individuals were working up to three months without a contract and were not paid pending signature of the Service Contract.

Individuals working for UNDP without a signed contract could face risks of unclear liabilities, with potential reputational risks for UNDP.

Priority

Medium (Important)

Recommendation 1:

The Office should ensure that the process of finalizing, approving and signing the Annual Work Plan is completed in a timely manner so that the service contracts can be signed (by both the Office and the individual contractors) before the individual contractors commence work.

Management Comments and Action Plan: Agreed Disagreed

Management pointed out that the audit observation relates to Service Contracts pertaining to NIM projects, which are issued by the Office on behalf of the projects and upon their request. Management stated that according to UNDP guidelines, Service Contracts are only issued when Annual Work Plans (AWPs) have been finalized and signed by UNDP. Although the Country Office tried to have the 2011 AWP finalized and signed, this did not occur because legislative and presidential elections took place at the beginning of the year. Unfortunately, due to delays in signing the AWP during 2012, the Country Office was not able to issue any contracts at the beginning of the year. However, based on the outcome of the 2010 and 2011 annual reviews and the project staff performance evaluations, there was a clear understanding between UNDP and the Government, that there were sufficient funds and that the projects would continue and contracts would be renewed. In addition, according to Management social security coverage was not interrupted, as payments are effected quarterly.

Management agreed that the Office will continue to take all necessary steps to ensure that the Annual Work Plans are finalized and signed in December so that Service Contracts are issued at the beginning of each year. The Office reported that all new AWP would be signed before end of 2012 and that a letter had been sent to the Ministry of Development for discussion during the UNDAF and Programme review.

The Office aims at implementing the audit recommendation by 31 December 2012.

Issue 2 Inadequate management of salary advances

According to POPP, the Head of Office may exceptionally authorize a salary advance to meet genuine urgent needs, like heavy expenses to repair a house, crime causing serious financial damage to staff members or funeral expenses. The emergency salary advance is limited to two months. The Head of Office can also at his/her discretion grant a special advance of up to one month for ad-hoc purposes.

At least 43 salary advances totaling more than \$250,000 were granted in 2011 and 2012, including to staff from other United Nations agencies. OAI reviewed 25 salary advances registered in the accounts 14020 (Salary Advances) and 14035 (Emergency Advances), which contain various types of advances (advances in case of approved absence; advances for major medical expenses; emergency advances; special advances). OAI noted that all of the advances reviewed were submitted and approved without documented justification on the purpose of the advance. As a result, it was not possible to ascertain that salary advances were granted for eligible purposes.

Many staff applied for salary advances at the beginning of the year. Since the process in place did not ensure that the salary advances were for eligible purposes, there was a risk that they were used as a staff benefit (i.e., an interest-free loan) rather than an exceptional measure addressing emergencies. With the large amount of salary advances approved (at least 36 persons were granted salary advances in 2011 and at least 28 persons were granted salary advances during January-March 2012), there were also risks regarding the timely recovery of salary advances, which creates financial risks for the Office.

Moreover, the Atlas accounts for salary advances (nos. 14020, 14035) were also used for other purposes. The accounts were regularly cleared of irrelevant transactions, and postings were often changed from account 14020

to account 14035 (or vice versa). Some salary advances that were posted on one account were reimbursed on the other account. Thus, it could not be ascertained if all salary advances were completely recovered due to the unorganized recording of transactions in the accounts.

Priority	Medium (Important)
Recommendation 2:	
<p>The Office should improve its management of staff salary advances by ensuring: (a) that all applications for salary advances are accompanied by proper justifications to support that they are to be used for eligible purposes; and (b) that the Atlas accounts for salary advances (nos. 14020, 14035) are used only for this purpose in order to be able to follow up on the advances made and ensure that they are timely recovered.</p>	
Management Comments and Action Plan: <input checked="" type="checkbox"/> Agreed <input type="checkbox"/> Disagreed	
<p>Management stated that the Office had to approve a number of salary advance requests in the last two years based on security threats, which were documented by at least two reports of the United Nations Department of Safety and Security. The advances were granted to staff members of UNDP and other UN agencies for eligible purposes and supported by appropriate documents.</p> <p>Furthermore, Management pointed out that a salary advance committee ensured that requests for salary advances are managed in accordance with guidelines and that the reasons for the requests are valid. The committee also verifies that the amount requested does not exceed the authorized limits; and ensures that the amount advanced will be recovered within 12 months or within the staff's contract period.</p> <p>Also, Management has advised staff members to continue providing appropriate justifications and supporting documents for all salary advance requests. The Office will ensure that the salary advance committee continues to rigorously review the requests and ensure that approved salary advances are used for eligible purposes and supported by appropriate documents.</p> <p>Regarding part (b) of the recommendation, Management pointed out that the Office monitors very closely the recoveries of salary advances through a reconciliation made between salary advances and payroll deductions. Management assured that accounts 14020 and 14035 were presently used only for salary advances and that the Office continued to ensure that the advances are timely recovered.</p> <p>Prior to the issuance of the audit report, the Office reported that a new circular was issued to ensure full respect of the policies in place</p>	

4.2 Finance

Partially Satisfactory

The Office processed 9,233 Accounts Payable vouchers from 1 January 2011 to 31 March 2012 totalling \$33 million. OAI selected a sample of 50 vouchers totalling \$5.8 million or 14 percent of all vouchers paid for review and testing. OAI examined other areas in finance including bank reconciliations, use of the chart of accounts and Atlas deposits.

OAI noted a minor issue which related to processing payments on behalf of other United Nations agencies (non-Atlas partners). The authorizing officer's name for one of the specialized agencies was not on the approved listing maintained by the Office and no specimen signature was available for validation purpose. The Office agreed to systematically verify authorizing officers against the approved signatory list and signature, and to reconfirm receipt of the payment instructions prior to processing payments on behalf of United Nations agencies.

Issue 3 Weaknesses in financial management

(a) Lack of segregation of duties

According to the Internal Control Framework, the staff member who prepares the bank reconciliation must not be a bank signatory nor have the authority to approve vendors in Atlas. Furthermore, the bank signatory must not be authorized to create deposits. OAI noted that the Finance Associate, who prepared the bank reconciliation, was also a bank signatory, approved vendors and created deposits in Atlas. The Office took corrective actions during the audit field work to address this issue. In addition, three instances were noted where a staff member approved payments for himself for less than \$2,000. The Office agreed to take appropriate corrective measures and will consider removing the approval rights of the staff member if such instances occur in the future.

(b) Duplicate payments

According to POPP, finance staff must take reasonable care to avoid duplicate vouchers by checking vendor records and by reviewing the accuracy of entry of the invoice prior to processing payments. OAI noted one case of duplicate payment (vouchers #37062 and #37724 were processed for the same vendor for \$1,074 each). Further review showed that two invoices were received and processed by the Office without further verification. The Office immediately contacted the vendor and obtained a credit memo for the second payment. OAI extended its analysis to all payments made to duplicate vendors and vendors with same bank accounts (discussed in the procurement section) in order to verify if other duplicate payments existed or if payments were made to wrong vendors. No other exceptions were found. The Office agreed to complete a more thorough review prior to processing payments.

(c) Delay in creating bank deposit in Atlas

The review of the 2011 and 2012 bank deposits showed that a total of 181 deposits were created in Atlas from five to 39 days after the date of the deposit. Some deposits were not immediately created in Atlas when the bank slips were received and some others were only created during the monthly bank reconciliation exercise. OAI noted that since May 2012, the Office has been receiving bank statement on a daily basis, and has been creating deposits identified in the bank statements or as soon as the slips are received.

(d) Insufficient follow-up on pending payments and outstanding cheques

According to POPP, in the event that a cheque is not collected within five days of issuance, it must be cancelled and reissued when required. Furthermore, it states that any cheques outstanding for clearance for two months or more must be followed up with the payee. If, upon investigation, it transpires that the cheque has been lost, the lost cheque procedure should be followed in order to cancel the cheque. As of 31 May 2012, the Office had about CFA 230 million (equivalent to \$460,000) of outstanding cheques and electronic fund transfers for over six to nine months comprised of: (a) cheques not picked up by the vendors; (b) cheques picked up but not cashed; (iii) payments processed in the pay cycle for the Small Grants Programme prior to receiving financial reports from NGOs, therefore, put on hold until such reports are received.

Due to upcoming changes in the banking nomenclature (account number changes), the Office has cancelled all outstanding cheques and electronic fund transfers, and has agreed to comply with the Internal Control Framework going forward.

As these issues have been resolved during and after the audit mission, OAI does not raise any recommendations.

4.3 Procurement

Partially Satisfactory

The Office issued 933 purchase orders amounting to approximately \$12 million during the period under review. OAI reviewed a sample of 50 purchase orders with a value of approximately \$2.6 million or 21 percent of all purchase orders. Seven individual contractors' files were also reviewed.

OAI noted two cases where contracts with cumulative contract values greater than \$30,000 (vendors #4346 and 31496), were not submitted to Contracts, Assets, and Procurement Committee for review and recommendation for approval. Subsequent to the audit mission, the Office signed Long Term Agreements (LTAs) with both vendors.

Issue 4 Weaknesses in procurement

(a) Failure to secure funding on commitments made

According to POPP, a commitment creates a legal obligation arising from a contract, agreement, or other form of undertaking by UNDP or based on a liability recognized by UNDP against the resources of the current year, in respect of UNDP programme activities, and the current budget period, in respect of the Institutional budget. Such commitments are represented in Atlas by purchase orders. Furthermore, it states that Business Units should make every effort to avoid cases, where purchase orders have not yet been issued by UNDP, however, the services have been rendered or the goods purchased and received.

OAI noted that when commitments were made through a legally binding contract, the Office did not immediately raise purchase orders to secure funding for the total contract amount. Rather, it created purchase orders only as and when milestones were reached and invoices were received. The Office explained that POs were not raised because the amounts related to the milestones were not known in advance, as these were unit price contracts, therefore purchase orders were raised only when invoices were received. However, further review by OAI showed that the milestone amounts were determined in the contracts signed with the vendor.

(b) Absence of Long Terms Agreements for frequently purchased goods and services

According to POPP, Long Term Agreements (LTAs) are a common practice to ensure a reliable source of supply for goods and services at the lowest price. The Office did not have any LTAs for recurring procurements (including for travel) and did not liaise with other United Nations agencies in the Country to determine if LTAs were in place for similar goods or services. The Office, however, stated that it had LTAs in previous years, but in 2011, the United Nations Country Team launched a procurement process in order to sign LTAs for the entire UN system for goods and services identified as critical.

As these issues have been resolved during and after the audit mission, OAI does not raise any recommendations.

Issue 5 Inadequate vendor management

The POPP requires effective and efficient vendor management to avoid duplicate payments and states that the buyer should: (a) review Atlas vendor records to avoid creating duplicates; (b) assemble complete and reliable supporting documentation; (c) accurately complete Atlas vendor records; and (d) file manual records for approved vendors.

OAI noted that a lack of oversight, when creating and approving vendors in Atlas, has led to an unreliable vendor database. As a result, the following issues were observed:

- (a) In 71 cases, duplicate vendors existed due to a lack of due diligence when creating and approving vendors in Atlas. For 14 of those vendors, there was no vendor form and no other supporting documentation.
- (b) In 132 cases, different vendors were sharing the same bank account. For seven of those vendors, there was no vendor form and no other supporting documentation. OAI did further testing to ensure that payments were not made to the wrong vendors, and no exception was found.
- (c) Vendor profiles in Atlas did not include relevant details on key personal or full vendor address and contact information.

During the field work, the vendor approval right was re-assigned from the Finance Unit to the General Administration and Service Center in order to maintain proper segregation of duties. However, formal induction or training had yet to be provided to at least one new staff member with approval rights.

Subsequent to the audit mission, the Office took corrective actions in order to update its vendor database; including site visit and requesting complete documentation prior to creating new vendors.

Inadequate vendor management may cause duplicate payments or payments to fictitious vendors.

Priority	Medium (Important)
Recommendation 3: The Office should strengthen its vendor creation and approval process by:	
<ul style="list-style-type: none"> (a) Updating the vendor profiles and including all the required contact details and information; (b) Ensuring complete supporting documentation prior to creating new vendors; (c) Deactivating all duplicate vendors and, prior to approving new vendors, ensuring that they do not already exist in the Atlas database; and (d) Providing induction or training course to staff involved in the vendor creation and approval process. 	
Management Comments and Action Plan: <input checked="" type="checkbox"/> Agreed <input type="checkbox"/> Disagreed	
<p>Management stated that the Office has requested vendors to provide updated information which is being used to update vendor data regularly. The Office is also obtaining complete supporting documentation prior to creating new vendors. In addition, the Office has developed a checklist with clear steps for vendor creation and approval, and instructed responsible staff to organize visits to vendor premises as necessary.</p> <p>According to Management, other actions completed by the Office include cleaning the Business Unit Vendors' list of duplicate vendors that can be verified in Atlas, and instructing concerned staff to submit monthly analyses and reports on the vendor database to management. The Office has also ensured that staff assigned to vendor creation are adequately trained, while those approving vendors have relevant experience. Also, staff responsible for creating and approving vendors will continue to receive regular training.</p> <p>Prior to the issuance of this report, the Office confirmed that it had updated all vendor profiles and would continue to do so on a regular basis. It added that the vendor creation process had been centralized and only trained staff members had the right to create vendors.</p>	

4.4 Information and communication technology

Satisfactory

OAI reviewed the management of the information technology and communication processes and resources, including related documentation.

A physical review of the information technology and communication facilities and equipment was conducted, and no issues were noted. An external back-up site exists at a UNDP project site approximately seven kilometres from the Office. The server data is transferred to the external site every month.

As no reportable issues were noted, this area was rated as satisfactory.

4.5 Asset management and general administration

Satisfactory

OAI reviewed the administration of the Office premises, travel management, vehicle management, asset and record management. The Office had 50 management assets at a total acquisition value of \$197,000 as per the 2011 year-end asset certification.

Issue 6 Weaknesses in asset management

The POPP requires offices to maintain complete and accurate records of all assets. It also requires that a physical inventory of assets is completed annually (at a minimum) by the Operations Management team and the results reconciled by finance/accounts to the property records to verify the current utilization and continued need for the asset.

The following weaknesses were noted:

- (a) Three vehicles purchased between 2008 and 2009 had never been included in the asset listing. Additionally, two vehicles more than five years old were used by the Office but were not included in the asset listing. These assets were identified during the 2011 year-end physical inventory in January 2012, but had yet to be included in the asset listing as of June 2012. Furthermore, one vehicle in the asset listing belonged to UNV, and should therefore not have been included. As a result, the beginning and ending inventories of the 2011 year-end asset certification were inaccurate.
- (b) Four assets valued at \$18,000, which had been removed from the asset listing as disposed, were still waiting to be sold or donated, one year after the recommendation by the Contracts, Assets, and Procurement Committee.

The Office has contacted the Office of Financial Resources Management at Headquarters in order to incorporate the three vehicles purchased between 2008 and 2009 into the asset listing. Subsequent to the audit mission the Office sold the items shown as disposed of and decided to sell the two vehicles that are more than five years old.

Priority	Medium (Important)
Recommendation 4:	
The Office should strengthen its asset management by:	
(a) Actively working with the Office of Financial Resources Management in order to incorporate all vehicles in use into the asset listing.	
(b) Randomly checking assets in use against the asset listing as part of the mid-term and year-end inventory verification in order to detect any assets in use but not included in the asset listing.	
(c) Undertaking disposal procedures in a timely manner prior to removing assets from the asset listing.	

Management Comments and Action Plan: Agreed Disagreed

Management stated that the Office;

- (a) Has been in touch with the Office of Financial Resources Management and is awaiting their assistance to exclude the UNV vehicle from the asset list; and
- (b) Systematically checks assets in use against the asset listing as part of the mid-term and year-end inventory verification to detect any assets in use but not included in the asset listing.
- (c) Undertake disposal procedures in a timely manner.

The Office further informed that assets were now being verified on a bi-annual basis.

4.6 Safety and Security

Partially Satisfactory

The UNDP Resident Representative was the United Nations Designated Official for safety and security in the Country. OAI reviewed the processes and documentation with regards to safety and security in the Office. A number of deficiencies were noted, as discussed below.

Issue 7 Physical security in need of reinforcement

UNDP country offices are expected to ensure the highest level of security for staff and property.

During the physical inspection of the Office compound, OAI noted that the security needed to be strengthened, as follows:

- (a) The road leading to the Office building had been closed for non-UN vehicles, but staff vehicles were still parked.
- (b) Vehicles were not physically inspected at the gate, and the stand-off between the parking and the building was not sufficient.
- (c) Motorbikes were parked inside the building.
- (d) The Office was in the process of acquiring land from the Government in order to construct a parking site for staff vehicles and to clear the compound of vehicles other than official vehicles.
- (e) Deficiencies were noted in relation to security processes at the visitors' entrance, as well as in the fire-fighting equipment and evacuation procedures.

The Office had a "Deficient level of compliance" rating on Physical Security in the latest MOSS (Minimum Operating Security Standards) Self-Assessment conducted in 2011.

A deficient level of physical security can result in injury, loss of assets and considerable physical and financial damage.

Priority	Medium (Important)
Recommendation 5:	
The Office should strengthen the physical security of the premises to ensure that staff members and property are well protected, particularly in the following areas:	
<ul style="list-style-type: none"> (a) Management of vehicles on the premises; (b) Inspection procedures at the gate and procedures related to accepting visitors to the building; (c) Fire-fighting equipment; and (d) Evacuation procedures. 	

Management Comments and Action Plan: Agreed Disagreed

Management stated that the Office is taking the necessary measures to reinforce security of the premises as reflected in the Security Risk Assessment approved by the Security Management Team. In this regard, as a result of the efforts of the Designated Official, the Government has allocated land for constructing a new building, which would resolve certain security concerns. Also, the Designated Official meets monthly with the National Security authorities, which has helped to strengthen security through the provision of police patrols.

According to Management, following negotiations with the Municipality and neighbors, the road on which the Office is located has been secured for the sole use of the United Nations. In addition, the Government and the Municipality have provided nearby parking spaces which are being upgraded. Once the parking spaces are available, vehicles will no longer be allowed to enter the road leading to the premises.

In addition, mirrors for car inspection are being acquired, and in the meantime, police officers posted at the entrance of the UN premises are filtering vehicle movements. Furthermore, a metal detector was recently installed, and a circular has been issued containing steps for screening incoming visitors at the gate. Also, a new company has been engaged to provide security services as the previous provider was not considered satisfactory.

The Office will continue to upgrade the security of its premises.

ANNEX I. Definitions of audit terms - Ratings and Priorities

A. AUDIT RATINGS

In providing the auditors' assessment, the Internal Audit Services of UNDP, UNFPA, UNICEF, and WFP use the following harmonized audit rating definitions. UNDP/OAI assesses the country office or audited HQ unit as a whole as well as the specific audit areas within the country office/HQ unit.

- **Satisfactory** 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. *(While all UNDP offices strive at continuously enhancing their controls, governance and risk management, it is expected that this top rating will only be achieved by a limited number of business units.)*
- **Partially Satisfactory** Internal controls, governance and risk management processes were generally established and functioning, but needed improvement. One or several issues were identified that may negatively affect the achievement of the objectives of the audited entity. *(A partially satisfactory rating describes an overall acceptable situation with a need for improvement in specific areas. It is expected that the majority of business units will fall into this rating category.)*
- **Unsatisfactory** Internal controls, governance and risk management processes were either not established or not functioning well. The issues were such that the achievement of the overall objectives of the audited entity could be seriously compromised. *(Given the environment UNDP operates in, it is unavoidable that a small number of business units with serious challenges will fall into this category.)*

B. PRIORITIES OF AUDIT RECOMMENDATIONS

The audit recommendations are categorized according to priority, as a further guide to UNDP management in addressing the issues. The following categories are used:

- **High (Critical)** 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.
- **Medium (Important)** Action is required to ensure that UNDP is not exposed to significant risks. Failure to take action could result in negative consequences for UNDP.
- **Low** Action is desirable and should result in enhanced control or better value for money. Low priority recommendations, if any, are dealt with by the audit team directly with the Office management, either during the exit meeting or through a separate memo subsequent to the fieldwork. Therefore, low priority recommendations are not included in this report.