UNITED NATIONS DEVELOPMENT PROGRAMME
Office of Audit and Investigations

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AUDIT

OF

UNDP COUNTRY OFFICE

IN

SOUTH SUDAN

Report No. 1433

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Table of Contents

Report on the audit of UNDP South Sudan
Executive Summary

The UNDP Office of Audit and Investigations (OAI) conducted an audit of UNDP South Sudan (the Office) from 9 to 23 February 2015. The audit aimed to assess the adequacy and effectiveness of the governance, risk management and control processes relating to the following areas and sub-areas:

(a) governance and strategic management (organizational structure and delegations of authority, leadership/ethics and values, risk management, planning, monitoring and reporting, financial sustainability);

(b) United Nations system coordination (development activities, Resident Coordinator Office, Harmonized Approach to Cash Transfers);

(c) programme activities (programme management, partnerships and resource mobilization, project management); and

(d) operations (human resources, finance, procurement, information and communication technology, general administration, safety and security, asset management, leave management).

The audit covered the activities of the Office from 1 January to 31 December 2014. The Office recorded programme and management expenditures totalling $113 million. The last audit of the Office was conducted by OAI in 2012.

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

Overall audit rating

OAI assessed the Office as **partially satisfactory**, which means, "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." This rating was mainly due to the Office's financial sustainability being at risk and a relatively low programme delivery.

Good practice

The Office had established a donor agreement database, which was used as a system for recording and tracking donor agreements with data updated regularly and designed to trigger follow-up actions.

Key recommendations: Total = **4**, high priority = **2**

The four recommendations aim to ensure the following: (a) achievement of the organization's strategic objectives (Recommendation 2); (b) effectiveness and efficiency of operations (Recommendations 1 and 4); and (c) compliance with legislative mandates, regulations and rules, policies and procedures (Recommendation 3).

For high (critical) priority recommendations, 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. All high (critical) priority recommendations are presented below:

Office financial sustainability at risk (Issue 1)	Due to budget shortfalls between 2012 and 2014, the Office used regular and other programme resources in order to cover emoluments of 15 staff members, amounting to \$2.7 million. According to the Office's management, these funds represented cost recovery income earned from implementation support to projects. The collected revenue was credited into a stand-alone cost recovery project instead of the respective development projects to which staff time was attributable. In addition, in 2012, the Office received a \$1.8 million UNDP corporate loan to cover operational costs, which was to be repaid in annual instalments of \$450,000 over the course of four years. The Office had not begun repayments but instead requested a loan cancellation which had not yet been granted. These repayments had not been taken into account in the Office's financial sustainability plan. Recommendation: Rectify accounting for costs and financial sustainability planning by: (a) properly implementing the direct project costing method with clear and detailed justification, including properly attributing eligible staff costs to projects through a workload study and consultations with relevant partners; and (b) including all relevant costs and liabilities in the financial sustainability planning until a corporate decision is made regarding the cancellation of the loan.
Low programme delivery (Issue 2)	Programme delivery against available programme resources was less than optimal, as the Office was facing a difficult operating and physical environment. During the past three-year period (2012-2014), the programme delivery of available programme resources was as follows: \$150.2 million (56 percent) \$116 million (50 percent) and \$78.6 million (47 percent) respectively. The delivery of budgeted programme resources was higher, ranging from 76 to 88 percent. Overall, levels of unspent resources had remained high. Furthermore, there were delays in signing the Annual Work Plans for 2013, and the Annual Work Plans for 2014 were not signed due to the challenging environment and senior management turnover within the offices of the government counterpart. Recommendation: Identify and implement measures to maximize the use of available and budgeted resources by: (a) reviewing the delivery of available programme resources by projects to identify reasons for low performance; (b) having Annual Work Plans signed in a timely manner; and (c) enhancing office capacity and preparedness for the implementation of new programmes.

Implementation status of previous OAI audit recommendations: Report No. 1016, 10 May 2013

Total recommendations: 11
Implementation rate: 100%

Management comments and action plan

The Resident Representative accepted all of the recommendations and is in the process of implementing them. Comments and/or additional information provided had been incorporated in the report, where appropriate.

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I. About the Office

The Office, located in Juba, South Sudan (the Country) managed 20 directly implemented projects and 11 implemented through non-governmental organizations at the time of the audit. Its programme activities focused on four areas: (a) governance; (b) economic development; (c) social and human development; and (d) conflict prevention and security. Total expenditures for 2014, including Global Fund and Common Humanitarian Fund resources amounted to $113 million. The Country was ranked 39th in the list of Least Developed Countries and had been experiencing conflict since December 2013.

II. Good practice

OAI identified the following good practice:

The Office had established a donor agreement database, which was used as a tool for recording and tracking donor agreements. Data was updated regularly, and the system was designed to trigger follow-up actions on the following: (a) agreements ending within the next two months; (b) donor reports due in the next two months; and (c) donor reports overdue.

III. Audit results

Satisfactory performance was noted in the following areas:

(a) Resident Coordinator Office. Systems in the Resident Coordinator Office for planning, budgeting, and reporting of activities by the UN Country Team were found to be adequate.

(b) Partnerships and resource mobilization. Office activities for maintaining partnerships and processes for resource mobilization were generally in line with policies and procedures.

(c) Financial management. Financial management activities, including payment processing and banking activities were found to be adequate.

(d) Human resources. Recruitment of staff and service contractors was generally in line with organizational procedures, and leave requests were managed adequately through Atlas (enterprise resource planning system of UNDP).

(e) Safety and security. The Office was compliant with safety and security requirements for the Country.

OAI made two recommendations ranked high (critical) and two recommendations ranked medium (important) priority.

Low priority issues/recommendations were discussed directly and agreed with the Office and are not included in this report.

High priority recommendations, arranged according to significance:

(a) Rectify accounting for costs and financial sustainability planning (Recommendation 1).
(b) Identify and implement measures to maximize the use of available and budgeted resources (Recommendation 2).

Medium priority recommendations, arranged according to significance:

(a) Strengthen asset management (Recommendation 3).
(b) Improve the management of shared services (Recommendation 4).

The detailed assessment is presented below, per audit area:

A. Governance and strategic management

Issue 1 Office's financial sustainability at risk

The 'UNDP Annual Business Plan for 2015' requires offices to maintain costs within available resources. The new 'Direct Project Costing Policy' requires that staff costs directly related to the implementation of projects be redeemed against the relevant development projects, based on staff time that is directly attributable to the implementation of such projects. In order to determine the amount of staff time a workload study is recommended along with consultations with the relevant partners on cost recovery practices.

The review of the Office's financial structure disclosed the following:

- Due to budget shortfalls between 2012 and 2014, the Office used regular and other programme resources in order to cover emoluments of 15 Office staff members, amounting to $2.7 million. Office management indicated that these funds represented the cost recovery income earned from implementation support to projects. The collected revenue was credited to a stand-alone cost recovery project and not to the respective development projects, to which staff time was attributable. This was due to the fact that a workload study had not been completed. In addition, there was no evidence of consultations with the relevant partners on such cost recovery practices in place.

- In 2012, the Office requested, and was granted, a UNDP corporate loan amounting to $1.8 million, which was to be repaid in full through annual instalments of approximately $450,000 per year over four years. The loan was intended to enable the Office to cover operational costs. However, the repayment plan was not accounted for in the Office's financial sustainability plan, which would have further widened its funding gap. The Office had yet to start repayments, and had instead requested a loan cancellation due to inadequate funding. This cancellation had not yet been granted at the time this report was being drafted. Office management stated that the underlying assumptions that governed the repayment schedule had changed since the December 2013 conflict, which resulted in substantial unforeseen costs. Furthermore, repayments were officially deferred through the Executive Team Meeting chaired by the UNDP Associate Administrator in February 2014, which also included consideration of a full write-off.

Not properly recording operational costs and loan repayments or not including them in financial sustainability plans may result in the Office not being able to cover its operational costs in the long run.

Priority	High (critical)

Recommendation 1:

Rectify accounting for costs and financial sustainability planning by:

(a) properly implementing the direct project costing method with clear and detailed justification, including properly attributing eligible staff costs to projects through a workload study and consultations with relevant partners; and
(b) including all relevant costs and liabilities in the financial sustainability planning, until a corporate decision is made regarding the cancellation of the loan.

Management action plan:

(a) The Office will fully implement direct project costing, in line with the direct project costing guidelines, and will ensure attribution to programme results in consultation with counterparts.
(b) Regarding the $1.8 million loan, this request remained pending with UNDP headquarters. The Office will continue to pursue the resolution of the loan write-off.

Estimated completion date: December 2015

B. Programme activities

Issue 2 Low programme delivery

The 'UNDP Strategic Plan: 2014-2017' stipulates that offices are expected to focus their intervention on programme delivery and development results.

Programme delivery against available programme resources was less than optimal, as the Office was facing a challenging operating environment. During 2012, 2013, and 2014, delivery over available programme resources was $150.2 million (56 percent), $116 million (50 percent) and $78.6 million (47 percent), respectively. Delivery over budgeted programme resources was higher at $93.3 million (88 percent), $76.3 million (76 percent), and $43.2 million (85 percent) during the three years because the level of budgeted resources was lower than available (refer to Table 1).

The Office generally attributed low delivery rates to factors such as the security situation, limited access to certain areas during the rainy season, recurring late receipt of donor funds, limited control over the disbursement of the Common Humanitarian Fund resources (which formed a significant portion of available resources), as well as the suspension of three key projects.

The Office, as Administrative Agent, made disbursements to implementing partners on behalf of other agencies, based on their requests, as follows: $37.8 million in 2012; $55.1 million in 2013; and $92.1 million in 2014.

Furthermore, there were delays in signing the Annual Work Plans for 2013, and the Annual Work Plans for 2014 were not signed due to the challenging environment and senior management turnover within the offices of the government counterpart.

The levels of unspent resources remained high over the three-year period, as shown in the table below.

Table 1. Delivery compared to available resources and to budget

Year	Total available resources $	Delivery	Delivery compared to available resources	Programme budget	Delivery compared to budget	Resource balance $
2012	150,162,638	84,800,714	56%	93,300,000	88%	65,361,924
2013	116,035,749	58,008,919	50%	76,300,000	76%	58,026,831
2014	78,638,374	36,712,643	47%	43,200,000	85%	41,925,732

The low programme delivery rates may affect donor confidence in the Office's capacity to effectively use resources.

Priority High (Critical)

Recommendation 2:

Identify and implement measures to maximize the use of available and budgeted resources by:

(a) reviewing the delivery of available programme resources by projects to identify reasons for low performance;
(b) having Annual Work Plans signed in a timely manner; and
(c) enhancing office capacity and preparedness for the implementation of new programmes.

Management action plan:

(a) The Office will fully implement the multi-year budgeting policy where funds are received for multi-year programming to ensure a distinction between unused and unbudgeted available resources and multi-year planning for sustainability.
(b) The Office will reschedule the Annual Work Plan process to ensure timely counterpart approval and signature, and where they are unavailable, clearly document the process to obtain approval.
(c) The Office operates under the direct implementation modality, and will ensure adequate human resource planning as an integral part of programme design and planning phases, to ensure faster implementation of new programmes and to strengthen programme delivery.

Estimated completion date: December 2015

C. General administration

1. Asset management

Issue 3 Delays in processing lost assets and in submitting asset certification report

UNDP's 'Programme and Operations, Policies and Procedures' require offices to submit asset certification reports by 31 December of every year, and also prescribe the steps to be followed when asset losses have been established.

There were undue delays in processes relating to the loss of seven laptops, which had a total cost of approximately $12,500. The laptops had been allocated to staff members for office use. These laptops were lost during 2013 and 2014 due to staff negligence and non-compliance with a security advisory on safeguarding assets. In February 2015, the loss of two of these laptops, with a total cost of $3,559, was reported to the Contracts, Assets and Procurement Committee, which was also asked to make recommendations in regard to what actions should be taken. An incident report was completed for one of the remaining five laptops in July 2014, but submission to the Contracts, Assets and Procurement Committee was still pending at the time of the audit fieldwork. Subsequent to the audit, the Office submitted a request to the Global Shared Service Centre for the removal of this laptop from the Atlas Assets In-service Report. The Office also finalized incident reports for the remaining four laptops.

The 2014 year-end asset certification report had not been submitted by February 2015. The Administrative Services Division was aware of the situation and was in the process of assisting the Office with the asset reconciliation. Office management explained that under normal circumstances, the year-end asset certification report was being submitted in a timely manner in accordance with corporate deadlines. However, 2014 was an exception due to the Office being selected to conduct a large-scale pre-2012 asset verification exercise through an external audit firm. The Office subsequently submitted the report in March 2015, and was waiting for the certification letter from the Administrative Services Division.

Delays in implementing asset management procedures may impact the timely finalization and accuracy of year-end reporting.

Priority	Medium (Important)

Recommendation 3:

Strengthen asset management by:

(a) conducting regular physical verifications of assets assigned to individual staff members for office use and holding staff accountable for lost items;
(b) finalizing pending actions for the four missing laptops and encouraging compliance with existing guidelines on safeguarding of assets; and
(c) submitting the year-end asset certification report by 31 December of each year.

Management action plan:

(a) The Office will further improve asset management. While a semi-annual physical asset verification exercise is now in place, management will carry out frequent physical verifications of assets assigned to staff members. In addition, procedures are now in place for lost/stolen items due to negligence, and are being implemented.

(b) By March 2015, the Office had completed the physical asset verification as of 31 December 2014 and the asset certification letter was received and filed. Going forward, the Office will request strengthened coordination in the scheduling of asset verification exercises to avoid any delays in reporting.

Estimated completion date: June 2015.

OAI Response

OAI acknowledges the action taken by management; this will be reviewed at a later stage as part of the standard desk follow-up process of OAI.

2. Common premises

Issue 4 Inadequate management of shared services

The United Nations Development Operations Coordination Office's operational policies and procedures for managing shared services require UNDP to obtain payments from participating United Nations agencies at least quarterly. A shared services agreed upon budget should be prepared at the beginning of the year to ensure that UNDP offices do not have to advance funds to cover the total costs of the services provided.

The Office's practice of managing shared utilities and maintenance of staff apartments involved advancing funds to cover the total cost of shared services and then billing the agencies for actual costs, per the interagency agreement in place, contrary to the established procedures. In February 2015, the cumulative outstanding contributions for shared services were approximately $375,600 (45 percent of the total receivables for 2014) including $314,000 owed for the maintenance of staff apartments.

Bearing the cost of shared services might lead to financial losses if agencies default on payments or dispute actual charges.

Priority	Medium (Important)

Recommendation 4:

Improve the management of shared services by:

(a) preparing the shared services agreed upon budget with the participating United Nations agencies at the beginning of the year and collecting payments in advance; and
(b) continuing to follow-up on 2014 outstanding contributions due from the participating United Nations agencies.

Management action plan:

The Office took note of the audit recommendation regarding the management and funding of shared utilities in the UNDP Guest house. They will hold discussions with other United Nations Agencies regarding the recommended change in the agreement. The Office noted that the other UN Agencies may not be in a position to change this provision.

Estimated completion date: December 2015

Definitions of audit terms - ratings and priorities

A. AUDIT RATINGS

- **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.

- **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.

- **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.

B. PRIORITIES OF AUDIT RECOMMENDATIONS

- **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.

- **Medium (Important)** Action is required to ensure that UNDP is not exposed to risks that are considered moderate. Failure to take action could contribute to 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.