UNITED NATIONS DEVELOPMENT PROGRAMME
Office of Audit and Investigations

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AUDIT

OF

UNDP COUNTRY OFFICE

IN

ERITREA

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Report on the Audit of UNDP Eritrea
Executive Summary

The UNDP Office of Audit and Investigations (OAI) conducted an audit of UNDP Eritrea (the Office) from 19 to 30 October 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, business continuity, planning, monitoring and reporting, financial sustainability);

(b) United Nations system coordination (development activities, Resident Coordinator Office, role of UNDP – “One UN”, 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).

The audit covered the activities of the Office from 1 January 2014 to 31 August 2015. The Office recorded programme and management expenditures of approximately $15.9 million. The last audit of the Office was conducted by OAI in 2011.

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 **satisfactory**, which means, “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.”

Key recommendations: Total = **2**, high priority = **0**

The audit did not result in any high (critical) priority recommendations. There are two medium (important) priority recommendations, which means, “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.” These recommendations include actions to address declining extrabudgetary reserves and lack of due diligence performed on vendors.

The two recommendations aim to ensure the following: (a) achievement of the organization’s strategic objectives (Recommendation 1); and (b) effectiveness and efficiency of operations (Recommendation 2).

Management comments and action plan

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

Issues with less significance (not included in this report) have been discussed directly with management and actions have been initiated to address them.

Helge S. Osttveiten
Director
Office of Audit and Investigations

I. About the Office

The Office is located in Asmara, Eritrea with a current staff complement of 32. The Office's developmental focus for the current programme cycle (2013 to 2016) is national capacity development, food security, and sustainable livelihoods and environment.

II. Audit results

Satisfactory performance was noted in the following areas:

(a) Development activities. Programme planning and activities were found to be well coordinated.

(b) Resident Coordinator Office. Planning and reporting was found to be adequate.

(c) UNDP role in Delivering as One. There were adequate plans for the rollout of this initiative in the next programme cycle.

(d) Project management. There was adequate oversight and monitoring of project activities.

(e) Human resources management. Recruitments and separations for both staff and service contractors were generally in line with staff rules, regulations and prescribed procedures.

(f) Financial management. Payment processing, disbursements and banking activities were found to be compliant with financial policies and procedures.

(g) Safety and security. Security measures that had been implemented were found to be adequate.

(h) Information, communication & technology. There were adequate access controls and back-up procedures.

OAI made 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.

Medium priority recommendations, arranged according to significance:

(a) The Office should continue to monitor the extrabudgetary reserve trend (based on the corporate target of 12 months of reserves) and initiate mitigating actions (Recommendation 1).
(b) The Office should establish and implement procedures for creating and approving vendors (Recommendation 2).

The detailed assessment is presented below, per audit area:

A. Governance and strategic management

1. Financial sustainability

Issue 1 Declining extrabudgetary reserves

Organizational financial planning requires that offices limit expenditure to within available resources. The 'UNDP Programme and Operations Policies and Procedures' recommend that a minimum of 12 months of extrabudgetary reserves be maintained at all times.

The Office was no longer generating sufficient extrabudgetary reserves to meet its operational costs and reserves were gradually decreasing. At the time of the audit, the Office had 14 months of extrabudgetary reserves. However, if all other variables remained the same, projections showed a continued decline that would amount to 13 months of reserves in 2016, 6 months in 2017, and none in 2018.

The following cost containment measures were already introduced by management to alleviate pressure on the Office due to the decreasing extrabudgetary reserves:

- Part of staffing costs funded from extrabudgetary reserves were shifted to Direct Project Costing progressively. The Direct Project Costing charges were agreed upon with the Government. For 2014, it was 40 percent, equivalent to $40,817; for 2015, it was 60 percent, equivalent to $204,000.
- The Office shifted 50 percent of its general operating expenditure funded from extrabudgetary resources to the Office cost-sharing fund.
- There was a disposal of three obsolete vehicles amounting to $206,673 during the audit period to supplement extrabudgetary income.

If no further action is taken, the Office may not be financially sustainable in the near future.

Priority Medium (Important)

Recommendation 1:

The Office should continue to monitor the extrabudgetary reserve trend (based on the corporate target of 12 months of reserves), and initiate mitigating actions such as:

(a) enhancing its income generation through increased programme delivery, especially on non-regular programme resources;
(b) leveraging Direct Project Costing as appropriate; and
(c) exploring opportunities for cost savings, including but not limited to the reassessing and realigning of the Office’s costs within available resources.

Management action plan:

Management takes note of the recommendation, which the Office has already been practicing since 2013. Management will continue to monitor resources closely and take appropriate action accordingly.

Estimated completion date: Ongoing

B. Procurement

Issue 2 Lack of due diligence performed on vendors

The ‘UNDP Programme and Operations Policies and Procedures’ stipulate that offices should exercise due diligence when entering vendors into Atlas (enterprise resource planning system of UNDP). This includes verification of vendor details, banking information, and ensuring that vendors are not included on any list of suspended vendors.

There was insufficient evidence to show that vendor forms were completed and that the Office systematically performed the requisite due diligence when creating and approving vendors. From a randomly selected sample of 28 vendors (out of 353 active vendors), only 7 (or 25 percent of the selected sample) vendor forms were made available for review or had supporting documents to show that due diligence had been exercised. The following was noted:

- None of the seven vendor forms made available by the Office were adequately completed. Vendor creators and approvers did not sign off on vendor forms to show that they had verified the information before creating and approving the vendor in Atlas.
- In all seven cases, the vendor forms were missing the information indicating which unit was requesting the creation of the vendor.
- Evidence of identification for individuals and/or proof of business registration for businesses was not provided for 24 out of the 28 vendors reviewed.

Management commented that immediate action had been taken to implement the recommendation.

Inadequate vendor management may lead to incorrect, duplicate and/or fraudulent payments made to the wrong vendors or a suspended vendors going undetected.

Priority Medium (Important)

Recommendation 2:

The Office should establish and implement procedures for creating and approving vendors by:

(a) performing adequate checks before creating or approving vendors, including regulatory checks against security and suspension lists and checks for existing or duplicate vendors in Atlas; and
(b) ensuring that vendor profile forms are duly completed and that completed forms with supporting documents are filed centrally.

Management action plan:

Management takes note of the recommendation and has already taken steps to implement it.

Estimated completion date: 31 October 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.

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.