

UNITED NATIONS DEVELOPMENT PROGRAMME
Office of Audit and Investigations



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AUDIT

OF

UNDP COUNTRY OFFICE

IN

RWANDA

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Report on the Audit of UNDP Rwanda Executive Summary

The UNDP Office of Audit and Investigations (OAI) conducted an audit of UNDP Rwanda (the Office) from 14 to 24 March 2016. 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, business continuity, 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 [HACT]);
- (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 to 31 December 2015. The Office recorded programme and management expenditures of approximately \$17.1 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 **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 due to flawed recruitment processes, inadequate controls over the disbursement of project funds, procurement procedures not being adhered to, and inadequate vendor management.

Key recommendations: Total = 4, high priority = 1

The four recommendations aim to ensure the following: (a) reliability and integrity of financial and operational information (Recommendation 2 – high priority); (b) effectiveness and efficiency of operations (Recommendations 1 and 4 – medium priority); and (c) compliance with legislative mandates, regulations and rules, policies and procedures (Recommendation 3 – medium priority).

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. The high (critical) priority recommendation is presented below:

Inadequate controls over disbursement of project funds (Issue 2)

The audit reviewed a sample of 25 vouchers valued at \$2 million (11 percent of the total amount of vouchers processed during the audit period), all of which were requests for the disbursement of project funds to implementing partners. For 7 of the 25 vouchers reviewed (\$342,310), there was no evidence that the

Finance Unit verified cash book balances submitted by the implementing partner against the cash balance reported in the completed Funding Authorization and Certificate of Expenditure form before payments were processed.

Recommendation: The Office should strengthen controls over the disbursement of project funds by ensuring that: (a) the verification of documents supporting the request for project funds takes place consistently; (b) any missing documents or balances that do not tally are questioned; and (c) payment vouchers are not processed until all documents are submitted and enquiries are satisfactorily addressed.

Management comments and action plan

The Resident Representative accepted all four 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.



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Director
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I. About the Office

The Office is located in Kigali, Rwanda (the Country) and comprised of 49 staff in 2015. The focus for the programme cycle, which was scheduled to end in 2018, was on democratic governance and peacebuilding, poverty reduction, and environment. The total programme expenditure for 2015 was \$13.1 million. The Country was piloting the 'One UN - Delivering as One' initiative.

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) Project management. There was adequate oversight and monitoring of project activities.
- (c) Partnerships and resource mobilization. There was an adequate system in place to track donor contributions and pipeline initiatives.
- (d) UNDP role in 'Delivering as One'. The Office was primarily responsible for the coordination of the 'One UN' initiative. No exceptions were noted.
- (e) HACT implementation. Actions taken by the Office to implement HACT were adequate.

OAI made one recommendation ranked high (critical) and three 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 recommendation:

- (a) Strengthen controls over the disbursement of project funds (Recommendation 2).

Medium priority recommendations, arranged according to significance:

- (b) Strengthen and improve the recruitment process (Recommendation 1).
- (c) Comply with procurement procedures (Recommendation 3).
- (d) Enhance vendor management (Recommendation 4).

The detailed assessment is presented below, per audit area:

A. Operations

1. Human resources

Issue 1 Flawed recruitment process

The 'UNDP Programme and Operations Policies and Procedures' state that the recruitment process must be competitive, objective, transparent, and must take diversity into account. Hiring managers must be held

accountable for decisions made during the recruitment process. The 'UNDP Programme and Operations Policies and Procedures' also state that the paramount consideration in the recruitment and selection of UNDP staff members is securing the highest level of efficiency, competence and integrity.

The recruitment process in certain instances did not adhere to the 'UNDP Programme and Operations Policies and Procedures'. From a randomly selected sample of four recruitment cases (out of seven recruitment cases completed by the Office during the audit period), the following weaknesses were noted:

- In two cases, applicants who did not meet the minimum qualifying criteria were shortlisted. In the first case, the applicant was shortlisted through the insistence of senior management. In the second case, two candidates were shortlisted for a project manager position but did not have any project management experience.

In response to the draft report, the Office's management indicated that the candidate for a Management Support Unit position was longlisted and had met all the minimum requirements. However, the candidate was not shortlisted initially.

- In two cases, recruitment did not follow organizational rules. In the one case, the job description was changed and the written test questions were developed without input from the unit that had the vacant position. In the other case, the designated project manager requested and authorized the extension of a service contract. The contract was signed on behalf of UNDP by this project manager who did not have the delegated authority to do so.

In response to the draft report, the Office's management indicated that the adjustment to the job description was the addition of French language skills as a desirable competency. While management acknowledged that this adjustment should not have been made, they also commented that the change was immaterial and was not intended to influence the outcome of the recruitment.

At the time of the audit mission, the Office was recruiting for the Human Resources Analyst position to head the Human Resources Unit as the previous incumbent was separated.

Weak recruitment processes may result in the Office not attracting the most qualified candidates.

Priority	Medium (Important)
Recommendation 1:	
The Office should strengthen and improve the recruitment process by:	
(a) ensuring that the recruitment of the Human Resource Analyst results in the most qualified candidate who has sufficient knowledge and experience to be able to advise the Office's management on the correct recruitment processes; and	
(b) providing effective oversight by the Office's management to ensure that 'UNDP Programme and Operations Policies and Procedures' governing the recruitment process are observed and adhered to, and that any deviations are detected and addressed in a timely manner.	

Management action plan:

- (a) The Human Resources Analyst position has been recruited and the most qualified candidate was selected and approved by the Office's management and the Compliance Review Panel. The successful candidate will be on board in June 2016.
- (b) The Office's management accepted the audit findings and recommendations regarding the application of organizational rules in recruitment processes. The sampled recruitments selected during the audit took place in 2014. The issues were discussed at the senior management level and it was agreed that the Office would strengthen the quality assurance procedures and ensure that due process will be consistently followed in all recruitment processes.

Estimated completion date: Ongoing

OAI response:

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

2. Finance

Issue 2 Inadequate controls over disbursement of project funds

The 'UNDP Programme and Operations Policies and Procedures' require that a verification process be completed by finance staff before processing payment requests. This process must include checks to ensure that documents submitted to the Finance Unit represent bona fide expenditures that have been authorized and approved by relevant personnel both within the Office and within the implementing partner or agency, if applicable.

In 2014, weak verification and inconsistent checks carried out by the Office for requests for disbursements of project funds resulted in several fraudulent payments being made and not being detected in a timely manner. As a result, the Office developed standard operating procedures to ensure that documents received from implementing partners requesting project funds were checked and signed off by the respective programme manager and the head of the Management Support Unit. The verification of documents and financial information submitted was carried out by the Finance Unit.

The audit reviewed a sample of 25 vouchers totalling \$2 million (11 percent of the total amount of vouchers processed during the audit period), all of which were requests for disbursements of project funds to implementing partners. For 7 of the 25 vouchers reviewed (\$342,310), there was no evidence that the Finance Unit verified cash book balances submitted by the implementing partner against the cash balance reported in the completed Funding Authorization and Certificate of Expenditure form before payments were processed. There was a strong need to carry out and document these verification activities given the high risks involved and given the previous incidents where fraudulent payments were not detected.

In response to the draft report, management stated that following the fraud case and in its efforts to put in place strict controls to prevent similar incidents from occurring in the future, the Office represented by the Country Director, in November 2014, made the use of a disbursement checklist (covering both advances and direct

payments) and a budget revision checklist mandatory. The aim of using both checklists was to ensure that no transactions were carried out without the full knowledge and approval of the Programme Analyst overseeing the project, the head of the concerned unit, the Chief of the Management Support Unit, and the Country Director.

With continued inconsistent verification of documents submitted to support the payment requests, there is a high risk of fraudulent payments being made.

Priority	High (Critical)
Recommendation 2:	
The Office should strengthen controls over the disbursement of project funds by ensuring that:	
<ul style="list-style-type: none"> (a) the verification of documents supporting the request for project funds takes place consistently; (b) any missing documents or balances that do not tally are questioned; and (c) payment vouchers are not processed until all documents are submitted and enquiries are satisfactorily addressed. 	
Management action plan:	
The Office's management will ensure that the Finance Unit initials all relevant documents related to requests for project payments after review.	
Estimated completion date: Ongoing	

3. Procurement

Issue 3 Procurement procedures not adhered to

The 'UNDP Programme and Operations Policies and Procedures' require project managers to approve requisitions in the Atlas system (enterprise resource planning system of UNDP) after the review and confirmation of supporting documents.

A sample of 30 randomly selected purchase orders valued at \$755,000 (27 percent of total procurement completed in 2015) was reviewed and the following weaknesses were noted:

- There were 21 purchase orders valued at \$606,500 (80 percent of the total value of the sample) that had inadequate supporting documentation. This included the lack of clear specifications for the goods and services to be ordered, and the lack of an approved work plan and/or Steering Committee meeting minutes. Furthermore, the requests for goods and services were done through email communications only and no e-requisitions were raised in Atlas.
- The receiving and opening of bids were not documented. There were seven purchase orders valued at \$267,700 (35 percent of the total value of the sample) where the Office opted to use Invitation to Bid as the solicitation process, even though the amounts being procured were below the threshold of \$100,000. Furthermore, bids received were not recorded and there was no documented process of opening these

bids. There was also no systematic recording of bids received and no documented system to ensure that all bids recorded as received were forwarded to the designated evaluation team. In addition, the evaluation teams were not completing the bid evaluation forms consistently.

- There were long delays in the procurement process for three of the sampled purchase orders valued at \$131,400 (17 percent of the total value of the sample). Delays were due to unclear specifications included in the procurement request. The period of delay in one case was 2 ½ years, and in the other two cases, 8 and 4 months, respectively.
- The Deputy Country Director, who was the Project Manager for management projects, acted as a second authority and approved six purchase orders valued at \$227,000 (30 percent of the total value of the sample) for the Operations Unit and common services. This action was not in accordance with UNDP's Internal Control Framework, wherein it states that project managers should not act as a second authority (or approve purchase orders) for transactions emanating from their projects in order to avoid conflicts of interest.

In response to the draft report, management indicated that in September 2015, it introduced the service request form detailing the specifications of goods and services to be procured, which is now strictly used by all requestors. The form includes a section to insert detailed specifications for goods and services to be procured and it is checked and reviewed by the Project Analyst and the head of the unit. Depending on the amount involved, the procurement is approved by either the Deputy Country Director for Operations or the Country Director. The service request form and all necessary attachments are systematically filed.

Inadequate supervision over the procurement process may lead to (a) incorrect procedures being followed, (b) lack of documentation to support procurement decisions made, and (c) delays in the procurement process. This may have a negative impact on the quality of goods and services required.

Priority	Medium (Important)
Recommendation 3: The Office should comply with procurement procedures by: <ul style="list-style-type: none"> (a) ensuring that all documents that support procurement processes and decisions made are systematically filed; (b) clearly documenting specifications for goods and services in the procurement request; (c) selecting the most appropriate solicitation process for offers and adhering to the process for the selected solicitation process; (d) regularly monitoring and closing any e-requisitions that have been approved but not used for more than 30 days; (e) reviewing Atlas workflow approvals to ensure that they are in line with the staff member's responsibilities and the Internal Control Framework. 	
Management action plan: The Office's management accepted the audit findings and recommendations.	
Estimated completion date: June 2016	

Issue 4 Inadequate vendor management

The 'UNDP Programme and Operations Policies and Procedures' recommend the regular maintenance of vendor records, including archiving vendor records that have not been used for three years. Furthermore, when creating and approving vendors in Atlas, a review of supporting documents should be undertaken, including a review and verification of vendor banking details, proof of identity, and contractual relationship with the organization.

Out of a total of 2,080 approved vendors, there were 251 that had not been used for over three years but had not been archived. Furthermore, all vendor profiles that were implicated following the recent investigation of a fraud case in the Office had already been deactivated in Atlas. However, as of the end of the audit fieldwork, the vendors had not been archived in order to ensure that they would no longer be used.

A sample of 12 vendors was selected for verification of procedures regarding creating and maintaining vendors in Atlas, and the following weaknesses were noted:

- The Office could not provide the completed vendor creation forms for four vendors. The most recent activities in Atlas for these four vendors were in December 2015, February 2007 and March 2016.
- There was inadequate supporting documentation for five vendors. The vendor profiles were created in Atlas in 2013, 2014 and 2015.

Although there were standard operating procedures for vendor management, there were no regular procedures for the maintenance of the vendor database. The Office's management commented that a review of vendor records would be conducted on a quarterly basis.

Inadequate guidance and supervision in creating and maintaining vendors resulted in fraud.

Priority	Medium(Important)
Recommendation 4: The Office should enhance vendor management by deactivating and archiving all vendors that have not been used for more than three years, and strengthening supervision by establishing regular procedures for maintenance of the vendor database. This should include obtaining missing information for all vendors that are still being used, archiving vendors that were involved in the fraud case to prevent future use, and conducting regular reviews and verifying vendor information.	
Management action plan: The Office's management accepts the audit findings and recommendations.	
Estimated completion date: May 2016	

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.