UNITED NATIONS DEVELOPMENT PROGRAMME
Office of Audit and Investigations

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AUDIT

OF

UNDP COUNTRY OFFICE

IN

BURUNDI

Report No. 1729

Issue Date: 19 October 2016

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Report on the audit of UNDP Burundi
Executive Summary

The UNDP Office of Audit and Investigations (OAI) conducted an audit of UNDP Burundi (the Office) from 11 to 22 July 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 2015 to 30 April 2016. The Office recorded programme and management expenditures of approximately $34.3 million. The last audit of the Office was conducted by OAI in September 2013.

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 weaknesses in the management and oversight of payments, in the management of the procurement process, and in the oversight over project assets.

Key recommendations: Total = **11**, high priority = **3**

The 11 recommendations aim to ensure the following objectives:

Objectives	Recommendation No.	Priority Rating
Achievement of the organization's strategic objectives	1, 2	Medium
Effectiveness and efficiency of operations	10, 11	Medium
Safeguarding of assets	7, 9	High
Compliance with legislative mandates, regulations and rules, policies and procedures	3, 4, 5, 6	Medium
	8	High

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:

Weaknesses in management and oversight of payments (Issue 7)	The review of 60 vouchers worth $4 million identified the following weaknesses: ▪ Financial transactions were not always supported by adequate documentation: In four cases amounting to $300,000, there was no supporting evidence that the Finance Unit received the delivery of the goods/or certification of services purchased or rendered before processing the payments. ▪ There were missing certified payment requests from national partners: In two payments totalling $140,000, the Office had not obtained the required certified document from the national partners. Nonetheless, the Finance Unit validated and processed the payments. ▪ Late voucher payments: At the time of the audit fieldwork, the Office was facing six long-outstanding claims totalling at least $336,763 from a number of services and goods providers. Two of these claims amounting to $65,656 arose from payments that had not been made on time by the Office. The audit also identified three vouchers worth $30,000 for which the Office did not make timely payments upon receipt of invoices of goods or services rendered, but instead the invoices were paid two to five months later. <u>Recommendation:</u> The Office should improve controls over payments by ensuring that: (a) adequate training is provided to finance staff on the procedures and documentation required to support payments; (b) payment requests are certified by national counterparts for projects under national implementation prior to submission to the Finance Unit; and (c) a workflow and oversight process is implemented to oversee and follow up on pending payments.
Inadequate management of procurement process (Issue 8)	The review of 40 purchase orders totalling $1.7 million noted the following weaknesses: ▪ Procurement processes were not always documented: The Office did not provide supporting documents for three procurement cases worth $22,000. As such, the audit team was not in a position to review these cases to determine if they adhered to UNDP procurement principles. ▪ Direct contracting was not always justified: The review of five cases of direct contracting with a cumulative value of $127,000, identified three cases (valued at $34,000), where the rationale provided was that the procurements were urgent. However, the audit disclosed that there was ample time to execute a competitive process. The other two cases valued at $93,000 were executed as a direct procurement because the project submitted the request for procurements late. The Procurement Unit estimated that the Office overpaid by an estimated $15,000. ▪ Inadequate contract management: An individual contract worth $38,000 was carried through even though the documented need was no longer justified. The contractor had been sought to fill a gap while the process

to recruit a Procurement Specialist was ongoing. Due to delays in the procurement process, both the consultant and the staff arrived in the Country at the same time. In another case, the contract was verbally extended by the project, resulting in a cost increase of $13,000.

Recommendation: The Office should comply with policies and procedures on the management of procurement by: (a) documenting all procurement cases and maintaining supporting documents on file; (b) not utilizing direct procurement modality in instances where competitive processes are possible; and (c) issuing and extending contracts based on documented need.

Lack of oversight over project assets (Issue 9)	The audit team noted a lack of oversight over projects' assets. Illustrative examples reported were assets transferred to nationally implemented projects and/or national partners that were still on the Office's assets list, purchases of assets without being recorded in the asset registry, auditors of nationally implemented projects not provided with asset lists, and absence of periodical physical verifications of project assets. Recommendation: The Office should strengthen its oversight on project assets by: (a) including assets verification in the scope of the field visits; (b) disposing and timely removing all assets transferred to the national partners and reconciling directly implemented project assets with its asset registry; (c) accurately updating the acquisition dates of the vehicles purchased in its asset registry; and (d) providing a complete and accurate picture of nationally implemented projects assets and ensuring these listings are provided to the auditors during the yearly audit of nationally implemented projects.

Implementation status of previous OAI audit recommendations: Report No. 1145, 20 December 2013.
Total recommendations: 12
Implemented: 12

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.

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, located in Bujumbura, Burundi (the Country), comprised of 43 staff members, 26 service contract holders and 49 United Nations Volunteers at the time of the audit. The new Country Programme Document, covering the period 2014-2016 focused on the following areas: (a) rule of law, consolidation of good governance and promotion of gender equality; and (b) transformation of economy for sustainable growth and job creation. The Office had a portfolio of 20 projects in 2016 and delivered about $22 million during the period under review.

II. Audit results

Satisfactory performance was noted in the following areas:

(a) Programme management. Programme design and monitoring were found to be adequate and no reportable issues were noted.

(b) Safety and security. The Office was located in a UN compound, also hosting UNDSS and managed by a UN agency. No reportable issue was noted following the review of this section.

OAI made three recommendations ranked high (critical) and eight 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) Improve controls over payments (Recommendation 7).
(b) Comply with policies and procedures on the management of procurement (Recommendation 8).
(c) Strengthen oversight over projects assets (Recommendation 9).

Medium priority recommendations, arranged according to significance:

(a) Strengthen financial sustainability (Recommendation 2).
(b) Improve compliance with the organization’s requirements on project monitoring (Recommendation 4).
(c) Strengthen management of micro-capital grants (Recommendation 5).
(d) Reinforce planning, monitoring and oversight activities (Recommendation 1).
(e) Reinforce oversight and management of travels (Recommendation 10).
(f) Enhance ICT management and reduce operating costs (Recommendation 11).
(g) Improve the closure of projects (Recommendation 6).
(h) Pursue the implementation of HACT (Recommendation 3).

The detailed assessment is presented below, per audit area:

A. Governance and strategic management

1. Risk management, planning, monitoring and reporting

Issue 1 Weak oversight and monitoring system

The UNDP Internal Control Framework requires each head of office to exercise overall responsibility for establishing and maintaining adequate internal controls, and for ensuring documentation of the office's internal control procedures. The 'UNDP Programme and Operations Policies and Procedures' require offices to draft procurement and human resources plans at the beginning of each year and monitor them.

The audit team reviewed the last two quarterly financial briefings developed by the Office of Financial Resources Management (OFRM), held discussions with the Office's management over monitoring activities, and performed an analysis of minutes of various meetings regarding programme and operations management. The results showed that the Office did not have an effective oversight and monitoring system in place.

There was no mechanism to anticipate, monitor, and follow up on project and financial management issues. The quarterly financial briefing issued by OFRM and pertaining to the first quarter of 2016 placed the Office on the "watch list." In 2015, the Office was also featured in OFRM's "concern list." Furthermore, the same recurrent issues were noted, such as (i) inactive projects with balances; (ii) projects operationally closed for more than 12 months and not financially closed; (iii) ongoing projects showing an expired end date; and (iv) General Management Service fee exceptions, which may lead to losses. These issues were raised in the two last quarterly reports (pertaining to the first quarter of 2016 and the fourth quarter of 2015).

The inadequate monitoring and oversight activities described above are also illustrated under issues 4, 6, 7, 9, and 10, of the current report.

The Office's management had put in place some corrective measures both before and after the audit mission, such as establishing management meetings on a weekly basis to monitor and follow up on all indicators, pipelines, project monitoring, etc. According to the Office's management, these meetings contributed to the efficiency and effectiveness of operations.

Not having proper oversight and monitoring systems in place may prevent the Office from taking timely actions to address issues, and as a result may prevent the Office from achieving its objectives.

Priority Medium (Important)
Recommendation 1: The Office should reinforce monitoring and oversight activities by putting in place a mechanism to anticipate, monitor, and follow up on project and financial management issues.
Management action plan: The Office agrees with this recommendation. The following measures will be undertaken: ▪ A table of agreements and contracts is being put in place, which will help staff monitor deadlines under projects (contracts, reporting, etc.) and which will be periodically reviewed at the level of the Office Management Meeting. A draft table of agreements had been shared with OAI at the time of the audit;

this tool has, however, since been further worked on and refined, to be as user-friendly and useful as possible.

- Of note, a new Programme Management Support Unit Officer joined in August 2016 and the Office expects more adequate and efficient monitoring and oversight of activities to be carried out. A Monitoring and Evaluation Officer should be joining the Office by the end of November 2016.

Estimated completion date: April 2017

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. Financial sustainability

Issue 2 Office's financial sustainability at risk

The 'UNDP Programme and Operations Policies and Procedures' require all offices to maintain a minimum of nine months of extrabudgetary reserves and to ensure financial sustainability by securing long-term financial resources.

The audit team analysed the extrabudgetary status report for the period 2013-2016 and the funding of positions in 2016, reviewed the project pipeline for the 2016-2018 cycle, and met with three main donors, and concluded that the Office's financial sustainability was at risk, considering the below constraints:

- Global Environment Fund resource mobilization target not achieved and GLOC not recovered

  The Office had not met its objective to mobilize $15 million with the Global Environment Fund for the period 2014-2016, as only about $10 million was mobilized. While acknowledging this fact, the Office's management commented that significant initiatives were ongoing, one of which was valued at $15.2 million and endorsed by the Government. However, there was no assurance, as of the audit fieldwork date, that it would materialize. Moreover, at the time of the audit, arrears of Government Contributions to Local Office Costs (GLOC) amounted to $154,000.

- Decline in the Office's ability to generate income

  While the financial situation of the Office remained within the corporate limits of operational reserves (nine months or higher) over the past four years, the extrabudgetary reserves declined from 70 months in 2013 to 23 months, based on the last estimate of 2016. The decrease indicated that the Office was not generating enough income and was utilizing its accumulated reserves. The Office's extrabudgetary reserve as at 31 December 2015 amounted to $1.87 million. For the year 2016, total staff costs reached $3.5 million, of which $1.33 million would be funded through core funds (under the assumption that the Regional Bureau would provide the Office with an additional Authorized Spending Limit to cover the Resident Representative position costs of $360,000). To fill the remaining gap of $2.17 million, the Office planned to use extrabudgetary funds of $180,000, allocate $480,000 from other funds and implement Direct Project Costing for $1.5 million. However, the Office had a low level of non-core resources. If there was no inflow of non-core resources in the near future, the Office would entirely depend on core funds, and in 2017, the extrabudgetary reserve would be nil according to the Office's projections.

This situation was mainly due to the overall environment that was not conducive to resource mobilization. The Office had drafted a strategy that was reviewed by the Regional Partnerships Advisor based in the Regional Service Centre for Africa headquarters, and had made efforts in terms of communicating with the donors. All donors visited during the audit fieldwork confirmed their appreciation of the Office's actions and referred to the good relationship they had with management. However, they emphasized that the political context did not facilitate project funding, currently, or in the near future. Consequently, efforts made by the Office could not yield expected results in terms of collecting non-core funds and generating extrabudgetary income.

Priority	Medium (Important)
Recommendation 2: The Office should strengthen its financial sustainability by: (a) pursuing efforts towards the Global Environment Fund and mobilizing the level of resources targeted in the Country Programme Document; and (b) regularly following up with the Government to recover GLOC.	
Management action plan: The Office agreed with the recommendation and committed to: (a) Continue to reach out to donors in the hope that the situation will evolve soon. (b) Pursue efforts with the Government for GLOC recovery. **Estimated completion date:** July 2017	

B. United Nations system coordination

1. Harmonized Approach to Cash Transfers

Issue 3 Harmonized Approach to Cash Transfers not fully implemented

The 'Framework for Harmonized Approach to Cash Transfers' requires that participating United Nations agencies agree on and coordinate HACT activities, to reduce the burden that the multiplicity of the United Nations procedures creates for its partners. Compliance is achieved when the following components have been completed: (a) macro-assessment of the public financial system; (b) micro-assessments of implementing partners; and (c) an assurance plan which details the spot checks for each implementing partner, based on the results of the micro-assessment.

The audit disclosed the following:

- There were disparities in the implementation of HACT within the three implementing agencies (UNDP, UNICEF, UNFPA) due to lack of adequate coordination in the implementation of the HACT process. The disparities were more noticeable in UNDP as the Office had yet to conduct a micro-assessment, or draft a HACT assurance plan and undertake spot checks.

- The HACT Committee had not been functional during the audited period.
- The Office was providing advances to three implementing partners even though there was no micro-assessment and no assurance plan.

The Office acknowledged the above issues and stated, subsequent to the audit, that a HACT task force had been put in place and an assurance plan would be developed in coordination with other HACT implementing agencies.

Not fully implementing HACT may result in financial losses for the Office.

Priority	Medium (Important)

Recommendation 3:

The Office should, in coordination with the ExCom agencies, pursue the implementation of HACT, specifically the completion of micro-assessments and the development of a HACT assurance plan.

Management action plan:

HACT has been discussed by the UN Country Team and Operations Managers Team. The following measures have been initiated to accelerate HACT implementation:

- Designation of HACT focal points by the agencies in September 2016.
- Creation of inter-agency HACT Committee by the Resident Coordinator in October 2016.
- Elaboration of a database of all ExCom agency partners and micro-assessment reports (November 2016).
- Joint micro-assessment of those implementing partners who have never been evaluated.
- Drafting of common assurance and audit plans and follow-up on their implementation.
- Conduct of macro-assessment.
- Implementation of UNDP's internal HACT action plan.
- Declare the Country HACT compliant.

Estimated completion date: June 2017

C. Programme activities

1. Project management

Issue 4 <u>Lapses in project monitoring</u>

The 'UNDP Programme and Operations Policies and Procedures' state that on an annual basis, UNDP must perform the following monitoring activities: (i) conduct field visits; (ii) conduct annual reviews of projects to assess their performance and appraise the annual work plan for the following year; and (iii) prepare an annual review report to be shared with the Project Board or the relevant outcome group or coordinating mechanism.

Combined Delivery Reports (official expenditure reports for implementing partners detailing utilization of funds) should be certified and signed at the end of each quarter for projects under the national implementation modality. Finally, the Regional Bureau's authorization is required to directly implement projects, except when the Fast Track Procedures are activated, which automatically give the Office the authority to use the direct implementation modality by default.

The audit team reviewed seven projects with aggregate expenditures representing 26 percent of all project expenditures during the period under review and noted the following:

- <u>Annual review of projects not performed:</u> In two instances, the 2015 annual review of projects was not undertaken. The Office's management explained that these reviews were performed within the framework of Project Steering Committee meetings. However, there was no sufficient evidence found in the Steering Committee Meetings to validate performance of the annual review for these projects.
- <u>Unsigned Combined Delivery Reports:</u> The Combined Delivery Reports were not signed and certified on a quarterly basis for any of the four nationally implemented projects sampled by the audit. The Office did not provide an explanation for this exception.
- <u>Absence of DIM authorization:</u> The Office did not obtain any authorization from the Regional Bureau for Africa to directly implement three projects. The Office stated that such authorization was not applicable, since the Fast Track Procedures were activated. However, the audit team noted that the activation of Fast Track Procedures did not cover the period from 27 June 2015 to 6 April 2016, during which an authorization from the Regional Bureau for Africa should have been sought.

The inadequate monitoring and review of projects may result in delays in the effective management of project risks and challenges. Furthermore, not having certified and signed Combined Delivery Reports on a quarterly basis increases the risk that errors and irregularities will not be corrected in a timely manner, and may consequently impact the project expenditure reported in the financial statements.

Priority	Medium (Important)
Recommendation 4: The Office should improve compliance with the organization's requirements on project monitoring by: (a) performing annual reviews of projects and documenting them; (b) preparing, signing and certifying quarterly Combined Delivery Reports for nationally implemented projects; and (c) obtaining authorization from the Regional Bureau to directly implement projects.	
Management action plan: Recommendation accepted. The Office will elaborate and use a checklist for each project and programme to be periodically reviewed by the programme units, containing missing information highlighted by the audit. A follow-up table has been set up to analyse and to sign all of the nationally implemented project Combined Delivery Reports on a quarterly basis, starting January 2016. **Estimated completion date:** June 2017	

Issue 5 Weaknesses in management of micro-capital grants

According to the 'UNDP Guidelines on Micro-Capital Grants', an individual micro-capital grant may not exceed $150,000. A recipient organization may receive multiple grants within the same programme or project, provided these do not exceed a cumulative amount of $300,000. If the $300,000 cumulative limit is to be exceeded, the Country Office must first request clearance by the Bureau for Management Services, through the respective Regional Bureau.

The review of the management of micro-capital grants disclosed the following weaknesses:

- Non-compliance with the micro-capital grant guidelines:

    - In four instances, individual grants over $150,000 were provided to four NGOs for $190,002, $292,105, $478,768, and $246,167, respectively, which exceeded the individual limit of $150,000 per agreement.
    - In two instances, cumulative grants above $300,000 within the same programme or project were awarded to the same organization. There was no evidence of prior authorization sought from the Bureau for Management Services, as per the 'UNDP Programme and Operations Policies and Procedures'.

  The Office explained that it had initially used an incorrect contracting modality, and based on advice received from the Legal Support Office, replaced those contracts with Responsible Party Agreements. Nevertheless, the audit disclosed that only grant agreements exceeding the grant threshold of $150,000 were replaced. Consequently, the use of the incorrect contract modality remained for contracts below $150,000.

- Delays in justifying the use of grant funds:

  For the implementation of one project, advance payments were granted in installments to three NGOs amounting to $384,000 to carry out activities in April 2015. The audit disclosed that none of the first installments granted were justified as of July 2016 (i.e. after more than 15 months from disbursement), even though the grant's duration was only 18 months. The Office's management explained that due to the Country's context, NGOs were not able to implement all activities, and could not spend the entirety of the funds received. The Office's management further claimed that the NGOs submitted quarterly financial reports, which, however, had not been validated by the Office.

Not complying with grant guidelines and reporting requirements may increase financial and legal risks.

Priority	Medium (Important)
Recommendation 5: The Office should strengthen the management of micro-capital grants by: (a) complying with established thresholds and seeking appropriate authorizations when required; and (b) timely reviewing and validating financial reports from the beneficiary organizations according to the signed agreements.	

Management action plan:

Recommendation accepted. The Office has already put in place a matrix in order to monitor and manage all micro-grants in respect to UNDP rules and policies.

A “table of agreements” is being finalized, recording all types of contractual engagements in each unit (Memorandum of Understanding, staff contracts, Letter of Agreements, financing agreements etc.) and constant monitoring and updating of that tool by each unit focal point is being performed to ensure that no deadlines are forgotten.

The table will be periodically reviewed in unit meetings and in Office management meetings. UNDP staff were trained in the above in the framework of SURGE mission. Staff received over six hours of training in contractual modalities by a legal specialist shortly before the audit mission was deployed.

Estimated completion date: March 2017

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.

Issue 6 Untimely closure of projects

The ‘UNDP Programme and Operations Policies and Procedures’ require that operationally closed projects be financially closed within 12 months of operational closure. Any residual balances should be cleared within this timeframe to enable the financial closure of projects. Furthermore, projects that have ended should be operationally closed in Atlas (enterprise resource planning system of UNDP).

The review of the Office’s programme portfolio disclosed the following exceptions:

- Projects operationally closed for more than 12 months: Six projects operationally closed for more than 12 months had not been financially closed. This included at least two development projects with balances of $803,734 and $436,882, respectively.
- Incorrectly closed projects: 12 projects were financially closed with an unspent balance of $362,974. These projects should not have been closed prior to clearing their respective balances.

A similar issue was previously raised by OAI in 2013. Although the recommendation was assessed as implemented in 2015, the Office did not maintain an oversight mechanism to ensure that similar exceptions would not occur again. The Office’s management explained that actions were being taken that sometimes required authorization from donors on how to proceed with outstanding balances before project closure.

Projects not timely or incorrectly closed may face the risk of inappropriate or unapproved charges being made against them.

Priority	Medium (Important)
Recommendation 6: The Office should improve the closure of projects by: (a) reinforcing monitoring and oversight activities and putting in place a mechanism to anticipate, monitor and follow up on project management issues; (b) operationally closing all expired projects; and (c) reviewing the status of incorrectly closed projects, clearing any outstanding balance based on donors' guidance, and correctly closing the projects.	
Management action plan: The Office accepts this recommendation with the following actions already taken: The Office has developed a matrix to monitor operational and financial project closure and this is a recurring agenda item at the Office's management meetings. All projects will be financially closed within a year. **Estimated completion date:** End of October 2017	
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.	

D. Operations

1. Finance

Issue 7 Weaknesses in management and oversight of payments

Regulation 22.01 of the UNDP Financial Regulations and Rules requires all payments to be made on the basis of supporting vouchers and other documents, to ensure that services or goods have been received.

During the period under review, the Office processed 4,980 vouchers worth $29 million. OAI reviewed 60 vouchers worth $4 million and noted the following weaknesses:

- Financial transactions not supported by adequate documentation

  In four cases amounting to $300,000, there was no supporting evidence that the Finance Unit received the delivery of the goods/or certification of services purchased or rendered before processing the payments. According to management, the Project Manager's "certification of services rendered" was used as a basis for the payments. However, based on the audit team's review, there was no evidence that these certifications were supported by valid delivery notes or by a certification of the services rendered. A similar issue was raised by OAI in 2013. Although the recommendation was assessed as implemented, the Office did not maintain adequate controls to prevent the recurrence of similar issues.

- <u>Missing certified payment requests from national partners</u>

  According to the 'UNDP Programme and Operations Policies and Procedures', requests for funds for nationally implemented projects have to be certified by the national partners.

  In two payments totalling $140,000, the Office had not obtained the required certified document from the national partners. Nonetheless, the Finance Unit validated and processed the payments.

- <u>Late voucher payments</u>

  At the time of the audit fieldwork, the Office was facing six long-outstanding claims totalling at least $336,763 from a number of services and goods providers. Two of these claims amounting to $65,656 arose from payments that had not been made on time by the Office.

  The audit identified three vouchers worth $30,000 for which the Office did not make timely payments upon receipt of invoices of goods or services rendered. Those invoices were paid two to five months later. In one case, the delay was due to the late validation of work by another United Nations agency. For the remaining payments, the Office argued that delays were mainly due to the Country's political crisis and to the fact that key personnel were not able to handle day-to-day activities on time.

  The query on pending payments also showed 30 payments pending from January 2015 to April 2016 amounting to $19,077, which had still not been processed, even though the Office had received all necessary supporting documents.

Overall, the audit team noted that most of the above issues arose from inadequate workflows and the lack of oversight. The Office's management also acknowledged that new finance personnel were recruited who required further training on financial processes and procedures.

Inadequate validation of supporting documents and certification of work done prior to payment may result in payment for services and/or goods not delivered. Late payments to suppliers increase the risk of litigation and may negatively impact UNDP's reputation.

Priority	High (Critical)
Recommendation 7: The Office should improve controls over payments by ensuring that: (a) adequate training is provided to finance staff on the procedures and documentation s required to support payments; (b) payment requests are certified by national counterparts for projects under national implementation prior to submission to the Finance Unit; and (c) a workflow and oversight process is implemented to oversee and follow up on pending payments.	
Management action plan: The Office accepts the recommendation and confirms that some appropriate measures have started and others will be formulated and implemented. **Estimated completion date:** February 2017	

2. Procurement

Issue 8 Inadequate management of procurement process

The 'UNDP Programme and Operations Policies and Procedures' require procurement activities to be aligned with UNDP's procurement principles: best value for money; fairness, integrity, transparency; effective international competition; and protecting the interests of UNDP. Direct contracting (sole-source or single source) may only be used when it is not feasible to undertake a competitive bidding process. Moreover, documents in support of a procurement process must be retained.

The audit team reviewed a sample of 40 purchase orders totalling $1.7 million (or 21 percent of total procurement value, excluding procurement managed by Headquarters units). Out of these, 12 cases valued at $800,000 were completed using the direct contracting modality. In addition, the audit team reviewed 13 individual contractor cases worth $410,000. The following weaknesses were noted:

- No documented procurement process

  The Office did not provide supporting documents for three procurement cases worth $22,000. As such, the audit team was not in a position to review these cases to determine if they adhered to UNDP procurement principles. Subsequent to audit fieldwork, the Office's management stated that it still could not trace the documents, and as a result, it was putting in place an electronic filing system.

- Unjustified direct contracting

  The audit team reviewed 5 out of 12 cases of direct contracting and questioned the rationale provided for the use of this modality. These five cases had a cumulative value of $127,000. In three cases (valued at $34,000), the rationale provided was that the procurements were urgent. However, the audit disclosed that there was ample time to execute a competitive process. In this regard, management indicated that it would retrain the staff on policy requirements with a view to ensuring compliance. The other two cases valued at $93,000 were executed as a direct procurement because the project submitted the request for procurements late. The Procurement Unit estimated that the Office overpaid by an estimated $15,000 in respect of these two procurements.

  Procuring through direct contracting without appropriate and documented justification increases the risks of non-transparent procurement processes, of inadequate stewardship of donor funds, and of not receiving best value for money.

- Inadequate contract management

  The audit disclosed that an individual contract worth $38,000 was carried through even though the documented need was no longer justified. The contractor had been sought to fill a gap while the process to recruit a Procurement Specialist was ongoing. Due to delays in the procurement process, both the consultant and the staff arrived in the Country at the same time.

  In another case, the contract was verbally extended by the project, resulting in a cost increase of $13,000.

Inadequate management and oversight of the procurement process may result in unjustified incremental costs and may prevent the organization from ensuring best value for money.

Priority	High (Critical))
Recommendation 8: The Office should comply with policies and procedures on the management of procurement by: (a) documenting all procurement cases and maintaining supporting documents on file; (b) not utilizing direct procurement modality in instances where competitive processes are possible; and (c) issuing and extending contracts based on documented need.	
Management action plan: The Office accepts the recommendations and confirms that measures have been formulated and will be implemented systematically, as follows: (a) Documentation of processes ▪ Awareness and training of staff on classification methodologies, and use of checklists. ▪ Establishment of a procurement process filing checklist. ▪ Systematic digital archiving of entire procurement folders. ▪ Physical creation of a centralized archive of the procurement and general services units. (b) Unjustified direct contracting ▪ Awareness and specialized training on the proper use of direct contracts, exceptions justifying direct contracting and importance of planning (two trainings have already been provided to the Resident Coordinator Office staff in this respect). ▪ Reworking processes that do not meet the rules of direct contracting. ▪ Establishment of a consultants roster. ▪ Use of existing international individual contractor rosters validated by Advisory Committee on Procurement; and increase the use of Long Term Agreements. (c) Inadequate contract management ▪ Quarterly review and update of procurement plans. ▪ Development of an online management tool for monitoring contracts. ▪ Staff training on how to write terms of references, conducting needs assessments and contracting terms. **Estimated completion date:** April 2017	

3. General administration

Issue 9 Lack of oversight over project assets

The 'UNDP Programme and Operations Policies and Procedures' require offices to maintain complete and accurate records of all assets. Assets transferred must be properly disposed of and timely removed from the asset registry. Furthermore, projects are required to sign and provide a complete list of assets acquired to be physically verified and certified by the auditors during the yearly audit of nationally implemented projects.

The review of asset management of three projects disclosed that assets were not recorded in the assets registry, not accounted for, and not physically verified during field visits, as per the requirements in the 'UNDP Programme and Operations Policies and Procedures'. Illustrative examples are presented below:

- In the case of one project, a vehicle valued at $28,344 that was transferred to the implementing partner on 27 February 2015 was still included in the Office's assets registry as of the end July 2016. The project further acquired five vehicles in December 2014 for $118,900. Even though two out five vehicles amounting to $47,560 were used and controlled by the project, they were not recorded in the asset registry. The remaining three vehicles amounting to $71,340 were neither recorded in the asset registry nor traceable to the list of vehicles transferred to the national partners, according to the transfer letters presented to the audit team. These inconsistencies were not captured during the asset physical verifications undertaken by the Office in June 2015, December 2015, and June 2016.
- In another project, the Office transferred six passenger vehicles, two trucks, and IT equipment amounting to $297,608 to the project in order to implement project activities. However, these assets were never physically verified and certified during the annual audit of the nationally implemented projects, as the assets registry was not presented to the external auditors. The audit did not find evidence that these assets were verified during any field visit by the project team. Furthermore, assets totalling $188,089 were acquired during the audit period and were not physically verified at year-end as required by the UNDP procedures.
- One project acquired assets such as copiers, desktop computers, servers, and laptops. However, no assets registry was submitted to the auditors for physical verification and certification during the yearly audit of nationally implemented projects in the previous two years. There was no evidence of other independent verification or validation of project assets, such as field visits. Consequently, these assets were never physically verified or accounted for.

Lack of oversight over project assets could lead to asset misappropriation or to the loss of assets not being timely detected, which could tarnish UNDP's image.

Priority	High (Critical)

Recommendation 9:

The Office should strengthen its oversight of project assets by:

(a) including asset verification in the scope of the field visits;
(b) disposing and timely removing all assets transferred to the national partners and reconciling directly implemented project assets with its asset registry;
(c) accurately updating the acquisition dates of the vehicle purchases in its asset registry; and
(d) providing a complete and accurate picture of nationally implemented project assets by providing these listings to the auditors during the yearly audit of nationally implemented projects.

Management action plan:

The Office accepted the recommendation. It will ascertain that in the framework of HACT implementation, spot checks and programmatic field visits will cover this aspect. Moreover, they will reinforce the implementing agencies capacities in that respect.

Estimated completion date: October 2017

Issue 10 Lapses in travel management

The travel policy was revised in 2014 to be aligned to UNDP's strategic objectives by emphasizing cost reductions, including considering alternative options and using virtual technology whenever feasible in order to limit travel spending, and by purchasing the lowest restricted ticket. It also insisted on proper planning and administration (purchasing tickets at least 21 days in advance) and on monitoring of travel spending and timely payments of air tickets to agencies. Travel is to be undertaken based on an approved travel authorization and itinerary, and travel claims should be filed within two weeks of returning from travel on official business. The analysis leading to the travel decisions, including payment of travel entitlements, must be properly documented.

The review of a sample of 18 travels amounting to $47,000 and feedback from travel agencies disclosed the following weaknesses:

- Long outstanding unpaid invoices: The Office had long outstanding unpaid travel invoices of $89,000 from its two travel agencies dating back to 2014.
- Travel claims not filed: In 11 out of 19 cases, the travellers did not file the required travel claims within two weeks upon returning from official mission, and no airline boarding passes were available to validate the travel entitlements. Consequently, the audit found errors in the daily subsistence allowance and terminal expenses calculation. Although not significantly material, these errors went undetected due to the lack of controls.
- Inadequate planning or late purchase of travel tickets: In eight out nine cases reviewed, travels were booked one or two days prior to the departure date. Late booking of travels was confirmed by one of the travel agents. This practice did not adhere to the travel policy since it could lead, in most cases, to higher travel costs paid by the organization.
- Unjustified deviation from approved itinerary: In two cases, an additional leg was added to the official business travel itinerary without proof of the official business being conducted or approval from a supervisor. The costs related to the unapproved deviations ($4,013 and $1,348, respectively) were not paid by the traveller, who also received additional allowance for time spent in unauthorized locations. Without travel authorizations or a supervisor's approval, the additional costs resulting from deviations should be borne by the travellers.

Failure to adequately monitor travel spending, pay invoices in a timely manner, or correctly process travel benefits and entitlements could lead to unnecessary payments, reputational damage and financial losses for the organization.

Priority	Medium (Important)

Recommendation 10:

The Office should reinforce oversight and management of its travels by:

(a) reconciling, at least quarterly, its travel expenditure with outstanding invoices from the travel agencies, and making timely payments of its invoices;
(b) filing travel claims within two weeks upon return from official travel paid by the organization, and validating the accuracy of entitlements paid;
(c) booking travels early enough to avoid paying higher costs for travels; and
(d) maintaining proper authorization and approval for any deviation, and ensuring that entitlements are paid only with adequate validation.

Management action plan:

The Office agrees with the audit recommendations. Management has reinforced the need to better plan official missions. Furthermore, to improve the management of travels, a management tool that will track all missions has been operationalized.

(a) The Office has completed an analysis of outstanding invoices, and appropriate actions are being undertaken based on the outcome of the review. Besides, a travel tracking tool has been created in order to properly monitor travel invoices.

(b) Travel claims (F-10) will be completed. Management has also decided not to process any new travel claim before the filing of travel claims from previous official missions. This will also be reinforced during the Office's upcoming retreat.

(c) The Office will continue to advocate to unit heads and to national partners the need to improve their travels in order to comply with the organization's policy.

(d) The Office will only approve purchase orders with the approved itinerary. Any deviation and costs involved with be dealt with directly between the staff member and the travel agent.

Estimated completion date: February 2017

4. Information and communication technology

Issue 11 Inadequate information and communication technology management

The UNDP Office of Information Management and Technology advocates that effective governance and controls (roles and responsibilities, policies and procedures, ICT committee meetings, structured and effective decision-making process) on activities relating to ICT will result in enhanced value delivery, improved performance and resource management, and in better quality of services.

At the time of the audit fieldwork, the Office had appointed an Information and Communication Technology Governance Committee to oversee and align ICT services with operational and strategic objectives. However, there was no evidence that these Committee meetings were held to monitor ICT activities, costs and performance. Furthermore, there were no formally designed organizational structures with roles and responsibilities and working policies and processes of obtaining sufficient information as a basis for making better-informed decisions and providing services to staff.

During the audit fieldwork, the Office's configuration for internet connection, using a satellite connection as the primary and a local connection as the backup, cost around $80,000 (including $12,000 for local connection). However, based on discussions with other agencies in the same UN compound and in the capital, the audit disclosed that at least two other UN agencies (with more staff than UNDP) were using the cheaper local connection as their primary connection, with adequate service coverage and good service performance. With a switch to the local provider as the primary connection, the Office could decrease its total internet services costs.

According to the Office's management, the satellite connection was necessary to secure the UNDP network. However, as described above, the Office was also connected to the local service provider.

The absence of effective governance and management of investments and assets on ICT related activities puts at risk the efficient and cost effective conduct of business operations and delivery of results.

Priority	Medium (Important)

Recommendation 11:

The Office should enhance ICT management and reduce operating costs by:

(a) enforcing that the Information and Communication Technology Governance Committee oversees on a periodic basis, the management and alignment of ICT related activities, risks and work plans with the Office's priorities and objectives; and
(b) assessing the possibility of reducing internet connection costs by selecting the best cost and service related combination between satellite connection and a local internet service provider.

Management action plan:

(a) An Information and Communication Technology Governance Committee has now been nominated and the first meeting took place on 28 July 2016. An annual action plan has also been established for the Committee.

(b) The Office takes note of the recommendation and will conduct the appropriate analysis in the framework of the envisaged move to the new premises.

Estimated completion date: September 2017

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 <u>not included in this report</u>.