

**UNITED NATIONS DEVELOPMENT PROGRAMME**  
**Office of Audit and Investigations**



*Empowered lives.  
Resilient nations.*

**AUDIT**

**OF**

**UNDP COUNTRY OFFICE**

**IN**

**COMOROS**

**Report No. 1880**

**Issue Date: 11 August 2017**

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## Report on the Audit of UNDP Comoros Executive Summary

The UNDP Office of Audit and Investigations (OAI) conducted an audit of UNDP Comoros (the Office) from 15 to 26 May 2017. 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 (leadership, corporate direction, corporate oversight and assurance, corporate external relations and partnership);
- (b) programme (quality assurance process, programme/project design and implementation, knowledge management);
- (c) operations (financial resources management, ICT and general administrative management, procurement, human resources management, and staff and premises security); and
- (d) United Nations leadership and coordination.

The audit covered the activities of the Office from 1 January 2016 to 31 March 2017. The Office recorded programme and management expenditures of approximately \$11.6 million. The last audit of the Office was conducted by OAI in June 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 / some improvement needed**, which means, “the assessed governance arrangements, risk management practices and controls were generally established and functioning, but need some improvement. Issues identified by the audit do not significantly affect the achievement of the objectives of the audited entity/area”. This rating was mainly due to weaknesses in procurement.

**Key recommendations:** Total = 7; high priority = 1

Objectives	Recommendation No.	Priority Rating
Achievement of the organization’s strategic objectives	1, 2	Medium
Efficiency and effectiveness of operations	4	Medium
	5	High
Compliance with legislative mandates, regulations and rules, policies and procedures	3, 6, 7	Medium

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  
procurement  
management processes  
(Issue 5)

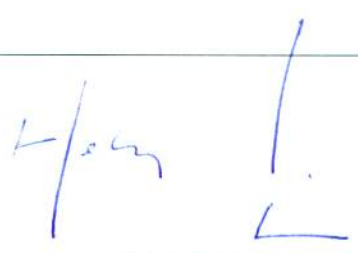
The review of 24 procurement transactions totaling \$ 1.2 million identified weaknesses in procurement management, which included lapses in procurement planning, ineffective sourcing of vendors, lapses in the processing of cases for submission to the Contracts, Assets and Procurement Committee, and duplicate vendor accounts.

Recommendation: The Office should strengthen the effectiveness and efficiency of its procurement function by: (a) drafting a consolidated procurement plan timely to develop relevant procurement and sourcing strategies incorporating known challenges and barriers in the local markets, and regularly updating the consolidated procurement plan to reflect major changes during the year; (b) processing all procurement cases above the Office normal delegation of authority through the online procurement management tool (ACP Online); and ensuring that Contract Asset and Procurement committee recommendations are fully substantiated; and (c) completing all areas of the vendor forms when creating vendors, and ensuring adequate supporting documents are maintained on file and ensuring that vendor forms are only signed by authorized persons.

#### 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.

Low risk issues (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 Moroni, the Union of the Comoros (the Country), comprised of 30 staff members, 33 service contract holders, and 2 United Nations Volunteers at the time of the audit. The Country Programme Document, covering the period from 2015 to 2019, focused on the following areas: (a) implementation of sustainable, innovative, inclusive, and diversified income generating activities for the poorest; (b) better political, administrative and economic governance for state and non-state institutions, in line with human rights and resilience practices, and (c) resilience to climate change and crisis. The Office had a portfolio of 13 ongoing projects and delivered \$11.5 million during the period under review.

## II. Audit results

Satisfactory performance was noted in the area of governance, leadership, and programme knowledge management.

OAI made one recommendation ranked high (critical) priority and six 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 the effectiveness and efficiency of its procurement function (Recommendation 5).

### Medium priority recommendations, arranged according to significance:

- (a) Improve the management of individual contracts (Recommendation 6).
- (b) Strengthen the governance portfolio and reinforce the monitoring of the Country Programme Document (Recommendation 3).
- (c) Improve the management of Government Contributions to Local Office Costs. (Recommendation 1).
- (d) Reinforce its cost-recovery mechanism (Recommendation 2).
- (e) Improve travel management (Recommendation 4).
- (f) Strengthen the implementation of assurance activities in the framework of the Harmonized Approach to Cash Transfers Framework (Recommendation 7).

The detailed assessment is presented below, per audit area:

## A. Governance

### 1. Corporate external relations and partnership

#### Issue 1 Long outstanding Government Contributions to Local Office Costs

In accordance with the provisions of the Standard Basic Assistance Agreements (SBAAAs) that govern UNDP operations in programme countries, host governments are expected to contribute towards the costs of country offices. The annual Government Contribution to Local Office Costs (GLOC) cash targets are communicated to the Country Offices by the Office of Financial Resources Management (OFRM) for recovery purposes. Government in kind contributions are considered as part of the total GLOC target and are excluded from the calculation of cash targets.

As at 31 December 2016, GLOC arrears amounted to \$1.5 million, covering the period 2008-2016. For 2017, the targeted amount was \$0.1 million. The Office had sent reminders to the national counterpart regarding the payment of this contribution, the latest one dated 7 March 2017, without any feedback received at the time of the audit fieldwork. The Office management explained the challenges in collecting GLOC, mainly due to the last elections (April 2016), which led to a change of Government and the appointment of new interlocutors.

Failure or delays in collecting GLOC may negatively impact the financial resources available to support the Office's local costs and may urge the Office to use other funds, initially ear-marked for development projects.

<b>Priority</b>	Medium (Important)
<b>Recommendation 1:</b>	
The Office should improve the management of GLOC and of its cost recovery mechanism by continuing its advocacy towards the national counterpart to recover arrears of GLOC.	
<b>Management action plan:</b>	
The Office agrees with the recommendation and will pursue settlement with the national counterpart with regards to GLOC.	
<b>Estimated completion date:</b> June 2018	

## **Issue 2**      Need to reinforce cost recovery mechanism

The UNDP 'Programme and Operations Policies and Procedures' require that all costs incurred in rendering services to projects or other United Nations agencies should be fully recovered.

The audit team reviewed the cost recovery mechanism regarding services rendered to projects and other United Nations agencies, and concluded that the Organization's policy in terms of cost recovery was not adhered to. As an illustration, only transactions processed through Atlas and the general management services were systematically recovered. The Office could not provide evidence of a tracking system that would allow to identify, invoice and recover non-Atlas transactions, such as air ticket sourcing for non-resident agencies and recruitment processes for projects. While acknowledging the need to reinforce the cost recovery mechanism, the Office commented that it was drafting a local price list, expected to be operational in the course of 2017.

The lack of a tracking system to record all services rendered may lead to incomplete invoicing of those services and expose the Office to financial losses.

<b>Priority</b>	Medium (Important)
<b>Recommendation 2:</b>	
The Office should reinforce its cost recovery mechanism, including putting in place, along with the local price list, a tracking mechanism to record all services rendered to United Nations agencies and projects.	
<b>Management action plan:</b>	
The Office agrees with the recommendation and will develop a local pricelist which will be shared with all UN agencies, projects and implementing partners.	
<b>Estimated completion date:</b> June 2018	

## B. Programme activities

### 1. Programme / project design and implementation

#### Issue 3 Challenges in meeting commitments in programme design and monitoring

The United Nations Development Assistance Framework (UNDAF) establishes the government's ownership of the country programme and it states the UN country team's response in common development results and partnerships necessary to achieve those. The Country Programme Document is based on the UNDAF, it specifies for which results of the UNDAF the UNDP has direct responsibility. The following was noted:

##### (a) Challenges in meeting programmatic and financial commitments

A priority of the Country Programme Document' was governance with three thematic components; decentralization, local development, and public administration reform. During the audit period, the governance portfolio comprised of two projects, related to women's participation and role in conflict prevention, in liaison with the electoral process and assistance to security reform in the Country. The audit team noted that:

- Two thematic components (local development and decentralization), did not materialize into concrete projects. The Office management acknowledged the need to strengthen its governance portfolio and reported that in 2017, it drafted (i) a project document to support governmental action and coordination, and (ii) a concept note for an integrated programme of political governance and conflict prevention and social cohesion.

##### (b) Gaps in monitoring the Country Programme Document

The Country Programme Document, committed to quarterly meetings with the Government and partners for programme monitoring purposes. The audit did not obtain evidence that these were held. According to the Office, frequent meetings existed at the projects level with different national entities. However, those were not systematically documented and they did not include partners.

Delays in implementing the governance portfolio may hamper the fulfillment of the Office's commitments to the host Country and consequently not achieve expected results. The lack of regular meetings with the national counterpart and partners at the strategic level may challenge the implementation of the Country Programme.

Priority	Medium (Important)
<b>Recommendation 3:</b>	
The Office should strengthen the governance portfolio and should reinforce the monitoring of the Country Programme Document by:	
<ul style="list-style-type: none"> <li>(a) pursuing efforts in boosting governance portfolio through the elaboration and materialization of projects and mobilizing targeted third parties cost sharing resources; and</li> <li>(b) conforming to the Country Programme Document monitoring mechanism and meeting quarterly with the national counterpart and partners at strategic level.</li> </ul>	
<b>Management action plan:</b>	



The Office agreed with the recommendation and committed to:

- (a) continue efforts to revamp governance portfolio; and
- (b) hold quarterly meetings with the national counterpart and document them.

**Estimated completion date :** June 2018

## C. Operations

### 1. ICT and General Administration

#### Issue 4 Inefficiencies in travel management

Effective procurement calls for the establishment of Long-Term Agreements for services procured on a repetitive basis such as travel services. Daily Subsistence Allowance should be based on travel authorizations and travel claims should be processed within 10 days upon return. The audit review identified the following weaknesses:

##### (a) Ineffective management of Long-Term Agreements

- Only one supplier had signed the Long-Term Agreement, while no justification was provided by the Office for the absence of an agreement with the second supplier.
- The Long-Term Agreement signed with the first travel agent committed to the following:
  - provide the lowest fare and reimburse the difference should the Office find a lower fare;
  - negotiate preferential rates with airline companies;
  - provide the Office with credit tickets based on the volume; and
  - draft quarterly reports on the activity with the Office.

However, these were not met, endorsed or reviewed since 2015.

- The Office requested quotations from 10 travel agents next to the Long-Term Agreement holder. The Office received and compared six to nine itineraries (quotations) on average, rather than the required three when using the Long-Term Agreement holder, thus creating inefficiencies.

##### (b) Weaknesses in processing travel related entitlements

A review of 16 cases of travel amounting to \$46,000, out of a total of 86 travel transactions for \$180,000 noted the following:

- In eight cases, travel claims were unsupported by boarding passes or other proof that travel took place as authorized. The Resident Representative issued a memo requiring their timely completion.
- For the remaining eight cases, travel claims were processed when staff requested refunds for additional Daily Subsistence Allowances.
- In one case, the travel claim included errors in the computation of travel entitlements.

Exceptions were caused by inadequate monitoring of the Long-Term Agreement and ineffective oversight over travel activities. The Office management explained that the issue of Long-Term Agreements for travel will be addressed.

Inefficiencies and inadequate implementation of travel policies may lead to higher or unjustified costs.

<b>Priority</b>	Medium (Important)
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#### Recommendation 4:

The Office should improve travel management by:

- (a) signing Long-Term Agreements with more than one technically qualified supplier;
- (b) monitoring the existing travel agreement to ensure compliance; and
- (c) systematically completing and validating the travel claims with supporting documents such as boarding passes, upon returning from official business.

#### Management action plan:

The Office agrees with the recommendations, and will:

- (a) renew the Long-Term Agreement in the framework of the Business Operations Strategy for travel services with at least two suppliers;
- (b) monitor the implementation of the Long-Term Agreement clauses, and take necessary actions in case of non-compliance; and
- (c) follow-up and enforce the memo making mandatory the completion of travel claims and the submission of supporting documents or other proof of travel, such as boarding passes.

**Estimated completion date:** June 2018

## 2. Procurement

### Issue 5 Inadequate procurement management processes

According to the 'UNDP Programme and Operations Policies and Procedures', developing a strategic approach to procurement through appropriate and timely planning, which should include a risk management process, is a key element to the successful and timely acquisition of goods, civil works, or services at a reasonable cost. The UNDP procurement policy requires that all procurement contracts be awarded on the basis of effective competition and a fair selection process. The Contract, Assets and Procurement Committee members should be nominated by the head of the Office with clearly defined terms of reference to render procurement advice. All procurement actions should be subject to the review of the committees at any level, to be processed through the web-based and fully automated Advisory Committee on Procurement (ACP) Online application. To create and approve new vendors, the 'UNDP Programme and Operations Policies and Procedures' require the verification of supporting documentation to ensure that the vendor is legitimate and to check for existing vendors to avoid duplicate records. Vendor forms should be signed only by authorized persons.

The Office processed 648 purchase orders for a total of \$6.9 million. The audit tested a sample of 24 transactions amounting to \$1.2 million for compliance with the procurement policies and procedures. The audit further reviewed procurement planning, strategy and risk management undertaken by the Office. The following was noted:

- (a) Lapses in procurement planning

- The Office finalized its 2017 procurement plan at the end of May 2017. This did not allow the Office to timely develop any procurement strategy or risk management.
- Out of five consultant recruitments four estimated at \$758,000 were not executed as planned.
- One procurement activity was planned for \$920,000 in a single year, whereas the final procurement volume was 21 percent in the first year and further activities would take place in the next year. The policies however require that only the activities pertaining to a given year should be reflected on the procurement plan for that specific year.
- None of the procurement plans for 2015 and 2016 had been revised during the year.

(b) Ineffective sourcing or procurement strategy

In seven out of 12 cases of recruitments of individual consultants, and in 12 out of 18 cases of procurement of goods and services, the Office was not able to secure at least three qualified candidates or suppliers, as required by the policies. The Office management explained that there were few qualified candidates or a limited number of suppliers on the national market. However, the Office management had not developed a strategy or defined mitigation measures (such as conducting market analysis, issuing expressions of interest at the beginning of the year or developing rosters)..

(c) Lapses in processing of Contract Assets and Procurement committee's cases

- Six procurement cases, totaling \$379,000 were above the threshold of \$50,000 and had not been managed through the ACP Online tool as required. The Office had not used the ACP Online tool since January 2015, it can ensure that proper oversight is exercised and procurement decisions are fully justified and documented.
- No review of the Contract Assets and Procurement Committee was evidenced in cases of direct contracting for which the rationale and the absence of best value for money analysis should have been questioned and documented in the minutes of the committee members.

(d) Lapses in vendor account management

The Office had 28 duplicate vendors created in Atlas. The Office management explained that there were instances where the same vendor had two vendor IDs, however in the majority of cases, there was no apparent relationship among the two vendors involved in each case. The audit further reviewed the underlying supporting documentation used in the creation of these vendors and noted the following:

- Fifteen vendors did not have any information on the person who requested their creation, and the form did not include the required vendor signature. Improvements were noted in 2017 after addressing the issue.
- In 11 cases, the bank certification letter was missing or did not reflect the information entered in Atlas.
- On three occasions, the signature on two vendor forms were the same.
- In two cases, the vendors were created in Atlas in 2014, however they did not have any transactions up to May 2017, and there were no agreements such as purchase orders or preform/invoices to justify future payments.

These issues were caused by an absence of efficient oversight mechanism over procurement planning, sourcing of suppliers, committee reviews, and vendor management processes.

Inadequate procurement management processes will not provide the best value for money.

<b>Priority</b>	High (Critical)
<b>Recommendation 5:</b>	
The Office should strengthen the effectiveness and efficiency of its procurement function by:	

- (a) drafting a timely consolidated procurement plan to develop relevant procurement and sourcing strategies incorporating known challenges and barriers in the local markets, and regularly updating the consolidated procurement plan to reflect major changes during the year;
- (b) processing all procurement cases above the Office normal delegation of authority through the online procurement management tool (ACP Online); and ensuring that Contract Asset and Procurement committee recommendations are fully substantiated; and
- (c) completing all areas of the vendor forms when creating vendors, and ensuring adequate supporting documents are maintained on file and ensuring that vendor forms are only signed by authorized persons.

**Management action plan:**

The Office agrees with the audit recommendations and will:

- (a) develop a consolidated procurement plan at the beginning of the year, and will update it based on significant changes during the year, and undertake a market study of the local market for goods and services, and consulting with different bureaus to plan for the needs identified in the consolidated procurement plan;
- (b) process all procurement cases above the delegation of authority through ACP online; and
- (c) continue to require that all areas of the vendor forms are completed and adequate supporting documentation is provided to justify their creation (process started in January 2017).

**Estimated completion date:** June 2018

**Issue 6**      Lapses in the selection and management of individual consultants:

The engagement of individual contractors under the Individual Contract modality is subject to the general procurement principles established by the UNDP Financial Rules and Regulations namely: best value for money fairness, integrity and transparency, effective competition as well as the interests of UNDP. Furthermore, reference checks are an important part of the selection process and the offeror deemed to be most suitable shall be subject to at least two positive references checks. In case of direct contracting in accordance with UNDP Financial Rule and Regulation 121.05, the Office must provide a value for money assessment, and quality assurance and risk mitigation mechanism.

During the audit period, the Office recruited 23 individual contractors valued at \$478,500. The audit reviewed a sample of 12 individual contracts valued at \$413,000 and noted weaknesses in respect of the planning and sourcing, as mentioned in the previous issue on procurement management. The audit further noted the following weaknesses:

- In five cases, the required positive reference checks (minimum two) of the selected candidates were not obtained.
- In another five cases, the final evaluation was not done for consultants who had finished their assignments.
- In two cases of direct contracting out of two sampled, adherence to UNDP Financial Rule and Regulation 121.05 was not adequately substantiated. The Office had not demonstrated how best value for money was obtained, nor did it develop a quality assurance or risk mitigation mechanism as required by the policy.

These issues were caused by an absence of adequate planning of the needs for consultants and misinterpretation of policies. By not complying with individual contractors' recruitment and management policies and procedures, there is no assurance that the most qualified candidate is selected and that best value for money, fairness, integrity and transparency, in the competitive process are achieved.

Priority	Medium (Important)
<b>Recommendation 6:</b> The Office should improve the management of individual contracts by: <ul style="list-style-type: none"> <li>(a) conducting reference checks prior to hiring consultants; conducting performance evaluation for consultants at the completion of their assignment; and</li> <li>(b) demonstrating that direct contracting cases adhere to the UNDP FRR 121.05, and ensuring best value for money and risk mitigation measures are documented.</li> </ul>	
<b>Management action plan:</b> The Office agrees with the recommendations, and will: <ul style="list-style-type: none"> <li>(a) Systematically obtain the required two positive reference checks prior to hiring new individual consultants; and conducting performance evaluation when consultants complete their assignments.</li> <li>(b) Document full adherence to UNDP FRR 121.05 in case of direct contracting, including justification of best value for money; and providing adequate risk mitigation measures.</li> </ul>	
<b>Estimated completion date:</b> June 2018	

#### D. United Nations Leadership and Coordination

##### Issue 7 Gaps in the implementation of the Harmonized Approach to Cash Transfers assurance activities

The framework for the Harmonized Approach to Cash Transfers (HACT) requires that participating United Nations agencies agree on and coordinate the HACT activities, to reduce the burden that the multiplicity of United Nations procedures create 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) a joint assurance plan which details the spot checks for each implementing partners based on the result of the micro assessment.

The audit reviewed the different steps towards the implementation of the HACT framework, and noted weaknesses in respect of the implementation of the assurance activities. As illustrated below:

- As at 31 December 2016, the Office had implemented five out of 31 (16 percent) of scheduled assurance activities.
- For one implementing partner with two spots checks in 2016, the second spot check did not follow up on the implementation of the previous spot check's recommendations. As such, there was no assurance that the issues and risks identified were remedied or mitigated.
- Eighty five percent of all implementing partners were micro assessed as of high or significant risk. Consequently, the Office used the direct payment modality and drafted an assurance plan which included spot check missions. However, as of June 2017, no assurance activity was conducted.

- There was no joint assurance plan prepared with all HACT implementing agencies in 2016 and 2017, in order to conduct joint assurance activities, as required by the HACT framework.

The objectives of harmonizing practices among United Nations agencies and lessening the burden of the multiplicity of United Nations procedures will not be achieved unless HACT requirements are fully met and are duly implemented.

Priority	Medium (Important)
<b>Recommendation 7:</b>  The Office should, in coordination with the concerned agencies, strengthen the implementation of the assurance activities in the framework of the Harmonized Approach to Cash Transfers by: <ul style="list-style-type: none"> <li>(a) ensuring continuity in the implementing partners' risk management by following up on recommendations from previous spots until their closure.</li> <li>(b) developing and implementing a joint assurance plan for common implementing partners which is drawn from the results of the micro-assessment; and</li> <li>(c) scheduling and conducting assurance activities throughout the year and ensuring that they are conducted prior to year-end.</li> </ul>	
<b>Management action plan:</b>  The Office agrees with the recommendations, and will: <ul style="list-style-type: none"> <li>(a) Develop a joint assurance plan annually;</li> <li>(b) Undertake all assurance activities as agreed in the assurance plan;</li> <li>(c) Follow up on the implementation of recommendations from assurance activities.</li> </ul>	
<b>Estimated completion date:</b> June 2018	

## Definitions of audit terms - ratings and priorities

### A. AUDIT RATINGS

- **Satisfactory** The assessed governance arrangements, risk management practices and controls were adequately established and functioning well. Issues identified by the audit, if any, are unlikely to affect the achievement of the objectives of the audited entity/area.
- **Partially Satisfactory / Some Improvement Needed** The assessed governance arrangements, risk management practices and controls were generally established and functioning, but need some improvement. Issues identified by the audit do not significantly affect the achievement of the objectives of the audited entity/area.
- **Partially Satisfactory / Major Improvement Needed** The assessed governance arrangements, risk management practices and controls were established and functioning, but need major improvement. Issues identified by the audit could significantly affect the achievement of the objectives of the audited entity/area.
- **Unsatisfactory** The assessed governance arrangements, risk management practices and controls were either not adequately established or not functioning well. Issues identified by the audit could seriously compromise the achievement of the objectives of the audited entity/area.

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