UNITED NATIONS DEVELOPMENT PROGRAMME
Office of Audit and Investigations

AUDIT

OF

UNDP COUNTRY OFFICE

IN

SAO TOME AND PRINCIPE

Report No. 1903

Issue Date: 9 February 2018

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Report on the Audit of UNDP Sao Tome and Principe
Executive Summary

The UNDP Office of Audit and Investigations (OAI) conducted an audit of UNDP Sao Tome and Principe (the Office) from 20 November to 1 December 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 30 September 2017. The Office recorded programme and management expenditures of approximately $8.5 million. The last audit of the Office was conducted by OAI in 2012.

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

Overall audit rating

OAI assessed the Office as **partially satisfactory/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 non-compliance with financial management policies and procedures.

Key recommendations: Total = **6**, high priority = **1**

The six recommendations aim to ensure the following: (a) achievement of the organization's strategic objectives (Recommendation 3, medium priority); (b) reliability and integrity of financial and operational information (Recommendation 4, high priority); (c) effectiveness and efficiency of operations (Recommendations 1, 2, 5 and 6, 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:

Non-compliance with financial management policies and procedures (Issue 4)	The audit reviewed the payments process handled by the Office and noted the following main weaknesses: budget overrides amounting to $134,805 without an override policy; cheque payments processing in Atlas (enterprise resource planning system of UNDP) amounting to $435,200 before the receipt of goods and services, and their subsequent cancellation in 2017; initiation and approval

of transactions amounting to $8,035 by the same staff members who were also the beneficiaries of these transactions. These weaknesses were mainly due to lack of oversight regarding financial management internal controls and in the case of the cancelled cheque payments led to an overstatement in the year-end financial reporting.

Recommendation: The Office should strengthen compliance with financial management policies and procedures by: (a) establishing an override policy which should be approved by the Comptroller, and clarify circumstances and processes to follow when performing budget overrides; (b) monitoring cancelled cheques and reporting the cases of the cancelled cheques to Office of Financial Resources Management to decide if a prior year adjustment is necessary; and (c) disallowing a single person to approve both purchase orders and vouchers or payment of expenses relating to themselves.

Implementation status of previous OAI audit recommendations: Report No. 963, 1 June 2012.

Total recommendations: 7
Implemented: 7

Management comments and action plan

The Resident Representative accepted all recommendations and is in the process of implementing them. Comments and/or additional information provided have 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 is located in Sao Tome, which is the largest island of the two Sao Tome and Principe (the Country) islands. The Country is a least developed country and it is classified under Small Island Development States. In total, it has a territory of approximately 1,000 square kilometers and a population of under 200,000. It was ranked 142 out of 188 countries in the Human Development Index in 2015. The Office had 23 staff members, of which 3 were international staff. Its project portfolio comprised mainly of Global Fund and Global Environment Fund projects. During the period under review (January 2016 to September 2017), the Office processed 374 purchase orders of approximately $5 million and 4,982 payment vouchers of approximately $13.8 million.

II.   Audit results

Satisfactory performance was noted in the following area:

(a)   <u>United Nations Leadership and Coordination/Harmonized Approach to Cash Transfers (HACT).</u> Internal processes and control procedures on leadership and coordination were adequate, and implementation of HACT procedures was also on track. No specific issues were identified.

OAI made one recommendation ranked high (critical) and five 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:
(a)   Strengthen compliance with financial management policies and procedures (Recommendation 4).

Medium priority recommendations, arranged according to significance:
(a)   Clearly define the organizational structure by conducting a capacity analysis, aligning job descriptions with actual functions, and reviewing and aligning reporting lines (Recommendation 1).
(b)   Work together with the government counterpart to attract resources in relation to the Democratic Governance objective, and seek the Regional Bureau's support (Recommendation 3).
(c)   Strengthen procurement processing by putting in place standard operational procedures (Recommendation 5).
(d)   Enforce the implementation of corporate policies regarding human resources management (Recommendation 6).
(e)   Adhere to the Internal Control Framework (Recommendation 2).

The detailed assessment is presented below, per audit area:

A. Governance

1. Corporate Oversight and Assurance

Issue 1   <u>Reporting lines and roles and responsibilities not clearly defined</u>

The 'UNDP Strategic Plan 2014-2017' requires clearly defined organizational structures that match funding streams as well as support services to deliver quality programmes, and ensure accountability. According to

workforce management procedures in the 'UNDP Programme and Operations Policies and Procedures', effective organizational structures for each office are to be defined based on capacity analyses. The organizational policy requires the regular review of actual job functions and alignment with the job descriptions. Programme Managers/Analysts should report to the office (Resident Representative) and project personnel should report to the project manager (implementing partner).

The following issues were noted:

- There were two Programme Analysts at the international professional level (P3 positions) that had the same job descriptions and were both responsible for the Global Environment Fund programme, which constituted a duplication of duties. One staff had a title of Programme Analyst/Manager and the other, of Programme Analyst/Operations Manager. The second position was created to deal with operational inefficiencies in relation to the Global Environment Fund programme observed by management during the implementation of the related project. The normal process would have been to address any performance issues directly with the existing Programme Manager instead of setting up an additional identical position.

- There were instances where job descriptions and actual jobs performed were not the same. Four job descriptions out of 23 (17 percent) were reviewed against actual functions, and all had actual functions significantly different from documented functions.

- There were unclear reporting lines with respect to Programme Managers/Analysts for Global Environment Fund projects. According to project management arrangements for all Global Environment Fund projects, Programme Managers/Analysts report directly to the Director of National Projects, instead of reporting to the UNDP Resident Representative. This appeared to be due to an error when documenting the arrangements, which was not detected at the approval stage. In addition, the Office's organization chart included project support personnel holding service contracts (non-staff) with direct reporting lines to the Office's Programme Managers/Analysts, instead of the project managers at the implementing partner level.

This was due to the Office's structure had evolved without the conduct of a proper capacity analysis. In their response to the draft audit report, the Office's management stated that the two P3 positions for Programme Analysts would not be renewed when their contracts ended in March 2018.

Duplication of roles and unclear reporting lines, as well as actual functions that are not aligned with job descriptions may negatively affect supervision, accountability, and effective delivery of programmes.

Priority	Medium (Important)
Recommendation 1:	

Recommendation 1:

The Office should clearly define the organizational structure by:

(a) conducting a capacity analysis that will result in defining required capacities and effective organizational structure and the elimination of duplicate roles;
(b) reviewing job descriptions and aligning them with actual functions; and
(c) reviewing and aligning the reporting lines for Programme Managers/Analysts and project staff, for Global Environment Fund projects, with the Office structure and in line with programme management guidelines.

Management action plan:

The Office notes this recommendation and will be working with the Regional Bureau for Africa to develop a holistic organizational structure that is relevant, effective and efficient.

Estimated completion date: March 2019

Issue 2   Non-adherence to Internal Control Framework

The Internal Control Framework identifies the treasury/finance user role as one of the roles that are significant to internal control and must not be allocated to non-staff personnel. It also requires the designation of roles, including project manager and approving manager roles, to be documented and filed safely.

The audit noted the following regarding delegation of authority to staff members:

- There were five service contract holders with a finance/treasury role, contrary to the Internal Control Framework requirements.
- The designation of staff as project managers and approving managers in Atlas (enterprise resource planning system in UNDP) was not documented as required.

The Office's management had already begun working with the Regional Bureau for Africa in order to develop a plan to streamline the Office's structure and put into place standard operating procedures, and capacity development.

Non-adherence to the Internal Control Framework may result in conflicts of interest and fraud.

Priority	Medium (Important)
Recommendation 2: The Office should adhere to the Internal Control Framework by: (a) immediately taking remedial action to allocate roles to personnel with contracts governed by UN Staff Rules and Staff Regulations; and (b) formally documenting and filing the delegation of roles for staff as project managers and approving managers in Atlas.	
Management action plan: The remedial action regarding allocation of roles significant to internal control will be included in the development of the Internal Control Framework as well as the wider process of addressing the Office's structure weaknesses. **Estimated completion date:** March 2019	

B. Programme

Issue 3   Inadequate programme resources

The 'UNDP Strategic Plan 2014-2017' requires the utilization of core resources to design programmes that generate additional resources, are of critical mass, and can yield meaningful development results.

The Office received in total, allocations of approximately $3.5 million in core resources during five years from 2013 to 2017. These resources were used to fund two 'traditional/regular' UNDP projects (Support Country Programme Document, and Justice Reform and Local Authorities) under the Democratic Governance outcome. For those years, the Office did not generate any additional resources.

This was due to a lack of capacity for programme design in relation to the Democratic Governance outcome.

The inability to design and improve programmes may result in the Office not meeting development objectives and may affect the financial sustainability of the Office.

Priority	Medium (Important)
Recommendation 3: The Office should work together with the government counterpart to attract resources in relation to the Democratic Governance objective, and seek the Regional Bureau's support.	
Management action plan: The Office will engage in the following: (a) include staff capacity development for programme design as well as the implied resource mobilization issues in Democratic Governance within the larger office capacity analysis and plan of action, which will include both programme and operations; and (b) work closely with the Government to design a good governance programme that will address institutional reform and capacity issues. **Estimated completion date:** March 2019	

C. Operations

1. Finance

Issue 4   Non-compliance with financial management policies and procedures

The 'UNDP Programme and Operations Policies and Procedures' require offices to comply with the Internal Control Framework and the Atlas payment processing controls. Cheque cancellation is permitted in circumstances of errors in processing or to comply with banking requirements. There is also a requirement for offices to establish an override policy to be approved by the respective Regional Bureau.

The following weaknesses were noted in payments processing:

- There were 18 budget override cases totalling $134,805, but there was no budget override policy established.

- The Office processed eight cheque payments in Atlas, related to two projects, with a total value of $435,200 in December 2016 for goods/services not yet received. These cheques were later cancelled in 2017 and the final disbursement was instead made through electronic funds transfer in 2017. This practice indicated improper use of the system and led to an overstatement of the total programme delivery by 8 percent in 2016.

- There were five cases with a total value of $8,635 where the same staff member knowingly approved purchase orders and related vouchers for payments of expenses to themselves.

There was inadequate oversight of financial policies and procedures, which may negatively impact the Office's financial reporting, and which may lead to fraud.

Priority	High (Critical)
Recommendation 4: The Office should strengthen compliance with financial management policies and procedures by: (a) establishing an override policy which should be approved by the Regional Bureau, and clarify circumstances and processes to follow when performing budget overrides; (b) tightening controls over cheques cancellation and reporting the cases of the cancelled cheques to the Office of Financial Resources Management; and (c) disallowing a single person to approve both purchase orders and vouchers or payments of expenses relating to themselves.	
Management action plan: The Office has already begun working with the Regional Bureau for Africa to develop a plan to streamline and put in place standard operating procedures and capacity development to address this recommendation, including the override policy. The Office will further engage in: (a) developing an override policy and sharing it with the Comptroller by the end of February 2018; (b) reporting the case of cancelled cheques to the Office of Financial Resources Management as per the recommendation and tighten controls over cheque cancellation; and (c) ensuring that no single person approves both purchase orders and related vouchers at the same time, and/or approves payments of expenses relating to themselves. **Estimated completion date:** December 2018	

2. Procurement

Issue 5   Weaknesses in procurement management

Electronic procurement requires initiating every procurement by raising an e-Requisition in Atlas. The 'UNDP Programme and Operations Policies and Procedures' recommend that a purchase order should be created before signing a supplier contract to allow budget checks in Atlas. Inclusive sourcing for effective competition is also recommended, to ensure fairness, integrity and transparency of the process. The following weaknesses were noted:

(a) Generally, the Office did not initiate procurement by raising e-Requisitions. Requests for procurement services were made by email, memo or telephone calls.

(b) Out of 33 purchase orders reviewed, 9 valued at $245,000 represented cases whereby contracts were signed prior to the processing of purchase orders in Atlas. Therefore, contracts were signed prior to carrying out budget checks in Atlas to ensure that funds were available.

(c) The solicitation of suppliers was not adequately undertaken or documented. Out of six cases of requests for quotations that were reviewed, amounting to $191,000, it was noted that:

- In two cases amounting to $58,500, only two suppliers were contacted to make offers instead of the minimum of three required by the policy.
- In three cases amounting to $65,300, less than three suppliers submitted offers.
- In one case of direct contracting amounting to $67,200, there was no authorization from senior management for a waiver of the competitive selection process. There was also no roster for selecting eligible suppliers.

There were no standard operating procedures for procurement processing as recommended by the 'UNDP Programme and Operations Policies and Procedures'. Weaknesses in procurement processing may compromise the procurement principles of fairness, integrity and transparency.

Priority	Medium (Important)
Recommendation 5: The Office should strengthen procurement processing by putting in place standard operating procedures that will ensure: (a) initiation of every procurement with an e-Requisition and the creation of purchase orders in Atlas before signing contracts to enable budget checks; and (b) establishing a roster of suppliers to enhance sourcing and clearly documenting the solicitation process based on a minimum of three requests for quotation.	
Management action plan: The Office will put in place standard operating procedures and: (a) initiate every procurement with an e-Requisition and create purchase orders before signing contracts; (b) and put a roster in place before the end of the second quarter of 2018.	

Estimated completion date: June 2018

3. Human Resources

Issue 6 <u>Weak implementation of staff development, training, and absence management policies</u>

The corporate learning policy requires every staff member to complete all UNDP mandatory courses. The performance management policy requires every staff member to complete the performance management and development process, including the mid-year review process. The absence policy requires all eligible personnel to request and record absences themselves in Atlas through the eServices module.

- The following mandatory courses were not completed despite reminders from management. Out of 18 staff members, including supervisors:
    - 8 (44 percent) had not completed the Prevention of Harassment, Sexual Harassment and Abuse of Authority course;
    - 12 (67 percent) had not completed the Basic Security in the Field II course;
    - 14 (78 percent) had not completed the Advanced Security in the Field course;
    - 11 (61 percent) had not completed the Gender Journey course;
    - 10 (56 percent) had not completed the Ethics and Integrity at UNDP course;
    - 13 (72 percent) had not completed the Legal Framework course; and
    - 12 (67 percent) had not completed the UN Human Rights and Responsibilities course.

- There were 10 staff members that had not completed the 2017 performance management and development planning.

- Regarding leave and absences, personnel could proceed with taking absences without prior approval from supervisors, which resulted in the leave monitor recording unapproved absences in eServices. From 1 April 2016 to 30 September 2017, 610 absence entries were made in eServices, out of which 107 (or 18 percent) were made by the leave monitor on behalf of personnel.

Not implementing corporate policies may undermine organizational values, and may result in low performance and weak capacity.

Priority Medium (Important)
Recommendation 6: The Office should enforce the implementation of corporate policies regarding human resources management by ensuring that: (a) all staff complete mandatory courses; (b) all staff complete the performance management and development process; and (c) all personnel record their absences through eServices and get approval where applicable.

Management action plan:

The Office will do the following:

(a) clear the backlog on mandatory learning;
(b) complete the performance management development process for 2017 as required; and
(c) address absence entries in Atlas by ensuring that eligible personnel record their absence requests in Atlas through eServices.

Estimated completion date: December 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 <u>not included in this report</u>.