UNITED NATIONS DEVELOPMENT PROGRAMME
Office of Audit and Investigations

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AUDIT

OF

UNDP COUNTRY OFFICE

IN

MADAGASCAR

Report No. 1921

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Report on the Audit of UNDP Madagascar
Executive Summary

The UNDP Office of Audit and Investigations (OAI) conducted an audit of UNDP Madagascar (the Office) from 12 to 23 March 2018. 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 July 2016 to 31 December 2017. The Office recorded programme and management expenditures of approximately $25.9 million. The last audit of the Office was conducted by OAI in June 2014.

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 governance, programme activities, and operations.

Key recommendations: Total = **7**, high priority = **0**

The audit did not result in any high (critical) priority recommendations. There are seven medium (important) priority recommendations, which means "Action is required to ensure that UNDP is not exposed to risks. Failure to take action could result in negative consequences for UNDP."

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

Management comments and action plan

The Resident Representative accepted all seven 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 Antananarivo, Madagascar (the Country), comprised of 48 staff members, 45 service contract holders, and 31 United Nations Volunteers (UNV) at the time of the audit. The Country Programme Document, covering the period from 2015 to 2019, focused on the governance and sustainable development areas. With regards to governance, emphasis was on: (a) local governance, peacebuilding and national reconciliation; and (b) rule of law and access to justice, with a focus on the penal system and political governance. In the area of sustainable development, the Office committed to support initiatives aiming at: (a) creating employment and income generating opportunities for women, youth and vulnerable populations; (b) reducing and recovering from the impact of natural disaster; and (c) improving environmental governance and reconciling natural resources management with development challenges at regional and community levels. The Office had a portfolio of 13 ongoing projects (4 directly implemented and 9 nationally implemented).

II. Audit results

Satisfactory performance was noted in the following areas and sub areas:

(a) Human resources management. A review of the workflows, as well as testing on the recruitment process, separation and benefits and entitlements, did not uncover significant issues.

(b) ICT and general administrative management. A review of internal controls as well as the review of the Disaster Recovery Plan together with the data backup and restoration procedures were satisfactory.

(c) Staff and premises security. Safety and security controls were assessed to be adequate and functioning well.

OAI made seven recommendations ranked medium (important) priority.

Low priority issues/recommendations were discussed directly and agreed with the Office and are not included in this report.

Medium priority recommendations arranged according to significance:

(a) Improve programme and project monitoring (Recommendation 4).
(b) Enhance risk management (Recommendation 1).
(c) Revisit and update Country Office support to national implementing partners (Recommendation 3).
(d) Reinforce resource mobilization and communication (Recommendation 2).
(e) Strengthen the effectiveness and efficiency of the procurement function (Recommendation 6).
(f) Strengthen financial management and donor reporting (Recommendation 5).
(g) Improve selection and management of individual contracts (Recommendation 7).

The detailed assessment is presented below, per audit area:

A. Governance

1. Leadership

Issue 1 Lapses in risk management

The UNDP enterprise risk management policy highlights that UNDP is exposed to a variety of external and internal risks that may impact the achievement of organizational goals. The enterprise risk management (ERM) system allows UNDP to manage these risks and stipulates that reporting on risks is performed at all levels of the organization as part of the implementation of the work plan. Risk assessment is the overall process of risk (a) identification, (b) assessment, (c) prioritization, (d) taking action, and (e) monitoring. All offices are required to update the risk register on a quarterly basis.

The audit team noted that although a risk identification process existed at project inception and during the annual planning exercise (Integrated Work Plan), there was no mechanism to capture and manage emerging risks, as illustrated below:

- Starting in 2016, the Office focused its programme activities on the southern part of the Country, which represented 20 percent of programme budget in 2016 ($0.8 million), 45 percent in 2017 ($2.6 million) and would reach 52 percent in 2018 ($6 million). The Office did not update the risk register in the Integrated Work Plan under the Corporate Planning System to capture risks associated by this change. Furthermore, the audit tested six projects, and noted that none of them had updated the risks, issues or monitoring logs in Atlas (enterprise resource planning system of UNDP). The monitoring of risks and issues was done through quarterly reports only.
- The Country Programme Document mid-term review showed that programme activities were delayed due to pending actions by the government counterpart. Although the Office had been liaising with the Government on this issue, this was not captured in the Integrated Work Plan risk register.
- The monitoring and evaluation function, as well as oversight roles on procurement activities had been affected by the turnover of staff members. This was mainly due to the fact that the Office was offering UNV contracts, which were not attractive enough to retain qualified personnel. Nevertheless, the Office was still proposing this type of contract for strategic positions such as the Regional Coordinator. This could increase the risk of high turnover and affect the oversight and coordination activities in the southern part of the Country. The Office was also planning to build on results in the southern part of the Country to mobilize additional resources.

The lack of a structured risk management process may lead to key risk factors not being timely evaluated, which could prevent the Office from achieving its goals.

Priority	Medium (Important)

Recommendation 1:

The Office should enhance risk management by:

(a) systematically applying all required steps described in the UNDP enterprise risk management policy;
(b) updating the current risk register in the Integrated Work Plan on a quarterly basis, as well as project logs in Atlas; and
(c) taking mitigating measures to address the risk of staff turnover, including the Regional Coordinator position.

Management action plan:

(a) Ensure all risks are systematically captured in the Integrated Work Plan risk register.
(b) Regularly update Atlas logs in line with information contained in quarterly reports.
(c) Advertise the Regional Coordinator post at the P3 level.

Estimated completion date: 31 October 2018

2. Partnerships and external relationships

Issue 2 Challenges in resource mobilization and communication

The financial sustainability of UNDP Country Offices depends on their ability to mobilize resources and develop partnerships. Therefore, the 'UNDP Programme and Operations Policies and Procedures' require Country Offices to establish an effective partnership and resource mobilization action plan, identifying the needed resources for programmes and projects, along with an analysis of the external resource environment to determine existing and potential new donors. The resource mobilization action plan should be updated on a regular basis and serve as a strategic document to mobilize resources.

The Office, in its resource mobilization strategy approved in May 2016, committed to revising the action plan every six months, and to update the strategy on an annual basis. These revisions would be included in the yearly planning process, to incorporate changes in political and organizational contexts, and/or new donor priorities.

The audit team noted the following weaknesses:

(a) The action plan was not updated as planned in the resource mobilization strategy

The Office did not provide evidence that the action plan was updated every six months. At the end of the audit fieldwork, the resource mobilization strategy had not been updated for the year 2018.

Delays in updating the resource mobilization strategy and related action plan could affect the Office's ability to mobilize additional funds in a context of limited donor interest in the Country.

(b) Funding gaps were observed

For the 2015-2019 programme cycle, the Office committed to mobilize $14 million in the area of governance, $11 million in environment and climate change, and $2 million in poverty reduction. As of March 2018, the Office exceeded its target in the area of environment and climate change. However, the Office still needed to fill a gap of $5.2 million in the area of governance. Also, it had not yet mobilized funds for poverty reduction, hence the gap of $2 million. No explanation was provided to justify the funding gap in the area of poverty reduction.

If not resolved, the funding gap for programme activities may limit the Office from delivering on its commitment for the current programme cycle, which could affect UNDP's reputation.

(c) Communication towards donors needed improvement

Meetings with partners and their responses to audit questionnaires showed that there was room for improvement in terms of the Office's communication. Partners indicated that they were only informed when involved in specific activities, but not on the Office's overall actions. The Office mentioned that they had drafted a communication plan, but it needed to be operationalized.

Inadequate communication and failure to address partners' negative perceptions of the Office could negatively impact the Office's quest for additional donor resources.

Priority	Medium (Important)

Recommendation 2:

The Office should reinforce resource mobilization and communication by:

(a) updating the resource mobilization strategy on an annual basis and the action plan every six months; and
(b) operationalizing the communication plan, as well as addressing any negative donor perceptions about UNDP.

Management action plan:

(a) Update the resource mobilization strategy and action plan.
(b) Redouble efforts to communicate more frequently and more effectively in line with the communication plan and document through a monthly log.

Estimated completion date: 30 September 2018

B. Programme activities

1. Programme / project design and implementation

Issue 3 Significant Country Office support to nationally implemented projects without an exit strategy and adequate cost recovery system

The 'UNDP Programme and Operations Policies and Procedures' require that UNDP offices provide support services at the request of governments. For an entity to execute or implement a UNDP project, a capacity assessment should determine additional technical, managerial, administrative and financial needs to ensure that the project results will be achieved. Where service support is provided to nationally implemented (NIM) projects, UNDP rules and regulations should be followed, including establishing exit strategies to transfer ownership and accountability of project deliverables to the national partners.

Furthermore, the UNDP cost recovery policy states that offices must recover any direct costs incurred in the implementation of a development activity. The cost recovery can be done based on actual costs, by directly charging the project budget (Direct Project Costing or DPC) or on a transactional basis using the Universal Price List. Per the 'UNDP Programme and Operations Policies and Procedures', services that will result in DPC must be disclosed transparently and agreed to by all concerned parties.

The review of 3 out of 10 NIM projects disclosed the following weaknesses:

(a) Inadequate capacity-building process

In 2015, the Office conducted a capacity assessment and established a capacity-building plan, covering technical, managerial, administrative and financial aspects of project management. The capacity-building plan was implemented through trainings and workshops. However, as of March 2018, government implementing partners had not been re-evaluated to assess the results of trainings and workshops provided by UNDP.

(b) Lack of an exit strategy from NIM projects

At the time of the audit, the Letter of Agreement with the Government did not establish an exit strategy with the view to transfer ownership and accountability of project deliverables to the national implementing partners. The Office acknowledged the need for national implementing partners to take full responsibility and it started drafting an exit strategy on NIM projects at the time of the audit.

(c) Project support service costs not fully recovered

Beginning in 2016, the Office implemented DPC through the stand-alone DPC project methodology. At the time of the audit, the Office was providing support services to 10 NIM projects. The Office signed a Letter of Agreement with the Government, and the Universal Price List was chosen as the basis for cost recovery.

The provision in the Letter of Agreement to use the Universal Price List was not followed because the Office was using the stand-alone DPC project methodology for recovering support service costs. Nonetheless, project support service costs were only recovered from 8 of 10 projects. In addition, only personnel costs were attributed through DPC and did not include general operating expenses. These issues occurred mainly because of misinterpretation of the DPC policy, and weak monitoring and follow up on cost recovery for projects not under DPC.

Following the fieldwork, the Office regularized the recovery of support service costs and began using the Universal Price List for projects that were not under DPC until 2017. Except for projects funded through the Peace Building Fund, DPC was also used for all projects in 2018. Nonetheless, the Letter of Agreement with the Government was not amended to reflect this change.

In the event of an inefficient capacity-building process and a lack of an exit strategy, the goal of UNDP in strengthening national capacity and long-term programme results may not be achieved.

Priority	Medium (Important)
Recommendation 3: The Office should revisit and update the Country Office support to national implementing partners by: (a) reassessing national partners' capacity in project management and re-evaluating the level of the Office's support services to a nationally implemented project; (b) finalizing the exit strategy with the view to transfer ownership and accountability to the national partners; and (c) amend the Letter of Agreement with the Government to acknowledge the full application of the DPC.	
Management action plan: The following actions will be taken by the Office: (a) The Office will improve capacity-building by undertaking a full assessment of implementing partners by the end of this year in preparation for the next programme cycle. (b) Because of the unstable political environment, it was not possible to further discuss and refine the strategy with counterparts. The Office will finalize the exit strategy from NIM projects when the political environment allows. (c) Amend the Letter of Agreement with the Government to state the full application of the DPC. **Estimated completion date:** December 2018	

Issue 4 Weaknesses in programme and project monitoring and oversight

The 'UNDP Programme and Operations Policies and Procedures' require projects to develop a comprehensive Results and Resources Framework, identify the outputs, indicators, baselines, and indicative activities for each of the activities being implemented.

The audit selected six projects for detailed review with estimated total expenditures of $10.8 million, representing 74 percent of total programme expenditures for 2016 and 2017. The audit noted the following weaknesses:

(a) Unsupported project results reporting

The existing programme monitoring mechanism within the Office did not require appropriate collection, review, follow-up on the indicators, and quality control of project results. For two projects, the Office was not able to provide the audit team with supporting data to substantiate what had been reported in the projects' reports. The database information provided to the audit team did not feed into the information reported by the projects. At the time of the audit, the Monitoring & Evaluation Specialist had not reviewed source documents on results reported by the projects.

(b) Inadequate oversight of activities in the southern part of the Country

As explained in issue 1, the Office focused its interventions in the southern part of the Country. The change in geographical focus had not been supported by a proper monitoring framework for related activities. For the three main projects, an integrated annual work plan was drafted. However, the planning matrix for monitoring and evaluation and the Results and Resources Framework were missing. The Office had not finalized necessary baselines and targets to monitor the impact of UNDP activities and progress in the region. Therefore, the results of the new strategy could not be measured.

The Office commented that changes in the Monitoring and Evaluation Team impacted project data collection and results monitoring.

The lack of effective monitoring could prevent the Office from determining whether intended results are being achieved, and whether corrective actions are necessary.

Priority Medium (Important)

Recommendation 4:

The Office should improve programme and project monitoring by:

(a) substantiating results reported at the project level with appropriate data; and
(b) finalizing the formulation of adequate indicators, baselines and targets to be periodically monitored and reported on for the southern part of the Country.

Management action plan:

The Office agreed with the recommendation and committed to strengthening project monitoring by:

(a) undertaking additional efforts to strengthen quality and reliability of project data through improved data collection and triangulation mechanism for each project.
(b) pursuing efforts to finalize baselines and targets as soon as possible.

Estimated completion date: December 2018

C. Operations

1. Financial resources management

Issue 5 Errors in recording assets and transactions

The 'UNDP Programme and Operations Policies and Procedures' require that only assets that UNDP uses and controls in the provision of its administrative and development work shall be capitalized. Thus, assets purchased under NIM projects and those that are purchased by UNDP solely for distribution to a government will not be capitalized. Moreover, the use of the appropriate chart of accounts is critical for accurate financial management and donor reporting. As such, expenses should be recorded using the appropriate expenditure account in the 6xxxx or 7xxxx series.

At the time of the audit, 259 assets with a total net book value of $662,891 were reported in service as per the Atlas registry. The audit team reviewed the asset management process and reconciled the vehicles recorded in the Atlas registry with the Office's internal list. An analysis of the Office's Trial Balances for the audit period and a review of a sample of accounts were also conducted. This review uncovered the following:

- Twelve vehicles for NIM projects recorded in the Atlas in Service Report as of 31 December 2017 with a net value of $100,793 were not used and controlled by the Office. Therefore, the Office's net value assets were overstated. Following the audit fieldwork, appropriate corrective actions were taken. Therefore, the audit is not raising any recommendation in this regard.
- The grants account (72605) showed a balance of $296,771 for 2017. However, transactions amounting to $173,811 were related to project activities implemented by NGOs as implementing partners and should have been allocated and recorded to the corresponding expense accounts. Similarly, the sundry account (74525) presented a balance of $103,354 for 2017 while transactions amounting to $64,587 should have been recorded in specific accounts based on the nature of related expenses. Subsequent to the audit, the Office organized a training for project and finance staff.

The above issues were caused by the lack of capacity of the project staff and inadequate oversight and monitoring of accounting entries by the Office.

The above accounting entries resulted in inaccurate financial data and donor reporting, as well as non-compliance with International Public Sector Accounting Standards, which could affect donors' confidence in UNDP.

Priority	Medium (Important)
Recommendation 5: The Office should strengthen financial management and donor reporting by putting in place an adequate oversight and control mechanism over accounting entries.	
Management action plan: The Office agreed with the recommendation. Further to the audit fieldwork, the Office issued a memo to enhance oversight and control mechanisms over accounting entries. **Expected completion date:** 30 September 2018	

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. Procurement

Issue 6 Inadequate procurement planning

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 Office processed 1,339 purchase orders for a total of $9.5 million during the audit period. The audit tested a sample of 32 transactions amounting to $2.4 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 weaknesses were noted:

The Office prepared procurement plans for 2016 and 2017. However, these plans were not monitored and effectively used, as described below:

- In 2017, the planned procurement activities amounted to $4.35 million and the final procurement value reached $5.87 million. However, the procurement plan was not updated to reflect the changes in procurement activities as well as reasons for the increase in the procurement value. Further, there was no analysis done to indicate to which extent the initial plan was executed. Therefore, any potential significant variances could not be analyzed and corresponding corrective actions could not be taken to improve the planning process.
- At the time of the audit, 37 procurement requests submitted by projects, mostly during the last quarter of 2017, were not finalized. Further analysis showed that 32 of them were not included in the projects' procurement plans. Therefore, this situation created backlogs and bottlenecks at the level of the Procurement Unit, which delayed project activities.

These issues were caused by the absence of an efficient oversight mechanism over procurement planning.

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

Priority	Medium (Important)
Recommendation 6: The Office should strengthen the effectiveness and efficiency of its procurement function by assessing projects' needs at the beginning of the year and regularly updating the consolidated procurement plan to reflect major changes during the year.	
Management action plan: The Office agreed with the recommendation and has started to monitor the procurement plan on a weekly basis. It has also committed to share an updated procurement plan in June 2018. **Estimated completion date:** 30 June 2018	

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 7 Lapses in selection and management of consultants

The engagement of vendors 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. When the budget for the consultancy exceeds $100,000, it is mandatory to conduct an interview as part of the selection process. 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 reference checks. If the consultant is over the age of 62 and the assignment requires travel, a statement of medical fitness is necessary. Finally, only active contracts may be amended.

During the audit period, the Office issued 152 individual contracts valued at $1.89 million. The audit reviewed a sample of 26 individual contracts for a total amount of $0.6 million and noted the following weaknesses:

- No interview was conducted for the recruitment of a consultant with a budget above $100,000.
- Reference checks were missing in 7 out of 26 instances.
- Medical certificates were not provided by four out of five consultants who were above 62 years of age;
- The duration and value of two individual contracts were not extended and amended in a timely manner.

The Office did not provide adequate justifications for the exceptions noted.

By not complying with individual contractor recruitment and management policies and procedures, there is no assurance that the most qualified candidate will be selected. Similarly, amending expired contracts might expose the Office to legal issues.

Priority	Medium (Important)
Recommendation 7 The Office should improve the selection and management of individual contracts by: (a) conducting interviews when a consultancy exceeds $100,000 and obtaining two positive reference checks prior to hiring consultants; (b) requiring consultants above 62 years of age to provide a medical certificate; and (c) establishing a mechanism to better monitor the expiration of contracts.	
Management action plan: The Office agreed with the recommendation and commented that corrective measures have been taken on recent cases of individual contracts. **Estimated completion date:** 31 December 2018	

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**	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.