UNITED NATIONS DEVELOPMENT PROGRAMME
Office of Audit and Investigations

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AUDIT

OF

UNDP COUNTRY OFFICE

IN

EQUATORIAL GUINEA

Report No. 1924

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Report on the Audit of UNDP Equatorial Guinea
Executive Summary

The UNDP Office of Audit and Investigations (OAI) conducted an audit of UNDP Equatorial Guinea (the Office) from 16 to 31 July 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 January 2017 to 31 March 2018. The Office recorded programme and management expenses of approximately $7.4 million. The last OAI audit of the Office took place in 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 **unsatisfactory**, which means "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." This rating was mainly due to significant weaknesses in governance, corporate external relationships and partnerships, and in the management of both programme and operations activities.

Key recommendations: Total = **16**, high priority = **10**

The 16 recommendations aim to ensure the following:

Objectives	Recommendation No.	Priority Rating
Achievement of the organization's strategic objectives	1, 2	High
	3	Medium
Reliability and integrity of financial and operational information	7, 8	High
Effectiveness and efficiency of operations	10, 11	High
	12, 15	Medium
Compliance with legislative mandates, regulations and rules, policies and procedures	4, 5, 13,14	High
	6, 9,16	Medium

For high (critical) priority recommendations, prompt action is required to ensure that UNDP is not exposed to high risks. Failure to act could result in major negative consequences for UNDP. All high (critical) priority recommendations are presented below:

Weaknesses in organizational structure and control environment (Issue 1)	Under the existing organizational structure and control environment, the audit team identified weaknesses and unclear roles and responsibilities among programme and operations areas. These included flaws in organizational structure, inadequate delegation of authority, weak Internal Control Framework, and inadequate work environment. In addition, Global Staff Survey action plans were not implemented. <u>Recommendation:</u> The Office should improve its organizational structure and control environment by: (a) clarifying roles, responsibilities and accountabilities of staff and individual contractors and matching the Internal Control Framework and delegations of authority with the revised organizational structure; and (b) timely addressing the recommendations from the Global Staff Survey.
Inadequate resource mobilization and partnership management (Issue 2)	The audit team noted weaknesses in resource mobilization, uncollected Government Contribution to Local Office Costs, weaknesses in cost recoveries for services rendered to other agencies and to the Government, and weaknesses in communication and partnership management. <u>Recommendation:</u> The Office should improve partnership and resource mobilization management by: (a) developing a resource mobilization action plan to address the funding gap from the current programme cycle; (b) continuing its efforts in collecting the Government Contribution to Local Office Costs and implementing a mechanism to recover costs associated with services provided to other United Nations agencies and Country Office support to nationally implemented projects; and (c) establishing a communication strategy to strengthen partnership management.
Project designs approved and implemented without required quality standards (Issue 4)	The audit team reviewed a sample of six development projects and found the following: ▪ All six projects were signed with government counterparts without being appraised by the Local Project Appraisal Committee. ▪ The results and resources framework of four projects showed weaknesses in the contribution of project results to higher level results because project results were not SMART (specific, measurable, attainable, relevant and trackable). ▪ The monitoring framework of five projects was not adjusted to project needs, as required. ▪ The Office did not conduct the mandatory Social and Environmental Screening Procedure for the six projects. This Procedure aimed to assist the organization with the identification of potential social and environmental risks and opportunities. ▪ Projects were created in Atlas using generic implementing partner codes making it impossible to determine which implementing partner incurred in the expenses reported in the Combined Delivery Reports.

Recommendation: The Office should improve project approval and implementation by: (a) ensuring that all development projects are appraised by the Local Project Appraisal Committee; (b) ensuring that project formulation includes results that are SMART, and the monitoring framework is adjusted according to the complexity and needs of each project; and (c) conducting the Social and Environmental Screening Procedure before projects are appraised and ensuring that projects are created in Atlas using specific implementing partner codes.

Weaknesses in project monitoring and risk management (Issue 5)

The audit found weaknesses in project monitoring and risk management which may impede the Office from determining whether intended programme and projects results are being achieved and reported to main stakeholders, and whether corrective actions are necessary to ensure the delivery of intended results.

Recommendation: The Office should strengthen project monitoring and risk management by: (a) ensuring that quality assessments for new and closing projects are timely conducted, and recommendations are implemented; (b) establishing a monitoring framework and conducting monitoring activities such as risk assessments and results-based field visits as required; and (c) preparing annual work plans and project progress reports, to include results-based information, monitor performance.

Weak financial oversight and controls (Issue 7)

The audit team reviewed the Office's financial oversight and controls and selected a sample of 46 vouchers amounting to $3.3 million, and noted the following: (a) weaknesses in the financial control environment, such as the use of incorrect chart of accounts and insufficient documentation and incorrect payment of $8,300 to a vendor for the repair of a vehicle not belonging to UNDP; (b) recurring issues in the comptroller performance index (CPI) not addressed such as cleaning up of long outstanding unreconciled payments and deposits; and (c) non-compliance with the mandatory Financial Disclosure Policy.

Recommendation: The Office should strengthen its financial oversight and controls by: (a) processing payments only when all required documentation is available, applying the correct chart of accounts, and ensuring that manual payments are properly recorded in Atlas within five days; (b) developing action plans to address timely the exceptions in CPI and recovering incorrect payment to a vendor; and (c) ensuring that all staff members comply with the mandatory Financial Disclosure Policy.

Weaknesses in banking arrangements (Issue 8)

A review of banking arrangements and management of the bank accounts disclosed the following weaknesses:

- The Office did not have an agreement with the bank and had not negotiated with the bank on preferred bank rates. Further, it had not explored automated electronic funds transfers.
- The audit team's analysis of monthly bank reconciliations found no evidence of review of outstanding unreconciled items, which included unreconciled cheques and deposits.

- Out of 72 deposit lines created, 58 were for the adjustment of previous deposits incorrectly created.

Recommendation: The Office should strengthen the management of banking arrangements by: (a) establishing an agreement with the bank including establishing negotiated preferred rates; (b) reviewing outstanding unreconciled items; and (c) reviewing and clearing unapplied and unreconciled deposits.

Weak procurement oversight and controls (Issue10)

A review of procurement oversight and controls highlighted weaknesses, such as: (a) procurement processes not documented; (b) no oversight exercised by the Contracts, Assets and Procurement Committee (CAP); and (c) inappropriate bids receiving and safekeeping.

Recommendation: The Office should strengthen procurement oversight and controls by: (a) establishing a proper recording and archiving system for procurement activities; (b) submitting procurement cases above the Office's procurement authority to the CAP; and (c) establishing adequate controls over the receipt and safekeeping of bid documents.

Weaknesses in procurement practices (Issue 11)

The audit team noted weaknesses in managing individual contracts such as missing supporting documentation, incorrect representation of commitments such as raising purchase orders for payment requests on behalf of the Government, and inadequate vendor management such as not maintaining completed vendor forms and vendor identifications.

Recommendation: The Office should strengthen procurement practices by: (a) maintaining adequate documentation when hiring consultants; (b) correctly using purchase orders to record commitments in Atlas following a procurement process; and (c) maintaining up-to-date and accurate vendor records in Atlas.

Inadequate management of travel (Issue 13)

The audit team reviewed 20 cases of international travels processed and noted weaknesses, such as:

- In 19 cases, only one quotation was found in the file.
- In two cases, staff going on home leave carried out their own travel analysis to determine lump sums to be paid by the Office. In two cases, staff travelled on itineraries that were not the most direct and economical, which led to additional $10,000 in costs.
- In 14 cases, travel claim (F10) forms were incomplete.

Recommendation: The Office should improve travel management by: (a) providing adequate training to staff involved in travel management including ensuring trip analyses with alternate routes are undertaken and properly documented; (b) adequately completing travel forms with supporting documents within the required timeframe; and (c) recovering, as appropriate, from the staff any overpayments of Daily Subsistence Allowances and other ineligible travel-related payments received.

Low completion rate of UNDP mandatory training courses (Issue 14)	Office staff had not completed all of the mandatory training courses. For example: 63 percent had not completed the Legal Framework course; 59 percent had not completed the Prevention of Sexual Exploitation and Abuse of the Local Population; 59 percent had not completed the Advanced Security in the Field course; and 59 percent had not completed the Prevention of Harassment, Sexual Harassment and Abuse of Authority course. Recommendation: The Office should strengthen the management of human resources by improving the level of completion of mandatory training.

Management comments and action plan

The UN Resident Coordinator and UNDP Resident Representative accepted all of the 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 Malabo, Equatorial Guinea (the Country). At the time of the audit, the Office comprised of 15 staff members, 4 service contract holders and 5 individual contractors.

The Country Programme Document for 2013-2017 focused on the following areas: (a) socioeconomic wellbeing; (b) democratic governance; and (c) sustainable environment.

At the time of the audit, the United Nations Development Assistance Framework 2013-2017 had been extended for one additional year until December 2018. The new Framework would cover the cycle 2019-2023.

II. Audit results

OAI made 10 recommendations ranked high (critical) and 6 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 organizational structure and control environment (Recommendation 1).
- (b) Improve partnership and resource mobilization management (Recommendation 2).
- (c) Improve project approval and implementation (Recommendation 4).
- (d) Strengthen project monitoring and risk management (Recommendation 5).
- (e) Strengthen financial oversight and controls (Recommendation 7).
- (f) Strengthen the management of banking arrangements (Recommendation 8).
- (g) Strengthen procurement oversight and controls (Recommendation 10).
- (h) Strengthen procurement practices (Recommendation 11).
- (i) Improve travel management (Recommendation 13).
- (j) Strengthen the management of human resources (Recommendation 14).

Medium priority recommendations, arranged according to significance:
- (a) Improve the annual integrated work planning (Recommendation 3).
- (b) Ensure timely project closure (Recommendation 6).
- (c) Strengthen the implementation of DPC (Recommendation 9).
- (d) Enhance Information Communication Technology governance and reduce operating costs (Recommendation 12).
- (e) Improve the management of the Resident Coordinator Office (Recommendation 15).
- (f) Adopt the Harmonized Approach to Cash Transfers (Recommendation 16).

The detailed assessment is presented below, per audit area:

A. Governance

1. Leadership

Issue 1 Weaknesses in organizational structure and control environment

The UNDP Internal Control Framework stipulates that the head of office is responsible for establishing and maintaining adequate internal controls. The following weaknesses were noted by the audit team:

(a) Flaws in organizational structure and functions

- Reporting structure was not aligned with the organization chart.
- The Resident Coordinator Officer, who was hired under individual contract, was performing core functions. The Finance Associate, who was also under individual contract, had been granted access to Atlas (enterprise resource planning system of UNDP) to create purchase orders, which was against UNDP policy.
- No staff were formally designated to be responsible for ICT management, project pipelines, resource mobilization, monitoring and evaluations of programme activities.

(b) Inadequate controls in the delegation of authority and Internal Control Framework

- The Operations Manager had not signed the delegation of authority.
- The delegation of authority granted to a staff indicated no limit on financial transaction approval. However, the Office's Internal Control Framework had $100,000 limit.
- Staff had had been assigned dual roles (project manager and manager level 1 or 2) in Atlas. The audit team noted that two staff were able to approve their own vouchers payments.

(c) Global Staff Survey action plans not implemented

- Recommendations aimed at addressing the staff survey results had not been implemented.

The Resident Representative escalated organizational structure weaknesses to the Regional Bureau for Africa. While the Bureau sent different missions to support programme and operations, the situation did not improve.

An inadequate organization structure, inadequate staffing, and a weak internal control environment could negatively impact staff productivity and may prevent the Office from achieving strategic objectives.

Priority High (Critical)

Recommendation 1:

The Office should improve its organizational structure and control environment by:

(a) clarifying roles, responsibilities and accountabilities of staff and individual contractors and matching the Internal Control Framework and delegations of authority with the revised organizational structure; and
(b) timely addressing the recommendations from the Global Staff Survey.

Management action plan:

The Office takes note of the above recommendations and will implement them through the following actions:

(a) Following the audit, the Office's reporting lines have been reviewed (Programme Analysts now reporting to the Resident Representative). Focal points for Resource Mobilization and M&E have been appointed by the Resident Representative. The segregation of roles is also now reflected in the Internal Control Framework. Amendment on ARGUS has been conducted accordingly.

In addition, the Office will work with the Regional Bureau for Africa for a decision on the organizational model for the Office's operations (i.e., outsourcing of operations functions bearing in mind the need for an immediate functional analysis (update of Internal Control Framework) or a potential restructuring as part of the new Country Programme Document implementation).

(b) The Office will continue to monitor the implementation of the Global Staff Survey recommendations.

Estimated completion date: December 2019

B. Corporate External Relations and Partnership

1. Partnership and Resource Mobilization

Issue 2 Inadequate resource mobilization and partnership management

The financial sustainability of UNDP Country Offices depends on their ability to mobilize resources and develop partnerships.

The following weaknesses were noted in resource mobilization and partnership management:

(a) Weaknesses in resource mobilization
There was no resource mobilization action plan to address a $7.5 million funding gap from the current programme cycle. With only two ongoing projects, cost recovery might not have been enough to cover the current Office structure costs. Further, the project pipeline only listed five projects under category C (initial ideas) and no projects listed under A (interventions with secured funding and implementation capacity ready to be launched) or B (potential projects).

(b) Uncollected Government Contribution to Local Office Costs
Government Contribution to Local Office Cost arrears amounted to $4.4 million, covering the period 2008-2018. The Office had sent reminders to its national counterpart and escalated the issue to the Regional Bureau for Africa.

(c) Weaknesses in cost recoveries for services rendered to other agencies and to the Government
There was no mechanism to recover costs associated with services provided to other United Nations agencies and Country Office support to nationally implemented projects.

(d) Weaknesses in communication and partnership management
National partners revealed that they were mostly not aware of UNDP projects, initiatives and results. There was concern about administrative support provided by the Office as well as project progress and

financial reports. For the previous five years, no UNDP partnership surveys were conducted. The Office did not establish an action plan to effectively reach out and collect feedback from partners.

Inadequate resource mobilization strategy and cost-recovery processes may jeopardize the Office's financial sustainability.

Priority	High (Critical)
Recommendation 2: The Office should improve partnership and resource mobilization management by: (a) developing a resource mobilization action plan to address the funding gap from the current programme cycle; (b) continuing its efforts in collecting the Government Contribution to Local Office Costs and implementing a mechanism to recover costs associated with services provided to other United Nations agencies and Country Office support to nationally implemented projects; and (c) establishing a communication strategy to strengthen partnership management.	
Management action plan: The Office takes note of the above recommendations and will implement them through the following actions: (a) Update the resource mobilization action plan and monitor the implementation of planned actions. (b) Continue its efforts on cost recovery and report on services rendered to other United Nations agencies and the Government reminding them of their obligations. (c) Update and maintain the project pipeline and ensure project progress reports are available for all ongoing projects. (d) Develop a communication strategy and partnership strategy for the new Country Programme Document cycle. **Estimated completion date:** March 2019	

Issue 3 Inadequate Integrated Work Plans

The Integrated Work Plan is a UNDP instrument that establishes annual programmatic and operational priorities and outlines what Country Offices plan to do during the year in response to corporate priorities as well as other, country-specific priorities, and significant 'additional' results.

The audit team reviewed the Office's 2017 and 2018 Integrated Work Plans and monitoring and noted the following weaknesses:

- Enabling actions were not specific, measurable, and time-specific to monitor the achieved activities.
- Enabling actions for programmatic and organizational priorities were excluded.
- Reported achievements of enabling actions in the 2016 and 2017 Results Oriented Annual Reports with missing evidence.
- The 2016 priorities excluded actions plans for:

- Resource mobilization through private sector and partnering with other United Nations agencies.
- Strengthening the implementation of the Direct Project Costing (DPC).
- Cost recovering and improving operations efficiency.
- Appropriate staffing measures.

Inadequate Integrated Work Plans and enabling actions that are not measurable and not linked to the Office's work plan may impact the Office's ability to achieve intended objectives and results.

Priority	Medium (Important)

Recommendation 3:

The Office should improve the annual integrated work planning in accordance with the applicable corporate guideline requirements by:

(a) integrating in the work plan all top programme and organizational priorities;
(b) establishing for all top priorities, enabling actions that are specific, measurable and time-specific; and
(c) ensuring that reported achievements in the Results Oriented Annual Reports are supported by documented evidence.

Management action plan:

The Office takes note of the above recommendations and will implement them through the following actions:

(a) Comply with the guidelines for specific, measurable and time-specific programmatic and organizational priorities in the Integrated Work Plan.
(b) Make use of available evidence in the 2018 Results Oriented Annual Reports.

Estimated completion date: June 2019

C. Programme

1. Quality Assurance Process

Issue 4 Project designs approved and implemented without required quality standards

The 'UNDP Programme and Operations Policies and Procedures' stipulate that to achieve project outputs, each project should have a results and resources framework clearly formulated in the project document that contains an approved annual work plan. The Project Appraisal Committee in turn ensures that it complies with quality requirements before recommending its approval.

The audit team reviewed a sample of six development projects and found the following:

- All six projects were signed with government counterparts without being appraised by the Local Project Appraisal Committee.

- The results and resources framework of four projects showed weaknesses in the contribution of project results to higher level results because project results were not SMART (specific, measurable, attainable, relevant and trackable).
- The monitoring framework of five projects was not adjusted to project needs, as required.
- The Office did not conduct the mandatory Social and Environmental Screening Procedure for the six projects. This Procedure aimed to assist the organization with the identification of potential social and environmental risks and opportunities.
- Projects were created in Atlas using generic implementing partner codes, making it impossible to determine which implementing partner incurred the expenses reported in the Combined Delivery Reports.

Weak project formulation and work plans may expose the Office to the risk of not being able to achieve the agreed project results and may engage UNDP in projects that are not feasible to implement.

Priority High (Critical)

Recommendation 4:

The Office should improve project approval and implementation by:

(a) ensuring that all development projects are appraised by the Local Project Appraisal Committee;
(b) ensuring that project formulation includes results that are SMART, and the monitoring framework is adjusted according to the complexity and needs of each project; and
(c) conducting the Social and Environmental Screening Procedure before projects are appraised and ensuring that projects are created in Atlas using specific implementing partner codes.

Management action plan:

The Office takes note of the above recommendations and will implement them through the following actions:

(a) Hold Local Project Appraisal Committee meetings for all new projects.
(b) Improve project design, monitoring and setting in Atlas.
(c) Conduct the Social and Environmental Screening Procedure for all new projects.

Estimated completion date: December 2019

2. Programme/Project Design and Implementation

Issue 5 Weaknesses in project monitoring and risk management

UNDP programme and project monitoring is driven by the need to account for the achievement of intended results and to provide a factual basis for decision-making purposes. Monitoring relates to pre-identified results in the development plan that are achieved throughout project implementation, where baselines, indicators, targets, risks and measurements of results are clearly defined and regularly monitored.

Weaknesses in project monitoring and risk management identified during the review of six sampled projects were as follows:

- There was no follow-up on the urgent actions identified during the quality assessments of projects.
- The Office created two new projects and closed six projects without conducting a quality assessment.
- In five projects, progress reports did not provide information on progress towards established targets.
- The risk registers in Atlas of five projects were not updated at least once a year since the initial risk assessments.
- There was no field visit plan and visits were not adequately documented with results-based information.
- Annual work plans of five projects had no information on baselines, targets, and output indicators.
- The Office approved incentive payments to two individuals who were assigned by the national implementing partner to work for the project

The Annual Work Plans were also not adjusted in 2018 to remove 10 discontinued projects due to insufficient funds received from the Government.

The lack of effective monitoring may impede the Office from determining whether intended programme and projects results are being achieved and whether corrective actions are necessary.

Priority	High (Critical)
Recommendation 5: The Office should strengthen project monitoring and risk management by: (a) ensuring that quality assessments for new and closing projects are timely conducted, and recommendations are implemented; (b) establishing a monitoring framework and conducting monitoring activities such as risk assessments and results-based field visits as required; and (c) preparing annual work plans and project progress reports, to include results-based information, and to monitor performance.	
Management action plan: The Office takes note of the above recommendations and will implement them through the following actions: (a) Implement project quality assessment action plans and ensure recommendations are used to improve project implementation and designs of new projects. (b) Develop a monitoring framework and conduct monitoring activities. (c) Strengthen project planning, performance monitoring and reporting. **Estimated completion date:** March 2019	

Issue 6 Delayed project closure

Offices are required to close a project operationally when the last financed inputs have been provided and the related activities have been completed. The implementing partner should promptly notify the project board when this has been done. Should the implementing partner not do so, the UNDP Programme Manager must determine when the project is operationally closed. Projects should be financially closed not more than 12 months after being operationally completed, once UNDP has closed the accounts for the project and the implementing partner has certified a final Combined Delivery Report.

The audit team selected four financially closed projects to review their closure processes. Two of the projects were still showing open purchase order balances and one had a cost sharing deficit of $1,200. Four projects with four outputs were operationally closed for over 12 months but had not been financially closed, and 13 outputs of ongoing projects were already expired based on the end date entered in Atlas.

Priority	Medium (Important)
Recommendation 6: The Office should ensure timely project closure by: (a) providing the correct project end dates in Atlas; (b) operationally closing projects promptly when the related activities have been completed; and (c) finalizing the pending financial adjustments and transferring project assets as agreed in the project documents to financially close projects.	
Management action plan: The Office takes note of the above recommendations and will implement them through the following actions: (a) Review the projects' status and update the end dates. (b) Finalize project closure for all operationally closed projects. (c) Comply with guidelines for project financial closure (access the project closure workbench in Atlas, clear the pending balances and transfer assets in consultation with the donors). **Estimated completion date:** March 2019	

D. Operations

1. Financial Resources Management

Issue 7 Weak financial oversight and controls

Project managers are responsible for reviewing payment supporting documentation, including the correct use of the chart of accounts prior to approving transactions. All payments are based on vouchers and other documents to ensure that services or goods have been received. The head of office shall identify the staff members who must file Financial Disclosure statements.

During the period under review, the Office processed 2,238 vouchers amounting to $8.1 million. The audit team reviewed the Office's financial oversight and controls and selected a sample of 46 vouchers amounting to $3.3 million. The following weaknesses were noted:

a) Weaknesses in financial transactions

- There were 23 payments amounting to $649,000 with inadequate documentation, such as invoice, delivery receipt, or confirmation that service was rendered.
- There were 17 transactions amounting to $2 million booked in the wrong accounts.
- A vendor was paid $8,300 for the repair of a vehicle not belonging to UNDP.

b) Recurring issues not addressed

The Office had not strengthened its internal control system by addressing recurring issues reported in the comptroller performance index (CPI) reports for the filings between January 2017 and March 2018. This included cleaning up long outstanding unreconciled payments and deposits, and Bank to Book ageing unreconciled payments and deposits.

c) Non-compliance with the mandatory Financial Disclosure Policy

Two staff members, who were involved in significant procurement activities and had direct access to confidential procurement information, did not comply with the mandatory Financial Disclosure Policy in 2016 and 2017.

Failure to exercise effective oversight and controls over financial transactions could lead to issues and irregularities not being timely detected and addressed.

Priority	High (Critical)

Recommendation 7:

The Office should strengthen its financial oversight and controls by:

(a) processing payments only when all required documentation is available, applying the correct chart of accounts, and ensuring that manual payments are properly recorded in Atlas within five days;
(b) developing action plans to address timely the exceptions in the CPI and recovering incorrect payment to a vendor; and
(c) ensuring that staff members comply with the mandatory Financial Disclosure Policy.

Management action plan:

The Office takes note of the above recommendations and will implement them through the following actions:

(a) Institute mandatory review of all payment vouchers by head of finance for completeness before approving officers can approve. A memo will be issued advising staff of this observation, ensure SOPs for operations reflect financial procedures and upload a copy into the Comprehensive Audit and Recommendation Database System (CARDS).
(b) Develop action plans to address exceptions in CPI and recover ineligible expenses.
(c) Nominate a Financial Disclosure Policy focal point who will be responsible for ensuring that all identified staff are entered into the Financial Disclosure Policy system so that they will receive the notification to submit. Given that the 2018 Financial Disclosure Policy exercise is closed, this recommendation can only be closed when the Financial Disclosure Policy announcement is out, and the staff have completed and provided their evidence of completion, which will be uploaded into CARDS.

The Office will revise the existing SOP to ensure roles of procurement, finance and HR functions are aligned, from issuance of e-requisitions up to certification of goods/services and payments.

Estimated completion date: December 2019

Issue 8 Weaknesses in banking arrangements

The 'UNDP Programme and Operations Policies and Procedures' provide guidance on effective banking management. All bank accounts must be reconciled at least monthly with the financial statements shared by the banks.

A review of banking arrangements and management of the bank accounts disclosed the following weaknesses:

- The Office did not have an agreement with the bank and had not negotiated with the bank on preferred bank rates. Further, it had not explored automated electronic funds transfers.
- The audit team's analysis of monthly bank reconciliations found no evidence of review of outstanding unreconciled items, which included unreconciled cheques and deposits. As such, no assurance could be provided on the effectiveness of the bank reconciliation process.
- Out of 72 deposit lines created, 58 were for the proper recording of previous deposits incorrectly created. A total of 128 unapplied deposits amounting to $71 million dated from 2011 to August 2018. The bank reconciliation details further showed two unreconciled deposits amounting to $600,000 from November 2017. These entries were created as a correction to a deposit entry error from 2015.

Inadequate oversight of payment deposits and a lack of agreement with the financial institution could lead to overpayment of services or errors not timely captured and rectified.

Priority High (Critical)

Recommendation 8:

The Office should strengthen the management of banking arrangements by:

(a) establishing an agreement with the bank including establishing negotiated preferred rates;
(b) reviewing outstanding unreconciled items; and
(c) reviewing and clearing unapplied and unreconciled deposits.

Management action plan:

The Office takes note of the above recommendations and will implement them through the following actions:

(a) Obtain a new agreement, including automated electronic fund transfers, with the bank and upload it into CARDS with vouchers reflecting the rates negotiated.
(b) All Bank to Book documentation will be reviewed and certified before the Resident Representative signs off. A memo will be issued to delegate the review and oversight of the Bank to Book reviews to the Operations Manager in writing.
(c) Instruct the Operations Manager and head of finance to ensure the unreconciled items are cleared by 30 November. Once cleared, the report will be uploaded into CARDS.

Estimated completion date: December 2018

Issue 9 Inadequate implementation of Direct Project Costing (DPC)

A standalone project for DPC requires pre-funding, periodic reconciliation and reversals of expenditure between the stand-alone project and the development projects.

The DPC project for both 2016 and 2017 had not been reconciled and expenses were charged against the respective development projects and had not been cleared at the end of 2017.

The DPC project displayed a negative balance of $577,000 for 2017 mainly because of incorrect entries, inadequate recording of transactions and ineligible transactions.

In addition, a workload study was not completed as required, and did not include the distribution of staff time to dedicated projects. The Office explained that this was due to a donor's refusal to comply with DPC requirements for the workload study. As an alternative, the Office agreed to a percentage charge per project with the donor. However, there was no documentation to validate the agreement and subsequent practice.

Priority Medium (Important)

Recommendation 9:

The Office should strengthen its implementation of DPC by:

(a) clearing the 2017 costs that are still reflected in the stand alone DPC project; and
(b) updating the workload study to show the correct allocation of staff and general operating expense costs.

Management action plan:

The Office takes note of the above recommendations and will implement them through the following actions:

(a) Clear the DPC project and upload the report into CARDS.
(b) Update the workload study and charge the projects accordingly.

Estimated completion date: March 2019

2. Procurement

Issue 10 Weak procurement oversight and controls

Procurement principles established by the UNDP Financial Regulations and Rules ensure the best value for money, fairness, integrity and transparency.

The review of procurement oversight and controls highlighted weaknesses, such as:

a) <u>Procurement processes not documented</u>
In 19 out of 39 cases reviewed amounting to $442,000, the documentation evidencing the procurement process from sourcing to award of contract was not available. The Office commented that applicable payment files included evidence of procurement processes. However, such documentation was not sufficient to demonstrate a competitive process and compliance with the organization's procurement principles.

b) <u>No oversight exercised by the Contracts, Assets, Procurement Committee (CAP)</u>
Except for one case in the last three years, the Office had not used the mandatory ACP online tool to manage its procurement cases. Illustrative examples included four vendors with single or accumulated procurement contracts of more than $50,000 annually that were not reviewed by the CAP. The Office did not provide a clear explanation for not using this tool.

c) <u>Inappropriate bids receiving and safekeeping</u>
Procurement solicitations were sent out using the Procurement Officer's direct email address instead of using a generic procurement email. Five offers received from different ongoing procurement cases were found opened and later stapled prior to the official opening day.

These weaknesses were caused by an absence of an oversight mechanism over procurement processes, and a lack of adequate capacity and knowledge of the organization's principles.

Ineffective oversight over procurement practices may lead to unfair procurement practices or not providing value for money to the organization in its procurement activities.

Priority	High (Critical)

Recommendation 10:

The Office should strengthen procurement oversight and controls by:

(a) establishing a proper recording and archiving system for procurement activities;
(b) submitting procurement cases above the Office's procurement authority to the CAP; and
(c) establishing adequate controls over the receipt and safekeeping of bid documents.

Management action plan:

The Office takes note of the above recommendations and will implement them through the following actions:

(a) Collect the support documents for the upcoming cases and upload into CARDS.
(b) Submit any new procurement case requiring both local CAP and/or Regional Advisory Committee on Procurement review and once approved, upload the evidence into CARDS.
(c) Create a procurement email address which will be secured from entry whenever a process is launched until the closure date. For envelope submissions, build a box with a lock; keys to be kept by senior management and handed to Procurement Unit on the date of bid opening. These new instructions will be put in writing to the Operations Manager and Procurement Associate for evidence to CARDS.

Estimated completion date: December 2019

Issue 11 Weaknesses in procurement practices

The 'UNDP Programme and Operations Policies and Procedures' provide guidance on effective procurement practices and contract management.

The following weaknesses were noted:

a) Weaknesses in managing individual contracts
Out of 15 individual contracts reviewed, 5 cases had no supporting documentation, amounting to $91,000. For the remaining 10 cases, there was no evidence of compliance with the procurement policy and procedures, such as considering at least three qualified candidates, conducting reference checks, and ensuring best value for money.

b) Incorrect representation of commitments
The Office displayed a lack of knowledge on the purpose and use of commitments in Atlas. Illustrative examples included two instances where purchase orders were incorrectly raised for payment requests on behalf of the Government amounting to $64,000. On the other hand, no purchase orders were raised to record commitments totalling $272,000 following a procurement process.

c) Inadequate vendor management
Critical vendor files such as vendor forms, vendor identifications or bank certifications were missing. Out of 27 vendor who received payments, only 7 had a vendor form completed. In 14 other cases, two different vendors names were set up in Atlas with the same bank account numbers. Seven vendors had two active vendor identification numbers.

Failure to comply with procurement principles and policies could lead to unfair procurement practices or not providing value for money, or payments to fictitious vendors.

Priority High (Critical)

Recommendation 11:

The Office should strengthen procurement practices by:

(a) maintaining adequate documentation when hiring consultants;
(b) correctly using purchase orders to record commitments in Atlas following a procurement process; and
(c) maintaining up-to-date and accurate vendor records in Atlas.

Management action plan:

The Office takes note of the above recommendations and will implement them through the following actions:

(a) Ensure complete documentation is available for the recruitment of individual consultants.
(b) Issue purchase orders as part of the procurement processes.
(c) Review vendor forms on file ensuring copies of vendor IDs, bank account certifications and other statutory documentations are attached. The Office has also deactivated vendors with two vendor identifications.

Estimated completion date: December 2019

3. ICT and General Administration

Issue 12 Inadequate Information and Communication Technology (ICT) management

The UNDP Office of Information Management and Technology advocates that effective governance and controls will result in enhanced value delivery, improved performance and resource management and in a better quality of services. The following weaknesses were noted during the audit:

- The Office had not developed and tested its Disaster and Recovery Plan for ICT services.
- The Office was not using Cloud Services due to the limited internet bandwidth.
- The internet bandwidth cost was twice that of some United Nations agencies with the same provider. Six staff members were provided internet modems for $20,000 between 2017 and 2018, but these were not being used in the Office at the time of the audit.
- Two staff members on post-paid phone scheme had not reimbursed the Office for personal communications. At the time of the audit, the Office was not able to estimate the total amount needed to be recovered from both staff.

Costly ICT resources and an inadequate Disaster and Recovery Plan may result in inefficient and ineffective delivery of results.

Priority Medium (Important)

Recommendation 12:

The Office should enhance Information and Communication Technology governance and reduce operating costs by:

(a) assessing the possibility of increasing the Office's bandwidth usage and selecting the best cost and service related combination from local service providers used by other United Nations agencies; and
(b) creating a Disaster and Recovery Plan that includes data back-up alternatives and recovering all payments due for personal communications; and
(c) making sure that two staff members reimburse the Office for personal use of office phones.

Management action plan:

The Office takes note of the above recommendations and will implement them through the following actions:

(a) Develop a Disaster and Recovery Plan for ICT services and ensure implementation.
(b) Renegotiate the internet bandwidth cost with the provider.

Estimated completion date: March 2019

Issue 13 Inadequate management of travel

The 'UNDP Programme and Operations Policies and Procedures' stipulate that official travel is to be undertaken based on the most direct and economical route. In case an office is unable to obtain three itineraries to demonstrate a competitive process, adequate justification should be maintained on file. Further, the policies prescribe rules that determine Daily Subsistence Allowance entitlements, including circumstances upon which supplementary or special Daily Subsistence Allowance is to be paid.

The audit team reviewed 20 cases of international travels processed and noted the following weaknesses:

- In 19 cases, only one quotation was found in the file. In four cases, no supporting documentation was made available to justify the calculation of Daily Subsistence Allowances.
- In two cases, staff going on home leave carried out their own travel analysis to determine lump sums to be paid by the Office. In two cases, staff travelled on itineraries that were not the most direct and economical, which led to additional $10,000 in costs.
- In 14 cases, travel claim (F10) forms were incomplete.

In addition, the Office established a memo for Daily Subsistence Allowance for local project staff travelling to different regions of the Country. However, as of July 2018, these Daily Subsistence Allowance rates were different from the United Nations rates.

Most of the issues above were due to inadequate oversight over travel management and a lack of training and accountability of staff to submit travel claims upon return.

Deficiencies in travel management and non-compliance with the 'UNDP Programme and Operations Policies and Procedures' may lead to overpayment of travel entitlements.

Priority	High (Critical)

Recommendation 13:

The Office should improve travel management by:

(a) providing adequate training to staff involved in travel management including ensuring trip analyses with alternate routes are undertaken and properly documented;
(b) adequately completing travel forms with supporting documents within the required timeframe; and
(c) recovering, as appropriate, from the staff any overpayments of Daily Subsistence Allowances and other ineligible travel-related payments received.

Management action plan:

The Office takes note of the above recommendations and will implement them through the following actions:

(a) Ensure all staff involved in travel management are trained and are adequately handling travels.
(b) Complete travel forms with supporting documents.
(c) Reviewing and uploading in CARDS evidences of travel selections and collecting overpaid Daily Subsistence Allowances and non-justified changes in itinerary, as necessary.

Estimated completion date: March 2019

4. Human Resources

Issue 14 Low completion rate of UNDP mandatory training courses

UNDP mandatory training courses are necessary tools to ensure that staff and managers understand the various policies, regulations as well as the goals and objectives of the UNDP organization. All staff members should complete the mandatory courses and obtain their certificates of completion no later than six months after commencing duties.

Office staff had not completed all of the mandatory training courses, as listed below:

- 18 percent had not completed the Ethics and Integrity at UNDP course;
- 27 percent had not completed the Gender Journey course;
- 63 percent had not completed the Legal Framework course;
- 59 percent had not completed the Prevention of Sexual Exploitation and Abuse of the Local Population;
- 45 percent had not completed the Basic Security in the Field course;
- 59 percent had not completed the Advanced Security in the Field course;
- 36 percent had not completed the Human Rights and Responsibilities course; and
- 59 percent had not completed the Prevention of Harassment, Sexual Harassment and Abuse of Authority course.

In addition, the Finance Associate did not have the mandatory finance certificate.

Failure to complete mandatory training courses may result in staff not being aware of the organizations' policies and procedures.

Priority High (Critical)
Recommendation 14: The Office should strengthen the management of human resources by improving the level of completion of mandatory training.
Management action plan: The Office takes note of the above recommendations and will follow up with all staff members to complete these mandatory courses and upload the completion rates into CARDS. **Estimated completion date:** December 2018

E. UN Leadership and Coordination

1. Resident Coordinator Office

Issue 15 Lapses in the management of the Resident Coordinator Office

The Resident Coordinator Office (RCO) aims to bring together the different United Nations agencies to improve the efficiency and effectiveness of operational activities through annual activity coordination.

The review of the RCO activities and execution of its annual work plan disclosed the following weaknesses:

- DOCO guidelines on the use of Atlas projects for general operating expenses and salary funds were not followed.
- The RCO thematic groups within the UN Country Team (UNCT) and agencies did not regularly meet.
- As of July 2018, the UNCT annual work plan had not been approved. For the 2017 plan, there was no indication as to how activities were monitored and tracked.
- United Nations agencies did not contribute to the UN building common service costs on time. The Office only received $438,700 of the $850,000 expected contributions for 2017 and 2018.

Inadequate management of the Resident Coordinator Office may result in strategic objectives not being achieved.

Priority Medium (Important)
Recommendation 15: The Office should improve the management of the Resident Coordinator Office by: (a) recovering outstanding contributions from United Nations agencies and establishing adequate processes to ensure correct use of UNCT funds; (b) Follow DOCO guidelines in the use of Atlas projects in general operating expenses and salary fund allocation; and (c) signing annual work plans at the beginning of the year, and adequately tracking UNCT activities.
Management action plan: (a) The Office has already taken the necessary actions regarding the budget and salary fund allocation. The 2018 UNCT annual work plan is now signed and appropriately tracked. (b) The RCO will continue the follow-up with United Nations agencies to recover outstanding contributions. **Estimated completion date**: December 2019

Issue 16 Harmonized Approach to Cash Transfers not fully implemented

The United Nations has established the 'Framework for the Harmonized Approach to Cash Transfers (HACT) to Implementing Partners' to lessen the burden caused by its procedures and rules for its partners. A United

Nations agency, fund or programme is deemed to be HACT compliant when the following four steps have been completed: (a) macro-assessment of the public financial system; (b) micro-assessments of implementing partners; (c) agreement with the Government on implementing the HACT; and (d) development and implementation of an assurance and audit plan for implementing partners.

At the time of the audit mission, HACT was not fully adopted due to the following:

- A macro-assessment conducted for the 2013-2017 programming cycle was extended to 2018.
- There was no micro-assessment for UNDP implementing partners.
- Assurance activities and project visits were not conducted.
- Funding Authorization and Certificate of Expenditures forms were not used.

Unless all HACT requirements are fulfilled, the objectives of harmonizing practices among United Nations agencies may not be achieved.

Priority	Medium (Important)
Recommendation 16: The Office should, in coordination with the government implementing partners and other participating United Nations agencies, adopt HACT by completing the pending activities.	
Management action plan: The Office takes note of the above recommendations and will implement them through the following actions: (a) With the implementation of the new Country Programme Document in 2019, HACT will be applied. (b) Adopt and use the Funding Authorization and Certificate of Expenditures form. (c) Officially inform the Government on the use of the HACT for the next cycle. (d) Train UNDP staff and implementing partners on the HACT modalities. **Estimated completion date:** December 2019	

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.