UNITED NATIONS DEVELOPMENT PROGRAMME
Office of Audit and Investigations

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AUDIT

OF

UNDP COUNTRY OFFICE

IN

THE DEMOCRATIC REPUBLIC OF THE CONGO

Report No. 1495

Issue Date: 13 November 2015

(REDACTED)

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Report on the audit of UNDP Democratic Republic of the Congo
Executive Summary

The UNDP Office of Audit and Investigations (OAI) conducted an audit of UNDP in the Democratic Republic of the Congo (the Office) from 22 June to 7 July 2015. The audit aimed to assess the adequacy and effectiveness of the governance, risk management and control processes relating to the following areas and sub-areas:

(a) governance and strategic management (organizational structure and delegations of authority, leadership/ethics and values, risk management, planning, monitoring and reporting, financial sustainability);

(b) United Nations system coordination (development activities, Resident Coordinator Office, role of UNDP – "One UN", Harmonized Approach to Cash Transfers);

(c) programme activities (programme management, partnerships and resource mobilization, project management); and

(d) operations (human resources, finance, procurement, information and communication technology, general administration, safety and security).

The audit covered the activities of the Office from 1 January 2014 to 31 May 2015. The Office recorded programme and management expenditures of approximately $91 million. The last audit of the Office was conducted by OAI in September 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** which means, "Internal controls, governance and risk management processes were generally established and functioning, but needed improvement. One or several issues were identified that may negatively affect the achievement of the objectives of the audited entity." This rating was mainly due to the absence of a budget override policy and inappropriate handling of temporary cash deficits and other funding gaps in projects, weaknesses in the reimbursement of costs for security guard services and the business continuity plan not being updated and tested, and weaknesses in asset management.

Good Practices

The Office was the top Monitoring & Evaluation Office in the Regional Bureau for Africa with a perfect score on the Results Oriented Annual Report and the only office within the region to attain this. The Office also received the Silver Gender Award, which denoted good practices in promoting gender equality and the empowerment of women. Furthermore, the Office received innovation awards for the last two years at the corporate level in recognition of its innovative efforts.

Key recommendations: Total = **13** high priority = **3**

The 13 recommendations aim to ensure the following objectives:

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

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

No budget override policy and inappropriate handling of temporary cash deficits and other funding gaps in projects (Issue 2)	The Office did not have a duly approved budget override policy. Managers whose projects had short-term budget deficits were allowed to use the Chart of Accounts by managers projects with available funds to finance their activities based only on informal agreements between the concerned managers. This practice was like inter-project loans but not accounted for as such and there was no effective oversight on how these were handled, monitored and reimbursed. Entries amounting to $587,000 were made to refund projects during the audited period but there was no basis to ascertain their accuracy. Moreover, the Office did not properly monitor project budgets to timely identify and manage deficits to minimize the need for un-programmed use of core funds to cover such gaps. <u>Recommendation</u>: Improve the management, control and accounting for budget overrides and the handling of temporary project deficits and funding gaps by: (a) developing a budget override policy and having it approved; (b) discontinuing the practice of using inter-project loans to cover temporary budget deficits and ensuring that commitments made during these periods are appropriately charged against their respective budgets; and (c) developing alternatives for addressing funding gaps.
[redacted]	[redacted]

[redacted]

Weaknesses in asset management (Issue 13)	The management, safeguarding, and accountability for assets were weak due to the Atlas (enterprise resource planning system of UNDP) Asset Module not being regularly updated. There were missing assets without an explanation, some assets were not capitalized, some assets in a sub-office's inventory lists were not recorded in Atlas, and assets lost or stolen were not always investigated. Many IT assets were left unused although still in good working condition. There were also significant discrepancies between the assets listed in the physical verification and those recorded in Atlas, hence leading to a high volume of adjustments in Atlas during closure of accounts and making uncertain whether year-end certification was reliable. Recommendation: Strengthen the management, recording and safeguarding of assets by: (a) enforcing the accountability of project managers for the adequate management of assets of their respective projects; (b) reinforcing the coordination and oversight role of the asset manager of the Office; (c) designating asset focal points for each project who will work with the asset manager and will ensure that assets are correctly received, recorded and tracked; and (d) disposing or transferring in a timely manner equipment no longer needed by the Office.

Implementation status of previous OAI audit recommendations: Report No. 1065, 26 June 2013

Total recommendations: 15

Implemented: 15

Management comments and action plan

The Resident Representative accepted all of the recommendations and is in the process of implementing them. Comments and/or additional information provided had been incorporated in the report, where appropriate.

Issues with less significance (not included in this report) have been discussed directly with management and actions have been initiated to address them.

Helge S. Osttveiten
Director
Office of Audit and Investigations

I. About the Office

The Office is located in Kinshasa, the Democratic Republic of the Congo (the Country). At the time of the audit, the Office employed 254 staff members, 132 service contract holders and 13 United Nations Volunteers. The Government and the Office signed the Country Programme Action Plan for 2013-2017, which focused on the (a) consolidation of peace and reinforcement of democracy; (b) development planning and inclusive growth; and (c) climate change and management of natural resources.

II. Good Practices

The Office was the top Monitoring & Evaluation Office in Regional Bureau for Africa with a perfect score on the Results Oriented Annual Report and the only office within the region to attain this. The Office also received the Silver Gender Award, which denoted good practices in promoting gender equality and the empowerment of women. Furthermore, the Office received innovation awards for the last two years at the corporate level in recognition of its innovative efforts, which included the mapping of all areas where renewable energy could be developed, and the establishment of internal tools such as the report tracking system, the One Pager dashboard, and the Interactive Performance Conversation and Benchmark for National Consultants. These innovations contributed to the strengthening of internal controls and enhancing the performance of the Office.

III. Audit results

Satisfactory performance was noted in the following areas:

(a) United Nations system coordination. Key controls were in place and adequate. The United Nations Country Team shared the common goal of improving coordination within the United Nations system in the Country.

(b) Partnerships and resource mobilization. Overall, partners expressed their satisfaction with UNDP's support and collaboration. They acknowledged that difficulties encountered in the past were being overcome and noted improvement in communication and reporting. The Office exceeded its target for 2015 resource mobilization and prospects were good for 2016.

OAI made 3 recommendations ranked high (critical) and 10 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 the management, control and accounting for budget overrides and the handling of temporary deficits and funding gaps (Recommendation 2).

[redacted]

(c) Strengthen the management, recording and safeguarding of assets (Recommendation 13).

Medium priority recommendations, arranged according to significance:

(a) Establish more adequate procedures in granting and accounting of funds advanced to partners and third parties (Recommendation 8).
(b) Institute appropriate procedures for the designation of project managers and delegations of authority (Recommendation 1).
(c) Improve bidding procedures and contract management (Recommendation 9).
(d) Strengthen the implementation of the Harmonized Approach to Cash Transfers, particularly in conducting spot checks (Recommendation 3).
(e) Improve monitoring and expedite financial closure of projects (Recommendation 5).
(f) Enhance the management of leave (Recommendation 6).
(g) Comply with prescribed procedures and documentation of recruitment processes (Recommendation 7).
[redacted]
(i) Strengthen the processes of project definition and initiation (Recommendation 4).
(j) Reinforce travel management (Recommendation 11).

The detailed assessment is presented below, per audit area:

A. Governance and strategic management

1. Organizational structure and delegations of authority

Issue 1 Improper designation of project managers and delegations of authority to approve non-purchase order payments

The 'Operational Guide of the Internal Control Framework for UNDP' requires the head of office to formally designate a project manager for each development project directly implemented by UNDP. The designated manager's responsibility is to ensure that results specified in the project document are produced within the specified time frame and budget. Further, only heads of office, Deputy Country Directors and Resident Representatives can approve non-purchase order payments (advances to implementing partners, grant payments, etc.) as set out in the Internal Control Framework.

The Office assigned more than one primary project manager to manage projects 86178 and 86481. The delegation instruments issued to these primary project managers did not specifically designate who was mainly responsible for each project as required in the Internal Control Framework. As such, there was no one manager who was accountable for the management of the budgets and other resources used in the implementation of the two projects. With this arrangement of having multiple managers for a project, a manager may be making commitments not being aware of the off Atlas commitments made by the other managers, particularly for non-purchase order transactions. Hence, there is the risk that the overall budget may be exceeded. This resulting overrun would only be identified when payments are introduced to Atlas and when a budget check indicates that there are no funds available, which by then would be too late. No additional controls (oversight over non-Atlas commitments such as outstanding grants payments) were implemented to mitigate this risk on budget management.

The Office explained that the decision to implement the project in this manner was done to reduce the number of projects created in Atlas and considered this approach an innovation. OAI was not provided with documentation of additional mitigation measures put in place to manage the risk of budget overruns, nor with the concurrence of the Bureau for Management Services on the resulting misalignment with the Internal Control

Framework. The Office's position that the risk of a budget overrun had not emerged to date, could not be taken to mean that such a risk would not emerge in the future, especially for a project that was still ongoing.

In addition, several staff members were sub-delegated the authority to approve non-purchase order payments in Atlas such as advances for national implementation, direct budget support, payments under letters of agreements, memoranda of understanding and of agreements, and small grants issued to implementing partners. These staff members approved a total of 321 vouchers worth $29 million. The Office believed that it was at liberty to further delegate to other staff members based on the authority of the Deputy Country Director's standard authority to designate approving officers. However, in OAI's view, this standard authority to designate approving officers excludes sub-delegation of non-purchase order payments. As indicated above and as stipulated in the Internal Control Framework, the authority to approve non-purchase order payments can only be exercised by heads of office, Deputy Country Directors and Resident Representatives.

The rationale for limiting this authority to the senior management of the Office is based on the inherent risks associated with non-purchase order payments. Further delegation increases the risk of approval of advances that may be inappropriate or not in line with the terms and conditions of the relevant agreements.

The Office explained that because of the nature and complexity of their operations, it was necessary to further sub-delegate this authority. It further explained that the Deputy Country Director received delegation of authority to designate approving officers. It was by exercising this authority that approving officers were designated to approve non Purchase Order payments in conformity with UNDP's Internal Control Framework and no further action is planned in this regard.

The practice of sub-delegating authorities that are not based on explicit written authorization and not in conformity with the Internal Control Framework could lead to the misuse of authority or inability to properly and timely monitor how these non-purchase order payments are used by the concerned recipients.

Priority	Medium (Important)
Recommendation 1: Institute appropriate procedures for the designation of project managers and delegations of authority by: (a) formally designating a single individual to be responsible and accountable for the stewardship of each project notwithstanding the need for multiple project approvers in Atlas; and (b) ensuring that only heads of office, Deputy Country Directors, and Resident Representatives approve non-purchase order payments in Atlas. Alternatively, the Office should seek an exception from the Bureau for Management Services, authorizing the sub-delegation of this authority to other staff members.	
Management action plan: The Office will seek guidance from the Bureau for Management Services for a formal agreement to assign multiple primary project managers to a single project. **Estimated completion date:** March 2016	

2. Risk management, planning, monitoring and reporting

Although risk management awareness and mitigation was reflected in senior management discussions and decisions, the concept of a risk management culture was yet to be cascaded throughout the rest of the Office. There were a number of issues linked to an inadequate risk management culture that weakened the control environment of the Office.

Issue 2 No budget override policy and inappropriate handling of temporary cash deficits and other funding gaps in projects

The 'Operational Guide of the Internal Control Framework for UNDP' and the 'Risk management guidelines for contributions by donors to Other Resources' stipulate that under certain conditions, projects may enter into commitments in the absence of available cash during periods of temporary deficits. A commitment made during periods of temporary deficits must be covered by a budget override policy duly approved by the Comptroller and must be cleared within one month from receipt of donor funds. Moreover, the 'Programme and Operations Policies and Procedures' state that "changes to a project budget affecting the scope (outputs), completion date, or total estimated project costs require a formal budget revision that must be signed by the signatories of the original project document."

The Office did not have a budget override policy duly approved by the Comptroller. As a result, the Office was frequently charging payments of projects with temporary deficits against other projects with available budgets, like inter-project loans. This was done based only on informal agreements between the two project managers, in which the manager of the project with funds allowed his Chart of Accounts to be used by the manager of the project with a deficit. The only way to know of such inter-project loans was when a general ledger transfer between the two projects was made. General ledger entries worth $588,000 were raised during the audit period to refund such inter-project loans. This practice was contrary to the prescribed procedures on the proper use of budget override to meet short-term budget deficits. Moreover, other than the project managers involved, it was not possible for anyone else to ascertain and monitor the status of such loans or to determine the amounts that were actually loaned, refunded and outstanding. As such, OAI was not in a position to confirm that all funds lent in this manner had been appropriately refunded to the relevant projects within the required period.

There was an instance when the Office used core funds to cover a currency conversion deficit in a development project. A payment worth $99,000 was charged against project 86481 (core) instead of 82554. Funds for project 82554 received in another currency were lower than projected in dollar terms due to exchange rate fluctuations; hence, the decision to charge the transaction to project 86481. This deficit could have been anticipated and the use of core funds minimized through ongoing budget monitoring and adequate planning. The Office indicated that the use of core funds to cover the deficit was an appropriate use of funds, but it did not provide any corporate policy instruments to substantiate this.

The lack of an approved budget override policy weakens the ability of the Office to properly manage budgets and to timely address funding gaps. In addition, the current practice of inter-project loans increases financial risks and may lead to incorrect shortfalls in those project budgets that were arbitrarily used to cover temporary deficits. This practice could also put at risk the management of resources and accountability for project budgets.

Priority	High (Critical)
Recommendation 2: Improve the management, control and accounting for budget overrides and the handling of temporary project deficits and funding gaps by: (a) developing a budget override policy and having it approved; (b) discontinuing the practice of using inter-project loans to cover temporary budget deficits and ensuring that commitments made during these periods are appropriately charged against their respective budgets; and (c) developing alternatives for addressing funding gaps on a timely basis, including budget revisions when necessary.	
Management action plan: The Office agrees that the use of a Charts of Accounts between projects should be exceptional and has always discouraged this practice. The Office submitted a request for approval of the budget override policy and such authorization is still pending. **Estimated completion date:** October 2015	
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.	

B. UN system coordination

1. Harmonized Approach to Cash Transfers

Issue 3 Deficiencies in conducting spot checks on implementing partners

The objective of the 'Harmonized Approach to Cash Transfers Framework' is to support a closer alignment of development aid with national priorities and to strengthen national capacities for management and accountability, with the ultimate objective of gradually shifting to national systems. The Harmonized Approach to Cash Transfers' assurance activities includes planning, periodic on-site reviews (spot checks), programmatic monitoring, scheduled audits and special audits.

Spot checks are performed to assess the accuracy of the financial records for cash transfers to implementing partners, the status of the programme and whether there have been any significant changes to applicable internal controls.

OAI randomly selected six spot checks performed during the period under review pertaining to the Pooled Fund and noted that overall, the process needed improvement in terms of substance and thoroughness. The following weaknesses were noted:

(a) Inadequate sample size of expenditures selected for spot checks

The 'Harmonized Approach to Cash Transfers Framework' stipulates that there should be a random selection of a significant sample of expenditures of the selected Fund Authorization and Certificate of Expenditures forms for verification. The specific threshold (amount) is set by each agency and should be sufficient basis to allow for the formation of an opinion. The sample sizes of five out of the six spot checks reviewed by OAI ranged from 1.6 percent to 13 percent of their Fund Authorization and Certificate of Expenditures, and this was irrespective of the micro-assessment risk ranking of the implementing partner. The implementing partner with a medium risk level had the least percentage (1.6 percent) of the sample size selected for spot checks while the four partners with low risk levels had much higher percentages (from 7 percent to 13 percent) of the sample size.

Table 1.

Implementing partner	Fund Authorization and Certificate of Expenditures amount ($)	Sample size ($)	Percentage sample size %	Implementing partners' risk level
Implementing partner 1	828,000	13,000	1.6	Medium
Implementing partner 2	746,000	78,000	13	Low
Implementing partner 3 (2014)	236,000	31,000	13	Low
Implementing partner 3 (2015)	413,000	49,000	12	Low
Implementing partner 4	2,253,000	168,000	7	Low

Inadequate sample sizes undermine the assurance process prescribed for the Harmonized Approach to Cash Transfers and prevent the timely detection and identification of fiduciary issues that could impact the implementation of projects.

(b) Weaknesses in the validation of expenses during spot checks

The review of five spot check work papers revealed that there were incoherencies between the results of verification of the supporting documents and the comments/findings of the spot checkers.

Implementing partner 3 (2014 spot check): The spot checkers validated the expenses as sufficient and complete, however, in their annotated comments, they stated that the transactions lacked the adequate supporting documents or were not in conformity with prescribed procedures. Below are instances of the expenses that were accepted as valid but with contradicting comments:

Table 2.

Expenses validated as complete and sufficient	Comments/issues
Kit: $1,120	Invoices were not presented to the spot checkers.
Trip: $1,800	No justification available for the trips.
Invoice for a well: $540	Sudden increase of the cost in comparison to the supporting documents with no explanation provided.
Diverse procurement transaction (Dynamo and Projection material): $17,500	Selection process not compatible with the purchase and cost comparison not well done.

Implementing partner 2 (2015 spot check): 35 percent of the sampled expenses were not stamped by the partner, however, the expenses were verified and labelled as completed and conformed to policies and procedures. A key spot check procedure highlighted on the 'Harmonized Approach to Cash Transfers Framework' is the verification that the supporting documentation is stamped "PAID from XXX grant" indicating which agency funded the transactions. This is because if expense vouchers and the supporting documents are not stamped "paid " and the funding agency is not indicated, there is an increased risk that the same invoices could again be presented to other funding agencies and may result in double payments.

(c) Recommendations not addressing specific issues

The recommendations on the spot check forms were general and did not systematically and specifically address the deficiencies noted, particularly when supporting documents were either missing or inadequate. This was the case for all the spot checks that were reviewed during the audit. There were instances when the issues noted by the spot checker should have triggered a more in-depth review and/or reassessment of the implementing partners' risk rating.

Implementing partner 3 – micro-assessed as low risk (2015 spot check):

- Per diems of $2,820: In a list of per diems that was not dated, there were two recipient names that appeared to have been paid twice. In another list of per diems, these same two recipient names were again listed, making it appear that these recipients were paid three times for one trip.
- Rental of a vehicle: There was a lack of a procurement process and rental agreement between the parties involved. In addition, the name of the payee written on the cheque was that of an individual working for the company instead of the company from which the vehicle was rented out.
- Purchase of fuel for $39,159: The payee indicated on the cheque was an individual instead of the company from which the fuel was purchased.

Implementing partner 1 – micro-assessed as medium risk: 70 percent (or $9,434) of the sampled expenses lacked supporting documentation or were not in compliance with the implementing partners' procedures.

The Office reported that the issues noted above may be linked to the capacity of the spot checkers. The lack of capacity of spot checkers weakens the assurance mechanism prescribed for harmonized cash transfers. This may increase the risk of erroneous conclusions and uninformed decisions that might lead to the untimely detection of errors and irregularities, poor project implementation, and the failure to build the capacities of implementing partners.

Priority	Medium (important)
Recommendation 3: The Office should strengthen the implementation of the Harmonized Approached to Cash Transfers, particularly in conducting sport checks by: (a) defining an adequate sample size for each category of implementing partner and reviewing and agreeing on the sample size before each mission; (b) improving the verification process of expenses and completing the prescribed procedures for spot checks; and (c) ensuring that the spot-check recommendations address the weaknesses noted, and are properly followed up to ensure mitigating actions have been taken.	

Management action plan:

The Office will issue a memorandum through the inter-agency Harmonized Approach to Cash Transfers working group to clarify the implementation of Harmonized Approach to Cash Transfers quality assurance activities on the spot check issue.

Estimated completion date: March 2016

C. Programme activities

1. Project management

Issue 4 Weaknesses in project definition and initiation

The 'Programme and Operations Policies and Procedures' require offices to convene a Local Project Appraisal Committee during the definition phase of a project to assess its relevance, feasibility and sustainability. The policies and procedures also recommend completing the following during the initiation phase of a project, which is the last step before its implementation: (i) sign a project document; (ii) develop and sign terms of reference for key positions; (iii) finalize a detailed annual work plan and monitoring and evaluation framework; and (iv) finalize and formalize detailed implementation arrangements through the signature of agreements between parties involved in the management of the project.

OAI reviewed the below five projects (excluding the Pooled Fund), representing 20 percent of the 2015 budget.

Table 3.

Project Number	Project budget 2015 (in $'000)	Total project budget (in $'000)
93852	1,800	1,800
85291	560	2,200
86178	800	3,300
94728	3,000	3,000
86626	1,000	1,100

The following weaknesses were noted:

- Minutes of Local Project Appraisal Committee meetings were missing for projects 85291 and 86626, while the minutes for project 86178 were subsequently provided to OAI.
- For project 93852, the Local Project Appraisal Committee meeting was held in February 2015 although the project officially started in January 2015. Management explained that the delay in having a Local Project Appraisal Committee meeting was due to the tense political situation in January 2015, including civil unrest surrounding the revision of the electoral law. During this period, public services stopped functioning. If such

was the case, then the official start date could have been revised in order not to delay project implementation.

- The project document for project 93852, which officially started in January 2015, was signed by the Office in April 2015 and by the Government in June 2015 and not at the end of the initiation phase as per policies. No justification for the delayed signatures was provided to the audit team.
- For project 93852 valued at 1.8 million, although the responsible parties were identified they were not assessed and no agreement with them was signed as of August 2015, the time of the OAI audit. In addition, the implementation modality was not clear as minutes of the Local Project Appraisal Committee meeting and draft project document referred to both national implementation and direct implementation modalities. The Office explained that they intended to use direct implementation modality, with the view to transition to national implementation modality at a later date. This intended arrangement was not clearly reflected in the project document, which is the official binding document, and which delineates its responsibilities and accountabilities.
- With regard to project 86626, the Office reported that the Steering Committee meeting held on 4 March also served as the Local Project Approval Committee that approved the project document and the annual work plan. However, the agenda of that particular meeting reviewed by OAI indicated that there was a mere presentation of the project and validation of an annual work plan, and therefore could not supersede a Local Project Appraisal Committee meeting.
- For project 94728, responsible parties had been identified, but not yet assessed.
- A new letter of agreement with the United Nations Stabilization Mission in the Democratic Republic of the Congo (MONUSCO) was not signed for project 85291, despite the fact that the project had entered a new phase, with a different donor and with a new project document. With these changes, there should have been a Local Project Appraisal Committee. Management did not feel the need to have a Local Project Appraisal Committee meeting because UNDP was only involved as an implementing partner (Letter of Agreement with MONUSCO). However, OAI believes that UNDP is both a responsible party and an implementing partner. The project document states that since 2013, the Contracts Assets and Procurement programme was supported by a project funded by the European Union and jointly implemented by UNDP and MONUSCO.
- An annual work plan was not finalized at the time of the audit for project 94728, which had officially started in April 2015.
- The Office did not timely initiate the recruitment of staff for these projects (publication, longlisting, etc.) prior to the official start date. Consequently, projects 86826, 93852 and 94728, which officially started during the first quarter of 2015 faced delays in conducting most of their activities due to understaffing. Out of the 11 projects scheduled for evaluation in 2013 and 2014, 5 were postponed by at least one year due to delays in implementing these projects.

Weaknesses in project definition and initiation, including the absence of Local Project Appraisal Committees or delayed committee meetings might result in delays and in the ineffective implementation of projects. These can tarnish UNDP's image vis a vis donors' confidence on the programme' s ability to timely implement and effectively manage projects and negatively impact the implementation of the evaluation plan that are attached to the Country Programme Document and Country Programme Action Plan.

Priority	Medium (Important)
Recommendation 4: The Office should strengthen the processes of project definition and initiation by: (a) establishing a mechanism to ensure that Local Project Appraisal Committees are systematically convened at the appropriate time for each project; (b) reinforcing controls and oversight at the project initiation phase and ensuring that there are proper and timely assessments of partners, that capacity gaps are identified and addressed, and that relevant risks are mitigated; and (c) anticipating and planning the recruitment of project personnel during the initiation phase and subsequently expediting the process to allow for the timely implementation of project activities.	
Management action plan: ▪ For project 93852, implementing partners have already been identified and will be micro-evaluated. Partners from civil society organizations will be identified at the start of the project. ▪ For project 94728, a list of implementing partners (responsible parties) was developed and sent for urgent assessment. **Estimated completion date:** May 2016	

Issue 5 Weaknesses in monitoring and financial closure of projects

The 'Programme and Operations Policies and Procedures' set out the following provisions for monitoring and closure of projects: (i) Atlas should be used both as a financial management tool and substantive monitoring tool, and as such, issue logs, risk logs and monitoring logs should be regularly updated; (ii) each project should be visited at least once a year by a representative of the Office, for the purpose of results validation and reporting on progress in the preparation of annual reports; (iii) physical inventory of assets should be undertaken at least once a year and the assets list certified by the project manager and partners; (iv) projects should be financially closed at the latest 12 months after their operational closure; and (v) a project closure checklist should be completed and relevant documentation attached to justify final closure in Atlas.

OAI reviewed a sample of 5 ongoing and 12 closed projects. The audit team found that the Office made significant improvements in terms of reporting and corresponding with donors by internally developing a project report tracking system which allowed them to monitor when reports were due and to submit these on time. However, in the monitoring and closure of projects, the following weaknesses were identified:

- The use of Atlas as a project monitoring tool was not optimal. The project monitoring, issue and risk logs in Atlas for all five projects tested were not updated between 2013 and early June 2015. Updates were only done during the audit fieldwork, after OAI brought this issue to the attention of the Office.

- Field visits were not organized as planned. The Office consolidated all scheduled visits in an integrated monitoring and evaluation plan. OAI's review showed that only 50 percent in 2015 and 38 percent in 2014 of planned monitoring and evaluation visits were executed and completed. For 2015, the Office informed OAI that they were aware of the challenges regarding the implementation rate of monitoring missions, which is why, despite overly ambitious planning for 2015 and the delay in the start of some projects, they exerted much effort to achieve at least a 50 percent completion rate of missions planned for the first half of 2015, an improvement compared to the 38 percent completion rate achieved in 2014.

- Further discussions with programme staff showed that for the Inclusive Growth and Sustainable Development Unit, field visits scheduled in the first half of 2015 by the project managers did not take place. The Office explained that the field visit plan was not realistic and should have been reviewed and amended. They added that at the project level, project managers sometimes had other priorities and therefore would not authorize field visits. At the time of the audit fieldwork, which ended on 7 July 2015, the Office could not provide evidence that they were on track with regards to planned field visits.

- Project assets were not adequately managed. Asset lists were not available for projects 86626 and 78824, and overall controls over project assets were weak. As an illustration, an inventory of assets was carried out after the Office had decided to recognize and record pre-IPSAS assets in Atlas, and following the closure of some sub-offices. The inventory report revealed the existence of a plethora of assets belonging to projects already closed. In the absence of adequate documentation, this equipment could not be linked to any project; therefore, they could not be recorded in Atlas as required. Subsequently, the Office decided to dispose of these assets valued around $2 million by transferring some of these assets to national parties and the rest to be sold. Minutes of the Contract, Assets and Procurement Committee for one online case indicated that some of the equipment was obsolete and not in good shape. National partners deplored the state of IT equipment transferred to them and indicated that timely preparation of project exit strategies may have prevented such a situation.

- Projects were not financially closed in a timely manner. Thirty-eight projects dated 2013 and prior had not been financially closed within 12 months after their operational closure. This figure decreased to nine after OAI informed the Office of this issue. The concerned projects were 25454, 33727, 45913, 74788, 80321, 34717, 60498, 60500, and 72106. Further testing done showed that there was no supporting documentation justifying proper financial closure in Atlas.

Weaknesses in project monitoring may result in the failure to take timely decisions or actions to address any problems or issues arising and non-delivery of expected outputs. Delayed financial closing of projects could hinder the effective use of the remaining available resources or impede a timely and full accounting of resources that may result in undetected irregular transactions. These could also increase the risk of submitting incomplete and misleading reports to donors.

Priority	Medium (Important)

Recommendation 5:

Improve monitoring and expedite financial closure of projects by:

(a) putting in place a mechanism to ensure that Atlas project monitoring and various logs are updated in a timely manner;
(b) preparing realistic plans for field visits and reviewing these periodically and entrusting the Programme Quality Assurance Unit with the responsibility of following up and monitoring timely implementation;
(c) enforcing the accountability of project managers over the adequate management, accurate recording and proper disposition of assets of their projects;
(d) closing projects in a more timely manner and using the existing project report tracking system to follow up and monitor closure procedures; and
(e) keeping an updated project closure checklist and retaining all required supporting documents for the financial closure of projects in Atlas.

Management action plan:

While most of the monitoring and project management steps have indeed been followed by project managers, the Office recognizes the need to ensure that data are updated and uploaded more regularly in Atlas.

During the mid-term review of the *Plan Integré de Suivi Evaluation (PISE)* held between 11 and 13 August 2015, the schedule of field visits and missions was reviewed and adjusted in order to ensure that it is realistic and conforms to corporate requirements.

Concerning the accountability of project managers for the adequate management of assets in their project, the Office has shared a memorandum in March 2015 to reinforce existing measures.

Estimated completion date: July 2016

OAI Response

OAI acknowledges the action taken by management; this will be reviewed at a later stage as part of the standard desk follow-up process of OAI.

D. Operations

1. Human resources

Issue 6 Weaknesses in the management of leave

The UNDP 'Programme and Operations Policies and Procedures' set out guidelines for leave management, such as proper recording, monitoring, and reporting of staff absences. Specifically, leave recording in Atlas (e-service) became mandatory from 1 January 2012. Leave monitors or Human Resource Associates on a daily basis record absences in Attendance Record Cards and on a monthly basis forward these Cards to staff members for their signature and confirmation of the recorded absences as basis for monthly leave reports.

Review of leave management highlighted the following weaknesses:

(a) Sub-optimal use of Atlas e-service

OAI tested the reliability of Atlas leave records for six staff members by comparing these with the Attendance Record Cards and the Monthly Leave Reports. The following results were obtained, which indicated that the Office did not have adequate oversight over the monitoring of sick leave and annual leave of staff:

- Sick leave was not systematically recorded in Atlas. A total of 27 out of 32 days of sick leave taken by staff (84 percent) were not recorded in Atlas, resulting in an overstatement of unused sick leave balances reflected in Atlas.

- There was a high volume of leave adjustments. Attendance Record Cards did not agree with Atlas in a randomly selected 10 out of 17 (59 percent) leave cases taken by staff throughout the audited period. A total of 53 leave adjustments were processed in Atlas to correct these differences. The Office explained that this was due to postponement of staff leave in some emergency circumstances. When verified, these absences were noted and reported by the leave monitor in the attendance records but the related approved leave requests were not entered in Atlas. With these discrepancies, it was difficult to ascertain the accuracy of the high volume of adjustments made.

- There was an understatement of annual leave balances in Atlas. While there was sick leave not recorded in Atlas as stated above, there were also cases (8 out of 13 cases tested) when annual leave balances reported in Attendance Record Cards were 19 percent higher than Atlas figures as at 31 December 2014. The yearly Attendance Record Cards in five cases reviewed were approved and signed by staff and leave monitors. This implied that 2014 year-end certification for annual leave, which is based on Atlas, was understated.

(b) Insufficient oversight of staff attendance by leave monitors

The oversight over staff attendance needed improvement. Annual Attendance Record Cards were not prepared in five cases that were tested. In three cases, these were not signed by the concerned staff and leave monitors. There was a risk that recorded leave balances were inaccurate and could be subsequently challenged by staff. The Office indicated that the manual Attendance Record Card was no longer a mandatory tool for the management of absences since the introduction of the e-service. The Office further indicated that, at least twice a year, on 30 June and 31 December, the Office checks the leave balance in Atlas and has put in place a system for carrying out adjustments based on the Monthly Leave Reports.

Notwithstanding the optional use of the manual Attendance Record Cards, the Office continued using these cards, and as such, adequate oversight over its proper use should have been exercised. Otherwise, the Office could have discontinued its use and ensured that staff properly used e-service. Using the two systems (manual and automated) resulted discrepancies as shown above and therefore exposed the Office to having inaccurate and unreliable records of leave balances.

These deficiencies were caused by weak controls over the management of leave combined with the limited use of the Atlas e-service module. Considering that leave balances have significant financial implications, the inadequate management, recording and monitoring of leave credits and absences could lead to risks involving disputes on the recorded leave balances, payment of undue benefits, abuse of staff entitlements, or inadequate reporting of liabilities in the organization’s books.

Priority	Medium (Important)
Recommendation 6: Improve the management of leave by: (a) ensuring that leave requests are timely submitted and approved via Atlas e-service; and (b) monitoring and reporting all types of sick and annual leave in compliance with policies and rules.	
Management action plan: The Office has already taken steps to ensure that the oversight of staff attendance is correctly carried out. A memo signed by the Deputy Country Director/Operations was sent to all staff members to remind that all leave must be recorded in Atlas and leave monitors have been nominated and trained. **Estimated completion date:** August 2015	

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 Inadequate recruitment process and documentation

The UNDP 'Recruitment and Selection Framework' provides that recruitment shall be guided by the principles of competition, objectivity, transparency, diversity and accountability. United Nations staff rules and regulations also require employees' personnel files to be maintained with all required and applicable documents on the candidate and his or her beneficiaries.

OAI reviewed the recruitment and separation processes of 19 UNDP staff members in 2014 and 2015 and found the following weaknesses:

- The composition of interview panels were not formally approved by a senior manager. The interview panels were selected by a representative from the Human Resources Unit and were not formally approved by the Deputy Country Director/Operations as required in the Office's memo issued by the Country Director. The Office explained that the composition of the panel is the result of an interactive process between the hiring unit and the Human Resources Unit. The Human Resources Unit submits to senior management a summary of the status of all ongoing recruitment processes on a weekly basis. This list includes proposed panels (for shortlists, written tests and interviews) and is examined at the weekly meeting (between the Country Director and the two Deputy Country Directors) and feedback is shared with the Human Resources Unit when adjustments are needed.The Office was not able to provide to the audit team the written approval of interview panels by senior management.
- The shortlisting of candidates was not documented and formally approved by senior management.
- Terms of references for three staff members recruited in January 2015 were not signed until OAI requested them in June 2015.
- A selected candidate signed his contract before the Human Resources Unit received his medical clearance.

Inadequate procedures and documentation of recruitment undertaken could weaken the Office's opportunity to select the most suitable candidate.

Priority Medium (Important)

Recommendation 7:

Comply with prescribed procedures and documentation of recruitment processes by:

(a) systematically requiring all selected candidates sign their terms of references and UN oath upon assumption of posts; and
(b) documenting and keeping record of all steps of the recruitment process.

Management action plan: The Office has regularized the situation of staff whose terms of references were not signed and to date, the issue is no longer pending. Please note that all staff members sign the UN oath, which is included in the Letter of Appointment. **Estimated completion date:** August 2015
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. Finance

Issue 8 Inadequate handling and recording of advances to partners and third parties

The Harmonized Approach to Cash Transfers is implemented in conjunction with the 'National Implementation by the Government of UNDP Supported Projects: Guidelines and Procedures' issued in 2011. Under these guidelines, a capacity assessment is mandatory for any partner (except United Nations agencies) expected to receive over $100,000 per year in total funds from United Nations agencies. The 'Programme and Operations Policies and Procedures' stipulate that additional advances can only be made if 80 percent of the most recent previous advance and 100 percent of all other advances have been liquidated. Moreover, prepayments must be recorded in account 16065 - prepaid voucher modality.

The Office processed 17,902 vouchers worth $80 million. OAI selected a sample of 84 vouchers worth $6.3 million for review and noted the following weaknesses:

(a) Advance granted to a partner without undertaking capacity assessment

In 2014, the Office entered into an agreement with a national partner and subsequently gave an advance of $314,000 without first undertaking the required capacity assessment. The Office indicated that an assessment was planned but the partner was not available to go through this prior to issuing the advance. There was no evidence that additional risk mitigation measures were put in place by the Office when engaging the partner and issuing the advance in the absence of a capacity assessment. Moreover, the prepayment was not recorded as an advance as required and had it been so recorded, it would have impacted the dashboard and negatively affected the performance rating of the Office. At the time of audit, a capacity assessment still had not been undertaken and the total amount advanced had not been liquidated.

(b) Lack of compliance with policy regarding liquidation of advances

There was inconsistent compliance with the requirement that 80 percent of the previous advance and 100 percent of all earlier advances be liquidated before granting subsequent advances. As such, two advances of $95,000 (voucher no. 225323) and $25,000 (voucher no. 225328) totalling $120,000 should not have been made. The Office explained that this was due to delays in recording the liquidations in Atlas and that this had been corrected a few days after the advances were granted. OAI was not able to corroborate this assertion.

For Pooled Fund project 693, the Office advanced $95,000 on 30 April 2015 to a partner with a previous advance of $138,000. A total of $123,000 (20 percent of $138,000, or $28,000, plus the latest advance of $95,000) should have been the balance of outstanding advances to this partner reflected in the system. However, the balance reported in the system as of mid-June 2015 was $163,000, which meant that a total of $40,000 of prior advances had not been liquidated prior to the granting of the $95,000 advance. Thus, the advance of $95,000 should not have been made until the previous advance was liquidated up to the 80 percent limit and all prior advances liquidated.

(c) Inadequate mechanisms to validate liquidation of advances to intermediaries

The Office remitted as advances to an NGO two cheques ($400,000 in September 2013 and $195,000 in June 2014) totalling $595,000 as prepayments for a professional services contract signed in 2013. Although these were recorded as expenses (7XXXX) instead of prepayments (16065, prepaid voucher modality), no purchase orders were issued. As such, the Office had no mechanism to track and oversee how these funds were used by the NGO.

The contract expired on 31 December 2014 and at the time of audit (June 2015), the Office had neither verified the reported use of these funds nor demanded the refund of any unused portion of the advance. The Office explained that the cheques issued could be treated as prepayments because the case was a programmatic activity and did not follow procurement procedures, that there was no need to issue a purchase order and a prepayment account was not to be used.

OAI is of the view that these funds were indeed cash advances made to the NGO because these were prepayments to a third party for the future delivery of services. In fact, at the time of the contract signing, the Office required the NGO to put up a bank guarantee to mitigate any risk and protect the organization. This management action indicated that the Office recognized the attendant risk of non-delivery of services or unused funds not being refunded.

Moreover, had these transactions been reported as prepayments just like the transaction described in paragraph (a) above, the delays in liquidating them would have also negatively impacted the dashboard and the rating of the Office.

Thus, upon OAI's probing, the Office requested and received from the NGO a refund of $124,000 from the $595,000 that was advanced to them. However, because these were not recorded as prepayments and no purchase order was issued to support the contract, the Office simply relied on the accounting of the NGO and did not provide OAI with their own independent verification on how the funds were used and justified. As such, OAI was not in a position to validate the propriety of the expenditures reported and correctness of the amount refunded by the NGO.

Inadequate handling and incorrect recording of advances to partners and third parties as well as the non-submission of supporting documents to the Office and the delayed review of supporting documents may lead to financial risks such as inappropriate use of funds, losses, and non-remittance of payments to intended recipients or over-expenditures.

Priority	Medium (Important)

Recommendation 8:

Establish more adequate procedures in granting and accounting of funds advanced to partners and third parties by:

(a) observing and adhering to the requirements of making advances to partners;
(b) reconciling and validating cash advances against supporting documents, including lists of participants; and
(c) appropriately recording prepayments and following-up on the use of such funds and requiring timely submission of appropriate documents as a basis for accepting or rejecting expenses.

Management action plan:

Management has taken actions to address the issue related to advances to partners and project cash advances.

Estimated completion date: August 2015

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.

3. Procurement

The Office issued 1531 purchase orders totalling $16 million during the period audited. OAI reviewed 39 purchase orders worth $3.5 million, as well as the engagement and management of 20 individual contractors, and the adequacy of controls within the bidding and evaluation processes.

Issue 9 Inefficiencies in bidding procedures and contract management

The ‘Programme and Operations Policies and Procedures’ provide guidance on effective procurement practices and contract management. UNDP procurement principles provide that the selection of suppliers should be based on a transparent open competition, and that the evaluation of offers should be fair, consistent and pre-established in the bid documents.

(a) Conditions in the establishment of Long Terms Agreements not adhered to

The Regional Advisory Committee on Procurement approved the procurement processes leading to the establishment of Long Terms Agreements based on certain conditions to obtain best value for money and have fair treatment of all suppliers. Some of these conditions were not systematically implemented.

- Long Term Agreement for travel: The conditions of the Committee were to develop a comprehensive standard operating procedure on how these agreements were to be used by the four participating agencies and to establish guidance on the rotational selection of three of the four travel agents for each ticket to be purchased. This was to ensure the fair treatment of the agents and have a proper contract management and quality assurance mechanism that was appropriately coordinated with all participating agencies. These conditions were not met.

- Long Term Agreement for vehicle repair services: The Procurement Committee required that all repairs be closely monitored so as to ensure that good quality services were provided and performance was tracked, but this was not adhered to. In addition, the bi-annual service reports required in the agreements with the two suppliers were not received, analysed and reconciled by the Office.

These conditions were not met because there was no proper monitoring mechanism in place to ensure that clauses and conditions set out in contracts were fully complied with by the contracting parties. Failure to comply with the conditions and requirements of the relevant procurement committees could expose the organization to financial risks due to increased costs or legal risks due to disputes with the suppliers.

(b) Delayed initiation of procurement processes leading to inefficiencies

Three procurement processes reviewed by OAI were either initiated late to prevent having gaps caused by non-existent valid contracts or to provide sufficient time to transition to a new supplier. OAI's analysis highlighted some inefficiencies that contributed to further extending the procurement process:

- The Long Term Agreement for car repairs and maintenance services was extended in May 2015 by the Regional Advisory Committee on Procurement from May to October 2015. This was because the procurement process for a new contract was not initiated early enough for it to be concluded prior to the expiration of the existing contract in April 2015. The extension of the existing contract was based on the premise that the procurement process for a new contract had already started prior to its expiration (April 2015). However, by August 2015, or four months after the granting of the six-month contract extension, the procurement process had not yet been initiated.
- The procurement process for the renewal of the Long Term Agreement for cleaning services was not initiated early enough to provide sufficient time to issue new contracts. Consequently, the existing contract was amended to extend it by three months to 31 July 2015 (after it expired on May 2015 to provide additional time to complete the current procurement process). The procurement was finalized only 15 days prior to the expiry date of the amended contract.
- One procurement case (purchase order 22938 for $55,198) was initiated only towards year-end and it was only when the process was being finalized that the Office realized there was no budget available. The procurement process was therefore stopped, and resumed three months later when the budget was made available.

Late initiation of procurement processes for contracts due to expire has led to inefficiencies and duplication of efforts in the management of Long Term Agreements, as these involved multiple procurement submissions and reviews, signature of multiple contracts, creation of multiple purchase orders and possible interruptions in the delivery of services.

(c) Inconsistent and inadequate evaluation of offers

Bidders were sometimes disqualified based on inconsistent or non-transparent use of criteria established in the bid documents and the evaluation of offers appeared inadequate.

- <u>Use of a pre-determined price estimate and its inconsistent application</u>. The Office used a pre-determined price estimate as one of the criteria and basis for the selection of vendors. This was an internal threshold that was not disclosed in the bid documents. The Office decided that offers to be accepted should be within a certain range, i.e., 20 percent lower or higher than such price estimates. In addition to not disclosing this in the bid document and not being fully transparent, this was not also applied consistently. On the one hand, vendors were disqualified from ACP Online case #6500 because they exceeded the 20 percent range of the pre-determined price estimate of $118,000. On the other hand, a vendor was awarded a bid for ACP Online case #7691 even though the offer exceeded the 20 percent range, as it was 35 percent below the pre-determined price estimate of $78,000.

- Unfair competition in the use of reimbursable loan agreement modality. UNDP's 'Programme and Operations Policies and Procedures' call for comparison between the profiles of individuals only, even though the contract could be drawn in the name of a company. The selection process for purchase order 22982 for $41,000 was done by comparing the profiles of a company and of an individual contractor that submitted proposals. This created an unequal level playing field and a flawed evaluation of proposals because credentials of companies are likely to be scored much higher than an individual contractor. In this particular case, the consultancy was awarded to the company whose consultants were not individually evaluated.

- Absence of reference checks to complete the evaluation. The 'Individual Contractors Guidelines' require that the individual deemed to have provided the most suitable offer be subjected to at least two reference checks with positive results. There was no evidence that reference checks were done for any of the six individual contractors hired from the sub offices in the Country.

The inadequate evaluation of offers and the inconsistent and non-transparent use of criteria could lead to loss of trust by third parties and have an impact on the image of the organization in conducting fair and competitive procurement processes.

Priority Medium (Important)
Recommendation 9: Improve bidding procedures and contract management by: (a) complying with conditions agreed upon with the procurement committee, and defining clearly the responsibilities and identifying individuals who are accountable for monitoring and ensuring that contract clauses and conditions are met; (b) initiating procurement processes early enough to provide sufficient time to complete complex procurement cases; and (c) ensuring that evaluations are conducted in a transparent and consistent manner and that they based only on criteria indicated in the bid documents.
Management action plan: Some actions have already been taken by the Office. The standard operating procedure has been already developed and signed by UNDP (on behalf of all participating agencies) and each of the travel agents. **Estimated completion date:** August 2015

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.

4. Information and communication technology (ICT)

[**NOTE**: This section has been redacted as it is deemed to contain sensitive information.]

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5. General administration

Issue 11 Weaknesses in travel management

The travel policy was revised in 2014 to align with UNDP's strategic objectives by emphasizing cost reduction, purchasing the lowest restricted ticket and purchasing tickets early. The analysis leading to any travel decisions, including payment of travel entitlements must be properly documented. Furthermore, when a UNDP office requires support on a temporary basis, it can benefit from the expertise of staff from other UNDP offices through the detail assignment mechanism. The cost of the ticket plus daily subsistence allowance is to be paid by the host country.

OAI reviewed the management of travels in the Office by testing a sample of 28 air ticket purchases for official missions totalling $112,000 and payments for the associated daily subsistence allowances. The following weaknesses were noted:

- Two staff members were sent on detail assignments costing $34,000 to strengthen and develop their capacity to manage travel while providing support to other UNDP offices. The expenses incurred in these detail assignments were paid by the Office from its extrabudgetary resources, while it should have been paid by the host country in the detail assignment mechanism. The Office explained they initiated these assignments in order to strengthen their staff capacity. However, OAI believes that such practices should have been undertaken based on the training policy and budget limitations.

- A staff member who attended a training/workshop travelled in economy premium instead of economy class as required by the travel policy. The Office explained that the travel time was very long. However, the travel policy specifically states that economy ticket should be purchased for all training related travels.

- Voucher 205045 for $3,780 was paid for a travel claim based on copies of supporting documentation. Claims for reimbursement should only be based on original documentation to avoid any risk of duplicate payments to the benefit of the traveller.

- In three cases, travel dates were extended beyond the mission dates without any explanation. The Office paid the daily subsistence allowance for the extended days. Furthermore, two of the three travellers were also reimbursed for transportation from/to airport at destination, while terminal expenses had been paid by the Office prior to travel.

- In two other cases (vouchers 217227 and 224657), full daily subsistence allowances were paid even though the event's logistical details provided that these should be paid at the reduced rates.

- A total of 15 out of 20 air tickets were purchased between two and seven days prior to the departure dates, whereas the Office's standard operating procedure called for at least a 21-day (recommendation of the UNDP travel policy) advance purchase.

- A travel comparison was not systematically carried out to determine compliance with the travel policy. The decision to use a particular itinerary or particular travel agent was not sufficiently explained or documented.

Inadequate management of travel and non-compliance with the travel policy could lead to inconsistency in the granting or abuse of travel entitlements as well as higher costs.

Priority	Medium (Important)
Recommendation 11: The Office should reinforce travel management by: (a) ensuring that payments for tickets and daily subsistence allowances when sending staff to other UNDP offices for training purposes are in line with the training policy; (b) sufficiently documenting a travel analysis to support the choice of itinerary while demonstrating compliance with the travel policy; (c) taking into account logistical details, when applicable, in the calculation of daily subsistence allowance; and (d) ensuring that any costs for extended stays or other staff preferences are borne by the staff and not by UNDP, and that travel claims are paid based on original copies of documents.	
Management action plan: (a) Regarding the two cases raised on the extension beyond the mission dates without explanation, the Office has sent a message to the travellers so as to recover the overpayment. (b) A template of Request for Quotation will be developed to facilitate the analysis of routes from the travel agencies. For each airline company approved by United Nations Department of Safety and Security (UNDSS) in the Country, the travel agent will have to provide its proposed route, flight duration and lowest fare in relation to a specific destination.	

(c) In order to mitigate the risks, a memorandum will be issued to reinforce procedures concerning staff travelling for the purposes of learning and personal development, making sure that all concerned staff are travelling in economy class. **Estimated completion date:** October 2015	
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.	

6. Safety and security

[**NOTE**: This section has been redacted as it is deemed to contain sensitive information.]

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7. Asset management

Issue 13 Weaknesses in asset management

The UNDP 'Programme and Operations Policies and Procedures' require offices to maintain complete and accurate records and to institute the safeguarding of all assets. All assets are to be recorded in the Atlas Asset Management Module, depreciated and later disposed of either through sale, transfer to third parties or scrapped due to obsolescence or declared as a loss in cases of damage or theft. Furthermore, the 'Operational Guide of the Internal Control Framework for UNDP' requires project managers and approving managers to ensure the accurate recording of assets in Atlas before approving e-requisitions or purchase orders.

The following weaknesses in asset management were noted:

(a) Atlas Asset Module not updated

- OAI tested the reliability of the year-end asset verification by selecting a sample of 41 inventory items with a net value of $0.2 million out of a total of $2.5 million as at 31 May 2015. The physical verification revealed that three assets were not found (one vehicle and two laptops. These missing assets appeared as being in-service and were included in the asset verification list. However, the Office explained that the vehicle was already disposed of and the reason why this still appeared in the list was due to the double recording of the asset in Atlas (asset #228 and # 465). The case was submitted to the Contracts, Assets and Procurement Committee, which recommended further investigations prior to validating the asset disposal. The Office did not provide OAI with additional information regarding the two missing laptops.

- Assets used and controlled by UNDP and valued at $212,000 as at 31 May 2015 were not capitalized, but were fully expensed. The non-capitalization resulted in an understatement of the Office's assets by approximately $192,000 as at 31 December 2014. The Office indicated that part of the $212,000 represented common service assets, therefore UNDP's share was only $60,353 but OAI could not validate this because no documents were provided.

- Three vehicles purchased prior to the audit period that were used, controlled and insured by UNDP could not be identified in the Atlas in-service report. The Office indicated that these pre-IPSAS assets would be disposed/transferred accordingly.

- Eight equipment pieces reported in the asset inventory of the Bunia sub-office were not recorded in the Atlas registry.

(b) Transfer and disposal of assets not properly authorized

- Asset transfers not approved and reflected in Atlas. Two vehicles (asset #3338 and #3339) based in Goma were indicated in Atlas as being located in Kinshasa. OAI was not provided with documents attesting that the transfer was duly approved by the senior management. Further, one photographic equipment (asset # 3259) was transferred to Goma but the asset focal point was not informed of such transfer and could not update the asset location in the Atlas system.

- Unauthorized asset disposal. Two vehicles were sold and transferred to the beneficiaries prior to the approval of the disposal by the Contracts, Assets and Procurement Committee (asset #211 and #229).

- Transfer of eight assets between projects funded by different donors valued at $67,000. The Office explained that the assets belonged to projects financially closed and were transferred to active projects. As a result, the Chart of Accounts needed to be revised in Atlas to continue the depreciation process for these assets. OAI was not provided with evidence that such transfers between projects were approved by the respective donors who funded the acquisition of the equipment.

(c) Inadequate safeguarding of assets

- Assets lost or stolen were not investigated in many cases. The Office reported that there were some missing assets, such as 11 laptops, 13 printers, 8 desktops, 2 digital senders, 1 photocopier, 1 video projector and 1 router. In several instances, the losses were not investigated, and only a declaration of loss or theft made by the staff was attached to the file. OAI has not received evidence that the above incidents were reported to the UNDSS office in the Country.

- At least 18 laptops, 5 desktops and 3 printers were declared by the IT manager as not being used, although most of these were still in good working condition. OAI also noted that many assets were declared as not used in sub-office inventories but with no indication as to whether these were still usable or not and therefore subject to appropriate disposal.

(d) High level of adjustments during the end-year asset certification

Based on the end-of-year certification, assets belonging to the Office were valued $1.77 million and those belonging to UNDSS were valued at $0.27 million as at 31 December 2014. Significant amounts of adjustments were made in order to tally assets recorded in Atlas with the list of assets physically verified as at 31 December 2014. The following variances were noted:

- Assets not recorded in Atlas: $247,889 (about 14 percent of the $1.77 million in total assets);
- Assets recorded in error in Atlas: $373,354 (about 21 percent of the $1.77 million in total assets).

The weaknesses indicated above, including the significant amount of adjustments at year-end emanated from a silo approach in the management of assets by the different projects, compounded with a lack of adequate coordination and oversight by the asset focal point. This observation was also reflected in the organization's "Asset Management Dashboard" where the performance of the Office was rated as "yellow", meaning partially satisfactory.

Based on the above issues, it could not be ascertained whether the inventory list and valuation of assets reported by the Office for the purpose of end of year certification was reliable.

When Atlas Asset Management Module is not updated regularly, it could weaken the Organizations ability to properly manage, account, report and control the use of assets. Non-investigation of the causes of loss of assets particularly in cases of many occurrences as described in paragraph (c) above could lead to undetected serial theft or inability to better safeguard these assets. Delay to dispose or transfer equipment not used also increases the risk of theft and obsolescence.

Priority	High (Critical)

Recommendation 13:

The Office should strengthen the management, recording and safeguarding of assets by:

(a) enforcing the accountability of project managers for the adequate management of assets of their respective projects;
(b) reinforcing the coordination and oversight role of the asset manager of the Office;
(c) designating asset focal points for each project who will work with the asset manager and will ensure that assets are correctly received, recorded and tracked; and
(d) disposing or transferring in a timely manner equipment no longer needed by the Office.

Management action plan:

(a) The Office confirms that a proper mechanism is in place. The project manager's delegation of authority reinforces his accountability in terms of project management. Furthermore, the Office operational guide of internal control and the memorandum “sur le renforcement de la conformité du programme” provides details on the responsibility of the project manager in the day-to-day management of assets.
(b) The Office is open to improving the oversight and coordination of project assets. An asset coordination committee has already been established. The asset dashboard was green in 2014.
(c) The Office signed a delegation of authority with the project manager, who was the asset focal point for the project. Furthermore, the Office designated asset focal points for each programme component under the supervision of the overall Office asset focal point.
(d) The Office will develop a standard operating procedure for the timely disposal and transfer of assets.

Estimated completion date: November 2015

Definitions of audit terms - ratings and priorities

A. AUDIT RATINGS

- **Satisfactory** — Internal controls, governance and risk management processes were adequately established and functioning well. No issues were identified that would significantly affect the achievement of the objectives of the audited entity.

- **Partially Satisfactory** — Internal controls, governance and risk management processes were generally established and functioning, but needed improvement. One or several issues were identified that may negatively affect the achievement of the objectives of the audited entity.

- **Unsatisfactory** — Internal controls, governance and risk management processes were either not established or not functioning well. The issues were such that the achievement of the overall objectives of the audited entity could be seriously compromised.

B. PRIORITIES OF AUDIT RECOMMENDATIONS

- **High (Critical)** — Prompt action is required to ensure that UNDP is not exposed to high risks. Failure to take action could result in major negative consequences for UNDP.

- **Medium (Important)** — Action is required to ensure that UNDP is not exposed to risks that are considered moderate. Failure to take action could contribute to negative consequences for UNDP.

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