UNITED NATIONS DEVELOPMENT PROGRAMME
Office of Audit and Investigations

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AUDIT

OF

UNDP COUNTRY OFFICE

IN

SOUTH SUDAN

Report No. 1016

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Report on the audit of UNDP South Sudan
Executive Summary

From 22 August to 11 September 2012, the Office of Audit and Investigations (OAI) of the United Nations Development Programme (UNDP) conducted an audit of the UNDP Country Office in South Sudan (the Office). The audit covered the activities of the Office during the period from 1 January 2011 to 30 June 2012. During the period reviewed, the Office recorded programme and management expenditures totalling $280 million. The last audit of the Office was conducted by OAI in 2010.

The audit was conducted in conformance with the *International Standards for the Professional Practice of Internal Auditing*. These Standards require that OAI plan and perform the audit to obtain reasonable assurance on the adequacy and effectiveness of the governance, risk management and control processes. The audit includes reviewing and analysing, on a test basis, information that provides the basis for the conclusions and audit results.

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 weaknesses in project oversight, and weaknesses in the application of corporate policies on financial management, procurement, asset management and general administration. Ratings by audit area and sub-areas are summarized below.

Audit Areas	Not Assessed/ Not Applicable	Unsatisfactory	Partially Satisfactory	Satisfactory
1. Governance and strategic management				
2. United Nations system coordination				
2.1 Development activities	Satisfactory			
2.2 Resident Coordinator Office	Satisfactory			
2.3 Role of UNDP – "One UN"	Not Applicable			
2.4 Harmonized Approach to Cash Transfers	Satisfactory			
3. Programme activities				
3.1 Programme management	Partially Satisfactory			
3.2 Partnerships and resource mobilization	Satisfactory			
3.3 Project management	Satisfactory			
4. Operations				
4.1 Human resources	Satisfactory			
4.2 Finance	Partially Satisfactory			
4.3 Procurement	Partially Satisfactory			
4.4 Information and communication technology	Satisfactory			
4.5 Asset management & general administration	Unsatisfactory			
4.6 Safety and Security	Satisfactory			

Key issues and recommendations

The audit raised 11 issues and resulted in 11 recommendations, of which three (27 percent) were ranked high (critical) priority, meaning "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 and may affect the organization at the global level."

Programme Management (Issue 3)	Low programme delivery. At the end of August 2012, expenditures stood at $53.5 million, against total resources of $135 million. There was an unspent balance of $81.5 million, of which about 40 percent was for contracts that were expected to be liquidated in the last quarter of 2012. The remaining unspent resources related primarily to infrastructure projects, some of which were affected by procurement delays. OAI recommends that the Office: (a) expedite implementation plans for affected projects; and (b) strengthen its procurement capacity in order to address bottlenecks in the procurement process in certain projects.
Finance (Issue 6)	Poor quality of supporting documents. OAI found that 14 vouchers valued at $956,000 did not have a physical receipt of goods or certification for receipt of services. Furthermore, requests for payments totalling $1.2 million were processed without evidence showing that Finance Officers verified signatures of requesting officers. In addition, $337,540 in payments were made to suppliers without original copies of invoices. The Office had also processed payments to contractors based on uncertified copies of Certificates for Work Completion. OAI recommends that the Office enforce standard procedures by ensuring that: (a) payments are processed only when there is proof of goods received or certification of services; (b) the Finance Unit maintains a list of signatures of certifying officers of other United Nations agencies and implementing partners in order to be able to verify requests for payments; (c) payments for goods and services are made exclusively on the basis of original documents; and (d) for civil works, original Certificates for Work Completion are provided for processing payments.
Procurement (Issue 7)	Delays and inefficiencies in procurement. Procurement processes were generally quite labour intensive, as almost 90 percent of goods and services were procured through individual bidding with very limited use of Long Term Agreements. Also, the Procurement Unit did not have adequate capacity, as three key positions were vacant. OAI recommends that the Office improve its procurement activities by: (a) increasing the use of Long Term Agreements to limit individual bidding, where possible; (b) filling the vacant positions to increase the capacity of the Procurement Unit; and (c) reinforcing centralization of all procurement processes in the Office.

Management's comment and action plan

The Resident Representative accepted all of the recommendations and is in the process of implementing them.

Helge S. Osttveiten
Director
Office of Audit and Investigations

I. Introduction

From 22 August to 11 September 2012, OAI conducted an audit of UNDP South Sudan. The audit was conducted in conformance with the *International Standards for the Professional Practice of Internal Auditing*. These Standards require that OAI plan and perform the audit to obtain reasonable assurance on the adequacy and effectiveness of the governance, risk management, and control processes. The audit includes reviewing and analysing, on a test basis, information that provides the basis for the conclusions and audit results.

Audit scope and objectives

OAI audits assess the adequacy and effectiveness of the governance, risk management, and control processes in order to provide reasonable assurance to the Administrator regarding the reliability and integrity of financial and operational information, effectiveness and efficiency of operations, safeguarding of assets, and compliance with legislative mandates, regulations and rules, policies and procedures. They also aim to assist the management of the Office and other relevant business units in continuously improving governance, risk management, and control processes.

Specifically, this audit reviewed the following areas of the Office: governance and strategic management, United Nations system coordination, programme activities, and operations. The audit covered relevant activities during the period from 1 January 2011 to 30 June 2012. During the period reviewed, the Office recorded programme and management expenditures totalling $145 million. The last audit of the Office was conducted by OAI in 2010.

The implementation status of previous OAI audit recommendations (Report No. 715, 27 July 2010) was also validated. All recommendations were noted to be fully implemented.

II. About the Office

The Office, located in Juba, South Sudan (the Country) was a sub-office of the Sudan Office until South Sudan attained independence in 2011. Since then, the Office has been working independently. It operates according to a new Country Programme Document for 2012-2013 that is aligned with the South Sudan Government’s 2011-2013 Development Plan. The Country Programme Document covers the following themes: governance, economic development, human development, and crisis prevention and recovery. Total resources of $275 million are required to implement the Country Programme Document. Implementation of programme activities has been difficult for a number of reasons, including a complex security environment resulting from internal and external conflicts, the lack of infrastructure throughout the Country, and seasonal rains, which combined with the lack of roads to make large parts of the Country inaccessible during the rainy season.

The Office had 116 staff in 2012 and a programme budget of $135 million. A total of 53 outputs were being implemented through the direct implementation and non-governmental organization/national implementation (NGO/NIM) modalities. Many of these were legacy projects from the shift from the previous Sudan business unit to the new South Sudan business unit and are currently being closed.

III. Detailed assessment

1. Governance and strategic management — Partially Satisfactory

The Office became a fully-fledged Country Office in July 2011 with the independence of South Sudan. The UNDP Resident Representative and United Nations Resident Coordinator also served as a Deputy Special Representative of the Secretary-General at the United Nations Mission in South Sudan, as well as the Humanitarian Coordinator. The Country Director, who is responsible for day-to-day management of the Office, is supported by two Deputies, one for Programme and the other for Operations.

OAI reviewed the Office's funding strategy, organization chart, staffing, allocation of roles and Atlas user profiles. Two issues were raised.

Issue 1 Office management structure not sufficiently articulated

Offices are required to continually define management structures in order to adapt to a business environment. In preparation for the change from a sub-office to a Country Office, the Office agreed to a basic organizational structure with the Regional Bureau for Africa, which would support the new Office and the delivery of a new programme. The new Country Office faced severe staffing constraints during much of the year while it was under significant pressure to establish systems and structures required. Evolving into a fully-fledged Country Office while facing a rapidly evolving environment in a fragile, newly independent country emerging from decades of civil war, such staffing constraints hampered effective ongoing management oversight.

OAI noted that, as of September 2012, the Office had not yet developed a complete and consolidated management structure or an organization chart covering all units, even though Office management asserted that the organization charts that they provided to OAI were adequate. Specifically, OAI found that:

(a) The existing structure had evolved from that of a sub-office with units and positions added over time in an ad hoc manner. The process of creating positions was not coordinated. Team leaders of the various units revised their units' organization chart and submitted them to the Human Resources Unit for consolidation, after each had obtained senior management clearance and approval of positions. There was no evidence that the individual unit organization charts submitted to the Human Resources Unit had been consolidated into a comprehensive Office organization chart.

(b) The Office’s staffing tables in Atlas, the Resource Plan, and the individual unit organization charts did not reconcile in terms of the number of positions:

- Data on vacant positions in Atlas had not been reconciled since the Office was established. As a result, the Atlas staffing tables showed 180 vacant positions, while the individual unit organization charts showed only 11 vacancies;
- 27 service contract holders were included in the organization chart, although such personnel are not staff members and thus should not be included; and
- Staff in the Finance Unit, the United Nations Clinic, and Volunteers’ Units had reporting lines to non-staff personnel.

Priority	Medium (Important)
Recommendation 1: The Office should: (a) establish a coordinated process for consolidating the management structure to support the new Office and the delivery of the new programme; (b) reconcile positions and vacancies in Atlas and the individual unit organization charts with the staffing tables and resource plans; (c) remove service contract holders from the Office organization chart to ensure it only reflects actual staff positions; (d) ensure that Office staff are not supervised by non-staff personnel; and (e) maintain an updated and comprehensive organization chart.	
Management Comments and Action Plan: __√__ Agreed _____ Disagreed The Office's organization chart is now consistent with the units' organization charts, and is evolving in line with the evolving programme portfolio as reflected by the new Country Programme Document for 2012-2013. Additional information provided by management has been reflected in the audit observation.	

Issue 2 Office extrabudgetary costs not sustainable

Offices are required to manage their extrabudgetary costs within available extrabudgetary income.

The Office collected extrabudgetary income of approximately $5 million annually from General Management Services and Implementation Support Services in 2010 and 2011. However, its extrabudgetary operating costs during the same period increased from $4 million to $5.7 million (a rise of 42.5 percent), due mainly to an increase in international staff costs from $0.8 million to $1.3 million (62.5 percent) and general operating expenses from $1.6 million to $2.8 million (84 percent). As of August 2012, total extrabudgetary operating costs exceeded the extrabudgetary income by $2.3 million. Total costs were $3 million and likely to increase by the end of 2012 due to salary increases for staff and service contract holders by the last quarter of the year. As a result, the extrabudgetary reserve had declined from 14 to 13 months in 2010 and 2011, to only seven months at the time of the audit in August 2012. To help defray support costs, the Office obtained a loan of $1.8 million from the Regional Bureau for Africa, which is supposed to be repaid in four equal instalments of $450,000 starting in 2013.

According to management, a number of changes in the Office's funding environment affected its ability to mobilize additional resources, including:

(a) the Government's loss of oil revenues, which led to some Government-implemented projects being discontinued and reduced the Office's ability to recover costs through General Management Support Services; and
(b) some donors shifted their focus from development to humanitarian aid due to the deteriorating humanitarian situation in the Country which, in turn, strained the Office's ability to recover costs through General Management Support Services and Implementation Support Services.

In the view of OAI, the current cost structure will not be sustainable given the Office's financial outlook. Also, the schedule for repaying the Regional Bureau for Africa loan may not be realistic.

Priority	Medium (Important)
Recommendation 2: The Office should review its extrabudgetary cost structure and align it with its forecast of development activities and resource mobilization prospects.	
Management Comments and Action Plan: __√__ Agreed _____ Disagreed Management acknowledged that this is an important issue, which is being addressed. A consultation is planned with relevant Headquarters authorities to obtain support for aligning the Office with available resources. Timing such an exercise for the first quarter of 2013 facilitates effectiveness by attaining clarity on overall spending in 2013, given the availability of 2012 delivery and cost recovery figures; and by enabling the Office to analyse, and to the extent feasible, contain major cost items other than wages during 2013. Since the audit, the gap between extrabudgetary operating costs and extrabudgetary income has been reduced from \$2.3 million to \$1.3 million. Based on projected delivery of close to \$100 million, the extrabudgetary reserve is expected to increase to 12 months by the end of the year compared to seven months in August 2012. The Office will also seek to create, if possible with support from Headquarters, a cushion for unforeseen expenditures that again threaten to contribute to raising Office spending beyond available extrabudgetary resources.	

2. United Nations system coordination — Satisfactory

The United Nations Country Team in South Sudan consists of 20 members, including FAO, ILO, IOM, OHCHR, UN Habitat, UN Women, UNAIDS, UNDP, UNEP, UNESCO, UNFPA, UNHCR, UNICEF, UNIDO, United Nations Mine Action Coordination Centre, UNOCHA, UNODC, UNOPS, WFP and WHO.

2.1 Development activities — Satisfactory

In 2011, the Office began to work on a new United Nations Development Assistance Framework for 2012-2013. This was following the Country's independence and is synchronized with the South Sudan 2011-2013 National Development Plan. The United Nations Development Assistance Framework focuses on democratic governance, conflict prevention and security, social and human development and economic development.

2.2 Resident Coordinator Office — Satisfactory

With the Country's independence, the former Deputy Resident Coordinator Office became the Resident Coordinator Office.

The OAI risk assessment showed that resident coordination and development activities were 'low risk', based on a review of United Nations Development Assistance Framework and United Nations Country Team in South Sudan meeting minutes, the 2011 Resident Coordinator's Annual Report and the organizational structure. OAI also met with four members of the United Nations Country Team in South Sudan to discuss operations.

No reportable issues were identified.

2.3 Role of UNDP - "One UN" — Not Applicable

2.4 Harmonized Approach to Cash Transfers — Satisfactory

OAI reviewed the progress made in implementing the Harmonized Approach to Cash Transfers (HACT). South Sudan had been part of the Sudan Office for the first seven months of 2011, and was therefore covered by a HACT waiver issued to the Sudan Office. Following the Country's independence, the United Nations Country Team in South Sudan undertook a HACT macro-assessment based on the World Bank-led South Sudan Integrated Fiduciary Assessment. At the time of the audit, the HACT macro-assessment was undergoing final review by the Resident Coordinator Office.

The Office had completed micro-assessments of all existing implementing partners. At the time of the audit, it was undertaking micro-assessments of future implementing partners. An OAI review of a sample of HACT micro-assessments undertaken by the Office showed that they were "satisfactory."

No reportable issues were identified.

3. Programme activities — Partially Satisfactory

OAI reviewed the Country Programme Document formulation process, its alignment with national development priorities and the United Nations Development Assistance Framework, country programme evaluation plans, and the quality of the Country Program Action Plan. The review confirmed the presence of a logical framework between resources to outputs and Country Programme Document outcomes, as well as the adequacy of outputs to achieve Country Programme Document outcomes. The review also covered project management, including project initiation, project implementation, reporting and oversight.

OAI noted that the Office had not undertaken two of the three outcome evaluations planned under the previous country programme or the final country programme evaluation, because the programme was truncated with South Sudan's independence. Since the programme's implementation was not completed, the planned activities could not be evaluated.

3.1 Programme management — Partially Satisfactory

The Office was working towards a new Country Programme Document for 2012-2013, which was to be aligned with the South Sudan Government's 2011-2013 Development Plan. The Country Programme Document covers governance, economic development, human development and crisis prevention and recovery.

Issue 3 Low Programme Delivery

Offices are expected to attain high ratios of programme delivery so as to achieve Country Programme targets.

At the end of August 2012, expenditures recorded in Atlas stood at $53.5 million, or about 40 percent of the initially programmed $135 million in total resources. Of the $81.5 million in unspent resources, approximately 40 percent ($32.3 million) was earmarked for non-governmental organization contracts under the South Sudan Common Humanitarian Fund (Award 65878). That fund was established in the second quarter of 2012, and the full funding amount ($32.3 million) was contracted through advances to NGO/NIM implementing partners in the second quarter. According to management, these funds are to be liquidated in the fourth quarter through the payment of services to be implemented by the end of 2012.

The majority of unspent resources ($49.7 million) was allocated to eight projects that focused mainly on infrastructure work. Management stated that some of these projects were hampered by seasonal considerations, such as the inability to implement in remote areas during the rainy season (which usually lasts until October/November), and procurement delays.

Without high levels of programme delivery, the Office will not be able to achieve country programme targets and earn steady income.

Priority	High (Critical)
Recommendation 3: The Office should compensate for the 2012 delivery shortfalls during the remaining period of the country programme by: (a) expediting implementation plans for affected projects; and (b) strengthening its procurement capacity in order to address bottlenecks in the procurement process in certain projects.	
Management Comments and Action Plan: __√__ Agreed _____ Disagreed (a) As of 18 December 2012, programme delivery as reflected in the Atlas snapshot has reached $97 million, which is an increase of over 75 percent since the August 2012 audit. We are forecasting delivery of close to $100 million after the fourth quarter NGO/NIM advances are retired in the first quarter of 2013 by the closing date for NGO/NIM financial reports. (b) The Office has markedly strengthened its Procurement Unit and has made noticeable progress since the Head of Procurement post was filled in August 2012. During the last quarter of 2012, the Office focused on expediting procurement processes. Planned procurement activities have been met well ahead of year-end deadlines.	

3.2 Partnerships and resource mobilization — Satisfactory

The Office donor portfolio comprised of the African Development Bank, European Union, World Bank and the Governments of Australia, Canada, France, Germany, Ireland, Italy, Japan, the Netherlands, Norway, Spain, Sweden, Switzerland, United Kingdom and the United States of America. Other sources of programme funding included the Global Fund to Fight AIDS, Tuberculosis and Malaria, as well as various multi-partner trust funds.

The OAI review focused on the Office's resource mobilization strategy, resource tracking and recording, maintenance of the document management system, donor relations, and partnerships. The current programme cycle, which runs from 2012 to 2013, is the Country's first cycle. The initial resources target for the cycle was $142 million. In June 2012, the Office conducted a programme delivery revision exercise in response to changes in the resource mobilization environment. The resources target was revised to $126 million for the remaining programme cycle. In August 2012, available resources following a revision of budget estimates totalled $122 million. OAI met with representatives of the Governments of Canada and Norway as well as three United Nations agencies. Based on these discussions, it appeared that overall, the Office managed to maintain good relationships with its partners.

No reportable issues were identified.

3.3 Project management **Satisfactory**

The Office had a total programme budget of $135 million for 2012, which was revised downward to $122 million in May 2012 due to forecasts of weaker donor and government funding than expected. The portfolio consisted of 53 projects implemented through the direct implementation modality. The Office's project portfolio was revised in 2012 to align it with the new Country Programme Document. Projects implemented by the Office focus on democratic governance, economic and human development, and crisis prevention and recovery.

Issue 4 Weak project oversight and insufficient reporting

Project oversight is maintained by project boards that are to meet quarterly. As part of their oversight and steering functions, these boards must approve projects' annual work plans and budgets, review expenditures and combined delivery reports, and oversee progress. Project Managers are expected to produce regular project progress reports and detailed annual project reports for their respective projects to facilitate progress reviews and to determine how funds were used. Programme Analysts conduct quality assurance reviews before reports are issued.

There were no project board meetings for three of the seven projects sampled (Awards 61455, 61470, 64390). As a result, no project board approvals were obtained for the activities and budgets of the three projects that were implemented under the 2011 annual project work plans. Also, since project boards did not meet for these projects, there was no progress review or assessment of how their funds were used. The Office explained that although project board meetings were not held, annual project work plans were discussed individually with Government partners, who were members of project boards. They were then endorsed by an Inter-Ministerial Appraisal Committee.

Furthermore, several donor and Government representatives interviewed by OAI expressed concern about instances of insufficiently detailed annual project reporting. An OAI review of the seven projects showed that two Awards (61470 and 64174) did not provide adequate details on activities implemented to justify the resources expended. Expenditures of $335,603 under Award 61470 were justified by a simple statement that the funds were used to develop a lessons learned report of the South Sudan referendum for independence and that "specific" support was provided to a Government committee. No further details were provided on how the funds were expended. The Office has pointed out that the costs incurred were for technical and operational support to the Government 2011 Task Force chaired by the Vice President and the Government's Policy Committee on the return of public servants from the North. The expenditures included an international Senior Technical Advisor, an international United Nations Volunteer, and a service contract holder supporting these bodies and the Presidency, as well as travel and operational costs for the Task Force and Policy Committee. The Office acknowledged that improvements needed to be made in the quality of reporting.

Management explained that project board meetings were not held for all projects, due to the unavailability of project board members who were senior government representatives and, therefore, not often available to perform their project board functions. Management also explained that the Reporting Officer post was vacant, which had affected the quality of reports.

Project boards provide critical project control, monitoring, and steering functions. Without functioning project boards, accountability for projects is lost with a high risk that projects may perform poorly and miss their targets.

Priority	Medium (Important)
Recommendation 4: The Office should improve project oversight and reporting by: (a) ensuring that project board meetings are held regularly for all projects. Where project board members are not able to carry out their functions due to lack of time, the Office should request that they designate alternates to serve on the board; and (b) filling the vacant Reporting and Quality Assurance Officer position as soon as possible.	
Management Comments and Action Plan: __√__ Agreed _____ Disagreed The Office will make efforts to ensure project boards are functioning for all projects in 2013. The Reporting and Quality Assurance Officer position was filled in October 2012. Additional information provided by management has been reflected in the text.	

4. Operations — Partially Satisfactory

4.1 Human resources — Satisfactory

The Office had 116 staff members, of whom 12 were paid from core resources, 38 from extrabudgetary resources, and 66 from other resources. In addition, 168 United Nations Volunteers and 360 service contract holders were employed in the projects. The Human Resources Unit was headed by an international staff member supported by five staff members. OAI focused on reviewing the recruitment processes, results and competency assessments, salary advances, leave management, and recording in Atlas.

Issue 5 Non-adherence to human resources policies

The Human Resources Unit is responsible for implementing policies relating to the results and competency assessment, leave management, and position classification. The OAI review showed that:

(a) Leave recording in Atlas became mandatory from 1 January 2012. The Office was late in implementing the electronic recording of annual leave in Atlas, with e-Leave only introduced in July 2012. Senior management pointed out that the implementation of e-services was delayed for six months because Rest and Recuperation, which is one of the most frequently used leave types in the Office, was not incorporated in e-services. Although the Office of Human Resources was expected to launch e-services by mid-2012, implementation did not occur. Therefore, the Office decided to implement e-services from 1 July. Rest and Recuperation is still not integrated into the e-system, often requiring the use of a cumbersome paper/e-based system to process leave for a single individual.

(b) Office staff had not completed the e-Services webinar course. The Office asserted that the Human Resources Unit ensured that most staff attended the course, but that no supporting documents could be provided to show that was the case. Leave balances in Atlas were not up to date in the leave balance report and not reconciled with leave balances shown on the pay slips, and the process was still performed manually. Office management has, since the audit, informed OAI that these deficiencies have been addressed. Manual recording might result in records not being up-to-date and accruals for staff benefits being misstated in UNDP accounts.

(c) On the basis of the data provided by the Office during the audit mission, in September 2012, only 64 staff members out of 91 who were eligible for the 2011 results and competency assessment had completed the process, although the deadline for completing the process had been extended to 30 June 2012. The Office also provided documentation to the audit team showing that eight of the 91 staff members were not eligible for the 2011 results and competency assessment. The process was not adequately coordinated, particularly for staff members located outside the Office. Failure to complete the assessments in a timely manner could, among other things, preclude the quick identification of performance problems that may need to be addressed.

(d) All positions, including non-generic positions reclassified locally, were not seen by a Compliance Review Panel, although reclassification cases including all relevant supporting documents were to be submitted for review by the panel, which makes recommendations to the Head of Office. The absence of reviews by the Compliance Review Panel can undermine the transparency and fairness of position classifications.

(e) None of the six positions reclassified during 2011 and 2012 were reported to the Office of Human Resources, although it is mandatory for Offices to report semi-annually on locally reclassified positions and to amend the organization chart. Failure to report these matters will prevent the Office of Human Resources from obtaining an accurate understanding of existing posts.

Priority Medium (Important)

Recommendation 5:

The Office should strengthen its human resource management by:
(a) enforcing the implementation of e-services and ensuring that all staff prepare online applications for leave, reconciling leave balances in Atlas, and ensuring that leave days appearing in pay-slips agree with actual balances on leave balance reports, which are recorded manually;
(b) ensuring that the Human Resources Unit coordinates the Results and Competency Assessment process to ensure its timely completion;
(c) submitting reclassifications of all positions that have non-generic functions to the Compliance Review Panel; and
(d) reporting all reclassification cases completed in 2011 and 2012 and in the future to the Office of Human Resources.

Management Comments and Action Plan: __√__ Agreed _____ Disagreed

(a) Leave requests are now being processed electronically. Leave balances are being reconciled in Atlas and discrepancies are being certified.
(b) The Results and Competency Assessments for 2011 and the 'key results' for 2012 have been completed. The Office will complete the 2012 Results and Competency Assessments during the first quarter of 2013.
(c) All reclassifications for positions with non-generic functions are now being submitted to the Compliance Review Panel.
(d) All reclassification cases completed in 2011 and 2012 will be compiled and submitted to the Office of Human Resources by the end of July 2013.

Additional information has been reflected in the audit observation.

4.2 Finance — Partially Satisfactory

The Finance Unit is headed by an international staff member who is supported by 13 personnel. Between January 2011 and July 2012, the Office processed 16,000 payment vouchers valued at $82 million. OAI reviewed 116 of these payment vouchers valued at $8.1 million (or 9.9 percent of the total value of all vouchers processed), accounts payable and disbursements, banking and cash management, and safe and cheque management and noted the following issues.

Issue 6 Poor quality of supporting documents

The Programme and Operations Policies and Procedures require offices to maintain adequate supporting documents substantiating all payment transactions. Responsible managers are required to perform spot checks to monitor compliance with procedures.

Standard accounts payable procedures were not sufficiently enforced and spot checks were not conducted to ensure compliance with these procedures. The OAI review of a sample of the 116 accounts payable vouchers showed that:

(a) Fourteen vouchers valued at $956,000 (or 12 percent of the total sample), did not have documentation for either physical receipt of goods or certification for receipt of services attached to the payment vouchers in the finance section. These vouchers included payments for conferences and workshops, for which bills were not reconciled with attendance registers. Also, payments were made for goods without documentation to confirm that the goods had been received.

(b) Fourteen vouchers valued at $1.2 million (or about 14 percent of the total sample) involved requests for payment from other agencies and implementing partners without evidence showing that Finance Officers verified signatures of requesting officers before disbursements. The Finance Unit did not maintain a list of certifying and approving officers for reference.

(c) Seven vouchers valued at $337,540 (or 4 percent of the total sample) were for payments made to suppliers of goods and services based on copies of invoices instead of originals.

(d) Five vouchers with a value at $264,740 (or 3 percent of the total sample) involved payments to contractors for civil works based on uncertified copies of Certificates for Work Completion. When civil works projects are implemented in remote areas, Office procedure requires rogramme managers to certify emailed copies of the Certification of Work Completed before disbursement by the Finance Unit.

Poor quality of supporting documents for disbursements may lead to duplicate payments and fraud going undetected.

Priority	High (Critical)

Recommendation 6:

The Office should enforce standard procedures for Accounts Payable by ensuring that:
(a) payments are processed only when there is proof of goods received or certification of services;
(b) the Finance Unit maintains a list of signatures of certifying officers of other United Nations agencies and implementing partners in order to be able to verify requests for payments;
(c) payments for goods and services are made exclusively on the basis of original documents; and
(d) for civil works, original Certificates for Work Completion are provided for processing payments. Where this is not possible, the Finance Unit should ensure that emailed copies are certified as true copies by Programme Managers.

Management Comments and Action Plan: __√__ Agreed _____ Disagreed

It is important to note that review of the cases cited where documentation for physical receipt of goods or certification of services was not attached to the payment vouchers filed in finance section, indicated that documentation did indeed exist. However, the documentation was not properly included with the payment request as required. The Office will therefore take the measures recommended above to ensure future compliance.

The Office has developed a checklist for accounts payable supporting documentation, which has been shared with the staff. Random checks of documentation are also conducted. The signatory list for agencies has been downloaded from the UNDP intranet and is being used. Also, specimen signatures have been collected from all implementing partners. Management also pointed out that as it operates in very difficult environments in remote locations, it is not always possible to obtain original documentation. However, the need for the submission of original documents will be reinforced.

4.3 Procurement — Partially Satisfactory

The Office has a dedicated Procurement Unit consisting of 11 staff (2 Procurement Specialists, 3 Procurement Analysts, 4 Procurement Associates, 1 Procurement Assistant and 1 United Nations Volunteer). There were three vacant positions in the unit since 2011 (Procurement Specialist, Civil Engineer and Procurement Analyst) and recruitment was in progress during the time of the audit.

Between January 2011 and June 2012, the Office processed 2,675 purchase orders valued at $21 million. OAI sampled 78 purchase orders valued at $7.3 million, or 35 percent of the total.

Issue 7 Delays and inefficiencies in procurement

Purchase orders are legally binding agreements between the organization and suppliers and are required for all purchases in excess of $2,500. For fixed assets and non-headquarters travel, a purchase order is required for all purchases regardless of value. To ensure accountability, procurement activities should be managed centrally within the Office. The OAI review identified the following issues:

- The Office processed 1,228 purchase orders for amounts less than $2,500, thus adding unwarranted steps for low value transactions. Office management explained that many businesses operated in South Sudan on a cash basis due to the absence of a country-wide banking system. Thus, in most instances, the only way for UNDP to procure goods and services of low value without paying cash in advance was through the use of signed purchase orders as a means of financial commitment and a guarantee to the suppliers.

- With few Long Term Agreements in place, the Office's procurement processes were labour intensive, as nearly 90 percent of goods and services were procured through individual bidding processes. There were delays in delivery by contractors and in the approval of purchase orders in the system. Of 11 contracts reviewed, two did not meet the delivery dates agreed to in the contracts. Six purchase orders were approved seven days after their creation in Atlas. Since the audit mission, Office management has reported considerable progress in addressing weaknesses related to Long Term Agreements.

- The Procurement Unit did not have adequate capacity, which was underscored by delays in procurement, as three key positions were vacant.

- The procurement of goods and services was not always systematically centralized, as individual project/programme units initiated and carried out parts of their procurement process.

Unwarranted steps in the procurement of low value items and understaffing may lead to protracted processes and unnecessary delays that adversely affect the Office's delivery, in particular for programmes with large procurement components.

Priority	High (Critical)
Recommendation 7: The Office should: (a) increase the use of Long Term Agreements to limit individual bidding, where possible; (b) fill the vacant positions to increase the capacity of the Procurement Unit; and (c) reinforce centralization of all procurement processes in the Office.	
Management Comments and Action Plan: __√__ Agreed _____ Disagreed According to management, the Office has succeeded in establishing Long Term Agreements for several recurrent needs such as fuel, workshop and accommodation services, printing, satellite communication for field offices and travel services. The Office has also managed to pre-qualify suppliers for civil works and vehicle maintenance services, and is using Long Term Agreements of other United Nations agencies in several areas such as procurement of medicines and transportation. Thus, in management's view, the Office has made significant improvements in procurement since the Head of Procurement post was filled in August 2012 with support from the Regional Bureau for Africa.	

4.4 Information and communication technology — Satisfactory

OAI reviewed the roles and responsibilities of the Information and Communication Technology (ICT) staff and verified that a business continuity plan, including back-up of files, had been established. Adequate controls over ICT in the UNDP/United Nations premises were in place. ICT resources were effectively managed and measures had been implemented to protect the confidentiality of corporate data and the management of ICT related risks.

Issue 8 Understaffing in the ICT Unit

UNDP ICT standards stipulate that at a minimum there should be one ICT support staff member for every 50 users.

The ICT Unit consisted of three staff members (two ICT Analysts and one ICT Associate) at the time of the audit. They provided services to 713 users from UNDP and 7 other United Nations agencies, which represented a ratio of 1 ICT staff member for over 200 users.

There is a risk that the ICT Unit may not be able to provide adequate and timely services to such a large user community.

Priority	Medium (Important)
Recommendation 8: The Office, in cooperation with other concerned agencies, should consider recruiting additional Information and Communication Technology staff to increase the unit's capacity.	

Management Comments and Action Plan: __√__ Agreed _____ Disagreed
The three Information and Communication Technology staff in the Office provide day-to-day support to fewer than 300 users located in UNDP Juba. The Office has, since the audit, also redeployed one of its Information and Communication Technology staff members from the field offices to strengthen the capacity of the Information and Communication Technology Unit in Juba until the recruitment of new staff is finalized. Most Office staff deployed in Government ministries and state offices are also supported by project Information and Communication Technology personnel and outsourced service providers. Moreover, agency staff are also supported by their headquarters in services such as email and other applications. The Office will perform a comprehensive inventory of the Information and Communication Technology staff deployed in field offices and in Juba and will streamline and rationalize the Information and Communication Technology structure and processes.

4.5 Asset management and general administration — Unsatisfactory

OAI reviewed the administration of assets, travel, common services, vehicle fleet management and management of premises. No reportable issues were identified in the areas of common services, travel, and management of premises.

The Office occupies common premises, which are owned by UNDP. The land was donated by the Government of South Sudan and developed by UNDP. The common premises also house UNCDF, UNDSS, UNAIDS, UN WOMEN, ILO and the African Development Bank.

The Office had established a common services project for the maintenance of two residential compounds for all United Nations staff. The project was managed by a Compound Manager, who was a service contract holder and was supported by six other contract holders. Compound maintenance also included the cost of wages for labourers and cleaners.

Issue 9 Weaknesses in asset administration

To ensure that assets purchased by UNDP are accounted for, the Programme and Operations Policies and Procedures require offices to maintain complete and accurate records of capital assets, including those procured for direct implementation modality projects. The Programme and Operations Policies and Procedures also require that a physical verification exercise be conducted by each business unit twice per year. This requirement includes United Nations Department of Safety and Security assets that are administered by UNDP and subject to UNDP policies and procedures. According to the Programme and Operations Policies and Procedures, the Resident Representative has been delegated the authority to write off and to assign personal liability for stolen and/or lost assets and custodian items valued up to $2,500 without review by a review committee, and up to the delegated procurement authority after submission to the Contracts, Assets and Procurement Committee or Regional Advisory Committee on Procurement. Any loss of assets shall be reported to the Assistant Administrator, Bureau of Management, who will inform OAI of the need for an investigation.

The Office maintained 301 assets valued at $1.6 million. OAI noted the following exceptions:

- Missing/stolen laptops: 21 laptops valued at $32,319 were stolen from the Office. According to an investigation report by the United Nations Mission in South Sudan dated 3 May 2012, the theft was the result of weak security controls and lack of segregation of duties. The Office did not report the loss to OAI or the Assistant Administrator, Bureau of Management, as required. The missing laptops have been reported to the UNDP Investigations Section by the audit team.

- No enforcement of accountability for lost assets: Nine laptops and one motorcycle valued at $20,681 had been missing and the Contracts, Assets and Procurement Committee recommended that the net book value of the assets be recovered from staff. However, the Office did not enforce the recommendations made by the Contracts, Assets and Procurement Committee.

- Inadequate physical inventory of assets: The certified inventory of assets (30 June 2012) did not include data on the condition of assets in the Office. Also, assets listed as damaged and disposed of, as approved by the Contracts, Assets and Procurement Committee, had not been removed from the fixed assets register. The Atlas report did not list certain project assets valued above $500 that were maintained by the Office.

Inadequate control of assets can preclude the timely detection of lost or stolen items.

Priority	Medium (Important)
Recommendation 9: The Office should strengthen its asset management by: (a) reporting incidents of stolen or lost assets to the Office of Audit and Investigations without delay via the Assistant Administrator, Bureau of Management; (b) recording all assets valued at $500 and above in Atlas; (c) removing all damaged assets and those approved by the Contracts Assets and Procurement Committee for disposal from the assets register; and (d) showing the condition of assets in the inventory list.	
Management Comments and Action Plan: _√_ Agreed ____ Disagreed The physical verification of all assets was completed by 30 June and the verification list has been certified. The process of finalizing the year-end physical verification by 31 December 2012 was ongoing. Recording assets valued at $500 and above in Atlas was delayed by technical problems with the new document management system. Those problems have now been resolved. Hence, all new assets have been recorded in Atlas and all damaged assets approved by the Contracts, Assets and Procurement Committee for disposal from the assets register have been disposed of in Atlas. Management noted the recommendation to report all missing and stolen items to OAI and the Bureau of Management, but sought clarification as to whether such items with very low dollar values should be reported. Management has also implemented a series of physical security measures, such as ensuring that doors, windows and safes are locked at the end of the day to help prevent the loss or theft of assets.	

Issue 10 Inadequate fuel management controls

The Programme and Operations Policies and Procedures require offices to implement effective fuel management systems, which include performing real-time audits of invoices and resolving discrepancies. Vehicle log books should also be reviewed periodically and signed by the supervisor.

The Office's procurement of fuel from 1 January to 30 June 2012 totalled 243,159 litres (at $1.00 per litre). OAI identified the following issues:

- The Office held Long Term Agreements with two fuel suppliers. OAI found controls for disbursing fuel to be inadequate. The suppliers provided weekly fuel supplies on the basis of emailed instructions from the Administrative Assistant, which identified the Office vehicles and the quantities of fuel needed. However, the Supervisor did not maintain a record of documents and emails sent to fuel suppliers requesting fuel disbursements. No signatures were required by the vendors, and vendors had not been provided with samples of the signatures of personnel authorized to receive fuel.

- The Office did not reconcile mileage against fuel consumption, and vehicle fuel allocations were managed by one Administrative Assistant who was apparently not supervised by the Operations Unit.

- Vehicle log books were not up-to-date.

The absence of adequate fuel management controls and monitoring creates the risk of unauthorized usage and misappropriation of fuel.

Priority Medium (Important)
Recommendation 10: The Office should strengthen fuel management by: (a) enforcing stronger vehicle and fuel management procedures that include closer supervision and the reconciliation of mileage and fuel consumption; (b) providing the fuel suppliers with specimen signatures and the names of staff authorized to receive fuel; (c) ensuring that supervisors maintain records of all documents and emails sent to fuel suppliers requesting fuel; (d) implementing adequate controls to record and reconcile fuel supplies from vendors; and (e) periodically reviewing and signing the vehicle log books.
Management Comments and Action Plan: _√_ Agreed _____ Disagreed The Office has already developed standard operating procedures for fuel management to address the issues raised during the audit, such as procedures, controls, segregation of responsibilities, and documentation, including reconciliation of mileage and fuel consumption. For example, new fuel orders through the Long Term Agreement are only approved after submission of a complete reconciliation of fuel consumption records to the Procurement Unit. Also, meters have been installed to measure fuel consumption. Vehicle log books will be reviewed by supervisors and the head of the Transport Unit. These changes are effective from 22 October 2012.

Issue 11 Lack of procedures for common services management

Offices are required to establish and implement operating procedures that minimize business risk.

There were no standard operating procedures for managing the two residential compounds.

To purchase maintenance materials, the Compound Manager had to submit a list of required items to the Deputy Country Director (Operations), who then signed the Requests for Payment Form and submitted it to the Finance Unit for payment. The Finance Unit issued a check payable to the Compound Manager. Such payments totalled $135,000 in 2011 and $25,000 in 2012. There were no procedures to account for quantities and cash spent, because the Manager kept the receipts. There were also no procedures for managing the use of items purchased and unused cash, if any. UNDP procedures require that supplies be purchased through the Procurement Unit, that an inventory register be maintained and that all usage and report balances be recorded.

The Compound Manager was also tasked by the Office with following up on outstanding pension contribution refunds owed to service contract holders by a local company based in Khartoum, which ceased operations in the Country in 2011. Office management explained that the complex nature of the pension refund process by the Government of Khartoum for over 300 UNDP South Sudan service contract holders had necessitated multiple trips to Khartoum for longer durations than anticipated. This was further exacerbated by documentation challenges, such as incomplete pensioner details, incorrect translation of names from English to Arabic and vice versa, incomplete records of pension contributions by UNDP on behalf of service contract holders for several years and incorrect calculation of refunds. The manager travelled to Khartoum to negotiate with company management on behalf of service contractors to obtain the refunds. This process, which began in 2011, was still ongoing in September 2012 and involved multiple trips of varying duration. However, there was no set timeline to complete the process. The manager decided when and how he would travel and submitted travel claims for reimbursement of daily subsistence allowance after the travel. The OAI review of three payment vouchers totalling $6,302 for travel claims showed that none of them had documented proof of travel.

The Manager was also responsible for managing the wages of the individuals who cleaned the compound. The controls for paying wages were inadequate. Wages for February 2012 were paid twice through vouchers 12407 and12441 without the duplication being detected. The Manager submitted the first request for payment of wages on 28 February 2012 for $4,923 and the second request on 1 March 2012 for $6,383. Both were paid.

Lack of effective controls can lead to mismanagement and fraud.

Priority Medium (Important)

Recommendation 11:

The Office should establish adequate controls for managing the residential compounds by:

(a) establishing standard procedures for the purchase and use of maintenance materials and supplies. The procedures should be aligned with the organization's procurement and stores management policies and procedures;
(b) recovering duplicate payments made to the Compound Manager;
(c) ensuring that processing of the Compound Manager's travel complies with standard procedures and that claims are supported with proof of travel; and
(d) developing and implementing procedures for managing payment of wages to compound cleaners to avoid duplicate payments.

Management Comments and Action Plan: __√__ Agreed _____ Disagreed

The payments identified by the auditors, including cash advances for emergency and ad-hoc maintenance and repair work, were essential to meeting critical maintenance needs in the residential compounds and to ensuring the wellbeing and safety of staff. However, management acknowledged that the current structure and arrangements for managing the residential compound involving casual labourers are insufficient. The Office will review, in discussion with Headquarters, options and improvements needed for managing the residential compound, including the possibility of returning to an outsourced arrangement.

Management also noted that compound cleaners and other casual labourers are now being paid by local banks. Also, efforts are underway to recover the duplicate payments made to cleaners in February/March 2012.

4.6 Safety and Security — Satisfactory

OAI reviewed the Office's safety and security arrangements to ascertain if they complied with Minimum Operational Security Standards. The last Minimum Operational Security Standards assessment was completed by the United Nations Department of Safety and Security in June 2012, and compliance was rated at 95 percent.

No reportable issues were identified.

ANNEX Definitions of audit terms – Ratings and Priorities

A. AUDIT RATINGS

In providing the auditors' assessment, the Internal Audit Services of UNDP, UNFPA, UNICEF, and WFP use the following harmonized audit rating definitions. UNDP/OAI assesses the country office or audited HQ unit as a whole as well as the specific audit areas within the country office/HQ unit.

- **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. *(While all UNDP offices strive at continuously enhancing their controls, governance and risk management, it is expected that this top rating will only be achieved by a limited number of business units.)*

- **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. *(A partially satisfactory rating describes an overall acceptable situation with a need for improvement in specific areas. It is expected that the majority of business units will fall into this rating category.)*

- **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. *(Given the environment UNDP operates in, it is unavoidable that a small number of business units with serious challenges will fall into this category.)*

B. PRIORITIES OF AUDIT RECOMMENDATIONS

The audit recommendations are categorized according to priority, as a further guide to UNDP management in addressing the issues. The following categories are used:

- **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 and may affect the organization at the global level.

- **Medium (Important)** — Action is required to ensure that UNDP is not exposed to significant risks. Failure to take action could result in negative consequences for UNDP.

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