UNITED NATIONS DEVELOPMENT PROGRAMME
Office of Audit and Investigations

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AUDIT

OF

UNDP COUNTRY OFFICE

IN

BURUNDI

Report No. 1145

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United Nations Development Programme
Office of Audit and Investigations

Report on the audit of UNDP BURUNDI
Executive Summary

From 2 to 18 September 2013, the Office of Audit and Investigations (OAI) of the United Nations Development Programme (UNDP) conducted an audit of the UNDP Country Office in Burundi (the Office). The audit covered the activities of the Office during the period from 1 January 2012 to 30 June 2013. During the period reviewed, the Office recorded programme and management expenditures totalling $26 million. The last audit of the Office was conducted by OAI in 2007.

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 included review and analysis 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 significant issues in the management of grants and assets. Ratings per audit area and sub-areas are summarized below.

Audit Areas	Not Assessed/ Not Applicable	Unsatisfactory	Partially Satisfactory	Satisfactory
1. Governance and strategic management				
1.1 Organizational structure and delegations of authority	Partially satisfactory			
1.2 Leadership, ethics and values	Satisfactory			
1.3 Risk management, planning, monitoring and reporting	Satisfactory			
1.4 Financial sustainability	Satisfactory			
2. United Nations system coordination				
2.1 Development activities	Satisfactory			
2.2 Resident Coordinator Office	Satisfactory			
2.3 Role of UNDP – "One UN"	Satisfactory			
2.4 Harmonized Approach to Cash Transfers	Partially satisfactory			
3. Programme activities				
3.1 Programme management	Satisfactory			
3.2 Partnerships and resource mobilization	Satisfactory			
3.3 Project management	Unsatisfactory			
4. Operations				
4.1 Human resources	Partially satisfactory			
4.2 Finance	Unsatisfactory			
4.3 Procurement	Partially satisfactory			
4.4 Information and communication technology	Satisfactory			
4.5 General administration	Partially satisfactory			
4.6 Safety and security	Satisfactory			
4.7 Asset management*	Unsatisfactory			
4.8 Leave management*	Partially satisfactory			
4.9 Global Environment Facility*	Not applicable			

* Cross-cutting themes

Key issues and recommendations

The audit raised 14 issues and resulted in 12 recommendations, of which 4 (33 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." These recommendations include actions to address: weaknesses in the management of grants, lapses in infrastructure projects design and implementation, inadequate validation of supporting documents for financial transactions, and weaknesses in asset management.

The high risk recommendations are:

Project management (Issue 4)	Lack of compliance with grant management guidelines and inappropriate contracting modality. The Office signed grant agreements amounting to $9.7 million in 2012-2013 (as of 31 August 2013). In 18 instances, the Office did not comply with the micro-capital grant guidelines and did not seek proper authorizations from relevant headquarters units for individual grants exceeding $150,000 and cumulative grants over $300,000. Furthermore, grant agreements were used to contract for civil works instead of using the standard civil works contract. OAI recommends that the Office strengthen its management of micro-capital grants and civil works projects by: (a) seeking post facto authorization from the Regional Bureau for Africa and/or Bureau of Management for the grants which exceeded the established thresholds; (b) complying with established thresholds and seeking appropriate authorizations as required; and (c) using the civil works contract template for construction works..
Project management (Issue 5)	Lapses in approval and implementation of infrastructure projects. The Office could not provide any authorization from the Regional Bureau for Africa to support initiation of infrastructure projects yet it initiated 29 infrastructure projects amounting to $3.6 million in 2012 and 2013 (up to 31 August 2013). There was no assurance that the contractor capabilities were properly assessed or that the selection process was transparent and fair. Additionally, for the construction of houses for refugees, the beneficiaries had not been identified at the time of the audit. Furthermore, there were significant lapses in project monitoring, which resulted in inability to address issues in a timely manner and in potential additional financial costs. OAI recommends that the Office strengthen its infrastructure project management by ensuring that: (a) post facto approval is obtained from the Regional Bureau for Africa for the on-going infrastructure projects; (b) remedial actions are taken as soon as possible to address the issues of quality of the construction and minimize additional costs required to complete the projects; (c) projects are adequately designed and formulated, and in future, the Office seek authorization from the Regional Bureau for Africa prior to engaging in infrastructure projects, ensure rigorous selection of civil works contractors, and identify project beneficiaries in a more timely manner; and (d) projects are regularly monitored and that that qualified engineers are assigned to monitor construction works and required to submit complete reports.
Finance (Issue 8)	Inadequate validation of supporting documents for financial transactions. The Office signed grants totaling $9.7 million in 2012 and 2013 which required beneficiaries to provide financial reports and supporting documents for the use of funds disbursed. OAI did not find evidence that the Project Management Unit and Finance Unit systematically validated supporting documents received from beneficiaries to confirm that goods were received and or services rendered. Furthermore, the Office made milestone payments for

	construction of houses without validating that target milestones had been achieved. Subsequent validation of the constructions has indicated that target milestones had not been achieved and therefore payments should not have been made. OAI recommends that the Office strengthen financial management by: (a) defining and implementing the internal control framework for the Project Management Unit to clarify accountabilities, roles and responsibilities; (b) validating supporting documents from grant recipients to confirm that goods and services were received prior to payment; (c) ensuring that payments of civil works contracts are based on certification from qualified technicians;and (d) assessing the extent to which NGOs delievered on agreed terms and as necessary, blacklisting those who do not deliver..
Asset management (Issue 12)	<u>Weaknesses in asset management</u>. Agricultural equipment valued at $370,000 were purchased and had not been distributed to beneficiaries. The equipment were inadequately stored in an open area and in poor conditions for almost two years. Additionally, the assets physical inventory count was conducted by one person only, contrary to the requirement of having it done by at least two staff. No certified physical verification could be provided to OAI for 2011, 2012 and 2013 for the Office and the project assets. A reconciliation between asset physical inventory and Atlas- Inservice report was not done, yet the Office submitted its asset certification to the Bureau of Management. OAI recommends that the Office strengthen its asset management by; (a) completing physical inventory of agricultural equipment and reconciling the result with the purchases to ensure that all equipments purchased for the reintegration projects are accounted for; after which, the Office should finalize the asset distribution in a timely manner; (b) reviewing assets purchased since 2010 and tracing them to their current location and status, to ensure that all assets are accounted for; (c) having physical inventory of assets to be conducted by at least two staff and reconciling the results to the Atlas in service report prior to submitting the asset certification letter and any variance properly investigated and justified; and (d) completing the sale of unserviceable or fully depreciated assests as recommended by the Contract, Assets, and Procurement Committee.

Among the 14 issues raised, one issue was noted to be caused by factors beyond the control of UNDP (Issue 2).

Cross-cutting themes

As part of the 2013 OAI annual work plan, all country office audits will include specific areas to be reviewed in more depth. Results from all audits will be compiled and analyzed at corporate level, and thereafter, a consolidated report will be issued separately. For this particular audit, the following were noted:

- **Asset management**. <u>Unsatisfactory</u>. Refer to issue described under “Key issues and recommendations”.

- **Leave management**. <u>Partially satisfactory</u>**.** There were no processes in place to ensure that leave of staff members were adequately planned, reported timely to Human Resources and accurately recorded in Atlas. There were also lapses in the administration of compensatory time offs and home leave entitlements. Refer to Issue 13.

- **Global Environment Facility.** There were lapses in the management of GEF project 76705 ‘Biodiversity Conservation’. These include delay in project implementation and changes in staffing plan without notification to GEF as required. Weaknesses were also noted in project monitoring , procurement and asset management. Refer to Issue 14.

Management comments and action plan

The Resident Representative accepted all 12 recommendations and is in the process of implementing them.

Helge S. Osttveiten
Director
Office of Audit and Investigations

I. Introduction

From 2 to 18 September 2013, OAI conducted an audit of UNDP Burundi. 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 included review and analysis 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 2012 to 30 June 2013. During the period reviewed, the Office recorded programme and management expenditures totalling $26 million. The last audit of the Office was conducted by OAI in 2007.

II. About the Office

The Office is located in Bujumbura, Burundi (the Country) and at the time of the audit, it employed 52 staff members, including 8 international staff members. The personnel also included 41 service contract holders and 8 United Nations Volunteers. The Office is implementing the Country Programme covering the period from 2010 to 2014 and the main outcomes are: (a) improving strategic planning and aid coordination; (b) supporting community recovery and local development; (c) strengthening national reconciliation and promoting human rights; and (d) improving democratic governance. In light of the Strategic Framework for Poverty Reduction II and the newly developed United Nations Development Assistance Framework (UNDAF) for 2012-2016, a new Country Programme covering the 2014- 2016 period has been prepared. The Country is included in the category of countries in post-conflict and peace-building situation. It ranked 178 out of 187 in the Human Development Index of 2012.

At the time of the audit, Management explained that the Office was in the midst of a two year realignment approach, after an important staff reduction of 18 international and 31 national posts in 2012 The Office was succeeding in: stabilizing the programme delivery levels, achieving tangible programmatic and operational results, better positioning the office with national counterparts and donors, while maintaining a motivated workforce at all levels of the country office. The Global Staff Survey for 2012 showed an improvement in staff confidence and engagement compared to previous years. For the first time in several years the Annual Work Plans were prepared, presented publicly and formally validated with the national counterparts. The Internal Control Framework, along with a monitoring system for inventories were put in place to respond to the lack of control mechanisms. The CISNU (Centre Intégré de Services des Nations Unies), which used to manage with a certain level of autonomy the recruitment, procurement, contract management of initiatives financed primarily by UNDP projects, was gradually dismantled and these functions were reassigned to the operational sub-units as in a standard country office configuration.

III. Detailed assessment

1. Governance and strategic management	Partially Satisfactory

OAI reviewed strategic management documents including the 2012 and 2013 integrated work plans, the Balanced Scorecard, the executive snapshot, the delegations of authority, the Office organogram and structure, and the finance dashboard.

1.1 Organizational structure and delegations of authority	Partially Satisfactory

Issue 1 Lack of accountability over the use of UNDP resources and weak control environment

The control environment is the foundation on which an effective system of internal control is built and adopted in an organization that strives to achieve its strategic objectives. The control environment in the Office was assessed to be very weak which led to loss and deterioration of assets, inefficient use of UNDP resources, lack of project monitoring, and absence of accountability in achieving expected results.

the overall rating for this sub area was due to the following issues that are presented in detail in the relevant sections of this report:

- Issue 4 - Lack of compliance with grant management guidelines and inappropriate contracting modality
- Issue 5 - Lapses in approval and implementation of infrastructure projects
- Issue 8 - Inadequate validation of supporting documents for financial transactions
- Issue 12 - Weaknesses in asset management

1.2 Leadership, ethics and values	Satisfactory

The Resident Representative as well as other Senior Management maintained regular contacts with all staff through quarterly generall staff meetings and an annual global retreat. The officers of the Staff Association confirmed that they were consulted and/or informed about strategic decisions made or developments undertaken.

OAI noted at the time of the audit that several staff had not completed the UNDP mandatory training courses, including the UNDP Ethics, Legal Framework, and Prevention of Harassment in the Workplace., Following the audit mission, the Resident Representative instructed all staff to comply with this requirement and therefore as at 30 October 2013, almost all the staff completed the said training courses . Management committed to continuously monitor the status of completion of mandatory courses by all staff members to ensure a 100 percent completion by end of 2013.

During the audit, OAI became aware of the concerns of United Nations Volunteers in the Country. The results of the 2012 Global Staff Survey for the Office were excellent when compared to UNDP corporate averages except for the United Nations Volunteers. Results of their survey were negative and which required attention by senior management of the Office to identify the root causes and take remedial actions. In addition to the survey results, 28 UN Volunteers in the Country, of which 14 were volunteers working with UNDP separated from the Office between 2012 and 2013.

The Office indicated that the security category of the Country was changed from a Rest-and-Recuperation duty station to a category 2 (stable). This resulted in United Nations Volunteers losing some benefits that they consider significant and not a negligible amount. This sentiment was expressed to management by all volunteers working for the UN family in the Country. The issue was elevated to the previous UNV Coordinator and to the UNV colleagues in Bonn.

Further, the Office indicated that there were other issues that were raised in the survey relating to efficiency, decision making and involvement of UNVs, management indicated that the Office went through a considerable staff reduction in 2013 (50 contracts were not extended including 18 international staff and some UNVs). These changes deeply affectedthe social and work dynamics of the Office which prompted the junior staff (mostly UNVs and young professionals) to approach management. They discussed ways how to go through this difficult period of change, reinvigorate the Office, and implement new ideas based on broader and a more regular consultation with the junior professionals

Management committed that once on board, the new UN Volunteer Coordinator will assess if the feeling of discomfort and departures of staff are due either to structural issues that remain to be identified, or as a consequence of the loss in some benefits arising from the changed category of security in the Country.

Taking into consideration the Office's inputs and action plan, OAI is not making a recommendation.

1.3 Risk management, planning, monitoring and reporting — Satisfactory

During the period under audit, management and staff meetings were regularly taking place. With regard to risks and how these were being managed, the Office identified major risks that may impact operations and achievement of programme objectives. The risks included decrease in contributions from donors, security situation, etc. The Office designated focal points who were monitoring these risks and ascertaining how best to address their impact on operations. None of the risks required escalation to headquarters.

No reportable issues were identified.

1.4 Financial sustainability — Satisfactory

The Office had an extra-budgetary reserve of 40 months as at 2012 year-end, well above the 12 months target. The Office was aware of the need to adequately manage its extra-budgetary reserves.

Issue 2 Government Local Office Cost Contribution (GLOC) remained outstanding since 1994

Host governments are required to contribute towards the costs of country offices through GLOC. The UNDP Executive Board encouraged all host country governments to meet their obligations toward local office costs.

As at the time of the audit, GLOC totalling $2.8 million had been outstanding since 1994. The Office provided evidence that collection of this contribution was regularly followed up with the Government that confirmed such obligation but did not indicate specific dates when payments will be made. . In addition, the Office informed OAI that they brought up this matter to the Regional Bureau for Africa as the Resident Representative was negotiating with the Government. An option that is under consideration is the sale of one of the United Nations compounds. . As the Office has taken the appropriate steps and shown progress in the negotiations, OAI is not making any recommendation on this matter.

This issue is caused by factors beyond the full control of the Office.

2. United Nations system coordination — Satisfactory

UNDP support was part of an integrated mission, the United Nations Office in Burundi (BNUB). United Nations agencies operating in the Country were FAO, ILO, UNAIDS, UNDP, UNESCO, UNFPA, UN-HABITAT, UNHCR, UNICEF, UN Women, WFP, and WHO. The mandate of the United Nations Office in Burundi was extended to February 2014, at which time the mission could be converted into a United Nations country team.

At the time of the audit, eight joint programmes pertaining to the UNDAF for 2012-2016 were being prepared.

2.1 Development activities — Satisfactory

The United Nations Development Assistance Framework (UNDAF)for 2010 – 2014 was reconsidered to align it with the Strategic Framework for Poverty Reduction II and national priorities. Consequently, a new UNDAF for 2012 - 2016 was drafted in 2012. It addresses three thematic areas, namely: (a) strengthening the rule of law, improving governance and promoting gender equality; (b) transforming the Burundian economy for sustainable growth and job creation; and (c) improving the accessibility and quality of basic social services and strengthening the foundation of social protection.

No reportable issues were identified.

2.2 Resident Coordinator Office — Satisfactory

OAI reviewed the staffing and annual work plan and the allocation and management of funds for the Resident Coordinator Office, as well as the minutes of meetings of the UN Integrated Mission. OAI also received feedback from three United Nations organizations. These agencies expressed satisfaction with the work performed by the Resident Coordinator Office as well as with the support provided in advancing the agenda of the United Nations in the Country.

No reportable issues were identified.

2.3 Role of UNDP - "One UN" — Satisfactory

In a letter dated 29 May 2013 addressed to the United Nations Development Group, the Governmentexpressed a desire to see the United Nations adopt the Delivering as One approach inthe Country. The UNDG welcomed the initiative and affirmed its support to the Country Team in the timely implementation of as many aspects of Delivering as One as feasible until a fully-fledged One Programme can be implemented. OAI discussed the initiative with the Resident Coordinator and United Nations agencies and noted their willingness to move towards implementing the Delivering as One approach.

No reportable issues were identified.

2.4 Harmonized Approach to Cash Transfers — Partially Satisfactory

Issue 3 Delay in moving towards Harmonized Approach to Cash Transfers

The Framework for Harmonized Approach to Cash Transfers (HACT) lists minimum conditions to be met prior to transferring cash to implementing partners. These include: (a) conducting a macro-assessment of the existing Public Financial Management system once per programme cycle; (b) conducting a micro-assessment of partners that are expected to receive cash transfers above an established annual amount; and (c) establishing and implementing an assurance plan including periodic on-site reviews of the financial records for cash advances to the implementing partners

The Country is not officially HACT-compliant; however, the HACT modality was introduced in 2009 and the United Nations agencies in the Country showed willingness to gradually move towards HACT. There was, nonetheless, no clear path towards full HACT implementation with set deadlines. OAI noted the following:

- Macro-assessment: In the audit team's discussion with management and other UN agencies, it was indicated that since the Public Financial Management system in the country has not changed to date, a new macro-assessment will not be conducted for the 2014-2016 programme cycle. The results of the assessment done in 2010 are still considered valid.

- Micro-assessment: This was undertaken on 78 (including 38 UNDP partners) out of the total 180 Implementing Partners (IPs) . The Office is yet to identify the remaining Implementing Partners of to complete their micro-assessment. It was important to urgently do this exercise as the Office was planning to gradually move from direct to national implementation in the new programme cycle 2014-2016.

- Assurance plan: No spot checks or assurance activities took place during the period under audit. The assurance plan was yet to be finalized.

Priority	Medium (Important)

Recommendation 1:

The Office should strengthen the formal implementation of the HACT process and ensure that:

(a) a clear implementation plan is prepared with milestone dates for timely completion of planned activities;
(b) the micro-assessments of all implementing partners of UNDP are completed prior to the commencement of the new programme cycle; and
(c) the assurance plan is finalized soonest and implemented.

Management comments and action plan: _√_ Agreed ____ Disagreed

The HACT implementation plan was developed and validated by the Office. The assurance plan is now in the process of validation and it is being coordinated with other United Nations agencies based inthe Country. The micro-assessment process was launched a few weeks ago.

3. Programme activities — Unsatisfactory

3.1 Programme management — Satisfactory

The Office was implementing the Country Programme for 2010 - 2014 covering the following main outcomes: (a) improving strategic planning and aid coordination; (b) supporting community recovery and local development; (c) strengthening national reconciliation and promoting human rights; and (d) improving democratic governance. The total budget required to achieving these goals was estimated to be $133.2 million, of which $24.3 million was from core and $108.9 from non-core resources. The Country Programme for 2010-2014 was then revised to make it consistent with the Strategic Framework for Poverty Reduction II and the newly developed United Nations Development Assistance Framework for 2012-2016. At the time of audit, a new Country Programme for 2014-2016 had been prepared.

OAI reviewed the design, approval and monitoring of the Country Programme document and did not observe any reportable issue.

3.2 Partnerships and resource mobilization — Satisfactory

The main contributors to the current Country Programme were: the European Union, Belgium, Japan and the Peace-Building Fund. OAI surveyed donors and national counterparts and further met with them during the audit. Feedback was received from four partners. They did not express any negative opinion and indicated general satisfaction with the quality of UNDP programmes. Additionally, OAI reviewed the resource mobilization plan developed by the Office.

No reportable issues were identified.

3.3 Project management — Unsatisfactory

The Office had 40 on-going projects with a budget of $42.7 million, of which 4 were nationally implemented with $2.3 million budget for the audited period. The Office managed reintegration projects (UNDP implemented) using an approach called 3X6 to facilitate the reintegration of refugees into their communities returning from camps outside the country. These projects had budgets totalling $21.8 million and expenditures amounted to $12.3 for the audited period. The approach utilized labor intensive projects through NGOs that hired the returnees while encouraging them to save and reinvest someof their income.

OAI reviewed initiation, implementation and monitoring activities of five on-going projects, representing 45 percent of the programme budget and 44 percent of the programme delivery for 2012 and first half of 2013 . OAI also reviewed operational and financial closure procedures of five closed projects.

Two critical issues were identified by OAI. Also an outside audit firm’s review disclosed important issues.

Issue 4 Lack of compliance with Grant Management Guidelines and inappropriate contracting modality

The Office signed grant agreements amounting to $9.7 million in 2012-2013 (as at 31 August 2013).

(a) Non-compliance with grants guidelines

Per UNDP Guidelines on Micro-Capital Grants, an individual micro-capital grant may not exceed $150,000. A recipient organization may receive multiple grants within the same programme or project provided these do not exceed a cumulative amount of $300,000. To receive multiple grants, the recipient organization must have delivered the results agreed to in the previous agreement prior to the initiation of another agreement. If the $300,000 cumulative limit is to be exceeded, the Country Office must first request clearance by the Bureau of Management through the Regional Bureau.

The Office did not comply with the Micro-Capital Grant Guidelines and did not seek proper authorization as follows:

- in 10 instances, individual grants over $150,000 were provided for a total of $2,296,000;
- in 8 instances, over $300,000 cumulative grants within the same programme or project were awarded to the same organization for a total of $3,670,000; and
- new grants were awarded in 79 instances totalling $6,432,900 before the previous grants were completed, i.e. the recipient organization had not produced the results agreed to in the prior grant agreement.

(b) Inappropriate contract modality

UNDP has a standard civil works contract template for construction project. The Office initiated construction projects and used a grant agreement as the contracting instuments with responsible parties instead of a contract for civil works. Use of this contracting modality was not appropriate because of the large civil works component of the grants and controls normally built into a civil works contract were not included in the grant agreements. In particular, the agreements did not include milestones, target dates, and the requirement for engineering certification as a condition for payment. Grant recipients were mainly required to submit reports of expenditures that they had spent the installment previously provided to them before they received the next one. There were no guarantees appropriate in civil works contracts that were requested from grant recipients.

(c) Weaknesses in the reintegration projects

In 2013, the Office commissioned an international accounting firm to conduct a financial and administrative review of the grants awarded in 2011 and 2012 through the reintegration projects. The accounting firm’s report revealed significant weaknesses in several areas which may have programmatic, financial and legal consequences. At the time of the audit, the Office was yet to provide comments and an action plan to address the recommendations raised in the report.

By not complying with grant guidelines and not using the appropriate contracting modality, there is a risk that UNDP resources may not be used properly and accounted for adequately.

Priority	High (Critical)
Recommendation 2: The Office should strengthen its management of micro-capital grants and civil works projects by: (a) seeking post facto authorization from the Regional Bureau for Africa and/or Bureau of Management for the grants which exceeded the established thresholds; (b) complying with established thresholds and seeking appropriate authorizations as required; and (c) use the civil works contract template for construction works.	

Management comments and action plan: _√_ Agreed ____ Disagreed
The office will comply with established thresholds and will seek appropriate authorizations as required. It will also use the civil works contract template for construction works.

Issue 5 Lapses in approval and implementation of infrastructure projects

(a) Infrastructure projects launched without prior approval of Regional Bureau for Africa

The Resident Representative does not have authority to approve a project document in support of an infrastructure project unless authorized by the Director of the Regional Bureau for Africa. The Office could not provide OAI with any authorization from the Regional Bureau for initiating infrastructure projects (referred to in Issue 4 herein), yet it initiated 29 infrastructure projects (construction of youth centers, houses and markets) amounting to $3.6 million in 2012 and 2013 (up to 31 August 2013).

(b) Weak implementation of infrastructure projects

OAI selected for review five grant agreements awarded to three responsible parties (two NGOs and one private company) totalling $741,000 for the construction of 320 houses (for returning refugees) and three youth centers. The projects were located in three provinces. OAI noted the following issues:

Selection process not fully documented. In selecting the responsible parties for each project, the Office conducted limited consultations with five or six organizations. A Note to the File explained that experience and financial offers of the selected parties were reviewed as part of the selection process. However, as no additional documentation of the process was made available to the auditors, there was no assurance that the grantees' capabilities were properly assessed, or that the process was transparent and fair. OAI also noted that the selected parties were subsequently validated by a Local Project Appraisal Committee, "le Comite Provincial d'Approbation des Projets" composed of UNDP project personnel and local Government and community representatives.The selection should have followed UNDP policies and procedures without having to be validated by external parties.

Beneficiaries of houses not identified at project initiation. There were no criteria set in the project document on how to identify the specific individuals or families as recipients of the houses. Although the houses were supposed to be ready by January 2013, these were not completed as at the time of the audit. OAI also noted that discussions with the national counterparts to identify beneficiaries were only initiated in February 2013 and were still ongoing at the time of the audit mission.

(c) Weak project monitoring

The Office did not monitor the projects to ensure timely and quality implementation. Specifically, the following issues were noted:

Sub-standard quality of construction. During a field visit (accompanied by a UNOPS Civil engineer) to one of the construction sites on 12 September 2013, OAI noted through ocular observation that the houses were poorly constructed and the construction work had stopped. Of particular concern was the quality of bricks which may impact the integrity of the houses.

Agreed costs were fully spent but completed projects remained undelivered. The projects should have been completed as of January 2013, but were not at the time of the audit. Only 16 out of 135 houses were fully constructed. At the same time, the contractors had already spent more than the agreed costs, hence, did not have the resources to complete the construction work. At the time of the audit, the Office had not been able to reach an agreement with the contractors on the way forward.

No evidence of oversight of project implementation by UNDP engineers. There was no evidence that UNDP engineers/architects were involved in the oversight and monitoring of the construction projects. Field visit reports of UNDP engineers that were on file were dated from late 2012 only, whereas the construction begun in July 2012 and continued during the first semester of 2013.

Additional funds needed to complete construction work. The Office contracted UNOPS in mid-2013 for technical assistance in managing existing infrastructure projects. At the time of audit, UNOPS had completed the engineering and financial review of the construction of 270 houses in two construction sites. A total of 20 out of the 270 houses were fully constructed. From the review, UNOPS concluded that an additional $430,000 was required to finish these two projects.

Non-approval of projects by appropriate bodies is an indication of weakness in governance and significant lapses in the implementation and oversight of infrastructure projects could result in risks relating to costs escalation, financial losses, legal obligations, project failure, and reputation of UNDP .

Priority	High (Critical)

Recommendation 3:

The Office should strengthen its infrastructure project management by ensuring that:

(a) post facto approval is obtained from the Regional Bureau for Africa for the on-going infrastructure projects;
(b) remedial actions are taken as soon as possible to address the issues of quality of the construction and minimize additional costs required to complete the projects;
(c) projects are adequately designed and formulated. In particular, in future, seek authorization from the Regional Bureau for Africa prior to engaging in infrastructure projects, ensure rigorous selection of civil works contractors, and identify project beneficiaries in a more timely manner; and
(d) projects are regularly monitored. In particular, ensure that qualified engineers are assigned to monitor construction works and required to submit complete reports.

Management comments and action plan: _√_ Agreed ____ Disagreed

As a preliminary measure, the Country Office has already contracted UNOPS to certify and control the existing infrastructure projects on all its stages. It is currently envisaging to transfer the management of the construction component of its community recovery programme to UNOPS. Programme staff will be trained in management of civil works projects.

OAI Response: OAI acknowledges the action taken by the Office and will assess it as part of the standard desk review and follow-up of recommendation process.

Issue 6 Weaknesses in the approval, implementation, monitoring and closure of projects

(a) Lack of authorization to implement projects directly

The Resident Representative does not have authority to approve a project document when this is to be directly implemented (DIM) by UNDP, authorization of the Regional Bureau is required. OAI reviewed the authorization of 12 DIM projects and noted that only one had a valid (within a specific period) authorization. The authorizations for the other 11 projects had expired and requests for post-facto approval were denied or were still pending.

(b) Incomplete review by the Local Project Appraisal Committee

The Programme and Operations Policies and Procedures require that all projects must be appraised by a Local Project Appraisal Committee (LPAC) and established by the Resident Representative. The membership of the Local Project Appraisal Committee should consist of UNDP staff members, representatives of the Government Coordinating Agency and representatives of the Implementing Partners.. OAI noted that for 7 out of 14 projects there was no Local Project Appraisal Committee review and for 2 projects, the Committee was chaired by a project personnel rather than by UNDP senior management as required.

(c) Weaknesses in project planning, reporting and monitoring

Inappropriate signing of annual work plan. The annual work plan is an integral part of the legal agreement between UNDP and Implementing Partners for the implementation of a specific project within a calendar year and it should be signed by an authorized officer of UNDP. OAI noted that the 2012 annual work plans for two projects were signed by project personnel rather than by Senior Management of the Office.

Lack of annual project report. The Programme and Operations Policies and Procedures require that an annual report is prepared per project. OAI noted that for 2012 an individual project report was not prepared for three projects reviewed.

Inadequate use of Atlas. Complete and accurate Atlas data is useful for a more informed decision-making and project management. OAI noted that the award risks, issues and monitoring logs were not updated regularly in Atlas.

(d) Inadequate project closure

The Programme and Operations Policies and Procedures outlines the steps that offices must perform to operationally and financially close a project. They include: preparing minutes of the final project review; preparing a final project review report/final lessons learned report; preparing a final combined delivery report; and agreeing on the transfer or disposal of project assets. And to financially close a project, Offices are required to complete a project completion checklist and ensure that the project has zero balance. Projects must be financially closed within 12 months from their operational closure.

OAI reviewed the list of all financially closed projects and noted that some projects still had balances contrary to policies. OAI sampled five operationally or financially closed projects and noted the following:

- there was no minutes of the final project review for one project (ID 00063615);

- reports on final project review and lessons learned were missing for two projects (IDs 0009989 and 000 63615);
- signed final Combined Delivery Reports (CDRs) were missing for three projects (IDs 00062564, 00069989 and 00062255);
- project completion list was incomplete for one financially closed project (ID 00069989); and
- vehicle transfer documents in respect of one closed project (00062255) did not include the identification details of three vehicles that were transferred . The project asset list also included three other vehicles which had not been formally transferred and so, OAI could not obtain assurance that these vehicles were accounted for and transferred to the appropriate recipients.

Weaknesses in the approval of DIM could result as a governance risk and lapses in project implementation, monitoring and closure could put the reputation of UNDP at risk due to non-achievement of programme objectives.

In response to the draft report, the Office commented that it was still facing some constraints with its middle management and a few other staff, in terms of encouraging greater performance, engagement and accountability for delivering results. It also noted that some staff were promoted into jobs with duties they cannot fulfil and unfit for the position. Against this background, the Office was making a concerted effort to address these issues. Work has already been undertaken across the Office both to understand the causes and to take action to reduce underperformance and challenging behaviors. To realign the Office, it will be necessary to improve and continue clarifying workflows, revise some job descriptions, formulate a capacity development plan, revise staff profiles and eventually support the recruitment and training of new staff. Also, and in order to further improve performance, staff will be requested to pass the mandatory assessments to obtain the professional certificates needed to perform their respective functions. Staff who receive the professional certificate will demonstrate they have met the current standards of practice required by the organization. Hence, the Office expressed that it now needs to build on existing results and continue with its efforts in this last year of the current realignment approach. It believed that it will capitalize on the financial sustainability and effectiveness initiative not only to finalize the desired office structure, but also review the staff profiles, and ensure greater levels of professionalism and accountability.

Priority	Medium (Important)

Recommendation 4:

The Office should strengthen its project management by ensuring that:

(a) authorization for the on-going directly implemented projects is sought;
(b) in future, requirements for implementing a project are complied with, including obtaining authorization for directly implemented project, convening a Local Appraisal Committee, and appropriately signing annual work plans;
(c) all actions that are required for proper project monitoring are implemented, including preparing annual project reports and Combined Delivery Reports; and
(d) all actions that are required for project closures are properly implemented.

Management comments and action plan: _√_ Agreed ____ Disagreed

4. Operations — Partially satisfactory

4.1 Human resources — Partially Satisfactory

At the time of the audit, the Office had 52 staff members, consisting of 8 international staff, 10 national officers and 34 general service staff. In addition, there were 41 service contract holders and 8 national and international United Nations volunteers.

OAI reviewed the overall management of human resources, specifically recruitment and separation of staff members during the audited period. OAI also reviewed the management of benefits and entitlements of staff members such as staff advances, overtime, annual leave, home leave, and rest and recuperation to ascertain compliance with UNDP policies and procedures.

Issue 7 Results and Competency Assessment not completed

The Programme and Operations Policies and Procedures requires that staff complete their Results and Competency Assessment for the preceding year by 30 April. Furthermore, staff rules and regulations (rule 3.3) require that satisfactory service be defined and evaluated by supervisors for the purpose of awarding a salary increment.

OAI noted that the Results and Competency Assessment had not been completed for 10 and 8 staff in 2011 and 2012 respectively. The Office indicated that among the reasons for not completing the RCA were non-availability of staff or supervisor or disagreements between them. As such, these staff were awarded a salary increment without a documented satisfactory service performance as evaluated by their supervisor.

Without assessment of staff performance, the Office may not be able to achieve the desired results of rule 3.3, and to identify areas of strengths and improvements of staff members and therefore may not be able to motivate them to pursue further training and development.

Priority	Medium (Important)
Recommendation 5: The Office should ensure that individual Results and Competency Assessments are completed in a timely manner so as to support staff development, detect areas of improvement and, and justify any salary step increment awarded to the staff.	
Management comments and action plan: _√_ Agreed ____ Disagreed The Office will closely monitor finalization of RCA and if necessary will organize sessions dedicated to this exercise. A working day will be exclusively dedicated to the RCA reviews and completion. During that day all staff, and supervisors, will be required to finalize the RCA process. The Human Resources Unit will grant step increments only to staff who completed their RCA.	

4.2 Finance Unsatisfactory

The Office processed 7,454 vouchers totaling $24 million during the period covered by the audit. OAI selected a sample of 58 vouchers totaling $3.1 million for review and testing.

OAI noted that a banking services agreement was not signed with the local bank. The only document available was a Office memo dating as far back as 1980 requesting the bank to open the account. To remedy the situation, the Office completed a procurement process to select a provider for banking services in 2011. The current bank that provides services to the Office was the successful bidder; however, a banking services agreement is yet to be signed. Appropriate wording of the agreement is under discussion with the Cash Management Unit of the Bureau of Management. OAI noted the Office's efforts towards the establishment of the banking services agreement; a recommendation is therefore not raised but this is being noted by OAI for discussion at the corporate level.

Issue 8 Inadequate validation of supporting documents for financial transactions

Regulation 22.01 of the Financial Rules and Regulations requires all payments to be made on the basis of supporting vouchers and other documents to ensure that services or goods have been received. The correct use of the Chart of Accounts is critical for accurate financial, management and donor reporting.

The Office signed grants totaling $9.7 million in 2012 and 2013 which required beneficiaries to provide financial reports and supporting documents for the use of funds disbursed. While the grant recipients provided financial reports and supporting documents to account for their use of funds, OAI did not find any evidence that the Project Management Unit and Finance Unit validated supporting documents received from beneficiaries to confirm that goods were actually received and or services rendered. As an example, one grant recipient presented one proforma invoice for three different purchase orders of the same goods, quantities and prices and paid three different amounts for each of the corresponding vouchers for a total of $34,935. There was no document confirming receipt of the goods purchased, yet both the Project Management Unit and finance reviewed and accepted the three transactions as valid.

In relation to civil works projects, OAI further noted that payments made did not correspond to actual project delivery rates. For example, for one project that involved construction of 135 houses , the concerned NGO received full and 80 per cent payments for 50 and 85 houses, respectively. A project validation report dated 2 September 2013 by UNOPS showed that only 16 houses out of 135 were 100 percent completed. Likewise, a second project for the construction of another 50 houses was fully paid although only 30 houses were fully built.

These weaknesses emanate from an inadequate framework of internal control at the project management unit in which accountabilities, roles and responsibilities were not defined and understood to facilitate effective oversight by the Office.

Inadequate validation of supporting documents and certification of work done prior to payment may result in payment for services and/or goods not delivered and in financial risks.

Priority	High (Critical)
Recommendation 6: The Office should strengthen financial management by: (a) defining and implementing the internal control framework for the project management unit to clarify accountabilities, roles and responsibilities; (b) validating supporting documents from grant recipients to confirm that goods and services were received prior to payment; (c) ensuring that payments of civil works contracts are based on certification from qualified technicians;and (d) assessing the extent to which NGOs delievered on agreed terms and as necessary, blacklisting those who do not deliver.	
Management comments and action plan: _√_ Agreed ____ Disagreed A guidance note on how to validate supporting documents will be developed to clarify accountabilities, roles and responsibilities of Project and Finance Staff. Payments will be based on certification from UNOPS in charge of technical aspects.	
OAI Response: OAI acknowledges the action taken by the Office and will assess it as part of the standard desk review and follow-up of recommendation process.	

Issue 9 Inaccurate year-end financial certification

For the first time, UNDP was required to prepare financial statements by 30 April 2013 in accordance with International Public Sector Accounting Standards (IPSAS) for the year ending 31 December 2012. To meet this requirement, Country Offices had to complete processing and analysis of all transactional and provide the headquarters with certification reports by end of February 2013. OAI noted the following:

(a) The Office filed an erroneous certification of account 14056 (value added tax) during the 2012 year-end certification exercise and submitted a request for refund amounting to $87,000. OAI established that the Office had not filed for any value added tax reimbursements since December 2011 and the balance at end of December 2012 should have been reported at $134,000 ($47,000 in 2011 and $87,000 in 2012). To clean-up the 2011 balance, the Office raised a general ledger journal voucher of $47,000 and charged this to their extra-budgetary fund.

(b) With respect to the 2012 certification for contingent liabilities, the Office reported that it had no outstanding claims from contractors. However, OAI established that the Office was facing a dispute going back to 2011 arising from a civil works contract signed in 2008/2009. The contractor was claiming $57,000 and this contingent liability was not disclosed during the 2012 year-end certification exercise.

Failure to demand a reimbursement for outstanding VAT results in lost funds. Moreover, erroneous certification negatively impacts the integrity and reliability of financial information of the Office and UNDP.

Priority	Medium (Important)
Recommendation 7: The Office ensure that year-end certifications are accurate by: (a) correcting the year-end certification for the value-added tax account and pursuing further with the Government the reimbursement of the outstanding $46,000 and crediting back the extrabudgetary fund;and (b) ensuring that all contingent liabilities are identified and reported to the headquarters for proper disclosure in the financial statements as required in IPSAS.	
Management comments and action plan: _√_ Agreed ____ Disagreed The Head of Finance Unit is instructed to take appropriate actions to collect and submit 2012 and 2013 VAT during the first quarter of 2014 and follow up made by the Administrative and Finance Specialist. Monthly reports will be submitted to the DCD/O for review. All contingent liabilities will be reflected in the 2013 certification.	

4.3 Procurement — Partially Satisfactory

The Office issued 1,110 purchase orders amounting to $12 million during the period under review. OAI reviewed a sample of 27 purchase orders with a value of $3.2 million or 26 percent of the value of all purchase orders. Where appropriate, OAI reviewed the entire procurement process, from the sourcing of suppliers to contract management and payment of obligations.

During the review of vendor accounts, OAI noted that there were 22 duplicate vendors. There were also 9 instances where information of one bank account was inputted in the record of more than one vendor. In addition, OAI noted one case where the vendor's name was modified without proper authorization and review , and as a result a cheque was issued to the wrong vendor. No funds were lost because the vendor notified the Office upon receipt of the cheque which was immediately corrected.

The Office took actions and cleaned out the duplication of vendors soon after completion of audit fieldwork. Furthermore, the Office committed that the procurement Unit will: (a) generate the report on duplicate vendors on a weekly basis to ensure that no vendors are being duplicated; and (b) develop a guidance note on how to enter and approve vendors in Atlas to ensure that the vendor creation process is done properly.

Issue 10 <u>Procurement activities not in line with UNDP procurement principles</u>

The Office's procurement activities must be aligned with UNDP's procurement principles: best value for money; fairness, integrity, transparency; effective international competition; and protecting the interest of UNDP.
The Programme and Operations Policies and Procedures indicate that any contract or a series of contracts including amendments to be awarded to a vendor in a calendar year that in aggregate has a cumulative value of $50,000 or more (previously $30,000 up to 28 May 2013) should be submitted to the appropriate Procurement Review Committee Moreover, a performance bond/guarantee must be presented by the supplier, if required in the solicitation document.

OAI noted one instance when prior to the launch of the bid, a project personnel commenced requests for prices from an eventual successful bidder for a procurement activity worth $115,000.. In another case, the Office accepted vendor's cheques as guarantee from the successful bidder in a procurement activity worth $160,000. A vendor's cheque cannot stand as a guarantee and thus would have invalidated this vendor from the procurement process since a key requirement had not been met. In the two instances above, the Office did not disclose this information to the Regional Advisory Committee on Procurement prior to their review and deliberations on these procurement proposals.

Moreover, 13 vendors provided products and services in excess of $30,000 each in respect of multiple micro-procurement activities for a total of $645,000 in 2012. Procurements from these vendors were not submitted to the Contracts, Assets and Procurement committee for review.

Inadequate application of UNDP procurement principles could result in the selection of vendors who do not provide best value for money and disregard of governance principles on delegation of authority.

Priority Medium (Important)
Recommendation 8: The Office should strengthen procurement activities by: (a) ceasing to accept vendor cheques as guarantees; (b) ensuring that all procurement activities meeting the relevant thresholds are presented for review and approval by the appropriate Procurement Review Committee; and ensuring that all relevant information is disclosed to the concerned Procurement Review Committee.
Management comments and action plan: _√_ Agreed _____ Disagreed Procurement Staff have been instructed to cease accepting vendor cheques as guarantees and Finance Staff have now to check the validity of guarantees before finalizing the payments. The Head of Procurement Unit will generate and submit to the Deputy Country Director/Operations monthly reports on vendors that are awarded contracts with an aggregate amount of $50,000 or more and $ 150,000 and recommend appropriate actions.

4.4 Information and communication technology — Satisfactory

OAI reviewed the information and communication technology planning as well as disaster recovery plan. No reportable issues were identified.

4.5 General administration — Partially Satisfactory

OAI reviewed the administration of the premises, travel, vehicle and fuel management. The Office rented office space within a coumpound managed by the United Nations Office in Burundi (BNUB). Common and shared services costs were therefore managed by the United Nations Office in Burundi and the monthly fees paid by the Office covered all costs including lease payment, telecommunication, cleaning, water, electricity and fuel for generators.

Issue 11 Weaknesses in travel management

The UNDP travel policy calls for the use of the most economical and direct route. Beginning 2013, the least expensive, non-endorseable and non-refundable air tickets must be acquired for business travel.

OAI selected 24 travel purchase orders amounting to $125,000 and noted the following.

(a) Absence of Long Terms Agreements

OAI noted that the Office did not have a Long Term Agreement for air travel services while it processed more than $1 million in travel related payments. The use of this agreement that is established based on a competitive process is considered best practice for travel management . The Office could not explain how suppliers were selected for processing air tickets.

(b) Absence of costs comparison

The Office did not do a comparative trip analysis to ensure that itineraries processed were in compliance with the travel policy. In 12 of 13 cases reviewed, the Office followed the travellers preferences in issuing their tickets rather than what is in the travel policy.

(c) Deviation from approved route not approved

When staff members are permitted to travel for reasons of personal convenience, their entitlement is limited to the maximum travel time and costs had the travel been undertaken using the approved route and costs. Any difference in travel time and costs should be on the personal account of the concerend staff member..

OAI noted that several staff combined official business trip with annual leave or compensatory time off without recieving advance approval by their supervisor. No cost comparison between the “authorized itinerary” and the “requested itinerary” was done to determine the portion to be paid by the staff.

Inadequate processing of travel benefits and entitlements and not using LTAs for air travel services could lead to excess payments or financial loss to the organization.

Priority Medium (Important)
Recommendation 9: The Office strengthen its travel management process by: (a) finalizing Long Term Agreements with travel agents; (b) completing a trip analysis in order to select an itinerary in line with UNDP travel policy; and (c) when official travel is combined with personal travel, the authorization must show both the “authorized itinerary” and the “requested itinerary”. The Staff should be requested to pay the difference.

Management comments and action plan: _√_ Agreed ____ Disagreed
The case was submitted to the RACP before the Audit mission was finalized, the LTAs were signed with the selected travel agents. A trip analysis table will be developed and filled for all travels and concerned staff are requested to pay any difference.

4.6 Safety and security — Satisfactory

Security level 2 was in effect throughout the country during the field work, except for the Capital and the western regions with levels three and four, respectively. The Special Representative of the United Nations Secretary- General (SRSG) was the Designated Official responsible for managing the security of the United Nations in the Country. The Office and the two projects sites located in Makamba and Rohero II were compliant with the Minimum Operating Security Standards (MOSS) according to the last evaluation completed in 2012 by United Nations Department of Safety and Security (UNDSS). There was no updated Minimum Operating Security Standards evaluation in 2013 for the Office and the project sites.

The Office had recently updated its Business Continuity Plan. However, at the time of the audit, the plan had not been tested. The Office comitted to test it by end of the year.

OAI did not identify any reportable issue.

4.7 Asset management — Unsatisfactory

OAI reviewed the assets management processes, including physical inventory count and asset certification procedures. There were a total of 244 assets acquired for $1.1 million in the 2012 year end asset certification.

Issue 12 Weaknesses in asset management

The Programme and Operations Policies and Procedures requires offices to maintain complete and accurate records of all assets. It also requires that assets under use and control of UNDP be capitalized and recorded in the Atlas Asset Management Module.

OAI noted the following deficiencies in the management of assets:

(a) Inappropriate storage of office and project assets

Between July 2011 and April 2012, the Office purchased agricultural equipment valued at $370,000 for distribution to national beneficiaries in the framework of Project ID 69271 “Relevement Communautaire” and Project ID 70400 “Reintegration ex-combattants”. However, these assets were never distributed according to the initial distribution plan, and were inappropriately stored in an open area and in poor conditions for almost two years. Other assets of projects and the office were mingled and kept at this location as well, and so it was not possible to distinguish between office and project assets. Subsequenty, some of these assets have rusted, and the Office could not confirm if they were in working condition.

In 2011, significant amount of metal roofing sheets purchased by the Office were kept at the same location where the agricultural equipments were kept, some of which were stolen because of lack of oversight and proper safeguarding.

(b) Deficient conduct of physical count

The physical inventory of assets was conducted in 2012 and 2013 by only one person , contrary to the requirement of having it done by at least two staff. No certified physical verification could be provided to OAI for 2011, 2012 and 2013 for the Office and the project assets. . Furthermore, a consultant was hired in 2011 to complete an exhaustive count of the Office's assets. The listing produced by the consultant did not include asset tag numbers, and the serial numbers and acquisition costs were missing for the majority of the assets.

With regard to project assets, several lapses were noted such as: missing asset tag numbers serial and tag numbers did not agree with records in Atlas, and acquisition costs were incorrectly entered in Atlas. OAI randomly selected two projects from Atlas-in-service listing, and compared with the assets inventoried by those projects. Two laptops and one vehicle for a total value of $45,000 could not be traced to the asset listings of the projects.

(c) Absence of reconciliation of the results of the physical count and Atlas

The exhaustive count of the Office's assets done in 2011 was not reconciled with the Atlas-In-Service asset report, and no assurance could be provided that all assets were accounted for. Furthermore, a reconciliation between asset physical inventory and Atlas- in- service report was also not done in 2012 and 2013; yet the Office submited its asset certification to the Administrative Services Division of the Bureau of Management..

(d) Delay in the sale of unserviceable or fully depreciated assets

Sale of assets unserviceable or fully depreciated assets including vehicles and equipment as recommended by the Contracts, Assets, and Procurement Committee since 2011, have not been completed at the time of the audit. The list included 10 assets amounting to $34,000; 30 vehicles with no acquisition costs ; and 77 other assets without an asset number or acquisition costs.The Office could not provide an accurate list to show the status of each asset for sale; therefore, OAI could not ascertain if the completed sales were accurately reported in the Office's books. Furthermore, the storage condition of these assets for sale was so inadequate (assets left on floor and covered with dust, broken windows), and two laptops were stolen while awaiting to be sold.

Inadequate asset management led to misappropriation of assets and loss of UNDP resources. If no corrective actions are taken, further losses could be expected.

Priority	High (Critical)
Recommendation 10: The Office should strengthen its asset management by: (a) completing physical inventory of agricultural equipment and reconciling the result with the purchases to ensure that all equipments purchased for the reintegration projects are accounted for. After which, the Office should finalize the asset distribution in a timely manner; (b) reviewing assets purchased since 2010, and tracing them to their current location and status, to ensure that all assets are accounted for; (c) having physical inventory of assets to be conducted by at least two staff and reconciling the results to	

the Atlas in service report prior to submitting the asset certification letter and any variance properly investigated and justified; and (d) completing the sale of unserviceable or fully depreciated assests as recommended by the Contract, Assets, and Procurement Committee.	

Management comments and action plan: _√_ Agreed ____ Disagreed

The country office has already initiated a review of assets purchased for all ongoing projects to ensure all assets are accounted for and variance investigated.

From now on physical inventory will be done by at least two staff and trainings undertaken to strengthen staff capacities.

A new process is being initiated for the sale of remaining assets.

4.8 Leave management — Partially Satisfactory

OAI reviewed the leave management procedures in the Office and noted the following deficiencies.

Issue 13 Weaknesses in leave planning and use of e-Services

Accurate and timely reporting of all absences is crucial to provide an estimate of the liabilities in the organization's books. This is one of the standards set out in IPSASwhich is the recognition of these liabilities in the financial statements of UNDP.

The Office did not enforce the use of UNDP e-Services system as the main tool for tracking and monitoring staff leave.

In two instances, a staff extended his business trip for personal reason without submitting a request for annual leave in Atlas. To correct the situation, the staff submitted uncertified sick-leave after his trip.

In another case, one staff took five days annual leave in August 2012 and this was not entered in Atlas. To correct the situation, the staff was awarded five days compensatory time off in December 2012. No evidence was provided to confirm that the staff was eligible for such compensatory time off.

Inaccurate Atlas leave balances may result in misstatement of liabilities in the organization's books.

Priority	Medium (Important)
Recommendation 11: The Office strengthen the use of the e-Service module for leave management. In addition, the Human Ressource unit should ascertain the propriety of the granting of compensatory leave to the concerned staff member and take necessary corrective action.	

Management comments and action plan:	_√_ Agreed	____ Disagreed
Trainings will be initiated to strengthen use of Atlas E-service module.		

4.9 Global Environment Facility — Not Applicable

OAI reviewed the initiation and implementation of one project funded partially from the Global Environment Facility (GEF) (Project ID 76705) with a total project budget of $3,159,000, of which GEF contribution amounted to $859,000. The project duration was initiated in 2012 for a duration of 4 years. Expenditures recorded for the period under review amounted to $600,000.

Issue 14 Lapses in the management of a GEF project

The Programme and Operations Policies and Procedures require offices to ensure that key stakeholders are kept informed about the project progress, appropriate project management structure exists, outputs and activity deliverables are monitored, and the project is well managed. OAI noted the following issues in the management of the project:

- There was significant delay in project implementation as the project activities effectively started in July 2012 against the initial date of June 2011. The Office explained that this was mainly because of delay in signing the project document and recruiting project personnel.
- As of 31 July 2013, financial delivery rate was 32 percent . The 2012 annual progress report was not available for review. OAI could not ascertain whether project activities were implemented and the delivery rates were in accordance with the workplans.;
- There was no evidence that the Office advised GEF Chief Executive Officer about inability to achieve the milestone of completion of project by August 2014, as required.
- A Chief Technical Adviser was not recruited, contrary to the agreed plan. The Office did not provide information on whether this change was submitted for approval by GEF;
- Five vehicles and eight motorbikes totalling $167,000 were procured and OAI could not identify this activity in the project annual work plan;
- No certified list of assets was maintained;
- Minutes of meeting of the project committee and the technical committee were not available; and
- There was no assurance that regular monitoring of project implementation took place. Only one field visit report of March 2013 was provided and none was available for 2012.

Inadequate management of a GEF project may result in inability to achieve the programme objective and having the obligation to refund donor's money.

Priority	Medium (Important)
Recommendation 12: The Office should improve its management of GEF project by ensuring: (a) adequate monitoring. In particular, maintain appropriate documentation on assets and keep meeting minutes on file; and (b) compliance with donor agreements. Advise appropriate authorities with regard to deviations from approved plan.	

(c)	ascertain the purpose and use of the vehicles purchased outside of the plan; and
(d)	explore the possibility of adjusting to a more realistic timeline of project implementation and advise GEF accordingly.

Management comments and action plan: _√_ Agreed ____ Disagreed

The Office clarified that the corrective actions proposed in this report was derived from the inadequate performance of the programme officer in charge of the environmental portfolio. The situation of the portfolio and contribution of the programme officer have been raised and debated throughout the year, and will be considered during the RCA evaluation. Corrective actions, and a follow up plan, have been agreed with the programme officer to ensure a better management of GEF projects.

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>.