UNITED NATIONS DEVELOPMENT PROGRAMME
Office of Audit and Investigations

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AUDIT

OF

UNDP COUNTRY OFFICE

IN

SIERRA LEONE

Report No. 1187

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Report on the audit of UNDP Sierra Leone
Executive Summary

From 10 to 26 June 2013, the Office of Audit and Investigations (OAI) of the United Nations Development Programme (UNDP) conducted an audit of the UNDP Country Office in Sierra Leone (the Office). The audit covered the activities of the Office during the period from 1 January 2012 to 31 March 2013. During the period reviewed, the Office recorded programme and management expenditures totalling $37 million. The last audit of the Office was conducted by OAI in 2009.

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." The rating was mainly due to weaknesses in programme activities and operations. Ratings per audit areas 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	Satisfactory			
1.2 Leadership, ethics and values	Satisfactory			
1.3 Risk management, planning, monitoring and reporting	Partially 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"	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	Partially Satisfactory			
4. Operations				
4.1 Human resources	Satisfactory			
4.2 Finance	Satisfactory			
4.3 Procurement	Satisfactory			
4.4 Information and communication technology	Satisfactory			
4.5 General administration	Unsatisfactory			
4.6 Safety and security	Not Assessed			
4.7 Asset management*	Unsatisfactory			
4.8 Leave management*	Satisfactory			
4.9 Global Environment Facility*	Not Applicable			

* Cross-cutting themes

Key issues and recommendations

The audit raised 6 issues and resulted in 7 recommendations, of which 4 (57 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."

The high priority recommendations are as follows:

Programme management (Issue 2)	Lack of programme/project oversight systems. The Office did not have Outcome Boards in place and Project Boards were not fully exercising their oversight roles. OAI recommends that the Office put into place formal assurance, oversight and reporting systems by: (a) establishing Outcome Boards to provide monitoring and assurance for each Country Programme outcome; and (b) ensuring Project Boards meet regularly for all projects and provide substantive oversight thereof.
Project management (Issue 3)	Inadequate project assurance controls. The Office had weak controls in place for project design and appraisal. Project activities totalling $5 million on the Election Project were not appraised by a Local Project Appraisal Committee; Results and Resources Frameworks were formulated vaguely; field monitoring visits were not undertaken regularly by programme staff; projects were not closed in Atlas in a timely manner; micro-capital grant beneficiaries were selected on a non-competitive basis; and Letters of Agreement were not signed with partners to whom funds were advanced. A total of $3.3 million was disbursed by Implementing Partners in 2012 with whom Letters of Agreement were not signed. OAI recommends that the Office that: (a) new projects are reviewed and appraised by a Local Project Appraisal Committee; (b) Results and Resources Frameworks are clearly formulated in accordance with UNDP corporate results-based management principles and contain accurately defined indicators, targets, outputs and activities; (c) field monitoring is undertaken for all projects as per the UNDP Programme and Operations Policies and Procedures; (d) all projects that are operationally complete are closed in Atlas; (e) Letters of Agreement are signed with all government and United Nations Implementing Partners; and (f) micro-capital grant agreements are awarded based on a competitive process.
General administration (Issue 4)	Lack of controls over fuel management. The Office had not recorded diesel usage and could not account for 3,247 litres of fuel. Furthermore, one payment voucher with a value of $49,020 for 43,000 litres of fuel and four payment vouchers with a total value of $172,800 for diesel reserves were processed without adequate supporting documentation. OAI recommends that the Office initiate a special review to determine the causes of discrepancies and lack of justification regarding: (a) ad hoc diesel replenishments and the 3,247 litres of diesel that were not accounted for in the consumption report; (b) payment of $49,020 for 43,000 litres of diesel which was purchased for the Elections Project but had no documentation to support the request, delivery or physical receipt; and (c) payments for diesel without supporting documents, including diesel request forms, coupons, and usage summary reports prior to payment approval in Atlas.
Asset management (Issue 5)	Non-compliance with asset management procedures. The Office was not compliant with asset management procedures. As a result, asset year-end reporting was not properly done and relevant documentation for capitalization of new assets was not uploaded in the Document Management System. There were risks of misappropriation of assets and

misstatement of assets in the annual financial reports of the organization. OAI recommends that the Office enforce asset management procedures by: (a) adjusting in-service assets with the identification and removal of non-asset items of $72,900 and Global Agency assets of $5,000 wrongly entered in the asset register; (b) uploading the five-year lease agreement of $950,000 for the building premises in the Document Management System in order for the Global Shared Service Centre to classify and record the transaction in UNDP books accordingly; (c) notifying the Administrative Services Division about lease improvement and installation costs of $257,000 so that they could be duly capitalised; (d) following up on assets of $618,000 that were not physically verified as of the 2012 year-end; (e) documenting all sales receipts and compiling reconciliation reports of sold and remaining items to be signed-off on by senior management; and (f) implementing a regular review of the asset register by the supervisor.

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 analysed at the corporate level, and thereafter, a consolidated report will be issued separately. For this particular audit, the following were noted:

- **Asset management**. Unsatisfactory. Refer to Issue 5
- **Leave management**. Satisfactory. Discrepancies were noted from a sample of leave records for five staff members. There were cases where leave balances recorded in Atlas did not match the physical leave records compiled by the Leave Monitor. Considering the actions taken and agreed to by management, no issue was raised.
- **Global Environment Facility**. No reportable issues noted.

Management comments and action plan

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

Helge S. Osttveiten
Director
Office of Audit and Investigations

I. Introduction

From 10 to 26 June 2013, OAI conducted an audit of UNDP Sierra Leone. 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 2012 to 31 March 2013. During the period reviewed, the Office recorded programme and management expenditures totalling $37 million. The last audit of the Office was conducted by OAI in 2009.

II. About the Office

The Office, located in Freetown, Sierra Leone (the Country) has a total of 37 staff members with a portfolio of 15 projects. In 2012, programme delivery totalled $33 million. In 2013, the Office embarked on a new Country Programme, which was focused on two thematic areas: governance and inclusive growth.

Since the end of a devastating civil war in 2002, the Country has made notable progress in consolidating peace and strengthening democracy with the crucial support of the United Nations and UNDP, and the economy has averaged a 7.9 percent economic growth rate. The strong post-conflict economic performance has been heavily dependent on aid, with about 50 percent of public investment programmes financed by external resources. Nevertheless, reflecting accumulated development deficits, its 2011 value of 0.336 on the human development index positioned it 180th out of 187 countries and territories. Life expectancy increased from 39 years in 2000 to 47 years in 2011, yet around 60 percent of the population lives below the national poverty line, unemployment rates are high, especially among youth, and illiteracy is widespread.

III. Detailed assessment

1. Governance and strategic management — Partially Satisfactory

The Office's senior management is comprised of a Country Director, a Deputy Country Director for Programme and a Deputy Country Director for Operations.

1.1 Organizational structure and delegations of authority — Satisfactory

OAI reviewed the organizational structure, staffing tables, delegation of authority and allocation of Atlas user profiles. There were no notable issues in the staffing tables and delegation of authority. For Atlas user profiles, there was no system to ensure prompt deactivation of Atlas user profiles for staff members that had separated from the Office. Active user profiles were noted for eight former staff members. The Office promptly deactivated the user profiles that had been noted and no further issue was raised in this regard. OAI also noted that four staff members had both human resource administrator and global payroll administrator user profiles within Atlas, resulting in conflicting duties, insufficient segregation of duties, and contravention of the Internal Control Framework. Subsequent to the audit fieldwork, management amended the user profiles for all staff with conflicting Atlas user profiles. No further issue was raised in this regard.

1.2 Leadership, ethics and values — Satisfactory

OAI reviewed the results of the Global Staff Survey and staff completion of the mandatory Ethics and Legal Framework training courses. There were no notable issues in the results reflected in the Global Staff Survey.

OAI raised the issue of staff not completing mandatory courses directly with the Office management.

1.3 Risk management, planning, monitoring and reporting — Partially Satisfactory

At the time of the audit, the Office was planning for a number of important changes leading up to the next programme cycle. They included: addressing emerging government priorities, which have shifted focus to the issues of building institutional capacity and sustainable economic growth; the closure of the United Nations Integrated Peacebuilding Office in Sierra Leone (UNIPSIL); and the move from the direct implementation of projects to national implementation. Based on the documentation reviewed and discussions with management, the Office had formulated a plan for its programme section and had addressed the issue of operational planning within a financial sustainability plan. No further issue was raised in this regard.

Issue 1 <u>Lack of staff performance assessments</u>

The Results and Competency Assessment process is the main tool for effective planning and assessment of staff performance. It also forms the basis for the development of the staff learning plan.

(a) Out of a total of 28 staff that should have completed 2011 Results and Competency Assessments, only 6 had actually completed the assessment. Four staff members had not started their 2011 Results and Competency Assessments, while the remaining staff members had started them but had yet to complete them; and
(b) Out of a total of 32 staff members that should have completed the 2012 Results and Competency Assessments, only 4 had completed the assessments while the rest of the staff had yet to start.

As a consequence of the incomplete Results and Competency Assessment process, the learning plan for 2012 and 2013 is not reflective of the Office's assessed learning needs and only consists of mandatory and online training courses.

Management acknowledged that the completion of the Results and Competency Assessment process for both years was a challenge due to technical issues with the Results and Competency Assessment online system. OAI also noted various communications conducted between the Office and the Results and Competency Assessment Helpdesk in an attempt to complete the process and the assistance given thereon by the Helpdesk. This, however, did not result in the Results and Competency Assessment process being duly completed.

Priority	Medium (Important)
Recommendation 1: The Office should: (a) ensure all outstanding staff performance assessments are completed and filed in individual personnel files; and (b) update the learning plan to take into account the areas of staff development and learning identified in the Results and Competency Assessment process.	
Management comments and action plan: __√__ Agreed ____ Disagreed The following actions had been initiated to implement the recommendation: (a) A reminder was sent to all staff with a deadline of 30 September 2013 for 100 percent compliance and a number of the pending Results and Competency Assessments had already been completed. Staff members have not been assessed for two years and there is no platform to assess staff against stated objectives and address any capacity issues. This is especially relevant as the Office repositions itself from a post conflict situation to a development situation. (b) The learning plan is under development. The plan will take into account the Results and Competency Assessments on performance and will be realigned as necessary (training & restructure needed). Additional information provided by management has been reflected in the observation.	

1.4 Financial sustainability — Satisfactory

OAI reviewed the budgeting and billing of extrabudgetary income. Inconsistencies were noted in the distribution rates set up for General Management Service fees in Atlas. Upon discussion with management, the inconsistencies were addressed and management made the commitment to ensure the continued correct set-up and monitoring of distribution rates. At the time of the audit, the Office had extrabudgetary reserves of $1.5 million, equivalent to about 16 months of expenditure. No further issue was raised in this regard.

2. United Nations system coordination — Satisfactory

The United Nations Country Team comprises 19 members, including the African Development Bank, FAO, ILO, IMF, IOM, OHCHR, UNAIDS, UNDP, UNDSS, UNFPA, UNICEF, UNIDO, UNHCR, UNIPSIL, UNOPS, UN Women, the World Bank, WFP, and WHO.

The United Nations Country Team is operating according to the United Nations Transitional Joint Vision for 2013-2014. The Transitional Joint Vision formulates the Country's transition from being in a 'post-conflict situation' under a United Nations Security Council mandate, to that of a routine, long-term developmental trajectory. During the transition period, the United Nations is expected to see the end of the mandate of UNIPSIL, which should result in the UN Country Team's changeover to the Resident Coordinator System configuration. The Transitional Joint Vision document lays the foundations for transition to a full-fledged United Nations Development and Assistance Framework at the beginning of 2015.

2.1 Development activities — Satisfactory

The United Nations Country Team is currently implementing the Transitional Joint Vision for the period 2013-2014. The Vision focuses on seven themes, including: (a) support of good governance; (b) agriculture and food security; (c) natural resources and disaster management; (d) social protection, child protection, gender equality and human rights; (e) basic education; (f) health and nutrition, and; (g) economic development and employment.

OAI assessed the monitoring and oversight systems in place for the Transitional Joint Vision strategy, budgeting and resource mobilization, and plans for the roll-out of the 2015-2018 United Nations Development Assistance Framework for the Country.

OAI noted that the Resident Coordinator's Office did not have a system in place for monitoring the resources mobilized for the implementation of the Transitional Joint Vision's outcomes. We brought this deficiency to the attention of the Office and subsequent to the audit field mission a monitoring system was put into place. No reportable issues were noted.

2.2 Resident Coordinator Office — Satisfactory

The Resident Coordinator was the Executive Representative of the Secretary-General to the United Nations Integrated Peacebuilding Office in the Country. The Resident Coordinator's Office was comprised of three staff members including the Coordination Specialist, Administration Associate and a Driver. OAI reviewed the Resident Coordinator Office's Work Plans for 2012 and 2013 as well as the Annual Report for 2012 and Atlas reporting for the audit period. No reportable issues were raised.

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

This area was not applicable to the audit since "One UN" has not been formally rolled out in the Country.

2.4 Harmonized Approach to Cash Transfers — Satisfactory

OAI reviewed the Harmonized Approach to Cash Transfer macro-assessment, the micro-assessments for the Office's Implementing Partners, the Spot-Check Plan, the audit plan and the use of Financial Accounting and Certification forms. OAI raised the issue of the system for the Harmonized Approach to Cash Transfers not being in place for the current programme cycle directly with Office management, who would take this up further with other United Nations agencies involved.

3. Programme activities — Partially Satisfactory

3.1 Programme management — Partially Satisfactory

The Office is operating according to a two-year Country Programme Document, covering the period 2013-2014. The Country Programme focuses on two outcomes, governance and inclusive growth with a total budget of $30.5 million. At the time of the audit, the Office had 15 ongoing projects, 3 of which were nationally implemented and 12 of which were directly implemented.

OAI reviewed the Country Programme Document and the Office's project portfolio, programme oversight mechanisms, project set-up in Atlas, project assurance systems, and the Office's coordination with and participation in sector working groups.

Issue 2 Lack of programme/project oversight systems

According to the UNDP Programme and Operations Policies and Procedures, offices need to have Programme, Outcome and Project Boards in place to provide oversight over the implementation of the Country Programme Document. OAI noted the following:

(a) Absence of Outcome Boards

The Office did not have Outcome Boards in place. As a result, formal monitoring and assurance of the Office's progress towards delivering the outcomes defined in its Country Programme Document had not taken place. Management explained that the Office had presented its achievements at a National Conference on Development and at a meeting on the Government's Poverty Reduction Strategy Paper, both held in 2012. Management indicated that it believed that the presentations were sufficient to replace formal Outcome Board reviews.

(b) Weaknesses in project oversight

OAI reviewed the Project Board minutes and reports for a sample of seven projects and identified weaknesses in project oversight. In particular, Project Boards had not met in 2012 for three of the seven projects sampled (48008, 59959, 61412). For two other projects, the Project Boards had met, but did not exercise their oversight and steering functions in terms of approving annual work plans, reviewing project budgets (77654) and revisions thereto (totalling $3.6 million - project ID 77588).

Management stated that attention was primarily given to the Strategic Elections Project during the period under review, since it was an election year and the project represented the highest risk in terms of credibility and exposure for UNDP.

Management also stated that, in response to a recommendation made in the previous audit and in order to support Office processes, the Business Development and Oversight Unit had been established. Through this Unit, previous challenges and bottlenecks had been addressed through the development of guidelines, tools and workflows that have clarified and established Standard Operating Procedures and adhere to corporate UNDP rules and regulations, however, there is still more that needs to be done. The Head of this Unit (P4) also played the role of programme assurance in the Office jointly with the Deputy Country Director, Programme. The Unit also includes a Programme Finance and Results Based Management/Monitoring & Evaluation Specialist. Mechanisms are in place but will be improved to ensure full compliance.

Without Outcome Boards in place, there is no institutional means of assuring the Office is on track in meeting the targets and outcomes established in the Country Programme Document through the timely identification of issues and implementation of appropriate corrective measures. Without well-functioning Project Boards, adequate project control, monitoring, oversight and steering functions cannot be assured. This may result in inadequate project accountability, thus increasing the risk that the project may perform poorly, miss its targets and/or utilize resources ineffectively.

Priority	High (Critical)
Recommendation 2: The Office should put into place formal assurance, oversight and reporting systems by: (a) establishing Outcome Boards to provide monitoring and assurance for each Country Programme outcome; and (b) ensuring Project Boards meet regularly for all projects and provide substantive oversight thereof.	
Management comments and action plan: __√__ Agreed ____ Disagreed Management will follow up with projects to ensure full compliance with regards to Project Board meetings and improving the quality of the reporting.	

3.2 Partnerships and resource mobilization — Satisfactory

The main donors in 2012 for the Office were the Department for International Development (DFID), Irish Aid and the European Union. According to the Country Programme Document for 2013-214, the Office will require a total of $30.4 million to achieve the Country Programme outcomes. Of that amount, the Office expects to receive a total of $12.4 million in regular resources. The Office mobilized $3.64 million in 2013 for the current programme cycle. An overview of the Office's resource pipeline shows that the Office anticipates the mobilization of a further $11.5 million for the current cycle.

OAI reviewed plans for the development of a resource mobilization strategy for the Office, met with key donors to discuss partnerships with UNDP, assessed the quality of donor reporting and reviewed resource pipelines for the Office. No reportable issues were noted.

3.3 Project management — Partially Satisfactory

In 2012, the Office had 59 projects, of which 4 were nationally implemented and 55 were directly implemented. The number of projects decreased to 18 in 2013, of which 3 were directly implemented. The thematic areas covered by the projects included poverty reduction, governance, crisis prevention and recovery.

OAI sampled a total of seven projects, representing 28 percent of programme portfolio and 46 percent of delivery in 2012. OAI reviewed the structure of the Programme Section, the functions performed by the staff, and selected a sample of projects to assess the overall management and monitoring of projects activities.

Issue 3 Inadequate project assurance controls

Offices must, according to UNDP's Programme and Operations Policies and Procedures, ensure that adequate assurance systems are in place and are functioning. Assurance systems are critical for ensuring compliance, accountability, and attainment of intended outcomes.

OAI noted the following deficiencies arising as a result of the inadequate functioning of the project assurance system:

(a) Weak project appraisal controls - A Local Project Appraisal Committee was not held for a large component of one of the seven projects sampled (project ID 77588). The component had a total value of $5 million. The absence of Local Project Appraisal Committee reviews may mainly result in: (i) projects not being attuned to local realities; (ii) overlapping with existing initiatives of other agencies or organizations; and (iii) allocating resources inefficiently.

(b) Poorly defined project Results and Resources Frameworks - Four of the seven projects sampled had poorly defined Results and Resources Frameworks (48008, 77588, 59953 and 77654). For example, project 48008 had set outputs as targets, project 77588 set activities as indicators and project 77654 set activities at too high of a level to justify expenditures. Without properly defined Results and Resources Frameworks, the Office cannot assess the progress of the respective projects, account for resources spent on activities or measure the project's impact.

(c) Lack of regular field monitoring visits - Programme Officers had not conducted field visits for five of the seven projects sampled (48008, 59959, 77654, 44980 and 55915). The absence of monitoring exposes projects to the risk that: (i) emerging constraints will not be identified in a timely manner; (ii) problems will not be resolved once they have been identified; and (iii) resources may be used for activities or inputs not approved in the annual work plan.

(d) Failure to close projects in Atlas - The Office had over 40 projects with an active status in Atlas, some of which had been completed since 2008 but had not been financially closed.

(e) Letters of Agreement not signed with Implementing Partners - It is necessary for the Office to sign a Letter of Agreement with Implementing Partners in order to establish legal provisions, safeguards and the requirements for management, expenditure, reporting and accountability. A total of $410,783 was advanced to government Implementing Partners with whom Letters of Agreement were not signed (projects 44980, 55915, 71028 and 73614). Further, an amount of $2.9 million was expended for activities implemented by UNIPSIL in the absence of a Letter of Agreement.

(f) Non-competitive selection of micro-capital grant beneficiaries - During 2012, the Office had in place 54 micro-capital grant agreements with 33 non-governmental organizations totalling $2.3 million. The audit found no evidence that the selection of the non-governmental organizations as recipients of micro-capital grant agreements had been approved by a project steering committee as required by the UNDP Programme and Operations Policies and Procedures. Of the reviewed sample of nine micro-capital grant agreements signed in 2012 with a total value of $785,000, four (total value of $311,000) were awarded by the Office to non-governmental organizations without a call for applications or competitive selection (project IDs 59959, 77588 and 82298).

A lack of project assurance systems may result in projects performing poorly, or not attaining the intended outputs/outcomes, and increases the risk of resources being mismanaged or misappropriated.

Priority	High (Critical)
Recommendation 3: The Office should ensure that: (a) new projects are reviewed and appraised by a Local Project Appraisal Committee; (b) Results and Resources Frameworks are clearly formulated in accordance with UNDP corporate results-based management principles and contain accurately defined indicators, targets, outputs and activities; (c) field monitoring is undertaken for all projects as per the UNDP Programme and Operations Policies and Procedures; (d) all projects that are operationally complete are closed in Atlas; (e) Letters of Agreement are signed with all government and United Nations Implementing Partners; and (f) micro-capital grant agreements are awarded based on a competitive process and a review of the selection process is performed by the Project Steering Committee or Local Project Appraisal Committee.	
Management comments and action plan: __√__ Agreed ____ Disagreed	

4. Operations — Partially Satisfactory

4.1 Human resources — Satisfactory

OAI reviewed the recruitment and separation processes, staff advances, management of overtime and the administration of leave (see section 4.8 below). The audit work found no notable issues for staff advances or the management of overtime. OAI reviewed 14 recruitment cases that were conducted between 1 January 2012 and 31 May 2013, and noted weaknesses in the retention of documentation to adequately support the recruitment process. There were six cases noted where the complete listing of all applications received for advertised positions and the short-listing processes were not included in the recruitment files and there were four cases where there was no documentary evidence that the vacant positions had been advertised. Subsequent to the audit mission, the Office developed an e-filing process in the local share drive to be used for the retention of all recruitment documents and was able to submit all the documentation to support that the vacant positions were advertised. No further issue was raised in this regard.

4.2 Finance — Satisfactory

During the period under review, 3,676 payment vouchers were processed for a total of $20.3 million. OAI reviewed controls over cash management, bank reconciliations, and payment and disbursement processes. There were no weaknesses noted in the review of bank reconciliations and cash management. The review also included 130 payment vouchers, valued at $2.2 million (representing 11 percent of the total value of payment vouchers processed between 1 January 2012 and 31 May 2013). No reportable issue was raised.

4.3 Procurement — Satisfactory

The Office's procurement from January 2012 to March 2013 was comprised of 972 purchase orders totalling approximately $17 million. Of the total procurement value, 46 percent (or approximately $7.8 million) related to procurement of material for the Elections Project (Award 77588) through the Procurement Support Office in 2012. OAI reviewed compliance with procurement procedures and vendor management and reviewed 42 purchase orders with a total value of approximately $1.2 million, representing 13 percent of the total procurement for the period 1 January 2012 to 31 March 2013. The Office had 168 dormant vendors and 57 duplicate vendors out of 2,750 active vendors. This issue was discussed with management and management agreed to continually monitor vendor information. Initial steps for vendor vetting were implemented during the audit period. No reportable issues were noted.

4.4 Information and communication technology — Satisfactory

The review of this area included a review of networks and hardware, website management, staffing of the Information and Communication Technology Unit, Business Continuity Plan and access control to the server room. The Information and Communication Technology Unit was comprised of three staff members and was responsible for a total of 102 users, including other United Nations agencies, such as UNIPSIL and UNFPA. At the time of the review, the Unit was not charging agencies for services rendered. OAI discussed this with management who agreed to ensure that agencies requiring information technology services submit service requests to enable proper billing. Weaknesses were also noted in the access control and temperature control of the server room, however, the Office was in the process of addressing these issues through the procurement of the relevant security features.

OAI raised the issue of incomplete Business Continuity Plan directly with Office management.

4.5 General administration — Unsatisfactory

The Office relies on generators for all of its electricity supply and therefore kept a supply stock of diesel on site in a tanker. It had four operating generators alternating within a 24-hour schedule each day.

A local supplier maintains a reserve stock which is used to refuel vehicles through a coupon system with a monthly billing. The Office, which had a standard reorder quantity of 4,100 liters of diesel for its generators, also procured diesel for government institutions and other United Nations agencies.

The Transport Officer was responsible for organizing the purchase of diesel and approving usage reports while the Generator Maintenance Officer was responsible for recording generator operating hours and preparing diesel usage reports.

Issue 4 <u>Lack of controls over fuel management</u>

Offices are required to establish control systems for recording, tracking and reporting supplies. OAI reviewed a sample of 12 purchase orders and the related payment vouchers with a value of $45,580, representing the purchase of 49,200 litres of diesel fuel for generators during the months of April to October 2012. OAI also reviewed a sample of four purchase orders and related payment vouchers with a value of $172,830, representing 150,000 litres of diesel for vehicles for the period June to November 2012. In addition, the reviewed sample included user diesel request forms and coupons from March to October 2012 in order to assess controls over the usage of diesel. The following issues were noted:

(a) Generator operating hours were not accurately recorded, which caused inconsistencies in reporting diesel usage. OAI reviewed the documentation recording generator operating hours for two days in October 2012, and found that hours recorded per day exceeded 24 hours, and generator start and stop hours had overlapped. Following the audit fieldwork, the Office management explained that there were gaps in the records of the generator attendant about the consumption pattern of the generators, which made it very difficult to reconcile both records. Both generators were used intermittently because of break downs and servicing periods.

(b) The Transport Officer arranged ad hoc diesel replenishments for generators to meet shortages when regular diesel deliveries were delayed, without the approval of senior management and without proper documentation.

(c) OAI reviewed diesel request forms and copies of coupons representing a total of 5,412 litres of diesel with an estimated value of $6,169 for March to October 2012. It found that 3,247 litres of diesel worth $3,700 had not been recorded in the diesel usage reports and were unaccounted for.

(d) One of the 12 payment vouchers reviewed with a value of $49,020, representing 43,000 litres of diesel for generators, was processed without supporting documents showing the request, delivery and physical receipt of the diesel. This payment related to the Elections Project (Award 77588). When requested, the Office could not provide the supporting documents.

(e) All four payment vouchers reviewed with respect to reserved diesel for motor vehicles totalling $172,800 were processed without adequate supporting documents, including:

- two with a total value of $84,800, both paid in October 2012, had diesel usage reports with incorrect opening and closing balances; and
- two with a total value of $88,000, paid in October and December 2012, had no diesel usage reports, coupons or diesel request forms as support documentation.

Priority	Medium (Important)
Recommendation 4: The Office should strengthen controls over fuel management by: (a) monitoring the recording of daily hours of generator usage based upon a 24-hour schedule in order to maintain consistency of diesel usage; and (b) ensuring that ad hoc diesel replenishments are authorised by senior management and that the ad hoc diesel request forms and coupons are properly filed.	
Management comments and action plan: __√__ Agreed _____ Disagreed Actions had been initiated to implement the recommendation. A ledger system has been introduced to monitor the generator usage on an hourly basis. A new mechanism has already been introduced which separates fuel consumption for vehicle and generator, and uses a tracking system. Monthly reports are also now generated and shared with users. Generator fuel and vehicle fuel tracking is now also managed separately.	

Priority	High (Critical)
Recommendation 5: The Office should initiate a special review to determine the causes of discrepancies and lack of justification regarding: (a) ad hoc diesel replenishments and the 3,247 litres of diesel that were not accounted for in the consumption report; (b) payment of $49,020 for 43,000 litres of diesel, which was purchased for the Elections Project but had no documentation to support the request delivery or physical receipt; and (c) payments for diesel without supporting documents, including diesel request forms, coupons, and usage summary reports prior to payment approval in Atlas.	
Management comments and action plan: __√__ Agreed ____ Disagreed Actions had been initiated to implement the recommendation, as follows: A review on fuel control was conducted for the period January 2012 to date and it was discovered that all fuel issued was recorded but the records of the Generator Operator (usage) were inconsistent. In that regard, the following measures are being enforced to address such gaps: (a) all ad hoc fuel supply must be approved by the Head of Operations; and (b) generator supply is now separated from vehicle supplies and usage is being monitored using the hourly rate.	

4.6 Safety and security — Not Assessed

The Country is in security phase one - minimal. The Office had moved to its new premises in August 2012 and at the time of the audit, was in the process of implementing recommended UNDSS security standards. Therefore this area was "not assessed."

4.7 Asset management — Unsatisfactory

Review of this section focused on controls over recording and reporting of the Office's fixed assets and inventory.

Issue 5 Non-compliance with asset management procedures

Offices are required by UNDP's Programme and Operations Policies and Procedures to maintain systems that ensure accurate recording, reporting and safeguarding of assets. The Office had not enforced asset management procedures. OAI noted the following anomalies:

(a) Non-asset items of $72,900 were erroneously entered in the asset register.
(b) A five-year lease agreement worth $950,000 starting on 1 August 2012 for office premises was not uploaded in the Document Management System to allow the Global Shared Service Centre to classify and record the transaction accordingly.
(c) Lease improvements and information and communication technology installation costs totalling $257,000 had not been accumulated and capitalized as required by accounting standards (IPSAS). UNDP policies and

procedures require the creation of a project in Atlas for recording of any installation and lease improvement costs to be capitalized.

(d) Neither the mid-year or year-end physical asset verification exercises for 2012 were properly finalized. The Office's year-end asset physical verification report showed assets totalling approximately $618,000 that were not physically verified. Of the total of $618,000, $5,000 were Global Agency Services Fund assets erroneously recorded as UNDP assets, $72,900 were non-asset items erroneously classified as assets and $540,000 (which according to the Office mainly represented Elections Project assets around the Country) were incorrectly described as assets "not under UNDP control" in the Asset Discrepancy Report.

(e) There was inadequate documentation of the asset disposal process. There were no records on file concerning equipment that the Compliance Review Panel had recommended should be disposed of through sale. This included an HP Laser Jet printer (USBB934207: no asset identification allocated), three water dispensers, Canon photocopier (Asset ID 97), and two generators (asset IDs 577 and 1327).

The lack of regular reviews of the asset register by the supervisor, which are required by UNDP's Programme and Operations Policies and Procedures, may lead to non-compliance and errors not being detected. Non-compliance with asset management procedures might result in the misuse and/or loss of assets and increases the risk of fraud.

Priority	High (Critical)
Recommendation 6: The Office should enforce asset management procedures by: (a) adjusting in-service assets by identifying and removing non-asset items of $72,900 and Global Agency assets of $5,000 wrongly entered in the asset register as UNDP assets in 2012; (b) uploading the lease agreement for the building premises in the Document Management System in order for the Global Shared Service Centre to classify and record the transaction accordingly; (c) notifying the Administration Support Department about lease improvement and installation costs that need to be capitalized with respect to the current premises; (d) following up on assets that were not physically verified as of the 2012 year-end; (e) documenting all sales receipts and compiling reconciliation reports of sold and remaining items to be signed-off on by senior management; and (f) implementing a regular review of the asset register by the supervisor.	
Management comments and action plan: __√__ Agreed ____Disagreed	

Issue 6 Non-compliance with supplies inventory management procedures

Offices are required to record and track inventory and supplies outside of Atlas and to report cumulative balances exceeding $500 in the Document Management System to be recorded at year-end as current assets.

The Office's inventory register outside of Atlas was not up to date. According to the Asset Manager, it was last updated in 2011. Inventory and supply items, including mobile phones and furniture that were purchased between 2011 and 2013 were not recorded and tracked. Equipment items loaned to staff were not recorded in the Equipment Loan Register. Office management had informed OAI that following the audit, an update of the register took place in June 2013.

Quarterly and annual inventory and supply reports (for projects and operations) were not prepared as required under the new IPSAS accounting standards. OAI could not ascertain the value of items purchased during 2012 and 2013 or the total value of equipment loaned to staff members. The lack of documentation and control increases the risk of misappropriation, loss and misstatement of assets in the year-end financial reporting.

Priority	Medium (Important)
Recommendation 7: The Office should comply with inventory and supply management procedures and: (a) maintain an updated inventory and supplies register; (b) record equipment items loaned to staff members for tracking purposes; and (c) institute regular reporting (quarterly and annually) of inventory and supplies by the projects.	
Management comments and action plan: __√__ Agreed _____ Disagreed	

4.8 Leave management — Satisfactory

The review of leave management focused on the use of e-services in Atlas by staff for the recording and reconciliation of leave. From a randomly selected sample of leave records for five staff members, discrepancies were noted in two cases. The May 2013 leave balances recorded in Atlas did not match the physical leave records compiled by the Leave Monitor. This can have a negative impact on the year-end balance sheet information. Management agreed to ensure that effective 30 June 2013, all discrepancies would be resolved and there would be regular monitoring and reconciliation to ensure that the leave balances recorded in Atlas are correct. Subsequent review showed that all leave balances in Atlas had been corrected. Considering the actions taken and agreed to by management, no issue was raised.

4.9 Global Environment Facility — Not Applicable

OAI reviewed project formulation and initiation, project oversight, financial management, project closure and knowledge management for Global Environment Facility projects. No reportable issues were noted.

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 not included in this report.