UNITED NATIONS DEVELOPMENT PROGRAMME
Office of Audit and Investigations

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AUDIT

OF

UNDP COUNTRY OFFICE

IN

ANGOLA

Report No. 1244

Issue Date: 14 March 2014

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Report on the audit of UNDP Angola
Executive Summary

The UNDP Office of Audit and Investigations (OAI) conducted an audit of UNDP Angola (the Office) from 6 to 20 November 2013. The audit aimed to assess the adequacy and effectiveness of the governance, risk management and control processes relating to:

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

(b) United Nations system coordination (development activities, Resident Coordinator Office, Harmonized Approach to Cash Transfers);

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

(d) operations (human resources, finance, procurement, information and communication technology, general administration, safety and security, asset management, leave management, Global Environment Facility).

The audit covered the activities of the Office from 1 January 2012 to 31 July 2013. The Office recorded programme and management expenditures totalling $21 million. The last audit of the Office was conducted by OAI in 2010.

The audit was conducted in conformance with the *International Standards for the Professional Practice of Internal Auditing*.

Overall audit rating

OAI assessed the Office as **partially satisfactory**, which means “Internal controls, governance and risk management processes were generally established and functioning, but needed improvement. One or several issues were identified that may negatively affect the achievement of the objectives of the audited entity.” This rating was mainly due to low programme delivery, inadequate programme and project oversight, incorrect recording of funds advanced to implementing partners, as well as lack of procurement planning.

Key recommendation: Total = **6**, high priority = **0**

The audit did not result in any high (critical) priority recommendations. There are six medium (important) priority recommendations, “Action is required to ensure that UNDP is not exposed to risks that are considered moderate. Failure to take action could contribute to negative consequences for UNDP.” These recommendations include enhancing the planning processes for programme resources, improving programme and project oversight mechanisms, recording as advances the funds provided to implementing partners, and strengthening procurement planning.

Implementation status of previous OAI audit recommendations: Report No. 751, 15 December 2010.
Total recommendations: 11
Implementation status: 100%

Management comments and action plan

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

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

Helge S. Osttveiten
Director
Office of Audit and Investigations

I. About the Office

The Office, located in Luanda, Angola (the Country) had 31 staff members, of which 23 were local and 8 were international staff members. It had a project portfolio of 28 projects, of which 75 percent were under national implementation. During the period from January 2012 to July 2013, the Office had processed 406 purchase orders with a value of approximately $7.8 million, and 2,364 payment vouchers (including those of the Global Fund) with a total value of approximately $21 million.

The Office's senior management team comprised of the Resident Representative, who is also a Resident Coordinator, the Country Director and two Deputy Country Directors for Programme and Operations. The existing Country Programme cycle for 2009-2013 was extended to 2014. This was due to the 2012 elections and to ensure the necessary political commitment and government participation in the formulation of the United Nations Development Assistance Framework and the Country Programme for the forthcoming programme cycle. The programme focused on seven outcomes and was budgeted at $124 million. Its outcomes included: inclusive growth; private sector development; mainstreaming HIV/AIDS policy; environmental management; governance; national cohesion; and human security. A decade since the signing of a peace accord in 2002, the Country has become eligible for transition from low-middle income country to middle income country status, based on the recent growth in gross domestic product. The Office recorded programme and management expenditures totalling $21 million for the period under review.

II. Audit results

Satisfactory performance was noted in the following areas:

(a) Governance and strategic management. The Office's allocation of roles and authority levels through Atlas user profiles was generally in line with the Internal Control Framework.

(b) Development activities. The United Nations Development Assistance Framework's annual reviews were conducted, and 2011 and 2012 reports were shared with the government counterpart. A final evaluation is planned to take place in 2014.

(c) Support to Resident Coordinator's Office. The Office submitted Resident Coordinator Annual Work Plans in a timely manner for 2013. The expenditure was in line with the planned budget.

(d) Harmonized Approach to Cash Transfers. Both macro- and micro-assessments were conducted in 2009 in the previous programme cycle. Plans were being made to repeat the exercise for the new programme cycle in consultation with the government counterpart.

(e) Partnerships and resource mobilization. The Office's key partnership portfolio included the African Development Bank, European Union, World Bank, United Nations agencies as well as the Governments of France, Italy, Japan, Netherlands, Norway, Portugal, Spain and the United States of America. It managed to achieve the overall resource mobilization target for the programme cycle 2009-2013 and all donor contracts were uploaded in a timely manner in the Document Management System with no past due balances.

(f) Human resources. Office recruitment processes were in line with UNDP policies and procedures. Relatively high staff turnover was mostly due to the lack of competitive United Nations salary scales, as compared to the private sector.

(g) General administration. OAI assessed the Memorandum of Understanding for common services signed by United Nations agencies, approval of the 2013 budget for common services as well as the status of collecting and recording contributions. Agency contributions for 2012 were fully paid, and for 2013 the contributions were on track.

(h) Information and communication technology. OAI assessed the disaster recovery plan and its linkage to the business continuity plan. No significant issues were noted.

(i) Safety and security. The Office had implemented Minimum Operational Security Standards recommendations and utilized the security fund as planned. Security issues identified in relation to the Office's premises were beyond the Office's control. There was an ongoing communication between UNDSS and the host government concerning the relocation of the Office's premises.

(j) Asset management. The Office adequately managed the asset certification process for the year-end 2012 and mid-year 2013. The inventory registers were also found to be up to date.

(k) Leave management. OAI assessed procedures for electronic leave applications by the Office's staff members as well as the reconciliation and updating of leave balances in Atlas. Atlas leave balances corresponded to staff members' leave records. No notable exceptions were found.

OAI proposed six recommendations that were ranked medium (important) priority. Low priority recommendations were discussed directly and agreed with the Office and are not included in this report.

Medium priority recommendations, arranged according to significance:

(a) Enhance planning processes for programme resources (Recommendation 1)
(b) Improve programme oversight (Recommendation 2)
(c) Strengthen project oversight (Recommendation 3)
(d) Institute more adequate project management controls and procedures (Recommendation 4)
(e) Record in Atlas funds advanced to implementing partners as advances (Recommendation 5)
(f) Strengthen procurement planning processes (Recommendation 6)

The detailed assessment is presented below, per audit area:

A. Programme management

Issue 1 Low delivery rate over programmed resources

Programme delivery rates are one of the key indicators used to assess programme performance of Country Offices. The Office's overall delivery rate over programmed funds was low in both 2012 and 2013, as the delivery rates over programmed funds, excluding Global Fund projects, were 79 and 60 percent, respectively. The Office ranked 28th out of 45 countries in the Regional Bureau for Africa's list of countries in terms of delivery rate. The low delivery rate was due to inadequate planning processes and delay by the government counterpart in signing the annual work plans projects.

Analysis of unutilized funds, by project, showed that the Office would return to donors an estimated cumulative total of $1.18 million in 2013. Management explained that of this amount, $667,500 was a grant for Project 36249, which was received one year late, leaving insufficient time for implementation. Another amount of

$308,500 was from Project 50950, which had a budget of $5.4 million (the project had achieved 94 percent delivery rate with a reduced implementation period due to the elections in 2012) and $161,000 from Project 39307, which had a $1.5 million budget.

Low delivery rates resulting in unused programme resources might undermine UNDP's credibility as a reliable development partner.

Priority	Medium (Important)
Recommendation 1: Enhance planning processes for programme resources by working closely with government counterparts to improve the Office's overall delivery rates.	
Management action plan: The Office will train programme staff on improved management of projects and problem solving to boost delivery.	

Issue 2 Lack of programme oversight

UNDP's Programme and Operations Policies and Procedures require Offices to establish programme boards for programme oversight.

The Office did not have a Country Programme board. Management explained that the United Nations Development Assistance Framework reviews, which include progress on the Country Programme, had replaced annual reviews since 2011. This alternative process was not adequate and was not meeting the required level of oversight. From the documentation submitted for audit, the last United Nations Development Assistance Framework meeting took place in 2011.

Lack of programme oversight might lead to weak performance, and undetected risks to the attainment of Country Programme objectives.

Priority	Medium (Important)
Recommendation 2: Improve programme oversight by appointing a programme board or alternative oversight body, as applicable, to conform to the requirements of the Programme and Operations Policies and Procedures.	
Management action plan: The Office recognized the need to strengthen the Country Programme oversight mechanisms. The new Country Programme Document (2015-2019) management arrangements will clearly define a robust outcome oversight mechanism within the United Nations Development Assistance Framework, as agreed upon with the Government.	

B. Project management

The Office had 28 projects, 7 of which were directly implemented, and 21 of which were nationally implemented. OAI sampled the following six projects:

(a) 36249 – Decentralization and local governance
(b) 37249 – Angola enterprise programme
(c) 57521 – Water sanitation
(d) 50950 – Growing sustainable business
(e) 62504 – Gender empowerment
(f) 45302 – Capacity development of INAD

These six projects represented 46 percent of the total value of the Office's programme portfolio ($124 million) for review of project management for the period 1 January 2012 to 31 July 2013.

Issue 3 Inadequate project oversight

The Programme and Operations Policies and Procedures require offices to institute appropriate mechanisms for project oversight, including the establishment of project boards, regular monitoring through periodic field visits, review and approval of variations in overall resources or outputs, and competitive selection of implementing partners. OAI observed that:

- Project boards were not meeting regularly and had not exercised appropriate oversight responsibilities. In 2012, project boards for four of six sampled projects (36249, 37249, 57521 and 50950) met only once. In 2013, project boards for three projects (37249, 57521 and 50950) did not meet at all. The Programme and Operations Policies and Procedures require project boards to meet on a regular basis for the duration of the project cycle, until programmed activities are completed. Project boards are responsible for steering the direction of projects towards objectives, overseeing progress of implementation, and reporting on the utilization of funds.

- During the period under review, field monitoring visits were not consistently undertaken by Programme Officers for three out of six sampled projects (36249, 45302 and 57521). For Project 45302, management explained that field visits were not undertaken since the project was operationally completed in 2011 and the activities in 2012 represented a carry-over into the first six months of 2012. This is contrary to the Programme and Operations Policies and Procedures, which state that a project is considered operationally complete only when all programmed activities have been implemented. Until that point in time, controls continue to be exercised over the project. Management also explained that in 2012, the Office experienced challenges in undertaking field monitoring visits due to the non-availability of government counterparts and security concerns related to the 2012 elections. OAI could not determine why field visits were not planned and conducted prior to the elections period in late 2012.

- Project duration of four (IDs 37249, 36249, 45302 and 50950) out of the six sampled projects had ended between 2006 and 2012, but were still operating in 2013. Office management indicated that in all four cases, there were no variations to either the budgets or planned outputs which would have required prior board approvals, hence they sought and received approvals for no-cost extensions from the donors that provided them with the funds. However, a review of grants received showed that a total of $610,500 was received for Project 37249 in 2010, and $400,000 and $1.6 million for Project 36249 in 2011 and 2012, respectively. The project duration as approved by the Government for Project 37249 ended in 2006 and

Project 36249 ended in 2010. According to the Programme and Operations Policies and Procedures, extensions to projects involving changes in overall resources or outputs are to be approved by a Local Project Approval Committee or project board. Failure to obtain board approval of project variations might result in the use of resources for activities not being aligned with government priorities.

- Selection of implementing partners for four of the six sampled projects (36249, 37249 45302, 57521, 50950) was contrary to the Programme and Operations Policies and Procedures. Management explained that the selection process was done in consultation with key government counterparts to ensure ownership, sustainability and reinforcement of national capacities. The Office considered these implementing partners as national centres of excellence in the subject areas of intervention and as such, there were no alternatives considered. This rationale contradicted the provisions of the Programme and Operations Policies and Procedures, which require a Local Programme Approval Committee to oversee the selection of implementing partners. No comparative assessment was undertaken to determine that these implementing partners were indeed the most qualified and had the appropriate capacities to deliver. There was no note to file to document and explain the basis for the selection of these implementing partners.

Inadequate project oversight mechanisms put at risk the efficient use of resources and the timely achievement of project outcomes.

Priority Medium (Important)

Recommendation 3:

Strengthen project oversight by ensuring that:

(a) project boards meet regularly and exercise their oversight responsibility;
(b) project field visits are regularly and consistently undertaken;
(c) projects extensions or variations in planned resources are approved by a project board or Local Project Appraisal Committee; and
(d) competitive selections of implementing partners for projects are approved by project boards or Local Project Appraisal Committees.

Management action plan:

- The Office will agree with the Government on an appropriate oversight mechanism for the Country Programme Document that responds to the Country's context.
- The Office will ensure that staff undertakes at least one joint visit in line with their monitoring and evaluation plans annually.
- The Office will ensure that the project boards meet at least once a year.

Issue 4 Weak project management

The Programme and Operations Policies and Procedures provide that project annual work plans be signed in a timely manner, and that implementing partners submit annual and quarterly reports, and use standard letters of agreement.

- Annual work plans of six sampled projects were approved with an average of five and three month delay in 2012 and 2013, respectively. A review of Atlas project transaction reports for 2012 and 2013 of these projects showed that project delivery over programmed funds at the low of 2 and 4 percent average respectively, until annual work plans were approved. Senior management explained that the delays in the approval and signing of annual work plans were due to slow response and the time taken to approve these on the part of government partners, and therefore beyond the Office's control. Until annual work plans are approved, projects cannot commence with the implementation of activities. OAI could not establish why the Office had not submitted annual work plans to government long before the beginning of the year of project implementation, to ensure that these are approved and signed on time.

- Implementing partners did not consistently submit quarterly reports. In 2012, implementing partners of two projects (36249, 37249) did not consistently submit quarterly reports and the other two projects (62504, 45302) did not submit any quarterly reports. In 2013, two implementing partners (62504, 36249) did not submit quarterly reports.

- The total value of activities to be implemented by implementing partners, as agreed upon in the Letters of Agreement signed during the audited period totalled $4.97 million. OAI sampled five Letters of Agreement with a total value of $2.14 million (representing 43 percent of the total value of letters signed and issued during the audited period) and found that a key standard clause in the corporate template was omitted in three of the five samples. Management believed that the omission would not pose any legal risk to the organization. The clause in the corporate template obligates the implementing partner to use funds in accordance with the project document for which the Letter of Agreement was signed. The deletion of this clause without the approval of the Legal Office constituted a variation to the prescribed agreement.

Failure to use key standard clauses of the Letter of Agreement might result in legal implications.

Priority	Medium (Important)

Recommendation 4:

Institute more adequate project management and procedures by ensuring that:

(a) project annual work plans are approved in the last quarter of the preceding year prior to implementation;
(b) project quarterly reports are submitted consistently for all projects; and
(c) standard templates are used for all Letters of Agreement.

Management action plan:

Management acknowledges the need for the early signing of annual work plans and improved reporting. The Office will obtain regular progress reports within the context of the Country's operating environment and linkages with financial reporting. It will ensure that annual work plans are signed early in the implementation year and that projects consistently produce a periodic progress report, or at least an annual report.

C. Finance

Issue 5 Incorrect recording of advances

The Programme and Operations Policies and Procedures provide that funds advanced to implementing partners for project implementation are to be recorded in a suspense account in Atlas as advances and subsequently recorded as expenditure upon the presentation of expenditure reports.

From a selected sample of 90 payment vouchers totalling $2.5 million, there were 10 payments of $1.6 million made to seven implementing partners that were incorrectly recorded as expenditure instead of advances. All seven implementing partners signed Letters of Agreements stipulating that funds for project implementation would be advanced and accounted for on a quarterly basis with any unspent and non-committed funds refunded to the Office. Of the 10 payments reviewed and ascertained by the audit as having been expensed at the time the funds were advanced, eight were advances made for the Growing Sustainable Business Angola Project for $1.4 million and two for the Decentralisation and Local Governance Project ($0.2 million).

The immediate expensing of advances to implementing partners prevents effective follow-up of outstanding funds, overstates the Office's delivery, and is not in accordance with International Public Sector Accounting Standards, as this impacts the Office's financial statements.

Priority	Medium (Important)
Recommendation 5: Record funds advanced to implementing partners as advances in the Programme and Operations Policies and Procedures and expense these only upon submission of expenditure reports to ensure effective monitoring of outstanding advances and the correct recording of these accounts.	
Management action plan: The Office duly notes the findings which resulted from coding errors in Atlas and will provide additional training for finance staff to ensure that advances are properly recorded and accounted for in Atlas (Q1/14).	

D. Procurement

Issue 6 Weak procurement planning practices

The Programme and Operations Policies and Procedures provide for the preparation of procurement plans as part of the supply chain management. The Office's procurement plans for 2012 and 2013 amounted to $600,000 and $900,000, respectively, against actual procurement of $5 million and $2 million, respectively. Both plans were prepared at the beginning of each year but were not reviewed for accuracy and not approved by management. Also, not all Programme Managers submitted their projects' procurement plans for consolidation, hence the large disparity between the consolidated procurement plan and the actual procurement. Lack of procurement planning might result in losing the opportunity to identify economies of scale and better use of resources.

Priority	Medium (Important)

Recommendation 6:

Strengthen procurement planning practices of the programme and operations units by ensuring:

(a) participation by project staff members in the procurement planning process;
(b) management's review and approval of consolidated procurement plans; and
(c) that adjustments to procurement plans are made during implementation to cover unforeseen changes.

Management action plan:

Quarterly procurement plans will be prepared by project staff, consolidated by the Procurement Unit and approved as part of the Office Integrated Work Plan.

Definitions of audit terms - ratings and priorities

A. AUDIT RATINGS

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

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

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

B. PRIORITIES OF AUDIT RECOMMENDATIONS

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

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

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