UNITED NATIONS DEVELOPMENT PROGRAMME
Office of Audit and Investigations

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AUDIT

OF

UNDP COUNTRY OFFICE

IN

LESOTHO

Report No. 1346

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Report on the audit of UNDP Lesotho
Executive Summary

The UNDP Office of Audit and Investigations (OAI) conducted an audit of UNDP Lesotho (the Office) from 12 to 26 May 2014. The audit aimed to assess the adequacy and effectiveness of the governance, risk management and control processes relating to the following areas and sub-areas:

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

(b) United Nations system coordination (development activities and Resident Coordinator Office);

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

(d) operations (human resources, finance, procurement, information and communication technology, general administration, asset management and leave management).

The audit covered the activities of the Office from 1 January 2013 to 31 March 2014. The Office recorded programme and management expenditures totalling $12 million. The last audit of the Office was conducted by OAI in 2011.

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 **satisfactory**, which means "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."

Key recommendations

The audit did not result in any high (critical) priority recommendations. There is one medium (important) priority recommendation, which means "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." This recommendation includes actions to address the lack of due diligence performed on vendor verification.

OAI conducted an investigation in 2013 resulting in a Management Letter to the Office addressing the weaknesses in controls in procurement.

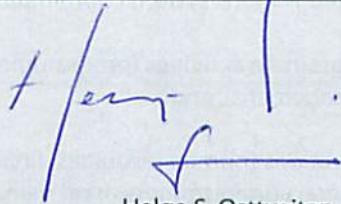**Implementation status of previous OAI audit recommendations**: Report No. 817, 11 July 2011.
Total recommendations: 7
Implementation status: 100%

Management comments and action plan

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

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

Helge S. Osttveiten
Director
Office of Audit and Investigations

I.   About the Office

The Office, located in Maseru, Lesotho (the Country) comprised of 25 staff. The major areas of development for the 2013-2017 programme cycle were: Inclusive Growth; Sound Environment Management; and Good Governance. Total programme expenditure for the year under review (1 January 2013 to 31 March 2014) was $12 million. The Country was classified as a lower middle income country with a stable democratically elected Government.

II.   Audit results

Satisfactory performance was noted in the following areas:

(a)   Governance and strategic management. The Office had successfully implemented a sustainability plan that would result in savings through the reduction of staff and operations costs. At the time of the audit, the Office was in the process of finalizing work processes for a more streamlined Office structure. No reportable issues were noted in this area.

(b)   Development activities. A UN Development Assistance Framework (the Framework) document and an accompanying Monitoring and Evaluation Plan was in place to guide the work of the UN Country Team on development issues for the period 2013-2017. Working groups were functional and they met regularly within the Framework of the UN Country Team to coordinate programming and other activities. The Framework was reviewed with the Government and other partners annually, and reporting on progress towards its objectives was produced.

(c)   Resident Coordinator's Office. Staffing was found to be adequate, as were systems for planning, budgeting and reporting of activities by the UN Country Team.

(d)   Partnerships and resource mobilization. The Office had a Resource Mobilization Strategy for the existing programme cycle, as well as signed contribution agreements and adequate systems in place for tracking donor commitments and reporting. The Office had already mobilized $16.1 million out of $19.6 million (or 82 percent) in resources required to meet the outcomes set in the Country Programme Document for 2013-2017.

(e)   Programme Management. The Office's programme delivery was within the average range of programme delivery at the level of the Regional Bureau for Africa. Planning of programme activities was generally undertaken in a timely manner, with some exceptions due to government staff turnover as a result of the 2012 elections in the Country. Since the exceptions were considered one-off events, no issue was raised.

(f)   Human Resources. Recruitment of staff and individual contractors was generally in line with organizational procedures. Leave procedures were managed through the Atlas online system.

(g)   Finance. The processes and controls over monitoring of receivables from staff, the procedures for approval, disbursement and accounting of payments and administration of petty cash were found to be adequate.

(h)   General administration. The administration of common services, which included the billing, reporting and collection of outstanding contributions from participating agencies was found to be generally

adequate. At the time of the audit, the Office was finalizing a more robust operating procedure in relation to the administration of fuel for generator use. No reportable issues were noted in this area.

(i) <u>Information and communication technology</u>. Safety and security systems of the server room were found to be sufficient. The Office also had in place an updated Disaster Recovery Plan and Business Continuity Plan, which had been reviewed and approved by the Office of Information Systems and Technology. Controls for testing and updating the plans were found to be functional.

OAI made one recommendation ranked medium (important) priority.

Medium priority recommendation:

▪ Improve vendor verification (Recommendation 1).

Low priority issues/recommendations were discussed directly and agreed with the Office and are not included in this report.

The detailed assessment is presented below, per audit area:

A. Procurement

Issue 1   <u>Due diligence on vendor verification not performed</u>

As per the 'Programme and Operations Policies and Procedures', offices should ensure that they are dealing with bona fide vendors by requesting registration documents (if the vendor is a company), identification documents (if the vendor is an individual, including consultants), trading certificates, bank verification details, and proof of residence/business location. To further enhance due diligence, the offices should periodically visit suppliers' premises.

In 2013, subsequent to several vendor fraud incidents by one staff member, and after noting discrepancies in the submission of quotes, the Office conducted an extensive vendor review exercise. OAI reviewed 20 vendors that had delivered goods and services or that had received payments in 2013, in order to determine whether adequate verification had been performed. Of the 20 vendors reviewed, there was no evidence to support that due diligence on vendor verification had been performed for 6 of them (or 30 percent).

Out of 789 vendors in the Office's vendor database, 102 had been inactive for three years. In addition, vendor forms and supporting documentation was not filed within the Procurement Unit, but within the respective programme units instead. Without adequate due diligence on vendor verification, fictitious vendors could be created and approved, which could lead to fraudulent activity.

Priority	Medium (Important)

Recommendation 1:

Improve vendor verification by:

    (a) extending due diligence to cover the remaining vendors that are active and are being used by the Office;

    (b) deactivating in Atlas all inactive or once-off vendors, regardless of vendor class (i.e. supplier, meeting participant or consultant) and request documentation from the vendor if services are required in the future;

    (c) centralizing the filing of vendor forms and supporting documentation.

Management action plan:

The Office will review the vendor database, including all types of vendors, and determine the active vendors. Inactive vendors will be deactivated in Atlas regardless of vendor class. In addition, the Office will review all active vendor supporting documentation and request updates where they are inadequate. The Office is in the process of ensuring that files of vendor forms with supporting documentation are centralized.

Estimated completion date: 1 September 2014

Definitions of audit terms - ratings and priorities

A.   AUDIT RATINGS

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

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

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

B.   PRIORITIES OF AUDIT RECOMMENDATIONS

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

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

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