



AUDIT

OF

UNDP COUNTRY OFFICE

IN

TOGO

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Report on the Audit of UNDP Togo Executive Summary

The UNDP Office of Audit and Investigations (OAI) conducted an audit of UNDP Togo (the Office) from 7 to 18 September 2015. 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 (leadership/ethics and values, financial sustainability);
- (b) United Nations system coordination (Resident Coordinator Office, Harmonized Approach to Cash Transfers [HACT]);
- (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).

The audit covered the activities of the Office from 1 January 2014 to 30 June 2015. The Office recorded programme and management expenditures of \$14.4 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."

Good practices

OAI received positive feedback on the leadership of the Resident Coordinator in bringing UN agencies together, and promoting a participative and collaborative working environment. In addition, the recovery of advances to implementing partners was diligently overseen and liquidated.

Key recommendations: Total = 6, high priority = 1

The total number of the recommendations aim to ensure the following: (a) achievement of the organization's strategic objectives (Recommendation 2); (b) reliability and integrity of financial and operational information (Recommendation 5); and (c) compliance with legislative mandates, regulations and rules, policies and procedures (Recommendations 1, 3, 4 and 6).

For high (critical) priority recommendations, 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. The high (critical) priority recommendation is presented below:

Inadequate controls
over payments
(Issue 4)

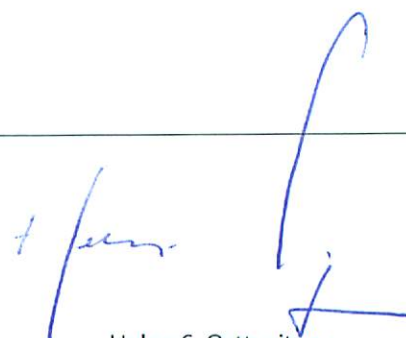
During the period under review, the Office processed 5,818 vouchers worth \$14.4 million. The review of 57 vouchers worth \$1.9 million noted that payments were raised in Atlas prior to receipt of goods and services, and that the controls over manually prepared disbursement letters were inadequate.

Recommendation: The Office should improve controls over payments by: (a) raising payments in Atlas only upon receipt of goods and services; and (b) ensuring that the payee payment details in Atlas match the details in the disbursement letter.

Management comments and action plan

The Resident Representative accepted all of the recommendations 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 significance (not included in this report) have been discussed directly with management and actions have been initiated to address them.

A blue ink signature is written over a rectangular box. The signature is stylized and appears to read 'H. Ostveiten'. Below the signature, the name and title of the signatory are printed.

Helge S. Ostveiten
Director
Office of Audit and Investigations

I. About the Office

The Office, located in Lomé, Togo (the Country) managed 3 directly implemented projects and 19 projects implemented through NGOs at the time of the audit. Its programme activities focused on two areas: governance and sustainable human development. Total expenditures during the audit period amounted to \$14.4 million. The Country was classified as a Least Developed Country by the United Nations¹ and was ranked 47th out 178 (countries closer to 1 are more fragile) in the 2015 Fund for Peace Fragile States Index.² Most donors were still not physically present in the Country, which negatively impacted resource mobilization efforts.

II. Good practices

OAI received positive feedback on the leadership of the Resident Coordinator in bringing UN agencies together, and promoting a participative and collaborative working environment. As a result, the UN system enjoyed a positive image in the Country. In addition, the recovery of advances to implementing partners was diligently overseen to ensure that advances were timely justified and liquidated, and to ensure that refunds were received.

III. Audit results

Satisfactory performance was noted in the following areas:

- (a) Governance and strategic management. The Office engaged staff in an open and transparent manner to address challenges and had initiated action to address issues noted in the Global Staff Survey. The Office had adequate financial reserves and was cognizant of the fact that further efficiency gains had to be undertaken to remain sustainable.
- (b) Resident Coordinator Office. Systems in the Resident Coordinator Office for planning, budgeting, and reporting of activities by the UN Country Team were found to be adequate.
- (c) Human resource management. Performance management as well as leave management practices were generally in line with staff rules, regulations and prescribed procedures.
- (d) Information and communication technology. The Office had an updated Disaster Recovery Plan which had been tested in compliance with Office of Information Management and Technology standards.
- (e) Common services. The administration of common services was adequately managed.
- (f) Asset management. The management of assets was found to be in line with organization policies and procedures.
- (g) Safety and security. Security measures implemented were found to be adequate.

OAI made one recommendation ranked high (critical) and five recommendations ranked medium (important) priority.

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

¹ http://www.un.org/en/development/desa/policy/cdp/ldc/ldc_list.pdf

² <http://fsi.fundforpeace.org/rankings-2015>

High priority recommendation:

Improve controls over payments (Recommendation 4).

Medium priority recommendations, arranged according to significance:

- (a) Improve financial management (Recommendation 5).
- (b) Enhance resource mobilization initiatives (Recommendation 2).
- (c) Strengthen project monitoring and risk management (Recommendation 3).
- (d) Finalize the implementation of HACT (Recommendation 1).
- (e) Enhance controls over direct contracting (Recommendation 6).

The detailed assessment is presented below, per audit area:

A. United Nations system coordination

Issue 1 HACT not fully implemented

To reduce the burden that the multiplicity of United Nations procedures creates for its partners, the HACT Framework to implementing partners requires that participating United Nations agencies agree on and coordinate HACT activities. Compliance is achieved when the following items have been completed: (a) macro-assessment of the public financial system; (b) micro-assessments of implementing partners; (c) agreement with the Government on implementing HACT; and (d) development and implementation of an assurance and audit plan for implementing partners.

The audit reviewed the Office's implementation of HACT and noted that it had not been fully implemented. While the macro-assessment was completed, the micro-assessment of implementing partners for all agencies that started on June 2014 was not finalized as of October 2015. For implementing partners that were micro-assessed, the debriefing or validation workshop with the audit firm on the result of the assessment had not taken place. Following the audit fieldwork, the Office reported that it was engaging with the audit firm to schedule the workshop.

Even though micro-assessments must be completed before advances to implementing partners can start, the Office was already using the Funding Authorization and Certificate of Expenditures form to process advances to implementing partners. Moreover, the Office had not developed or implemented an assurance and capacity development plan covering its implementing partners. As such, no spot checks or special audits were undertaken by the Office during the audit period.

The partial implementation of HACT may negatively affect the implementation of assurance activities and may expose the Office to risks when funds are advanced to implementing partners. Without assurance activities, weaknesses and risks at the implementing partner level may go undetected and may lead to financial losses.

Priority	Medium (Important)
Recommendation 1:	
The Office should finalize the implementation of HACT by:	
<ul style="list-style-type: none"> (a) organizing a debriefing (validation workshop) with the audit firm on the results of the micro-assessments; (b) developing an assurance plan and scheduling assurance activities based on the risk profile of each 	

- implementing partner; and
(c) developing a capacity-building plan based on outcomes of the micro-assessment.

Management action plan:

- (a) After the last HACT Committee meeting held on September 2015, all participating UN agencies agreed with the audit firm for the debriefing mission to be organized before the end of 2015.
- (b) Action is currently ongoing for preparation of an assurance plan and spot check schedule on the basis of the individual reports related to the implementing partners. A performance and spot check plan will be finalized and implemented in 2016.
- (c) The Office will enhance its current capacity-building initiatives by developing a targeted capacity-building plan based on the outcomes of the micro-assessment.

Estimated completion date: December 2016

B. Programme activities

1. Partnerships and resource mobilization

Issue 2 Challenges in resource mobilization

UNDP partnership guidelines require offices to mobilize additional resources for the effective implementation of programme objectives.

According to the Country Programme Action Plan for the 2014-2018 programme cycle, the Office targeted to mobilize \$54 million. At the time of the audit fieldwork, total funds mobilized for Targeted Resources among Countries and other funding sources were \$10.1 million and \$3 million, respectively, with a funding gap of \$41 million.

The Office explained that resource mobilization had been a challenge due to constraints in the environment it was operating in. For the past several years, key donors were not actively engaged in the Country. The donors had since resumed their activities in the Country, but to a lesser extent. The Office further explained that it had already engaged in enhancing its pipeline portfolio through numerous initiatives with the Government and partners in the Country, notably, the Office's positioning to support the Government on the Green Climate Fund and the mobilization of resources for fighting against environmental crimes.

The audit disclosed that the resource mobilization strategy document was not up to date. It was developed during the previous UN Development Assistance Framework cycle 2008-2012, and as such, it was not in line with the existing Country Programme Action Plan.

If the Office is not able to mobilize resources, there is a risk that it may not be able to achieve its programmatic targets and provide assistance to the Country. Moreover, it can affect its financial sustainability in the long term.

Priority	Medium (Important)
Recommendation 2:	
The Office should enhance resource mobilization initiatives and develop a resource mobilization strategy with an action plan to reach out to donors and government counterparts.	
Management action plan:	
The Office will formalize its resource mobilization strategy with an action plan.	
Estimated completion date: December 2016	

2. Programme management

Issue 3 Gaps in project assurance

The 'UNDP Programme and Operations Policies and Procedures' stipulate that project level monitoring should include monitoring outputs, related indicators of progress, and baselines and targets that should be included in the monitoring and evaluation plan. Further, key monitoring activities, such as field visits, spot checks and progress reviews should be integrated into the plans. Responsibilities for monitoring activities, frequency, methods of data collection, and verification should be assigned to staff. UNDP uses the Enhanced Results Based Management platform to capture risks and mitigate actions, and uses Atlas (enterprise resource planning system of UNDP) to record all project information reflecting the same structure, as defined in the Country Programme Action Plan.

The following issues were noted with regard to project monitoring and risk management:

(a) Lack of project field visit plan

Although the Office had a monitoring and evaluation plan, it did not have a field visit monitoring plan for the projects it was implementing. The audit team was therefore unable to assess whether planned visits were conducted and unable to assess the level of coverage of the field visits during 2014 and 2015. The Office explained that most of the projects were implemented in the capital where the Office was located, which enabled close monitoring despite the lack of a field visit plan.

(b) Risk, issue and monitoring logs in Atlas not updated

All 12 projects reviewed out of a total of 24 had not updated risk, issue, or monitoring logs. The majority of these project logs had not been updated for over three years. The Office stated that because the risks were the same throughout the projects, they did not see the need to update the logs. However, this was not in line with the requirements of the 'UNDP Programme and Operations Policies and Procedures'.

Priority	Medium (Important)
Recommendation 3: The Office should strengthen project monitoring and risk management by: <ul style="list-style-type: none"> (a) developing a field visit monitoring plan that includes project monitoring activities to be conducted; and (b) updating the risk, monitoring and issue logs at least on a quarterly basis. 	
Management action plan: The Office takes good note of these recommendations and will comply as follows: <ul style="list-style-type: none"> (a) At the beginning of every year, the Office will elaborate a comprehensive plan for all field visits to be driven by implementing partners, Programme Officers and the Monitoring and Evaluation Specialist for each project during the year as well as joint visits with the relevant government ministry. (b) Programme Officers have already begun taking actions for the updating of risks, issues and monitoring in Atlas. The Office will strengthen routine monitoring quarterly by the Monitoring and Evaluation Specialist. 	
Estimated completion date: March 2016	

B. Operations

1. Financial management

Issue 4 Inadequate controls over payments

The 'UNDP Programme and Operations Policies and Procedures' require that project managers document the receipt of goods and services prior to initiating payments in Atlas. In addition, the policy on Disbursing Funds (Making Payments) states that disbursing officers who sign off on payment instruments, including checks, electronic fund transfers or disbursement letters, must review such payments and reconcile all amounts, currencies, payees and dates with approved Atlas payment vouchers prior to sign-off.

During the period under review, the Office processed 5,818 vouchers worth \$14.4 million. OAI reviewed 57 vouchers worth \$1.9 million and noted the following weaknesses:

- (a) Payments raised in Atlas prior to receipt of goods and services

The audit disclosed that the final instalment of \$21,000 due to the audit firm that undertook the micro-assessments of implementing partners was disbursed before the requirements in the signed agreement were met. The agreement required 35 percent of the total contract amount to be paid after the final debriefing workshop to validate the results of the micro-assessments. At the time of the audit, the validation workshop had still not taken place.

Furthermore, five vouchers totalling \$27,000 were initiated and fully approved in Atlas in December 2014, prior to the receipt of goods and services. Payment instruments for these vouchers were issued and cancelled soon

after, although the vouchers remained open. For three of the vouchers amounting to \$18,000, the payment instruments were subsequently processed and paid for when the goods/services were confirmed as received in 2015. Meanwhile, the remaining two vouchers worth \$9,000 were still unpaid at the time of audit. Another 19 vouchers worth \$85,000 were initiated and approved in Atlas, but the associated payment instruments were not issued for long periods of time going back to June 2014. The vouchers were still open, meaning that the funds against those vouchers were held back and could not be used.

The Office explained that vouchers raised in Atlas prior to the receipt of goods or services were related to individual contractors whose services were subject to validation by national institutions, which delayed the payments. The individual contractors had rendered the services required. Nevertheless, it was not justified to raise payments in Atlas until goods and services were validated by the relevant authority.

Processing vouchers in Atlas before the receipt of goods and services may increase the risk that payments will be released before the receipt of such goods and may inflate the delivery rate of the Office.

(b) Inadequate control over manually prepared disbursement letters

The Office had not established an electronic fund Transfer payment process with the local bank. In this respect, the Office manually prepared disbursement letters for the bank and manually appended the associated Atlas payment references to the letters.

Based on a review of payments made via disbursement letters from December 2014 to March 2015, there were four payments totalling \$52,000 in which the payees in Atlas did not match with the payees' information as recorded in the bank transfer letters. The audit validated all four payments and confirmed that they were received by the intended payee.

Making a payment to a payee who is different from the one recorded in Atlas payment vouchers may expose the Office to the risk that payments will be inadvertently or fraudulently delivered to the wrong party.

Priority	High (Critical)
Recommendation 4:	
The Office should improve controls over payments by:	
<ul style="list-style-type: none"> (a) raising payments in Atlas only upon receipt of goods and services; and (b) ensuring that the payee payment details in Atlas match the details in the disbursement letter. 	
Management action plan:	
<ul style="list-style-type: none"> (a) Going forward, vendors will be paid after the receipt of goods and services. (b) The Office took good note of the recommendation. The finance team was sensitized accordingly. 	
Estimated completion date: Immediate	
OAI response	
OAI acknowledges the action taken by management; this will be reviewed at a later stage as part of the standard desk follow-up process of OAI.	

Issue 5 Incorrect use of account 14075

The Atlas Financial Closure Instructions state that account 14075 (Unapplied Deposits) should be used very infrequently to temporarily record miscellaneous deposits when the source of the deposit is not known or the correct chart of accounts cannot be determined. Payments should not be made directly from this account.

The Office made 13 payments worth \$101,000 from account 14075. These payments were made because the Office had processed vouchers during the prior year, which did not result in payments at the bank as goods/services had not been rendered. The vouchers were then used to make deposits in account 14075. In the subsequent year, the 13 vouchers were introduced in Atlas when the goods and services were rendered and the respective transactions in account 14075 were cancelled.

The net effect of this approach was that it enabled the Office to record higher delivery in a given period and reduced delivery in a future period. The Office explained that all of the transactions had been reconciled and the audit concurred with that assertion. Nevertheless, the approach described was not in line with UNDP policies and procedures.

Priority	Medium (Important)
Recommendation 5:	
The Office should improve financial management by recording deposits in account 14075 only when they correspond to an actual payment in the bank, and stop recording payments against the account.	
Management action plan:	
Account 14075 is no longer used to record payments. The finance team was sensitized to the correct use of the account.	
Estimated completion date: Immediate	
OAI response	
OAI acknowledges the action taken by management; this will be reviewed at a later stage as part of the standard desk follow-up process of OAI.	

2. Procurement

Issue 6 Weak justification for direct contracting

Direct contracting is a procurement method that allows the award of a contract without competition. The 'UNDP Programme and Operations Policies and Procedures' provide that staff may only use this method when it is not feasible to undertake a competitive bidding process, and when proper justifications exist. Further, offices should maintain records to support an assessment of how best value for money was achieved through direct contracting. UNDP Financial Rule No. 121.05 specifies nine instances when direct contracting is justified.

The review of 31 procurement processes amounting to \$0.9 million highlighted cases where the justification for direct contracting did not meet the requirements as stipulated in the 'UNDP Financial Regulations and Rules'.

Four recruitments of consultants totalling \$140,000 were based on direct contracting without competition. The Office explained that these recruitments were carried out in the context of the national elections, and that management had reached out to other UNDP Country Offices in order to secure highly qualified candidates. Furthermore, and according to Office, the candidates selected were recommended to the Office by other Country Offices, based on previous satisfactory performance related to electoral assistance projects. Nevertheless, the rationale for direct contracting was not properly substantiated to fit into any of the exception categories in UNDP Financial Rule No. 121.05.

Failure to comply with the UNDP requirements on direct contracting may impact the transparency of the Office's contracting processes.

Priority	Medium (Important)
Recommendation 6:	
The Office should enhance controls over direct contracting by documenting justifications in line with the rules for direct contracting.	
Management action plan:	
The Office took note of the recommendation with regard to direct contracting under normal circumstances.	
Estimated completion date: March 2016	

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 not included in this report.