UNITED NATIONS DEVELOPMENT PROGRAMME
Office of Audit and Investigations

AUDIT

OF

UNDP COUNTRY OFFICE

IN

KENYA

Report No. 1541

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Table of Contents

Report on the Audit of UNDP Kenya
Executive Summary

The UNDP Office of Audit and Investigations (OAI) conducted an audit of UNDP Kenya (the Office) from 14 to 28 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 (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, role of UNDP – "One UN", 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).

The audit covered the activities of the Office from 1 January 2014 to 30 June 2015. The Office recorded programme and management expenditures of approximately $48.8 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 **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 supporting documents not adequately verified, and procurement procedures not adhered to.

Key recommendations: Total = **3**, high priority = **3**

The six recommendations aim to ensure the following: (a) achievement of the organization's strategic objectives (Recommendation 1 – medium priority, Recommendation 2 – high priority, and Recommendation 3 – medium priority); and (b) effectiveness and efficiency of operations (Recommendation 4 – high priority, Recommendation 5 – medium priority, and Recommendation 6 – high priority).

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 recommendations are presented below:

Low programme delivery (Issue 2)	Programme deliveries over available resources for the previous and current programme cycles were consistently low. Specifically, expenditures for 2012 and 2013 were $43.9 million (or 53 percent) and $57.1 million (or 80 percent),

	respectively. The expenditures for 2014 were $28.3 million (or 62 percent) and as of September 2015, they were $12.6 million (or 42 percent). The Office also showed a trend of under-budgeting its programme resources. Recommendation: The Office should optimize programme resources by reviewing its budgeting process and reinforcing office implementation capacity.
Supporting documents not adequately verified (Issue 4)	The review of a selected sample of 64 payment vouchers amounting to $668,700 identified vouchers with purchase order information that was not verified before processing the payments. Six payment vouchers totalling $29,252 for conference and workshop costs were processed without reconciling the invoice to the actual lists of participants. Two payment vouchers totalling $15,050 for stationery and equipment were processed even though there were discrepancies in the delivery note. A further review of records disclosed that subsequent changes in the requisitions and purchase orders, although certified and approved by responsible Office programme staff, were done without consultation with the respective implementing partners. Recommendation: The Office should exercise due diligence when processing payments and disbursements to ensure the validity of transactions, including maintaining proper documentation.
Procurement procedures not adhered to (Issue 6)	The review of 28 purchase orders totalling approximately $1.6 million identified 17 purchase orders valued at approximately $1.2 million with e-requisitions created after the completion of the selection process. Furthermore, 13 of 17 purchase orders valued at approximately $740,000 were created and approved after the delivery of goods and services. Ten purchase orders with a total value of $716,400 where the pre-set criteria for competitive selection were not clearly stated in the Requests for Quotations. This resulted in a selection process that could not be substantiated. Recommendation: The Office should adhere to procurement policies and procedures by: (a) discontinuing the practice of creating requisitions and purchase orders in Atlas after procurement is completed; and (b) carrying out a competitive selection process based on pre-set criteria.

Implementation status of previous OAI audit recommendations: Report No. 861, 21 March 2012.

Total recommendations: 3
Implemented: 3

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.

Helge S. Osttveiten
Director
Office of Audit and Investigations

I. About the Office

The Office, located in Nairobi, Kenya (the Country) had 63 staff members and 40 projects (38 nationally implemented and 2 directly implemented) at the time of the audit. Being the hub for organizing conferences, workshops and high-level meetings for the region and working with 24 resident United Nations agencies in the Country, the Office had one of the highest volumes of transactions among Regional Bureau for Africa Country Offices, comprising mainly of workshop/conference facilitation and travel payments. During the period under review, the Office was selected for pioneering organizational innovations, including the 'Mobile Payments' and 'Extractive Industries for Sustainable Development' project. Starting from 2015, the Office was venturing into partnerships with the local private sector in order to mobilize resources for youth economic empowerment programmes. The Country had recently attained low-middle income status.

II. Audit results

Satisfactory performance was noted in the following areas:

(a) United Nations system coordination: The planning, reporting, and coordination function was found to be adequate. The Office was adequately providing administration support to this initiative and was active on the piloting of integrated offices in the various countries and the development of a Business Operational Strategy. The Office was on course in implementing the new Harmonized Approach to Cash Transfers.

(b) Human resources management: Recruitment and separation of staff and service contractors were found to be in line with organizational procedures.

(c) Information and communication technology: Information and communication technology management was found to be adequate. The Office also reviewed its mobile phone policy to reduce communication costs.

(d) General administration: All common service responsibilities of the Office were met and no significant issues were noted.

(e) Asset management: The management of assets was found to be in line with organizational policies and procedures and no reportable issues were noted.

(f) Safety and security: Internal controls for safety and security were found to be adequate.

OAI made three recommendations ranked high (critical) and three recommendations ranked medium (important) priority.

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

High priority recommendations, arranged according to significance:

(a) Optimize programme resources by reviewing budgeting processes and reinforcing office implementation capacity (Recommendation 2).
(b) Exercise due diligence when processing payments and disbursements to ensure validity of transactions (Recommendation 4).
(c) Adhere to procurement policies and procedures (Recommendation 6).

Medium priority recommendations, arranged according to significance:

(a) Continue efforts to increase the extrabudgetary reserve required to sustain operations (Recommendation 1).
(b) Speed up the process of establishing a monitoring and evaluation structure and strengthen project management and monitoring (Recommendation 3).
(c) Strengthen vendor management (Recommendation 5).

The detailed assessment is presented below, per audit area:

A. Governance and strategic planning

Issue 1 Declining level of extrabudgetary reserve

The 'Programme and Operations Policies and Procedures' recommend that Country Offices keep a minimum 12-month extrabudgetary reserve at all times.

The Office's extrabudgetary reserve had been declining. The delivery predictions that were made during the development of the financial sustainability plan in 2013 were not realized

In 2014, expenditure charged against extrabudgetary reserve was $2.65 million, while the contribution to the extrabudgetary reserve for the same year was $921,666. For 2015 (up to August), the expenditure charged to the extrabudgetary reserve was $976,246, while the contribution was $751,233. This resulted in extrabudgetary reserves dropping from 19 months at the beginning of 2014 to 9 months in October 2015, which was below the recommended average of 12 months. The Office attributed this decline to the high cost associated with organization-wide structural changes.

Additionally, direct project costing was not fully implemented. Although the national counterpart had agreed in principle to direct project costing, it had requested the establishment of a Letter of Agreement detailing the costs directly chargeable to projects. At the time of the audit in September 2015, this Letter of Agreement had yet to be established. Subsequent to the audit, the Office established the Delivery Acceleration Task Force to work on accelerating programme delivery.

Should the current trend in declining extrabudgetary reserve continue, the Office may not be able to sustain its operations.

Priority	Medium (Important)
Recommendation 1: The Office should continue its efforts to increase its extrabudgetary reserve required to sustain its operations and establish a Letter of Agreement between UNDP and the national counterpart in order to charge costs directly to projects.	
Management action plan: The Office will: ▪ continue monitoring the work of the Delivery Acceleration Task Force to improve the delivery rate;	

- pursue with headquarters, a suitable template for drafting an agreement with the national counterpart regarding implementation of direct project costing;
- implement additional measures to improve the income base, which will include (a) completing the 2016/17 Financial Sustainability Plan with full costing of the staffing structure, (b) recovering the eligible portion of general operating expenses across projects, and (c) continuing the practice of not replacing extrabudgetary staff posts that become vacant.

Estimated completion date: 31 December 2015

B. Programme management

Issue 2 Low programme delivery

UNDP's 'Strategic Plan 2014-2017' requires Country Offices to optimize the use of programme resources for the achievement of development results.

Programme deliveries over available resources for the previous and current programme cycles were consistently low. As shown in Table 1 below, expenditures for 2012 and 2013 were $43.9 million (or 53 percent) and $57.1 million (or 80 percent), respectively. For 2014, the expenditure was $28.3 million (or 62 percent) and as of September 2015, it was $12.6 million (or 42 percent). The Office also showed a trend of under-budgeting programme resources.

Table 1: Office's programme resources and delivery rates from 2012 to 2015 (to September)

Description	2012	2013	2014	2015 (to September)
Total available programme resources ($ million)	$83.6	$71.8	$45.6	$29.9
Delivery ($ million)	$43.9	$57.1	$28.3	$12.6
Percentage of delivery over available resources and budget	53%	80%	62%	42%

The Office attributed the low programme delivery to, among others, capacity challenges and the transition from the previous Country Programme Action Plan to the new Country Programme Document.

Low delivery might affect donor confidence in UNDP's capacity to utilize programme resources. In addition, low delivery of non-core resources affects office extrabudgetary income.

In response to the draft report, the Office indicated that training on Harmonized Approach to Cash Transfers started in early 2015. Furthermore, the Government has agreed to a full-time post for a procurement specialist within the Office to backstop the increasing number of requests from government implementing partners. The recruitment was scheduled to begin in January 2016.

Priority	High (Critical)
Recommendation 2: The Office should optimize programme resources by reviewing its budgeting process and reinforcing office implementation capacity.	
Management action plan: ▪ Under the overall supervision of the Head of Programme and supported by the Programme Oversight and Monitoring Unit, project staff and team leaders will carry out reviews of budgets against projected delivery on a fortnightly basis. The Country Office Management Team now has delivery and budget revision as a weekly agenda item for review by all team leaders across the Office. ▪ The Office will intensify capacity development of government partners in order to absorb and deliver funds more efficiently. **Estimated completion date:** 30 April 2016	

C. Project management

Issue 3 Inadequate project management procedures

The 'Programme and Operations Policies and Procedures' require offices to adhere to project management procedures for proper implementation and management of programmes and projects in order to achieve organizational objectives.

The Office had 38 development projects with total incurred expenditures of $40.9 million. Out of these, nine projects (60297, 68057, 78258, 81241, 81560, 61744, 58925, 56497, and 49785) with total incurred expenditures of $17.9 million were reviewed. The following examples of non-compliance with project management policies and procedures were noted:

- Five projects had baselines and targets that were broad and not measurable.
- For six projects, Project Steering Committee and Technical Committee meetings were not consistently held.
- For six projects, results were not recorded and tracked in Atlas (enterprise resource planning system of UNDP) and project risk logs were not updated.
- For four projects, Combined Delivery Reports were not shared with the implementing partners on a quarterly basis.
- Out of the nine projects reviewed one had a monitoring plan for 2015. None of them had monitoring plans in 2014.

The Office was in the process of establishing a monitoring and evaluation structure. It cited changes in programme staff and new projects under the new Country Programme as the cause of the non-compliance.

Subsequent to the audit, the Office finalized the monitoring and evaluation strategy and action plan. It engaged an international expert on results-based management from the Regional Service Centre in Addis Ababa to train all programme staff in recording and tracking project performance results in Atlas.

Priority	Medium (Important)
Recommendation 3: The Office should speed up the process of establishing a monitoring and evaluation structure and strengthen project management and monitoring by: (a) clearly defining baselines and targets; (b) ensuring that Project Steering Committee and Technical Committee meetings are consistently held; (c) clearly documenting monitoring plans and schedules; (d) quarterly sharing Combined Delivery Reports and submitting both financial and progress reports for monitoring; and (e) recording and tracking project performance results in Atlas.	
Management action plan: The Office will: ▪ make every effort to enhance the quality and credibility of baselines and indicators as reflected in project documents and will use them for monitoring and evaluation purposes; ▪ clearly document monitoring plans and schedules of field visits; ▪ enforce frequency of Project Steering Committee and Technical Committee meetings; ▪ ensure Combined Delivery Reports are generated and shared with implementing partners for review and signature; and ▪ strengthen the Programme Oversight and Monitoring Unit by hiring a full-time Monitoring and Evaluation Specialist. **Estimated completion date:** April 2016	

D. Financial management

Issue 4 Supporting documents not adequately verified

The 'Programme and Operations Policies and Procedures' require the verification of purchase information, including the correct number and type of goods procured, before raising and processing payment vouchers.

From a review of a selected sample of 64 payment vouchers amounting $668,700, the following vouchers had purchase order information that was not verified before processing payments:

- Six payment vouchers totalling $29,252 for conference and workshop costs were processed without reconciling the invoice to the actual lists of participants and charges per room. In addition, the vouchers were processed without being certified by the responsible programme officer.

- Two payment vouchers totalling $15,050 for stationery and equipment were processed even though there were discrepancies in the delivery note. In another voucher, equipment items delivered and paid for were not included in the initial request from the implementing partner. A further review of records disclosed that subsequent changes in the requisitions and purchase orders, although certified and approved by responsible Office programme staff, were done without consultation with the respective implementing partners. Furthermore, payments and disbursements were processed by the finance staff without verifying if the procurement was authorized by the implementing partners.

The Office attributed the errors to lack of oversight in processing payment vouchers and disbursements.

In response to the draft report, the Office indicated that it recognized the need for due diligence at all stages of the payment and disbursement processes. Furthermore, it supported the notion that supplier invoices and delivery documents needed to be verified against requests and orders, and in the case of workshops, the need for queries to be clearly documented.

There was a risk that unauthorized and/or fraudulent payments might not be detected.

Priority High (Critical)

Recommendation 4:

The Office should exercise due diligence when processing payments and disbursements to ensure the validity of transactions, including maintaining proper documentation. This could include:

(a) reconciling invoices to respective lists of participants and charges per room for workshop costs;
(b) requesting that implementing partners verify invoices and delivery documents against requests and orders; and
(c) ensuring that changes in requested items are agreed to with the implementing partners.

Management action plan:

- Training has been scheduled for mid-November 2015 for Programme Associates/Assistants on all aspects of venue management, and guidelines are being developed for a workshop to cover the following:

  (a) Keeping a daily log of attendance of participants
  (b) Receiving daily rooming lists from hotel reservations
  (c) Confirming occupancy against the workshop budget
  (d) Communication between hotel, implementing partner and Country Office on any increases in number of participants
  (e) Obtaining written authorization for increases where applicable
  (f) Reconciliation of request from implementing partner, Request for Quotation details, purchase order details and invoiced amounts
  (g) Reconciling participant lists and meal recipients, if applicable

- The format of the Request for Quotation forms will be revised.
- Closer attention will be paid to ensuring that project budgets are charged for goods or services requested by implementing partners. Moreover, the receiver will cross-reference closely the delivery note and the equipment being delivered to avoid discrepancies.

Estimated completion date: December 2015

E. Procurement

Issue 5 Poor vendor management

The 'Programme and Operations Policies and Procedures' require Country Offices to exercise due diligence when entering vendors into Atlas, which includes verification of vendor details and banking information.

The controls on the creation, approval and verification of vendors' details were inadequate. The Office had 68 duplicate vendors out of a total of 4,508 active vendors (1.5 percent) in Atlas. No explanation was provided on the duplicate entries.

From a review of a randomly selected sample of 72 vendors, the following was noted:

- The Office was unable to provide 15 vendor forms.
- There were 57 vendor forms that were incomplete, particularly the sections to be completed by the vendor creator.
- Only 8 of 57 vendor forms made available to OAI had supporting documents. A review of these eight vendor forms showed that they actually represented four duplicate vendors, which resulted from using different names for the same vendors.

The Office did not regularly review the vendor database and did not consistently conduct verification checks before creating new vendors. Subsequent to the audit, all vendor creators and approvers were retrained to ensure that due diligence is done before entering vendors in Atlas to avoid duplication of records. The training also provided clarification on requirements for supporting documents for vendor creation and approval.

Duplicate vendor records might result in duplicate or unauthorized payments. There is also a risk of the Office contracting companies that are not legally registered and that might not have the capacity to meet the supply requirements.

Priority Medium (Important)

Recommendation 5:

The Office should strengthen vendor management by:

(a) continually reviewing the vendor database and deactivating all duplicated vendors;
(b) verifying that a new vendor has not been previously created in Atlas; and
(c) ensuring that all vendor forms are duly completed and that vendors submit the required supporting documents.

Management action plan:

The Office will:

(a) do a complete review of the vendor database as a matter of priority;
(b) call for the complete documentation of vendors; and
(c) continue to monitor the vendor database.

Estimated completion date: January 2016

Issue 6 Procurement procedures not adhered to

The 'Programme and Operations Policies and Procedures' require the purchasing process to be initiated through the creation and approval of a requisition and a purchase order in Atlas. Furthermore, all procurements above the threshold of $5,000 should be subjected to a competitive selection process.

The review of 28 purchase orders totalling approximately $1.6 million (or 10 percent of the total value of purchase orders processed for the period under review) noted the following:

- Seventeen purchase orders valued at approximately $1.2 million (75 percent) had e-requisitions created after the completion of the selection process. Furthermore, 13 of 17 purchase orders valued at approximately $740,000 were created and approved after the delivery of goods and services.

- Ten purchase orders with total value of $716,400 (44.6 percent) for event venues that were above the threshold of $5,000, where the pre-set criteria for competitive selection were not clearly stated in the Requests for Quotations, which resulted in a selection process that could not be substantiated. The Office explained that some were *ad hoc* and last minute procurement requests that were not included in the procurement plan, but accommodated on account of programme delivery. The Office's management stated that the Office will use UNICEF's 27 Long Term Agreements and will establish its own Long Term Agreement with a vendor for event venues.

There is a risk that year-end liabilities might be understated if procurement activities are completed outside of Atlas. Not properly applying competitive selection processes might lead to unfair procurement practices, excessive prices and low quality services.

Priority High (Critical)

Recommendation 6:

The Office should adhere to procurement policies and procedures by:

(a) discontinuing the practice of creating requisitions and purchase orders in Atlas after procurement is completed; and
(b) carrying out a competitive selection process based on pre-set criteria.

Management action plan:

The Office will take the following actions:

- enforce e-procurement at the time of the request for the goods and services in compliance with the Internal Control Framework and Standard Operational Procedures requirements;

- centralize the procurement function in the Procurement Unit for proper oversight;
- ensure that all procurements exceeding $5,000 will be subjected to a competitive review process; and
- ensure that all procurement selection processes are done competitively as per pre-set criteria

Estimated completion date: (implemented as of 31 October 2015)

OAI response:

OAI acknowledges the actions taken by management; these will be reviewed at a later stage as part of the standard desk follow-up process of OAI.

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>.