UNITED NATIONS DEVELOPMENT PROGRAMME
Office of Audit and Investigations

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AUDIT

OF

UNDP COUNTRY OFFICE

IN

NAMIBIA

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United Nations Development Programme
Office of Audit and Investigations

Report on the Audit of UNDP Namibia
Executive Summary

The UNDP Office of Audit and Investigations (OAI) conducted an audit of UNDP Namibia (the Office) from 30 November to 14 December 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, business continuity, monitoring and reporting, financial sustainability);

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

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

(d) operations (human resources, finance, procurement, general administration).

The audit covered the activities of the Office from 1 January 2014 to 30 September 2015. During the period under review, the Office recorded programme and management expenditures of approximately $13 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*.

Overall audit rating

OAI assessed the Office as **unsatisfactory**, which means, "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." This rating was mainly due to revenue shortfall and non-implementation of Direct Project Costing policy, high Programme management costs, lack of resource mobilization, and weaknesses in learning and performance management, procurement, and payments processing.

Key recommendations: Total = **9**, high priority = **6**

The recommendations aim to achieve the following:

Objectives	Recommendation No.	Priority Rating
Achievement of the organization's strategic objectives	1, 4, 5	High
Reliability and integrity of financial and operational information	7, 8	High
	6	Medium
Effectiveness and efficiency of operations	2	High
	3	Medium
Safeguarding of assets	9	Medium

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. All high (critical) priority recommendations are presented below:

Revenue shortfall and non-implementation of Direct Project Costing policy (Issue 1)	At the end of 2015, the Office had a funding gap of $46,000. The Office did not implement the Direct Project Costing policy in order to recover costs directly related to the implementation of the projects from the Programme funds. It also did not fully implement the Financial Sustainability Plan established in 2013 and did not perform the sustainability exercises for 2014 and 2015. At the time of the audit, in December 2015, the Office had established the 2016 Financial Sustainability Plan with a full costing of the staffing structure for 2016, but lacked the resources required for the implementation of the staffing realignment process. Recommendation: The Office should comply with corporate financial strategies by: (a) requesting for medium-term financial support from the Regional Bureau for Africa to implement the capacity realignment process as per the 2016 Financial Sustainability Plan; (b) improving capacity and resource mobilization to generate additional revenue and to reduce the funding gap; and (c) implementing the Direct Project Costing policy to recover costs directly related to project implementation.
Weaknesses in learning and performance management (Issue 2)	Regarding required mandatory courses, out of 24 staff members, only 4 had completed the Basic Security in the Field II course, 6 had completed the Gender Journey course, 2 staff members had completed the Prevention of Harassment in the Work Place course, and 6 had completed the Legal Framework course. None of the 24 staff members had completed the Advanced Security in the Field course. In relation to online courses addressed to professional staff according to their roles, only 4 out of 15 eligible staff members had completed at least one IPSAS intermediate course. None of the eligible staff members had completed the Property, Plant and Equipment and IPSAS Reporting intermediate courses. Two Procurement staff had not completed the mandatory Procurement Certification Level 1 course. The Performance Management & Development System showed that 8 out 22 staff members in 2014 and 11 out of 26 in 2015 had not completed their performance management assessments. Recommendation: The Office should address the weaknesses in learning and performance management by: (a) establishing a learning plan that includes all corporate mandatory and professional courses using the Learning Management System to identify relevant learning paths for all eligible staff members; (b) ensuring that the Learning Manager receives the necessary training on the Learning Management System in order to perform the required duties of the function; and (c) completing all outstanding performance assessments and setting up new performance plans for 2016.

High Programme management costs (Issue 4)

The Programme portfolio was spread over five areas (Poverty, Gender, HIV/AIDS, Governance, and Energy and Environment), and was implemented through 11 Global Environment Facility projects and 5 regular UNDP projects. This had resulted in a Programme Unit of seven, which in turn led to high management overhead costs relative to programme expenditure. In 2014 and 2015, Office management costs amounted to 65 percent and 40 percent, respectively, of regular and total resource expenditure against the 24 percent and 12 percent of the Regional Bureau for Africa average.

Recommendation: The Office should reduce Programme management costs by: (a) performing a mid-term Programme review with the view to discontinue and/or not renew projects with no critical mass and consolidating UNDP's intervention around fewer thematic areas and projects; and (b) consequently realigning the Office's structure and capacity, with focus on the Programme Unit.

Lack of resource mobilization (Issue 5)

According to the Country Programme Document 2014-2018, the Office planned to mobilize $12.7 million in resources for the entire four-year programming cycle, comprising of $1.7 in core and $11 million in non-core funding. However, resource targets included in the first two-year cycle Annual Work Plans signed with the government counterpart were $13.4 million (approximately $6 million in 2014 and $7 million in 2015). The Office could not explain the variance and could not provide minutes on the approval of the programme.
The Office did not have a Resource Mobilization Strategy in the last programming cycle 2006-2013 (seven years); therefore, capacity in terms of skills and competencies in this area was not developed. The 2015 Resource Mobilization Action Plan had not been implemented by the required deadline, and therefore targets were not achieved and activities (such as staff training) were not undertaken, due to delays in finalizing the strategy.

Recommendation: The Office should improve capacity for resource mobilization by: (a) developing skills and competency for resource mobilization by prioritizing and implementing necessary training; (b) reviewing and updating the Resource Mobilization Action Plan focusing on the planned activities and timelines; (c) establishing effective delegation of responsibilities for the resource mobilization function and consistent monitoring of performance; and (d) encouraging compliance with the organizational policy for setting resource targets.

Inadequate controls over disbursements (Issue 7)

Controls over goods and/or services received before payment were assessed as inadequate, based on a sample of 40 accounts payable vouchers reviewed. The main weaknesses identified were payments amounting to $277,000 made before goods/services were received, expenses totalling $67,000 posted to the wrong Atlas (enterprise resource planning system of UNDP) account codes, and utility bills of $33,462 charged to the wrong period. The lack of scrutiny by first and second level controls prior to verifying disbursements allowed such transactions to be completed and go undetected.

Recommendation: The Office should strengthen controls over disbursements by: (a) following up on specific cases where payments were made but goods were not received; (b) strengthening supervision over payment processing, especially on verifying certification of services and/or physical receipt of goods prior to payment processing and disbursement.

Procurement policies and procedures not adhered to (Issue 8)	Basic competition and value for money policies were not followed and requisite procurement procedures and systems were not adhered to. The sample review identified weaknesses such as: purchase orders totalling $145,000 related to the procurement of workshop/conference facilities undertaken without a competitive selection process; and purchase orders totalling $42,000 where the procurement guidelines were not followed, including an award of a contract worth $26,180 for the supply of a biometric security system to a parent company which did not submit a quote but was subsequently linked to the winning bidder without verification. All four sampled individual contracts were procured without a competitive selection process. The e-Requisition system was not implemented due to Atlas profiles not being properly allocated among staff. Thus, each unit was doing its own procurement outside of Atlas and the Administrative Assistant only generated purchase orders in Atlas to facilitate payments. Recommendation: The Office should strengthen supervision over its procurement processes by: (a) centralizing procurement processes, mainly the competitive selection process and procurement of individual contractors; (b) allocating appropriate Atlas profiles necessary for implementation of e-Requisitions; and (c) improving processes for the evaluation of quotes.

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 Windhoek, Namibia (the Country) had 30 staff members, 6 service contractors and 1 United Nations Volunteer at the time of the audit. Senior management comprised of the Resident Representative and one Deputy Resident Representative for both Programme and Operations. The Country Programme predominantly comprised of Global Environment Facility projects and a small number of other projects. The Country was ranked as an upper middle-income country; however, it continued to face challenges affecting countries ranked low on the Human Development Index.

II. Audit results

OAI made six 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) Comply with corporate financial strategies (Recommendation 1).
(b) Reduce Programme management costs (Recommendation 4).
(c) Improve capacity for resource mobilization (Recommendation 5).
(d) Strengthen controls over disbursements (Recommendation 7).
(e) Strengthen supervision over procurement processes (Recommendation 8).
(f) Address the weaknesses in learning and performance management (Recommendation 2).

Medium priority recommendations, arranged according to significance:

(a) Improve asset management (Recommendation 9).
(b) Strengthen support to the Resident Coordinator's Office (Recommendation 3).
(c) Strengthen supervision and controls over maintenance of Atlas human resources data (Recommendations 6).

The detailed assessment is presented below, per audit area:

A. Governance and strategic management

1. Financial sustainability

Issue 1 <u>Revenue shortfall and non-implementation of Direct Project Costing policy</u>

In line with the Administrator's call for maintaining appropriate liquidity, offices are required to maintain costs within available resources and comply with corporate financial strategies.

The Office had a funding gap of $46,000 by the end of 2015. In 2015, the Office was allocated approximately $884,000 of regular administrative resources. It had approximately $365,000 available extrabudgetary resources and also received $259,000 from the solidarity fund, thus reaching total available operational resources of approximately $1.5 million. The total operational expenditure projected up to December 2015 was approximately $1.6 million with a deficit of $46,000.

Table 1. Available resources less expenditures by fund - 2015

Fund codes	Oct 2015 ($)	Dec 2015 ($)
	Available resources	
2300**	420,503	543,563
2500**	340,488	340,488
16600	259,259	259,259
11300	364,489	364,489
Total	1,507,799	1,507,799
2300	661,590	793,908
2550	130,623	156,747
16600	329,572	329,572
11300	224,508	273,636
	1,346,293	1,553,863
Resource balance/ (Funding gap)	161,506	(46,069)

** 2016 projected amounts assuming all factors remain constant.*
*** Funds 2300 & 2550 amounts include both Staff salaries and GOE.*

The Office did not implement the Direct Project Costing policy in order to recover costs directly related to the implementation of the projects from the Programme funds. It also did not fully implement the Financial Sustainability Plan in 2013 and did not perform the sustainability exercise for 2014 and 2015. As a result, the Office missed the opportunity to align operational and staffing costs with available income, which is a corporate requirement for all Country Offices. In December 2015, the Office had established the 2016 Financial Sustainability Plan with a full costing of the staffing structure for 2016 but lacked the resources required for the implementation of the staffing realignment process (refer to Issue 5).

Subsequent to the audit, the Office submitted a request for funding from the Regional Bureau for Africa and initiated the process for the implementation of Direct Project Costing. It also finalized the Resource Mobilization Strategy and was in the process of implementation.

The lack of implementation of corporate financial policies and of capacity and resource mobilization impacted the financial sustainability of the Office.

Priority High (Critical)

Recommendation 1

The Office should comply with corporate financial strategies by:

(a) requesting for medium-term financial support from the Regional Bureau for Africa to implement the capacity realignment process as per the 2016 Financial Sustainability Plan;
(b) improving capacity and resource mobilization to generate additional revenue and to reduce the funding gap; and
(c) implementing the Direct Project Costing policy to recover costs directly related to project implementation.

Management action plan:

The following actions will be taken:

(a) follow-up on resource mobilization pipeline;
(b) improve capacity for resource mobilization by engaging a volunteer consultant to do partner mapping; and
(c) continue to implement Direct Project Costing.

Estimated completion date: August 2016

2. Leadership

Issue 2 Weaknesses in learning and performance management

The corporate learning policy requires all staff members to complete UNDP's mandatory courses. The Learning Management System also includes a list of required online courses to be completed by professional staff according to their relevant roles. The performance management policy requires all staff to complete performance assessments annually within the defined time boundaries by the policy.

Regarding the required mandatory courses, out of 24 staff members, only 4 had completed the Basic Security in the Field II course, 6 had completed the Gender Journey course, 2 staff members had completed the Prevention of Harassment in the Work Place course, and 6 had completed the Legal Framework course. None of the 24 staff members had completed the Advanced Security in the Field course.

In relation to online courses addressed to professional staff according to their roles, only 4 out of 15 eligible staff members had completed at least one IPSAS intermediate course. None of the eligible staff members had completed the Property, Plant and Equipment and IPSAS Reporting intermediate courses. Two Procurement staff had not completed the mandatory Procurement Certification Level 1 course.

The Performance Management & Development System showed 8 out 22 staff members and 11 out of 26, in 2014 and 2015 respectively, had not completed the performance management assessments. There was no evidence that management acted upon corporate calls on guidance or deadlines for completing performance assessments.

The Office's learning plan did not include corporate mandatory and recommended professional courses. The Learning Manager was not aware of how to utilize the Learning Management System for tracking and reporting on the status of courses completed, despite having undergone the necessary training, and had not sought assistance from the Learning Management System Support.

Subsequent to the audit, the Office appointed a new Learning Manager and was in the process of establishing a learning plan that included all mandatory and professional learning.

Lack of guidance on staff learning and performance evaluations resulted in low capacity to perform organizational duties and in lack of knowledge of organizational policies regarding staff members' learning rights and responsibilities. Non-completion of performance assessments may further result in low motivation of staff to perform required functions.

Priority	High (Critical)

Recommendation 2

The Office should address the weaknesses in learning and performance management by:

(a) establishing a learning plan that includes all corporate mandatory and professional courses using the Learning Management System to identify relevant learning paths for all eligible staff members;
(b) ensuring that the Learning Manager receives the necessary training on the Learning Management System in order to perform the required duties of the function; and
(c) completing all outstanding performance assessments and setting up new performance plans for 2016.

Management action plan:

The Office will:

(a) monitor the process for establishment of a learning plan and learning paths for all staff members;
(b) obtain support from the Regional Service Centre Human Resources, to train the new Learning Manager on the use of the Learning Management System; and
(c) complete all performance management assessments within the stipulated deadlines.

Estimated completion date: May 2016

B. Development activities

Issue 3 Weak controls in Resident Coordinator's Office

According to United Nations Development Group's Management and Accountability System, the UN coordination system is managed by UNDP. The Resident Coordinator's Office (RCO) is responsible for coordinating and managing common initiatives that are agreed upon and approved by the United Nations Country Team (UNCT). In performing its role, the RCO is required by the system to be cost efficient and effective. UNDP is responsible for providing operational support to the RCO in order to perform its functions.

The audit noted the Office's lack of support to the RCO that led to the following weaknesses:

- Responsibilities for the management of RCO core activities and the common services were not clearly defined. As a result, agency contributions to these areas of activity were commingled and expenditures were charged indistinctly across budgets, which impacted on the monitoring and reporting of contributions. In 2014 and 2015, expenditures totalling approximately $14,500 and $12,700, respectively, were incorrectly charged against the programme activities budget instead of the UNCT budget.

- The RCO's last reporting on budget and expenditure to UNCT and the UN Communications Group was done at the beginning of 2014. Despite UNCT requests for regular reporting at the time of the audit in December 2015, this was still pending.
- The RCO procured goods and services for coordination activities without complying with the UNDP procurement rules with regards to the sourcing of suppliers. From a random sample of 81 vouchers representing 28 percent of total expenditure of $485,800 related to RCO activities, all procurement related to conference facilities, air tickets and catering companies was done without competitive selection. There was also no segregation of duties as the RCO was procuring and at the same time, receiving goods and services. Purchase orders were only raised to facilitate payment processing instead of procurement.
- There were no controls over the RCO's hospitality costs as required by organizational policies and procedures. For the period under review (1 January 2014 to 30 September 2015), there was excessive spending on catering for monthly UNCT meetings and the purchase of alcoholic beverages for UN events. Out of a total expenditure of $83,201 (excluding salary costs) incurred in 2014, 20 percent ($16,703) of expenditure incurred was for catering at monthly UNCT meetings ($8,699), farewell parties ($3,582) and alcoholic beverages ($4,422). In 2015, out of the total expenditure, excluding salary costs of $39,837, 51 percent ($20,470) was spent on monthly UNCT meetings, while $17,725 and $2,745 was spent on alcoholic beverages and farewell parties, respectively.
- There was inadequate monitoring of workshop expenditures, in particular the allowances paid to workshop participants. From the selected sample of vouchers, there were six payments made ($31,448) for workshops where there was no monitoring and/or reconciliation of the number of participants registered against the allowances paid out. In three of the cases ($16,600), the list sent to the bank for the payment of allowances showed a higher number of participants than the actual number that signed/registered for the workshop. In two cases ($11,998), there was no registration process for participants and therefore no record of how many participants registered and were eligible to receive allowances. In one case ($2,850), there were three participants that were paid allowances after the completion of the workshop, however there was no evidence that these participants attended the workshop as their names were not on the participants lists nor was there any proof of registration.

All transactions related to commingling of funds were reversed subsequent to the audit mission in December 2015 and independent budgets were established in Atlas for 2016 for the UN Development Operations and Coordination Office, and common services.

Lack of support to the RCO may impact its operations. The excessive catering expenditures were not aligned with UNDP's hospitality rules and may create a negative perception of the organization at a time when austerity measures are being implemented.

Priority	Medium (Important)
Recommendation 3: The Office should strengthen support to the Resident Coordinator's Office by: (a) defining responsibilities for the management of the Resident Coordinator's Office core activities, programme activities and common services; (b) preparing separate fund budgets for core activities, programme activities and common services to facilitate proper reporting, prevent commingling funds and cross-charging expenditures; (c) establishing controls for monitoring hospitality expenses in the Resident Coordinator's Office – that	

includes defining hospitality activities and setting limits expenditure;
(d) establishing procedures to ensure that costs charged for workshops and allowances paid to participants are adequately supported, and making staff that facilitate these workshops accountable for the reconciliation and follow up on workshop costs; and
(e) requesting the Office's support for the procurement of goods and services and complying with procurement policies for the sourcing of suppliers through competitive selection.

Management action plan:

(a) Through implementation of the Change Management process, the existing positions in the RCO will be replaced with two new positions with clearly defined roles and responsibilities, as well as clear reporting lines.
(b) The Office will monitor implementation of independent work plans for UNCT, the UN Development Operations and Coordination Office, common services and the UN Communications Group as well as UN CARES as approved by UNCT for 2016.
(c) The Resident Coordinator, as the budget holder for RCO funds, will set limits for expenditures, especially in relation to hospitality activities.
(d) The Operations Manager/Deputy Resident Representative will conduct regular checks on workshop allowances, which will be first verified by the Finance Unit.
(e) All procurement, including the Resident Coordinator's Office procurement will be centralized and monitored.

Estimated completion date: 31 March 2016

C. Programme activities

1. Programme management

Issue 4 High Programme management costs

UNDP's Strategic Plan 2014-2017 requires institutional effectiveness, achievable through higher quality programmes, better project planning and design. Office management is responsible for designing development programmes that ensure organizational effectiveness.

The Office's Programme was fragmented and lacked focus. The Country Programme Document 2014-2018 focused on three thematic areas: Environmental Sustainability, Inclusive Growth and Democratic Governance, and Gender and HIV/AIDS. The Programme was spread over five areas – Poverty, Gender, HIV/AIDS, Governance, and Energy & Environment. The Programme was being implemented through 16 projects comprising 11 Global Environment Facility projects (i.e. 69 percent of the Programme) and 5 regular UNDP projects (i.e. 31 percent of the Programme). All environmental sustainability projects were funded from the Global Environment Facility (95 percent of Programme resources) while the rest of the projects (refer to table 2) were funded from regular Programme resources (5 percent of Programme resources). Regular resources allocated in 2014 and 2015 were $402,000 and $325,000, respectively, and no additional non-core resources were generated.

Table 2: Programme areas and respective number of projects, payroll costs and project budget - 2014, 2015

Programme areas	Number of projects	Project budget (core resources) 2014 ($)	Project budget (core resources) 2015 ($)	Programme staff categories	Payroll costs per year ($)
Poverty	1	107,000	100,000	NOB	74,095
Gender	1	100,300	95,000	G7	53,336
HIV/AIDS	2	70,136	60,000	NOC	88,860
Governance	1	125,000	70,000	NOA	59,329
Totals	5	402,436	325,000	Total	275,620

This arrangement had resulted in a Programme Unit of seven (four National Officers and two General Service staff including Global Environment Facility staff) relative to resources at hand. This in turn led to high management overhead costs with respect to Programme expenditure. In 2014 and 2015, according to the Executive Snapshot, Office management costs amounted to 65 percent and 40 percent, respectively, of regular and total resources expenditure against 24 percent and 12 percent of the Regional Bureau for Africa average. The Programme design was ambitious compared to the available resources.

The expanded scope of the Programme portfolio without the required resources does not allow the Office to have projects with critical mass to generate meaningful development results.

Priority High (Critical)

Recommendation 4:

The Office should reduce Programme management costs by:

(a) performing a mid-term Programme review with the view to discontinue and/or not renew projects with no critical mass for the project portfolio and consolidating UNDP's intervention around fewer thematic areas and projects; and
(b) consequently realigning the Office's structure and capacity, with focus on the Programme Unit.

Management action plan:

(a) All projects identified with no critical mass for the portfolio will be closed. Mid-term reviews are no longer required but the Global Environment Facility programme reviews are planned to take place during the second quarter of the year.
(b) With Change Management, the Office will realign its structure focusing on two major areas of programme intervention: Poverty, Environment and Energy.

Estimated completion date: June 2016

2. Partnerships and resource mobilization

Issue 5 Lack of resource mobilization

The UNDP Organizational Toolkit for resource mobilization identifies strategic planning and implementation of the action plan as primary steps for resource mobilization.

According to the Country Programme Document 2014-2018, the Office planned to mobilize $12.7 million in resources for the entire four-year programming cycle, comprising of $1.7 in core and $11 million in non-core funding. Of the $11 million in non-core resources, $10 million was expected to be received from the Global Environment Facility, $500,000 from Poverty and $300,000 from Governance interventions. However, resource targets in the two-year Annual Work Plans signed with the government counterpart were $13.4 million in the first two years of the cycle (approximately $6 million in 2014 and $7 million in 2015). The Office could not explain the variance and could not provide minutes on the approval of the programme.

The Office did not have any Resource Mobilization Strategy in the last programming cycle 2006-2013 (seven years); therefore, capacity in terms of skills and competency in this area was not developed. In both 2014 and 2015, the Office had not finalized a single concept note and had not developed any pipeline initiative towards the Government or other donors due to lack of capacity. The resource mobilization function was not effectively delegated with clear terms of reference and regular monitoring of performance.

At the time of the audit, in December 2015, the Office had just completed the Resource Mobilization Strategy for the 2014-2017 programme cycle, but the document was yet to be signed by the Resident Representative. However, the 2015 Resource Mobilization Action Plan had not been implemented by the required deadline, and therefore targets were not achieved and activities (such as staff training) were not undertaken, due to delays in finalizing the strategy.

Subsequent to the audit, the Resource Mobilization Strategy was finalized and the Office was in the process of hiring a consultant for updating and implementing the Action Plan.

Lack of capacity for resource mobilization impacted on the financial sustainability of the Office.

Priority	High (Critical)

Recommendation 5:

The Office should improve capacity for resource mobilization through:

(a) developing skills and competency for resource mobilization by prioritizing and implementing necessary training;
(b) reviewing and updating the Resource Mobilization Action Plan focusing on the planned activities and timelines;
(c) establishing effective delegation of responsibilities for the resource mobilization function and consistent monitoring of performance; and
(d) encouraging compliance with the organizational policy for setting resource targets.

Management action plan:

(a) The Office will obtain support for capacity building on resource mobilization from the Regional Service Centre and obtain the necessary skill set through the Change Management process.
(b) The Office engaged a volunteer consultant to establish and implement the action plan. It will also make resource mobilization a standing agenda item of weekly Senior Management Team meetings.
(c) Delegation of responsibilities will be addressed through implementation of the realignment process.
(d) Endeavor to set reasonable targets in future. Global Environment Facility targets of Other Resources to Regular Resources was already at the ratio of 1:2 as the minimum recommended level.

Estimated completion date: August 2016

D. Operations

1. Human resources

Issue 6 Deficiencies in human resources reclassification and documentation processes

According to the 'UNDP Programme and Operations Policies and Procedures', the human resources manager is responsible for updating position grades in Atlas after the reclassification process has been completed. He/she is responsible for centrally filing all necessary human resources documents for ease of access. Budgets for position costs should be validated before their reclassification, and reclassified positions should be reported to the Office of Human Resources. Compliance Review Panels should be appointed as a regular internal control, comprising of four members.

- For 8 out of 30 positions, the grades at which salaries were budgeted were lower than the actual grades. The budgeted grades were not updated in Atlas at the time when the reclassifications of the positions were finalized. The Office's human resources management controls did not detect the errors. There was no evidence that budgets to cover position costs were validated before their reclassification and that reclassified positions were reported to the Office of Human Resources. The Office could not provide the reclassification documents for verification. Position budgeted grades that are lower than actual position grades may result in under budgeted personnel costs.
- The meeting minutes of the Compliance Review Panel were not systematically filed and records were difficult to retrieve, as they were not centrally filed in the Office. At the time of the audit fieldwork, the Office had not appointed a standing Compliance Review Panel; however, subsequent to the audit the Panel was appointed.

The lack of a document trail did not allow for a meaningful assessment of the recruitment processes. Furthermore, the review of five recruitment cases found that records of invitations to written tests and interviews as well as test results for shortlisted candidates for all five cases were not complete.

Lack of supervision and controls over the human resources administration function led to a lack of maintenance of human resources data and a lack of record keeping and filing both inside and outside of Atlas.

Priority	Medium (Important)
Recommendation 6: The Office should strengthen supervision and controls over the maintenance of Atlas human resources data by: (a) updating the position information in Atlas to reflect the actual grades for all positions, and reporting reclassified positions to the Office of Human Resources; and (b) improving filing and record keeping especially for information relating to position reclassification, minutes of Compliance Review Panel meetings, invitations to written tests, interview notes and test results for all shortlisted candidates.	
Management action plan: In the context of Change Management, position information will be updated in Atlas and a short-term consultant will be hired to improve human resources filing in view that the Office did not have a human resources function. **Estimated completion date:** April 2016	

2. Finance

Issue 7 Inadequate controls over disbursements

The Internal Control Framework requires payments and disbursements to go through scrutiny by first and second level controls prior to verifying that disbursements of funds are authentic and for actual goods/services received during the accounting period.

Out of a sample of 40 accounts payable vouchers totalling $6.5 million, representing 49 percent of the total value of vouchers processed from January 2014 to September 2015, the following was noted:

- Seven vouchers, totalling approximately $277,000, represented payments made before good/services were received. Two vouchers totalling approximately $133,000 were for one contract paid in July 2014. At the time of the audit fieldwork in December 2015, the final product had yet to be received. In this particular case, further review identified that the initial contract amount was $78,000 but was increased to approximately $263,000 (amount fully paid), which was the entire budgeted amount for the activity, based on the justification that the initial amount was underestimated. The five remaining vouchers totalling approximately $114,000 were payments made on the basis of pro forma invoices with no evidence that the goods were physically received.
- There were eight vouchers (or 20 percent of the sample) totalling $2.3 million where amounts and details were not verified and reconciled with supporting documents prior to payment processing and disbursement. Out of these: (i) five vouchers for payments of advances to implementing partners had inaccurate calculations in the Funding Authorization and Certificate of Expenditure (FACE) form; (ii) in one case amounting to $45,000, the project work plan and budget did not correspond to the FACE form; (iii) another case amounting to $4,952 was for lunch for a workshop for 150 participants – however, the actual

number of participants was 104; and (iv) one voucher amounting to $10,807 had the signature of the implementing partner's Permanent Secretary, which differed from the one kept in the approved list of signatories list. The Office could not provide any justification.

- There were three accounts payable vouchers totalling $67,000 where the Office posted the expenses to the wrong Atlas account codes. For instance, the purchase of new vehicles was posted to account 72120 - Contractual Services-Companies, and computer equipment and hardware to account 72505 - Office supplies.
- Utility bills valued at $33,462 were charged to the wrong period (i.e., 2014 instead of 2013). Not recording expenditure in the period that it was incurred may affect the accuracy of financial reporting.

The lack of supervision and segregation of duties led to inadequate scrutiny of the supporting documents prior to payment processing and disbursement. Non-compliance with the Internal Control Framework may lead to fraud risk.

Priority High (Critical)
Recommendation 7: The Office should strengthen controls over disbursements by: (a) following up on specific cases where payments were made but goods were not received; (b) strengthening supervision over payment processing, especially on verifying certification of services and/or physical receipt of goods prior to payment processing and disbursement.
Management action plan: The processes of verifying the certification of services and/or physical receipt of goods prior to payment and disbursement of funds, using correct Atlas codes and recording expenditure in the correct accounting period, were being implemented and will be monitored over time. **Estimated completion date:** July 2016

3. Procurement

Issue 8 Procurement policies and procedures not adhered to

Procurement policies and procedures require that the process be initiated in Atlas through the creation and approval of an e-Requisition and purchase order and that goods and services be selected through a competitive and transparent process.

Out of a sample of 49 purchase orders totalling $675,000 (or 48 percent of the value of purchase orders) and a sample of 4 individual contracts out of 25 (or 16 percent of all individual contracts) processed during the review period, the following issues were noted:

- Fourteen purchase orders totalling $145,000 (or 21 percent of total value of the sample), of which 12 (total $135,107) related to the procurement of workshop/conference facilities, represented procurement cases without a competitive selection process.
- Four purchase orders (or 8 percent of sampled purchased orders) totalling $42,000 represented cases where the procurement guidelines were not followed. Among them was a case of an award of a contract worth $26,180 for the supply of a biometric security system to a company which did not submit a quote, on the basis that it was the same company as the one that had submitted the lowest quote, but without any documentation to substantiate the decision.
- All four sampled individual contracts were procured without a competitive selection process.
- The e-Requisition system was not implemented due to Atlas profiles not being properly allocated. Thus, each unit was doing its own procurement outside of Atlas. The Administrative Assistant generated purchase orders in Atlas to facilitate payments.

Lack of supervision over the procurement process led to non-adherence to the procurement policies and non-consideration of value for money.

Priority	High (Critical)
Recommendation 8: The Office should strengthen supervision over procurement processes by: (a) centralizing procurement processes, mainly the competitive selection process and procurement of individual contractors; (b) allocating appropriate Atlas profiles necessary for the implementation of e-Requisitions; and (c) improving processes for the evaluation of quotes by specifying the deadline for their submission in the request for quotation and assessing quotes submitted by competing companies in the same period.	
Management action plan: The procurement process was being centralized and will be monitored. Once the Change Management process is complete, a trainer from the Regional Service Centre will be requested to provide training as the current staff have never done e-Requisitions. In the meantime, the Procurement Associate was working with the Operations Manager in the Regional Service Centre to learn from best practices. **Estimated completion date:** June 2016	

4. Asset management

Issue 9 Weak controls over asset management

The 'UNDP Programme and Operations Policies and Procedures' require the regular updating of the assets register, a full asset count for periodic reporting, and the application of value for money processes when disposing assets. The Global Shared Services Centre provides support for recording acquisitions and disposals in the assets register.

- The verification of assets found that the Office did not regularly update the assets register and did not perform a full asset count for periodic assets reporting. As a result:
    - Two Office vehicles, one Toyota Prado (original cost - $24,000) and one Land Cruiser (original cost - $27,000), that were disposed in 2015 could not be traced to the assets register and disposals schedule.
    - Out of 10 assets selected for asset verification, 6 could not be verified. One printer (original cost $2,190) could not be physically located but was not listed for further investigation as required by asset count procedures, while two laptops were not found in the Asset Management Report. A further review found that the two laptops were part of seven laptops that had been purchased for the project in September 2015 and five (original cost of approximately $8,500) remained under the use and control of the Office but were not recorded in the assets register as required under IPSAS. Also, out of the 10 assets selected for verification, 8 had tag numbers that were not the same as those allocated in Atlas.

Subsequent to the audit, the Office initiated regular updating of the assets register in Atlas.

If asset registers are not properly updated, assets may be lost and/or stolen and not accounted for. Also, the value of assets reported may be misstated.

Priority	Medium (Important)

Recommendation 9:

The Office should improve asset management by:

(a) regularly updating the assets register in Atlas – with regards to the omission of the two vehicles, project laptops under the control of UNDP, the Office must request assistance from Global Shared Services Centre for their appropriate recording in the assets register;
(b) updating asset tag numbers in Atlas and on the physical assets tags; and
(c) conducting a complete asset and inventory verification exercise to establish the existence, condition of assets, cost price and purchase date – this will include project assets that are being used by the Office.

Management action plan:

The Office will conduct an inventory verification exercise including all the necessary information at mid-year. The Global Shared Services Centre will be contacted for assistance where necessary.

Estimated completion date: July 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 <u>not included in this report</u>.