AUDIT

OF

UNDP COUNTRY OFFICE

IN

ETHIOPIA

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Report on the Audit of UNDP Ethiopia  
Executive Summary

The UNDP Office of Audit and Investigations (OAI) conducted an audit of UNDP Ethiopia (the Office) from 19 to 28 July 2016. 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, role of UNDP – “One UN”, 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 2015 to 31 March 2016. The Office recorded programme and management expenditures of approximately $60 million. The last audit of the Office was conducted by OAI in 2012.

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 insufficient controls over the disbursement of project funds and lack of compliance with the e-procurement workflow, as well as inadequate implementation of the HACT Framework.

Key recommendations: Total = 3, high priority = 2

The three recommendations aim to ensure the following: (a) achievement of the organization’s strategic objectives (Recommendation 1, medium priority); (b) reliability and integrity of financial and operational information (Recommendation 2, high priority); and (c) effectiveness and efficiency of operations (Recommendation 3, 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. All high (critical) priority recommendations are presented below (by priority):

<table>
<thead>
<tr>
<th>Recommendation</th>
<th>Description</th>
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<tbody>
<tr>
<td>E-procurement workflow not complied with (Issue 3)</td>
<td>From a sample of 30 procurement cases, the audit identified 10 cases with a total value of approximately $338,000 where the Office’s procurement processes were completed outside of Atlas (enterprise resource planning system of UNDP). Transactions were subsequently entered into Atlas to facilitate payments. The</td>
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Office was using an outside of Atlas contract award form called an 'Award Notification', in order to inform the successful bidders about the award of the contracts instead of using Atlas purchase orders for contracting.

**Recommendation:** The Office should comply with the e-requisition process by: (a) starting each procurement process through the creation of an electronic requisition in Atlas, which should be approved by the project manager (first level authority) as authorization of the procurement process and that of availability of funds; and (b) discontinuing contract award notifications outside of Atlas, as well as issuing Atlas generated purchase orders to vendors.

**Insufficient controls over disbursement of project funds (Issue 2)**

From a sample of 103 vouchers with a total value of $1.7 million, the audit disclosed that there were 8 vouchers (valued at $442,052) where advances had been requested and paid to implementing partners (IPs) with no evidence that the Finance Unit had verified that the IP had utilized and reported on 80 percent of the previous advance. Furthermore, there was no evidence that the Funding Authorization and Certificate of Expenditure (FACE) forms were original and that they were signed by the authorized approving officers from the IPs. In addition, in all eight vouchers, the attached FACE forms did not include reporting on the previous advances given. The Finance Unit did not have the names and specimen signatures of the approving officers from the IPs and therefore could not verify that the requests for payments had been authorized by the appropriate programme and IP personnel.

**Recommendation:** The Office should improve the management of disbursements by: (a) ensuring that the Finance Unit verifies and signs off, as evidence of verification, on requests for project funds; and (b) adhering to UNDP guidelines with regards to the granting of advances, as well as accounting and reporting on project funds.

**Management comments and action plan**

The Resident Representative accepted all three 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.

\[Signature\]

Helge S. Osttveiten  
Director  
Office of Audit and Investigations
I. About the Office

The Office, located in Addis Ababa, Ethiopia (the Country) had a total of 74 staff and personnel at the time of the audit. It also had a programme portfolio of 43 projects with a focus on inclusive growth, governance, and sustainable resource management. Total programme delivery in 2015 was $28 million. The Country envisioned becoming a middle-income and carbon-neutral economy by 2025. According to official data, it achieved rapid and broad-based economic growth averaging 11 percent, as well as a real gross domestic product (GDP) per capita growth of 8 percent annually for the last 11 years. The incidence of poverty declined sharply from 39 percent in 2005 to 30 percent in 2011 and it was estimated to decline further. Income inequality measured by the Gini Coefficient had remained low and stable at around 0.3 for the past decade. The Country’s Human Development Index increased from 0.2 in 2000 to 0.4 in 2014. Despite this commendable growth, poverty reduction remained one of the overarching development goals.

II. Audit results

Satisfactory performance was noted in the following areas:

(a) Governance and strategic management. The Office implemented its financial sustainability and effectiveness plans and continued to monitor costs in order to remain sustainable.

(b) Support to Resident Coordinator’s Office. Support to the Resident Coordinator’s Office was found to be adequate. Issues that were found were considered low risk and were discussed and agreed with management.

(c) Programme management. Controls over programme management were found to be adequate. Issues that were found were considered low risk and were discussed and agreed with management.

(d) Partnerships and resource mobilization. Controls and procedures for resource mobilization and partnerships were found to be adequate.

(e) Human resources management. Human resources management procedures were found to be adequate. Issues that were found were considered low risk and were discussed and agreed with management.

(f) Common services. The administration of common services was adequately managed.

(g) Information and communications technology. Information and communications technology procedures were found to be adequate.

(h) Asset management. Asset management procedures were found to be adequate.

(i) Safety and security. Security measures within the Office’s premises were found to be adequate.

OAI made two recommendations ranked high (critical) and one recommendation 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 the e-requisition process (Recommendation 3).

(b) Improve the management of disbursements (Recommendation 2).
Medium priority recommendation:
(a) Strengthen control over HACT (Recommendation 1).

The detailed assessment is presented below, per audit area:

A. United Nations System Coordination

1. Harmonized Approach to Cash Transfers (HACT)

Issue 1  Inadequate HACT procedures

According to the UNDP Programme and Operations Policies and Procedures, offices should develop a HACT Assurance Plan for each programme cycle together with other UN HACT-participating agencies. The HACT Assurance Plans should, among others, define the frequency of spot checks that are to be undertaken of HACT IPs, based on IP risk ratings ascertained through micro-assessments. A higher frequency of spot checks is required for IPs considered high risk, as opposed to IPs considered medium or low risk. Spot checks are to be undertaken in accordance with HACT Guidelines and reporting templates. HACT micro-assessments are to be planned at the beginning of the programme cycle for all partners for whom the estimated programme cycle funding is equal to or greater than 10 percent of total estimated programme cycle funding. A HACT macro-assessment is also to be undertaken by a third-party provider prior to the start of a programme cycle to inform the design and planning of the Country Programme.

HACT Assurance Plans were developed for both 2015 and 2016 and included IPs that were utilized among UN HACT-participating agencies. However, the audit disclosed the following weaknesses with regards to HACT controls:

- Weak HACT micro-assessment plan in place. The UN Country Team did not have a finalized plan for conducting micro-assessments for the new Country Programme cycle for 2016-2020. UN HACT-participating agencies (including UNDP) were trying to identify the total value of financial transfers that they planned to make to IPs over the next four years and based thereon, determine which IPs were to be micro-assessed. Additionally, a review of the draft micro-assessment plan, showed that it did not follow the template prescribed in the 2014 HACT Guidelines. Specifically, it left out details relating to the IP’s scope of work, the UN agencies’ years working with IPs, previous micro-assessments and other assessments (e.g., national implementation modality audit, HACT audit, etc.) and planned micro-assessment dates. As a result, critical elements in planning were left out.

- Incomplete micro-assessments of IPs. The Office’s records showed that it had 46 IPs to which it had advanced $25.2 million during the audit review period. For 4 out of those 46 partners, there were no micro-assessments. The Office had advanced to those four partners during the audit review period a total of $5.7 million (representing 23 percent of funds delivered in 2015). The partners included a national college institute ($80,000 transferred during the audit review period–total transfers during the programme cycle were $840,000), a government ministry ($402,000), a biodiversity institute ($498,000), and a national-level agency ($4.8 million).

In addition, joint activities among UN agencies were expected to take place for 5 of the 46 IPs. However, this was undertaken for only 2 out of the 5 IPs. Office staff explained that joint assurance activities were not undertaken with other UN agencies because they were found to be burdensome due to the complexities involved.
Furthermore, a review of the UNDP Assurance Plan for 2015 disclosed that the Office failed to follow procedures for spot checks. A review of spot check reports showed that the Office failed to ensure that spot checks followed prescribed guidelines in terms of methodological approach, controls to be verified and samples to be assessed. Prescribed reporting templates were not followed. Instead, generic reporting forms were used.

- **Lack of HACT macro-assessment.** A HACT macro-assessment was not undertaken for the new programme cycle, which commenced in July 2016. The Office’s management explained that they were under the impression that the macro-assessment, which was completed in 2013, was valid for part of the new programme cycle as well. The Office stated that it anticipated that the macro-assessment would be conducted by the World Bank, but no concrete plans existed thereon.

Weak or deficient controls for HACT may result in the loss of resources for UNDP or the sub-optimal achievement of results.

<table>
<thead>
<tr>
<th>Priority</th>
<th>Medium (Important)</th>
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<tbody>
<tr>
<td><strong>Recommendation 1:</strong></td>
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<tr>
<td>The Office, working with the UN Country Team, should strengthen controls over HACT by ensuring that:</td>
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<tr>
<td>(a) the HACT Assurance Plan is implemented for all IPs listed therein;</td>
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<tr>
<td>(b) micro-assessments are undertaken for the new programme cycle for all eligible partners that are recipients of cash transfers;</td>
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<tr>
<td>(c) spot checks of IPs are undertaken jointly in accordance with HACT Guidelines and prescribed reporting templates are used in producing spot check reports; and</td>
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<tr>
<td>(d) a HACT macro-assessment is finalized as soon as possible by a third-party service provider.</td>
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**Management action plan:**

Management agrees to ensure that micro-assessments are done for all IPs and responsible parties in the coming programme cycle and this will be done with full adherence to the standard templates and methodologies as recommended by the auditors.

Effort will also be made to, wherever possible, conduct joint assessments with other UN agencies.

A macro-assessment for the next programme cycle is under development.

**Estimated completion date:** December 2016
B. Operations

1. Finance

Issue 2 Insufficient controls over disbursement of project funds

The ‘UNDP Programme and Operations Policies and Procedures’ require that payment requests be verified by the Finance Unit before being processed. The verification process must include checks to ensure that documents submitted to the Finance Unit represent bona fide expenditure that has been authorized and approved by the appropriate programme staff and authorizing officer from the IP. Additionally, UNDP guidelines stipulate that HACT advances are to be provided to IPs on a quarterly basis, based on satisfactory reporting through a FACE form on the utilization of at least 80 percent of the previous quarter’s advance.

From a sample of 103 vouchers (with a total value of $1.7 million) out of a total of 9500 vouchers amounting to $51.6 million, the following was noted:

- There were eight vouchers (valued at $442,052 and representing 25 percent of the selected sample) where advances had been requested and paid to IPs with no evidence that the Finance Unit had verified that the IPs had utilized and reported on 80 percent of the previous advances. In addition, the FACE forms were copies of the originals and were only signed by the authorized approving officers from the IPs. In all eight vouchers, the attached FACE forms did not include reporting on the previous advances given. The Finance Unit relied solely on information received from the respective programme officer in the Programme Management Support Unit.

- The Finance Unit did not have the names and specimen signatures of the approving officers from the IPs and therefore could not verify that the requests for payments had been authorized by the appropriate programme and IP personnel.

The Office indicated that the Programme Management Support Unit and the Finance Unit were verifying advance payments and that financial reporting was not always done at the same time as requests for additional funding; therefore, different FACE forms were often completed. There was no evidence to suggest that the Programme Management Support Unit and the Finance Unit conducted checks or signed off on the verification of the eight vouchers.

Weak verification procedures may result in errors and/or fraudulent payments not being detected.

<table>
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<tr>
<th>Priority</th>
<th>High (Critical)</th>
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**Recommendation 2:**

The Office should improve the management of disbursements by:

(a) ensuring that the Finance Unit verifies and signs off, as evidence of verification, on requests for project funds; and

(b) adhering to UNDP guidelines with regards to the granting of advances, accounting, and reporting on project funds.
Management action plan:
Management will provide greater oversight to ensure that the Finance Unit expressly endorses the vouchers as evidence of quality assurance.

Estimated completion date: December 2016

2. Procurement

Issue 3: E-procurement workflow not complied with

The e-procurement process in the ‘UNDP Programme and Operations Policies and Procedures’ and the Internal Control Framework require that for each procurement transaction, an electronic requisition be raised and approved in Atlas by the first authority (project manager) and thereafter a purchase order be created to raise a liability in Atlas.

The Office processed 5107 purchase orders during the audit review period with a total value of $20.6 million. A sample of 30 purchase orders representing 30 procurement cases with a value of $1.4 million (representing 7 percent of the total value of purchase orders processed) during the audit period was reviewed for compliance with procurement processes. In 10 cases (total value of approximately $338,000), the Office’s procurement processes were carried out outside of Atlas. Transactions were subsequently entered into Atlas to facilitate payment. The Office used an outside Atlas contract award form called an ‘Award Notification’ to inform the successful bidders about the award of the contract instead of using Atlas purchase orders for contracting. In four purchase orders representing four procurement cases with a total value of $60,554, requisitions and purchase orders were created in Atlas after one to three months following the award of contract. None of these cases, however, overlapped during the same accounting period and therefore financial reporting was not affected.

Management explained that ‘Award Notification’ forms were issued because the local market would not accept purchase orders; hence, the Office was using a different document for the commitment of payments. There was a risk of unauthorized procurement and unrecorded liabilities and of fraudulent issuance of purchasing documents by managing the procurement outside ATLAS.

Management acknowledged the error and issued a memo during audit fieldwork instructing all staff members to immediately initiate all procurement processes through approved electronic requisitions.

Priority: High (Critical)

Recommendation 3:
The Office should comply with the e-requisition process by:

(a) starting each procurement process through the creation of an electronic requisition in Atlas, which should be approved by the project manager (first level authority) as authorization of the procurement process and that of availability of funds; and
(b) discontinuing contract award notifications outside of Atlas and issuing Atlas generated purchase orders to vendors.
Management action plan:

The Office has taken note of the recommendation and effective management control tools will be put in place to ensure adherence to this recommendation.

Estimated completion date: December 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.