

UNITED NATIONS DEVELOPMENT PROGRAMME
Office of Audit and Investigations



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AUDIT
OF
UNDP COUNTRY OFFICE
IN
ALBANIA

Report No. 1722
Issue Date: 9 December 2016

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Report on the Audit of UNDP Albania Executive Summary

The UNDP Office of Audit and Investigations (OAI) conducted an audit of UNDP Albania (the Office) from 3 to 14 October 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 July 2016. The Office recorded programme and management expenditures of approximately \$18.9 million. The last audit of the Office was conducted by OAI in 2011.

The audit was conducted in conformance with the *International Standards for the Professional Practice of Internal Auditing*.

Overall audit rating

OAI assessed the Office as **satisfactory** which means, “Internal controls, governance and risk management processes were adequately established and functioning well. No issues were identified that would significantly affect the achievement of the objectives of the audited entity.”

Good practice

The Office had established strong controls and a good monitoring system for following up on cost recoveries through the implementation of the Direct Project Costing (DPC) approach.

Key recommendations: Total = 3, high priority = 0

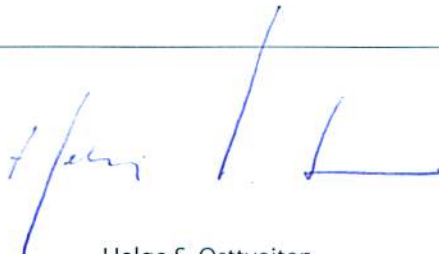
The audit did not result in any high (critical) priority recommendations. There are three medium (important) priority recommendations, which means, “Action is required to ensure that UNDP is not exposed to risks that are considered moderate. Failure to take action could contribute to negative consequences for UNDP.” These recommendations include actions to address weaknesses noted in HACT implementation, and programme and project management.

The three recommendations aim to ensure the following: (a) achievement of the organization’s strategic objectives (Recommendations 2 and 3); and (b) compliance with legislative mandates, regulations and rules, policies and procedures (Recommendation 1).

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.

A handwritten signature in blue ink, which appears to read 'H. Osttveiten', is positioned above the printed name. The signature is enclosed within a rectangular box.

Helge S. Osttveiten
Director
Office of Audit and Investigations

I. About the Office

The Office, located in Tirana, Albania (the Country), comprised of 18 staff members, 54 service contract holders and 5 United Nations Volunteers at the time of the audit. The Country was operating through “Delivering as One”. The Common Country Programme Document (2012-2016) was focused on the following areas: governance and rule of law, economy and the environment, regional and local development, and inclusive social policy. The Office had a portfolio of 24 projects with total expenditure of \$18.9 million during the period under review.

II. Good practice

OAI identified a good practice, as follows:

Finance – cost recovery. The Office established strong controls and a good monitoring system for following up on cost recoveries through the implementation of the DPC approach. The Office developed a mechanism to estimate DPC collection for the support services provided to nationally implemented (NIM) and directly implemented (DIM) projects and subsequently recovered or charged these costs to the projects.

III. Audit results

Satisfactory performance was noted in the following areas:

- (a) Governance and strategic management. The Office’s actions following the Global Staff Survey and completion of ethics and legal framework mandatory training were reviewed with no reportable issues. The Office also had adequate controls in place over the management of extrabudgetary resources and cost recovery.
- (b) Partnerships and resource mobilization. The Office maintained good relations with its counterpart and had been successful in mobilizing resources.
- (c) Human resources management. The review of recruitment and separation processes and Atlas (enterprise resource planning system of UNDP) profiles of staff did not identify any reportable issues.
- (d) Finance. Payment processing, disbursements, and banking activities were found to be compliant with UNDP financial policies and procedures.
- (e) Procurement. Procurement processes and controls were functioning adequately and no reportable issues were noted.
- (f) Information and communication technology. The information and communication technology systems managed by the Office, including hardware, software, systems security, and disaster recovery mechanisms were operating adequately.
- (g) General administration and asset management. General administration controls were well established and functioning adequately. The management of assets was found to be in line with UNDP policies and procedures.
- (h) Safety and security. The Country was at security level 2 (Low). The security risk assessment was endorsed in 2015, while the Country’s security plan was updated on 30 August 2016.

OAI made 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.

Medium priority recommendations, arranged according to significance:

- (a) Pursue full HACT implementation (Recommendation 1).
- (b) Strengthen programme management (Recommendation 2).
- (c) Strengthen project management (Recommendation 3).

The detailed assessment is presented below, per audit area:

A. United Nations system coordination

1. Harmonized Approach to Cash Transfers

Issue 1 HACT not fully implemented

The 'Framework for Harmonized Approach to Cash Transfers' represents a common operational framework for transferring cash to government and non-governmental implementing partners, irrespective of whether these partners work with one or multiple United Nations agencies. Compliance is achieved when the following components have been completed: (a) a macro-assessment of the public financial system; (b) micro-assessments of implementing partners; (c) agreement with the government on implementing HACT; and (d) development and implementation of an assurance and audit plan for implementing partners.

OAI reviewed the status of HACT implementation and noted the following:

- A draft macro-assessment report was issued in June 2016. At the time of the audit, the report was pending endorsement by, and feedback on risk assessments from the United Nations Country Team. This was required prior to the final sign-off by the Resident Coordinator.
- The Office developed a transitional Micro-Assessment Plan for 2015 that included the assessment of two implementing partners (one government ministry and one non-governmental organization). As of the date of the audit, the planned micro-assessments were not conducted, including the selection of a third party service provider for conducting micro-assessments. Although the micro-assessment had not been completed, the Office provided cash advances (direct cash transfers) amounting to \$260,490 to the non-governmental organization during the audit period.
- The United Nations Development Group ExCom Agencies (UNDP, UNFPA and UNICEF) established a HACT Working Group in 2015. However, coordinated actions were limited to a macro-assessment exercise and no other joint activities were carried out to implement HACT. The Office indicated that each agency would prepare its micro-assessment plan by end of 2016 and would jointly coordinate this exercise for shared implementing partners.

The objectives of harmonizing practices among the United Nations agencies, including lessening the burden of using multiple procedures, will not be achieved unless HACT is fully implemented.

Priority	Medium (Important)
Recommendation 1: The Office, in coordination with the United Nations Country Team, should pursue full HACT implementation by: <ul style="list-style-type: none"> (a) finalizing the macro-assessment report by having the Resident Coordinator sign off; (b) conducting micro-assessments of all implementing partners; and (c) documenting the decision on the selected cash transfer modality, following the results of the micro-assessment of the implementing partners and then determining the required assurance activities. 	
Management action plan: The macro-assessment has been completed on behalf of the United Nations in Albania in June 2016. UNDP has formally accepted and acknowledged the results of the macro-assessment and sent a letter to that effect to the Resident Coordinator. UNDP has raised the issue of pursuing HACT with the United Nations Country Team, and through the HACT Working Group. The United Nations agencies in the Country have identified their lists of implementing partners, and discussions are underway regarding how to proceed with joint micro-assessments. UNDP has identified its implementing partners and will proceed with micro-assessments of the eligible partners for the new Country Programme Document cycle 2017-2021. The micro-assessments will determine the appropriate cash transfer modality for projects. The Office will document its cash transfer modality, as well as the assurance activities it will take. In addition, the Office is planning to address implementing partner capacity gaps (either through direct assistance by the Country Team or through other development partners). This is an important and ongoing process. The Office is using HACT assessment results to help focus future capacity-development activities in key thematic and mandated areas of development, and on developing the capacities necessary for project implementation. Estimated completion date: April 2017	
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.	

B. Programme activities

1. Programme management

Issue 2 Capacity assessment of implementing partners not completed

The 'UNDP Programme and Operations Policies and Procedures' stipulate that in order for an entity to execute or implement a UNDP project, a capacity assessment should be completed covering the following areas: technical, managerial, administrative and financial capacity. Through the assessment, offices should determine additional measures to ensure that the project results are achieved. These should be documented and followed up through an action plan. Following the assessment, offices determine the appropriate cash transfer modality for project finances.

The Office had nine nationally implemented projects, out of which two were sampled, with a combined expenditure of \$2.8 million. The Office had not completed a capacity assessment of the two implementing partners. The Office explained that full support to NIM was adopted due to limited staff and resources available to the two implementing partners. The Office informed that they had started the process of completing a capacity assessment for the implementing partners identified, and had initiated discussions at the United Nations Country Team level to complete joint capacity assessments in the future.

In the event capacity assessments are not completed and the role of UNDP in strengthening capacity is not included within the project design, long-term sustainable programme results may not be achieved.

Priority	Medium (Important)
Recommendation 2:	
The Office should strengthen programme management by undertaking a capacity assessment of each implementing partner when required.	
Management action plan:	
<p>The current nationally implemented projects are implemented with the Country Office support to NIM modality, formalized with a letter of agreement with the Government for the support services provided. In such cases, when the modality is Country Office support to NIM, UNDP performs all the programmatic operational support activities for the project, including procurement, recruitment, training, payments directly to vendors, etc.</p> <p>The Office has already undertaken steps to complete capacity assessments for implementing partners it is currently working with. The Office will complete the capacity assessments by the end of 2016.</p> <p>Following the assessments, the Office will determine the appropriate cash transfer modality for the project. In addition, the assessments will identify gaps and challenges in project implementation and determine additional measures to ensure project results are achieved. These results and their recommendations will be documented and followed with an action plan. The Office will complete the action plans and incorporate them in the work plans of the project in 2017 and onwards. All action plans will have been developed by April 2017.</p>	

Estimated completion date: April 2017

2. Project management

Issue 3 Weaknesses within project management

A. Inadequate monitoring of projects

The 'UNDP Programme and Operations Policies and Procedures' state that once a project document is signed, offices must ensure adequate monitoring, such as preparing annual project reports, and maintaining issue, monitoring, and risk logs.

The following exceptions were identified in relation to project monitoring and assurance activities:

- For five of the six projects sampled, the Office provided copies of monitoring reports following monitoring visits. However, issues identified during the monitoring visits and corresponding actions taken or planned were not always documented in the monitoring reports. For the remaining project reviewed (Project No. 68697), no documentation on monitoring visits was made available to the audit team.
- The 2015 annual project progress reports were incomplete for two of the five projects sampled. For example, information on risks and challenges were not included in the annual reports for Project Nos. 68697 and 82142. The progress on achievement of output targets was not documented for Project No. 81242 annual report. The Office shared copies of the minutes of two Project Steering Committee meetings (December 2015 and July 2016) where the progress on achievement of output targets was reported.
- For three of the five projects sampled, the Atlas project module was not regularly updated. For example, in the case of two projects (Project Nos. 92952 and 68697), no information had been recorded in Atlas. In another case, (Project No. 76982), the information had not been updated since October 2015.

The Office explained that in some instances (e.g., Project No. 92952), risk logs were maintained outside of Atlas. Nevertheless, the Office agreed to strengthen the monitoring of projects.

The lack of effective monitoring could prevent the Office from determining whether intended results are being achieved, and/or whether corrective actions are required for timely actions.

B. Implementation issues for Project No. 89662

The 'UNDP Programme and Operations Policies and Procedures' define project implementation as conducting activities to achieve planned outputs established within the project document. Fundamental responsibilities lie with the project manager to ensure changes are controlled and problems are addressed.

Project No. 89662 began in September 2015, with a budget of approximately \$6.8 million. The main objective of the project was to build anti-flood infrastructures based on designs and bill of quantities provided by the government counterpart.

In October 2015, the Office noted an underestimation in the bill of quantities, with a value of approximately \$1.6 million. The donor commissioned an independent expert to resolve the dispute in relation to the quantities of

building materials required. Based on the report issued in May 2016, the independent expert confirmed that the initial bill of quantities was prepared based on unreliable designs. As a result of the corresponding increase in costs, one intervention had to be cancelled. The audit team noted that the Office did not define clear project monitoring procedures including monitoring of the reliability of designs and the corresponding bill of quantities.

As of October 2016, constructions of anti-flood infrastructures had been completed for 15 of the 16 sites. For the remaining site, construction was expected to be completed in November 2016. However, one of the two government counterparts had not accepted the handover of anti-flood infrastructures from the 15 completed sites, as they were still evaluating the final bill of quantities for one of the locations. The contractors provided a one-year warranty on the constructions from all sites, the first of which expired in November 2016. From a liability perspective, it was important that the government handover was finalized prior to the expiration of the warranty.

Furthermore, the corresponding value added tax (VAT) included in the payments made to contractors amounting to \$1.2 million could not be reimbursed until the sites' handover was completed. The Office was proactively following up with government counterpart to expedite the handover process. However, VAT payments were not reimbursed as of the end of the audit fieldwork.

Lack of clear project monitoring procedures could lead to cost increases and delays in implementation. It could also lead to unclear VAT payment reimbursements due to increases in bill of quantities.

Priority	Medium (Important)
Recommendation 3:	
The Office should strengthen project management by:	
<ul style="list-style-type: none"> (a) documenting project monitoring activities, updating project information within Atlas, and preparing annual project progress reports, which include information on risks and challenges and achievement of established targets; (b) revising existing procedures to incorporate a review of the bill of quantities prior to conducting procurement tendering; and (c) expediting the handover of project sites to the government counterparts, including reimbursement of VAT payments. 	
Management action plan:	
<ul style="list-style-type: none"> (a) The Office will develop a checklist of standard key information to be contained in the monitoring reports by February 2017. The Office is implementing the newly launched quality assurance standards for project design and project closure. The Office will be applying the standards for project implementation in December 2016 and January 2017 during the end-of-year annual review process. These two tools will be fully implemented by the end February 2017. (b) The Office will ensure annual reporting for all projects, which is to be shared with the Project Steering Committee in January-February 2017. The Office will also ensure Annual Work Plan is approved by the Project Steering Committee annually in the first quarter. Risk, Issue and Monitoring logs will be updated online in Atlas. (c) The Office will ensure, through its in-house engineering staff, that an assessment and quality certification 	

of any bill of quantity is developed by a third party when the tender is under UNDP's responsibility.

- (d) The Office indicated that it received the first VAT reimbursement for the lot already handed over, and was in discussions with the Government to close VAT reimbursement for the remaining work.

Estimated completion date: February 2017

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 not included in this report.