

**UNITED NATIONS DEVELOPMENT PROGRAMME**  
**Office of Audit and Investigations**



*Empowered lives.  
Resilient nations.*

**AUDIT**

**OF**

**UNDP COUNTRY OFFICE**

**IN**

**SOMALIA**

**Report No. 1757**  
**Issue Date: 7 April 2017**

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## Report on the Audit of UNDP Somalia Executive Summary

The UNDP Office of Audit and Investigations (OAI) conducted an audit of UNDP Somalia (the Office) from 6 to 20 February 2017. 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 (leadership, corporate direction, corporate oversight and assurance, corporate external relations and partnership);
- (b) programme (quality assurance process, programme/project design and implementation);
- (c) operations (financial resources management, ICT and general administrative management, procurement, human resources management, and staff and premises security); and
- (d) United Nations leadership and coordination.

The audit covered the activities of the Office from 1 January to 31 December 2016. The audit did not cover the Harmonized Approach to Cash Transfers because the Office was not able to address this due to the still fledgling financial system at the national level. The Office recorded programme and management expenditures of approximately \$95 million in 2016. The last audit of the Office was conducted by OAI in 2014.

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 / some improvement needed**, which means, "The assessed governance arrangements, risk management practices and controls were generally established and functioning, but need some improvement. Issues identified by the audit do not significantly affect the achievement of the objectives of the audited entity/area." This rating was mainly due to inadequate follow-up on financial data exceptions, outstanding contributions for shared services, and inadequate assets and inventory management procedures.

### Key recommendations: Total = 7, high priority = 0

The audit did not result in any high (critical) priority recommendations. There are seven medium (important) priority recommendations, which means, "Action is required to ensure that UNDP is not exposed to risks. Failure to take action could result in negative consequences for UNDP." These recommendations include actions to address: inadequate follow-up on financial data exceptions; outstanding contributions for shared services; inadequate assets and inventory management procedures; the need to improve adherence to procurement business processes; inadequate controls over vendor data management; weak monitoring systems for development activities, and incomplete staff performance assessments.

The seven medium priority recommendations aim to ensure the following: (a) achievement of the organization's strategic objectives (Recommendation 7); (b) reliability and integrity of financial and operational information (Recommendation 1); (c) effectiveness and efficiency of operations (Recommendations 4, 5, 6); (d) safeguarding of assets (Recommendation 3); and (e) compliance with legislative mandates, regulations and rules, policies and procedures (Recommendation 2).

**Implementation status of previous OAI audit recommendations:** Report No. 1299, 20 June 2014.

Total recommendations: 6

Implemented: 6

**Management comments and action plan**

The Resident Representative accepted all seven recommendations and is in the process of implementing them. Comments and/or additional information provided have 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 is visible above the printed name. The signature appears to be 'Helge S. Ostveiten' written in a cursive style.

Helge S. Ostveiten  
Director  
Office of Audit and Investigations

## I. About the Office

The Office, located in Mogadishu, Somalia (the Country) had 131 staff members at the time of the audit. The Office consisted of a support office based in Nairobi, Kenya and two area offices, located in Hargeisa and Garowe. The Office's programme portfolio focused on governance and the rule of law, poverty reduction and environment, capacity development, and gender and cross-cutting issues. Working conditions under which the Office was operating were difficult due to perceived security risks for UNDP staff to move within the Country.

## II. Audit results

Satisfactory performance was noted in the following areas:

- (a) Support to the Resident Coordinator Office. Support to the Resident Coordinator Office was adequate and UN Development Operations Coordination Office funds were used for the purposes intended.
- (b) 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.
- (c) Partnerships and resource mobilization. Controls and procedures for resource mobilization and partnerships were found to be adequate.
- (d) Project management. Controls over project management were found to be adequate. Issues that were found were considered low risk and were discussed and agreed with management.
- (e) Information and communication technology. Systems were in place in accordance with the Office of Information Management and Technology guidelines, to mitigate risks in case of emergencies or crises.

OAI made seven 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) Improve the controls on the follow-up and monitoring of national implementation modality (NIM) advances, cost-sharing deficits and project closures (Recommendation 1).
- (b) Comply with procurement processes (Recommendation 4).
- (c) Develop a monitoring system in accordance with United Nations Development Group standards (Recommendation 7).
- (d) Improve vendor management (Recommendation 5).
- (e) Escalate the issue of outstanding funds to Headquarters, and undertake an analysis of the unexplained deficit (\$168,653) and report it to the Office of Financial Resources Management (Recommendation 2).
- (f) Strengthen assets and inventory management procedures (Recommendation 3).
- (g) Improve performance assessment process (Recommendation 6).

The detailed assessment is presented below, per audit area:

## A. Operations

### 1. Financial Resources Management

#### Issue 1 Inadequate follow-up on financial data exceptions

The Office's internal procedures for monitoring financial data gave project managers the responsibility of following up and correcting project-related exceptions (such as outstanding NIM advances and projects cost-sharing deficits) as flagged by the Finance Unit.

At the time of audit the following weaknesses in the controls over project-related exceptions were noted:

- The total outstanding NIM advances amounted to \$473,500, including \$128,000 that had been outstanding for more than two years.
- The Office also had a cost-sharing deficit of approximately \$860,000 in February 2017.
- The number of cost-sharing projects that had not been active for the previous two years was 34, with a net balance of approximately \$540,880 (\$608,880 available and \$68,000 deficit).

At the time of the audit, the Office had initiated the process of cleaning up the cost-sharing deficits as well as identifying and closing inactive projects.

Failure to ensure adequate follow-up on financial data exceptions might impact the financial reporting of the organization and may affect donor confidence.

Priority	Medium (Important)
<b>Recommendation 1:</b>	
The Office should improve the controls on the follow up on the NIM advances that have been outstanding for more than six months, along with the cost-sharing deficit and the cost-sharing projects that have been inactive for the past two years. Specifically, the Office should develop an action plan by establishing timelines and coordinating the process to completion. Going forward, the Office should strengthen the follow-up process by continually and regularly monitoring NIM advances, cost-sharing deficits and project closures.	
<b>Management action plan:</b>	
The audit observation is noted. Office management will work with programme and project teams to ensure constant monitoring of and action on NIM advances and cost-sharing deficits, and assist programme and project management in appropriate project closures for inactive projects. The Finance Management Unit will continue to provide regular updates on NIM advances and cost-sharing deficit's status to the Senior Management Team. The backlog of closures for inactive cost-sharing projects is being actively addressed and will be resolved by the deadline.	
<b>Estimated completion date:</b> December 2017	

## 2. ICT and General Administrative Management

### Issue 2 Outstanding contributions for shared services

The 'UNDP Programme and Operations Policies and Procedures' require contributions for common services to be made in advance of receiving shared services and to discourage the use of the cost recovery method.

UNDP is responsible for administering compound management costs and arrangements for the security of personnel. Up to July 2016, it prefunded common services for premises, Resident Coordination operations, clinics, and general security, including the services of the Security Policing Unit for the safety and security of UN and international community personnel on behalf of other agencies. The Office had outstanding claims dating back to 2009, totalling \$921,173, as follows:

- ICAO - \$221,181
- UNSOA (now UNSOS) - \$210,156
- UNSOS - \$202,847
- UNOCHA - \$118,336
- Unexplained - \$168,653

Three agencies (ICAO, UNSOS and UNOCHA) disputed these charges because they never agreed on the method applied for the apportionment of costs, which was adopted by the United Nations Country Team. A total of \$168,653 could not be explained and therefore the causes were regarded as posting errors.

The lack of a formalized agreement with all United Nations Country Team members on the cost apportionment methods have resulted in deficit. There is a risk that the Office might not be able to recover the disputed or unexplained costs from agencies and therefore might have to write them off.

Priority	Medium (Important)
<b>Recommendation 2:</b>  The Office should resolve the identified weaknesses by: <ul style="list-style-type: none"> <li>(a) escalating to Headquarters the issue of outstanding funds by the three agencies in order to pursue recovery through inter-agency means; and</li> <li>(b) undertaking an analysis of the unexplained deficit (\$168,653) and reporting it to the Office of Financial Resources Management if it is deemed that a write-off is necessary.</li> </ul>	
<b>Management action plan:</b>  The audit observation is well noted. The Office continues work with UN agencies to ensure the recovery of outstanding funds. A number of bilateral meetings (as well as email / letter communications) have been held with the aforementioned agencies. In addition to that, this issue has been raised and discussed in the Somalia Operations Management Team (SOMT) Budgetary Committee Meeting on 1 and 2 March 2017 and brought up at the SOMT Meeting on 15 March 2017, in addition to prior discussions in said forums in 2015 and 2016. The same issues will also be highlighted during the budgetary approval discussion in the next United Nations Country Team Meeting, tentatively to take place in April 2017. The Office will escalate the issue to Headquarters to pursue recovery through inter-agency means.	

Regarding recommendation (b), the Office has started collecting documentation and has begun the preparation process to escalate the case up to the Headquarters/Office of Financial Resources Management level.

**Estimated completion date:** December 2017

#### OAI Response

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

### Issue 3 Inadequate assets and inventory management procedures

The 'UNDP Programme and Operations Policies and Procedures' require offices to establish procedures that ensure the safety and security of assets and inventory.

According to the Year-End 2016 Asset Verification Report, the Office had 21 capital assets with a total net book value of \$104,187, mostly consisting of computer equipment.

While each office location maintained its own inventory records, there was no consolidated record of all inventory for the Office. Not all items were tagged for identification and tracking, and inventory acquisition values and dates were not recorded.

The ICT Unit did not always record ICT items issued to individual staff. Responsibility for coordinating asset management activities was not clearly defined. The position of Assets Management Associate in Mogadishu remained vacant.

Physical verification procedures for year-end 2016 were properly done; however, the asset certification was not finalized at the time of audit.

According to the asset focal point in Nairobi, the inventory recording system was inherited from previous years.

Failure to establish and maintain asset management procedures as well as a lack of guidance and supervision over assets and inventory management may lead to the loss of assets and delays in finalizing asset certification and might impact annual financial reporting.

**Priority** Medium (Important)

#### Recommendation 3:

The Office should strengthen assets and inventory management by:

- (a) establishing responsibility for coordinating assets and inventory management activities;
- (b) ensuring that the ICT Unit maintains a consolidated sign-off list of all ICT inventory and equipment issued to staff and consultants, properly tagging all items and regularly reconciling them with inventory lists at locations; and
- (c) filling the position of the Asset Management Associate.



#### Management action plan:

The audit observation is noted and the Office will strengthen assets and inventory management in all offices. In this respect, the Office will take the following actions:

- Review and adjust locally customized Asset Management and Inventory Software application that captures all relevant information pertaining to assets, including inventory reports, value, Chart of Accounts, location and custodian.
- All ICT related items to be handled by ICT Unit and they should be responsible/accountable for the items issued to staff and consultants, as well as ICT inventories and reporting. An amendment to the SOP will be done in April.
- Tagging, receipt and distributions to be handled by Registry for Garowe, Hargeisa and Nairobi, and for Mogadishu to be handled by store keeper.
- Recruitment for Asset Management Associate position is on track.

**Estimated completion date:** December 2017

### 3. Procurement

#### Issue 4 Weak adherence to procurement business processes

Correct procurement procedures require that the procurement process be initiated in Atlas through the creation and approval of a requisition and purchase order before goods and services are purchased. The 'UNDP Programme and Operations Policies and Procedures' stipulate that the procurement selection must be competitive to obtain the best services or goods at the most reasonable cost.

Procurement processes within the Office were not planned and did not adhere to organizational procurement rules and regulations. From a selected sample of 28 purchase orders with a total value of \$3.2 million representing 12 percent of the total procurement value of 2016, the following was noted:

- (a) None of the 28 selected purchase orders was included in the Office's procurement plan.
- (b) In three cases totalling \$1.59 million or 49 percent of the selected sample, including one from UNDSS, there was evidence that the Office had changed the original submission and delivery dates.
- (c) In four cases totalling \$289,997 or 9 percent of the selected sample, the procurement was completed by the requesting unit with little or no input from the Procurement Unit.
- (d) In three instances totalling \$268,871 or 8 percent of the selected sample, the requisition and purchase orders were created after the actual procurement activity had been completed.

Office management explained that the development context in the Country was highly dynamic and the requirements vis-à-vis UNDP support (including procurement) were continuously evolving, which created difficulties in creating a complete procurement plan for the upcoming year.

The Office may not be able to obtain the best value for money and timely delivery of goods due to weaknesses in the planning and non-adherence to procurement rules.

<b>Priority</b>	Medium (Important)
<b>Recommendation 4:</b>  The Office should comply with procurement business processes by: <ul style="list-style-type: none"> <li>(a) establishing a procurement plan that includes all envisaged procurement activities for the year and ensuring that procurement is limited to the appropriate operations unit; and</li> <li>(b) keeping submission and delivery dates stable under any circumstances.</li> </ul>	
<b>Management action plan:</b>  The audit observation is well noted. The Office will follow up on the recommendations to ensure adherence to corporate requirements and compliance with the 'UNDP Programme and Operations Policies and Procedures', as follows:  The Office will ensure that the procurement plan is in place and includes all possibly envisaged procurement activities for the year and that procurement is handled by the appropriate procurement/operations unit. The Office also tries to maintain a fair level of flexibility in procurement and ensure a responsive office operational environment to the evolving circumstances.  Unless a proper justification exists in line with the 'UNDP Programme and Operations Policies and Procedures' (such as, for example, the need to extend the submission deadline due to insufficient information provided to bidders, security reasons not allowing to hold the pre-bid meeting hence the need to extend), the Office will ensure no changes in submission and delivery dates.  <b>Estimated completion date:</b> December 2017	

#### **Issue 5**      Inadequate controls over vendor data management

The 'UNDP Programme and Operations Policies and Procedures' stipulate that offices should exercise due diligence when entering vendors into the Atlas database, which includes verification of vendors' banking information and the authentication of vendors' identity through independent means.

From a selected sample of 10 vendor forms from a total vendor population of 2,103, the following weaknesses were noted:

- In six cases, the requestor information (i.e., person requesting the creation of the vendor in the system) had not been completed.
- In five cases, the banking details of vendors who were not using a money agent had not been verified.
- In one case, the vendor form gave details for an individual, but supporting documentation and information in Atlas related to a construction company.
- In one case, the vendor form only showed the vendor's initials and not the full name. In Atlas, however, there was the vendor's full name even though the Office was not able to produce an identity document that showed that the names entered in Atlas had been verified.
- In one instance, the vendor banking details were changed with no documentation to show that the vendor had informed the Office of these changes.

- In one case, the vendor was created and approved in Atlas based on the vendor form with no other documents to verify identity or banking details.

Creating vendors or changing vendor information without supporting documentation or verification may lead to fictitious vendors or fraudulent payments.

<b>Priority</b>	Medium (Important)
<b>Recommendation 5:</b>	
The Office should improve vendor management by:	
<ul style="list-style-type: none"> <li>(a) conducting an extensive vendor verification exercise and strengthening due diligence on all active vendors; and</li> <li>(b) ensuring that all relevant sections of the vendor form are completed before the vendor can be created and approved in Atlas.</li> </ul>	
<b>Management action plan:</b>	
The audit observation is well noted. The Office will conduct a comprehensive vendor verification exercise in order to ensure compliance with the 'UNDP Programme and Operations Policies and Procedures'. An SOP regarding vendor creation in Atlas will be reviewed and rolled out with the aim of strengthening the due diligence process in vendor management.	
<b>Estimated completion date:</b> December 2017	

#### 4. Human Resources Management

##### **Issue 6**      Low completion rate of performance management and development assessments

According to the 'UNDP Programme and Operations Policies and Procedures', as part of effective people management, staff assessments are to be completed on an annual basis through UNDP's Performance Management and Development (PMD) platform. The period of assessment is 1 February to 31 January of each year. The timeline is as follows: in February and March, performance indicators and development plans for staff members are set and agreed upon with immediate supervisors; in June and July, the mid-term reviews/assessments take place; and in January and February of the following year, the year-end assessments are completed.

At the time of the audit mission in February 2017, there were 40 staff members (27.4 percent of total staff) that had not started their 2016 staff assessments. In 2015, there were 17 (14 percent) staff members that had not started their assessments for that year.

The Office acknowledged that the completion of annual staff assessments was a challenge. For Field Security Officers, the Office was not certain as to how the assessments should be completed and for other staff, the Office could not state why the assessments were not completed.

Not completing PMD assessments may result in capacity gaps not being addressed and development opportunities not being identified.

<b>Priority</b>	Medium (Important)
<b>Recommendation 6:</b>	
The Office should improve staff the performance assessment process by:	
<ul style="list-style-type: none"> <li>(a) completing annual staff assessments for all staff who are required to do so; and</li> <li>(b) liaising with the Office of Human Resources regarding the staff assessments that relate to security staff and obtain guidance on how this should be completed.</li> </ul>	
<b>Management action plan:</b>	
<p>The Office noted the observation on the compulsory requirement of annual staff PMD assessments. It is worth noting that as of 22 March 2017, more than 85 percent of staff have completed or under final stage of completion of the 2016 PMDs. The Office will continue to work with supervisors and managers to ensure completion of this task by April 2017.</p> <p>The Office had a meeting with the UNDSS Deputy Principal Security Advisor in the Country and developed a joint action plan to set 2017 PMD goals via a corporate online platform.</p>	
<b>Estimated completion date:</b> April 2017	
<b>OAI Response</b>	
OAI acknowledges the action taken by management; this will be reviewed at a later stage as part of the standard desk follow-up process of OAI.	

## B. United Nations Leadership and Coordination

### **Issue 7** Weak monitoring and evaluation systems for development activities by the United Nations Country Team

Monitoring frameworks should define the targets to be achieved, baselines, and “SMART” indicators (i.e. specific, measurable, achievable, relevant and time-bound) to measure progress towards those targets and timeframes.

The United Nations Country Team was operating on the basis of the Integrated Somalia Framework (ISF) signed between the Government and the United Nations as the main development assistance framework for the Country. The ISF has a monitoring tool to provide the United Nations Country Team with a means to assess progress in the implementation of the ISF results framework.

The audit noted that the tool did not meet the United Nations Development Group standards as a results framework monitoring tool because it did not define targets, verifiable indicators, or timeframes. Instead of developing a monitoring framework for the ISF to objectively measure progress in implementing the ISF, the Resident Coordinator Office only reported on whether implementation of the ISF was merely 'on-track', 'delayed', or 'off-track'. In its response to the draft report, management explained that the reason why the ISF did not have a results framework in line with United Nations Development Group standards was because the ISF, and its results framework, were meant to be aligned with the Somalia Compact.<sup>1</sup> However, the Government never developed a comprehensive results framework for its Compact, as was the original intent. Only a set of milestones per sector was articulated. The UNCT decided, in light of transaction costs involved, that its ISF would be monitored at the milestone level and based on qualitative assessments of progress made at the portfolio level.

The absence of a monitoring framework means that progress in the implementation of the ISF cannot be assessed objectively and against measurable indicators that are set against baselines. As a result, resources may not be allocated properly, leading to sub-optimal results.

<b>Priority</b>	Medium (Important)
<b>Recommendation 7:</b>	
The Resident Coordinator Office should ensure that a fully-fledged monitoring and evaluation framework is developed – to include targets, verifiable indicators or timeframes – as per United Nations Development Group standards.	
<b>Management action plan:</b>	
The audit observation is noted. The intention is to develop a comprehensive results framework at the outcome level, in line with United Nations Development Group standards, aligned to the Government's new National Development Plan.	
<b>Estimated completion date:</b> December 2017	

<sup>1</sup> The Somalia Compact is the main assistance framework for Somalia, which was agreed in 2013 between the Somalia Government, the UN and donors.

## Definitions of audit terms - ratings and priorities

### A. AUDIT RATINGS

- **Satisfactory** The assessed governance arrangements, risk management practices and controls were adequately established and functioning well. Issues identified by the audit, if any, are unlikely to affect the achievement of the objectives of the audited entity/area.
- **Partially Satisfactory / Some Improvement Needed** The assessed governance arrangements, risk management practices and controls were generally established and functioning, but need some improvement. Issues identified by the audit do not significantly affect the achievement of the objectives of the audited entity/area.
- **Partially Satisfactory / Major Improvement Needed** The assessed governance arrangements, risk management practices and controls were established and functioning, but need major improvement. Issues identified by the audit could significantly affect the achievement of the objectives of the audited entity/area.
- **Unsatisfactory** The assessed governance arrangements, risk management practices and controls were either not adequately established or not functioning well. Issues identified by the audit could seriously compromise the achievement of the objectives of the audited entity/area.

### 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. Failure to take action could result in 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.