AUDIT

OF

UNDP COUNTRY OFFICE

IN

SUDAN

Report No. 1760
Issue Date: 26 April 2017
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Report on the Audit of UNDP Sudan
Executive Summary

The UNDP Office of Audit and Investigations (OAI) conducted an audit of UNDP Sudan (the Office) from 29 January to 9 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, knowledge management);

(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. Due to travel restrictions within the Country, the audit team could not conduct the planned field visits to sampled projects in Darfur. The Office recorded programme and management expenditures of $155.8 million. 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 weaknesses in programme/project design and implementation, financial resources management, general administrative management, procurement, human resources management, and United Nations leadership and coordination.

Good practices

Procurement/Receipt of goods. The Office developed an online tracking sheet to record the status of goods awaiting customs clearance. This provided up-to-date information on each stage of the customs clearance process that enabled staff to plan accordingly in the event of any clearance delays.

Programme/Monitoring. The Office designed the Indicator/ Monitoring and Evaluation System (IMES), which was designed to support the monitoring of programmes and projects. This tool helped the Office consolidate programmatic information and keep track of any deviations as well as to monitor and report on the Integrated Results and Resources Framework.

Key recommendations: Total = 10, high priority = 1

The 10 recommendations aim to ensure the following:
For high (critical) priority recommendations, prompt action is required to ensure that UNDP is not exposed to high risks. Failure to take action could result in major negative consequences for UNDP. The high (critical) priority recommendation is presented below:

**UNDP mandatory courses not completed (Issue 8)**

UNDP mandatory training courses were not completed by staff and service contract holders. For example, 118 staff members and 121 service contract holders had not yet completed the Ethics and Integrity course. Furthermore, out of 288 personnel and consultants (162 staff members, 122 service contract holders and 4 individual contractors), 53 (18 percent) did not complete the Basic Security in the Field II course and 44 (15 percent) did not complete the Advanced Security in the Field course.

**Recommendation:** The Office should ensure the completion of mandatory training courses by: (a) including the pending mandatory courses as part of the staff learning goals in the Performance Management Development plans for better monitoring; and (b) preparing and following a timetable for staff to ensure completion of the training courses.

**Implementation status of previous OAI audit recommendations:** Report No. 1285, 2 May 2014.
- Total recommendations: 6
- Implemented: 6

**Management comments and action plan**

The Resident Representative accepted all 10 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.
I. About the Office

The Office is located in Khartoum, Sudan (the Country) and has a field office in El Fasher, Darfur. The Country is a lower-middle-income country with a low Human Development Index rank of 167 out of 188 countries. The Country was facing continuous conflict in the western region of Darfur, where important parts of UNDP projects were being implemented, as well as international sanctions that were affecting the Office’s normal operations. By the time of the audit, some sanctions had been recently lifted.

The Office was comprised of 162 staff members, 122 service contract holders, and 22 United Nations Volunteers. At the time of the audit, the Office had completed a structural review process, conducted during 2016. This change process required, among others, the reclassification of 85 positions, of which 83 were filled by the time of the audit.

The Office’s programme portfolio was comprised of four focused areas: (1) Poverty Reduction, Inclusive Growth and Sustainable Livelihoods; (2) Inclusive Governance and Rule of Law; (3) Social Cohesion, Peace Consolidation and Peace Dividends; and (4) Environment, Energy, and Natural Resource Management, managed by two programme clusters that were supporting 26 development projects by the time of the audit. The Office also delivered on programmes funded by the Sudan Humanitarian Fund, the Darfur Community Peace and Stability Fund, and the Global Fund. The Office had been operating under Fast Track Procedures since June 2011 and the Office was directly implementing 21 out of 26 projects.

II. Good practices

OAI identified good practices, as follows:

Procurement/Receipt of goods. The Office developed an online tracking sheet to record the status of goods awaiting customs clearance. This provided up-to-date information on each stage of the customs clearance process that enabled staff to plan accordingly in the event of any anticipated clearance delays.

Programme/Monitoring. The Office established the Indicator/ Monitoring and Evaluation System (IMES) that was designed to support the monitoring of programmes and projects. It also served as a tool to monitor progress made by the Office in the Integrated Results and Resources Framework.

III. Audit results

Satisfactory performance was noted in the following area:

Staff and premises security. The audit team reviewed the Office’s security plan and security risk assessment and found that controls put in place were adequate. There were no reportable issues identified.

OAI made one recommendation ranked high (critical) priority and nine 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 recommendation:
(a) Ensure the completion of mandatory training courses (Recommendation 8).
Medium priority recommendations, arranged according to significance:

(a) With the support of the Regional Bureau, actively pursue with the Government the settlement of the outstanding GLOC (Recommendation 1).
(b) Strengthen controls over the procurement of medicines (Recommendation 6).
(c) Enhance monitoring so that projects are operationally and financially closed in a timely manner (Recommendation 2).
(d) With the support of the Regional Bureau, continue to actively pursue with the Government the VAT reimbursement (Recommendation 4).
(e) Ensure full compliance with HACT (Recommendation 9).
(f) Enhance controls in HACT implementation (Recommendation 10).
(g) Improve the timely liquidation of advances to implementing partners (Recommendation 3).
(h) Develop a standard operating procedure on fuel management (Recommendation 5).
(i) Complete the Performance Management and Development plans and assessments for all staff (Recommendation 7).

The detailed assessment is presented below, per audit area:

A. Governance

Issue 1 Long-outstanding Government Contributions to Local Office Costs

In accordance with the provisions of the standard basic agreements that govern UNDP operations in programme countries, host governments are expected to contribute towards the local costs of Country Offices. Such contributions are called Government Contributions to Local Office Costs (GLOC) and are calculated on an annual basis. The contributions can be monetary (cash) alone or a combination of monetary and non-monetary (in-kind).

The Office had been receiving in-kind contributions from the Government. However, the yearly cash contributions of the GLOC had been outstanding since 2006. As of 31 December 2016, the GLOC arrears amounted to $2.1 million. The Office had reminded the Government of the outstanding GLOC by sending two letters in 2016. However, Government Representatives had not communicated with the Office regarding the outstanding GLOC.

Failure to collect contributions from the Government may adversely impact the financial resources available to support the local costs of the Office.

<table>
<thead>
<tr>
<th>Priority</th>
<th>Medium (Important)</th>
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<tbody>
<tr>
<td>Recommendation 1:</td>
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The Office should, with the support of the Regional Bureau, continue to actively pursue with the Government the settlement of the outstanding GLOC totalling $2.1 million.

Management action plan:

The Office will continue to pursue GLOC through the government ministries. Communication on GLOC, shared with OAI, was followed-up on with the relevant government authorities. The Office targets to collect part of or all GLOC before the end of 2017.
Estimated completion date: December 2017

B. Programme

1. Programme/project design and implementation

Issue 2  Delays in project closure

The ‘UNDP Programme and Operations Policies and Procedures’ require projects to be operationally closed once activities have been implemented. The operationally closed projects should then be financially closed within one year from operational closure.

A review of the status of all project outputs in Atlas (enterprise resource planning system of UNDP) showed the following:

- There were 72 project outputs with end dates between December 2004 and December 2015, but still showed ‘ongoing’ status. Of these, 17 project outputs were incorrectly created in the system. During the audit, the Office took corrective action and cancelled all 17 outputs in Atlas. Furthermore, 18 of 72 project outputs were related to UNDP South Sudan, which were not transferred when the office profile was set up in Atlas.

- There were 13 project outputs belonging to UNDP South Sudan that were incorrectly created under the Office’s portfolio. These outputs did not have Atlas award number assigned and some of them had the same creation and end dates in Atlas.

- There were nine project outputs operationally closed between December 2011 and December 2014. However, these outputs had not been financially closed.

The Office communicated to UNDP South Sudan and informed the Regional Bureau on the recording errors in Atlas. The delays in project closure were due to inadequate monitoring by management.

By not closing projects timely, the Office risks unauthorized expenditures being charged against these projects.

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<tr>
<th>Priority</th>
<th>Medium (Important)</th>
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Recommendation 2:

The Office should enhance its monitoring so that projects are operationally and financially closed in a timely manner.

Management action plan:

In addition to the creation of a special task force that will ensure proper follow up with all concerned units and take actions to complete the financial closure of the remaining operationally closed projects, the Office included the closure of projects as one of the important indicators to be monitored in its Performance
Dashboard, a tool developed by the Office for monitoring the performance of key indicators on a quarterly basis.

**Estimated completion date:** December 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.

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### C. Operations

#### 1. Financial resources management

**Issue 3**

**Long-outstanding advances to NGOs**

The ‘UNDP Programme and Operations Policies and Procedures’ require that advances given to responsible parties, such as NGOs, be monitored and corrective action be taken for long-outstanding advances.

As at 31 December 2016, advances amounting to $1.4 million were outstanding for more than six months. This included the following advances amounting to $1 million from partners implementing activities for the Sudan Humanitarian Fund and the Darfur Community Peace and Stability Fund projects; $114,181 from NGOs implementing activities for the Sustainable Livelihood projects; $335,663 in outstanding advances related to Global Fund projects and $5,197 in outstanding advances related to UNDP South Sudan. The Office communicated to UNDP South Sudan on their outstanding advances for appropriate action.

For the Sudan Humanitarian Fund and the Darfur Community Peace and Stability Fund projects, delays were due to the large number of projects (178 active projects and 68 implementing partners in 2016) and the insufficient number of staff working on the review of financial documents and the liquidation of the advances. In addition, there were delays in project implementation due to sanctions and programmatic and access restrictions by the Government. As for the Sustainable Livelihood and the Global Fund projects, delays were due to late submissions of complete supporting documents from implementing partners.

Failure to recover long-outstanding advances could result in the loss of funds. There is also a risk that funds might not be used for intended programmatic activities.

**Priority**

Medium (Important)

**Recommendation 3:**

The Office should adhere to the timely liquidation of advances to implementing partners by:

(a) improving the Office’s capacity in the processing of liquidations for the Sudan Humanitarian Fund and the Darfur Community Peace and Stability Fund projects; and

(b) strengthening the monitoring and follow-up of timely submission and processing of the liquidations for other projects.
Management action plan:

The Office developed and implemented a system requiring NGOs to clear 80 percent of all outstanding advances for all projects before receiving the next advance. Advances will be monitored on a weekly basis, with requests to certain partners to submit interim financial reports to clear aging advances ahead of the standard reporting schedule. In 2017, the Office increased the capacity of the Fund Management Unit by dedicating 80 percent of additional temporary personnel to NEX advance management and reporting.

Estimated completion date: December 2017

Issue 4  
Delays in value added tax reimbursements

The ‘UNDP Programme and Operations Policies and Procedures’ require that the value added tax (VAT)/ sales account (account 14056) be debited for the VAT paid on purchases made in a country that charges VAT. This tax is refundable and UNDP offices should regularly submit a proper claim to the local tax authority in the country. Once the refund is received, this account is credited and the balance cleared out.

As of 31 December 2016, the Office had VAT payments amounting to $377,709 that had not been reimbursed that included outstanding amounts since 2012. The delays in VAT reimbursements were also experienced by other UN agencies in the Country and had been discussed at the level of the Resident Coordinator’s Office, UN Country Team, and Operations Management Team.

In August 2016, the Resident Coordinator’s Office sent a letter, on behalf of all the UN agencies facing delays in VAT reimbursement, to the government institution requesting support in solving this situation. However, there was no response to the letter or update on the outstanding VAT reimbursements.

The Office explained that due to the lack of government financial monitoring systems and the lack of funds, VAT reimbursements may be difficult to achieve.

Delays in VAT reimbursements decrease the available funds that can be used to implement project activities.

Priority Medium (Important)

Recommendation 4:

The Office should, with the support of the Regional Bureau, continue to actively pursue with the Government the VAT reimbursement.

Management action plan:

This issue, which is due to factors outside of the UN’s control, has continuously been followed-up on by the Resident Coordinator Office, UN Country Team, Operations Management Team and UNDP’s senior management.

The Office has persistently pursued VAT reimbursement and will continue to do so.

Estimated completion date: November 2017
2. ICT and general administrative management

Issue 5  Weaknesses within fuel management process

According to the 'UNDP Programme and Operations Policies and Procedures', the Office is responsible for protecting the integrity of the procurement process and obtaining the best value for money.

The Office had 51 vehicles with a combined fuel expenditure of $209,684 during 2016. The fuel was sourced through a Long Term Agreement with a local supplier and purchased at participating petrol stations through a coupon system. Each coupon was exchanged for a specified amount of fuel. The coupons were managed by the Administration Unit and provided to drivers when required.

Several weaknesses were identified within the fuel management process. Specifically, the Office did not complete a fuel consumption reasonableness test to determine whether the value of coupons used by each vehicle was reasonable, based on the total recorded mileage within the month. Furthermore, the Office did not request a monthly statement from the supplier to determine whether the expenditure recorded by the supplier reconciled with the number of used fuel coupons.

The above weaknesses occurred because the Office did not develop standard operating procedures to ensure that the Office has sufficient controls on fuel management.

Without adequate controls surrounding the use of fuel coupons, they may not be used as intended.

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<th>Priority</th>
<th>Medium (Important)</th>
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**Recommendation 5:**

The Office should develop a standard operating procedure on fuel management, which should include conducting a regular fuel consumption reasonableness test and reconciling fuel coupons used with monthly statements from the fuel provider.

**Management action plan:**

The Office will:

(a) develop a standard operating procedure on fuel management that will be shared with the Office and project staff;
(b) keep records of all fuel consumed per vehicle in full detail including vehicle number, assigned driver and mileage at the time of refueling – the data that will be captured will be used to conduct the fuel usage reasonableness test; and
(c) explore with the service provider the feasibility of obtaining fully reconcilable reports. If this is not possible, the whole process of fuel management with the vendor will be reviewed.

**Estimated completion date:** June 2017
3. Procurement

**Issue 6  Weaknesses within procurement of medicines**

The ‘UNDP Programme and Operations Policies and Procedures’ require that UNDP obtain the best value for money, and that the process for soliciting offers should maximize competition, minimize the complexity of the process, and ensure an impartial and comprehensive evaluation of offers.

In March 2016, the Office signed a project document valued at $60 million to procure medicines for the Government. The first bid solicitation took place in April 2016 for the procurement of 50 medicines, which resulted in signing nine Long Term Agreements valued at $24.8 million. The second round of solicitation was ongoing at the time of the audit, and the procurement case was being reviewed by the Advisory Committee on Procurement.

Several challenges were identified within the procurement process:

- There was limited interest from suppliers. During the first round, there were either no offers or no technically compliant offers received for 29 out of 50 (58 percent) medicines being procured. During the second round, this improved, as there were either no offers or no technically compliant offers received for 10 of 26 (38 percent) medicines being procured.

  Subsequent to the audit, the Office conducted market research that resulted in an extensive invitee list of suppliers that comprised a substantial percentage of the pharmaceutical industry with the necessary quality standards. Therefore, OAI did not provide a recommendation on this issue.

- Within the bid evaluation process, there was inconsistent application in the requirement for the provision of mandatory documents that were required to establish qualification. Based on the review of the preliminary evaluation matrix, seven out of nine (78 percent) selected suppliers did not submit the required mandatory documents (e.g., company profile and quality and environmental compliance certificates). The Office confirmed that while these were listed as mandatory requirements, they were later not considered critical by the evaluation panel, to maximize competition.

- The value for money analysis was completed against the National Medicines and Poisons Board prices only. The Office indicated that other benchmarking was not possible as there were numerous variables that affected pricing, making it difficult to obtain meaningful comparisons.

- The project risk register did not include any risks relating to procurement.

The Office outlined several possible reasons for the low level of compliant bids, which included reduced incentives for suppliers to submit bids due to short-term agreements of one year that did not offer exclusivity, as well as detailed submission requirements. Furthermore, within the first tender exercise, bid invitations were not routed through the correct departments for several large vendors.

The low level of technically compliant bids and lack of external benchmarking increases the risk that value for money will not be achieved.
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<tr>
<th>Priority</th>
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<tbody>
<tr>
<td><strong>Recommendation 6:</strong></td>
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<tr>
<td>The Office should strengthen its controls over the procurement of medicines by:</td>
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<tr>
<td>(a) documenting within the bid evaluation form, any decisions to waive certain requirements that are listed within the instruction to bidders to establish qualifications; and</td>
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<tr>
<td>(b) completing a detailed risk assessment of the procurement and identifying appropriate mitigating measures.</td>
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<tr>
<td><strong>Management action plan:</strong></td>
<td></td>
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<tr>
<td>(a) The Office will implement the recommendation in the next bidding process or in early 2018.</td>
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<tr>
<td>(b) The Office will request support from the Bureau for Policy and Programme Support in developing guidance for use by the Country Offices on the particularities of value for money in the context of health procurement.</td>
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<tr>
<td>(c) A detailed risk assessment with actionable risks will be updated as necessary and will be rigorously implemented.</td>
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<td><strong>Estimated completion date:</strong></td>
<td>March 2018</td>
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</tbody>
</table>

4. Human resources management

**Issue 7** Performance Management and Development plans not completed

As of February 2017, out of 162 staff members, 41 (or 25 percent) had not started their Performance Management and Development plans for 2016, while 47 (or 28 percent) were ‘in progress’. These should have been completed by February 2016.

The Office had completed a structural review process, conducted during 2016, that aimed to review and streamline the Office’s structure, in alignment with its emerging programmatic vision while ensuring sustainability. This structural review contributed, according to management, to the delays in the completion of Performance Management and Development plans.

The non-completion of staff performance assessments within the required timeframe might not provide timely feedback or address potential weaknesses in staff performance. In addition, not having agreed upon performance targets may result in supervisors not having the proper criteria for conducting assessments.

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<th>Priority</th>
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<tr>
<td><strong>Recommendation 7:</strong></td>
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<tr>
<td>The Office should complete, without further delay, the 2016 Performance Management and Development plans and assessments for all staff members.</td>
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Management action plan:

All staff have been asked to complete their 2016 Performance Management and Development plans and self-assessments and the Office will follow up on this matter further.

**Estimated completion date:** June 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 8  UNDP mandatory courses not completed**

As per the ‘UNDP Programme and Operations Policies and Procedures’, mandatory training courses are important for ensuring that staff and managers understand the various policies, regulations as well as the goals and objectives of the organization. The Office’s senior management decided to require all service contract holders to take all the required mandatory training courses as well. Also, the Office required individual contractors to take the Basic Security in the Field II and the Advanced Security in the Field mandatory training courses.

As of February 2017, there were 162 staff members and 122 service contract holders. The table below shows the number of staff members and service contract holders who had not taken the mandatory courses.

<table>
<thead>
<tr>
<th>Mandatory Training Course</th>
<th>No. of staff members who did not complete the course</th>
<th>No. of service contract holders who did not complete the course</th>
</tr>
</thead>
<tbody>
<tr>
<td>UN Course on Prevention of Harassment, Sexual Harassment and Abuse of Authority</td>
<td>46 (28%)</td>
<td>114 (93%)</td>
</tr>
<tr>
<td>Ethics and Integrity at UNDP</td>
<td>118 (73%)</td>
<td>121 (99%)</td>
</tr>
<tr>
<td>UNDP Legal Framework</td>
<td>67 (41%)</td>
<td>115 (94%)</td>
</tr>
<tr>
<td>The Gender Journey</td>
<td>59 (36%)</td>
<td>114 (93%)</td>
</tr>
</tbody>
</table>

Additionally, one of the prerequisites for approving official travel of United Nations system personnel is the successful completion of the mandatory security training courses. Out of 288 personnel and individual contractors (162 staff members, 122 service contract holders and 4 individual contractors), 53 (18 percent) did not complete the Basic Security in the Field II and 44 (15 percent) did not complete the Advanced Security in the Field mandatory training courses.

This low completion rate was due to other priorities during 2016, such as the Office’s restructuring process in addition to technical problems (i.e., absence of internet connection and restrictions in accessing the learning website) faced by personnel in field areas due to the Country’s international sanctions.

Not completing the UNDP mandatory courses may lead to staff members and personnel not being aware of important policies that are relevant to their roles and responsibilities.
### Recommendation 8:

The Office should ensure the completion of mandatory training courses by:

(a) including the pending mandatory courses as part of the staff learning goals in the Performance Management Development plans for better monitoring; and

(b) preparing and following a timetable for all personnel and individual contractors to ensure completion of the required training courses.

### Management action plan:

The Office will issue a circular to all staff instructing them to include the mandatory courses as part of their learning goals in their 2017 Performance Management and Development plans. Supervisors are also encouraged to emphasize to all staff that completion of the mandatory courses will be reflected in their performance evaluations. Service contract holders who do not have access to the Learning Management System to complete the mandatory courses will be granted the necessary online access.

In the same circular, supervisors will be requested to allocate a percentage of staff time to successfully compete the courses. In-class training sessions will be offered to personnel.

**Estimated completion date:** July 2017

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### United Nations leadership and coordination

#### 1. Harmonized approach to cash transfers

**Issue 9  Weaknesses in HACT implementation**

The Framework for Harmonized Approach to Cash Transfers (HACT) 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.

A macro-assessment should be undertaken once per programme cycle. The two primary outputs of the macro-assessment process are: (a) an outline of risks related to the use of the public financial management for cash transfers to government implementing partners within the country; and (b) a determination on whether the government’s Supreme Audit Institution has the capacity to undertake the scheduled and special audits of government implementing partners. If no macro-assessment (current or past) is available, the Country Office may not use the Supreme Audit Institution for any audits. The purpose of the micro-assessment is to assess the implementing partners’ management capacity to determine the overall risk rating and assurance activities. The micro-assessment shall be undertaken by a qualified third party service provider, to ensure it is independent and reflects the required technical expertise. The risk rating is taken into consideration to determine the cash transfer modalities for an implementing partner together with results from macro-assessment and experience with the implementing partner, including timely and accurate reporting on previous cash advances and the Country
Office’s own capacity.

A review of status of HACT implementation showed the following:

- As of the date of the audit, no macro-assessment had been conducted during the programme cycle (2013-2017). There was a macro-assessment report dated March 2009 prepared for the Country Programme 2009-2012. After the audit, the Office indicated that the HACT Working Group was planning to conduct a macro-assessment for the next United Nations Development Assistance Framework (UNDAF) cycle and relevant documents on public financial management were being collected for desk review.

- The Office had been conducting micro-assessments of NGOs. However, no national institution receiving cash advances was micro-assessed. The Office explained that the Government was reluctant to be micro-assessed by third party service providers. Thus, the Office was coordinating with the Supreme Audit Institution of the Country in carrying out a micro-assessment of government implementing partners. After the audit, the Office indicated that it would communicate with the Headquarters HACT focal point to seek advice regarding the use of the Supreme Audit Institution for conducting micro-assessments of government implementing partners.

- The Office had signed Letters of Agreement with the government implementing partner to implement activities for output 86279: ‘Implementing Priority Adaptation’. The last Letter of Agreement was signed in 2016 amounting to $810,000 for which the Office made cash advances to the government implementing partner, even though a micro-assessment was not conducted.

- During 2016, the Office conducted eight micro-assessments to NGO implementing partners. However, no micro-assessment plan for 2016 was provided to the audit team.

- The Office used cash advances as a cash transfer modality for 55 implementing partners during 2016. However, the selection of cash transfer modalities for each risk rating was not documented.

The objective of harmonizing practices among United Nations agencies is at risk of not being achieved unless all the HACT requirements are implemented.

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<th>Priority</th>
<th>Medium (Important)</th>
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**Recommendation 9:**

The Office should ensure full compliance with HACT by:

(a) conducting a macro-assessment of the public financial system;
(b) conducting micro-assessments of all implementing partners; and
(c) implementing an assurance and audit plan for implementing partners.

**Management action plan**

(a) The HACT Working Group is currently planning to conduct a macro-assessment in 2017 for the next UNDAF cycle. The HACT Working Group has collected several relevant documents from the World Bank.
(b) The Office is working on consolidation of the 2017 micro-assessment plan of all implementing partners.
(c) Based on the micro-assessment results, the Office will decide on a cash transfer modality.
(d) Based on above, the Office will adjust the assurance plans of the implementing partners.
**Estimated completion date:** December 2017

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<th>Priority</th>
<th>Medium (Important)</th>
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**Recommendation 10:**

The Office should enhance controls in HACT implementation by:

(a) seeking guidance from the Headquarters HACT focal point on the use of the Supreme Audit Institution for micro-assessments and audits of government implementing partners instead of a third service provider; and
(b) documenting the decision regarding the selected cash transfer modality following the results of the micro-assessment of implementing partners.

**Management action plan**

(a) The Office will communicate with the Headquarters HACT focal point to seek his advice regarding the use of Supreme Audit Institution for conducting the micro-assessment of government implementing partners until a new macro-assessment is conducted for next programme cycle.
(b) Based on the micro-assessment results, the Office will decide on a cash transfer modality.

**Estimated completion date:** December 2017
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**.