UNITED NATIONS DEVELOPMENT PROGRAMME
Office of Audit and Investigations

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AUDIT

OF

UNDP COUNTRY OFFICE

IN

SOUTH SUDAN

Report No. 1910

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Report on the Audit of UNDP South Sudan
Executive Summary

The UNDP Office of Audit and Investigations (OAI) conducted an audit of UNDP South Sudan from 13 to 28 February 2018. 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 2017. The Office recorded programme and management expenses of approximately $86.9 million. The last audit of the Office was conducted by OAI in 2015.

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 noted in project oversight.

Key recommendations: Total = **2**, high priority = **1**

The two recommendations aim to ensure the following: (a) achievement of the organization's strategic objectives (Recommendation 1, medium priority); and (b) reliability and integrity of financial and operational information (Recommendation 2, 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. The high (critical) priority recommendation is presented below:

Weak project oversight (Issue 2)	From a sample of five projects reviewed with a total expenditure of $29.8 million and representing 37 percent of project expenditure in 2017, the audit team noted that there was no proof that three of the projects had been appraised and approved.
	The audit team also noted additional weaknesses related to a project funded by the Common Humanitarian Fund, such as: (i) inadequate controls over long

outstanding advances; (ii) inconsistent follow-up on quarterly reporting; (iii) no indication of the minimum threshold utilization that non-governmental organizations (NGOs) must reach before being eligible for the next advance under the project; (iv) lack of monitoring of subcontracting; and (v) inconsistent certification and verification of Funding Authorization and Certification of Expenditure (FACE) forms.

Recommendation: The Office should improve project oversight and address the Common Humanitarian Fund project weaknesses by: (a) ensuring projects are appraised and approved before implementation is started; (b) following up on long outstanding advances and enforcing reporting requirements on NGOs, including amendments to address gaps in the current Project Partnership Agreement with regards to minimum threshold requirements and monitoring of subcontracting; and (c) developing a standard operating procedure that will ensure effective and consistent checks on FACE forms/financial reports received from NGOs.

Implementation status of previous OAI audit recommendations: Report No. 1433, 5 June 2015.
Total recommendations: 4
Implemented: 4

Management comments and action plan

The Resident Representative accepted both recommendations and is in the process of implementing them. Comments and/or additional information provided have been incorporated in the report, where appropriate.

Low risk issues (not included in this report) have been discussed directly with management and actions have been initiated to address them.

Helge S. Osttveiten
Director
Office of Audit and Investigations

I.   About the Office

The Office, located in Juba, South Sudan (the Country) was comprised of 80 staff members. Programme implementation was limited due to the ongoing conflict within the Country. The focus was more on addressing humanitarian issues arising from the conflict and less on sustainable development. The Office was appointed as the Managing Agent for the Common Humanitarian Fund, which accounted for 50 percent of the Office's project expenditure. The Office was implementing a total of 27 projects with total expenditure of $80 million for 2017. The Office was operating through an extended 2016 Country Programme Document, pending resolution of the conflict and normalization of national structures.

II.   Audit results

Satisfactory performance was noted in the following areas:

(a) Development activities. Internal control procedures and processes on development activities were adequately implemented.

(b) Partnership and resource mobilization. There was an adequate system in place to track donor contributions and pipeline initiatives.

(c) Human resources. Internal procedures on human resources management were adequate. Issues identified were considered low risk.

(d) Corporate direction. Internal control procedures and processes on leadership and coordination were adequate.

(e) Procurement. Procurement controls and procedures were generally found to be adequate. Issues identified were considered low risk.

(f) General administration. The management of common services was found to be adequate and control procedures for vehicle and fuel management were adequate.

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

(h) Safety and security. The Office was in the process of finalizing the implementation of the security recommendations made by the regional security office after carrying out a Minimum Operating Security Standards assessment.

OAI made one recommendation 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 recommendation:

Improve project oversight (Recommendation 2).

Medium priority recommendation:

Complete the realignment exercise within a set time-frame (Recommendation 1).

The detailed assessment is presented below, per audit area:

A. Governance

1. Leadership

Issue 1   Office realignment not properly implemented

The objective of the Country Office realignment process is to ensure that offices are equipped to operate effectively and efficiently, within available budgets, and the capacity is fit for purpose.

In 2016, Office management decided to strengthen national capacity, reduce reliance on international staff for programme management positions, and to ensure financial sustainability. The implementation of the Office's realignment in 2016 was not properly planned and not based on the available capacity. There was no time-frame for the implementation and the process was incomplete at the time of the audit fieldwork:

- The international positions of Team Leaders were converted to Programme Strategic Advisors and the national positions of Programme Managers/Analysts were converted to Team Leaders. However, there was no change in the level of grade for these converted posts, and the job descriptions were not revised.
- The transfer of responsibilities from the international Team Leaders to the national Team Leaders did not take place due to a lack of capacity of the national Team Leaders that was identified at the time of the audit. The Office had not taken any measures to address the identified capacity gaps.

Subsequent to the audit, the Office updated the job descriptions and classifications of the converted posts. With regards to the two positions for Team Leaders, the Office advertised these positions on the UNDP jobs site.

The incomplete realignment could impact the effectiveness and efficiency objectives.

Priority	Medium (Important)
Recommendation 1:	
The Office should complete the realignment exercise within a set time-frame, including: (a) assessing available and required capacities in relation to national Team Leaders and providing training to address identified capacity gaps; and (b) ensuring that there is a transfer of responsibilities between the Team Leaders without duplication of roles.	
Management action plan:	
The Office will take the following actions:	

- ▪ Ensure that the recruitment processes for the two Team Leader positions are completed by the end of April 2018.

- ▪ Induct the successful candidates on the Country context in relation to the programmes and ensure that newly recruited staff complete all corporate mandatory courses.

- ▪ Ensure that staff induction materials are completed by the end of June 2018.

Estimated completion date: June 2018

B. Programme

1. Programme/Project design and implementation

Issue 2 — Weak project oversight

The Office's project oversight ensures that: (i) projects achieve the objectives; (ii) monitoring activities are regularly undertaken; (iii) resources are utilized appropriately; and (iii) timely reporting on results and resource utilization is provided to donors.

The Office is the Managing Agent for a project funded by the Common Humanitarian Fund. The Office is responsible for disbursing funds to non-governmental organizations (NGOs) to ensure financial oversight over planned activities. Disbursements are based on a signed Project Partnership Agreement, which stipulates the amount of funds, the duration of the project, the project work plan, as well as reporting and implementation requirements. NGOs are required to report quarterly to the Office.

Based on a sample of five projects with a total expenditure of $29.8 million and representing 37 percent of project expenditure in 2017, the audit team concluded that three of the projects had not been appraised and not been approved.

The audit team noted control weaknesses related to the project funded by the Common Humanitarian Fund. The review of 20 of their agreements with a total value of $6.2 million, noted the following weaknesses:

- ▪ The project had a total of $467,947 as advances outstanding for over six months. There was no evidence of follow-up on these advances.

- ▪ In 18 of the 20 selected contracts, there was no evidence that the Office had followed up on quarterly reporting.

- ▪ Additional funds were paid without attaining the Harmonized Approach to Cash Transfer threshold of 80 percent fund utilization. It was not addressed in the signed Project Partnership Agreement, therefore it was unclear whether NGOs were aware of the requirement.

- ▪ The Project Partnership Agreement did not describe modalities for subcontracting. The audit team noted that out of the 20 cases reviewed, 4 NGOs had subcontracted a total of $162,221 to civil society organizations and reported the expenditure as grants. In these cases, the Office was not able to monitor expenditures, as grants were not based on budgeted cost categories.

- In five cases with a total contract value of $1.3 million, there were inconsistencies in the certification and verification of Funding Authorization and Certification of Expenditures (FACE) forms.

Weak project oversight may result in the loss of efficiency and effectiveness.

Priority	High (Critical)

Recommendation 2:

The Office should improve project oversight and address the Common Humanitarian Fund project weaknesses by:

   (a) ensuring projects are appraised and approved before implementation is started;

   (b) following up on long outstanding advances and enforcing reporting requirements on NGOs, including amendments to address gaps in the current Project Partnership Agreement with regards to minimum threshold requirements and monitoring of subcontracting; and

   (c) developing a standard operating procedure that will ensure effective and consistent checks on FACE forms/financial reports received from NGOs.

Management action plan:

Going forward, the Office will ensure that all projects have signed project documents in the prescribed format before implementation starts. This procedure will be reflected in the Office's standard operating procedures for programme implementation and will be implemented with immediate effect.

In addition, the Office will implement the following remedial actions in addressing the Common Humanitarian Fund programme issues mentioned**:**

- Communicate to partners on implications of non-adherence and institute, through the Board, penalties for delinquency.

- Include relevant provisions in the Responsible Party Agreement (RPA) within the Project Partnership Agreement framework, based on the recent advisory from the Bureau for Management Services requesting the use of the RPA for all Country Based Pooled Funds managed under the Management Agency modality.

- Operationalize standard operating procedures for the management of FACE forms.

Estimated completion date: June 2018

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.