

UNITED NATIONS DEVELOPMENT PROGRAMME
Office of Audit and Investigations



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Resilient nations.*

AUDIT

OF

UNDP COUNTRY OFFICE

IN

ERITREA

Report No. 2051
Issue Date: 9 December 2019

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Report on the Audit of UNDP Eritrea Executive Summary

The UNDP Office of Audit and Investigations (OAI) conducted an audit of UNDP Eritrea (the Office) from 8 to 20 September 2019. 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.¹

The audit covered the activities of the Office from 1 January 2018 to 30 June 2019. The Office recorded programme and management expenses of approximately \$11.7 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/major improvement needed**, which means, “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.” This rating was mainly due to the risks of not achieving programme targets and weaknesses in the implementation of the Harmonized Approach to Cash Transfers (HACT).

Key recommendations: Total = 5, high priority = 2

The five recommendations aim to ensure the following:

Objectives	Recommendation No.	Priority Rating
Achievement of the organization's strategic objectives	1, 2	High
Effectiveness and efficiency of operations	3, 4, 5	Medium

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

¹ This audit covered the activities under this area only for 2018.

Weaknesses in the implementation of Harmonized Approach to Cash Transfers (HACT) (Issue 1)

The adjusted risk rating for government implementing partners did not take into consideration the inconclusive macro-assessment. This resulted in cash advances being given to implementing partners that may not have had the capacity to record and report on funds given.

Recommendation: The Office should strengthen the implementation of HACT by: (a) advocating, through the Resident Coordinator Office, for the macro-assessment of the public management finance management system to be carried out before the start of the next Country Programme; and (b) until a macro-assessment is completed, increasing the frequency of assurance activities to ensure that funds advanced are being used and accounted for correctly.

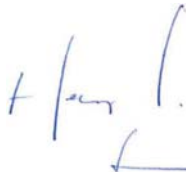
Risk that targets for current programme will not be achieved (Issue 2)

There was little evidence that the Office would achieve development targets for the 2017–2021 programme cycle due to poor resource mobilization, low delivery rates and limited governance and oversight mechanisms to monitor programme progress and thus initiate a revision on the current Country Programme. Management should seek guidance from the Regional Bureau on how to draft the next Country Programme Document to reflect realistic targets within the given timeframe.

Management comments and action plan

The Resident Representative accepted all of the 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.



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Helge S. Ostveiten
Director
Office of Audit and Investigations

I. About the Office

The Office, located in Asmara, Eritrea, had 31 staff at the time of the audit. The main programme focus was on inclusive growth and livelihoods, sustainable natural resource management, resilience to climate change and disasters, and public administration and service delivery. With the signing of the peace agreement between the Country and Ethiopia in Jeddah in September 2018, civil works and infrastructure were added as national development priorities.

II. Audit results

Satisfactory performance was noted in the following areas:

- (a) Operations. Controls and procedures on human resources management, information, communication and technology and safety and security were found to be adequate.

OAI made two recommendations ranked high (critical) and 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.

High priority recommendations, arranged according to significance:

- (a) Ensure the use of more realistic Country Programme Document targets (Recommendation 2).
- (b) Strengthen the implementation of HACT (Recommendation 1).

Medium priority recommendations, arranged according to significance:

- (a) Strengthen the management of advances (Recommendation 3).
- (b) Strengthen contract management (Recommendation 5).
- (c) Strengthen procurement planning (Recommendation 4).

The detailed assessment is presented below, per audit area:

A. Governance

1. Corporate Oversight and Assurance

Issue 1 Weaknesses in the implementation of the Harmonized Approach to Cash Transfers (HACT)

The 'UNDP Programme and Operations Policies and Procedures' state that the purpose of a macro-assessment is to assess the public finance management environment within which UN agencies provide cash transfers to implementing partners. The adjusted risk rating that determines the most appropriate cash transfer method for implementing partners is determined by taking into consideration both the macro- and micro-assessment.

The macro-assessment that was completed for the 2017–2021 programme cycle was inconclusive due to the non-availability of information on the government financial management systems. As a result, the macro-assessment was not rated. The micro-assessments that were completed for six ministries and three government departments that use the same government finance management system, showed an adjusted low risk rating.

The inconsistencies between the inconclusive macro-assessment and the adjusted risk rating indicate that the consulting firm that completed the micro-assessments did not take into consideration the inconclusive results of the macro-assessment. This may have resulted in the adjusted risk rating applied to government implementing partners not being a true reflection of the overall government partner's capacity.

Based on the micro-assessments, the Office followed the HACT guidelines in relation to implementing partners with low adjusted risk ratings and advanced funds to the ministries and government departments. During the period under review, a total of \$4 million was advanced to these entities.

There is a risk that the programme funds that have been entrusted to partners who do not have the financial capacity to manage, record and report on these funds. The Office may also be burdened with the additional administrative work involved in the reporting and clearance of these advances.

Priority	High (Critical)
Recommendation 1:	
The Office should strengthen the implementation of HACT by:	
<ul style="list-style-type: none"> (a) advocating, through the Resident Coordinator Office, for a macro-assessment of the public management finance management system to be carried out before the start of the next Country Programme; and (b) until a macro-assessment is completed, increasing the frequency of assurance activities to ensure that funds advanced are being used and accounted for correctly. 	
Management action plan:	
Management will implement the following actions:	
<ul style="list-style-type: none"> (a) Officially write to the Resident Coordinator Office as a form of reminder on the requirement for a macro-assessment to be conducted prior to commencement of the next programme cycle. (b) Increase the component of its assurance plan for project site visits. 	
Estimated completion date: 31 March 2020	

B. Programme Management

Issue 2 Risk that targets for current programme will not be achieved

The 'UNDP Programme and Operations Policies and Procedures' state that the Country Programme Document outlines UNDP's contribution to national results through the United Nations Development Assistance Framework (UNDAF). The Country Programme Document results and resources framework establishes the results that will contribute towards UNDAF outcomes and includes the resources required from UNDP and other financing partners to achieve these results. To ensure that programme objectives are met, governance mechanisms such as programme boards need to be established to monitor programme progress, make informed management decisions and, where necessary, initiate adjustments to the programme.

The following issues were noted:

1. The Country Programme Document for the period 2017–2021 had a budget of \$142 million (\$31.9 million from regular resources and \$111 million from resources that were to be mobilized). The Office had mobilized \$18 million (16 percent of \$111 million) as of 28 July 2019. This was due to limited donor interest in funding the programme. There was no clear indication that the Office would be able to reach the required target of \$111 million required to achieve programme results.
2. The Office's programme delivery was not optimal. From an analysis of current delivery, the Office delivered a total of \$15.9 million for 2017 and 2018. There were delays in implementation due to the low utilization of funds by implementing partners (refer to Issue 3). In addition, in 2019, there were delays in signing project annual work plans, and as a result delivery was projected at \$2.1 million. This led to a total estimated delivery of \$18 million over three years, which would require the Office to deliver the remaining \$124 million in the remaining two years of the current programme.

Other weaknesses noted were as follows:

3. There was no programme board for the current Country Programme and no evidence of an effective governance and oversight mechanism that would have raised the issue of sub-optimal programme delivery and that would have initiated a revision of the Country Programme Document, as required under programme and project management guidelines. In addition, a planned mid-term evaluation, which would have guided the Office on how best to revise the Country Programme Document, was postponed.
4. There was no plan on how the Office would achieve the Country Programme Document targets or evidence to suggest that guidance had been sought from the Regional Bureau on the poor programme implementation.

With inadequate resources and low delivery, the Office may be unable to achieve its Country Programme targets.

Priority	High (Critical)
Recommendation 2:	
Management should seek guidance from the Regional Bureau on how to draft the next Country Programme Document to reflect realistic targets within the given timeframe.	
Management action plan:	
Management will reach out to the Regional Bureau on guidance and support on how to review the Country Programme, delivery and resource mobilization targets.	
Estimated completion date: 30 June 2020	

C. Operations

1. Financial Resources Management

Issue 3 Delays in reporting and utilization of national implementation modality advances

The 'UNDP Programme and Operations Policies and Procedures' state that advances given to implementing partners are made for a three-month period or less, depending on the needs of the programme or project.

From a review of 20 advances disbursed to nine implementing partners between 1 January 2018 to 30 June 2019 totalling \$4 million (100 percent of advances given between 1 January 2018 and 30 June 2019), the following weaknesses were noted:

1. Two of the nine implementing partners that were advanced a total of \$0.5 million in the first quarter of 2018 had taken over nine months to report back on the utilization of these funds. In one case (\$0.11 million) the implementing partner, at the time of the audit in September 2019, had only utilized 62 percent of these funds.
2. Six of the nine implementing partners that were advanced a total of \$0.78 million in the second quarter of 2018 had taken between six and eight months to report back on the utilization of funds. In one of the cases (\$0.07 million), the implementing partner took eight months to report 87 percent of funds advanced and refunded the balance of funds. There was no clear explanation as to why these funds were reimbursed while the project was ongoing.
3. Five of the nine implementing partners that had been advanced a total of \$1.4 million took between four and five months to report back on funds advanced.

The Office was unable to explain the underlying reasons for the low fund utilization and delays in reporting.

The Office was operating under the national implementation modality and delays in the use of advances may impact the Office's ability to meet programme targets.

Priority	Medium (Important)
Recommendation 3:	
The Office should strengthen the management of advances by:	
<ol style="list-style-type: none"> (a) strengthening the monitoring and follow-up on funds advanced to implementing partners – identification of challenges/bottlenecks of project implementation and an action plan on how these will be addressed; and (b) requesting implementing partners to report back on a quarterly basis even if the required 80 percent threshold has not been reached. 	
Management action plan:	
<ol style="list-style-type: none"> (a) Management will continue to put in place assurance plan and increase its assurance activities to track the monitoring and reporting on delivery and resources advanced. 	

(b) Management will enforce the HACT guidance on advances and reporting.

Estimated completion date: 31 March 2020

2. Procurement

Issue 4 Inadequate procurement planning

The 'UNDP Programme and Operations Policies and Procedures' require that for an effective procurement process, there must be adequate planning that will ensure that the procurement process is competitive and results in best value for money. Offices are required to complete a comprehensive procurement plan at the beginning of each year and to update it throughout the year. With effect from January 2019, offices are required to use the procurement management platform (PROMPT) when planning for procurement.

There was no evidence that the Office plans for procurement. The 2018 procurement plan was completed as an organizational requirement rather than as a tool to improve the procurement process. The Office did not prepare a procurement plan in 2019 and there was no evidence that the procurement management platform had been used for procurement planning.

From a selected sample of 39 purchase orders with a total value of \$1.4 million (representing 14 percent of the total value of purchases completed between 1 January 2018 and 30 June 2019), none of the procurement cases were included in the procurement plan.

Inadequate planning may result in inefficiencies within the procurement process and may prevent the Office from achieving best value for money.

Priority	Medium (Important)
Recommendation 4: To strengthen procurement, the Office should ensure that: <ul style="list-style-type: none"> (a) procurement planning is completed at the beginning of each year by all units using the procurement management platform (PROMPT); and (b) programme units include procurement planning as part of the development of annual work plans, which should be updated throughout the year. 	
Management action plan: The Office, at its 2019 June retreat, reviewed the PROMPT presentation and made a decision to build the capacity of the Procurement Analyst for PROMPT rollout. The staff has benefited from webinars, learning materials and a detailed assignment to UNDP Mauritius. PROMPT will be used, as appropriate, for the remainder of 2019 and more efficiently for 2020.	
Estimated completion date: 31 March 2020	

Issue 5 Inadequate controls over contract management

The 'UNDP Programme and Operations Policies and Procedures' stipulate that the work and performance of an individual contractor must be evaluated and monitored by the responsible manager on a regular basis to ensure that contractual obligations are fully met. The key elements for monitoring shall be the deliverables (quantity and quality), time frame and cost. With regards to contract amendments, the policies and procedures state that only active contracts may be amended. Expired contracts are no longer valid and the obligations of both parties to the other cease to exist.

From a selected sample of eight individual contracts with a total value of \$270,800, the following was noted:

1. There were no contract extensions on six out of eight contracts (total \$152,359) for which the services were completed after the contract periods had expired.
2. In one instance (\$66,282), the payment was made to a different entity and not to the contract holder. The Office explained that this was according to an instruction from the individual contractor; however, this instruction was not documented or justified.
3. Payments were made to two individual contractors (\$41,170) where the contracts attached were incomplete. In the first case, the contract attached had not been signed by the contract holder and in the second case, the section containing beneficiary details had not been completed. Payments in both cases were approved and processed without these anomalies being rectified.
4. In another case, the Office had reimbursed a contractor \$5,053 for a business class air ticket. However, this was inconsistent with the individual contract guidelines, which state that consultants should be reimbursed for economy class tickets for travel, unless there are health concerns supported by medical records.

Inadequate controls over contract can give rise to contractual mistakes, disputes, which may cause delays in the execution of the contract.

Priority	Medium (Important)
Recommendation 5:	
The Office should strengthen contract management by:	
<ul style="list-style-type: none"> (a) ensuring that the programme managers receive training on the individual contract guidelines and ensuring that these guidelines are adhered to; and (b) improving the monitoring and oversight of individual contractors by ensuring that no payments are processed on expired or incomplete contracts. 	
Management action plan:	
Customized training for programme and operations staff shall be arranged to re-familiarize with the rules, roles and responsibilities to address existing knowledge gaps in contract management.	
Estimated completion date: 31 March 2020	

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.