UNITED NATIONS DEVELOPMENT PROGRAMME
Office of Audit and Investigations

AUDIT

OF

UNDP COUNTRY OFFICE

IN

SOMALIA

Report No. 2197

Issue Date: 23 April 2020

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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 10 to 23 February 2020. 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 2019. The Office recorded programme and management expenses of approximately $65.7 million. The last audit of the Office was conducted by OAI in 2017.

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 following: (i) inadequate systems for oversight of results and a fragmented programme; (ii) the inability to determine project effectiveness and low efficiency of projects; (iii) weaknesses in the implementation of the Harmonized Approach to Cash Transfers (HACT) and (iv) weaknesses in vendor management

Key recommendations: Total = **7**, high priority = **4**

Objectives	Recommendation No.	Priority Rating
Achievement of the organization's strategic objectives	1, 2, 5	High
Reliability and integrity of financial and operational information	4	Medium
Safeguarding of assets	3, 6	Medium / High
Compliance with legislative mandates, regulations and rules, policies and procedures	7	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:

Inadequate systems for oversight of results (Issue 1)	The Office did not gather data to effectively monitor the implementation of the Country Programme Document. Recommendation: When preparing for the new Country Programme Document, the Office should prepare a monitoring framework that includes collection and verification of data to facilitate the monitoring of results at the outcome level for the Country Programme.
Low efficiency of projects (Issue 2)	The function of verifying project results had been outsourced, and corresponding roles and responsibilities had not been articulated. Low implementation was identified in projects where implementation was through responsible parties. Project Steering Committee approval had not been obtained following substantial changes to the annual work plan. Recommendation: (a) increase the efficiency of the projects and implement the projects within the timeframes set in the Letters of Agreements (b) Clarify the roles between Programme Oversight and Quality Assurance Unit and the company that is performing third party verification; and (c) ensure that the Project Steering Committee approves changes to annual work plans and changes to project implementation.
Weaknesses in the implementation of Harmonized Approach to Cash Transfers (HACT) (Issue 5)	No macro-assessment had been undertaken for the current programme cycle. The risk ratings for government ministries in the micro assessments could not be relied on as the financial management environment had not been taken into consideration in determining the risk rating. Recommendation: The Office should strengthen the implementation of HACT by: (a) coordinating with the Resident Coordinator's Office, Government and other development partners in order to complete a comprehensive assessment of the public finance management system prior to the start of the next Country Programme; and (b) considering the financial management environment when performing micro assessments, developing mitigating controls that will ensure the funds advanced are being used and accounted for correctly, until the micro and macro-assessment are completed.
Inadequate controls over vendor management (Issue 6)	There were 12 vendors (representing 6 cases) where 2 different vendors shared the same bank accounts. From the review of the vendor forms of these vendors, 4 of the 6 cases were confirmed as duplicate vendors. There were 53 vendors with similar names but different vendor identification numbers. From a selected sample of 20 of these vendors, 9 vendors were confirmed as duplicate vendors. Weaknesses were identified in vendor forms and supporting documents, such as the vendor approver not signing forms and incomplete bank information. Recommendation: improve vendor management by: (a) addressing the duplicate vendor issues; (b) ensuring that all sections of the vendor form are completed, and that supporting documents are reviewed; and (c) developing a standard

operating procedure for vendor management outlining the vendor verification process

Implementation status of previous OAI audit recommendations: Report No. 1757, 7 April 2017.

Total recommendations: 7
Implemented: 7

Management comments and action plan

The Resident Representative accepted all seven recommendations and is in the process of implementing them.

Comments and 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 Osttveiten
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Helge S. Osttveiten
Director
Office of Audit and Investigations

I. About the Office

The Office, located in Mogadishu, Somalia had 100 staff with two field offices in Hargeisa and Garowe at the time of the audit. The Office had a support office based in Nairobi, Kenya. The Office had 30 ongoing projects that focused on the three outcome areas: (i) deepening federalism and state building, supporting conflict resolution and reconciliation; (ii) supporting institutions to improve peace, security, justice and rule of law; and (iii) strengthening resilience of Somali institutions. At the time of the audit, the Country was preparing for the first democratic elections scheduled to take place in June 2020.

II. Audit results

Satisfactory performance was noted in the following areas:

(a) Governance and leadership. No issues were identified relating to risk management, business continuity and financial sustainability.

(b) Operations. Controls and procedures on general administration; information communication and technology and safety and security were found to be adequate.

(c) UN Leadership and coordination. No issues were noted.

OAI made four 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) Develop an integrated Country Programme with a well-articulated theory of change and prepare a monitoring framework that includes collection and verification of data (Recommendation 1).
(b) Increase the efficiency of projects (Recommendation 2).
(c) Strengthen the implementation of HACT (Recommendation 5).
(d) Improve vendor management (Recommendation 6).

Medium priority recommendations, arranged according to significance:
(a) Address the cost-sharing deficit (Recommendation 4).
(b) Enhance oversight of project closure activities (Recommendation 3).
(c) Ensure the completion of mandatory training (Recommendation 7).

The detailed assessment is presented below, per audit area:

A. Programme

1. Project Design and Implementation

Issue 1 Inadequate systems for oversight of results

The 'UNDP Programme and Operations Policies and Procedures' state that each programme supported by UNDP must be monitored to ensure that the outcomes within each programme and their constituent projects are being achieved. In addition, projects are to be designed in order to contribute to the Country Programme outputs and show linkage to the programme's overall theory of change.

There was inadequate oversight on the achievement of results for the Country Programme Document. The Office did not gather data to effectively monitor the implementation of the Country Programme Document. Instead, statements on achievements reported in the Results Oriented Annual Report focused on activities and therefore the results at the outcome level were difficult to verify.

Priority	High (Critical)
Recommendation 1: The Office should prepare a monitoring framework that includes collection and verification of data to facilitate the monitoring of results at the outcome level for the Country Programme.	
Management action plan: Management will establish technical committees as structures for monitoring projects and matters arising are taken to the Steering Committee for strategic guidance, decision-making or consensus reaching. **Estimated completion date:** January 2021	

Issue 2 Low efficiency of projects

Based on the 'UNDP Programme and Operations Policies and Procedures', an effective results based system comprises of clear and measurable indicators and targets and a monitoring and evaluation system that will: (i) demonstrate intended results are being achieved as planned; (ii) indicate whether corrective action is required to ensure delivery of intended results; and (iii) present achieved results against envisaged results. For effective oversight, the Project Steering Committee is responsible for making management decisions, which include the approval of annual work plans and authorizing any revisions or deviations such as extensions of projects.

From a selected sample of four out of 30 ongoing projects, the following issues were noted:

1. The Programme Oversight and Quality Assurance Unit exercised no oversight function in the Office. Instead, the function for verifying project results was outsourced to a company. The roles and responsibilities of the contracted company were not clearly articulated in its terms of reference and the division of duties between the company and the Programme Oversight and Quality Assurance Unit was ambiguous. The Office was not monitoring the performance of this company and weaknesses were noted in the quality of the verification reports provided. These included monitoring and reporting on activities completed as opposed to verification of results achieved and reliance on interviews as a means of verification with the information obtained not substantiated.

2. There was low efficiency on projects. All four sampled projects had Letters of Agreement with responsible parties for project implementation. None of the projects completed the implementation of activities envisaged under the Letters of Agreement within the timeframes set, and experienced delays

of between 5 and 12 months. Further, time extensions were not reviewed or approved by the Project Steering Committee.

3. Three out of the four sampled projects failed to update their annual work plans and obtain Project Steering Committee approval for the substantial changes introduced within the annual work plans for 2019 and 2020.

Project effectiveness cannot be confirmed due to the absence of an adequate monitoring process. Assurance was not provided by the project boards that substantive changes introduced to the projects represented the most efficient approach to achieving planned results.

Priority	High (Critical)

Recommendation 2:

To increase the efficiency of projects, the Office should:

(a) to the extent possible, increase the efficiency of the projects and implement the projects within the timeframes set in the Letters of Agreements;
(b) clarify the roles between Programme Oversight and Quality Assurance Unit and the company that is performing third party verification; and
(c) ensure that the Project Steering Committee approves significant changes to annual work plans and project implementation.

Management action plan:

Management undertakes to:

(a) Continue with collection of output level data for annual reporting which will, at the end of the fourth quarter, be analysed to compare annual targets against annual results achieved.
(b) Clarify the distinction between project field monitoring from the programme visits, which are part of HACT assurance and implement these two processes separately. With the support of the Monitoring and Evaluation Working Group in the Office, teams are developing project specific monitoring plans which are separate from the HACT programme visits.
(c) The terms of reference for Third Party Monitoring have been revised and a new firm is expected to be on board. The firm will deliver services for both project level monitoring and for HACT assurance programme visits. However, they will implement the two by using separate tools and terms of reference so that the objectives of each one are met.
(d) The Office has developed a checklist to prepare Project Steering Committee meetings and plans to shift from holding quarterly meetings to holding them twice per year. Any changes to annual work plans will be documented and with two meetings per year, changes will also be minimized.
(e) The Office has also aligned all Letter of Agreements signed in 2020 to the annual programming cycle so that they are in line with the annual work plan duration and budget, thus minimizing the need for amendments or extensions.

Estimated completion date: August 2020 (Implementation of these action plans including field monitoring may be hindered by COVID-19 restrictions).

Issue 3 <u>Weak oversight on project closure</u>

The 'UNDP Programme and Operations Policies and Procedures' stipulate that projects that are operationally closed should be financially closed within 12 months of being operationally closed.
Within the 2018–2020 Country Programme Document, the Office had a total of 10 projects (total project balance of $27.3 million) that were completed but were still being shown as ongoing or operationally closed within Atlas (enterprise resource planning system of UNDP).

One of the projects (with a balance of $27 million) was a management project that had been operationally closed for over three years, relating to common services. This balance represented reconciliation errors that had been carried forward from 2013.

Four projects that had been operationally closed for over 12 months; two were project initiation projects that were not closed when the fully-fledged projects were developed or proposal rejected and two were mistakenly created twice in Atlas, both of which should have been closed.

Five projects had been operationally closed for over 12 months but had balances that needed to be reconciled by project managers before they could be financially closed.

The Office had established a team whose focus would be on project closure; however, at the time of the audit, work had not started, and no timelines were provided for the team to complete the exercise.

Projects that are not financially closed raise the risk of unauthorized and/or fraudulent financial commitments being made against them.

Priority Medium (Important)

Recommendation 3:

The Office should enhance oversight of project closure activities by:

(a) closing all projects that are no longer being implemented and/or duplicated prior to the start of the new programme – the finalization and closure of the common services project should be prioritized; and
(b) ensuring projects that are operationally closed are financially closed within 12 months and where applicable refunding unused balances to donors.

Management action plan:

(a) The task force for project closure has started closing old projects and the team has been increased in number to include portfolio programme specialists to speed up the exercise.
(b) The Office's Internal Control Framework will be revised to assign responsibilities to operations in approving all data cleaning transactions in Atlas. This will include the review and closure of the old management project.
(c) The Programme Oversight and Quality Assurance Unit is assigned to monitor overall project status and alert project teams on projects to be closed.
(d) To prevent improper financial commitments to old projects (non-operational but not yet closed), no budget will be approved except for data cleaning purposes.

Estimated completion date: December 2020

B. Operations

1. Financial Management

Issue 4 Cost-sharing deficit not properly addressed

The 'UNDP Programme and Operations Policies and Procedures' stipulate that it is the responsibility of the Finance Units in offices to regularly monitor the Financial Dashboard in Atlas, investigate all exceptions and clear them. The Internal Control Framework recommends that where the Programme Support Unit is not combined with the Finance Unit, offices should maintain either a direct or matrixed reporting responsibility to the Operations Manager.

The Office's Financial Dashboard showed a cost-sharing deficit of $806,000 as of 22 February 2020.The cost sharing deficit was partly due to eight projects that were incorrectly closed by the Office in 2017 and 2018 but later reopened by the Office of Financial Resources Management (OFRM). The projects had to be reopened to resolve posting errors made at the time of project closure.

The Office had allocated the responsibility for project closure to the Programme Oversight and Quality Assurance Unit, while the Finance Unit remained responsible for monitoring the Financial Dashboard. The Programme Oversight and Quality Assurance Unit reported to the Deputy Resident Representative/Programme while the Finance Unit reported to the Deputy Resident Representative/Operations. The staff members in the Programme Oversight and Quality Assurance Unit did not have the required capacity for processing finance journal vouchers, which led to the exceptions observed. There was also inadequate coordination between the two units, which led to the cost-sharing deficit not being investigated and cleared.

Cost-sharing deficit balances, if not attended to, might negatively affect the organization's financial reporting.

Priority	Medium (Important)
Recommendation 4: The Office should address the cost-sharing deficit by: (a) investigating and resolving the posting errors that were made during project closure; (b) building the capacity of staff in the Programme Oversight and Quality Assurance Unit with respect to the processing of journal vouchers; and (c) establishing coordination measures between the Programme Oversight and Quality Assurance Unit and the Finance Unit that will enable the two units to investigate and clear financial data exceptions while ensuring that the reporting responsibility of the Programme Oversight and Quality Assurance Unit is to the Operations Manager.	
Management action plan: Management will undertake to:	

(a) Revise the delegation of authority for Programme Oversight and Quality Assurance Unit staff to ensure that they will not have rights to clear cost-sharing deficits or any Financial Dashboard exceptions. This will limit duplication of efforts with project staff and errors that might arise. The only Programme Oversight and Quality Assurance Unit staff who should maintain this access or role will be the Programme Finance Specialist.
(b) The responsibility to clear financial data exceptions that involve programme resources will be placed with the respective project finance staff who will be trained by the Programme Oversight and Quality Assurance Unit. All transactions will be reviewed and approved by the Finance and Resources Management Unit and overseen by the Deputy Resident Representative/Operations.
(c) The pseudo vendor will be deactivated as soon as the issue of the specific cost-sharing deficit (due to incorrectly closed projects) is cleared.
(d) Initiation of all adjustments of projects financial data will be jointly reviewed by the Programme Finance Specialist and the Head of Finance and Resources Management Unit for final approval by the Deputy Resident Representative/Operations.

Estimated completion date: September 2020

Issue 5 Weaknesses in implementation of Harmonized Approach to Cash Transfers (HACT)

The 'UNDP Programme and Operations Policies and Procedures' require that a macro-assessment be undertaken once during a programme cycle. The purpose of a macro-assessment is to assess the public finance management environment within which UN agencies provide cash transfers to implementing partners. This includes a range of considerations for operating within the country such as the financial environment, national procurement capacity, exchange rate volatility and presence of informal/black markets. According to the Harmonized Approach to Cash Transfers (HACT) framework, UNDP will adopt a risk management approach and will select specific procedures for transferring cash, following a micro assessment of the financial capacity of the 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-assessment and the micro-assessment.

There was no macro-assessment undertaken during the current programme cycle. The micro-assessments that were completed for government ministries had various adjusted risk ratings such as "Low risk", "Moderate Risk", "Significant Risk" and "High Risk". However, the risk ratings could not be relied on as the financial management environment had not been taken into consideration in determining the risk rating.

During the audit period, the Office advanced a total of $6.85 million to these government ministries.

There is a risk that the programme funds may have been entrusted to implementing partners that do have the financial capacity to manage, record and report on these funds.

Priority	High (Critical)

Recommendation 5:

The Office should strengthen the implementation of HACT by:

(a) coordinating with the Resident Coordinator's Office, Government and other development partners in order to complete a comprehensive assessment of the public finance management system prior to the start of the next Country Programme; and
(b) considering the financial management environment when performing micro assessments, developing mitigating controls that will ensure that funds advanced are being used and accounted for correctly, until the micro and macro-assessment are completed.

Management action plan:

(a) Management will continue to advocate for HACT macro-assessment through the UN Country Team and the Resident Coordinator's Office. The Risk Management/HACT Working Group which the Office is a member of continues to track the Country's progress towards the benchmarks that signify its readiness for a macro-assessment.
(b) Management has developed a plan for capacity-building for all high and significant risk partners as most of the mitigating plans involve the need for capacity-building.

Estimated completion date: June 2021

2. Procurement

Issue 6 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. This includes checking whether the vendor already exists in Atlas, verifying the authenticity of the vendors' identity through independent means and verification of the vendors' banking information.

From a total of 2,252 active vendors, the following was noted:

(a) There were 12 vendors (representing 6 cases) where 2 different vendors shared the same bank accounts. From the review of the vendor forms of these vendors, 4 of the 6 cases were confirmed as duplicate vendors. The Office was not able to provide an explanation for the remaining 2 cases and in 1 of these cases, the Office only provided the passport of the vendor with no accompanying vendor form.

(b) There were 53 vendors with similar names but different vendor identification numbers. From a selected sample of 20 of these vendors, 9 vendors were confirmed as duplicate vendors. No issues were noted in the remaining five vendors.

(c) During the review of vendor forms and supporting documents for the 32 vendors, the following weaknesses were noted:

- In 18 cases, the vendor requestor information had not been completed on the vendor forms.
- In 22 cases, the vendor approver had not signed the forms.

- In 31 cases, there was no evidence that the bank information on the vendor forms had been verified by the Office.
- In 1 case, the vendor name recorded was the project name and not the implementing partner.
- There was an inconsistency in the retention of vendor forms and supporting documents. Original hard copies of the vendor forms and supporting documentation were not available for review. The Office had a decentralized system in place whereby vendor creators in different locations send scanned supporting documents to the vendor approver located in the Mogadishu Office. The vendor approver relies on those scanned copies to verify information during the approval process. The Office explained that the supporting documents for the vendors are kept at the vendor creator level or by the vendor requestor.

These issues arose during the decentralization of the vendor management system. The Office did not document and specify the responsibilities of the vendor creators and the vendor approvers and the documentation retention procedures. Further, vendor creators were not consistently checking for the existence of a previous vendor profile before creating a new vendor in the system, thus leading to duplicate vendors.

Inadequate controls over vendor creation and approval may lead to fictitious vendors or fraudulent payments.

Priority	High (Critical)

Recommendation 6:

The Office should improve vendor management by:

(a) addressing the duplicate vendor issues identified and reviewing and cleaning the vendor database on a regular basis;
(b) ensuring that all sections of the vendor form are completed, and that supporting documents are reviewed prior to the documents being uploaded for verification and approval; and
(c) developing a standard operating procedure for vendor management outlining the vendor verification process to ensure consistency across the different office locations.

Management action plan:

Management is preparing a new standard operating procedure outlining detailed steps and responsible staff for each step on vendor management. This will also cover the monitoring/review of vendor data on a regular basis.

To address the filing issue, a centralized filing system in SharePoint will be introduced with specific rights/access to certain staff to ensure filing security.

The Office will establish standard operating procedures, and train staff who are responsible for creating and approving vendors. This will incorporate the Country context, with guidance on similar names and inconsistencies in name spelling as well as the specific nature of banking/money vendor operations.

Estimated completion date: September 2020

3. Human Resources

Issue 7 Non-completion of mandatory training

According to the organizational learning policy, it is expected that all UNDP personnel holding fixed-term appointments, temporary appointments, permanent appointments and service contracts complete all mandatory training courses. Newly recruited staff are given one month upon commencement of their employment to complete the mandatory courses.

There were 17 staff members and 29 service contract holders out of 97 eligible personnel that had not completed one or more mandatory courses within the requisite timeframe.

Not completing mandatory training courses may lead to staff not being aware of the organization's values, which may have a negative impact on the performance of the Office.

Priority	Medium (Important)
Recommendation 7: The Office should establish a timeline and follow up to ensure the completion of mandatory training.	
Management action plan: All staff members and service contract holders who have yet to complete their mandatory courses (14 UNDP personnel and 14 UNDSS personnel as of 7 April 2020) will be given through 30 May 2020 to complete all courses. They should incorporate this in the deliverables in the telecommuting agreements during the COVID-19 close of office premises. Individual follow-up by HR (Talent Development Manager) to personnel and their supervisors has already been taking place and will continue. Going forward the Talent Development Manager will closely follow the completion by new colleagues of their mandatory courses and ensure that the corporate timeline of one month is adhered to. **Estimated completion date:** June 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 <u>not included in this report</u>.