

UNITED NATIONS DEVELOPMENT PROGRAMME
Office of Audit and Investigations



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AUDIT

OF

UNDP COUNTRY OFFICE

IN

LESOTHO

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Table of Contents

Executive Summary	i
I. About the Office	1
II. Audit results	1
A. Development Activities	1
1. Country Programme	1
B. Operations/Finance	2
1. Cash, Banking and Deposits	3
Definitions of audit terms - ratings and priorities	4

Report on the Audit of UNDP Lesotho Executive Summary

The UNDP Office of Audit and Investigations (OAI) conducted an audit of UNDP Lesotho (the Office) from 23 March to 6 April 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
- (b) Development activities
- (c) Operations – procurement, finance, human resources, administrative services, information communication and technology (ICT)

The audit covered the activities of the Office from 1 January 2019 to 29 February 2020. The Office recorded programme and management expenses of approximately \$6.15 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*. In view of the COVID-19 pandemic, the audit was conducted remotely. Scope limitations due to the nature of the remote audit related to the following activities

- (a) A review of original supporting documentation could not be carried out, and therefore the audit team relied on scanned copies of documents provided by the Office for all audit areas reviewed.
- (b) Meetings with Office staff and personnel were carried out virtually, which limited the audit team's understanding of the Office's working environment, such as identifying non-verbal feedback and observing Office interactions and dynamics.
- (c) Project visits (location, site visits, meeting with counterparts/beneficiaries) were not conducted.
- (d) A physical verification of assets was not performed.
- (e) Safe and petty cash contents were not verified.
- (f) The information communication and technology area was not reviewed on-site.

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 low programme delivery, and weaknesses with bank reconciliations.

Key recommendations: Total = 2, high priority = 0

The audit did not result in any high (critical) priority recommendations. There are two medium (important) priority recommendations, which means "Action is required to ensure that UNDP is not exposed to risks. Failure to take action could result in negative consequences for UNDP."

The two recommendations aim to ensure the following: (a) achievement of the organization's strategic objectives (Recommendation 1); and (b) reliability and integrity of financial and operational information (Recommendation 2).

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
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I. About the Office

The Office, located in Maseru, Lesotho (the Country) had 29 staff at the time of the audit. The Country Programme Document covered the period 2019–2023 and was informed by the 2030 Agenda for Sustainable Development, which contributed to the achievement of the National Strategic Development Plan (NSDP II).

The Country Programme addressed the overarching development challenges of political instability; persistent poverty; non-inclusive economic growth; and inequality. The programme was structured around three major pillars: (i) Governance, Accountability, Social Cohesion and Stability; (ii) Sustainable and Inclusive Economic Growth; and (iii) Environmental Sustainability, Climate Change and Resilience.

II. Audit results

Satisfactory performance was noted in the following areas:

- (a) Governance. No issues were identified related to the corporate planning, organization chart and staffing, the Internal Control Framework and delegations of authority.
- (b) Procurement. No reportable issues were noted in the procurement process.
- (c) Human resources management. Recruitment of staff and individual contractors were in line with organizational procedures.
- (d) General administrative management. The administration of common services and travel were found to be adequate.

OAI made two recommendations ranked medium (important) priority.

Low priority issues/recommendations were discussed directly and agreed with the Office and are not included in this report.

Medium priority recommendations, arranged according to significance:

- (a) Address low programme delivery (Recommendation 1).
- (b) Ensure bank accounts are reconciled (Recommendation 2).

The detailed assessment is presented below, per audit area:

A. Development Activities

1. Country Programme

Issue 1 Low programme delivery in 2020

As per the 'UNDP Programme and Operations Policies and Procedures', Country Offices are expected to deliver planned results and monitor programme implementation. Further, to ensure timely implementation of projects, Project Steering Committees are responsible for making management decisions, which include the approval of annual work plans and authorizing any revisions or deviations, such as extensions of projects.

The audit team observed that as of 29 February 2020, delivery by the Office was 2 percent (\$0.07 million out of a budget of \$3.4 million for 2020). The low rate of delivery was caused by delays in the finalization and signature of annual work plans with government counterparts. The annual work plans for the two projects sampled, contributing to 62 percent of programme delivery in 2019, were finalized and approved in January and February 2020. According to the 'UNDP Programme and Operations Policies and Procedures', annual work plans should be finalized and approved in the last quarter of the preceding year in order to avoid implementation delays.

A national lockdown due to the COVID-19 pandemic led the Office to suspend all programme activities.

This may further negatively impact the Office's ability to achieve its programme targets.

Priority	Medium (Important)
Recommendation 1: The Office should address low programme delivery by: <ul style="list-style-type: none"> (a) ensuring that the annual work plans are finalized and signed in the last quarter of the year prior to implementation; and (b) developing an acceleration strategy to meet the Country Programme Document timelines and targets. In the event of significant disruptions to delivery and the programme cycle due to the COVID-19 crisis, the Office should liaise with the Regional Bureau for Africa about revising the Country Programme Document. 	
Management action plan: (a) The Office will ensure all annual work plans are completed and signed off by end of December. (b) On accelerating implementation of the Country Programme in light of COVID-19, the Office has re-programmed some of its 2020 budget to support the COVID-19 National Response and committed to delivering the annual Integrated Work Plan target of \$5.9 million, resulting in a 43 percent cumulative delivery of the Country Programme by the end of 2020, the second year in the five year cycle.	
Estimated completion date: December 2020.	

B. Operations/Finance

1. Cash, Banking and Deposits

Issue 2 Weaknesses with the completion of bank reconciliations

As per the 'UNDP Programme and Operations Policies and Procedures', bank reconciliations are an important internal control and must be completed on a monthly basis in order to promptly detect errors and reduce the risk of fraud. Timely follow up of reconciling items should be carried out.

The audit identified unreconciled balances on two bank accounts. The first unreconciled balance was LSL 1.16 million (\$82,521), which related to a bank account which closed in 2017. The second unreconciled balance of LSL 525 003,98 (approximately \$30,0000), related to a bank account that replaced the one which was closed. The Office explained that the issue arose as a result of being unable to differentiate transactions relating to the two accounts, that were posted in Atlas (enterprise resource planning system of UNDP) at the time the new account was opened.

The Office explained that it was working with the Global Shared Services Unit to clear the unreconciled items.

There is a risk that errors or fraud may go undetected in the event that reconciling items are not cleared.

Priority	Medium (Important)
Recommendation 2:	
The Office should ensure that the long outstanding reconciling items in the bank reconciliation are resolved as a priority.	
Management action plan:	
Earlier support from Global Shared Services Unit (GSSU) and Treasury to address the reconciliation issues has now been strengthened, with the GSSU taking up the bank reconciliation role effective end March 2020. The GSSU has been reviewing the reconciliations as the Office provides information under their guidance. To speed up the reconciliation and bring finality to the process, the Finance Associate is being taken off all other tasks to enable her work solely on resolving the bank reconciliation issues.	
Estimated completion date: September 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.