



AUDIT

OF

UNDP COUNTRY OFFICE

IN

ALGERIA

Report No. 2289
Issue Date: 28 May 2021

Table of Contents

Executive Summary	i
I. About the Office	1
II. Audit results	1
A. Development activities	2
1. Implementation modalities	2
2. Projects administration	3
C. Operations - Finance	5
Definitions of audit terms - ratings and priorities	6

Report on the Audit of UNDP Algeria Executive Summary

The UNDP Office of Audit and Investigations (OAI) conducted an audit of UNDP Algeria (the Office) from 29 March to 19 April 2021. 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 to 31 December 2020. The Office recorded programme and management expenses of approximately \$5.36 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*. Due to 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.
- (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's performance as **fully satisfactory** which means "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."

Key recommendation: Total = **3**, high priority = **0**

The audit did not result in any high (critical) priority recommendation. There are three 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." These recommendations include actions to improve project monitoring, the management of HACT and payment processing.

The three recommendations aim to ensure the following:

Objectives	Recommendation No.	Priority Rating
Achievement of the organization's strategic objectives	2	Medium
Effectiveness and efficiency of operations	3	Medium
Compliance with legislative mandates, regulations and rules, policies and procedures	1	Medium

Management comments and action plan

The Resident Representative accepted the three 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. Ostveiten
Director
Office of Audit and Investigations

I. About the Office

The Office, located in Algiers, Algeria (the Country) and its Country Programme covered the period 2016-2020, and was later extended to 2021, with the following development priorities:

- a) Support for non-hydrocarbon and environmentally sustainable sectoral strategies that generate income and create jobs for women and youth; and
- b) Development of local stakeholders' capacities to promote local development and access to quality public services.

During the period from 1 January to 31 December 2020, the Office spent \$4.05 million on development activities, a decrease by 3 percent compared to the previous period.

The largest development projects in terms of expenses during the period covered by the audit were:

Title	Expenditure January - December 2020 \$million
Supporting municipalities "Cap DeL- Communes modèles"	1.21
Supporting the national response to COVID-19	0.58
Conservation of biodiversity in cultural parks	0.51
Support for the social reintegration of prisoners	0.36
Access and Benefit-Sharing Framework	0.24
Development effectiveness Algeria	0.16
Support for women's political participation	0.15
Accelerator Lab - Algeria	0.15
Support to the Constitutional Council	0.11
Prevention of corruption	0.10
Other projects	0.48
Total	4.05

The largest sources of funding of the Office's development activities for the period covered by the audit were:

Donor	Funding for the period \$million
European Union	51.1
Global Environment Facility (GEF)	1.7
Algeria	0.6
United States of America	0.5
United Nations agencies	0.3
Total	54.2

II. Audit results

Satisfactory performance was noted in the following areas:

- (a) Governance: In 2020, the Office was gender balanced: 50 percent of the international posts (two out of four: one D1 and one P3) were occupied by women. At the Office level, 55 percent of staff members were female.

- (b) Procurement, human resources, administrative services, and ICT: The Office had established adequate controls and the review of these areas did not highlight any reportable issues.

OAI made 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.

Medium priority recommendations that had been implemented as advised by the Office (and independently validated by OAI) prior to the issuance of this report are not included in this report.

Medium priority recommendations, arranged according to significance:

- (a) Improve the management of HACT (Recommendation 1).
- (b) Strengthen project monitoring (Recommendation 2).
- (c) Improve management of local contributions and the efficiency of payment process (Recommendation 3).

The detailed assessment is presented below, per audit area:

A. Development activities

1. Implementation modalities

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

According to the 'UNDP Programme and Operations Policies and Procedures', full compliance with the 'Harmonized Approach to Cash Transfers (HACT) Framework' is achieved when several components are achieved including the design of an assurance plan and the implementation of assurance activities.

The audit team reviewed the Office's compliance with the HACT framework and noted the following:

- a) Lapses in the design and implementation of quality assurance activities:
 - The Office did not prepare consolidated assurance plans for the years 2020 and 2021.
 - The Office did not conduct spot checks and programmatic visits during 2020 and 2021 due to national restrictions related to the Covid-19 pandemic.
- b) Inadequate approval of micro-grants payments:

The UNDP Internal Control Framework requires that payments for small grants to implementing partners, to be approved by the head of office or the Deputy Resident Representative.

Out of the 29 micro-grants amounting \$410,914 that were processed during 2020, 16 valued \$91,814 were not approved by the Office authorized representative.

These deficiencies were due to misinterpretation of UNDP guidelines.

Failure to fully implement the HACT Framework could result in the use of inappropriate cash transfer modality, which could result in financial losses. Furthermore, the inadequate approval of micro-grants may lead to financial risks and inefficiencies.

Priority	Medium (Important)
Recommendation 1: The Office should improve the management of HACT by: <ul style="list-style-type: none"> (a) timely preparing and implementing the consolidated HACT quality assurance plan; and (b) ensuring that staff members receive training on micro-grants payments and that the grants payments are approved by the Resident Representative or his/her deputy. 	
Management action plan: The Office will: <ul style="list-style-type: none"> (a) develop a consolidated HACT quality assurance plan and execute it through adequate oversight and management responsibilities, in close collaboration with national counterparts. (b) ensure compliance with UNDP direct payments policies through further training of staff members and national counterparts and that ATLAS approvals related to transactions for Low Value Grants (LVG) are performed at the Resident Representative/Deputy Resident Representative level. 	
Estimated completion date: December 2021	

2. Projects administration

Issue 2 Weaknesses within project management

The 'UNDP Programme and Operations Policies and Procedures' stipulate that project design and monitoring must be clearly defined and implemented.

The audit reviewed a sample of five, out of the 15, ongoing development projects with expenditure totaling \$2.04 million and representing 52 percent of project expenditure in 2020 (\$3.9 million). The sample included three projects funded by the Global Environment Facility (GEF). All the five projects reviewed were nationally implemented with support services provided by the Office. The following weaknesses were noted:

- a) Project design and appraisal:
 - One project document did not indicate to which programme outcomes and outputs the project was contributing to. The project was related to the Covid-19 response.
 - In another project document, the project was not linked to any country programme outputs.
 - The direct project costs were not set under the project management arrangement in two of the three GEF project documents.
 - The social and environmental screening was finalized after the approval of the project document in one GEF project.

- The quality assurance on design and appraisal did not contain any gender analysis in one case.
- b) Project monitoring:
 - For the three GEF projects, the annual work plans did not include analysis of activities scheduled and implemented, it did also not include an updated risk analysis and results framework.
 - In all projects, the Atlas information concerning project start dates, end dates and budget information was inaccurate.
 - For three projects, including a GEF project, activities were not completed in Atlas.
 - For all projects, the monitoring data (including baseline, indicators and results information, risk logs, monitoring information) had not been included or updated in Atlas.

These deficiencies were due to a lack of project oversight. Weaknesses in project design and monitoring may have an impact on the achievement of programmatic objectives.

Priority	Medium (Important)
Recommendation 2: The Office should strengthen project oversight by ensuring that: <ul style="list-style-type: none"> (a) all required projects documents are properly prepared, including outcomes and outputs, direct project costs and social and the environmental screening; (b) annual workplans are complete, including an analysis of activities scheduled and implemented including an updated risk analysis and results framework; and (c) information on project activities and monitoring is complete and up to date in Atlas. 	
Management action plan: The Office will: <ul style="list-style-type: none"> (a) conduct a refresher training to all project managers on project design and monitoring and ensure full compliance with project initiation policies in 'UNDP Programme and Operations Policies and Procedures'. (b) ensure that project annual workplans are used as monitoring tools and that annual performance Key Performance Indicators of key Office programme staff, including the Results Based Management specialist on technical contribution and oversight, include regular monitoring of results against the targets set in the Annual Work Plans. (c) ensure timely completion of management actions in Atlas, including project risk registers and other required actions 	
Estimated completion date: January 2022	

C. Operations - Finance

Issue 3 Weaknesses in the management of local contributions and payment process

a) Management of local contributions:

The 'UNDP Programme and Operations Policies and Procedures' provide guidance on adequate banking and financial management. For cost-sharing contributions received in local currency, they stipulate that country offices require prior approval of the UNDP Treasurer, who may provide standing authorizations in certain circumstances.

The audit noted that the Office received a cost-sharing contribution from the government in local currency equivalent to \$452,000 without obtaining prior authorization of the HQ Treasurer.

b) Inefficient payment process

Out of the three payment formats in Atlas ("Manual Checks", "System Checks" and "Electronic Funds Transfer" or EFT), the EFT payment format is the preferred mode of payment whenever possible as it is cheaper, more efficient and eliminates cheque usage.

At the time of the audit, the Office did not use EFT to process payments as the local bank did not have an electronic banking system that could be interfaced with Atlas (the enterprise resource planning system of UNDP). During the audit, the Office initiated consultations with other local banks to assess available options for electronic fund transfers.

Weaknesses in the management of local contributions and an inefficient payment process can impact the overall operational efficiency.

Priority	Medium (Important)
Recommendation 3: The Office should improve its management of local contributions and the efficiency of its payment process by: <ul style="list-style-type: none"> (a) obtaining approval from UNDP Treasury for cost-sharing contribution received in local currency; and (b) assessing and pursuing the implementation of an electronic banking system with electronic funds transfer capabilities. 	
Management action plan: The Office will: <ul style="list-style-type: none"> (a) ensure to obtain timely approval from the HQ Treasurer for cost-sharing contribution received in local currency. (b) conduct an assessment and review – including with HQ Treasury - of possible options with a view to implement electronic banking system. 	
Estimated completion date: January 2022	

Definitions of audit terms - ratings and priorities

A. AUDIT RATINGS

- **Fully 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.
- **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.