AUDIT
OF
UNDP COUNTRY OFFICE
IN
CENTRAL AFRICAN REPUBLIC

Report No. 2291
Issue Date: 23 April 2021
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Report on the Audit of UNDP Central African Republic

Executive Summary

The UNDP Office of Audit and Investigations (OAI) conducted an audit of UNDP Central African Republic (the Office) from 1 to 17 March 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 2020 to 31 December 2020. The Office recorded programme and management expenses of approximately $77 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. 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 **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.”

**Key recommendations:** Total = 5, high priority = 1

The five recommendations aim to ensure the following:

<table>
<thead>
<tr>
<th>Objectives</th>
<th>Recommendation No.</th>
<th>Priority Rating</th>
</tr>
</thead>
<tbody>
<tr>
<td>Achievement of the organization’s strategic objectives</td>
<td>1, 3</td>
<td>Medium</td>
</tr>
<tr>
<td>Effectiveness and efficiency of operations</td>
<td>4</td>
<td>Medium</td>
</tr>
<tr>
<td>Compliance with legislative mandates, regulations and rules, policies, and procedures</td>
<td>2</td>
<td>High</td>
</tr>
<tr>
<td></td>
<td>5</td>
<td>Medium</td>
</tr>
</tbody>
</table>

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:
| Lapses in the implementation of the Harmonized Approach to Cash Transfers (Issue 2) | From its review of the implementation of the Harmonized Approach to Cash Transfers (HACT), the audit team noted the following:
- Weak management of the HACT audits of responsible parties supporting project implementation;
- Incorrect cash transfer modality used when transferring funds to partners.

**Recommendation:** The Office should adhere to the requirements of the HACT Framework by: (a) strengthening its financial monitoring over implementing partners; and (b) applying the cash transfer modality in line with the implementing partners’ adjusted risk rating. |

**Management comments and action plan**

The Resident Representative accepted the five 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 Osttveiten**

2021.04.22
23:59:35 -04’00’

Helge S. Osttveiten
Director
Office of Audit and Investigations
I. About the Office

The Office, located in Bangui, Central African Republic (the Country) and its Country Programme covered the period 2018–2021, which was further extended to 2022 with the following development priorities:

a) governance, peacebuilding and the rule of law; and
b) stabilization, recovery and resilience-building.

During the period from 1 January to 31 December 2020, the Office spent $74 million on development activities an increase by 61 percent compared to 2019, which is mainly explained by the support to the general elections that took place in 2020.

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

<table>
<thead>
<tr>
<th>Title</th>
<th>Expenditure January-December 2020 $million</th>
</tr>
</thead>
<tbody>
<tr>
<td>Support of the electoral cycle 2019-2022</td>
<td>27.3</td>
</tr>
<tr>
<td>Common Humanitarian Fund viral hepatitis project in the Central African Republic</td>
<td>19.5</td>
</tr>
<tr>
<td>Joint support project to the Criminal Court</td>
<td>4.5</td>
</tr>
<tr>
<td>Support to the special criminal court in Central African Republic</td>
<td>3.2</td>
</tr>
<tr>
<td>Projet appui Etat de Droit</td>
<td>3.0</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td><strong>57.5</strong></td>
</tr>
</tbody>
</table>

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

<table>
<thead>
<tr>
<th>Donor</th>
<th>Funding for the period $million</th>
</tr>
</thead>
<tbody>
<tr>
<td>Minusca (Peacekeeping Mission in the Central African Republic)</td>
<td>9.6</td>
</tr>
<tr>
<td>European Union (*)</td>
<td>3.0</td>
</tr>
<tr>
<td>Japan Government</td>
<td>2.8</td>
</tr>
<tr>
<td>United States of America Government</td>
<td>2.8</td>
</tr>
<tr>
<td>Central African Republic</td>
<td>2.4</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td><strong>20.6</strong></td>
</tr>
</tbody>
</table>

(*) The European Union contribution is not entirely reflected in Streams as a result of a Technical issue. The total EU contribution in 2020 amounted to approximately $18.4 million.
II. Audit results

Satisfactory performance was noted in the following areas:

(a) **Gender balance**: The Office obtained the Gold Gender Seal certification in 2020. In 2020, 47 percent of the international posts were occupied by women, which is higher than the average of the Regional Bureau (40 percent). Furthermore, the audit noted that women representation at the senior management level (P-5 and above), with four out of five posts occupied by women.

(b) **Human resources**: The review of human resources included recruitments and separations, and it was noted that adequate controls were established and working effectively.

OAI made one recommendation ranked high (critical) and four 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 recommendation**
- a) Adhere to the requirements of the HACT Framework (Recommendation 2)

**Medium priority recommendations**, arranged according to significance:
- a) Improve financial sustainability (Recommendation 1).
- b) Improve project closure (Recommendation 3).
- c) Strengthen procurement management and control procedures (Recommendation 4).
- d) Strengthen procurement oversight (Recommendation 5).

The detailed assessment is presented below, per audit area:

### A. Governance

#### 1. Data analytics and performance indicators

**Issue 1**  
**Financial sustainability at risk**

Country Offices should ensure financial sustainability by generating sufficient funds to cover operating costs. Offices are also required by the ‘UNDP Programme and Operations Policies and Procedures’ to work with host governments for the timely collection of Government Contributions to Local Office Costs (GLOC) in accordance with corporate targets.

While the Office made concerted efforts to follow up on the late payments of GLOC (in the amount of $1.9 million), the audit team noted that the Office did not closely follow up on the recovery of direct project costs:

In 2020, the Direct Project Costing target was set at $2.4 million, while the Office only recovered $1.5 million. The audit team noted that Direct Project Costing was not applied to 10 out of 16 projects due to the lack of follow up by the Office. Also, other factors affected the achievement of the projected Direct Project Costing in 2020. This was mainly explained by the impact of the pandemic and the insecurity in the
Country that resulted in fewer meetings organized, and hence less services provided by UNDP to other UN entities.

Low recovery of direct project costing might affect the financial situation of the Office.

<table>
<thead>
<tr>
<th>Priority</th>
<th>Medium (Important)</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Recommendation 1:</strong></td>
<td></td>
</tr>
<tr>
<td>The Office should improve its financial sustainability by applying and recovering Direct Project Costing from all development activities and services provided to projects.</td>
<td></td>
</tr>
</tbody>
</table>

**Management action plan:**

The Office will review the recovery process of the direct project costs. Staff costs will be charged on all concerned projects and the General Operating Expenses will be prorated per service rendered.

**Estimated completion date:** October 2021

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**B. Development activities**

**1. Implementation modalities**

**Issue 2**  
**Lapses in the implementation of the Harmonized Approach to Cash Transfers**

From its review of the implementation of the Harmonized Approach to Cash Transfers (HACT), the audit team noted the following:

- **a) Weak management of the HACT audits of responsible parties**

The Office financial monitoring over responsible parties supporting projects implementation should ensure the correctness of the financial transactions, the financial monitoring is reviewed as part of the HACT review.

The audit team reviewed HACT review letters of fiscal years 2017-2020 that included 263 audits of responsible parties and noted the following deficiencies:

- The Office received a “partially satisfactory” rating in 2018, and “unsatisfactory” ratings in 2017 and 2019, on the management of the HACT audits.
- Out of the 263 audits, the auditors provided an adverse opinion in 14 cases; a qualified opinion in 7 cases; and a disclaimer of opinion in 2 cases with a net financial misstatement of $2.5 million, equivalent to 17 percent of the audited expenses. The adverse opinions were due to unjustified expenditures. The qualified opinions were due to unjustified expenditures, lack of mission reports, and disparities between recorded and actual expenses, while the disclaimer of opinions were due to the absence of a reliable and usable audit trail.
- The 2018 and 2019 certified action plans to address the audit observations received a “partially satisfactory” rating.
These deficiencies were due to insufficient financial monitoring over implementing partners.

b) Incorrect cash transfer modality used

The HACT Framework states that for partners with a “significant” adjusted risk rating, only direct payments, or the reimbursement cash transfer modality may be used, and spot checks should be conducted twice per year. An adjusted risk rating is defined as the overall risk assessment derived from the micro-assessment risk rating, past experience with the partner, prior capacity assessments, and micro-assessments by other UN agencies.

The audit team noted that three NGOs with a significant adjusted risk rating in 2018 and 2019 were awarded advances totalling $1.1 million in 2019 and $201,629 in 2020.

Inadequate oversight over financial monitoring of implementing partners could negatively impact UNDP financial statements. Failure to implement the HACT Framework could result in financial losses for UNDP.

<table>
<thead>
<tr>
<th>Priority</th>
<th>High (Critical)</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Recommendation 2:</strong></td>
<td></td>
</tr>
<tr>
<td>The Office should adhere to the requirements of the HACT Framework by:</td>
<td></td>
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<tr>
<td>(a) strengthening its financial monitoring over implementing partners; and</td>
<td></td>
</tr>
<tr>
<td>(b) applying the cash transfer modality in line with the implementing partners’ adjusted risk rating.</td>
<td></td>
</tr>
<tr>
<td><strong>Management action plan:</strong></td>
<td></td>
</tr>
<tr>
<td>The Office will take the following actions:</td>
<td></td>
</tr>
<tr>
<td>(a) Strengthen its financial monitoring over implementing partners. A memo from the Resident Representative will be issued to programme and operations reminding of the HACT Framework requirements concerning disbursement modalities in relation to risk level of implementing partners. All FACE forms shall be reviewed and cleared by the Operations Manager before they get approved; and</td>
<td></td>
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<tr>
<td>(b) Take into consideration the implementing partners adjusted risk rating for the cash transfer modality used. A list of all micro-assessed implementing partners with their risk rating and appropriate disbursement type shall be shared with concerned staff and updated whenever a new assessment is conducted.</td>
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<tr>
<td><strong>Estimated completion date:</strong> June 2021</td>
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2. Project Administration

**Issue 3** Gaps in project closure

The ‘UNDP Programme and Operations Policies and Procedures’ require projects to be operationally closed once activities have been implemented. Projects should be financially closed within 12 months of operational closure.
At the time of the audit, the Office had 224 outputs with ongoing or operationally closed status in Atlas (enterprise resource planning system of UNDP). From the review of the project closure processes, the audit team noted the following exceptions:

- Of the 224, 67 outputs were expired and without activities. The outputs had available resources valued at $1.3 million and appeared as ongoing in Atlas.
- Two projects displayed as ongoing did not show any activity over the past two years, while having a balance of $190,123 and $15,000, respectively, at the time of the audit.
- Five projects operationally closed for more than 12 months were not financially closed. At the time of the audit, four of them had not completed the operational checklist.

Insufficient supervision over the closure process were the cause of the exceptions noted.

Without adequate project closure, the Office runs the risk of unauthorized expenditures being charged against projects, and the risk of not complying with donor requirements in a timely manner.

<table>
<thead>
<tr>
<th>Priority</th>
<th>Medium (Important)</th>
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<tbody>
<tr>
<td><strong>Recommendation 3:</strong></td>
<td></td>
</tr>
<tr>
<td>The Office should improve project closure by:</td>
<td></td>
</tr>
<tr>
<td>(a) setting up a mechanism to monitor project end dates and ensuring that closure procedures are timely initiated once project activities are completed, and</td>
<td></td>
</tr>
<tr>
<td>(b) timely clearing the fund balance of operationally closed projects and ensuring their financial closure within the 12-month period.</td>
<td></td>
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<tr>
<td><strong>Management action plan:</strong></td>
<td></td>
</tr>
<tr>
<td>The Office will ensure that:</td>
<td></td>
</tr>
<tr>
<td>(a) fund balances of current operationally closed projects are cleared by July 2021 – after that, a cleaning exercise will be conducted quarterly;</td>
<td></td>
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<tr>
<td>(b) projects with no activities for more than six months will be set to operationally closed by August 2021; and</td>
<td></td>
</tr>
<tr>
<td>(c) all operationally closed projects are financially closed after all activities are completed.</td>
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**Estimated completion date:** November 2021

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**C. Operations – Procurement**

**1. Good and services**

**Issue 4**    Deficiencies in procurement management

During 2020, the Office issued 377 purchase orders amounting to $22.4 million (excluding purchase orders processed by the Global Procurement Unit). The audit team reviewed 22 purchase orders
amounting to $3.2 million, representing 14 percent of the total purchase orders processed during the audit period.

The audit team noted the following:

a) **Weaknesses in the procurement plan**

The ‘UNDP Programme and Operations Policies and Procedures’ require offices to develop consolidated annual procurement plans.

- Procurement plans were not submitted for 7 of the 23 projects.
- The consolidated procurement plan submitted in the procurement management platform (PROMPT) was not updated on a continual basis. The audit team identified three projects for which the procurement plan totalled $146,000, while the projects procured over $3 million.
- 25 different procurement processes were conducted under the same Long-Term Agreement contract to procure IT equipment for a total of $1 million.

Inadequate procurement planning may prevent the Office from obtaining best value for money.

b) **Contract signed with a contractor on the UN Ineligibility List**

According to the ‘UNDP Programme and Operations Policies and Procedures’, UNDP shall verify, and immediately reject their respective offer, if the offerors are found to appear on the UN Ineligibility List. Though termination of a contract is not a recommended course of action, if the procuring entity still wishes to seek termination, procurement officers should contact the Legal Office for guidance and approval.

In January 2020, the Office issued an invitation to bid for the rehabilitation of four lots of a public building. On 13 March 2020, the Office proceeded with the opening of the bids and the screening against the UN Ineligibility List. At that time, none of the vendors were on the UN Ineligibility List. The procurement was awarded to four vendors for a total amount of $222,185 and the case was approved by the Contracts, Assets, and Procurement Committee (CAP). The Office signed the contracts with the selected vendors on 10 June 2020, including a vendor, with a contract amount of $54,468, that had been put on the UN Ineligibility List on 25 March 2020. The Office did not check the UN Ineligibility List prior to the contract signature and only became aware of the ineligibility of the vendor on January 2021, when the Regional Bureau for Africa followed up on the archiving of this vendor. As per UNDP vendor management standard operating procedures, the status of sanctioned vendors should be changed from “approved” to “archive” immediately after the Office is aware of the sanction. Following the Bureau's guidance, the Office committed to update the status of the vendor after the last payment, as the contract was ongoing. At the time of the audit, one deliverable out of four amounting to $5,447 was still pending.

The lack of systematic due diligence over suppliers prior to contract signature could increase the likelihood of error and wrongdoing and diminish value for money.

c) **Gaps in the management of Long-Term Agreement**

Recommendations from Regional Advisory Committee on Procurement (RACP) should be followed up timely.

In a case submitted in 2018 to the RACP for a Long-Term Agreement of travel services, with a total amount of $1.2 million, the committee noted weaknesses in the procurement process but decided, however, to
approve the case for one year only (from February 2019 to February 2020) to give the Office the time to initiate a new competitive process.

Despite the RACP recommendation, the Office amended the contract on 3 February 2020 for an additional year without conducting a new competitive process.

Failure to implement the recommendations of the procurement committee might prevent the Office from achieving best value for money.

<table>
<thead>
<tr>
<th>Priority</th>
<th>Medium (Important)</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Recommendation 4:</strong></td>
<td></td>
</tr>
<tr>
<td>The Office should strengthen its procurement management and control procedures by:</td>
<td></td>
</tr>
<tr>
<td>(a) including the procurement plans of all the projects and requisitions in the procurement management platform (PROMPT) and updating it regularly;</td>
<td></td>
</tr>
<tr>
<td>(b) checking the eligibility of the vendor against the UN Ineligibility List prior to entering into contract; and</td>
<td></td>
</tr>
<tr>
<td>(c) ensuring that recommendations of the Regional Advisory Committee on Procurement are followed and competitive procurement is conducted when required.</td>
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</tbody>
</table>

| **Management action plan:** |                        |
| The Office will: |                        |
| (a) ensure that all procurement plans are recorded in the PROMPT platform; |                        |
| (b) systematically perform a sanction background check prior to contracting with a vendor; and |                        |
| (c) strictly follow the Regional Advisory Committee on Procurement’s recommendations. |                        |

**Estimated completion date:** October 2021

**Issue 5**  
Lack of review by appropriate procurement committees

According to the ‘UNDP Programme and Operations Policies and Procedures’, any contract or series of contracts including amendments to be awarded to a vendor in a calendar year that in aggregate have a cumulative value above $50,000 shall be reviewed under the direct review modality by the chairperson of the Contracts, Assets, and Procurement Committee (CAP). Above that threshold, the contract shall be submitted to the Regional Advisory Committee on Procurement (RACP). The submission of these procurement cases should be done through ACP Online (the corporate platform for the review of procurement cases).

Also, the accumulation of payments made to a vendor through repeated use of micro-purchasing shall be monitored by business units with procurement oversight functions. When such cumulative payments reach thresholds that require procurement committee reviews, the case shall be submitted to the relevant committee.

From the analytical review of payment vouchers processed by the Office during the audit period (4,287 vouchers amounting to $51.7 million), the audit team identified the following issues:
(a) **Lack of review by procurement committees**

The audit team identified the two following cases:

- For one vendor with a contract amount total of $220,000 for the supply of security services, the procurement case was submitted to the CAP instead of the RACP.
- For one consulting firm with a contract value of $154,600, the contract was not submitted to the CAP.

(b) **Cumulative value of micro-purchasing exceeding procurement review thresholds**

The audit team identified the following cases where cumulative payments made to vendors reached the procurement committee review threshold without being submitted:

- One vendor with cumulative payments for a total of $400,000, for the procurement of fuel. These payments were made through 66 vouchers.
- One vendor with cumulative payments totalling $109,500 for small plumbing and electricity works. Payments were made through 108 vouchers.

These deficiencies were caused by the misunderstanding of procurement rules. The Office had not included micro-purchasing made in its calculation of cumulative amounts.

Without appropriate reviews of relevant procurement cases, the Office runs the risk of not detecting procurement activities that are not conducted in line with accepted purchasing practices and appropriate rules and regulations.

<table>
<thead>
<tr>
<th>Priority</th>
<th>Medium (Important)</th>
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</table>

**Recommendation 5:**

The Office should strengthen procurement oversight by:

(a) ensuring that all procurement cases that meet the procurement thresholds are submitted to the appropriate procurement review committees; and

(b) monitoring the cumulative value of payments made to vendors through micro-purchasing and submit to appropriate procurement committee when thresholds are reached.

**Management action plan:**

(a) The Office will ensure that all the procurement cases that meet thresholds are submitted to relevant committees for review and approval.

(b) The Office will control the use of micro-purchasing by limiting them to activities that cannot not be planned for. Further, a focal point from the procurement unit will be designated to conduct regular monitoring.

**Estimated completion date:** June 2021
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.