



AUDIT

OF

UNDP COUNTRY OFFICE

IN

THE CONGO

Report No. 2292
Issue Date: 17 August 2021

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Report on the Audit of UNDP Congo Executive Summary

The UNDP Office of Audit and Investigations (OAI) conducted an audit of UNDP Congo (the Office) from 7 to 18 June 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 March 2021. The Office recorded programme and management expenses of approximately \$7.13 million. The last audit of the Office was conducted by OAI in 2016.

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 **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 weaknesses in the implementation of the Harmonized Approach to Cash Transfers (HACT), weaknesses in project management, and weaknesses in procurement.

Key recommendations: Total = 5, high priority = 3

Objectives	Recommendation No.	Priority Rating
Achievement of the organization's strategic objectives	2, 3	High
	1, 5	Medium
Safeguarding of assets	4	High

For high (critical) priority recommendations, prompt action is required to ensure 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:

Weaknesses in implementation of Harmonized Approach to Cash Transfers (HACT) (issue 2)

The audit disclosed the following weaknesses with HACT implementation: weaknesses in the monitoring of quality assurance activities; inadequate follow-up of outstanding recommendations, inadequate reporting of implemented activities due to incorrect recording of transactions; and weaknesses in the completion of 'Funding Authorization and Certificate of Expenditure' (FACE) forms related to direct payments.

Recommendation: The Office should improve the management of HACT by: (a) implementing the planned HACT quality assurance activities in line with UNDP policies; (b) following up on outstanding recommendations relating to implementing partners; and (c) reinforcing the oversight of direct payments, cash transfers for implementing partners, and correct use of FACE forms in line with UNDP policies.

Weaknesses within project management (issue 3)

The audit disclosed the following weaknesses within project management: incomplete project design; incomplete project monitoring; and delays in Global Environment Facility (GEF) project implementation.

Recommendation: To strengthen project management, the Office should: (a) prior to project inception, ensure project documents include project objectives, results and resources framework, annual work plans and social and environmental screening; (b) ensure project reports include progress information and a risk analysis, and that the Atlas project module is updated; and (c) address internal and external capacity issues for projects funded by the GEF.

Weaknesses within procurement (issue 4)

The following weaknesses were noted in procurement: weaknesses in planning; weaknesses in the oversight of procurement activities and contract management; and ineffective monitoring of purchase orders.

Recommendation: The Office should enhance oversight and performance over procurement processes by: (a) preparing a consolidated procurement plan and ensuring applicable procurement processes are initiated with a requisition in Atlas; (b) reinforcing oversight on procurement activities including creation of purchase orders when funding is available; and (c) ensuring that contracts are correctly monitored and renewed prior to the expiration date.

Management comments and action plan

The Resident Representative accepted all 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.

Helge S. Ostveiten
Director
Office of Audit and Investigations

I. About the Office

The Office, located in Brazzaville, the Congo (the Country) and its Country Programme covered the period 2020–2024 with the following development priorities:

- a) Strengthening governance, peacebuilding, and security; and
- b) Diversification of economy in a sustainable manner and promotion of resilience of communities and institutions vulnerable to climate change.

During the period from 1 January 2020 to 31 March 2021, the Office spent \$5.8 million on development activities, an increase by 23 percent compared to the previous period (1 January 2019 to 31 March 2020).

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

Title	Expenditure January 2020 - December 2020 \$million	Expenditure January 2021 - March 2021 \$million
Socio-Economic Reinsertion Support Project for Disadvantaged Groups	1.05	0
Response to recovery	0.83	0.06
Project to support the strengthening of the national response to HIV and tuberculosis	0.49	0.10
Peace-building-Community building	0.39	0.07
Accelerator Lab- Rep. of Congo	0.34	0.01
Total	3.10	0.24

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

Donor	Funding January 2020 - March 2021 \$million
Global Fund	9.16
Global Environment Facility	1.91
Others	0.25
Total	11.32

II. Audit results

Satisfactory performance was noted in the following areas:

- (a) Governance – organizational chart and staffing: The Office was gender balanced at the professional level with 60 percent of the positions (three out of five, including one P5, one P4 and one P3) occupied by women.
- (b) Human resources: The Office had established adequate controls and the review of these areas did not highlight any reportable issues.
- (c) Administrative services: The Office had established adequate controls and the review of these areas did not highlight any reportable issues.
- (d) ICT: The Office had established adequate controls and the review of these areas did not highlight any reportable issues.

OAI made three recommendations ranked high (critical) and 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 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.

High priority recommendations, arranged according to significance:

- (a) Improve the management of HACT (Recommendation 2).
- (b) Enhance oversight of procurement processes (Recommendation 4).
- (c) Strengthen project management (Recommendation 3).

Medium priority recommendations, arranged according to significance:

- (a) Improve financial sustainability (Recommendation 1).
- (b) Strengthen the implementation of Direct Project Costing (Recommendation 5).

The detailed assessment is presented below, per audit area:

A. Governance

1. Planning and risk management

Issue 1 Financial sustainability at risk

The 'UNDP Programme and Operations Policies and Procedures' require offices to develop a resource mobilization strategy, as well as implement a corresponding resource mobilization action plan. Country Offices are expected to generate sufficient income to cover operating costs. Offices are expected to recover Government Contributions towards Local Office Costs (GLOC) in accordance with corporate targets.

In 2020, the Office's financial sustainability was at risk as management expenditure exceeded income by \$371,000. According to the Office's annual plan, the deficit was likely to remain at the same level in 2021.

a) Income not meeting annual targets

In 2020, the Office's income was \$774,000 below the target of \$984,000. That was due to challenges in recovering General Management Services (GMS) fees and GLOC:

- The Office generated GMS of \$178,000, which represented 67 percent of the 2020 target of \$226,000. The target was not reached due to lower than expected delivery.
- Additionally, the Office was unable to collect any GLOC contributions in 2020 (target of \$261,000) despite the close follow-up efforts of the Office. At the time of the audit, the GLOC arrears totalled \$1.9 million for the period from 2008 to 2021.

b) Lapses in resource mobilization planning

The project pipeline should include projects of different maturity, ranging from initial ideas (class C) to interventions with secured funding and implementation capacity ready to be launched (class A or “hard pipeline”).

At the time of the audit, the pipeline amounted to \$41.4 million for the period from 2021 to 2024. The audit team noted that the hard pipeline of \$5.1 million was incorrect since only \$1.1 million had been secured.

The absence of a sustainability strategy coupled with an overestimation of future resources may jeopardize the financial sustainability of the Office.

Priority	Medium (Important)
Recommendation 1:	
To improve its financial sustainability, the Office should:	
(a) develop a financial sustainability strategy incorporating the financial opportunities available; and	
(b) ensure that the pipeline classification is in line with the status of funding opportunities.	
Management action plan:	
The Office will:	
(a) develop a financial sustainability strategy on the basis of resource mobilization scenarios according to the financing opportunities available to it, in line with the relevant staffing and the Country's context; and	
(b) strengthen the assessment of pipelines by implementing an analysis tool with a pipeline assessment grid based on the categories and maturity criteria as outlined in the UNDP policies.	
Estimated completion date: November 2021	

B. Development activities

1. Implementation modalities

Issue 2 Weaknesses in implementation of Harmonized Approach to Cash Transfers (HACT)

The ‘Framework for Harmonized Approach to Cash Transfers’ (HACT) lists requirements prior to transferring cash to implementing partners, including (a) micro-assessments of implementing partners, and (b) an assurance plan that details the spot checks and programmatic visits for each implementing partner.

The ‘UNDP Programme and Operations Policies and Procedures’ provide guidance on the monitoring of payments to implementing partners. The ‘Funding Authorization and Certificate of Expenditure’ (FACE) forms should be correctly used by implementing partners when requesting cash transfers and reporting expenses.

During the period under review, the Office processed 37 direct payments and 39 cash transfers to implementing partners, amounting to \$322,891 and \$397,082, respectively. The audit team reviewed the Office's compliance with the HACT Framework and tested a sample of five direct payment vouchers amounting to \$157,487 (49 percent of the total direct payments) and six cash transfer transactions totalling \$286,688 (72 percent of the total cash transfers transactions).

The following weaknesses were noted:

a) Weaknesses in the monitoring of quality assurance activities:

- Out of eight spot checks planned during 2020, only one had been completed. The Office explained that this was due to travel restrictions related to the COVID-19 pandemic.
- No programmatic visits had been planned in 2020 and the Office could not provide evidence that any had been completed within the audit period.
- The capacity assessments of implementing partners had not been completed.
- 55 percent of the FACE forms sampled (6 out of 11) were incomplete when submitted by the implementing partners.

b) Inadequate follow-up of outstanding recommendations:

- The implementation status of previous recommendations arising from spot checks, programmatic visits, and micro-assessments, were not reviewed by the Office.

c) Inadequate reporting of implemented activities due to incorrect recording of the transactions:

- Due to inadequate utilization of the implementing agent codes, 83 percent of direct payment expenses amounting to \$270,733 were recorded as UNDP expenses, even though they were incurred by the implementing partners.
- Within the FACE form, 55 percent of transactions amounting to \$193,733 were not recorded under the appropriate activity. This led to significant variances in Atlas (enterprise resource planning system of UNDP) when reviewing the project budgets at the activity level.
- Within the FACE form, expenses totalling \$334,762 were incorrectly reported by the implementing partners under a single expense account code while the expenditure related to multiple expense categories.
- Payments for implementing partners valued at \$518,974 were not tagged in Atlas as required by the Office of Financial Management to facilitate tracking and reporting of cash transfers.

d) Weaknesses in the completion of FACE forms related to direct payments:

- In all the direct payments reviewed, the FACE forms included anticipated expenses while they should have only included actual expenses.
- In 80 percent of the direct payments reviewed, the FACE forms were not properly completed by the implementing partners

The situations described above were due to a misinterpretation of UNDP guidelines and inadequate oversight over implementing partners.

Failure to fully implement the HACT Framework could result in the use of an inappropriate cash transfer modality, which could result in financial losses. Furthermore, the inadequate processing and incorrect recording of payments may lead to financial risks and inefficiencies.

Priority	High (Critical)
Recommendation 2:	
The Office should improve the management of HACT by:	
<ul style="list-style-type: none"> (a) implementing the planned HACT quality assurance activities in line with UNDP policies; (b) following up on outstanding recommendations relating to implementing partners; and (c) reinforcing the oversight of direct payments, cash transfers and ensuring the correct use of FACE forms in line with UNDP policies. 	
Management action plan:	
The Office will:	
<ul style="list-style-type: none"> (a) designate staff members authorized to carry out spot checks according to their qualifications in order to guarantee the respect of the processes and for better documentation, and elaborate on the standard operating procedure for cash management; (b) follow up on outstanding recommendations relating implementing partners; and (c) organize training sessions on HACT procedures for Bureau staff and implementing partners. 	
Estimated completion date: December 2021	

2. Project administration

Issue 3 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 team reviewed a sample of five development projects with expenditures totalling \$2.6 million (55 percent of the total project expenditure during the period under review). The sample included two projects funded by the Global Environment Facility (GEF) (Project No. 96048, 'Micro Hydro', and Project No. 92643, 'Tridom') with expenditure of \$258,919. The projects reviewed were directly implemented by the Office except for the two GEF projects, which were nationally implemented with support services provided by the Office.

The audit team identified the following weaknesses:

a) Project design:

- Project documents should contain the following: risk analysis, timeline, and a results framework. For four projects, the project objectives and results information within the results and resources framework was incomplete. In one case, the annual work plan was not provided.
- The social and environmental screening procedure should be completed before the approval of the project. The audit team noted that this was not completed for one GEF project.

b) Project monitoring:

- The project progress reports should include a comparison between activities planned and activities implemented, risk analysis, and progress against the results framework. In all five projects, the project progress reports were incomplete.
- For four projects (Project Nos. 46774, 114192, 129730, 92643), including one GEF project, the monitoring data in the Atlas project module had not been entered or updated.

c) GEF project implementation delays:

The 'UNDP Programme and Operations Policies and Procedures' require project activities to be implemented in accordance with the time frame outlined in the project document.

The audit team noted that one project funded by the GEF (Project No. 96048, 'Micro Hydro') delivered \$199,496 over the period under review (i.e., 37 percent of available resources in 2020 and 4 percent in the first 2021 quarter). The low delivery was due to:

- delays in the tendering process in 2020 due to insufficient capacity within the Office; and
- a six-month delay in the finalization of the annual work plan, which led to a delay in starting the project.

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

Priority	High (Critical)
Recommendation 3: To strengthen project management, the Office should: <ul style="list-style-type: none"> (a) prior to project inception, ensure project documents include project objectives, results and resources framework, annual work plans and social and environmental screening; (b) ensure project reports include progress information and a risk analysis, and that the Atlas project module is updated; and (c) address internal and external capacity issues for projects funded by the Global Environment Facility. 	
Management action plan: The Office will: <ul style="list-style-type: none"> (a) develop an annual schedule for project management including preparation of project reports and periodic reporting in Atlas for the Programme Team; (b) ensure project documents include all the required information, organize a training session on social and environmental screenings for project staff and systematize the practice in all projects; and (c) evaluate the current capacities and proceed with a reorganization of the Office's environment and economic diversification unit with the reinforcement of the team through the recruitment of additional human resources (United Nations Volunteer and a national GEF project specialist, among others). 	
Estimated completion date: December 2021	

C. Operations – Procurement

1. Good and services

Issue 4 Weak performance in conducting procurement processes

The 'UNDP Programme and Operations Policies and Procedures' require the development of annual consolidated procurement plans. Analysis of the consolidated procurement plan provides an opportunity to identify efficiencies and economies of scale.

During the audit period, the Office processed 294 purchase orders, totalling \$2.9 million. The audit team reviewed a sample of 22 transactions amounting to \$0.7 million (24 percent) and noted the following weaknesses:

a) Weaknesses in procurement planning:

- Out of the 18 development projects that procured \$2.1 million during the period under review, only 1 project had prepared a procurement plan totalling \$36,190.
- 51 percent of requisitions totalling \$0.7 million were created in Atlas at the same time of raising the purchase orders. Requisitions should precede the creation of purchase orders.

b) Weaknesses in the oversight of procurement activities and contract management:

Submissions to the procurement oversight committees should include all information to demonstrate adherence to the corporate policies. Contract expiration dates should be monitored to ensure extensions are completed prior to expiry.

- 60 percent (three out of five) of the procurement cases reviewed by the oversight committees were either rejected, cancelled, or remained under review.

The observations included:

- inadequate advertisement period;
 - inconsistencies in request for proposals information;
 - minimum eligibility and qualification criteria not included; and
 - technical evaluation criteria not included in the request for proposals.
- The Office did not monitor the expiry of contracts. In 4 cases out of the 22 sampled and valued at \$107,404, the Office had to extend contracts after expiration.

c) Ineffective monitoring of purchase orders:

- In five cases valued at \$143,077, the purchase orders were not created in a timely manner, which presented the risk that the signed commitments might not be honoured due to unsecured funds.

These weaknesses were caused by the lack of oversight over procurement processes. According to the Office, these errors also resulted from a six-month vacancy of the procurement officer position in 2020.

Failure to effectively plan can result in rushing the procurement of goods and services, which may prevent the Office from achieving value for money. Ineffective oversight over procurement contracts may expose the organization to financial and reputational risks.

Priority	High (Critical)
Recommendation 4:	
The Office should enhance oversight and performance over procurement processes by:	
<ul style="list-style-type: none"> (a) preparing a consolidated procurement plan and ensuring applicable procurement processes are initiated with a requisition in Atlas; (b) reinforcing oversight on procurement activities including the creation of purchase orders when funding is available; and (c) ensuring that contracts are correctly monitored and renewed prior to the expiration date. 	
Management action plan:	
The Office will:	
<ul style="list-style-type: none"> (a) finalize the Office's procurement plan on time and systematize the use of the corporate procurement planning platform (PROMPT); (b) establish a control mechanism via a checklist for the procurement process and the establishment of contracts; and (c) develop a contract monitoring tool for more systematic and reinforced monitoring on a monthly basis. 	
Estimated completion date: December 2021	

D. Operations – Finance

1. Office budget and cost recoveries

Issue 5 Inefficiencies in the implementation of Direct Project Costing mechanism

The financial sustainability of UNDP Country Offices depends on their ability to implement effective cost recovery mechanisms on services provided. Direct project costs (DPC) are organizational costs incurred in the implementation of a development activity or service that can be directly traced and attributed to that development activity (projects and programmes) or service.

A stand-alone DPC project requires a 'pre-funding', a quarterly reconciliation, and a reversal of expenses between a stand-alone project and development projects. Expenses recorded under the DPC projects should be fully apportioned to attributable projects by year-end to ensure projects reflect the appropriate costs when reporting to donors and a DPC project reflects a zero balance.

A review of the implementation of DPC in the Office disclosed the following shortcomings:

- The Office did not develop a standard operating procedure describing the *modus operandi* of the DPC system implemented by the Office.
- The DPC was only recovered on salary costs, not on the General Operating Expenses.
- The Office did not use the correct account code when charging DPC to development projects.
- The Office had not performed the quarterly reconciliations between budgeted and actual DPC amounts as required by the guidelines when using the stand-alone DPC project modality.

- The salary costs of nine staff amounting \$43,677 were incorrectly charged as DPC.
- The DPC stand-alone project displayed a balance of \$186,862 at year end 2020 while it should have been cleared.

Ineffective implementation of Direct Project Costing may result in the Office either subsidizing or overcharging development projects.

Priority	Medium (Important)
Recommendation 5: To strengthen the implementation of Direct Project Costing, the Office should: <ul style="list-style-type: none"> (a) ensure DPC is applied on General Operating Expenses and that the correct account code is used when charging DPC; (b) perform regular reconciliations between budgeted and actual amounts recorded in the DPC stand-alone project and clearing all outstanding amounts; and (c) reinforce oversight on cost recovery activities to reduce errors and ensure that DPC are correctly calculated and timely recovered. 	
Management action plan: The Office will: <ul style="list-style-type: none"> (a) develop a standard operating policy for the systematic implementation of DPC and cost recovery. (b) systematize the quarterly recovery of DPC amounts through reconciliation with the stand-alone project; and (c) systematize the verification of the reconciliation of the quarterly DPC at the management level. Estimated completion date: December 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.