UNITED NATIONS DEVELOPMENT PROGRAMME
Office of Audit and Investigations

AUDIT

OF

UNDP COUNTRY OFFICE

IN

DJIBOUTI

Report No. 2294

Issue Date: 7 April 2021

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Report on the Audit of UNDP Djibouti
Executive Summary

The UNDP Office of Audit and Investigations (OAI) conducted an audit of UNDP Djibouti (the Office) from 1 to 16 February 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 $5.1 million, excluding Global Fund expenses that represented $3.3 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 **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 financial sustainability of the Office being at risk and unbudgeted financial obligations related to the Office's relocation.

Key recommendations: Total = **10**, high priority = **2**

Objectives	Recommendation No.	Priority Rating
Achievement of the organization's strategic objectives	1, 10	High
	2	Medium
Reliability and integrity of financial and operational information	4	Medium
Effectiveness and efficiency of operations	3, 5, 7, 9	Medium
Compliance with legislative mandates, regulations and rules, policies and procedures	6, 8	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:

Financial sustainability at risk (Issue 1)	The Office's financial sustainability was at risk due to Government Contributions towards Local Office Costs not being recovered, a reduction in General Management Support, and lower direct project cost recovery amount. Recommendation: To improve its financial sustainability, the Office should: (a) increase its efforts to recover Government Contributions towards Local Office Costs, and accelerate programme delivery to increase General Management Support; (b) recover direct project costs; and (c) identify and implement cost saving measures.
Unbudgeted financial obligations related to Office's relocation (Issue 10)	The Office signed a new lease on 4 April 2019. No document could be provided to the audit team on how the costs of the move would be paid. As of today, the lessor claims a total of $699,300, but the Office does not have the necessary funds to pay for it. The claimed amount includes moving expenses ($348,000 + VAT) and outstanding invoices for security services, which have not been approved by UNDP and are still under negotiation. Once the amount of moving expenses is paid, the Office will have a monthly rent of around $48,000, starting March 2021. Recommendation: In order to meet its financial obligations, the Office should identify, in coordination with the Regional Bureau for Arab States, the possible options to finance the outstanding rent and costs related to the relocation of the Office as well as the future ones.

Management comments and action plan

The Resident Representative accepted the 10 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 S. Osttveiten
Director
Office of Audit and Investigations

I. About the Office

The Office, located in Djibouti, Republic of Djibouti, and its Country Programme covered the period 2018–2022 with the following development priorities:

a) strengthened livelihoods and access to basic health services;
b) environmental sustainability and climate resilience; and
c) enabling and inclusive governance framework for sustainable development.

During the period from January to December 2020, the Office spent $6.8 million on development activities, a decrease by 13 percent compared to the previous period. This figure includes $3.3 million spent on Global Fund projects.

Excluding the Global Fund activities, the largest development projects in terms of expenses during the period covered by the audit are:

Title	Expenditure January - December 2020 $million
UNDP response to the crisis in Djibouti	0.6
PIMS 5560 Marine Biodiversity	0.5
Enhancing youth Resilience for social stabilization	0.4
Economic recovery and resilient livelihoods	0.3
Total	**1.8**

Note: *The resources from Global Fund were not included in the audit and are not shown in this table.

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
United States of America	2.5
Global Environment Facility	1.1
Multi-Partner Trust Fund Office	0.6
Total	**4.3**

Note: *The resources from Global Fund were not included in the audit and are not shown in this table, the total reflects the rounded amount.

II. Audit results

Satisfactory performance was noted with regards to gender balance. Gender balance was achieved in the Office. 80 percent of international positions were occupied by women, including 50 percent at the senior management level (P-5 and above). The average for the Regional Bureau was 43 percent.

OAI made two recommendations ranked high (critical) and eight 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 financial sustainability (Recommendation 1).
(b) Identify, in coordination with the Regional Bureau for Arab States, the possible options to finance the outstanding rent and costs related to the relocation of the Office as well as the future ones (Recommendation 10).

Medium priority recommendations, arranged according to significance:

(a) Resolve the issues relating to the procurement contract for the GEF project (Recommendation 2).
(b) Strengthen procurement management (Recommendation 3).
(c) Strengthen the implementation Direct Project Costing (Recommendation 4).
(d) Strengthen human resources management (Recommendation 5).
(e) Strengthen the management of service contract holders (Recommendation 6).
(f) Process all business travels through the Travel and Expense Module (Recommendation 7).
(g) Submit asset disposal cases to the appropriate review committee (Recommendation 8).
(h) Strengthen fuel management (Recommendation 9).

The detailed assessment is presented below, per audit area:

A. Governance

1. Planning & risks register management

Issue 1 Financial sustainability at risk

Country Offices should ensure financial sustainability by generating sufficient funds to cover operating costs.

In 2020, the financial sustainability was at risk because the Office's expenditure exceeded income by $602,000; the deficit in 2019 was $451,000. The 2020 reduction was based on a reduction of income while management costs remained high.

a) Reduced income in 2020:

Income of the Office (including direct project costs recovered) decreased from $1.01 million (2019) to $869,000 (2020) due to the following:

- Not meeting the $220,000 target for Government Contributions towards Local Office Costs, since the Government did not contribute due to the pandemic. The outstanding amount reached $2.176 million.
- A reduction of General Management Support income of $132,000 from 2019. This was due to lower delivery, partly explained by the postponement of two large projects due the COVID-19 pandemic and new projects with a lower General Management Support rate.
- A lower direct project cost recovery amount of $389,000 against a target of $468,000.

b) High management costs compared to the programme delivery:

In 2020, management costs remained at $1.5 million, unchanged from 2019. Management costs represented 22 percent of programme expenses compared to the Regional Bureau average of 7 percent.

Without generating sufficient income to meet operating costs, the Office's financial sustainability may be at risk.

Priority	High (Critical)
Recommendation 1: To improve its financial sustainability, the Office should: (a) increase its efforts to recover Government Contributions towards Local Office Costs, and accelerate programme delivery to increase General Management Support; (b) recover direct project costs; and (c) identify and implement cost saving measures.	
Management action plan: The Office will prepare a three-year financial sustainability analysis in consultation with the Regional Bureau, with four objectives: - accelerate programme delivery, - reduce institutional expenses, - rationalize implementation to ensure a minimum 80 percent delivery and General Management Support collection, and - standardize direct project costs collection. **Estimated completion date:** 31 October 2021	

B. Development activities

1. Project administration

Issue 2 Low delivery on Global Environment Facility (GEF) project

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

The audit team reviewed the delivery of three ongoing development projects funded by the GEF, with expenditures totalling $0.8 million representing 24 percent of total project expenditure (excluding Global Fund) in 2020. The following weakness was identified:

- One project, with a budget of $338,000, had a delivery rate of 39 percent in 2020 and 13 percent in 2019 due to weaknesses in the implementation of a large procurement contract (70 percent of project resources).

The procurement was completed by the implementing partner; however, upon receipt of the payment request by the Office, the GEF team and Regional Bureau deemed the contract award as unsatisfactory.

Extra time was required to ensure that the technical specifications met international standards, and that value for money was achieved.

Priority	Medium (Important)
Recommendation 2: The Office should ensure the timely delivery of activities within the GEF project by resolving the issues relating to the procurement contract.	
Management action plan: The Office will resolve the issues relating to the procurement for the GEF project. **Estimated completion date:** 31 December 2021	

C. Operations - Procurement

1. Goods & services

Issue 3 Weaknesses in procurement management

The `UNDP Programme and Operations Policies and Procedures' require offices to develop consolidated annual procurement plans, raise requisitions at the outset of the procurement process, and raise purchase orders once the selection has been made, prior to the receipt of goods. In the management of individual contracts where the cumulative contract value exceeds $100,000 over a 12-month period, the case should be submitted to the Contracts, Assets and Procurement Committee for review.

The Office processed 212 purchase orders totalling $2.3 million (Global Fund transactions excluded).

The following weaknesses were observed:

a) Incomplete procurement planning:

- The procurement plan was not updated and reviewed during the year to adapt to the changing programme and project requirements. During 2020, only $278,000 (12 percent) of the total of purchase orders processed ($2.27 million) had been entered in the corporate procurement plan platform (PROMPT).

b) Non-conformance with policies and procedures:

The audit team observed the following weaknesses:

- 29 purchase orders amounting to $94,490 were created at the time of receipt.
- Seven purchase orders amounting to $18,675 were approved after the goods and services were received.
- 46 purchase orders (21 percent of all processed purchase orders) with a value of $90,886 were created and approved without requisitions.
- Receipt of goods within Atlas totalling $151,356 was not completed.

These weaknesses were caused by the lack of an oversight mechanism over procurement processes.

c) Weaknesses in the management of individual contracts:

- The audit team reviewed 10 purchase orders relating to individual contracts, totalling $372,444. For three individual contracts, the cumulative amounts awarded over a 12-month period exceeded $100,000. The cases were not submitted to the Contracts, Assets and Procurement Committee.

Failure to adhere to procurement rules and regulations may place the Office at risk of financial losses.

Priority	Medium (Important)
Recommendation 3: The Office should strengthen procurement management by: (a) preparing a comprehensive procurement plan in the management platform (PROMPT) and updating it on a regular basis; (b) raising requisitions, purchase orders and receipting of goods in Atlas, in accordance with corporate guidelines; and (c) strengthening controls in the management of individual contracts.	
Management action plan: The Office will: (a) prepare, enter and regularly update the procurement plan in PROMPT; (b) develop a standard operating policy on procurement to put controls in place and ensure compliance with corporate guidelines and organize a training on it, and designate a UNDP personnel as focal point to ensure that supplies/services are received in Atlas and that the appropriate supporting documentation is uploaded into the system or annexed to the voucher and develop a standard operating policy on the receipt of goods/services and conduct a training to all personnel; and (c) develop a standard operating policy on the management of individual contracts and organize a training on it. **Estimated completion date:** 30 November 2021	

D. Operations – Finance

1. Office budget and cost recoveries

Issue 4 Incomplete implementation of Direct Project Costing (DPC)

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:

a) Incomplete charging of direct project costs:

- Direct project costs amounting to $159,203 (out of a total of $468,607) were incorrectly charged to management projects instead of development projects, and therefore not recovered from the donor.
- At the time of the audit, the Office did not consistently perform the quarterly reconciliations between the stand-alone and development project. The lack of such reconciliations prevented the Office from accurately following up on expenses incurred and charged to DPC by the development project.

b) Incorrect account codes for charging DPC to development projects:

- There are two DPC account codes that should be used when charging directly attributable costs to development projects. These account codes were not used in 31 percent of the total DPC charged to projects.

Inadequate implementation of DPC might prevent the Office from recovering the staff and general operating expenses attributable to development projects.

Priority	Medium (Important)
Recommendation 4: The Office should strengthen the implementation of Direct Project Costing by: (a) ensuring all direct project costs are attributed to development projects; and (b) using the correct accounts codes applicable for Direct Project Costing.	
Management action plan: The Office will: (a) develop a specific standard operating procedure to plan, record and monitor DPC for standardization and improved efficiency – this SOP will be integrated into the three-year financial sustainability analysis in consultation with the Regional Bureau; and (b) review quarterly DPC entries and account codes. **Estimated completion date:** 31 October 2021	

E. Operations – Human resources

1. Performance management

Issue 5 Weaknesses in human resources management

The `UNDP Programme and Operations Policies and Procedures' stipulate that effective performance management and the development of each staff member are a shared responsibility of the supervisee and

the supervisor. The performance review for each staff member should be completed on an annual basis. The mandatory courses should be completed by all personnel within one month of joining. Delegation of authority is the assignment of authority of an appointment holder to another person, to carry out specific activities or take decisions that are within the authority of the delegator.

The audit team identified the following weaknesses within human resources management:

a) Lack of clarity in the delegation of human resources responsibilities:

- Four staff members had the profile of HR administrator in Atlas (enterprise resource planning system of UNDP). The delegation of authority for the staff members with human resources responsibilities did not detail the functions assigned to them.

In anticipation of the clustering of the human resources function, the Office decided not to fill the Human Resource Associate vacancy and allocated the tasks to different individuals.

b) Low completion of an annual performance reviews:

- In 2019, 16 out of 18 staff had not completed their annual performance reviews.

c) Mandatory trainings not completed:

- At the time of the audit, the completion rate for mandatory courses was 52 percent (including service contracts):

Courses	Completion rate
UN Human Rights and Responsibilities	37%
UNDP Legal Framework: What every staff should know	37%
Greening The Blue	42%
The Gender Journey: Thinking outside the box	47%
Ethics and Integrity at UNDP	55%
Anti-fraud e-learning: Fraud and Corruption Awareness and Prevention	61%
BSAFE	63%
Prevention of Sexual Exploitation and Abuse of the Local Population (PSEA)	63%
United Nations Course on Prevention of Harassment, Sexual Harassment and Abuse of Authority	66%
Total	**52%**

In the event performance reviews and mandatory trainings are not completed, staff may not be aware of corporate policies and poor performance may not be addressed.

Priority	Medium (Important)
Recommendation 5: The Office should strengthen human resources management by: (a) specifying the human resource management responsibilities within each delegation of authority; and (b) ensuring all staff complete the annual performance reviews and mandatory trainings.	
Management action plan: The Office will: (a) clarify the HR organizational structure by specifying that the Operations Associate is also the HR Associate and that the Procurement Associate is the alternate HR Associate, in accordance with the delegation of authority; and (b) appoint a focal point and develop an action plan to closely monitor the completion rate of performance reviews and mandatory training. **Estimated completion date:** 31 October 2021	

2. Service contracts

Issue 6 Weaknesses in service contract management

The terms of reference for service contract holders should include measurable outputs and performance indicators for their evaluations. An individual work plan must be established within one month of the contract signature, in line with the terms of reference. The remuneration for service contract personnel requires that service contract remuneration scales are updated annually.

The audit team reviewed the recruitment, separation, and payroll processes, and the terms of reference for 8 out of 13 service contract holders.

a) Incomplete terms of reference

The audit team observed that none of the terms of reference of the eight sampled service contract holders included measurable outputs or performance indicators. Further, no individual work plans were prepared.

Without this information, the Office would be unable to evaluate the service contract holders' performance.

b) Outdated service contract remuneration scale:

The Office had not updated its service contract remuneration scale since 2014.

The outdated remuneration scale may deviate from prevailing conditions found in the local labour market and may have a negative impact on personnel.

Priority	Medium (Important)
Recommendation 6: The Office should strengthen the management of service contract holders by: (a) ensuring that the terms of reference include measurable outputs with associated indicators; and (b) completing the service contract remuneration survey to update the remuneration scale for service contract holders.	
Management action plan: The Office will: (a) prepare individual work plans to facilitate performance evaluation; and (b) update the service contract salary scale. **Estimated completion date:** 30 November 2021	

F. Operations – Administrative services

1. Travel management

Issue 7 Weaknesses in the use of the Travel and Expense Module

According to the 'UNDP Programme and Operations Policies and Procedures', all business travel should be processed via the Atlas Travel and Expense Module. The module facilitates the review and approval of each travel transaction.

The audit team reviewed 15 out of 21 trips processed in 2020 totalling at $31,104 (representing 24 percent of the total travel expenses). The review confirmed that only 3 out of 15 trips (20 percent) had been processed within the Atlas Travel and Expense Module.

In the event the Travel and Expense Module is not used, the administrative burden and processing times may increase.

Priority	Medium (Important)
Recommendation 7: To improve travel management, the Office should process all business travels through the Travel and Expense Module within Atlas.	
Management action plan: The Office will develop a standard operating policy for travel management and conduct a training for all personnel. **Estimated completion date:** 31 October 2021	

2. Assets

Issue 8 Weaknesses in the oversight of asset disposal

According to the 'UNDP Programme and Operations Policies and Procedures', an asset disposal with a net book value above $5,000 should be reviewed by the Contracts, Assets and Procurement Committee.

In January 2020, the Office completed a disposal of 32 assets totalling $417,096. The audit team observed that the disposal of two security related assets (net book value of $114,483) was completed without submission to the Contracts, Assets and Procurement Committee.

Weaknesses in the management of asset disposal increases the risk of asset misappropriation.

Priority	Medium (Important)
Recommendation 8: The Office should submit all disposal cases to the appropriate review committee before finalizing the disposal.	
Management action plan: The Office will develop a standard operating policy and conduct a training for all personnel on asset disposal. **Estimated completion date:** 30 November 2021	

3. Vehicles

Issue 9 Weaknesses in fuel management

Effective fuel management requires adequate oversight to determine that there has been no unauthorised use.

The Office's fuel consumption (except Global Fund projects) was $27,000 in 2020. Each driver received weekly fuel coupons based on their assessed needs. The audit team reviewed the monthly reconciliation of fuel consumption and noted that there was no comparison between the fuel consumption for each vehicle and the distance recorded in the logbooks.

Without adequate monitoring of fuel consumption, unusual variances may not be detected.

Priority	Medium (Important)
Recommendation 9: To strengthen fuel management, the Office should develop a fuel management policy that includes the calculation and review of fuel consumption.	

Management action plan:

The Office will prepare a new fuel management policy, launch a competitive process and enter into a long-term agreement with the selected service provider to strengthen control mechanisms, notably through individual cards and real-time consumption monitoring via a mobile application.

Estimated completion date: 31 October 2021

4. Common services

Issue 10 Unbudgeted financial obligations related to Office's relocation

A security assistance mission led by the Director of the UNDP Security Office (29 July to 1 August 2018) recommended to relocate the Office to a new building for security reasons. In fact, the mission noted many security issues with the previous location. The report also supported the move to the current location, which presented, based on their assessment, state-of-the-art security measures.

In September 2018, the Operations Manager of the Regional Bureau for Arab States' Regional Hub reached out to the Bureau for Management Services to inform them of their plan to change premises due to security reasons. She asked for the list of the documents that should be submitted for review and approval in order to proceed. As advised, the case was then submitted through UNDP's online platform for Premise Case Management and endorsed on 26 March 2019.

The Office signed the new lease on 4 April 2019. No document could be provided to the audit team on how the costs of the move would be paid.

As of today, the lessor claims a total of $699,300 but the Office does not have the necessary funds to pay for it. The claimed amount includes moving expenses ($348,000 + VAT) and outstanding invoices for security services, which have not been approved by UNDP and are still under negotiation. Once the amount of moving expenses is paid, the Office will have a monthly rent of around $48,000, starting in March 2021.

Failure to secure the necessary funds will jeopardize the sustainability of the Office.

Priority High (Critical)

Recommendation 10:

In order to meet its financial obligations, the Office should identify, in coordination with the Regional Bureau for Arab States, the possible options to finance the outstanding rent and costs related to the relocation of the Office as well as the future ones.

Management action plan:

The Office will request the assistance of the Regional Bureau for Arab States and of the Bureau for Management Services to identify possible options to finance the one-time relocation for new premises for security reasons.

Estimated completion date: 31 August 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.