UNITED NATIONS DEVELOPMENT PROGRAMME
Office of Audit and Investigations

AUDIT

OF

UNDP COUNTRY OFFICE

IN

KENYA

Report No. 2300

Issue Date: 28 January 2022

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Report on the Audit of UNDP Kenya
Executive Summary

The UNDP Office of Audit and Investigations (OAI) conducted an audit of UNDP Kenya (the Office) from 2 to 26 November 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).

OAI designed the following six performance audit questions to guide the review of the following areas:

Development activities

1. Are development results being achieved effectively and are results monitored based on pre-defined monitoring frameworks?
2. Are development results being achieved in accordance with the planned budget and timeframe?

Procurement

3. Did procurement processes result in the contracting of required services and products (effectiveness) in a timely manner (efficiency), ensuring best value for money (economy)?
4. Were procurement processes conducted with fairness and transparency?

Finance

5. Were financial transactions processed timely and accurately?

Human resources

6. Were human resource activities conducted effectively?

The audit covered the activities of the Office from 1 January 2020 to 30 September 2021. The Office recorded programme and management expenses of approximately $39.2 million. The last audit of the Office was conducted by OAI in 2018.

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 contents and petty cash 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." This rating was mainly due to weaknesses in project management.

Good practice

The Office launched a transformation initiative called "CO-RESET", which has delivered a holistic and transformational working environment and internal change by bringing Office staff together to strengthen performance and accountability to address programmatic and operational issues (refer to page 2 for details.)

Key recommendations: Total = **3**, high priority = **1**

The three recommendations aim to ensure the following:

Objectives	Recommendation No.	Priority Rating
Achievement of the organization's strategic objectives	1	Medium
	2	High
Effectiveness and efficiency of operations	3	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. The high (critical) priority recommendation is presented below:

Weak project management (Issue 2)	The following weaknesses in project management were noted (four projects sampled): (a) Lack of definition and measurement of the government in-kind contributions (two cases / both GEF projects), (b) Missing baseline information in two out of three outputs (one case / GEF project) and lack of an exit strategy and sustainability plan (one case) (c) There were delays, ranging from 6 months to 1 year, in the start of the implementation of the four sampled projects. (d) There was inadequate monitoring of project progress in achieving programme results in all four projects. (e) Data collection was conducted at the project activity level; however, the data was not linked to project outcomes, and thus, it was unclear how the results at the project and programme levels were measured. <u>Recommendation:</u> The Office should improve project management by: (a) defining the in-kind contributions and establishing a system for their measurement; (b) establishing project baselines, exit strategies and sustainability plans in the project documents; (c) improving planning for new projects by incorporating the Government's requirements for signing agreements; (d) monitoring results at project and programme levels to facilitate the oversight of results by the project board; and (e) ensuring that data collected are linked to project and programme outcomes, supported by training.

Implementation status of previous OAI audit recommendations: Report No. 2003, 7 December 2018.

Total recommendations: 6

Implemented: 6

Management comments and action plan

The Resident Representative accepted all 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.

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Helge S. Osttveiten
Director
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I. About the Office

The Office, located in Nairobi, Kenya (the Country) and its Country Programme (CPD) covered the period Mid-2018 to 2022. The CPD with a total budget of $185.2 million was focused on three development areas, namely:

a) Governance, peace, and security;
b) Inclusive growth and structural reform; and
c) Environmental sustainability, climate change and resilience.

During the period from January 2020 to September 2021, the Office spent $36.2 million on development activities, an increase of 16 percent compared to the previous period.

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

Title	Expenditure Jan.-Dec. 2020 $million	Expenditure Jan.-Sept. 2021 $million
Devolution Joint Project	4.8	2.3
Amkeni wa Kenya	3.1	1.7
Stabilisation and Recovery	2.2	2.2
REDD+ Readiness Grant	1.4	0.7
Strengthening Devolved Governance in Kenya	1.4	0.2
Total	**12.9**	**7.1**

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
Global Environment Fund (GEF)	11.2
Japan	9.0
Sweden	4.0
European Union	5.1
Finland	1.2
Total	**30.5**

Other critical information

Due to the COVID-19 pandemic, the Country went into lockdown from 16 March until 4 October 2021. During this time only 10 percent of staff performing critical functions were allowed into the Office. As of the date of the audit, 60 percent of staff were allowed to work from the Office. The lockdown impacted on operational efficiency and the implementation of projects.

II. Good practices

OAI identified good practices, as follows:

Governance/Organizational structure

The Office's initiative called "CO-RESET" is a new way of doing business designed to transform the culture of UNDP Kenya. The objective, is to create a holistic and transformational working environment and internal change by bringing staff together to strengthen performance and accountability to address programmatic and operational issues.

There are seven priority areas grouped in three broad clusters (1 — CPD Roll-out, Resource Mobilization and Engagement; 2 — Organizational Excellence and Efficiency in Business Processes; and 3 — Staff Wellbeing and Talent Management). Each cluster ensures representation from programme and operations personnel incorporating gender balance, including staff from the UNDP Regional Service Centre, United Nations Volunteers, as well as a staff from each of the clusters. This process has led to building a more collaborative working environment. Each cluster is chaired by a selected staff member, thus empowering the Office personnel to become leaders and enhance full ownership of the framework. In doing so, personnel within the Office own and lead the processes while management provides support and guidance.

III. Audit results

Satisfactory performance was noted in the following areas:

(a) Governance. Controls and procedures within governance activities including corporate planning and risk registers, staff organization, the internal control framework and delegation of authority as well as business continuity were found to be adequate.
(b) Human resources. Recruitment of staff and service contractors was in line with operational procedures.
(c) Administrative services. The internal control procedures for the management of travel, assets and vehicles were found to be adequate.
(d) Information communication and technology. Controls and procedures on information communication and technology were found to be adequate.

The assessment of performance audit questions was as follows:

(a) Development activities

1. Are development results being achieved effectively and are results monitored based on pre-defined monitoring frameworks?

   Monitoring of project and programme results were inadequate. Monitoring was conducted at an activity level and the data collected related to completed activities. Monitoring at the outcome level, however, was not evidenced and the data collected at the activity level was not linked to project outcomes. Thus, it was unclear how the programme results were measured, and progress assessed (refer to issue 2).

2. Are development results being achieved in accordance with the planned budget and timeframe?

Development results were not achieved in accordance with planned budget and timeframe. The Office was not able to mobilize the resources required to meet the development objectives for the current country programme. From a $175 million resource mobilization target, the Office received donor contributions of $79 million and signed agreements with donors for a total value of $10.4 million. The total of $89.4 million represented 51 percent of the required resources for the current programme cycle (refer to issue 1).

At a project level, one of the four sampled projects had a funding gap of approximately $15.5 million, which represented 47 percent of required resources. In the other two projects sampled (GEF projects), there was no clear articulation of what activities and/or services would constitute in-kind contributions and how they were going to be measured and valued. There were delays of between six months to one year in the start of implementation for all the four projects sampled due to delays in the signing of agreements with the national counterparts (refer to issue 2).

(b) Procurement

3. Did procurement processes result in the contracting of required services and products in a timely manner, ensuring best value for money?

Based on a review of a sample of 42 purchase orders valued at $2.2 million (representing 34 percent of the total value of procurement in the review period, totalling $7.4 million), the audit team concluded that procurement processes were performed appropriately to ensure timeliness and value for money. Processing delays noted during the review of procurement transactions were due to the impact of the COVID-19 pandemic and other external factors, which were out of the Office's control.

4. Were procurement processes processed with fairness and transparency?

The procurement of goods and services was generally performed in a fair and transparent manner. The audit team sampled 42 purchase orders with a combined value of $2.2 million, representing 34 percent of total procurement valued at $7.4 million during the audit period.

(c) Finance

5. Were financial transactions processed timely and accurately?

The audit team noted that payments were not timely processed. From the review of 37 vouchers with a total value of $4,176,972.67, there were 6 vouchers with total value of $513,788 where payments of goods were delayed. The average processing time for the six vouchers was 116 days. The Standard Operating Procedure (SOP) for Organizational Excellence stipulates the processing of vouchers for purchase order and non-purchase order items should take between 3 to 4 days whereas the processing of direct payments should take 12 days.

The Office explained that the delays were sometimes caused by the additional time taken to verify documents from partners or in obtaining missing supporting documentation required for payment processing (issue 3).

(d) Human resources

6. Were human resource activities conducted effectively?

From the selected sample of 11 recruitments (4 fixed-term appointments and 7 service contracts), recruitment was conducted effectively.

From the selected sample of 11 recruitment cases, all selected candidates met the minimum requirements as stipulated in the vacancy announcement.

OAI made one recommendation ranked high 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 recommendation:
(a) Improve project management (Recommendation 2).

Medium priority recommendations, arranged according to significance:
(b) Strengthen programme design (Recommendation 1).
(c) Improve the disbursement process (Recommendation 3).

The detailed assessment is presented below, per audit area:

A. Development Activities

1. Country Programme

Issue 1 Weaknesses within programme design

The 'UNDP Programme and Operations Policies and Procedures' stipulate that the size and scope of programmes must be consistent with available resources and resource mobilization efforts. They also state that portfolios should be developed to improve the integration of projects that contribute to shared results. This approach may reduce the transaction costs associated with managing a project.

The following weaknesses were noted:

Inadequate programme budgeting and formulation

The 2018–2022 CPD had a budget of $185.2 million, of which $175 million was to be mobilized from bilateral donors, the private sector and international finance institutions. The Office's resource mobilization target was an average of $46.2 million per annum, which has not been achieved. A review of the Office's pipeline showed that out of the $175 million, the Office mobilized $79 million and had signed donor agreements for an additional $10.4 million, totalling $89.4 million, and equivalent to 51 percent of the required $175 million in resources.

The Office had pipeline initiatives of approximately $86.5 million rated as Category C, which means that they were ideas to be further developed and therefore could not be included as possible resources. This pipeline had remained rated as Category C since the beginning of the 2018–2022 CPD.

In addition, for one project there was a funding gap of approximately $15.5 million. The total budget for the project was $32.5 million, of which only $17 million had been funded. This was due to unrealistic budgeting.

The Office explained that the CPD focused on continuing priorities and emerging demands from the previous CPD that ended in mid-2018. The Office added that the decrease in donor interest when the Country graduated from low-Income to lower-middle income status in 2014 (per the World Bank ranking), was not anticipated, as well as the shift in donor focus due to the COVID-19 pandemic.

The Office should have taken into consideration the anticipated reduction in donor interest that is normally associated with lower middle-income countries when planning for and formulating the 2018–2022 CPD.

Priority	Medium (Important)
Recommendation 1: The Office should strengthen programme design by formulating the programme and project budgets and targets based on resources that can realistically be mobilized and secured, and strengthening the resource mobilization and pipeline strategy.	
Management action plan: The Office noted the recommendation. In line with the draft Country Programme Document's theory of change, the Office will continue to enhance and align its resource management and portfolio approaches in view of the Country's dynamic context and its status as a low middle-income country, including a more realistic overall 2022–2026 CPD resource envelope. **Estimated completion date:** December 2022	

2. Project Administration

Issue 2 Weak project management

The 'UNDP Programme and Operations Policies and Procedures' prescribe that there must be adequate resources to achieve the strategic objectives, supported by a well-articulated results framework for project monitoring. The implementation of the project involves delivering outputs defined in an approved project within a specified timeframe. In addition, there must be an exit strategy that details the sustainability of the development impact in the project document.

The audit team sampled four projects. The projects' expenditures amounted to $10.9 million, which accounted for 30 percent of the total project delivery of $36.2 million during the audit period.

The following weaknesses were noted:

a) Weak project design

The audit team noted the following weaknesses in the four projects reviewed:

i. For another project created in 2017, an exit strategy and sustainability plan had not been articulated. The project was due to end in October 2020 and was extended until December 2022. Following the audit, the Office indicated that an exit strategy had been drafted.

ii. For two GEF projects, there was no definition of what activities and/or services would constitute the government in-kind contributions and how to measure them. For one project, the total project budget was $21 million, of which $16 million (76 percent of the total budget) was set as an in-kind contribution. For the second project, the total project budget was $9.2 million, of which $5 million was an in-kind contribution, representing 54 percent of the required budget.

iii. There was missing baseline information in two out of three outputs for one of the GEF projects.

b) Delays in the start of projects

There were delays, ranging from 6 months to 1 year, in the start of the implementation of the four sampled projects. This was mainly due to delays in the signing of agreements with the government counterpart. The Country introduced a system where all agreements must go through a central ministry and the National Treasury before being signed. This was to facilitate the recording of development aid for the Government. The delays resulted in two projects requesting no-cost extensions until December 2022.

c) Weak data collection and monitoring of results

There was inadequate monitoring of project progress in achieving programme results. The audit team noted that monitoring and data collection was conducted at the project activity level. However, the data was not linked to project outcomes, and thus, it was unclear how the results at the project and programme levels were measured. In addition, it was also observed that annual reviews completed by the respective project boards focused on activities and not on assessing project progress on results.

The Office was aware of the weaknesses in the collection of data and hired a Results Based Management Analyst in November 2020, but due to the COVID-19 pandemic, progress on collecting data has been limited. Staff had not been trained in relation to results-based management.

Delayed implementation and weak project design and monitoring may result in projects not achieving the planned results within the project cycle.

Priority	High (Critical)

Recommendation 2:

The Office should improve project management by:

(a) defining the in-kind contributions and establishing a system for their measurement;
(b) establishing project baselines and clearly articulated exit strategies and sustainability plans in the project documents;
(c) improving planning for new projects by incorporating the Government's requirements for signing agreements;
(d) monitoring results at project and programme levels to facilitate the oversight of results by the project board; and
(e) ensuring that data collected are linked to project and programme outcomes, supported by training.

Management action plan:

The Office noted the recommendations and will seek to enhance the monitoring and tracking of costing systems for the in-kind contributions, particularly for the GEF portfolio and in the design of all new programmes. The Office will continue to work closely with government counterparts in project formulation and approval processes to ensure expeditious project commencement. Specifically, the Office will engage with the Government for timely signature of new project/programme documents and grant agreements.

It will also continue to enhance its staff results-based management capacity and project monitoring processes. The Office will therefore plan to undertake personnel and main government implementing partners training on results-based management. The Office will also ensure that mandatory results-based management training is expanded beyond Monitoring and Evaluation Officers to include all team leaders, portfolio analysts, project managers and senior managers.

To strengthen outcome level monitoring, evaluation and reporting, the Office will ensure that all new project/programme outputs will be more appropriately linked to the new CPD outcomes and outputs. The Office will strengthen M&E coordination structures internally, and externally with partners to support more effective data collection, data verification, and results monitoring and reporting.

Estimated completion date: September 2022

B. Operations

1. Finance/Payments

Issue 3 Delays within the payment process

The 'UNDP Programme and Operations Policies and Procedures' stipulate that payments should be made based on supporting documents confirming that services or goods have been received. The Standard Operating Procedure (SOP) for Organizational Excellence stipulates the timelines for the processing of of vouchers for purchase order and non-purchase order items, should take between 3 to 4 days whereas the processing of direct payments should take 12 days.

A sample of 37 vouchers with a total amount of $4.18 million, representing 15 percent of the total payments for the audit period was reviewed. There were six payments valued at $513,788 with delays in the payment of invoices. The average processing time for the six vouchers was 116 days.

The Office explained that the delays were sometimes caused by the additional time taken to verify documents from partners or in obtaining missing information necessary for payment processing.

Delays in the processing of payments may lead to reputational risks.

Priority	Medium (Important)

Recommendation 3: The Office should improve the disbursement process by monitoring the processing time of payments and take appropriate action to mitigate common processing delays.
Management action plan: The Office took note of the issue of delays in processing of payments, which was caused by a number of factors, most of which were external to the Office. The Office will put in more effective oversight measures for processing of invoices, including the enhancement of disbursement SOPs with clear guidance on verification of documents within a reasonable timeline. Further awareness raising and advocacy on implementation of the guidance note will be undertaken for all personnel and implementing partners to ensure all necessary documentation is in place and avoid delays in payments. **Estimated completion date:** June 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.