UNITED NATIONS DEVELOPMENT PROGRAMME
Office of Audit and Investigations

AUDIT

OF

UNDP COUNTRY OFFICE

IN

MADAGASCAR

Report No. 2503

Issue Date: 25 August 2022

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Report on the Audit of UNDP Madagascar
Executive Summary

The UNDP Office of Audit and Investigations (OAI) conducted an audit of UNDP Madagascar (the Office) from 9 to 20 May 2022. 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).

In addition, OAI assessed the performance of the Office in the following areas and sub areas: procurement and finance.

Performance auditing is an independent, objective, and reliable examination of an entity or process to assess whether economy, efficiency, and effectiveness in the employment of available resources is being achieved.

OAI designed the following performance audit questions to guide its review based on risk assessment undertaken.

(a) Operations - Procurement:

Were procurement processes conducted in a timely manner?

(b) Operations - Finance:

Were the advances made to Implementing Partners and Responsible Parties liquidated in a proper and timely manner?

The audit covered the activities of the Office from 1 January 2021 to 31 March 2022. The Office recorded programme and management expenses of approximately $20.6 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* of the Institute of Internal Auditors (The IIA).

Overall audit rating

OAI issued an audit rating for the Office of **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 concerns on resource mobilization leading to risk of overall financial sustainability, inadequate application of the Delivery Enabling Services and weak controls over cash transfers and payments to responsible parties.

Conclusions on the performance audit areas reviewed:

Procurement

Were procurement processes conducted in a timely manner?

The audit reviewed procurement transactions pertaining to goods, services, and individual consultants, and noted that on average, the duration of the procurement processes was outside the standards defined in the Office's standard operating procedures, although this was mainly due to challenges operating during Covid – 19 pandemic which affected procurement process efficiency.

Finance

Were the advances made to Responsible Parties liquidated in a timely and proper manner?

Liquidations of advances were not made in a timely and proper manner.

These findings have been incorporated in the overall audit rating.

Key recommendations: Total = **7**, high priority = **3**

The seven recommendations aim to ensure the following:

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

Challenges in resource mobilization and absence of a related strategy (Issue 1)	The audit noted that the Office had not developed a resource mobilization strategy or the 'Partnership and Communication strategy and Action Plan' (PCAP) to guide its resource mobilizing efforts for the current programme cycle. At the end of audit fieldwork, the Office had mobilized $14 million out of $36 million of the non-core resources target. Of the remaining $22 million to be mobilized, only $3.7 million was reported as secured funds in the pipeline (class A). Recommendation: the Office should improve its capacities to mobilize resources by (a) expediting the development and implementation of a 'Partnership and Communication strategy and Action Plan' in line with UNDP guidelines to guide its resource mobilization efforts; (b) addressing and closely monitoring any funding gaps of the resources needed for the country programme implementation; (c) revising the resource mobilization target and aligning it to a realistic amount that can be mobilized during the cycle.
Inappropriate application of the delivery enabling services (Issue 4)	The audit noted weaknesses with potential financial loss for the Office in the application of the Delivery Enabling Services (DES) regulations and rules. Delivery Enabling Services (formerly known as direct project cost) refers to costs recovered by the Office from development projects for provision of direct support services. As highlighted: (a) DES was applied to only 10 out of 29 development projects. (b) the workload survey used dated back to 2017 and did not reflect the actual staffing and personnel costs incurred in delivering services to projects; (c) the Office did not provide evidence of reconciliations between budgeted and actual DES charges; and (d) the Office was still using a flat percentage rate to recover DES on operational costs, without transitioning to the recommended method based on workload survey.

Recommendation: The Office should improve the recovery of delivery enabling services costs in line with policies and procedures by: (a) implementing and recovering delivery enabling services (DES) costs from projects funded by non-core resources; (b) updating its workload survey for the recovery of staff costs and performing at least quarterly reconciliations between the initial DES budgeted and the actual DES incurred, and (c) transitioning out the flat percentage rate applied on GOE to the recommended method.

Weak controls over cash transfers and payments to responsible parties (Issue 5)	Lapses were noted related to cash transfer and payments to responsible parties as illustrated hereafter: (a) insufficient monitoring of advance liquidations resulting in inadequate justification of expenses by responsible parties, overdue advances of more than six months, bank statement showing quarters' ending balances not submitted by the responsible parties, use of inappropriate template for FACE forms; (b) missing information in the FACE forms; (c) incorrect recording of advances and liquidations; and (d) payments not tagged or incorrectly tagged.

Recommendation: The Office should strengthen its oversight over cash transfers to responsible parties by:

a) implementing a mechanism to monitor timely liquidation of advances, ensuring expenses are properly documented and Itemized Cost Estimate forms are completed;
b) reviewing the accounting codes utilized for the recording of advances and liquidation of expenses; and
c) ensuring that FACE Forms are adequately filled out and that payments are correctly tagged.

Management comments and action plan

The Resident Representative accepted all of the seven 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 Osttveiten 2022.08.25 14:38:59 -04'00'

Helge S. Osttveiten
Director
Office of Audit and Investigations

I. About the Office

The Office is located in Antananarivo, Madagascar (the Country). The audit period covered two country programme cycles: 2015-2019 (extended until September 2021) and October 2021-2023.

The extended Country Programme 2015-September 2021 had the following development priorities:

a) Public institutions, civil society and media, at central and decentralized level, supporting them carry out their roles and are accountable for contributing to peaceful governance that protects human rights.

b) Vulnerable population groups in targeted areas access income and employment opportunities, thus enhancing resilience and contributing to inclusive and equitable growth which in turn fosters sustainable development.

The Country Programme October 2021-2023 has the following development priorities:

a) Enhance good governance, the rule of law and security.

b) Competitiveness of the economy through labour productivity and promotion of decent jobs.

c) Enhance sustainable, and inclusive environmental management.

During the period from January 2021 to March 2022, the Office spent $19.3 million on development activities, a decrease by 21 percent compared to the previous period.

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

Title	Expenditure 2021 $million	Expenditure Jan-March 2022 $million
Support for the national response to COVID 19	3.03	0.71
Development planning, private sector, and employment	2.01	0
National Adaptation Plan	1.55	0
Support for decentralization and community resilience	1.25	0
Improved capacity of adaptation and resilience	1.18	0
Total	**9.02**	**0.71**

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 Facility (GEF)	5.3
USAID	4.0
UN - Peace Building Fund (PBF)	2.4
Total	**11.7**

Other critical information

The previous Office's programme cycle was extended to September 2021 in alignment with the United Nations Development Cooperation Framework, which was itself extended from 2019 to 2021. As a new Cooperation Framework was launched in 2021, covering the period from August 2021 until December 2023, the Office implemented a new country programme from October 2021 to December 2023.

II. Audit results

Effective controls were established and functioning in the following area:

(a) Operations – ICT: The Office's business continuity and disaster recovery plan had been tested and implemented satisfactorily during the audit period.

OAI made three recommendations 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) Improve Office's capacities to mobilize resources (Recommendation 1).
(b) Improve the recovery of delivery enabling services (Recommendation 4).
(c) Strengthen oversight over cash transfers to responsible parties (Recommendation 5).

Medium priority recommendations, arranged according to significance:

(a) Enhance oversight over procurement processes (Recommendation 3).
(b) Improve the management of projects (Recommendation 2).
(c) Strengthen its human resources management (Recommendation 6).
(d) Improve travel management (Recommendation 7).

Conclusion on the Office's performance in the following audit areas/sub areas:

To form an opinion and conclude on the performance elements of this audit, the audit team used the following audit criteria:

(a) Procurement

Were procurement processes conducted in a timely manner?

Criteria: Procurement workflow timeliness established by the Office's standard operating procedures.

The audit team reviewed a sample of 20 of the 825 procurement transactions processed during the audit period, amounting to $1.25 million or 16 percent of the total procurement processed during the audit period, and noted delays in the procurement processes. According to the Office standard timeline for procurement activities, a procurement should take no more than 25 business days from the requisition to the contract signature. However, the audit noted that, procurement of goods and services in our sample took an average of 69 business days. The Office attributed the delays to challenges relating to operating during the Covid – 19 pandemic which affected efficiency of various processes including procurement transactions. As such this is not raised as an audit issue.

(b) Finance

Were the advances made to Responsible Parties liquidated on a timely and proper manner?

Criteria: UNDP 'Programme and Operations Policies and Procedures´ guidelines on periodicity of advances (Direct Cash Transfers and Reimbursements).

Liquidation of advances was not made on a timely and proper manner (see Issue 6). The following exceptions were noted:

- As of 31 March 2022, there was an advance balance of $562,822 (22.8 percent of the total advances over the period of $2.46 million), of which $200,779 were outstanding advances of more than three months and $96,985, were overdue balances of more than six months.
- Liquidations totalling $237,049 were not supported by adequate evidence.

The detailed assessment is presented below, per audit area:

A. Development activities

1. Country programme

Issue 1 Challenges in resource mobilization and absence of a related strategy

Mobilizing expected resources is essential to achieve development objectives stated in the country programme. Country offices are required to develop and implement a 'Partnership and Communication strategy and Action Plan' (PCAP) that will guide their resource mobilization efforts.

The Office started a new programme cycle in October 2021, covering two years and three months, with a total funding target of $78 million, comprising $42 million of UNDP core resources and $36 million of non-core resources (to be mobilized from external donors). The audit uncovered the following:

- The Office had not developed a resource mobilization strategy or the PCAP to guide its resource mobilizing efforts for the current programme cycle.
- As of the end of the audit, the Office had mobilized $14 million out of the $36 million of the non-core resources target. Of the remaining $22 million to be mobilized, only $3.7 million was reported as secured funds in the pipeline (class A). The Office had expected to manage the basket of funding related to the next presidential elections of the Country in 2023, amounting to $14 million. Hence, this fund was added to the CPD budget and resource mobilization target. According to discussions with the Office's senior management, it was uncertain that UNDP would be finally selected to manage the elections. Yet, the Office has not prepared an alternative plan to fill the gap of this potential loss.

The absence of a resource mobilization strategy or PCAP may hinder the Office's resource mobilization efforts and prevent achieving programme objectives.

Priority	High (Critical)

Recommendation 1:

The Office should improve its capacities to mobilize resources by:

(a) expediting the development and implementation of a 'Partnership and Communication strategy and Action Plan' in line with UNDP guidelines to guide its resource mobilization efforts; and
(b) addressing and closely monitoring any funding gaps of the resources needed for the country programme implementation; or
(c) revising the resource mobilization target and aligning it to a realistic amount that can be mobilized during the cycle.

Management action plan:

The Office will (i) accelerate the development of the "Partnership and Communication strategy and Action Plan"**,** (ii) continue to actively work on filling the gap of its country programme resource mobilization target by mobilizing at least 40 percent of the previous target of the election process, by exploring partnership with new donors and by keeping good working relationship with traditional development partners.

Estimated completion date: March 2023

2. Project administration

Issue 2 Weaknesses in project management

The audit team reviewed a sample of five ongoing development projects with expenditures totalling $11.5 million (46 percent) out of $25.2 million of programme delivery in 2021. The audit noted the following:

a) Inadequate management of project risks:

The 'UNDP Programme and Operation Policies and Procedures' states that the purpose of risk management is to support risk-informed decision making across the organization. This involves risk identification, assessment, and evaluation while outlining appropriate mitigating actions.

The audit team noted that, for two out of five sampled projects, the update of risk logs in Atlas was inadequate and, the risks were incomplete and had not been updated in a timely manner. The audit team did not obtain evidence that those risks were monitored outside Atlas. For example:

- For project No. 125624, whose delivery reached 55 percent of its 2021 budget, no risk was identified and assessed on delays in the implementation of project activities resulting from field missions not held due to challenges arising from the Covid-19 pandemic which limited human movement due to imposition of lockdowns.

- Out of the 28 risks identified for project No. 87361, 11 showed “completed” status without providing information related to the time planned for the treatment, the expected effects, and responsible people.
- The UNDP project risk dashboard showed that four projects (Nos.98696; 129782; 138999; and 143570) did not have any risk log entry in Atlas.

Failure to comprehensively identify all key project risks would prevent adequate planning and undertaking appropriate risk mitigating actions.

b) Project monitoring not performed in the enterprise resource planning system:

All UNDP programming activities are required to adhere to monitoring standards and policies. According to the UNDP handbook on Monitoring and Evaluation (M&E), project monitoring activities should be tracked through the enterprise resource planning system of UNDP.

The audit noted the following lapses related to the reporting of monitoring activities in enterprise resource planning system (Atlas):

- Monitoring activities were not systematically reported in Atlas. For example, projects No. 90256, the detailed quarterly monitoring activity for the analysis and verification of data are not entered in Atlas;
- For project No.125624, no monitoring activities entered in Atlas for 2020 and 2021; Only one activity entered in Atlas for project No 87361.

As such it is unsure to ascertain these monitoring activities were effectively conducted. The Office reported that the activities are conducted and tracked out of Atlas.

The above exceptions occurred mainly because of an inadequate monitoring of projects, delayed recruitment of consultants, as well as insufficient oversight on monitoring activities.

Without adequate oversight on monitoring activities through the enterprise resource planning system, accurate reporting and timely corrective actions may not be ensured.

Priority	Medium (Important)
Recommendation 2: The Office should improve the management of projects by: a) continuously managing risks by detecting, reporting, and updating all risks in UNDP enterprise resource planning system (Atlas / Quantum); and b) ensuring project monitoring activities are entered and updated in the enterprise resource planning system.	
Management action plan: The Office will: a) revise the terms of reference and formalize the setting up of the program oversight team whose core responsibility will be to ensure an effective oversight of the Country program and projects.	

b) ensure the close follow up of identifying, updating and reporting the risks as follows: (i) biannually for the country program risks in Quantum+, (ii) quarterly for the project risks in the enterprise monitoring system.

c) ensure the close follow-up of project monitoring in the enterprise monitoring system, as follows: (i) quarterly updating "Activities", "Monitoring actions" and "Risks", (ii) annually updating "Outputs targets and Results".

Estimated completion date: March 2023

B. Operations

1. Procurement/Good & services

Issue 3 Deficiencies in procurement management

a) Inadequate procurement planning:

The 'UNDP Programme and Operations Policies and Procedures' requires offices to develop a consolidated annual procurement plan in the corporate procurement platform (PROMPT) that should be updated throughout the year. Analysis of the consolidated procurement plan provides an opportunity to identify efficiencies and economies of scale. The audit team noted the following:

- The Office's 2021 procurement plan forecasted purchases totalling $14.3 million. The Office completed purchases for 52 percent of this amount ($7.4 million) due partly to lower-than-expected delivery (see Issue 2). In addition, the Office purchased $1.4 million of goods and services that were unplanned, resulting in a total procurement of $8.8 million in 2021.
- Out of 55 ongoing projects in 2021, 16 projects did not have procurement plans, despite having procurement activities.

Failure to effectively plan procurement activities could result in purchases which may prevent the Office from achieving best value for money.

b) Lapses in the creation of requisitions

According to the 'UNDP Programme and Operations Policies and Procedures', the procurement process should begin with a requisition, a formal request originated by a business unit to the procurement unit, which converts the requisition into a purchase order.

During the period under review, the Office issued 821 purchase orders amounting to $9.13 million (excluding purchase orders processed by the Global Procurement Unit). The audit team reviewed 30 purchase orders amounting to $1.74 million, representing 19 percent of the total, and noted the followings:

- In nine cases amounting to $0.65 million, the requisitions were created in Atlas (enterprise resource planning system) after the procurement had been advertised.

- The audit identified 106 instances (12 percent) of requisitions totalling $1.7 million that were created in Atlas at the same time of raising the purchase orders.

The Office explained that requisitions were approved by senior management outside of Atlas. However, this practice does not enable effective oversight and monitoring of procurement activities.

c) Cumulative value of micro- purchasing exceeding procurement review threshold:

The 'UNDP Programme and Operations Policies and Procedures' requires that any contracts 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 modality by the chairperson of the Contracts, Assets, and Procurement Committee (CAP). Moreover, the accumulation of payments made to a vendor through repeated use of micro-purchasing (simplified procurement method where contract amounts do not exceed $5,000) shall be monitored by business units with procurement oversight functions. When such cumulative payments reach thresholds that require procurement committee review, the case shall be submitted to the relevant committee.

The audit team identified three cases where cumulative payments made to vendors in 2021, reached the CAP committee review threshold without being submitted to that committee:

- Two vendors with cumulative payments totalling $117,900 (one for $60,900 and the other one for $57,000), for procurement of travel services.

- One vendor with cumulative payments for a total of $50,400 for the purchase of multiple equipment.

These deficiencies were caused by the misunderstanding of procurement rules. The Office had not included payments without purchase orders (under $10,000) and micro purchasing in its calculation of cumulative amounts.

Without appropriate review done by the procurement committee, the Office might not detect procurement activities that are not conducted in line with accepted purchasing practices.

Priority	Medium (Important)
Recommendation 3: The Office should enhance oversight over procurement processes by: a) preparing a comprehensive and consolidated procurement plan and updating it on a regular basis; b) ensuring that all requisitions are created timely and approved in the system; and c) adequately monitoring cumulative value of payments made to vendors through micro-purchasing and submit to appropriate procurement committee when thresholds are reached.	
Management action plan: The Office will: a) conduct a quarterly review to ensure that the procurement plan is updated. b) introduce a mandatory e-requisition (as per the Country Office SOP in place) for all purchases above $500 and ensure that no procurement case is handled without an e-requisition.	

c) introduce a systematic attachment printout of the cumulative amount of the recommended vendor, to all procurement evaluation reports capturing the queries of purchase orders and no-purchase order vouchers.

Estimated completion date: March 2023

2. Finance/Office budget and cost recovery

Issue 4 Inadequate application of delivery enabling services (DES)

The ‘UNDP Programme and Operations Policies and Procedures’ states that delivery enabling services (DES) (formerly referred to as direct project cost) are levied for costs incurred in the implementation of a development activity or service. They must be identified during the project inception phase, fully costed, and included within the annual work plan. A workload survey should be used to provide a reasonable estimate of the time spent by UNDP personnel when providing direct support to projects, to determine the level of cost recovery. UNDP services to projects must be primarily funded by non-core resources.

At a minimum, reconciliations between budget and actual costs shall be performed quarterly in respect of direct support services provided to projects. The UNDP practice of using flat percentages or other types of fees for delivery enabling services must be transitioned out through renegotiation with funding partners.

The Office was using a DES project methodology whereby the project was pre-funded, and a periodic reconciliation and a reversal of expenses were performed between the DES project and development projects. By year-end, expenses recorded under the DES projects would be fully apportioned to attributable projects. In 2021, the Office recovered DES for $766,730, comprised of $511,857 for staff costs and $254,873 for General Operating Expenses (GOE).

The audit reviewed the DES cost recovery method applied over the period audited and noted the following:

- Only 10 out of the 29 ongoing development projects (excluding those funded by the European Union, the Global Environmental Facility, and the Green Climate Fund) were charged DES costs in 2021; these charges were done to the projects funded by core funds. No DES costs were charged to projects financed by non-core resources, while expenses on those projects amounted to $4.1 million in 2021, including $0.67 million for the Peace Building Fund (PBF).

  The Office explained that DES costs were not charged to the PBF because the funding agreement did not permit this. However, the audit did not find a clause justifying this assertion. For donors other than the PBF, no explanation was provided by the Office. However, for project No. 87361 funded by Russia Trust Fund, the recovery of DES costs recovery was stated in the signed project document, although the Office had not recovered any DES in respect of direct support services attributed to this project.

- The workload survey was last updated in 2017, thus staff costs charged to projects might not reflect the actual personnel costs incurred in delivering services to these projects. The audit found that new staff recruited in 2021 were not included in the workload survey.

- The Office did not provide evidence of quarterly reconciliations between budgeted and actual costs. Therefore, the audit team was unable to assess if significant deviations between DES budget and charges had been timely analysed and corrected.

- The Office was using a flat rate of 34.06 percent to recover DES costs on GOE. No evidence of transitioning out this practice was shared with the audit.

Deficiencies noted are due to a misinterpretation of the applicable guidance over cost recovery.

Inadequate cost recovery may prevent the recovery of all eligible direct costs and may lead the Office to financial losses.

Priority	High (Critical)
Recommendation 4: The Office should improve the recovery of delivery enabling services costs in line with policies and procedures by: a) implementing and recovering delivery enabling services (DES) costs from projects funded by non-core resources, b) updating its workload survey for the recovery of staff costs and performing at least quarterly reconciliations between the initial DES budgeted and the actual DES incurred, and c) phasing out the flat rate percentage applied on GOE and documenting the process.	
Management action plan: The Office will: a) engage discussions with various non-core resources donors and HQ teams, about the delivery enabling services costs. b) issue a memo regarding the workload survey that should be updated on quarterly basis. c) engage discussions with national partners on the adjustment rate applied on GOE (transitioning out the flat rate) or obtain documented agreement on the flat rate with national partners and ensure necessary approval from the Regional Bureau based on workload survey. **Estimated completion date:** December 2022	

3. Finance/Accounts receivable

Issue 5 Weak controls over cash transfers and payments to responsible parties

The ‘UNDP Programme and Operations Policies and Procedures´ requires that cash transfers to implementing partners be adequately monitored and actions be taken to correct and prevent long-outstanding advances. It further dictates that partners should prepare, sign and submit FACE forms, including the Itemized Cost Estimate (ICE) template, each time the project needs funds, and at least quarterly. A copy of the bank statement should be included showing the closing cash balance for the relevant quarter if the partner maintains a separate bank account. The Office should verify FACE forms as submitted by the partner.

According to the 'Implementing Partners and Implementing Agents Guidance', country offices are required to tag payments based upon the cash disbursements and project implementation modalities. This enables to identify the nature of the payment (cash advance, direct payment, etc.).

Total advances over the period under audit amounted to $2.46 million. The audit reviewed a sample of five advances to responsible parties, amounting to $1 million representing 41 percent of the advances made over the period under audit. The following was noted:

a) Insufficient monitoring of liquidations:

- In two out of three liquidations reviewed amounting to $237,049, expenses reported by the Responsible Party did not have the required documentation supporting these expenses. Inadequate validation of expenses reported by responsible parties, may result in the risk of the Office paying incorrect amounts.

- The audit team found overdue balances of between three and six months, amounting to $200,779, and of more than six months, amounting to $96,985. The Office did not provide explanation on the cause of the delay in liquidating the related advance.

- In two out of five cases of advance requests reviewed, the responsible party did not submit copy of the bank statement showing the closing cash balance for the relevant quarter and a reconciliation to the balance of cash funds available in the FACE form. The Office explained that bank statements were reviewed, and reconciliations performed during the programme visits carried out by the programme staff. However, no programme visit report to the sampled implementing partners was shared with the audit team.

- The ICE form was not completed by the Office. The practice of the Office consisted of using a self-created template budget report to replace the ICE. The audit notes that this template could not replace the ICE since it neither presented a detailed breakdown of planned costs, nor did it show a quantification of planned and actual expenses with calculation of deviations. Monitoring of budgeted costs against actual expense might have not been effectively carried out.

b) FACE forms were not correctly filled out:

- In three requests of advances valued at $0.9 million, the complete Chart of Account of funds advanced was not reported in the FACE form.

- In one case valued at $519,062 million, previous advances and liquidations were not reported in the FACE form requesting the advance.

c) Lapses in recording advances and liquidations:

- Incorrect account codes were observed in three cases amounting to $756,111 which represented 70.5 percent of the sample of vouchers tested. For example, one of the liquidations, reporting several expenses totalling $519,062, was incorrectly recorded as 'Grants to institutions & other beneficiaries' while it should have been recorded according to the nature of each category of the expenses involved. In another case, liquidation of expenses worth $158,641 were posted to the same account (72105) rather than the account that would have corresponded to the nature of each expense reported. In a third case, advances to a responsible party totalling $78,408 were recorded under an incorrect implementing agent code. The Office explained that the implementing agency code utilized would be corrected.

d) Exceptions in tagging payments

- 590 payments amounting to $222,536 (1.2 percent of total payments) were not tagged;
- 110 transactions for which the Office was not the Implementing Agent (IA) were incorrectly tagged under 'direct implementation' and 'country office support to NIM' modalities for $1.53 million.

Failure to tag payments or tagging them under incorrect IA codes do not allow proper tracking and reporting on expenses incurred by each implementing partner.

These weaknesses were due to insufficient oversight of cash transfers to implementing partners and might result reputational risk and in financial losses for the Office.

Priority High (Critical)
Recommendation 5: The Office should strengthen its oversight over cash transfers to responsible parties by: (a) implementing a mechanism to monitor timely liquidation of advances, ensuring expenses are properly documented and Itemized Cost Estimate forms are completed; (b) reviewing the accounting codes utilized for the recording of advances and liquidation of expenses; and **(c)** ensuring that FACE Forms are adequately filled out and that payments are correctly tagged.
Management action plan: The Office will: a) Conduct an additional training and follow up on quality assurance mechanism in place to ensure FACE forms are adequately filled out; b) issue a memorandum to enhance oversight and control mechanism over accounting entries, including tagging; c) Conduct a weekly report on Overdue advances and key performance indicators (KPI) on advance details to ensure timely liquidation of advances. **Estimated completion date:** March 2023

4. Human resources/Performance management

Issue 6 Challenges in human resources management

The 'UNDP Programme and Operations Policies and Procedures´ indicates that effective performance management and the development of each staff member are a shared responsibility of the supervisee and the supervisor. The performance review of each staff member should be completed on an annual basis. Moreover, it is expected that all UNDP personnel complete all the mandatory courses.

a) Incomplete performance management and development:

The audit noted that 16 out of 42 annual performance reviews due at the end of 2021 (38 percent) were not completed at the time of the audit.

b) Mandatory training not completed in a timely manner:

- From its review of the mandatory training courses completed by the Office´s staff, service contractors and national personnel services agreement holders over the period under audit, the audit noted that 43 staff and non-staff did not complete 100 percent of their mandatory courses which represented 198 courses out of the total of 1,170 mandatory trainings for all staff and other personnel.

The 43 cases did not include the United Nations Volunteers (UNVs) since the Office explained that the UNVs could not have access to the Learning Management System platform (LMS) until the end of April 2022.

Without performance management, poor performance may not be adequately addressed. Insufficient completion of mandatory trainings could make staff unaware of applicable corporate policies and guidelines.

Priority Medium (Important)

Recommendation 6:

The Office should strengthen it human resources management by:

a) completing individual performance evaluations timely; and
b) ensuring mandatory trainings are undertaken by all staff in a due time.

Management action plan:

The Office will:

a) improve the follow-up of individual performance evaluations by (i) issuing a memo on the evaluation performance corporate schedule, (ii) monthly reporting on the uncompleted performance evaluations.

b) improve the follow-up of mandatory training by (i) issuing a dedicated memo, (ii) monthly reporting on uncompleted mandatory training.

Estimated completion date: September 2022

6. Administrative services/Travels

Issue 7 <u>Weaknesses in travel management</u>

The 'UNDP Programme and Operations Policies and Procedures' (POPP) requires all business travel organized and paid by UNDP to be processed through the Travel and Expense (T&E) module in Atlas, and timely approved and reconciled. Once travel has been concluded, all staff and non-staff members are required to submit a travel claim to the authorizing unit within two weeks from completion of travel whether claiming additional expenses or not. It also recommended to purchase travel tickets at least 21 days in advance when traveling in the class below first class and at least 14 days in economy class.

The audit reviewed a sample of 14 travels (amounting $330,007 and representing 29 percent of travels undertaken during the period under review). The audit noted the following:

- Travel requests:

  - 16 travel requests have not been approved for more than 100 days. Moreover, as of April 2022, there were 44 unreconciled travel requests amounting to $48,592, including 36 with more than 32 days overdue amounting to $41,581. The Office explained most of those cases were draft travel requests, currently being cleared in consultation with GSSU.

  - In two cases, the travel requests were approved after the mission started. In four other cases, travel dates in the T&E system were not consistent with the dates indicated on the travel tickets.

  - Five business class tickets were purchased between two and 11 days before l start of the travel date, and six economy class tickets purchased between one and seven days before the travel dates.

- Travel claims:

  - While the travel claims should be submitted within two weeks after returning from a mission, in 101 travel requests for $67,563, the travel claims were pending submission. In 96 cases, travel claims amounting to $63,640 did not have the required supporting evidences that the travel was carried out as approved.

  - As per the policy, travels cannot be authorized after two unjustified missions. However, the audit team noted that for 11 travellers, the Office did not comply with this requirement, as they were authorized to travel a third time or more, while having two or more unjustified travel requests.

Weaknesses in travel management may lead to inefficient use of resources and increase the administrative burden of the Office.

Priority	Medium (Important)
Recommendation 7: The Office should improve travel management by: a) regularly reviewing the travel and expenses dashboard and ensuring that all outstanding transactions are cleared in due time;	

b)	fully complying with UNDP travel policy for timely processing and approval of travel requests and purchasing travel tickets within the standard allocated timeframe; and
c)	ensuring that all travel claims are submitted and processed within deadlines and no additional travel is authorized for staff cumulating two unjustified missions.

Management action plan:

The Office will:

a) conduct a weekly report on Travel & Expenses (T&E) exceptions (Dashboard) and issue a memorandum to ensure mandatory submission of the T&E print-out showing that the staff to be on mission does not have any pending transactions in the T&E Module.

b) issue a memorandum with a requirement of clear travel planning from project, to allow timely process and approval of Travel Request for DSA & ticket purchasing.

c) introduce a weekly communication from the “Office’sTravel Taskforce” on the mandatory F10 submission, in a two-week period after an official mission, to all staff mentioned in the “no claim” report (T&E Dashboard).

Estimated completion date: March 2023

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 <u>not included in this report</u>.