

**UNITED NATIONS DEVELOPMENT PROGRAMME**  
**Office of Audit and Investigations**



*Empowered lives.  
Resilient nations.*

**AUDIT**

**OF**

**UNDP COUNTRY OFFICE**

**IN**

**DJIBOUTI**

**Report No. 1458**  
**Issue Date: 5 August 2015**

**(REDACTED)**

## Table of Contents

<b>Executive Summary</b>	<b>i</b>
<b>I. About the Office</b>	<b>1</b>
<b>II. Audit results</b>	<b>1</b>
<b>A. Governance and strategic management</b>	<b>2</b>
1. Organizational structure and delegations of authority	2
2. Risk management, planning, monitoring and reporting	3
3. Financial sustainability	5
<b>B. Programme activities</b>	<b>7</b>
1. Project management	7
<b>C. Operations</b>	<b>9</b>
1. Human resources	9
2. Finance	11
3. Procurement	17
4. Information and communication technology (ICT)	20
5. General administration	21
6. Safety and security	24
<b>Definitions of audit terms - ratings and priorities</b>	<b>25</b>

## 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 12 to 23 April 2015. 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 and strategic management (organizational structure and delegations of authority, leadership/ethics and values, risk management, planning, monitoring and reporting, financial sustainability);
- (b) United Nations system coordination (development activities, Resident Coordinator Office, role of UNDP – “One UN”, Harmonized Approach to Cash Transfers);
- (c) programme activities (programme management, partnerships and resource mobilization, project management); and
- (d) operations (human resources, finance, procurement, information and communication technology, general administration, safety and security.).

The audit covered the activities of the Office from 1 January 2014 to 28 February 2015. The Office recorded programme and management expenditures totalling \$6.8 million in 2014 and a programme budget of \$4.8 million in 2015. The last audit of the Office was conducted by OAI in 2010.

The audit was conducted in conformance with the *International Standards for the Professional Practice of Internal Auditing*.

### Overall audit rating

OAI assessed the Office as **partially satisfactory**, which means, “Internal controls, governance and risk management processes were generally established and functioning, but needed improvement. One or several issues were identified that may negatively affect the achievement of the objectives of the audited entity.” This rating was mainly due to unexplained deficiencies in bank reconciliation, irregular payment process, weak management of risks, and financial sustainability being at risk.

### Key recommendations: Total = 15, high priority = 4

The 15 recommendations aim to ensure the following: (a) achievement of the organization’s strategic objectives (Recommendations 1, 2 and 3); (b) reliability and integrity of financial and operational information (Recommendations 7 and 8); (c) effectiveness and efficiency of operations (Recommendations 9, 10, 12, 14 and 15); (d) safeguarding of assets (Recommendation 13); and (e) compliance with legislative mandates, regulations and rules, policies and procedures (Recommendations 4, 5, 6 and 11).

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:

Insufficient monitoring activities and risk management  
(Issue 2)

Baselines and targets were not clearly defined in the Country Programme Action Plan. There was: no regular monitoring and early warning system to anticipate and address non-dashboard issues; no strong monitoring and independent evaluation function; no updated logs in Atlas for project issues and risks; no risk management plan while the Office was functioning de facto under the full Harmonized Approach to Cash Transfers modality; and no follow up on issues raised by corporate surveys (Global Staff Survey and Partners' Survey).

**Recommendation:** The Office should enhance its risk management process and reinforce monitoring activities by systematically implementing risk management and using the required tools and plans; putting in place quality control mechanisms and more robust independent monitoring and evaluation functions; instituting precise baselines and targets during the review of the Country Programme Action Plan; train programme staff in the use of the Atlas project management module and ensure various logs are regularly updated and used; and discuss the results of corporate surveys with the Office staff and agree with them on appropriate action plans.

Financial sustainability at risk  
(Issue 3)

Projections of extrabudgetary resources for the period 2015-2017 were below the required minimum of 12 months of reserves and the measures envisaged to address the financial gap were not sufficient. The resource mobilization strategy was outdated as it was not aligned with the current cycle of the United Nations Development Assistance Framework to ensure availability of financial resources needed to deliver on commitments. Furthermore, the Government had not paid their contribution to local costs since 2012, for an accumulated amount of \$813,000.

**Recommendation:** The Office should improve its financial sustainability by: developing a resource mobilization strategy and action plan; effectively identifying and implementing cost reduction measures and the direct project costing methodology; and pursuing efforts to collect outstanding Government contributions to local costs.

Deficient bank reconciliation processes  
(Issue 7)

Bank reconciliations were approved despite the fact that these contained serious deficiencies and remained unresolved over an extended period. Vouchers indicated as cancelled were actually paid through manual bank transfers but these were not shown as reconciling items. At the same time, the cancellation of these vouchers were not completely effected in Atlas and therefore the corresponding supporting documents remain valid and available for processing for payment. There was a significant amount (total of \$191,000) of unreconciled items that remained outstanding for an extended period (from 2005 to 2014) and not acted upon until detected through OAI's audit. The bank reconciliation statements were neither dated, nor signed by those responsible for preparation, review and approval.

**Recommendation:** As an immediate solution, the Office should conduct a thorough examination of specified transactions as well as long-outstanding items in the bank reconciliations. Such a review would greatly benefit from immediate assistance by a team from the Office of Financial Resources Management who could also provide training and guidance to the staff. During

the review, if indications of fraud are evident, consultations should be done with the Office of Audit and Investigations, as and when appropriate. As a longer-term solution, the Office should strengthen the bank reconciliation process.

Irregular practices in  
processing of payments  
(Issue 8)


Irregular practices involved manually splitting of payments through bank transfers after these were processed and approved in Atlas and making two separate deposits and at different dates at the bank; incomplete execution in Atlas of the cancellation process for vouchers leaving these cancelled vouchers active and eligible for payment processing; and vouchers were created and approved prior to services being rendered.

Recommendation: As an immediate solution, the Office should review all cancelled vouchers and take immediate corrective actions and ensure that the relevant supporting documents are likewise cancelled and not made available for possible payments. This review should be done with the assistance of the Office of Financial Resources Management. During the review, if indications of fraud are evident, consultations should be done with the Office of Audit and Investigations, as and when appropriate. As a longer-term solution, the Office should institute better management and execution of payments.

#### Management comments and action plan

The Resident Representative accepted all of the recommendations and is in the process of implementing them. Comments and additional information provided had been incorporated in the report, where appropriate.

Issues with less significance (not included in this report) have been discussed directly with management and actions have been initiated to address them.



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