



AUDIT

OF

UNDP COUNTRY OFFICE

IN

THE PEOPLE'S DEMOCRATIC REPUBLIC OF ALGERIA

Report No. 1568

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(REDACTED)

Report on the audit of UNDP People's Democratic Republic of Algeria Executive Summary

The UNDP Office of Audit and Investigations (OAI) conducted an audit of UNDP's Country Office in the People's Democratic Republic of Algeria (the Office) from 15 to 26 November 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, business continuity, 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 April 2014 to 30 September 2015. During this period, the Office recorded programme and management expenditures of approximately \$10.8 million. The last audit of the Office was conducted by OAI in July 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 the Office's financial sustainability being at risk, weaknesses in the hiring process and the management of individual contracts, and insufficiencies in the management of the procurement function.

Good Practice

The Office developed an e-application to manage the workflow from the receipt of service requests (by other agencies and projects) to cost recovery. The application also included contract management, automatic updates of the roster of individual consultants and service providers, payment requests, and monitoring of vendors. These innovations contributed to the strengthening of internal controls and performance of the Office.

Key recommendations: Total = 12, high priority = 3

The 12 recommendations aim to ensure the following objectives:

Objectives	Recommendation No.	Priority Rating
Achievement of the organization's strategic objectives	1, 5	Medium
	2, 8	High
Effectiveness and efficiency of operations	6, 7, 11	Medium
	9	High
Safeguarding of assets	12	Medium
Compliance with legislative mandates, regulations and rules, policies and procedures	3, 4, 10	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:

Office's financial sustainability at risk (Issue 2)

The Office's financial sustainability was at risk due to a decline in the Office's ability to generate income, and to the absence of a resource mobilization strategy beyond 2016. There was a decrease in the Office's extrabudgetary reserves from 58 months during 2014 to 20 months based on the last estimate of 2015. While resources may be sufficient to support the Office for 2016, extrabudgetary reserves will only cover nine months in 2017 if the Office does not increase its resources or reduce its operating costs, which will be below the corporate target of 12 months. The Office had developed a partnership and a resource mobilization strategy for the period 2014-2016. For the forthcoming cycle (2016-2020), there was no written strategy. The non-core resources to be mobilized for the current cycle amounted to \$18.7 million. As at the time of the audit, funds awaiting validation or finalization of a signed agreement represented approximately \$12 million.

Recommendation: The Office should strengthen the financial sustainability by: (a) developing a cost-reduction strategy to contain operational costs within acceptable limits, including finding alternatives to reduce rental costs; (b) strengthening the resource mobilization strategy and developing an action plan for its implementation and evaluation and drafting a strategy aligned with the next cycle with specific emphasis on the relationship with the Government; and (c) continuing the advocacy with the national counterpart to formalize the envisaged support to the United Nations system in terms of resource mobilization and to increase the level of their cost-sharing contributions.

Weaknesses in management of individual contracts (Issue 8)

Several weaknesses in the hiring process and management of individual contracts were noted based on the review of 10 cases, specifically: (a) repetitive and inadequate extensions of contracts and inadequate use of the direct contracting modality; (b) weak planning over procurement processes; and (c) inconsistencies in evaluations and payments.

Recommendation: The Office should adhere to UNDP policies relating to individual contracts by: (a) correctly using the individual contract modality based on clear terms of reference and realistic timeframes; (b) awarding individual contracts competitively through timely, fair, and transparent selection processes; and (c) adequately managing contracts and raising purchase orders upfront to support payments to consultants.

Weaknesses in management of the procurement function (Issue 9)

The review of the procurement function through a sample of 35 procurement cases identified the following weaknesses: (a) absence of a requisition plan and unreliable procurement estimates; (b) unclear and incomplete terms of reference; (c) weaknesses during evaluations; (d) insufficient use of online system to review procurement cases above a certain threshold; (e) delays in the *post facto* submission of procurement cases to the regional review body; and (f) non-compliance with the organization's requirements in terms of certification for the Procurement Associate.

Recommendation: The Office should strengthen the procurement function by: (a) improving procurement planning, including timely definition and establishment of the requisition plan early in the year for consolidation, and regularly evaluating and updating the plan; (b) preparing clear specifications of goods and services to be procured and ensuring that evaluations are fairly and transparently conducted in compliance with UNDP policies; (c) substantiating the independent review of the procurement process online by ensuring that discussion points are recorded online and the quality of the supporting documents contain evidence of the review process; (d) submitting *post facto* cases on time to the Regional Advisory Committee on Procurement; and (e) requiring the Procurement Associate to complete the level 2 procurement certification.

Management comments and action plan

The Resident Representative accepted all of the recommendations and is in the process of implementing them. Comments and/or 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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