



SPECIAL AUDIT

OF

UNDP COUNTRY OFFICE

IN

DJIBOUTI

Report No. 2477
Issue Date: 29 August 2022

Report on the Special Audit of UNDP Djibouti Executive Summary

The UNDP Office of Audit and Investigations (OAI) conducted a special audit of UNDP Djibouti (the Office) from 13 March to 14 May 2022. The special 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

The audit covered the activities of the Office from 1 January 2020 to 31 December 2021. The Office recorded programme and management expenses of approximately \$20 million. The last audit of the Office was conducted by OAI in 2021.

OAI undertook this special audit following a risk assessment after a request of the Regional Bureau for Arab States (RBAS) to follow up on the results of the 2021 audit (Audit report No. 2294). This special audit focused on existing and emerging key risk areas such as Governance, Programme, Finance, Procurement and Human Resources. The audit team also reviewed the Administrative Services audit area.

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 unsustainable rental obligations for Office premises and deviations from procurement rules and regulations.

Key recommendations: Total = 5, high priority = 2

The 5 recommendations aim to ensure the following:

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

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:

Unsustainable rental obligations for Office premises (Issue 2)	The renewal of the lease agreement for the UN premises, covering the period January 2022 – December 2024, was signed at the end of December 2021. The Office share of the annual rent cost of the lease was approximately \$424,000 and the Office indicated that 63 percent of the Office's share of the rent would be paid from its institutional budget, while 37 percent would be met through cost recovery from UNDP projects occupying office space. The
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Office had been unable to apply this formula to all projects as budget allocations were set in the project documents before moving to the new premises. The Office confirmed that all new projects thereafter included allowances for charging the appropriate cost recovery. At the time of the audit, 14 projects were billed \$116,437 per month, representing 27 percent of the Office rent cost. Therefore, the Office by the time of this audit, has not met the 37 percent target for rent cost recovery from projects. The audit team noted that 7 out of the 14 ongoing projects would be ending by December 2022. Thus, dependence on cost recovery from projects was deemed unsustainable as rental payments were largely dependent on the ongoing projects. Should no new projects be initiated to meet this gap, the Office would be unable to recover adequate costs to meet its share of the rental obligations.

Recommendation: In conjunction with the Regional Bureau for Arab States, Resident Coordinator Office and the participating agencies, the Office should identify, based on market survey, affordable alternative options for office premises.

Deviations from
Procurement rules and
regulations
(Issue 5)

Based on the review of a sample of procurement processes conducted by the Office, the following was noted: a) selection process of potential suppliers was not documented; b) invalid justifications in the direct contracting of individual contracts; c) selected contractors did not have the required experience, did not provide the required no-objection proof before being engaged, or was already employed performing a conflicting activity with the signed contract.

Recommendation: The Office should adhere to the UNDP procurement principles by: a) documenting the identification and selection of eligible suppliers, and ensuring the process is adequately conducted; b) using the direct contracting modality in the procurement of individual contractors, when it is strongly required and well justified; and c) providing procurement training to relevant staff with focus on UNDP procurement policies and principles.

Implementation status of previous OAI audit recommendations: Report No. 2294, 7 April 2021.

Total recommendations: 10

Implemented: 9


In progress: 1

The pending recommendation pertains to the Office's financial sustainability being at risk. Its implementation is in progress.

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 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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