

UNITED NATIONS DEVELOPMENT PROGRAMME
Office of Audit and Investigations



AUDIT
OF
UNDP COUNTRY OFFICE
IN
MADAGASCAR

Report No. 2503

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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	High
	2	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	High
	3, 6	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.

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

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.

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.

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