UNITED NATIONS DEVELOPMENT PROGRAMME
Office of Audit and Investigations

AUDIT

OF

UNDP YEMEN

(REMOTE AUDIT)

Report No. 1398

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United Nations Development Programme
Office of Audit and Investigations

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Report on the remote audit of UNDP Yemen
Executive Summary

The UNDP Office of Audit and Investigations (OAI) conducted a remote audit of UNDP Yemen (the Office) from 8 to 30 September 2014. The review 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, delegations of authority, and financial sustainability);

(b) United Nations system coordination (development activities and Resident Coordinator Office);

(c) programme activities (programme management, partnerships and resource mobilization, project management); and

(d) operations (human resources, finance, procurement, information and communication technology, safety and security, and asset management).

Due to the unsafe security situation in the country, OAI could not conduct an audit in the field and instead decided, on an exceptional basis, to conduct a remote audit. The remote audit was based on the review of supporting documentation of transactions performed, as well as emails and teleconferences with management and staff. OAI did not contact external partners such as government counterparts, donors or other United Nations agencies. Furthermore, OAI did not conduct a physical verification of assets, equipment, or inventory, and did not physically observe the Office's day-to-day activities. The last audit of the Office was conducted in 2008.

The remote audit covered the activities of the Office from 1 January 2013 to 30 June 2014. During this period, the Office recorded programme and management expenditures totalling $49 million.

The review 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 weaknesses in Resident Coordinator Office financial planning and reporting, and weaknesses in project management and procurement. The rating is the result of a remote audit that did not include work performed on location. There may thus be risks that have not been identified and which could have influenced the rating expressed in this report.

Key recommendations: Total = **8**, high priority = **4**

The eight recommendations aim to ensure the following: (a) achievement of the organization's strategic objectives (Recommendations 2, 3); (b) reliability and integrity of financial and operational information (Recommendations 1, 4, 6); (c) effectiveness and efficiency of operations (Recommendations 5, 8); and (d) compliance with legislative mandates, regulations and rules, policies and procedures (Recommendation 7). 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:

Inefficient financial planning and reporting for Resident Coordinator Office (Issue 2)	The Office did not develop a results-based budget linked to the Annual Work Plan for 2013. In addition, the Resident Coordinator Office did not produce or submit a financial report to the United Nations Development Operations Coordination Office showing how $501,000 in resources was spent by the Office in 2013 and for what purposes.

Recommendation: Strengthen Resident Coordinator Office financial planning and reporting by: (a) producing results-based budgets for each year detailing planned budget allocations for each activity; (b) preparing financial reports at the end of the year detailing how resources were expended; and (c) setting up budgets in Atlas in accordance with guidelines circulated by the United Nations Development Operations Coordination Office. |
| Inefficient controls over project assurance and oversight (Issue 5) | Roles and responsibilities within the Programme Section for project assurance were not clearly defined. A review of the job descriptions for the Team Leader and Programme Analyst posts showed that neither job description defined who was responsible for project assurance. OAI also noted weak controls for project assurance and oversight, which included project boards not meeting regularly, poorly defined monitoring frameworks, inadequately defined Annual Work Plans and weaknesses in the capacity assessments of implementing partners for national implementation modality.

Recommendation: Strengthen controls over project assurance and oversight by: (a) revising job descriptions of programme staff and segregating duties for project assurance; (b) having Project Steering Committees meet for all projects on a quarterly basis and undertaking substantive reviews of projects; (c) establishing functional project monitoring systems, and setting up proper project budgets in Atlas; (d) developing Annual Work Plans that provide clearly defined timeframes showing precisely when planned activities are to be implemented; and (e) consider to convert all projects to direct implementation modality and basing any decision to adopt national implementation modality on findings and recommendations of capacity assessments. |
| Weaknesses in procurement management (Issue 6) | The following weaknesses were noted in the review of the procurement activities: (a) high turn-over and limited capacity of the Procurement Unit; (b) the Office did not prepare a consolidated procurement plan during the audit period; (c) deficiencies in the determination of technical specifications of goods and civil works needed; (d) weaknesses in the evaluation of proposals; and (e) incorrect use of Atlas purchase orders and purchase orders created without e-requisitions.

Recommendation: Improve procurement management by: (a) increasing the technical capacity of the Procurement Unit by using the UNDP Procurement Support Office or other UNDP offices in the region for handling complex procurement cases; (b) preparing a consolidated office procurement plan; (c) determining proper technical specifications of goods and civil works needed; (d) thoroughly documenting procurement evaluation processes; and (e) raising Atlas e-requisitions and purchase orders for all applicable procurement activities in compliance with UNDP policies and procedures and for the full amount of the contractual obligation. |

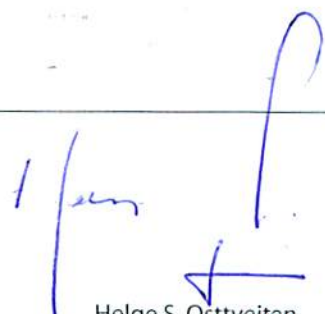| Inadequate management of individual contracts (Issue 7) | OAI reviewed 15 individual contracts out of the total of 300 individual contracts issued during the audit period and identified the following deficiencies: (a) incorrect use of the individual contract modality, as individual contractors were used for core functions normally performed by staff members; and (b) schedule of payments, deliverables and milestones were not clearly defined.

Recommendation: Adhere to UNDP policies relating to individual contracts by: (a) using the individual contract modality only for consultancies; and (b) clearly scheduling/defining terms of payments, deliverables and milestones. |

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.

Helge S. Osttveiten
Director
Office of Audit and Investigations

I.   About the Office

The Office is located in Sana'a, Yemen (the Country), and at the time of the audit had 85 staff supported by 4 United Nations Volunteers and 78 service contractors. At the time of the audit, the Office was operating in a complex environment, where political unrest had led to serious security concerns along with concerns about the Office continuing its operations in the Country. The Office's programming was based on the United Nations Development Assistance Framework covering the period from 2012 to 2015, in the areas of: (a) inclusive and diversified economic growth with a social dividend; (b) sustainable and equitable access to quality basic social services to accelerate progress towards MDGs; (c) women and youth empowerment; and (d) good governance and social cohesion.

II.   Audit results

Satisfactory performance was noted in the following areas:

(a) <u>Finance</u>. Control procedures of documents reviewed, supporting documentation for payments processing, disbursements and bank reconciliation were found to be adequate.

(b) <u>Information and communication technology</u>. Responses to a questionnaire on information technology procedures and controls as well as the review of the Disaster Recovery Plan together with the data back-up and restoration procedures were satisfactory. No reportable issues were identified.

OAI made four 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 recommendations, arranged according to significance:
(a) Strengthen Resident Coordinator Office financial planning and reporting (Recommendation 2).
(b) Strengthen controls over project assurance and oversight (Recommendation 5).
(c) Improve procurement management (Recommendation 6).
(d) Adhere to UNDP policies relating to individual contracts (Recommendation 7).

Medium priority recommendations, arranged according to significance:
(a) Conduct an annual programme review with key government counterparts to review progress made by UNDP in implementing the Transitional Plan (Recommendation 3).
(b) Adjust the existing tracking system for project reports to indicate whether project reports have been sent to donors (Recommendation 4).
(c) Tighten controls over Atlas finance profiles (Recommendation 1).
(d) Strengthen the standard practices of the Contract, Assets and Procurement Committee (Recommendation 8).

The detailed assessment is presented below, per audit area:

A. Governance and strategic management

1. Organizational structure and delegations of authority

Issue 1 Atlas treasury/finance profiles not properly assigned

The Operational Guide of the UNDP Internal Control Framework establishes that only staff members in the Finance Unit may be given the treasury or finance user roles in Atlas (the enterprise resource planning system used by UNDP). Any exceptions must be approved by the Comptroller, based upon full justification and the application of appropriate controls by the respective office. The Framework assumes that the Finance Unit includes the Programme Support Unit. Where the Programme Support Unit is not linked to the Finance Unit, offices should maintain either a direct or "matrix" reporting responsibility to the Operations Manager.

At the time of the audit, 5 out of 14 personnel with treasury or finance user roles in Atlas were service contract holders. These exceptions were not approved by the Comptroller. In addition, 9 out of 14 personnel performing finance functions from the Programme Support Unit did not have direct or matrix reporting responsibility to the Deputy Country Director (acting as Operations Manager).

This situation, which was mainly due to the emergency circumstances under which the Office was operating in, may lead to weakening the financial oversight over programme/project finance activities.

Priority	Medium (Important)
Recommendation 1: Tighten controls over Atlas finance profiles by granting Atlas treasury or finance roles to staff members only, unless fully justified and approved by the Comptroller and having all personnel with Atlas finance roles, including the Programme Support Unit finance personnel, report to the Operations Manager.	
Management action plan: Recommendation well noted for non-staff finance role in Atlas. **Estimated completion date:** December 2014	

B. United Nations system coordination

1. Resident Coordinator Office

Issue 2 Inefficient financial planning and reporting for Resident Coordinator Office

Resident Coordinator Offices are required to plan for the utilization of resources at the start of every year based on an approved United Nations Country Team Annual Work Plan. Offices should submit plans to the United Nations Development Operations Coordination Office. Budgets should be established in Atlas in accordance

with the United Nations Development Operations Coordination Office guidelines so as to directly relate to the Annual Work Plan. Financial reports are to be produced for each financial year, detailing how office resources were spent. These practices contribute to results-based management.

The budget of the Resident Coordinator Office was recorded in Atlas under Project No. 00031922. Total expenditures for the Project in 2013 were $501,000, as reflected in the Project Budget Balance Report for 2013.

OAI noted the following deficiencies:

- The Resident Coordinator Office did not develop a results-based budget linked to the Annual Work Plan for 2013. The Resident Coordinator Office staff explained that expenditures were incurred based on a budget entered into Atlas, but OAI could not establish a direct link between the budget in Atlas and the United Nations Country Team Annual Work Plan.

- The Resident Coordinator Office did not produce or submit a financial report to the United Nations Development Operations Coordination Office showing how $501,000 in resources was spent by the Office in 2013 and for what purposes.

The lack of results-based budgeting and the incorrect set-up of budgets in Atlas may result in inaccurate accounting of resource expenditures.

Priority	High (Critical)
Recommendation 2: Strengthen Resident Coordinator Office financial planning and reporting by: (a) producing results-based budgets for each year detailing planned budget allocations for each activity; (b) preparing financial reports at the end of the year detailing how resources were expended; and (c) setting up budgets in Atlas in accordance with guidelines circulated by the United Nations Development Operations Coordination Office.	
Management action plan: Management will take the following actions: (a) produce results-based budgets for 2015 detailing planned budget allocations for each activity as per an approved United Nations Country Team Annual Work Plan; (b) prepare financial reports at the end of the year detailing how resources were expended and report accordingly to the United Nations Development Operations Coordination Office in the Resident Coordinator Office Annual Report in early 2015; and (c) set up budgets for 2015 in Atlas in accordance with United Nations Development Operations Coordination Office guidelines as per the approved United Nations Country Team Annual Work Plan. **Estimated completion date:** March 2015	

C. Programme activities

1. Programme management

Issue 3   Lack of oversight over Country Programme and Transitional Plan

According to the United Nations Development Assistance Framework and the UNDP Strategic Plan, dialogue with the Government results in the Country Programme Document, which is prepared by the Government in consultation with and with support from the Office. This document identifies key goals and opportunities for UNDP support to national programmes and priorities, as approved by the Executive Board. Offices are required to establish functioning oversight systems for the Country Programme. These systems include the establishment of a Country Programme Board, Outcome Boards, and Outcome Evaluations for each thematic area covered by the Country Programme Document, as well as revisions to the Country Programme Document when deemed necessary.

OAI noted that oversight systems were not in place, as Country Programme Boards and Outcome Boards were not established. In addition, Outcome Evaluations were not planned or undertaken.

The Office explained that systems were not established because the Office abandoned the implementation of the Country Programme Document for 2012-2015 when the Transitional Plan for the Country was developed (April 2012). The Country Programme Document was never revised due to the constantly changing situation in the Country since 2012. Based on advice from the Regional Bureau for Arab States and the Operations Support Group in September 2014, it was decided that the Country Programme Document would not be revised since the document was due to expire within 15 months.

Priority	Medium (Important)
Recommendation 3: Conduct an annual programme review with key government counterparts to review progress made by UNDP in implementing the Transitional Plan for the Country, until a new Country Programme Document is operationalized and oversight systems are put into place.	
Management action plan: The Office plans to hold an annual review meeting with key government counterparts, political and security conditions prevailing, in conjunction with Country Programme Document extension request to be submitted in the first quarter of 2015. **Estimated completion date:** March 2015	

2. Partnerships and resource mobilization

Issue 4 <u>Inadequate systems for donor reporting monitoring</u>

Offices should have functional monitoring systems in place to track donor reporting and commitments.

The monitoring system that was in place to track project reporting to donors provided an overview of progress in project report preparation. However, the system did not track if a report had actually been sent to the donor. In 2013, the Office indicated that it was not able to confirm whether project reports were provided to donors in a timely manner.

Priority	Medium (Important)
Recommendation 4: Adjust the existing tracking system for project reports to indicate whether project reports have been sent to donors.	
Management action plan: An automated donor reporting track system has been adjusted and is undergoing testing. **Estimated completion date:** March 2015	

3. Project management

Issue 5 <u>Inefficient controls over project assurance and oversight</u>

According to UNDP policies, offices must establish assurance and oversight systems for the implementation of the Country Programme. That includes, among others:

- defining and assigning project assurance functions in the Office;
- establishing quarterly meetings for Project Steering Committees enabling them to provide project oversight and steering;
- operationalizing monitoring systems for projects to track progress thereon;
- putting into place detailed Annual Work Plans;
- establishing budgetary systems that provide for financial reconciliations; and
- putting into place the necessary financial and legal safeguards to implement projects.

OAI noted that roles and responsibilities within the Programme Section for project assurance were not clearly defined. A review of the job descriptions for the Team Leader and Programme Analyst posts showed that neither job description defined who was responsible for project assurance. OAI also noted weak controls for project assurance and oversight, as detailed below:

(a) Inadequate project oversight

OAI noted that in four out of six projects sampled, project boards did not meet regularly to undertake their project oversight and steering functions.

(b)   Deficient project monitoring

For two out of the six projects sampled, project monitoring frameworks were poorly defined or did not exist. For Award 63389 (a $33 million project), outputs were set up as indicators, and included "number of presidential elections; parliamentary and local councils elections; constitutional referendum; and electoral law", which did not allow for proper project monitoring.

For all projects sampled, systematic data collection and monitoring did not take place as part of project management.

(c)   Inadequately defined Annual Work Plans

In four out of six projects sampled, the Annual Work Plans were poorly structured. Timeframes were either not provided or were too broad. As a result, it was not possible to track progress in quarterly project reports against Annual Work Plans, meaning that a critical control for project assurance was lost.

(d)   Deficient budgetary oversight and reconciliation

OAI noted that for four out of six projects sampled, the budgets set up in Atlas were not consistent with approved budgets in Annual Work Plans. For all projects sampled, expenditures were incurred in Atlas against budget lines that did not exist. As a result, it was not possible to reconcile expenditures against planned activities and budgets.

(e)   Lack of legal and financial safeguards for project implementation

Letters of Agreement were not signed with implementing partners for five out of six projects sampled.

The Office had 10 ongoing nationally implemented projects during the review period. In the review of the capacity assessments available for nationally implemented projects, OAI observed that the Office proceeded with national implementation modality based on:

- assessments that did not provide insight into implementing partners' capacities and therefore did not meet corporate standards for three of the six projects sampled;
- an assessment whose findings, according to the UNDP 'Programme and Operations Policies and Procedures', did not allow for the project to be implemented under the national implementation modality with the specified implementing partner;
- for 6 out of 10 projects, the Office had proceeded with the national implementation modality without any capacity assessments having been undertaken. As a result, there was no assurance that implementing partners had adequate capacities to properly manage, implement and report on funds extended to them by UNDP.

Weak or ineffective controls over project oversight and assurance may result in poor project performance going unnoticed and corrective action not being undertaken, thereby leading to financial losses and/or fraud.

Priority	High (Critical)

Recommendation 5: Strengthen controls over project assurance and oversight by: (a) revising job descriptions of programme staff and segregating duties for project assurance; (b) having Project Steering Committees meet for all projects on a quarterly basis and undertaking substantive reviews of projects; (c) establishing functional project monitoring systems, and setting up proper project budgets in Atlas; (d) developing Annual Work Plans that provide clearly defined timeframes showing precisely when planned activities are to be implemented; and (e) consider to convert all projects to direct implementation modality and basing any decision to adopt national implementation modality on the findings and recommendations of capacity assessments.
Management action plan: (a) Programme staff job descriptions are following corporate templates but in light of audit observations, will be revised to ensure segregation of duties for project assurance. (b) Political and security situation permitting, regular project board meetings will be carried out, or otherwise at least one to two meetings will be organized per year, per project and if not feasible due to further political/security deterioration, thematic cluster reviews will be initiated once a year. (c) Care will be taken to ensure consistency of indicators between the signed project documents and Annual Work Plans, and proper project budgets will be set up in Atlas. (d) Same as above. (e) The Office will verify past capacity assessments and either conduct a new assessment or convert to direct implementation in consultation with the Government. Furthermore, capacity assessments will now be carried out with a project formulation exercise. **Estimated completion date:** First quarter 2015

D. Operations

1. Procurement

Issue 6   <u>Weaknesses in procurement management</u>

The 'Programme and Operations Policies and Procedures' require offices to conduct procurement activities in a fair and transparent manner, in the interest of UNDP, and provide best value for money through a competitive process.

OAI reviewed a sample of 23 procurement cases amounting to $16.4 million, equivalent to 65 percent of the total procurement amount ($25.3 million) during the audit period. In 3 out of the 23 cases, procurement was managed by the Procurement Support Office. The 20 remaining were handled directly by the Office's Procurement Unit, 15 of which were procured through a competitive process, and 5 through direct contracting.

The following weaknesses were noted in the review of the procurement activities:

(a) High turn-over and limited capacity of the Procurement Unit

During the audit period, the Procurement Unit had three different heads of unit. This frequent turn-over had affected the institutional memory, leadership and accountability of the Procurement Unit. At the time of the audit, the Unit was headed by a National Officer and two supporting staff. Given the political instability of the Country, which demanded the urgent procurement of goods and services, there was a lack of procurement expertise in the Unit and a lack of compliance with UNDP rules and regulations in the management of the procurement activities, which may lead to fraud risks.

(b) Consolidated procurement plan not prepared

A consolidated procurement plan provides the Office with an opportunity to identify economies of scale and better use of resources. Furthermore, adequate procurement planning could contribute to more efficient processes through a shortened procurement period and improved project delivery. The Office did not prepare a consolidated procurement plan during the audit period. Out of 28 directly implemented projects, only 3 had procurement plans for 2013, and only 6 had procurement plans for 2014. No procurement plan was provided for Project No. 63389 "Support to Elections during Transitional Period" which represented 57 percent (14.3 million) of all procurement processed by the Office during the audit period.

(c) Deficiencies in determining technical specifications of goods and civil works needed

During the review of the procurement sample, OAI noted the following:

- The specification documents or descriptions of physical or functional characteristics of goods should be generic in nature to maximize the broadest possible competition. The use of brand names or similar references must be avoided. If it is necessary to cite a brand name, the words "or equal" should be included. The procurement of vehicles was based on the acquisition of a particular brand. In one procurement case reviewed, the Office did not provide technical justification to prove the benefits of acquiring this particular brand over others. In addition, the request did not add the statement "or equal" as required.

- According to UNDP policies and procedures, the international Invitation to Bid procurement method has to be used for construction contracts with expected values above $100,000. The Office undervalued civil works by $74,661, which resulted in the use of an incorrect procurement method – Request for Quotation. The day the contract was signed, the vendor indicated that additional construction work was necessary. The increase represented 56 percent of the originally procured amount and brought the final contract amount above the $100,000 threshold, thereby requiring the international Invitation to Bid procurement method.

(d) Weaknesses in the evaluation of proposals

- According to UNDP policies and procedures, offices should keep adequate documentation supporting the decisions made during the technical and financial evaluation processes. OAI noted that in 8 out of the 15 cases considered as competitive processes, the Evaluation Committee always found only one offer technically compliant for each case and thus, only that offer was financially assessed. The Office took the lowest price of the technically compliant offers to be the main selection criteria. Having only one offer for financial evaluation with limited information on file as to why other offers were not found

technically compliant did not provide adequate evidence that the process was competitive and transparent.

- According to the UNDP policies and procedures, the criteria used for assessing the proposals should be known to offerors and should not change during the evaluation process. OAI noted two cases of improper use of the evaluation criteria for technical evaluation. In one case, the evaluation criteria used to assess the technical requirements of the offers received were different from the evaluation criteria defined in the solicitation document. The solicitation document stipulated that the evaluation criteria will be based on: (a) technical responsiveness/full compliance to requirements and lowest price; (b) full acceptance of the purchase order/contract general terms; and (c) earliest delivery/shortest lead time. However, the Evaluation Team based its evaluation solely on assessing the technical proposals against the criteria of: (a) the construction experience of the vendor; and (b) experience in similar projects, excluding the criteria defined in the solicitation document. OAI did not receive any evidence that the Office communicated modifications to the evaluation criteria to proposers before the receipt of the proposals. In the other procurement case, the technical evaluation was divided in two stages, and only those short-listed offers were further assessed by site visits. However, the solicitation document did not establish the criteria for choosing the shortlisted vendors. Only three out of the six offers received were selected for additional screening, including an offer that did not respond to the request.

- According to the UNDP policies and procedures, the Office should accept and evaluate all received offers. In the case of procurement of a vehicle, a vendor submitted quotations for two different vehicles. However, only the quotation with the higher price was technically assessed. No documented justification for rejecting the lower price quotation was found in the procurement file.

- According to the UNDP policies and procedures, the offers not meeting formal criteria during the bid opening should be returned unopened to the offeror. In one procurement case, the evaluation report stated that the received offer had no responses during the bid opening since it "did not include a sealed envelope for the financial offer." However, this finding was not reported in the bid opening record. Furthermore, the Evaluation Committee proceeded with the technical evaluation of this offer, instead of returning it unopened to the offeror.

- According to the UNDP policies and procedures, only the financial proposals meeting the minimum technical score will be opened for evaluation, comparison and review. The financial proposal envelopes of the proposals not meeting the minimum passing technical score shall be returned to the proposers unopened. In one case, financial offers were opened and evaluated for offers considered technically unqualified by the Evaluation Committee.

Lack of proper procurement evaluation and weak procurement management could jeopardize the achievement of development outcomes. The cases outlined increase the risk of not receiving the best value for money.

(e) Incorrect use of Atlas e-requisitions and purchase orders

- According to the UNDP policies and procedures, an e-requisition and purchase order is required for every procurement case exceeding the threshold of $2,500. The Office issued 151 purchase orders without e-requisitions in 2013, and 47 purchase orders without e-requisitions in 2014. Procuring without e-requisitions may lead to multiple procurement actions competing for the same budgeted funds.

- According to the UNDP policies and procedures, the Atlas purchase order should reflect the total amount of the contractual obligation. The Office raised purchase orders for the payment amount at the time of payment and not for the whole amount of the contract once the contract was concluded. Splitting contractual obligations into several lower amounts undermines the pre-set internal controls and decreases the level of authority needed for approving transactions in Atlas.

The incorrect use of Atlas purchase orders may lead to staff approving commitments without adequate delegation of authority, over-commitments of available funds, and inaccurate procurement reporting.

Priority	High (Critical)
Recommendation 6: Improve procurement management by: (a) increasing the technical capacity of the Procurement Unit by using the UNDP Procurement Support Office or other UNDP offices in the region for handling complex procurement cases; (b) preparing a consolidated office procurement plan; (c) determining proper technical specifications of goods and civil works needed; (d) thoroughly documenting procurement evaluation processes; and (e) raising Atlas e-requisitions and purchase orders for all applicable procurement activities in compliance with UNDP policies and procedures and for the full amount of the contractual obligation.	
Management action plan: The Office started discussions with the Bureau of Management to identify support needs for the review/reinforcement of the Procurement Unit and ways to handle complex cases. The recommendation with regard to e-requisitions is well noted. Particular attention will be made to ensure consistent high quality evaluations through training and oversight. **Estimated completion date:** March 2015	

Issue 7   Inadequate management of individual contracts

The 'Programme and Operations Policies and Procedures' clearly mention the conditions under which individual contracts are managed, and stipulate that: (a) under no circumstances shall an individual contract be used for functions normally performed by a staff member; (b) the need for an individual contractor should be one-time and definitive, therefore once delivered, further need for such work should not be foreseen; (c) amendments cannot be piggybacked on expired contracts; (d) the best value for money must be considered in the selection process for individual contracts; (e) funds be available prior to beginning the engagement process; and (f) terms of reference be clearly defined and mention measurable deliverables.

OAI reviewed 15 individual contracts out of the total of 300 individual contracts issued during the audit period and identified the following deficiencies:

(a)   Incorrect use of the individual contract modality

OAI noted that in 37 out of 300 individual contracts issued during the audit period, individual contractors were used for core functions normally performed by staff members, including Procurement Assistant, Procurement Specialist, Administrative Finance Assistants, Project Manager, Project Coordinator, etc.

(b)   Schedule of payments, deliverables and milestones not clearly defined

In 2 out of 15 cases reviewed, the contract did not indicate the schedule of payments, deliverables and milestones. The Office may process the payment to the individual contractor only after the certification that the services related to each deliverable have been satisfactorily performed and the deliverables have been achieved by the due dates specified in the contract.

Priority	High (Critical)
Recommendation 7: Adhere to UNDP policies relating to individual contracts by: (a) using the individual contract modality only for consultancy work; and (b) clearly scheduling and defining terms of payments, deliverables and milestones in the individual contracts.	
Management action plan: The Office already issued a memo to strengthen the linking of payments to deliverables for technical individual contracts. **Estimated completion date:** December 2014	
OAI Response OAI acknowledges the action taken by management; this will be reviewed at a later stage as part of the standard desk follow-up process of OAI.	

Issue 8   Weaknesses in submission of procurement cases to Contract, Assets and Procurement Committee

Procurement review committees are established in accordance with UNDP Financial Rules and Regulations to render written advice to the procurement authority on procurement actions leading to the award or amendment of procurement contracts. Procurement review committees are established at the business unit, regional and central levels. All procurement cases exceeding the delegated procurement authority of the head of office must be reviewed by the Regional or Headquarter Advisory Committee on Procurement, as applicable.

OAI reviewed 10 procurement cases submitted to the Advisory Committee on Procurement online, with the following findings:

(a)   Low quality of submissions

OAI obtained incomplete supporting documentation of the procurement cases reviewed by the Contract, Assets and Procurement Committee. Significant documents were missing, including: advertisements, invitations sent to local vendors, technical proposals of offers not selected, etc. There was no evidence that the Contract, Assets and Procurement Committee requested the missing information from the Procurement Unit, which would have allowed a comprehensive review of the case.

(b)   Discrepancies in dates on supporting documents

Supporting documents for Advisory Committee on Procurement review were submitted online during 2013 and 2014. The Contract, Assets and Procurement Committee introduced the online review only after November 2013. In 5 out of 10 submissions to the Contract, Assets and Procurement Committee reviewed by OAI, the Office provided paper-based Contract, Assets and Procurement Committee meetings that were subsequently submitted to the Advisory Committee on Procurement online. There were different dates on the same documents depending on whether they originated from the Contract, Assets and Procurement Committee or Advisory Committee on Procurement reviews. For example, the Office provided a paper version of the Contract, Assets and Procurement Committee review dated 5 September 2013. However, the online version appeared as submitted on 2 September 2013 and as approved on 18 November 2013. In the meantime, the contract with the vendor had already been signed on 17 September 2013. Thus, it was unclear if the procurement cases were reviewed in a timely manner by the Contract, Assets and Procurement Committee before the purchasing of goods and services. The Office indicated that since November 2013, all cases have been submitted through the Advisory Committee on Procurement online, therefore, there should be no further discrepancies going forward.

As the independent review process is an important phase of the procurement cycle, the lack of or inadequate evaluations and incomplete submissions may result in delays, and may increase the risk that the best value for money will not be obtained.

Priority	Medium (Important)
Recommendation 8: Strengthen the standard practices of the Contract, Assets and Procurement Committee by: (a) improving the review process and documenting its discussions and conclusions; and (b) improving the planning and timeliness of submissions to the appropriate committee.	
Management action plan: Acknowledge that the online Advisory Committee on Procurement was not used till the end of the 2nd quarter of 2013. This resulted in retroactive online submissions with the errors or inconsistencies highlighted. However, the Office is not aware of a single case where the Contract, Assets and Procurement Committee reviewed and approved an incomplete case. Since the end of 2013, all cases are submitted online. The quality of submissions, however, needs to be strengthened for complex cases. The finalization of strategic support from the Procurement Support Office will be useful in this regard. **Estimated completion date:** January 2015	

2. Asset management

Issue 9   Unreconciled asset balance

The 'Programme and Operations Policies and Procedures' require offices to maintain complete and accurate records of all assets.

The Office's 2013 Year-End Certification Letter of Property, Plant and Equipment reported differences between assets in records and those physically verified amounting to $237,364 due to assets not recorded in Atlas and assets erroneously recorded. The total amount of assets in the Atlas in-Service Report as of 31 December 2013 was $1.7 million, and as of 30 June 2014 was $1.9 million. OAI verified that the Office cleared most of the differences and as of the date of the audit, the amount pending for reconciliation amounted to $26,000.

Inadequate asset management could lead to the misappropriation of assets. There is also a risk that assets may be over or under stated in the organization's account.

Comment

In response to the draft audit report, management provided OAI with the full reconciliation of the amount difference and therefore OAI did not make a recommendation in this regard.

Definitions of audit terms – ratings and priorities

A.   AUDIT RATINGS

- **Satisfactory**   Internal controls, governance and risk management processes were adequately established and functioning well. No issues were identified that would significantly affect the achievement of the objectives of the audited entity.

- **Partially Satisfactory**   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.

- **Unsatisfactory**   Internal controls, governance and risk management processes were either not established or not functioning well. The issues were such that the achievement of the overall objectives of the audited entity could be seriously compromised.

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 that are considered moderate. Failure to take action could contribute to 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 not included in this report.