

UNITED NATIONS DEVELOPMENT PROGRAMME
Office of Audit and Investigations



*Empowered lives.
Resilient nations.*

AUDIT

OF

UNDP COUNTRY OFFICE

IN

PAPUA NEW GUINEA

Report No. 1585
Issue Date: 8 April 2016

Table of Contents

Executive Summary	i
I. About the Office	1
II. Audit results	1
A. Governance and Strategic Management	2
1. Organizational Structure	2
2. Financial Sustainability	3
B. United Nations System Coordination	6
1. Harmonized Approach to Cash Transfers	6
2. Delivering as One	6
C. Programme Activities	9
1. Programme Management	9
2. Project Management	10
D. Operations	14
1. Financial Management	14
2. Procurement	18
3. Human Resources	19
Definitions of audit terms - ratings and priorities	21

Report on the Audit of UNDP Papua New Guinea Executive Summary

The UNDP Office of Audit and Investigations (OAI) conducted an audit of UNDP Papua New Guinea (the Office) from 16 to 24 February 2016. 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 January to 31 December 2015. The Office recorded programme and management expenditures of approximately \$17 million. The last audit of the Office was conducted by OAI in 2011.

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 weaknesses in financial management, weaknesses in managing cost recovery and extrabudgetary resources, and excessive leave balances and incomplete mandatory training.

Key recommendations: Total = 12, high priority = 3

Objectives	Recommendation Nos.	Priority Rating
Achievement of the organization’s strategic objectives	2, 5	Medium
Reliability and integrity of financial and operational information	1	High
Effectiveness and efficiency of operations	4, 6, 10	Medium
	9	High
Compliance with legislative mandates, regulations and rules, policies and procedures	3, 7, 8, 11	Medium
	12	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:

Weaknesses in managing
cost recovery and
extrabudgetary resources
(Issue 2)

The contributions received from United Nations agencies and projects towards common services and other costs were incorrectly recorded as miscellaneous revenue in the Office's extrabudgetary resources. Further, there was inadequate justification for recovering a flat rate of 2 percent and 1 percent for monitoring and evaluation and communication costs, respectively. The actual costs incurred by the Office towards monitoring and evaluation costs and communication costs during 2015 were not available. As a result, the audit could not determine if the costs recovered by the Office from the projects at a flat rate were reasonable or if they were less or more than the actual costs incurred for monitoring and evaluation and communications. The monitoring and evaluation and communication recoveries made from the project budgets were recorded under the extrabudgetary account of the project instead of either charging the project budget account directly or setting up a separate project account for better accountability. There was no breakdown of how these amounts were utilized. Furthermore, the salary costs of one staff member amounting to \$34,000 were charged as Direct Project Costs to a project. However, the terms of reference of the position could not be directly linked to the project.

Recommendation 1: The Office should ensure compliance with the 'UNDP Programme and Operations Policies and Procedures' on extrabudgetary resources and should enhance the transparency of cost recovery by: (a) recovering monitoring and evaluation and communication costs from projects in accordance with the Direct Project Cost policy and based on actual staff costs for these activities; (b) directly recording contributions and expenditures for common services in the common services project account and not under extrabudgetary resources; and (c) directly linking staffing costs to the services provided by the staff member for specific projects, and recovering costs based on actual cost adjustments made at the end of the year.

Weaknesses in financial
management
(Issue 11)

The Office had not reconciled its local currency bank account as of 31 December 2015. The bank reconciliation statement included unreconciled cheques valued at approximately \$52,000 (PGK 129,000), and cash deposits of \$370,000 (PGK 927,000), some of which had been pending since 2012. During the audit period, the Finance Unit cancelled 78 payment vouchers amounting to \$351,000 and deleted 265 vouchers totalling \$265,000. Moreover, 44 vouchers were corrected and reversed due to incorrect account codes used. The audit also noted over 170 vouchers created without clear or complete descriptions of the vouchers. As a result, the Finance Dashboard showed several rejections of transactions for fees charged to other United Nations agencies. The Global Shared Services Centre also highlighted this, with six 'Service Clearing Account' rejections valued at \$17,000 remaining unresolved for more than three years.

Recommendation 9: The Office should enhance its financial management by: (a) developing an action plan with milestones to ensure that long-outstanding unreconciled amounts are resolved; (b) providing appropriate training for current staff on accounting processes; and (c) conducting oversight over the functions performed by the Finance Unit and regularly reviewing the Finance Dashboard.

Excessive leave balances
and incomplete
mandatory training
(Issue 14)




As at March 2015, 8 out of 15 (53 percent) local staff had leave balances of more than 60 days. As a result, the eight local staff forfeited their leave beyond 60 days since they had not been utilized before March. Additionally, 26 fixed-term appointment staff had not completed all of the mandatory courses. Furthermore, 12 out of 22 service contract holders had not completed the Basic Security in the Field Course.

Recommendation 12: The Office should ensure compliance with the 'UNDP Programme and Operations Policies and Procedures' on human resources management by: (a) ensuring that staff prepare and agree on their leave plans with their supervisors so they do not forfeit their leave days; and (b) establishing a time frame for all staff to complete the mandatory training courses.

Management comments and action plan

The Resident Representative/Resident Coordinator 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. Ostveiten
Director
Office of Audit and Investigations

I. About the Office

The Office is located in Port Moresby, Papua New Guinea (the Country). The Office had 26 fixed-term staff and 20 service contract holders at the time of the audit. The Office operated in a high-cost environment and faced challenges in retaining and recruiting qualified national personnel. In the previous two years, the Office had made significant progress in increasing the programme delivery rate, which doubled from \$4 million in 2013 to \$8 million in 2014, and further increased to \$13 million in 2015. In 2015, the Office filled a number of positions that had remained vacant, and partner feedback indicated that improvements had been made in building relationships, as evidenced by the increased resources mobilized during the previous two years.

II. Audit results

Satisfactory performance was noted in the following areas:

- (a) Partnerships and resource mobilization. The Office mobilized \$11 million against a target of \$7 million in 2014, and \$27 million in 2015 against a target of \$18 million. Positive relationships were maintained with key donors.
- (b) Safety and security. The Office adequately managed the security budget under common services, with a Long-Term Agreement signed inclusive of other agencies housed within the UN House.

OAI made three recommendations ranked high (critical) and nine 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) Enhance financial management (Recommendation 9).
- (b) Ensure compliance with the 'UNDP Programme and Operations Policies and Procedures' on extrabudgetary resources and enhance the transparency of cost recovery (Recommendation 1).
- (c) Ensure that staff prepare and agree on their leave plans with their supervisors and establish a time frame for all staff to complete the mandatory training courses (Recommendation 12).

Medium priority recommendations, arranged according to significance:

- (a) Enhance the management of cost recovery and of the common services project (Recommendation 10).
- (b) Strengthen project management (Recommendation 8).
- (c) Follow up on the recovery of Government Contributions to Local Office Costs within a specified time frame (Recommendation 2).
- (d) Enhance joint operations by establishing Long-Term Agreements (Recommendation 4).
- (e) Establish proper project monitoring mechanisms (Recommendation 7).
- (f) Ensure that the Harmonized Approach to Cash Transfer requirements are fully met (Recommendation 3).
- (g) Plan and conduct outcome evaluations (Recommendation 6).
- (h) Revise the UNDAF Action Plan indicators and baselines for the next UNDAF (Recommendation 5).
- (i) Enhance controls over procurement (Recommendation 11).

The detailed assessment is presented below, per audit area:

A. Governance and Strategic Management

1. Organizational Structure

Issue 1 Corporate issue: Inadequate management of pilot initiative to enhance efficiency and effectiveness

As part of the UNDP organizational effort to develop new business models to address challenges relating to change, operational efficiency and strengthened critical Country Office functions, a team from UNDP Headquarters undertook a review of the Office's functions in October 2012. The review included a cost-benefit analysis of the clustering of services that could be undertaken remotely by an office with lower costs. The team recommended that the Office should leverage the potential benefits of outsourcing finance, administrative and procurement functions to the Bangkok Regional Hub (BRH). Expected results included an improvement of programmatic and operational performance and generated savings for the Office and UNDP as a whole.

Following the approval of the Regional Bureau for Asia and the Pacific, certain functions in finance, human resources and procurement were outsourced by the Office to BRH. The Office committed to completing a 14-month trial period (September 2013 to November 2014), during which lessons learned would be documented. In November 2014, the pilot initiative ended and the office resumed performing the functions that were outsourced to BRH.

As lessons learned, the Office concluded that while the pilot was successful in highlighting efficiency gaps to be addressed by the Office, this was not the best approach for the Office's long-term requirements. The main concerns as identified by the Office's management were:

- The scope of the pilot was not clearly understood by all parties involved, and the type of services to be outsourced had not been agreed upon at the outset. As a result, BRH was unwilling to take over potentially problematic services, such as bank reconciliations, which were pending as of the audit fieldwork date.
- There were no Standard Operating Procedures developed and/or agreed upon for the outsourcing business model. As a result, there were several issues related to the timeliness of services provided, and there was no evidence of the value added.
- The business model was based on several inaccurate assumptions, such as the following: (a) the Office would not require any qualified finance staff (only a clerk would be required, who would basically copy all documents for transmission to BRH); and (b) the handover of the services to BRH would result in cost savings for the Office, even though the outsourcing proved to be more costly than undertaking the services in-house.
- Based on advice received from BRH, some international posts were converted to national posts without taking into consideration the capacity level of national staff.

The audit disclosed that very limited information from the pilot period was available. For instance, the total additional costs/savings as a result of the changes undertaken both at the Office and at BRH were not available; information regarding the staff reduction levels at the Office and recruitments at the BRH level was also not

available. Further, the basis of costs charged by BRH as well as the regular monitoring reports and management actions taken to address the challenges noted in the new business model were not available.

The Office generally agreed and stated that this was outside of their control, as this was a Regional Bureau for Asia and the Pacific initiative.

Inadequate management of the new business processes may result in the inefficient use of organizational resources.

Comment

OAI is not making a recommendation, as the identified risk will be addressed within the context of the ongoing OAI audit of the Financial Sustainability and Effectiveness exercise.

2. Financial Sustainability

Issue 2 Weaknesses in managing cost recovery and extrabudgetary resources

The 'UNDP Programme and Operations Policies and Procedures' require the following: (i) that all offices maintain a minimum of 12 months of extrabudgetary reserves to ensure financial sustainability; and (ii) that Direct Project Costs be recovered for costs incurred in the implementation of an activity or service that can be directly traced and attributed to that development activity (projects and programmes) or service. These costs are included in the project budget and charged directly to the project budget for the development activity and/or service.

The Office had an extrabudgetary reserve equivalent to 29 months as at 31 December 2015. In 2015, the Office's main extrabudgetary resources included General Management Services (\$250,000), recovery from United Nations agencies for services provided (\$177,000) and miscellaneous revenue (\$519,000). The miscellaneous revenue included the recovery of \$111,813 from all non-Global Environment Facility projects towards monitoring and evaluation costs, and \$111,985 from all projects towards communication costs.

The audit disclosed the following weaknesses in the recovery of monitoring and evaluation and communication costs:

- (a) Inadequate justification for recovery of monitoring and evaluation and communication costs at a flat rate: Instead of recovering costs based on the actual time spent, the Office recovered monitoring and evaluation and communication costs at a flat rate of 2 percent and 1 percent of project budgets, respectively. The flat rates applied were based on the suggestions of the Business Model Review Manager. However, the Office had not determined the reasonableness of the flat rates, and if these rates were in line with the actual costs incurred. The actual costs incurred by the Office towards monitoring and evaluation costs and communication costs during 2015 were not available. As a result, the audit could not determine if the costs recovered by the Office from the projects at a flat rate were reasonable or if they were less or more than the actual costs incurred for monitoring and evaluation and communications.
- (b) Incorrect recording of monitoring and evaluation and communication costs: The monitoring and evaluation and communication recoveries made from the project budgets were recorded under the extrabudgetary account of the project instead of either charging the project budget account directly, or setting up a

separate project account for better accountability. There was no breakdown of how these amounts were utilized.

The Office's management agreed that monitoring and evaluation and communications costs recovered from projects should not be recorded under the extrabudgetary account.

The salary costs of one staff member (Project Services Human Resource Associate) amounting to \$34,000 were charged as Direct Project Costs; however, the terms of reference could not be directly linked to the project. The Office agreed that no further costs of the staff member would be charged against the project.

- (c) Inappropriate recording of miscellaneous revenue: The Office was managing common services on behalf of United Nations agencies. It had established a common services project to record the expenditures incurred and contributions received for these services from United Nations agencies and projects.

During 2015, the Office recovered \$449,000 from projects as common service contributions that were incorrectly credited as miscellaneous revenue in the extrabudgetary account. Although this amount was later transferred to the common services project, this process inflated the extrabudgetary resources and expenditures. Additionally, an amount of \$18,000 received from another United Nations agency as rent was also credited to the extrabudgetary account instead of the common services project account, and this was also subsequently reversed. As several reversals had been made under the miscellaneous revenue category, it was difficult to reconcile the actual revenue with the account balance as at 31 December 2015.

The Office's management stated that projects and United Nations agencies residing in the UNDP premises (i.e. Food and Agriculture Organization [FAO], Office of the United Nations High Commissioner for Human Rights [OHCHR], and United Nations Capital Development Fund [UNCDF]) did not always remit their contributions for rent and security costs on time, due to their annual work plans not being finalized, or funds not being received from donors/Headquarters. In these instances, the Office utilized the extrabudgetary resources to fill the gap, and would return the funds once the expected remittances had been completed.

Even though the Office needs to maintain the flexibility of being able to settle rent and security payments, recording them under extrabudgetary accounts inaccurately reflects the Office's extrabudgetary resources.

Priority	High (Critical)
Recommendation 1:	
The Office should ensure compliance with the 'UNDP Programme and Operations Policies and Procedures' on extrabudgetary resources and enhance the transparency of cost recovery by:	
<ul style="list-style-type: none"> (a) recovering of monitoring and evaluation and communication costs from projects in accordance with the Direct Project Cost policy and based on actual staff costs for these activities; (b) directly recording contributions and expenditures for common services in the common services project account and not under extrabudgetary resources; and (c) directly linking staffing costs to the services provided by the staff member for specific projects, and recovering costs based on actual cost adjustments made at the end of the year. 	

Management action plan:

The Office agrees on the following:

- (a) Instead of including costs recovered for monitoring and evaluation and communications activities under the extrabudgetary account, a separate Direct Project Costs project will be established and all contributions from the projects for monitoring and evaluation and communications will be recorded under this Direct Project Costs stand-alone project.
- (b) The Office will record contributions from the projects directly to common services and security project accounts. In cases where this is not possible, the Office will fund the difference from extrabudgetary resources and will reimburse the funds after receiving them from new projects or other hosted agencies.
- (c) The staffing costs of the Human Resources Associate will be charged to extrabudgetary resources.

Estimated completion date: April 2016

Issue 3 Government Contributions to Local Office Costs not paid

The Standard Basic Assistance Agreement between Country Offices and governments provides that host governments are expected to contribute towards the local costs of Country Offices.

Government Contributions to Local Office Costs (GLOC) for 2015 amounted to \$147,000 and were outstanding as at February 2016. GLOC for 2016 amounted to \$320,000. The Office's management followed up both in May 2015 and in February 2016 by advising the Government of the outstanding contributions for 2015 and 2016, respectively. Management explained that the Government paid the GLOC contributions for 2009-2012 only in 2013, while the contributions for 2013 and 2014 were paid in 2015. The 2015 contribution remained unpaid as a result of funding constraints due to the drop in global oil and gas prices.

Failure to fully collect the GLOC may adversely impact the financial resources available to support local office costs.

Priority	Medium (Important)
Recommendation 2:	
The Office should continue to follow up with the Government and recover the GLOC within a specified time frame.	
Management action plan:	
The Office will continue to follow up on GLOC payments.	
Estimated completion date: December 2016	

B. United Nations System Coordination

1. Harmonized Approach to Cash Transfers

Issue 4 Harmonized Approach to Cash Transfers not fully implemented

To lessen the burden that the multiplicity of United Nations procedures and rules create for its partners, the Harmonized Approach to Cash Transfers (HACT) Framework requires that participating United Nations agencies (i.e., UNDP, UNICEF, and UNFPA) agree upon and coordinate HACT activities. A country is considered as being in compliance with this approach when four steps have been completed: (a) a macro-assessment of the public financial system; (b) micro-assessments of implementing partners; (c) agreement with the Government on implementing HACT; and (d) an assurance and audit plan relating to the implementing partners has been developed and implemented.

The macro and micro-assessments had been completed. However, the Office had not fully implemented HACT, as there was no assurance plan and no documentation confirming discussions on HACT implementation with either key local partners or donors. The approval of the Government to implement HACT was not available. The Office also stated that the HACT Working Group was re-established in 2015, with one meeting held on 27 October 2015.

The objectives of harmonizing practices among United Nations agencies and lessening the burden of using multiple procedures will not be achieved unless the HACT requirements are implemented.

Priority	Medium (Important)
Recommendation 3:	
The Resident Coordinator's Office should ensure that the Harmonized Approach to Cash Transfer requirements are fully met by ensuring the Working Group is re-established and meets regularly, develops and implements a joint assurance plan, and assurance activities are undertaken within a time-bound period.	
Management action plan:	
The HACT Working Group has been re-established and will have a meeting in April.	
Estimated completion date: June 2017	

2. Delivering as One

The United Nations agencies in the Country operate under the 'Delivering as One' (DaO) model, guided by the principles of 'One Programme', 'One Operations', 'One Fund', 'One United Nations House', and 'One Communications Strategy'. The United Nations agencies adopted the DaO model in 2006.

Issue 5 Delays in approval of Joint Annual Work Plans

Based on the DaO, the Steering Committee should approve the Joint Annual Work Plans (JAWPs) by early November of the preceding year to ensure implementation early in the next year.

The review of the 2015 and 2016 JAWPs signature process highlighted the following:

- Out of 10 JAWPs for 2015, only 2 had been approved by April 2015. While six JAWPs were signed after April, the last two were signed in June 2015, resulting in a delay of six months.
- None of the 10 JAWPs for 2016 had been approved as at 24 February 2016.

Both the Office's management and the Resident Coordinator Office (RCO) stated that the delays in the JAWP endorsement were due to Government delays in reviewing them. They further stated that the RCO plays a coordination role by organizing the meetings and coordinating with the different agencies, while programme implementation is the responsibility of the various United Nations agencies. The RCO stated that while it provides secretariat functions to the Programme Coordination Committee and the co-chairs, the specific Task Teams, led by different United Nations agencies, are the ones responsible for ensuring the signatures from the relevant government counterparts for the JAWPs, and not the RCO. Following the audit fieldwork, the RCO held a discussion with the Programme Coordination Committee, which noted that the delays were beyond the control of the United Nations. However, the Committee agreed that in the future, the JAWPs will be signed by the first quarter of each year.

The initiation of activities without the formal endorsement of annual work plans may lead to misunderstandings on agreed-upon targets. Further, as the coordination function is embedded within the RCO, and the signing of JAWPs requires coordination with the government counterparts, the RCO should continue to address the issue.

Comment

OAI is not making a recommendation, as the identified risk was beyond the control of the Office and action has already been initiated by the Programme Coordination Committee.

Issue 6 Slow progress in implementing One Operations

The DaO objectives include enhancing efficiency, and reducing duplication and fragmentation of programmatic interventions and operational processes. The United Nations Operations Committee (UNOC) develops a common set of procedures and processes for the areas of procurement, human resources management, and information technology, to increase operational efficiency and reduce transaction costs for the agencies and their partners.

The RCO made significant progress in areas such as the One Programme, a United Nations Development Assistance Framework (UNDAF) Action Plan, JAWPs and progress reports, and a single reporting mechanism for all participating agencies. However, there was limited progress in the area of One Operations. A similar issue on the limited progress on One Operations was also raised in the previous audit undertaken in 2011 (Audit Report No. 838, issued in December 2011).

As part of the 2015 annual work plan for the UNOC, three Long-Term Agreements for travel, office supplies and conferencing services were to be developed. However, none of these were developed. The RCO stated that

limited procurement capacity hindered progress in developing the Long-Term Agreements, and would be undertaken by a consultant in 2016.

Given that the Country was operating under the DaO model since 2006, the establishment of Long-Term Agreements should have been prioritized. The Office's management explained that the One Operations targets set in the existing UNDAF were unrealistic, and would be revised in the next UNDAF that was under discussion. Further, limited human resources impacted on the implementation of the annual work plan. Additional resources would be allocated through a detail assignment and a consultant.

The RCO indicated that its mandate was to play a coordination role, while individual agencies ensured the operationalization of the UN Programme, through structures such as the UNOC. The RCO further indicated that it had limited resources to manage the One Operations and hence did not lead the implementation of the UNOC work plan. Further, they had no authority to ensure that UNOC prioritized joint operations by establishing Long-Term Agreements within a specified time frame.

Delays in promoting joint services may set back the objectives of DaO in reducing transaction costs and enhancing harmonization among United Nations agencies.

Priority	Medium (Important)
Recommendation 4:	
The Resident Coordinator Office should ensure that the United Nations Operations Committee prioritizes joint operations, including the establishment of Long-Term Agreements for travel, mobile services, stationery, conferencing facilities, fuel and vehicle maintenance within a specified time frame.	
Management action plan:	
As a result of this recommendation, the RCO sought the advice and was informed by UNOC that it is planning to prioritize Long-Term Agreements beginning this year and to better plan its strategy and subsequent annual work plans for the UNDAF 2018-2022.	
Estimated completion date: December 2016	
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 7 Incomplete United Nations Development Assistance Framework Action Plan

The UNDAF Action Plan sets out how the United Nations agencies in the Country will work with national partners and with each other to achieve the results identified in the UNDAF. It focuses on accountabilities, resource requirements, governance structures, management and implementation strategies, and monitoring and evaluation, including articulation of baselines, indicators, and outcome targets to be achieved.

The audit noted the following weaknesses in the 2012-2015 UNDAF Action Plan:

- Out of over 200 outcome and output baselines, 15 were either unknown or yet to be determined.
- Over 80 inter-agency outcome and output annual targets were unknown or yet to be determined. For example, out of the 34 annual output targets for the Inter-agency Governance Outcome, 30 were unknown.
- Various national indicators were not included. For example, in the case of the Inter-agency Governance Outcome, 7 out of the 12 national output indicators were not available.
- An UNDAF mid-term evaluation was not conducted, and was being planned for the first quarter of 2016.

The RCO explained that during the extension of the UNDAF to 2017, each cluster task team reviewed and revised their Results Frameworks developed from the UNDAF to address gaps in indicators, baselines and targets, both at the output and outcome levels. Some outcome indicators, baselines and targets could not be determined during the programme cycle due to the lack of availability of measuring tools, and the lack of reliable data and capacity to collect information. As a result, reporting against indicator targets was not been possible for some outcomes and outputs. The Office's management stated that as part of the UNDAF Action Plan extension to 2017, UNDAF indicators were revised to better align with targets and ensure better measurement of progress.

Without baselines, indicators and annual targets, the achievement of annual milestones and targets cannot be determined accurately.

Priority	Medium (Important)
Recommendation 5:	
The Resident Coordinator Office should utilize the results of the planned evaluation to realign the UNDAF and ensure that proper baselines, indicators and annual targets are identified for the next UNDAF.	
Management action plan:	
The results from the UNDAF evaluation will be used as lessons learned for planning for results, including complete baselines, indicators and annual targets in preparation for the next UNDAF 2018-2022.	
Estimated completion date: April 2017	

C. Programme Activities

1. Programme Management

Issue 8 Outcome evaluations not undertaken

According to the 'UNDP Monitoring and Evaluation Handbook', evaluation should be undertaken for each outcome at least once during the programme cycle.

Out of six outcomes, the Office had planned for only one outcome evaluation during the current programme cycle 2012-2017 (Governance and Crisis Prevention and Recovery) to be undertaken in March 2016, and any outcome evaluations should have been factored in during this period. An UNDAF Action Plan mid-term review was not undertaken, and a mid-term evaluation was only being planned for the first quarter of 2016. Therefore,

opportunities to undertake mid-term corrections, such as the revision of indicators and the identification of absent baselines were missed.

Management stated that given that the Office operates under DaO, an agency-specific evaluation of the outcomes was not encouraged by the United Nations Country Team. Further, evaluation costs amounted to \$100,000 per evaluation, and given that there were too many outcomes articulated in the Country Programme Document 2012-2016, the Office found it unsustainable. The Office's management also stated that it would be actively involved in the ongoing UNDAF evaluation to report on progress against each outcome where UNDP was involved. The results would be used as lessons learned in the next programme cycle.

In light of the high costs for outcome evaluations, the Office could have considered other mitigating controls such as joint evaluations with other United Nations agencies working in the same focus area to minimize costs.

In the absence of outcome evaluations, the Office will be unable to determine the efficiency, effectiveness and sustainability of interventions related to the outcomes that have not been evaluated. In addition, the Office will be unable to update subsequent programme interventions with lessons learned from these evaluations.

Priority	Medium (Important)
Recommendation 6	
The Office should leverage on the planned mid-term UNDAF evaluation by:	
<ul style="list-style-type: none"> (a) liaising with the Regional Bureau for Asia and the Pacific to establish internal reviews in lieu of outcome evaluations; and (b) ensuring that outcome evaluations are planned for all outcomes in the next Country Programme Document being developed. 	
Management action plan:	
There will be fewer outcomes in the UNDAF and the Country Programme Document, which will make outcome evaluations more manageable. The Office will ensure that funding is allocated for these outcome evaluations while developing the new Country Programme and projects.	
Estimated completion date: December 2017	

2. Project Management

Issue 9 Weaknesses in project oversight and monitoring

The 'UNDP Programme and Operations Policies and Procedures' stipulate that as part of their assurance function, Programme Officers should undertake field/site monitoring visits to validate information reported by project staff. The assurance visits should be a combination of both programmatic and operational reviews.

Even though the Office charged for monitoring activities (refer to Issue 2), the following weaknesses in assurance monitoring were noted:

- (a) Lack of monitoring and evaluation framework: The Office had not developed a monitoring and evaluation framework for the programme portfolio to guide the programme/project monitoring and assurance process.
- (b) Lack of documentation of field monitoring visits: For four of the six projects reviewed, there were no back-to-office reports for field visits undertaken in 2015 by programme staff. For one project, four field visits were undertaken by programme staff, primarily to elections-related activities, with two reports stating that monitoring was also undertaken. However, the monitoring-related activities were not documented.

A list of monitoring visits for 16 projects undertaken by programme staff during 2015 was provided by the Office, however, back-to-office reports were not prepared, and therefore it was not possible to determine what specific monitoring activities were undertaken, whether any challenges were identified, and how these challenges were followed up on. Implementation delays were noted in three of the six projects reviewed.

Similarly, there was no evidence that activities undertaken by the micro-capital grant recipients were monitored (refer to Issue 10 below).

The Office acknowledged the weaknesses in monitoring and stated that a comprehensive monitoring framework will be developed through monitoring and evaluation plans for each project and the updates of the plan, as necessary. Further, the Office stated that it will ensure that programme staff provide monitoring reports after each monitoring visit in the future. The Office will use the monitoring and evaluation fees charged to the projects to cover part of the staff salaries (related to their time spent on monitoring and evaluation and assurance activities) and to cover the cost of the monitoring visits, where field visits are made.

There is a risk that the Office may not achieve planned results when its projects are not independently monitored.

Priority	Medium (Important)
Recommendation 7:	
The Office should ensure compliance with the 'UNDP Programme and Operations Policies and Procedures' on the monitoring and evaluation provisions by:	
<ul style="list-style-type: none"> (a) developing a comprehensive monitoring framework for the Office; (b) properly documenting assurance monitoring field visits; and (c) ensuring that the funds recovered for monitoring and evaluation activities are deployed for that purpose. 	
Management action plan:	
An effort will be made to implement the recommendations; however, due to the small size of the Office and to the high cost environment in the Country, it would be very difficult (if at all possible) to clearly divide the implementation and assurance functions between programme and project staff. The feasibility of this is also very questionable in view of the decrease of institutional resources and increased pressure to use Direct Project Costs for programme staff (therefore, the support of projects may be the only justification for using Direct Project Costs for funding programme staff).	

Estimated completion date: December 2016

Issue 10 Project management weaknesses

The 'UNDP Programme and Operations Policies and Procedures' define outputs as results for which the project has direct accountability for delivery. These outputs are articulated in the annual work plans, which also identify specific targets to be achieved during the year that contribute to the overall project outputs. Indicators measure the progress towards achieving the specific outputs, and should be specific, measurable, attainable, relevant and time-bound.

OAI reviewed the implementation of the annual work plan activities for six projects, and noted that three of the projects faced significant implementation challenges, as follows:

(a) Project implementation delays

- One project was initiated in 2012, and faced implementation challenges, with expenditure rates of 43 percent, 40 percent and 32 percent in 2012, 2013 and 2014, respectively. In 2015, the project recorded an expenditure rate of 95 percent, with 45 percent of this expenditure recorded as commitments (\$974,781). A review of the 2015 activity actions planned and actually implemented disclosed that out of 47 activity actions, 19 were delayed while 8 were not implemented at all. The Office stated that several factors contributed to these delays, including changes within the implementing partner as well as the partner's limited institutional capacity, inherent challenges related to the pilot communities, and key project staff leaving mid-year. The original budget was revised in December 2015 from \$2.9 million to \$2.3 million. The project risks had neither been updated in the Atlas (enterprise resource planning system of UNDP) risk log, nor identified in the 2015 Project Implementation Review report. In fact, the risk rating allocated was 'low'. The Project Board, which was scheduled to meet at least three times in 2015, met only once to review progress or to address the implementation challenges.
- Another project was approved by the Global Environment Facility in April 2014 for \$0.5 million, with the Local Project Appraisal Committee meeting held in June 2014. The 2014 annual work plan budget was \$3,500; no expenditure was recorded against this project in 2014. A review of the 2015 annual work plan activity actions indicated that out of 16 planned activity actions for 2015, 8 were delayed and 6 were not implemented. The Office stated that the project was actually initiated in April 2015 and was simultaneous with the start of the change management process (May 2015) within the main government counterparts. This led to delays in decisions regarding project implementation, as the focus was on the internal change management process. As a result, out of an initial 2015 budget of \$0.2 million, only \$0.07 million was expended, representing an expenditure rate of 36 percent. The Atlas risk log was set up in January 2015, and identified three risks that were rated as non-critical but impacted project implementation due to the resulting organizational change within the implementing partners. These three risks were as follows: organization's aversion to change from business as usual to embracing the improved system; frequent turn-over of staff especially after obtaining training; and lack of policy and legislation to support aspects of the project. There was no management response indicated for these risks. Further, the second and third quarter progress reports did not include a review of these risks. The Project Board did not meet to either discuss project progress or to review the implementation issues.

- A third project was initiated in October 2012 with a budget of \$6 million over four years. Expenditure rates from 2012 to 2015 were 24 percent, 36 percent, 28 percent and 98 percent, respectively. Out of the 98 percent expensed in 2015 (\$2.8 million), 38 percent (\$1 million) was identified as commitments, part of two large contracts valued at \$1.4 million that were yet to be fully liquidated. For these, deliverables were yet to be completed, and these delays were attributed to ongoing restructuring within the implementing partner and recruitment delays. While the implementation rate improved in 2015, monitoring and assurance activities were weak. The Office's management stated that assurance monitoring for review and follow-up was undertaken; however, these activities were not documented.

Projects that are not closely monitored and the lack of follow-up actions to address challenges may result in projects not meeting their development targets within specified time frames.

(b) Multiple concurrent micro-capital grant agreements

According to the 'UNDP Programme and Operations Policies and Procedures', an individual micro-capital grant may not exceed \$150,000. A recipient organization may receive multiple grants, provided the grants do not exceed \$300,000 on a cumulative basis within the same programme or project. To receive multiple grants, the recipient organization must have produced the results agreed upon in the prior grant agreement, and a new micro-capital grant agreement must be approved by the Steering Committee.

The Office contracted 19 organizations through the provision of micro-capital grant agreements with a total value of \$2.4 million in 2015 for four projects. The audit reviewed a sample of six grant recipients linked to one project and noted that the Office signed agreements with two entities for \$300,000 each. For each recipient, the Office split the grant into two agreements of \$150,000 to show that the grant did not exceed the micro-capital grant ceiling for any one agreement. The second agreement would only be initiated once the deliverables in the first agreement were met. The grant recipients had requested that the entire amount of \$300,000 be committed to ensure continuity of the project deliverables, with the understanding that the initiation of the second agreement was contingent upon meeting the deliverables of the first agreement. However, this arrangement meant that funds were encumbered for a period of at least one year. Further, these encumbered funds were reported as expenditures at the end of the year, which resulted in overstatement of the project delivery. As of February 2015, the project delivery figure included \$1 million of encumbered funds, comprising micro-capital grant funds that were yet to be disbursed. Further, as referred to in Issue 9 above, there was limited evidence that the Office had undertaken monitoring of activities implemented by the micro-capital grant recipients.

The audit team noted that the Office's management had already initiated measures to mitigate project-related risks. For example, the Office was no longer using project cash advances and had recruited international staff to build the capacity of implementing partners and to improve project management.

The Office may not achieve project results in the absence of a streamlined process for engaging and monitoring grant recipients.

Priority	Medium (Important)
Recommendation 8: The Office should strengthen project management by: <ul style="list-style-type: none"> (a) identifying risks likely to impact project implementation, including planned changes related to the implementing partner, with related mitigation measures documented; (b) undertaking and documenting regular assurance monitoring activities to identify bottlenecks and address them accordingly; and (c) signing micro-capital grant agreements that do not exceed the prescribed threshold per recipient at any one time and not encumbering funds in excess of the micro-capital grant agreements. 	
Management action plan: The Office takes note of the audit recommendations on this issue and would like to note the following: <ul style="list-style-type: none"> (a) The Office had the risks for most of the projects identified at the start of the projects. The Office agrees, however, that some of the risks were not updated regularly and more should be done in that area. Therefore, the Office will instruct all project and programme staff to make sure to update the risks and mitigation measures regularly. (b) On monitoring activities, the Office indicated its actions under Issue 9. (c) The Office accepts this recommendation and will avoid this situation from occurring in the future. 	
Estimated completion date: August 2016	

D. Operations

1. Financial Management

Issue 11 Weaknesses in financial management

(a) Lapses in bank reconciliations

According to the 'Operational Guide of the Internal Control Framework for UNDP', bank reconciliations are important internal controls, and unreconciled amounts must be reviewed monthly to detect errors promptly and to reduce the risk of fraud. The completed bank reconciliation should be submitted to a supervising officer for review.

In the last audit of the Office in 2011, the audit team noted that bank reconciliation differences were not adjusted in a timely manner and a recommendation was made to complete the reconciliation. OAI had assessed the recommendation as implemented based on feedback provided by the Office. However, the current audit disclosed that the issue continued to persist.

The Office had not reconciled its local currency bank account as at 31 December 2015. The bank reconciliation statement included unreconciled cheques valued at approximately \$52,000 (or in local

currency PGK 129,000), and cash deposits of \$370,000 (PGK 927,000), some of which had been pending since 2012.

The Office indicated that this had been a long-standing challenge due to the complexity of the issue. They further indicated that they had contracted a specialist to assist in reconciling these outstanding balances.

Not performing bank reconciliations may expose the Office to risks of error and fraud, and may lead to reputational risks for the organization.

(b) Shortcomings in financial transactions

The 'UNDP Financial Regulations and Rules' require that staff exercise due care when recording transactions. The transactions should be recorded accurately in the designated accounts.

In the last audit of the Office in 2011, OAI reported numerous transactions that were not recorded correctly and a recommendation had been made to address the weakness. Based on the update of this recommendation by the Office, OAI had assessed it as implemented. However, during the validation of this recommendation in the current audit, it was noted that this weakness continued to persist. During the audit period, the Finance Unit cancelled 78 payment vouchers amounting to \$351,000 and deleted 265 vouchers totalling \$265,000. Moreover, 44 vouchers were corrected and reversed due to incorrect account codes used. The audit also disclosed that over 170 vouchers were created without clear or complete descriptions of the vouchers. As a result, the Finance Dashboard showed several rejections of transactions for fees charged to other United Nations agencies. The Global Shared Services Centre also highlighted this, with six 'Service Clearing Account' rejections valued at \$17,000 remaining unresolved for more than three years.

The Office's management acknowledged the issue, and indicated that neither of the two staff in the Finance Unit were provided with the relevant training since joining the Finance Unit in August 2014 and February 2015, respectively. Management also indicated that it had been struggling to find candidates with the required qualifications for the posts in the Finance Unit due to the complexity of the required finance exam and to limited qualified candidates in the Country. Further, the Office mentioned that 20 applicants for the position of the head of the Finance Unit failed to pass the exam.

The lack of qualified and trained finance staff could negatively impact the Office's operations and may prevent the Office from achieving its objectives.

Priority	High (Critical)
Recommendation 9:	
The Office should enhance its financial management by:	
<ul style="list-style-type: none"> (a) developing an action plan with milestones to ensure that long-outstanding unreconciled amounts are resolved; (b) providing appropriate training for current staff on accounting processes; and (c) conducting oversight over the functions performed by the Finance Unit and regularly reviewing the Finance Dashboard. 	

Management action plan:

The Office agrees and will implement the recommendation.

Estimated completion date: June 2016

Issue 12 Weaknesses in management of cost recovery and common services project

(a) Inadequate controls over recovery of costs from United Nations agencies and projects

The 'UNDP Programme and Operations Policies and Procedures' provide guidance for full cost recovery, including rates for services provided by UNDP offices to projects and United Nations agencies.

During the last Office audit in 2011, the audit recommended that the Office should implement stricter cost control measures and recover amounts paid on behalf of other United Nations agencies, as well as amounts due as implementation support services provided to projects and agencies. The Office reported that measures had been put into place to recover costs accordingly.

The Office had made progress in the management of the cost recovery, as the audit disclosed that the cost recovery over the previous three years was \$240,000 (2013), \$85,000 (2014) and \$185,000 (2015). However, controls over the management of the cost recovery needed to be enhanced further in view of the following:

- The Office did not maintain a tracking system for services provided to projects and United Nations agencies. While the Office automatically recovered all Atlas payments processed on behalf of United Nations agencies, there was no other log or record of services provided outside of the Atlas system, such as procurement, travel and human resources support. Similarly, no log was maintained to record services provided to development projects by the different Operations Units to enable the recovery of costs.
- Given the wide variation in the recovery of costs between 2013 (\$240,000), 2014 (\$85,000) and 2015 (\$185,000), there was no assurance that the costs for all services provided were recovered promptly. The recovery of \$185,000 in 2015 included \$75,000 recovered in July 2015 for human resources services provided to projects and United Nations agencies in 2014 and 2015. However, no further documentation was provided to confirm whether additional human resources services had been provided beyond July 2015, and whether costs for these services had been recovered.

The lack of an appropriate system to track the support services provided may result in loss of revenue for the Office.

(b) Inadequate management of common services project:

The last OAI audit in 2011 had highlighted weaknesses in the management of common services, as the Office had not reconciled the amounts paid and recovered from the United Nations agencies for the common services.

The audit team noted improvements in common services management. The Office had established a comprehensive budget for 2015 detailing the distribution of common services expenses among United Nations agencies. The Office also had a dedicated staff member to manage the common services project.

However, controls over the management of the common services project needed to be further enhanced in view of the following:

- The common services budget was prepared in the US dollar currency using an exchange rate of 2.53 PGK (local currency) to 1 US dollar. However, the exchange rates fluctuated between 2.53 and 2.87 during 2015. Further, the monthly rent paid by the United Nations agencies housed in the building increased by 5 percent from May 2015 as a result of the contract renewal. Similarly, the security costs also increased from October 2015. However, there was no documentation to validate the contributions received from the agencies and the projects, and whether the rental increase had been factored into their contributions.
- The estimated budget for 2015 for common services was \$1.1 million against which the Office recovered \$1.4 million during the year. The Office had not reconciled the difference between the amount paid and the amount recovered. As such, it was not possible to determine which agencies/projects paid in full or overpaid.
- Total payments of approximately \$1.1 million (PGK 3.2 million) in 2015 to a vendor for rent did not tally with the contract approximate amount of \$0.5 million (PGK 1.3 million). The Office explained that there were outstanding rental payments from 2014 which were paid in 2015. However, the Office had not reconciled the rent paid in 2014 and 2015 with the amount due as per the contract. As such, the accuracy of the payments to the vendor for rent could not be validated. The audit noted similar weaknesses in the payment of \$464,000 during 2015 to the vendor for security costs.
- The contract required the Office to pay rent in advance and on a monthly basis. However, the Office did not make monthly payments, but instead made lump sum rental payments of two or three months, which could have legal implications for the Office.
- The Office paid \$47,000 for electricity consumption during 2015 directly to the landlord, even though there was no such clause in the tenancy agreement. There was no verification done to ascertain whether the invoiced amount for electricity was reflecting the actual electricity consumption.
- The Office had been managing the common services on behalf of the United Nations agencies without a formal agreement on the recovery of common services costs, such as rent and security contributions towards the common services budget. Office management stated that these were discussed and endorsed at the United Nations Country Team level.

Office management reported that it had streamlined the common services management process significantly, and that this was demonstrated by an improved contribution rate from participating agencies and timely payments to vendors. Further, the Office had also demonstrated improved transparency by making available to agencies the Annual Report for the Common Services Budgets for 2014 and 2015, which was accepted and endorsed by the United Nations Country Team.

Lack of procedures to manage the common services project budget and expenses may result in inaccurate charges against the Office, projects and United Nations agencies.

Priority	Medium (Important)
Recommendation 10:	
<p>The Office should enhance the management of cost recovery and of the common services project by:</p> <ul style="list-style-type: none"> (a) establishing a tracking system to record the services rendered to United Nations agencies and development projects and recovering the costs at regular intervals (i.e., quarterly); and (b) making payments to the vendors as per the contract terms, adjusting the budget for common services to provide for the exchange rate variations and the increase in vendor rates, and reconciling the actual amounts paid for the common services and contributions received from the projects and United Nations agencies at regular intervals. 	
Management action plan:	
<p>The Office will create a better tracking system to record the services rendered to United Nations agencies and development projects. However, due to limited staff, the most feasible option would be to do this annually.</p>	
Estimated completion date: July 2016	

2. Procurement

Issue 13 Weaknesses in procurement processes

(a) Procurement cases not submitted to the Contracts, Assets and Procurement Committee

The 'UNDP Programme and Operations Policies and Procedures' require offices to submit to the Contracts, Assets and Procurement Committee any contract or series of contracts including amendments, to be awarded to a vendor with a cumulative value above \$50,000 per business unit in a preceding 12-month period.

The audit disclosed that the procurement from three vendors exceeded the threshold of \$50,000, but were not submitted to the Committee for review.

Not submitting cases that exceed \$50,000 to the Contracts, Assets and Procurement Committee may prevent the Office from carrying out procurement processes correctly and effectively.

(b) Inadequate controls over the receipt of procurement offers

The 'UNDP Programme and Operations Policies and Procedures' require procurement activities to be conducted in a manner that is fair and competitive. Therefore, offers submitted by vendors should be kept secure until all offers are simultaneously opened at a designated time and place. The audit disclosed that the Office did not have adequate controls over the receipt of procurement bids/offers for both manual and electronic submissions.

Priority	Medium (Important)
Recommendation 11: <p>The Office should ensure compliance with Programme and Operations Policies and Procedures on procurement of goods and services. This should include:</p> <p>(a) submitting the cases for review to the Contracts, Assets and Procurement Committee for procurement that exceed the threshold of \$50,000; and</p> <p>(b) enhancing controls over offers received both manually and electronically.</p>	
Management action plan <p>The Office informed that measures to improve the controls over receipt of procurement offers have been taken. These included the creation of the generic procurement email address to receive offers and procurement of a secured box for manual submissions.</p> <p>Estimated completion date: March, 2016</p>	
OAI response <p>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.</p>	

3. Human Resources

Issue 14 Excessive leave balances and incomplete mandatory training

(a) Excessive leave balances

According to the 'UNDP Programme and Operations Policies and Procedures', staff members are expected to avail themselves of their annual leave days within the period in which they are earned, subject to the exigencies of service. Further, staff forfeit leave balances exceeding 60 days at the end of March of each year.

The audit disclosed that as at March 2015, 8 out of 15 (53 percent) local staff had leave balances of more than 60 days. As a result, the eight local staff forfeited their leave beyond 60 days since they had not been utilized before March. Further, the leave records were neither recorded manually nor in the Atlas system; therefore, it was not possible to validate the leave taken and the leave balances.

The Office's management indicated that as of January 2015, they had ensured a dual tracking system – manually and through the Atlas system. The Human Resources Unit was tracking leave with staff, and supervisors were equally responsible for monitoring staff leave. The staff members actually prepared the leave plans and agreed to them with supervisors.

However, the audit noted that as at the end of February 2016, there were six staff members with leave balances exceeding 68 days.

There is a risk that forfeiting leave may impact staff morale and impact the achievement of the organization's objectives. In addition to staff health concerns, there are risks that staff who do not avail themselves of leave may be involved in inappropriate activities.

(b) Mandatory trainings not completed

The 'UNDP Programme and Operations Policies and Procedures' require all staff to complete mandatory courses in the Learning Management System. However, 26 fixed-term appointment staff had not completed all of the mandatory courses.

Additionally, 12 out of 22 service contract holders had not completed the Basic Security in the Field Course. The delay in completing the mandatory training courses increases the risk that staff members may not be able to perform their duties in accordance with UNDP policies and procedures.

Priority	High (Important)
Recommendation 12: The Office should ensure compliance with the 'UNDP Programme and Operations Policies and Procedures' on human resources management by: <ul style="list-style-type: none"> (a) ensuring that staff prepare and agree on their leave plans with their supervisors so they do not forfeit their leave days; and (b) establishing a time frame for all staff to complete the mandatory training courses. 	
Management action plan: <ul style="list-style-type: none"> (a) Staff were informed of the requirement of recording all leave in Atlas in January 2015 during the regular staff meeting. (b) All staff were asked to complete the mandatory courses by the end of the second quarter 2016. Estimated completion date: June 2016	
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.	

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.