UNITED NATIONS DEVELOPMENT PROGRAMME
Office of Audit and Investigations

AUDIT

OF

UNDP COUNTRY OFFICE

IN

LEBANON

Report No. 1606

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Report on the Audit of UNDP Lebanon
Executive Summary

The UNDP Office of Audit and Investigations (OAI) conducted an audit of UNDP Lebanon (the Office) from 11 to 26 April 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 [HACT]);

(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 2015 to 29 February 2016. The Office recorded programme and management expenditures of approximately $73.6 million. The last audit of the Office was conducted by OAI in 2013.

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 oversight over procurement practices, and weaknesses in the procurement of individual consultants.

Key recommendations: Total = **9**, high priority = **2**

The nine recommendations aim to ensure the following objectives:

Objectives	Recommendation No.	Priority Rating
Achievement of the organization's strategic objectives	2, 3, 5, 6	Medium
Effectiveness and efficiency of operations	4, 9	Medium
Compliance with legislative mandates, regulations and rules, policies and procedures	1	Medium
	7, 8	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 procurement oversight (Issue 7)	Procurement processes were managed by the Programme Unit without any delegation. The role of the Procurement Unit was reduced to administrative functions such as receiving documentation from the Programme Unit and uploading them to the Advisory Committee on Procurement Online tool, and scheduling Contracts, Assets and Procurement Committee (CAP) meetings. Additionally, there was no evidence of substantive reviews by the CAP Committee in 24 procurement cases received from the Evaluation Committee. Finally, out of 32 submissions, 13 (40 percent) were rated by the Regional Advisory Committee on Procurement (RACP) as below the quality standard expected from the Office. <u>Recommendation:</u> The Office should strengthen oversight over procurement practices by: (a) clearly defining roles and responsibilities in the procurement workflow; (b) providing evidence of substantive reviews from the CAP Committee to support the review of cases and the endorsement of the evaluation results; and (c) improving the quality of documentation submitted to the RACP.
Weaknesses in procurement of individual consultants (Issue 8)	The review of the four programme portfolios in the Office between 2014 and April 2016 disclosed that 50 percent in 2014, 52 percent in 2015, and 40 percent in 2016 of all consultants were recruited based on the direct contracting modality. Justifications for direct contracting were weak and unsubstantiated, and the reasons for selecting this modality did not adhere to the prescriptions of UNDP Financial Rule 121.05. <u>Recommendation:</u> The Office should strengthen adherence to UNDP's Financial Rule 121.05 regarding the procurement of individual consultants by: (a) adequately and timely defining the needs for consultants, and undertaking a competitive process in order to recruit candidates based on best value for money; (b) properly justifying reasons for direct contracting and for not undertaking a competitive bidding process; and (c) demonstrating the achievement of best value for money through analysis and comparison.

Implementation status of previous OAI audit recommendations: Report No. 1157, 28 October 2013.

Total recommendations: 6
Implemented: 6

Management comments and action plan

The Resident Representative accepted all 9 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, located in Beirut, Lebanon (the Country) comprised of 26 staff members, 18 service contract holders, and 9 United Nations Volunteers at the time of the audit. The UNDP Country Programme for 2010-2014 was built around four main areas, including: (a) institutional development and democratic governance; (b) social development and regional disparities; (c) environmental sustainability; and (d) conflict prevention and peacebuilding. The United Nations Development Assistance Framework (UNDAF) and Country Programme received a two-year extension (2015-2016) from the UNDP Executive Board pending finalization of the new United Nations Strategic Framework and Country Programme Action Plan/County Programme Document. The Office's delivery significantly grew from $25 million in 2012 to nearly $63 million in 2015, with projected delivery of $100 million for 2016.

II. Audit results

Satisfactory performance was noted in the following areas:

(a) Development activities. Implementing partners, United Nations agencies, and donors with whom OAI met during the audit mission expressed their appreciation of the Office as a valued development partner.

(b) Resident Coordinator Office. The United Nations Country Team shared the common goal of improving coordination within the United Nations system in the Country.

(c) Financial management. Payment processes, disbursements and banking processes were found to be compliant with financial policies and procedures.

(d) Human resources. Controls over human resources and leave management were well functioning. The audit did not find any significant issues.

(e) Information and communication technology. The information and communication technology systems managed by the Office, including hardware, software, system security, and disaster recovery mechanisms were adequately operating.

(f) Asset management. Controls over assets management were well established and functioning.

(g) Safety and security. Controls were generally well established and functioning.

OAI made two recommendations ranked high (critical) and seven 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 oversight over procurement practices (Recommendation 7).
(b) Strengthen adherence to UNDP's Financial Rule 121.05 regarding the procurement of individual consultants (Recommendation 8).

Medium priority recommendations, arranged according to significance:
(a) Strengthen internal controls (Recommendation 1).
(b) Strengthen risk management (Recommendation 2).

(c) Continue communicating with the Government and involving the Regional Bureau in order to collect the long-outstanding Government Contributions to Local Office Costs (Recommendation 3).
(d) In coordination with other relevant UN agencies, pursue the implementation of HACT (Recommendation 4).
(e) Comply with programming requirements and conduct annual reviews (Recommendation 5).
(f) Improve compliance with the organization's requirements on the monitoring of projects (Recommendation 6).
(g) Comply with the travel policy (Recommendation 9).

The detailed assessment is presented below, per audit area:

A. Governance and Strategic Management

1. Organizational Structure and Delegation of Authority

Issue 1 Lapses in internal controls set-up

The heads of offices have overall responsibility for establishing and maintaining adequate internal controls in their offices, including issuing clear written delegations of authority to staff members. The UNDP Internal Control Framework requires each staff member to be assigned only one Atlas (enterprise resource planning system of UNDP) profile that is consistent with his or her role. It further states that a single staff member may not, at any given time, hold both the first and secondary levels of control in Atlas. When this is not possible, offices are required to establish mitigating controls, including more monitoring, that help to reduce risks associated with lack of segregation.

The review of the internal control set-up in the Office disclosed weaknesses related to ineffective mitigating controls and delegations of authority. Illustrative examples are presented below:

(a) Absence of delegation of authority: The current Resident Representative (appointed in August 2015) and his predecessors (appointed from February 2014 to July 2015) had not issued delegations of authority to any of the 11 staff members holding profiles of project managers, senior managers or approving managers (level 1-2) in Atlas. Nine of these staff members held delegations of authority from a previous Resident Representative, which had expired in February 2014. Without valid delegations of roles and responsibilities, staff members could process transactions that were not in line with their assigned delegations of authority. Following the audit fieldwork, the Resident Representative issued a new delegation of authority to the concerned staff members; therefore, OAI is not issuing a recommendation on the lack of delegations of authority noted during the fieldwork.

(b) Ineffective mitigating controls: There were 10 staff members with both the project manager (first level of control) and senior manager (second level of control) roles in Atlas. The Internal Control Framework states that "where this dual responsibility is necessary, staff members with both project manager and approving manager profiles must not approve a requisition and the associated purchase order, because it violates the requirement to segregate first authority from second authority.'' The audit noted instances where these staff members acted as both the first and second levels of control by approving both the requisitions and associated purchase orders on the same transactions. Illustrative cases noted were as follows: 5 instances in 2016 (January to April 2016) for $81,828; 54 instances in 2015 for $798,863; and 35 instances in 2014 for $162,611. Furthermore, another staff member held conflicting human resources profiles, which allowed her to act as both the first and second levels of control in the processing of payroll for United Nations Volunteers from January to September 2015. This profile was segregated in October 2015. The same staff member was then assigned both the second and third levels of control. The audit, however, did not find any occurrences of the staff member using both second and third levels of control since October 2015.

These weaknesses were caused by a lack of oversight. Failure to establish adequate segregation of duties or to implement mitigating controls in cases were conflicting roles are attributed to a single staff member could lead to an environment where errors and irregularities may not be detected in a timely manner.

Priority Medium (Important)
Recommendation 1: The Office should strengthen internal controls by regularly and timely reviewing assigned profiles in Atlas and ensuring that no staff members hold both the first and second levels of control in Atlas without putting mitigating controls in place.
Management action plan: The Office noted the recommendation and control measures have already been put in place for proper monitoring. **Estimated completion date:** December 2016

2. Risk Management, Planning, Monitoring and Reporting

Issue 2 Lack of structured risk management process

The UNDP Enterprise Risk Management policy highlights that UNDP is exposed to a variety of external and internal influencing risks that create uncertainty regarding the realization of organizational goals. The Enterprise Risk Management System allows UNDP to manage these risks and stipulates that reporting on risks should be performed at all levels of the organization as part of the implementation of the work plan. Risk assessment is the overall process of risk (a) identification, (b) assessment, (c) prioritization, (d) action, and (e) monitoring. All offices are required to update the risk register on a quarterly basis.

The Office financial delivery increased from $25 million in 2012 to nearly $63 million in 2015, with projected delivery of $100 million for 2016. Capitalizing on new business opportunities and adapting to new challenges (such as providing support to the Syrian refugee crisis) required the Office to consider more risk factors, and to be more responsive and proactive. The audit noted that although a process for risk identification existed at the onset of project development, it found limited reporting on follow-up on risk status, effectiveness of mitigating actions, and residual risks. Programme and Project Managers interviewed understood the notion of risks and were aware of the risk levels that their respective projects faced. However, risk management was done more intuitively. For instance, there was no documentation on key steps of the risk management cycle, such as the updated risk status or the assessment of effectiveness of mitigating action in the Enterprise Risk Management

System or Atlas. The audit tested 14 projects and noted that none of them had updated risks, issues or monitoring logs in Atlas. According to the 'UNDP Programme and Operations Policies and Procedures', the activities to be carried out by staff at the various levels of the organization for each of the five steps of the Enterprise Risk Management System cycle shall remain a continuous process.

Lack of a more structured risk management process may lead to key risks factors not being timely evaluated and could prevent the Office from achieving organization and programme goals.

Priority	Medium (Important)
Recommendation 2: The Office should strengthen risk management by implementing all five steps of the risk management cycle as defined in the organization's Enterprise Risk Management policy.	
Management action plan: The Office will be creating a new post dedicated to monitoring and evaluation and results-based management. The hiring process will be initiated by September 2016. Strengthening of risk management will be addressed by implementing the five steps of the risk management cycle. In addition, and in the monthly programme reviews, the Deputy Resident Representative (Programme) will ensure that risk logs in Atlas are updated according to the progress of the projects and associated risks. **Estimated completion date:** December 2016	

3. Financial Sustainability

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.

As of April 2016, the outstanding Government Contributions to Local Office Costs (GLOC) amounted to $8 million for the period 2010-2015. The Office informed the audit team that this outstanding amount was being processed by the Government. However, no written evidence was provided to substantiate such an assertion. The GLOC for 2016 amounting to $1.2 million was submitted to the Government in March 2016. The Office had been following up with both related ministries, both verbally and in writing. The most recent communication was dated April 2016.

The Office indicated that the underlying reasons for non-payment included the lack of available Government resources.

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

Priority	Medium (Important)
Recommendation 3: The Office should continue communicating with the Government and involving the Regional Bureau in order to collect the long-outstanding Government Contributions to Local Office Costs.	
Management action plan: The Government allocated funds to repay the 2014 GLOC amounting to $1,335,402 and the request was made to the designated government authorities for settlement. Similar actions were also taken for the 2016 GLOC and the Office received a verbal confirmation. Payment of the 2015 GLOC and the arrears for 2010-2013 are still under processing and the Office is constantly following up with the concerned ministries to ensure collection of these outstanding payments as soon as possible. **Estimated completion date:** December 2016	
OAI Comment: OAI acknowledges the progress reported by management; this will be reviewed at a later stage as part of the standard desk follow-up process of OAI.	

B. United Nations System Coordination

1. Harmonized Approach to Cash Transfers

Issue 4 Inadequate progress towards implementing HACT (recurring issue from OAI 2013 audit)

The 'Framework for Harmonized Approach to Cash Transfers' requires that participating United Nations agencies agree on and coordinate HACT activities, to reduce the burden that the multiplicity of United Nations procedures creates for its partners. Compliance is achieved when the following components have been completed: (a) macro-assessment of the public financial system; (b) micro-assessments of implementing partners; and (c) an assurance plan.

The audit reviewed the implementation of HACT and noted disparities within the implementing United Nations agencies (UNDP, UNICEF, UNFPA). While UNICEF and UNPFA Offices in the Country were providing cash advances to a select number of implementing partners and implementing HACT, the Office was still operating under the full support to national implementation modality. This issue was previously reported by OAI (Report No. 1157 issued on 28 October 2013); however, as of April 2016, the Office had not made any progress towards HACT implementation.

The Office attributed the lack of action to the complex nature of operating activities and the lack of capacity of the partners. The Office explained that they were operating as full support to nationally implemented projects, and therefore exempted from HACT implementation. OAI requested evidence of the exemption, but the Office could not provide any.

The objective of harmonizing practices among United Nations agencies and lessening the burden of the multiplicity of United Nations procedures will not be achieved unless HACT requirements are met and are duly implemented.

Priority	Medium (Important)
Recommendation 4: The Office should, in coordination with other relevant UN agencies, pursue the implementation of HACT, taking into account the contextual environment and the implementing partners' capacities.	
Management action plan: The Office is committed to exploring HACT in the future programme cycle, as expressly reflected in the draft Country Programme Document 2017-2020. We have taken initial steps with UNFPA and UNICEF to discuss the conduct of the due macro-assessments due, which are under way, as well as to share information on micro-assessments and cash transfer modalities to common implementing partners. **Estimated completion date:** July 2017	

C. Programme Activities

1. Programme Management

Issue 5 No evidence of annual review of Country Programme

According to the 'UNDP Programme and Operations Policies and Procedures', the systematic review of the UNDP Country Programme is mandatory and should be carried out as part of the UNDAF annual review process." Offices are required to conduct an annual review of their Country Programme, together with the national counterpart, and this review should be documented.

The audit could not establish that the Office conducted annual reviews of its Country Programme in 2014 and 2015. Consequently, the audit was not able to assess whether the Office should have taken corrective actions or measures emanating from the review of its Country Programme with the national counterpart. The Office commented that the Country Programme was subject to annual reviews except for the year 2015, but it could not provide evidence, such as, for example, an invitation to the meeting requests sent to national counterparts, a meeting agenda, and minutes of annual review meetings.

In the absence of an annual review, the Office may deprive itself of an opportunity to make necessary adjustments to the Country Programme, in agreement with key stakeholders.

Priority	Medium (Important)
Recommendation 5: The Office should comply with programming requirements and systematically conduct and document annual reviews of the Country Programme.	
Management action plan: An annual review will be done and documented. **Estimated completion date:** 31 December 2016	

2. Project Management

Issue 6 Weaknesses in monitoring of projects

The 'UNDP Programme and Operations Policies and Procedures' state that "at the project level, monitoring is one of the most important responsibilities of the project manager." It also adds that as a minimum, and on an annual basis, UNDP must perform the following monitoring activities: (i) conduct field visits; (ii) prepare an annual review report to be shared with the Project Board or the relevant outcome group or coordinating mechanism; and (iii) conduct annual project reviews to assess the performance of the project and appraise the annual work plan for the following year. The 'UNDP Programme and Operations Policies and Procedures' also require Combined Delivery Reports to be prepared on a quarterly basis for projects under national implementation, even in cases where full support to national implementation is provided. Finally, they stipulate that micro-grants are meant to support the activities of NGOs and community based organizations only and NGOs should be selected using programmatic processes, i.e., submission to Local Project Appraisal Committee (LPAC) or Project Board for review and approval.

The audit tested six projects with aggregate expenditures representing 58 percent of all project expenditures during the period under review and disclosed the following:

- In two cases (Project Nos. 87568 and 88302), annual project reports consolidating the projects' overall achievements, results and challenges were not prepared. Only donor reports were made available.
- The Office did not document the annual review of projects. According to Programme Officers, those were held internally for each project, but minutes were not drafted.
- Field visits undertaken by programme staff in the course of project monitoring and oversight were not always documented. This was the case for two projects out of the six reviewed (Project Nos. 83622 and 87568).
- Quarterly Combined Delivery Reports were not prepared for projects under national implementation modality. Only annual ones were available.
- Under the 'Support to Economic Recovery, Community Security and Social Cohesion in Lebanese Communities Affected by the Syrian Crisis' project, the Office provided micro-capital grants to municipalities to perform civil works and provide basic services to host communities, under the directly implemented project modality. This was not appropriate since municipalities were "government entities" and as such, the

Office should have signed a Letter of Agreement instead, as required by UNDP procedures. The Office did not provide explanations on the rationale for opting to provide micro-capital grants for municipalities.

- NGOs were given grants (Project Nos. 87568 and 84708), without the selection process being documented and submitted to the LPAC or Project Boards. The Office commented that in lieu of an LPAC, the process was reviewed by a grant committee. The latter was, however, comprised of UNDP staff, without any representation from stakeholders. Therefore, this committee could not supersede an LPAC or Project Board. For Project No. 84708, it was explained that at the project level, grants were "pre-approved" by technical groups, including all stakeholders. Nevertheless, the review of meeting minutes of technical groups disclosed that with regards to NGOs, only the principle of using them was agreed, not the selection of specific ones.

Weaknesses in project monitoring may lead to untimely decisions or actions to address problems or issues arising, as well as the non-delivery of expected outputs.

Priority Medium (Important)

Recommendation 6:

The Office should improve compliance with the organization's requirements on the monitoring of projects by:

(a) preparing annual project reports and conducting annual reviews of projects and documenting them;
(b) systematically drafting reports after each field visit conducted by the Programme Officers;
(c) preparing quarterly Combined Delivery Reports for nationally implemented projects and for projects with full support to national implementation;
(d) using the standard Letter of Agreement to formalize relationships with responsible parties when those are government entities; and
(e) submitting the selection of NGOs receiving micro-capital grants to the Local Project Appraisal Committee for review, as per UNDP's guidelines.

Management action plan:

Weaknesses in collecting evidence on the monitoring of projects is well noted and the Office will try to ensure compliance with the required procedures related to the drafting of annual meeting reviews, field visit reports and other documentation. This recommendation was discussed thoroughly in the last programme meeting and all colleagues agreed on its importance and agreed to start implementation immediately.

Estimated completion date: September 2016

D. Operations

1. Procurement

Issue 7 Weaknesses in procurement oversight

Effective oversight of procurement practices ensures that all appropriate rules and regulations have been followed. Furthermore, procurement review committees are established in UNDP with the mandate to determine whether a procurement process was conducted in accordance with the UNDP rules, policies, procedures and principles, and to submit written recommendations to the heads of business units.

The review of procurement processes disclosed the following weaknesses:

(a) Unclear workflow in procurement: Procurement processes were managed by the Programme Unit (without any respective delegation) including sourcing or identification of suppliers, submitting procurement files to the procurement review committees, negotiating with suppliers and awarding contracts without systematically involving the Operations unit. The role of the Procurement Unit was reduced to providing administrative functions, such as receiving documentation from them Programme Unit and uploading them to the Advisory Committee on Procurement Online tool, and scheduling CAP meetings.

(b) Lack of evidence of substantive reviews by CAP members: The review of 24 procurement cases submitted before the CAP Committee disclosed weaknesses related to the review performed by the Committee. According to the guidelines, CAP members should prepare for the CAP meetings by reviewing the cases assigned in advance of the meetings. However, for the 24 procurement cases reviewed, the required documentation (such as technical proposals of all bidders or internal estimates) was not all made available for the CAP members. Consequently, the audit could not find reasonable assurance that the CAP Committee exercised its mandates fully. Illustrative examples are presented, as follows:

- In one case, the winning bidder was awarded a contract for $254,520 compared to $116,500 for the second best bidder. The audit noted that the combined score (technical and financial evaluation) was 79.18 (winning bid) compared to 79 (second best). There was no evidence of CAP members challenging the rationale of paying $138,020 more, since both suppliers were technically qualified with similar scores.
- In a second case, the process was finalized even though only one offer was received. Furthermore, the sole offer was higher than the available budget. There was no evidence of a substantive review by CAP members, which should have included a recommendation to enter into negotiations with the supplier or relaunch the process in order to obtain best value for money.

(c) Gaps in the quality of documentation submitted to RACP: Out of 32 submissions, 13 (40 percent) were rated by the RACP as being below the quality standard expected from the Office. The main concerns were that the evaluation process or the justification for direct contracting was not sufficiently/adequately documented. Furthermore, the decision leading to the best value for money was not well substantiated. In addition, not all required documentation, such as all technical proposals, was made available for RACP review.

Ineffective oversight over procurement practices may lead to unfair procurement practices and may not provide best value for money for the organization.

Priority	High (Critical)
Recommendation 7: The Office should strengthen oversight over procurement practices by: (a) clearly defining roles and responsibilities in the procurement workflow; (b) providing evidence of substantive reviews from the CAP Committee to support the review of cases and the endorsement of the evaluation results; and (c) improving the quality of documentation submitted to RACP.	
Management action plan: Unclear workflow in procurement: Immediate actions have been taken. Management decided to establish an international position of a Procurement Specialist at the P-4 level with experience in handling UNDP procurement in large and complex crisis response operations, with special emphasis on civil works, and the recruitment will be finalized in the coming two months. Furthermore, a Regional Procurement Advisor visited the Office on 27-29 June to impart a procurement refresher to our projects, programme and operations teams and CAP members. (a) The Office took note of this recommendation and the CAP members started to document their comments in the on-line system, when necessary. (b) The Office will ensure the complete submission as well as the quality of the required documents to the RACP. **Estimated completion date:** September 2016	

Issue 8 Weaknesses in procurement of individual consultants

Direct contracting is a procurement method that allows the awarding of a contract without competition. The 'UNDP Programme and Operations Policies and Procedures' provide that offices may only use this method when it is not feasible to undertake a competitive bidding process, and when proper justifications exist. Further, offices should maintain records to support the assessment of how the best value for money was achieved through direct contracting. UNDP's Financial Rule 121.05 specifies nine instances when direct contracting is justified.

The review of the management of individual consultants disclosed shortcomings in the procurement process and adherence to UNDP Financial Rule 121.05:

(a) High number of consultants recruited under direct contracting modality: In the previous OAI audit Report No. 1157 issued on 28 October 2013, the Office had agreed to ensure that individual consultant contracts were awarded based on a competitive process by requiring that the minimum quorum of qualified candidates was included in the process. However, the review of the four programme portfolios in the Office between 2014 and 2016 (up to April 2016) disclosed that 50 percent (in 2014), 52 percent (in 2015) and 40 percent (in 2016) of all consultants were recruited based on the direct contracting modality. This was due to the fact that direct contracting was considered as the preferred modality, and the Office did not adequately plan the sourcing of individual consultants.

(b) <u>UNDP Financial Rule 121.05 not adhered to</u>: Justifications for direct contracting were weak and unsubstantiated, and the reasons for selecting this modality did not adhere to the prescriptions of the rule. The audit noted that there was also no comparison or analysis leading to the justification of best value for money. For example, one vendor was directly awarded a contract for $84,000 based on the reasoning that the consultant had been working on legal issues related to financial services, banking, and insurance and the files to be handled were of a sensitive nature. However, there was no supporting evidence, such as previous contracts with UNDP or a third party contract, to validate such assertions. Furthermore, the Office's management justified best value for money as ''the value for money is based on a reasonable daily fee knowing that the task requested requires good expertise in the Country's legal system.'' However, the ''reasonable daily fee'' was not substantiated by any cost comparison or other benchmark. Another example was the award of a contract to a vendor for $21,000. The Office's management explained that the consultant had provided his services at various instances to the project since 2011 The best value for money analysis was based on the Office citing the merits of the consultant rather than a comparative analysis against benchmarks.

The Office was of the view that the high use of the direct contracting modality was justified by the crisis situation and the need to accelerate delivery.

The above issues were caused by the fact that the recruitment of consultants was mainly undertaken at the programme level based on undemonstrated past experience of the consultants or unjustified reasoning as to why only those consultants could undertake the required assignments.

Non-adherence to UNDP Financial Rule 121.05 may lead to lack of transparency in the treatment of candidates, which could have a negative impact on the organization's image. Furthermore, not hiring the best technically qualified candidates could also have a negative impact on programme results.

Priority	High (Critical)
Recommendation 8: The Office should strengthen its adherence to UNDP's Financial Rule 121.05 regarding the procurement of individual consultants by: (a) adequately and timely defining the needs for consultants, and undertaking a competitive process in order to recruit candidates based on best value for money; (b) properly justifying reasons for direct contracting and for not undertaking a competitive bidding process; and (c) demonstrating the achievement of best value for money through analysis and comparison.	
Management action plan: The Office commits to reduce the proportion of direct contracts and adhere strictly to UNDP Financial Rule 121.05. **Estimated completion date:** September 2016	

2. General Administration

Issue 9 Late submission and approval of travel requests

According to the 'UNDP Programme and Operations Policies and Procedures', travel should be managed efficiently through proper planning, administration and follow-up, and by adhering to travel policies and guidelines to ensure best value for money. The Office's internal guidelines require travel requests to be submitted two weeks before departure.

In 5 out of 17 (29 percent) travel authorizations reviewed, including travel authorization processes for government staff, the flight reservations were made less than four days before departure. As a result, the audit noted two instances where the travellers had to fly business class as the economy fare was not available due to late bookings. This practice further impacted the timely payment of daily subsistence allowances. The review of 20 out of 39 of the largest reimbursement claims disclosed that late bookings did not allow sufficient time for processing the payment of daily subsistence allowances prior to departure. Consequently, travel costs amounting to $67,788 were pre-financed by the travellers and were only reimbursed upon return.

The Travel Officer indicated that the majority of late bookings occurred due to the late submission of travel requests. Furthermore, in some instances the delays were due to the time taken to receive approval for government staff.

Not booking travel requests in a timely manner may lead to higher flight costs. Furthermore, late daily subsistence allowance payments may place unnecessary burdens on travellers.

Priority	Medium (Important)

Recommendation 9:

The Office should comply with the travel policy by ensuring travel requests are submitted at least two weeks prior to departure, and that the accompanying daily subsistence allowance is paid before the travel has taken place.

Management action plan:

The Office took note of this recommendation and reminded the programme and project personnel to abide by the travel policies in terms of submission of travel requests two weeks in advance of the travel date to allow sufficient time for the issuance of the travel advance.

Estimated completion date: September 2016

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 <u>not included in this report</u>.