

UNITED NATIONS DEVELOPMENT PROGRAMME
Office of Audit and Investigations



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AUDIT

OF

UNDP COUNTRY OFFICE

IN

LIBYA

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Report on the Audit of UNDP Libya Executive Summary

The UNDP Office of Audit and Investigations (OAI) conducted an audit of UNDP Libya (the Office) from 7 to 18 November 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, and risk management);
- (b) United Nations system coordination (Resident Coordinator Office);
- (c) programme activities (programme management, and project management); and
- (d) operations (human resources, finance, procurement, information and communication technology, general administration, and safety and security).

The audit covered the activities of the Office from 1 January 2015 to 30 September 2016. The Office recorded programme and management expenditures of approximately \$17.4 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/some improvement needed**, which means, "The assessed governance arrangements, risk management practices and controls were generally established and functioning, but need some improvement. Issues identified by the audit do not significantly affect the achievement of the objectives of the audited entity/area." This rating was mainly due to weaknesses in organizational structure and delegations of authority, project management, financial management, procurement, and information and communication technology.

Key recommendations: Total = 5, high priority = 0

The audit did not result in any high (critical) priority recommendations. There are five medium (important) priority recommendations, which means, "Action is required to ensure that UNDP is not exposed to risks. Failure to take action could result in negative consequences for UNDP." These recommendations aim to ensure the following:

Objectives	Recommendation No.	Priority Rating
Achievement of the organization's strategic objectives	5	Medium
Effectiveness and efficiency of operations	1,2,3, 4	Medium

Implementation status of previous OAI audit recommendations: Report No. 1243, 16 April 2014.

Total recommendations: 8

Implemented: 8

Management comments and action plan

The Country Director and the Resident Representative a.i accepted all five recommendations and are in the process of implementing them. Comments and/or additional information provided had have 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.



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I. About the Office

The Office is located in Tunis, Tunisia due to the security situation in Libya (the Country). The Office continued to have a presence in the Country, with some staff located in Tripoli. During the period audited (1 January 2015-30 September 2016), the Office employed 21 staff and had a programme delivery totalling \$12 million. The Office's 2012-2017 Country Programme Document focused on governance and the rule of law, poverty reduction and environment, and gender.

II. Audit results

Satisfactory performance was noted in the following areas:

- (a) United Nations system and coordination. The Office met the planning and reporting requirements of United Nations coordination. The audit did not identify any exceptions.
- (b) Operations/Safety and security. The review of the safety and security measures put in place by the Office did not result in any exceptions.

OAI made five recommendations ranked medium (important) priority.

Low priority issues/recommendations were discussed directly and agreed with the Office and are not included in this report.

Medium priority recommendations, arranged according to significance:

- (a) Improve controls over segregation of duties (Recommendation 1).
- (b) Strengthen procurement planning and contract management (Recommendation 4).
- (c) Improve the disbursement process (Recommendation 3).
- (d) Strengthen project monitoring and risk management (Recommendation 2).
- (e) Enhance ICT governance, IT security and disaster recovery readiness (Recommendation 5).

The detailed assessment is presented below, per audit area:

A. Governance and Strategic Management

1. Organizational Structure and Delegations of Authority

Issue 1 Inadequate controls over segregation of duties

The Internal Control Framework is an important management tool for implementing effective internal controls and segregating duties, thereby reducing the risk of fraud and other non-compliant transactions. The need for segregation between first authority (project manager) and second authority (approving manager) on any transaction is achieved by assigning the project manager and approving manager profiles to different staff. However, certain staff members, such as the Resident Representatives, Deputy Resident Representatives, Country Directors, Deputy Country Directors, and Operations Managers, may need both profiles if they must act as project managers on some projects. Where this dual responsibility is necessary, staff members with both project manager and approving manager profiles should not approve requisitions and their associated purchase orders, as this violates the requirement to segregate the first authority from the second authority. For the audit period under review, the following issues were noted:

- Three staff exercised both first and second authority on the same transaction in a total of 30 transactions worth \$58,000. Of these, 11 transactions occurred in 2015 whereas 19 occurred in the nine months of 2016. Of the 30 transactions, 26 were approved by one staff who had since separated from UNDP.
- Two staff exercised first level authority for nine transactions amounting to \$38,000 for projects against which they did not have any delegation of authority. While two of these transactions occurred prior to the issuance of the new Internal Control Framework by the Office in early 2016, the remaining seven occurred after the issuance.

The Office issued an Internal Control Framework in January 2016, clarifying the need for approvers to ensure the segregation of approving authorities between the first and second levels.

The assignment of conflicting authorities took place due to the small size of the Office. This situation could continue in the short- to medium-term, as the size of the Office was not expected to grow.

Priority	Medium (Important)
Recommendation 1:	
The Office should improve controls over the segregation of duties by implementing mechanisms to monitor the use of approving authorities.	
Management action plan:	
The Office will revisit its Internal Control Framework and delegations of authority to ensure that none of the staff members carry both roles (as project manager and manager levels 1 or 2) and will initiate a process to generate monthly reports to check for compliance.	
Estimated completion date: March 2017	

B. Programme Activities

1. Project Management

Issue 2 Gaps in project monitoring and risk management

The 'UNDP Programme and Operations Policies and Procedures' stipulate that project level monitoring should include monitoring outputs, related indicators of progress, as well as risk and issues logs. Atlas (enterprise resource planning system of UNDP) is the tool that is used to monitor projects, and updates thereof should be made on a regular basis.

The audit team noted that risks, issues and monitoring logs in Atlas for all three projects reviewed were not up to date. For two of these projects, the logs were not updated since 2015. The audit team further noted significant changes in the operating context since 2014, such as security concerns that restricted operations to the capital of the Country and that necessitated the evacuation of international staff and personnel from the Country, as

well as banking and currency issues that had not been taken into account in the implementation schedules and activities of the Office's projects.

Moreover, the Office did not assign a staff member or a unit responsible for monitoring and evaluation activities, except for a monitoring and evaluation focal point who followed up on the quality assurance and monitoring of projects. Based on documents reviewed and interviews conducted, the audit team further noted that monitoring activities were mainly centered around administrative controls related to project implementation and not on data collection and analysis to effectively inform decision-making and progress of the project.

The Office's management reported that the monitoring and evaluation position was frozen due to lack of funding that resulted in a restructuring of the Office in 2014.

Inadequate project monitoring may prevent the Office from identifying risks and from taking corrective measures in a timely manner. Moreover, inadequate monitoring arrangements may prevent the Office from having the capacities, skills and practices in place needed for evidence-based analysis and programming.

Priority	Medium (Important)
Recommendation 2: The Office should strengthen project monitoring and risk management by: <ul style="list-style-type: none"> (a) updating the risks, issues and monitoring logs on a quarterly basis; and (b) revitalising the monitoring and evaluation function to ensure that the capacities, skills and practices needed for evidence-based analysis and programming for managing results are in place. 	
Management action plan: The Programme Unit has worked to update the risks and monitoring logs in the system. In addition, there has been progress in finalizing the hiring of a dedicated monitoring and evaluation staff to follow up on quality assurances, and monitoring of the risks and indicators.	
Estimated completion date: June 2017	

C. Operations

1. Financial Management

Issue 3 Inadequate disbursement process

The 'UNDP Policy on Disbursing Funds' stipulates that the manual issuance of cheques should be done as infrequently as possible, as the manual nature of the process is prone to errors. The policy defines this process as one where cheques are prepared and written/printed by the user and where the paycycle of the Office does not process cheques. Moreover, the 'Operational Guide of the Internal Control Framework for UNDP' requires offices to ensure that a cheque writer software/facility be installed and used to generate cheques directly from Atlas.

The audit team noted that the Office was writing cheques manually for the local currency bank account. While a payment reference was created in Atlas when the paycycle was run, the staff who wrote the cheque was responsible to ensure that the payment reference in Atlas agreed with the serial number of the hand written cheque. In the case of 16 payments amounting to \$111,000 and made between January and June 2016, the data did not match. In addition, to initiate a payment out of its dollar account, the Office had to prepare a memo each time, instructing the bank to make payments, whereupon the preparer of the memo was to append the payment reference from Atlas to the payment memo. The audit disclosed that in three payments amounting to \$27,000 and made during the same period, the wrong reference number was appended to the payments.

The above issue occurred due to the fact that a cheque writer facility was not in place for the Office's bank accounts and due to the fact that no compensating controls had been implemented to mitigate the risk of errors. The Office explained that the use of a cheque writer had been verbally explored with the bank in the past, but nothing was documented on the outcome of any such discussions.

The discrepancy between the system generated payment reference and the one assigned to the physical payment instrument presented to the bank, necessitated manual bank reconciliations to match the transactions in the bank to those in Atlas. As a result, the reconciler had to manually link the payments recorded in the bank statements to those in Atlas. There was no documentation of when this manual link/reconciliation was made, which rendered it impossible to trace payments to Atlas.

Priority	Medium (Important)
Recommendation 3:	
The Office should improve the disbursement process by implementing the use of a cheque writer to automate cheque printing or to define and implement compensating controls to reduce errors if a cheque writer is not feasible.	
Management action plan:	
The Office will look into this issue with priority and relevant measures will be taken within the limitations of the local banking system. A senior finance staff member in the Country will be invited to come on mission to Tunis to look into this and into other financial issues that need immediate attention and improvement.	
Estimated completion date: December 2017	

2. Procurement

Issue 4 Lapses in procurement planning and in contract management

The 'UNDP Programme and Operations Policies and Procedures' provide guidance on effective procurement practices, such as effective contract management and adequate procurement planning, to identify economies of scale, better use of resources, and to streamline procurement activities.

The audit selected 29 purchase orders amounting to \$2.6 million, or 33 percent of the procurement volume during the period. The following issues were noted:

- Incomplete consolidated procurement plan: The consolidated procurement plans provided by the Office for 2015 and 2016 did not include all relevant details such as timeframe, procurement method, and estimate amount of procurement. Major projects of the Office, such as 'Political Dialogue' did not submit their requisition plans to the Procurement Unit for consolidation purposes. The audit team noted through testing, that major procurement activities undertaken in 2015 and in 2016 (such as the purchase of vehicles and the recruitment of consultants) were not included in the consolidated procurement plan. In addition, the renewal process of the contract for security guard services, which was set to expire on 31 December 2016, had not started by the end of the audit fieldwork in November 2016. This was caused by the lack of proper planning, which could lead to non-compliance with the organization's procurement principles.
- Standard clauses of contracts not complied with: A standard contract template amounting to \$495,544 was amended to include a penalty clause in the case of any cancellation of service prior to the execution of the contract, which was not to the advantage of UNDP. The Office had not obtained clearance from the Legal Office, as is required every time a standard contract template is amended. In another case, the Office cancelled a contract worth \$395,524 on the basis of a *force majeure* clause, which had an outstanding balance of \$193,757 for services yet to be provided by the contractor. The audit disclosed that the cancellation letter did not provide the supplier with a 30-day notice as required by clause 15 of the general terms and conditions. This was caused by the lack of oversight on the contracts' general terms and conditions.

Weaknesses in procurement and contract management could lead to inefficiencies, financial losses, or to not recruiting the most suitable candidate, which in turn could tarnish the organization's image.

Priority	Medium (Important)
Recommendation 4:	
The Office should strengthen procurement planning and contract management by:	
<ul style="list-style-type: none"> (a) collecting procurement plans from all projects, which should constitute the basis for the consolidated procurement plan; and (b) complying with contract clauses and consulting the Legal Office for any change to the standard contract agreement template. 	
Management action plan:	
<ul style="list-style-type: none"> (a) The Office will maximize efforts to improve on collecting inputs/requisitions from projects in order to prepare the procurement plan on time and share it with the relevant authorities through online tools. (b) The Office considers the recommendation valid and takes note for 100 percent compliance with general terms and conditions of the contract. If the need to make any changes based on local market practice is required, the Legal Office will be contacted and justification will be provided. 	
Estimated completion date: March 2018	

3. Information and Communication Technology (ICT)

Issue 5 Inadequate ICT governance and processes

The UNDP Office of Information Management and Technology advocates for effective governance and controls (roles and responsibilities, policies and procedures, ICT committee meetings, structured and effective decision-making process) over activities related to ICT as it could result in enhanced value delivery, improved performance and resource management and in better quality services. Furthermore, the 'UNDP Programme and Operations Policies and Procedures' provide that the Disaster Recovery Plan should, inter alia, include information about business requirements, back-up arrangements, network security set-up and recovery procedures. In addition, Country Offices need to ensure that the plan is properly kept up to date and regularly tested.

The audit disclosed the following weaknesses during the review of the ICT activities:

- Lack of ICT Governance Committee: The ICT Assistant oversaw ICT operations both in the Country and in Tunisia. He acted as a technology focal point to staff and projects on all aspects of the Offices' management and operations. However, the Office had not appointed an ICT Governance Committee to oversee these activities and to align ICT services with the UNDP operational and strategic objectives. Despite the complexity of ICT operations due to the Country's crisis and the Office's dual locations, the audit found no formally designed organizational structure with roles and responsibilities and working policies and processes of obtaining sufficient information as the basis for making better informed decisions and providing services to staff.
- Inadequate Internet security and services: As of November 2016, the Office in Tunisia relied on local service providers for primary and back-up Internet services. No alternate satellite connection was available in case of local shutdown of Internet services, which had happened in the past. Furthermore, the network diagram provided did not map out what type of firewall the Office was using, the type of Internet connections used, or how access control was implemented.
- Incomplete Disaster Recovery Plan: The audit team noted that the Disaster Recovery Plan was still a draft that had not been approved by management. Notes on the plan indicated that the document was created in September 2016 and was not developed using the template required by the Office of Information Management and Technology. At the time of the audit, the following key components were still missing from the plan:
 - documentation on an alternate offsite IT facility that would host infrastructure and systems components in the event of a disaster;
 - risk assessment and complete recovery strategies for IT systems;
 - business impact analysis and alignment with the Business Continuity Plan showing recovery point objectives (extent of data loss that management could live with) and the recovery time objectives (how soon systems should be recovered) for critical systems/operations; and
 - roles and responsibilities within the Office, and contact information on hardware supply companies.

The issues noted above were due to a lack of management oversight on ICT-related activities. The absence of effective governance and management of ICT investments and assets puts at risk the efficient and cost effective conduct of business operations and delivery of results. Moreover, inadequate security and incomplete Disaster Recovery Plans may result in losses or damage to the Office in case of emergencies, threats, or natural disasters.

Priority	Medium (Important)
Recommendation 5	
<p>The Office should enhance ICT governance, IT security and disaster recovery readiness by:</p> <ul style="list-style-type: none"> (a) appointing an ICT Governance Committee to oversee, on a periodic basis, the management and alignment of ICT-related activities, risks and work plans with the Office's priorities and objectives; (b) providing adequate back-up Internet services and security for remote access to the Office's networks; and (c) updating and testing the Disaster Recovery Plan in a timely manner. 	
Management action plan:	
<p>The Office agrees with the above recommendations and will implement them.</p>	
Estimated completion date: March 2018	

Definitions of audit terms - ratings and priorities

A. AUDIT RATINGS

- **Satisfactory** The assessed governance arrangements, risk management practices and controls were adequately established and functioning well. Issues identified by the audit, if any, are unlikely to affect the achievement of the objectives of the audited entity/area.
- **Partially Satisfactory / Some Improvement Needed** The assessed governance arrangements, risk management practices and controls were generally established and functioning, but need some improvement. Issues identified by the audit do not significantly affect the achievement of the objectives of the audited entity/area.
- **Partially Satisfactory / Major Improvement Needed** The assessed governance arrangements, risk management practices and controls were established and functioning, but need major improvement. Issues identified by the audit could significantly affect the achievement of the objectives of the audited entity/area.
- **Unsatisfactory** The assessed governance arrangements, risk management practices and controls were either not adequately established or not functioning well. Issues identified by the audit could seriously compromise the achievement of the objectives of the audited entity/area.

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. Failure to take action could result in 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.