UNITED NATIONS DEVELOPMENT PROGRAMME
Office of Audit and Investigations

Empowered lives.
Resilient nations.

AUDIT

OF

UNDP COUNTRY OFFICE

IN

PAKISTAN

Report No. 1762

Issue Date: 31 March 2017

Table of Contents

Report on the Audit of UNDP Pakistan
Executive Summary

The UNDP Office of Audit and Investigations (OAI) conducted an audit of UNDP Pakistan (the Office) from 30 January to 10 February 2017. 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 (leadership, corporate direction, corporate oversight and assurance, corporate external relations and partnership);

(b) programme (quality assurance process, programme/project design and implementation, knowledge management);

(c) operations (financial resources management, ICT and general administrative management, procurement, human resources management, and staff and premises security); and

(d) United Nations leadership and coordination.

The audit covered the activities of the Office from 1 January 2016 to 31 January 2017. The Office recorded programme and management expenditures of approximately $71 million during the period. 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/major improvement needed**, which means, "The assessed governance arrangements, risk management practices and controls were established and functioning, but need major improvement. Issues identified by the audit could significantly affect the achievement of the objectives of the audited entity/area." This rating was mainly due to financial risks taken to bridge financial gaps, and inefficient workflows at the Sub-office level.

Key recommendations: Total = **10**, high priority = **2**

The 10 recommendations aim to ensure the following:

Objectives	Recommendation No.	Priority Rating
Achievement of the organization's strategic objectives	3	High
	8	Medium
Reliability and integrity of financial and operational information	-	-
Effectiveness and efficiency of operations	1, 2, 6, 9	Medium
	4	High
Compliance with legislative mandates, regulations and rules, policies and procedures	5, 7, 10	Medium

For high (critical) priority recommendations, prompt action is required to ensure that UNDP is not exposed to high risks. Failure to take action could result in major negative consequences for UNDP. All high (critical) priority recommendations are presented below:

Budget overrides applied to meet funding needs (Issue 3)	In June 2016, the Office sought urgent bridge funding from the Regional Bureau for Asia and the Pacific for three ongoing projects, amounting to \$4.6 million. The Regional Bureau advised the Office to apply budget overrides to undertake the budgeted project activities. As a result, the Office engaged in budget overrides amounting to \$4.2 million from July to December 2016. However, the Office did not fully adhere to the requirements of UNDP's budget override policy. Due to the funding shortage encountered, the Office had still not recovered direct project costs from the respective projects amounting to \$300,000, which pertained to the 2016 fourth quarter operational support services rendered to the projects. Recommendation: The Office should adhere to the UNDP policy on budget overrides in the future, and recover the outstanding direct project costs within a specified timeframe.
Inefficient workflows at the Sub-office level (Issue 4)	The Office had two Sub-offices, and five project offices. One Sub-office was delivering approximately \$26 million, or 58 percent of the Office's programme delivery and employed 88 staff. Each of the two largest projects of the Sub-office had established dedicated support teams for operations and monitoring and evaluation activities. In addition, both projects also had dedicated personnel in the Office to facilitate the procurement, finance, and project management functions. The review of the workflows at the Sub-office level indicated checks and approvals both at the Sub-office and the Office level. This led to protracted procurement transactions, such as the preparation of terms of reference for invitation to bids and requests for proposals that needed to be amended repeatedly. Recommendation: The Office should establish a business process that promotes efficiency and effectiveness by reviewing the current project structures to avoid duplication of processes.

Management comments and action plan

The Resident Representative accepted all of the recommendations and is in the process of implementing them. Comments and/or additional information provided 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.

Helge S. Osttveiten
Director
Office of Audit and Investigations

I. About the Office

The Office, located in Islamabad, Pakistan (the Country) had two Sub-offices (i.e., one in Peshawar and another in Quetta). The Office had 69 staff with fixed-term appointments and 243 with service contracts. The Office's Country Programme Document 2013-2017 outlined seven outcomes operating under 'Delivering as One' and was in the final year of its programming cycle.

II. Audit results

Satisfactory performance was noted in the following areas and sub areas:

(a) Programme/quality assurance process/knowledge management. Adequate controls were established.

(b) Operations/ICT and general administrative management/staff and premises security. Adequate controls were established and functioning well.

(c) United Nations leadership and coordination. Adequate controls have been established to manage and lead the United Nations coordination work in the Country.

OAI made two recommendations ranked high (critical) and eight 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) Adhere to the UNDP policy on budget overrides in the future, and recover the outstanding direct project costs within a specified timeframe (Recommendation 3).
(b) Establish a business process that promotes efficiency and effectiveness (Recommendation 4).

Medium priority recommendations, arranged according to significance:

(a) Ensure compliance with UNDP guidelines on the management of Micro-Capital Grant Agreements and Responsible Party Agreements (Recommendation 5).
(b) Improve the project reporting processes through discussions with donors (Recommendation 6).
(c) Enhance project delivery (Recommendation 8).
(d) Improve the Integrated Work Plan formulation process (Recommendation 1).
(e) Improve the risk management process (Recommendation 2).
(f) Consider expanding the use of e-Tendering for procurement cases above $50,000 (Recommendation 9).
(g) Ensure compliance with the 'UNDP Programme and Operations Policies and Procedures' on project closure (Recommendation 7).
(h) Ensure that all personnel prepare and agree on their leave plans with their supervisors (Recommendation 10).

The detailed assessment is presented below, per audit area:

A. Governance

1. Leadership

Issue 1 Weaknesses in Integrated Work Plan formulation

The Country Office's Integrated Work Plan (IWP) is a tool to establish annual programmatic and operational priorities, and outlines what Country Offices plan to do during the year in response to corporate priorities, as well as other, country-specific priorities, and significant "additional" results. The 'UNDP Guidance Note' on the 2016 IWP states that the description of enabling actions in the IWP should be both strategic (i.e., critical to achieve the highest returns), and specific (what, how much, by when, and eventually where is the action being undertaken). Enabling actions are steps a Country Office has to undertake to support the achievement of yearly prioritized results. These actions usually focus on political profile, significant programmatic measures, capacities, resources, efficiency and effectiveness.

The audit noted the following weaknesses regarding the Office's 2016 IWP formulation:

- The annual work plans of the programme units in the Office, such as the Democratic Governance Unit and the Development Policy Unit, were not linked to the Office's 2016 IWP as they did not feed into the overall outputs of the Office, and as they had been prepared in varying formats. In addition, the goals, activities and enabling actions were either missing or were different than those stated in the 2016 IWP. At the time of the audit fieldwork, the annual work plans of various units were being updated to record the achievements of activities planned for the year, although the Office's 2016 Results Orientated Annual Report had already been finalized. This indicated that the annual work planning by the units was, to some extent, not integrated with the Office's IWP exercise.
- All seven enabling actions were not specific. The enabling actions included general statements such as "establishment of community based enterprises; capacity development of community members for exploitation of non-timber forest products and market chain", and the activities to achieve enabling actions were also general in nature, such as "surveys to be conducted for stock taking of persistent organic pollutants." Timelines for outputs/results areas were not specific, as all seven activities were starting in January 2016 and ending in December 2016.

The Office's management commented that to improve the 2018 IWP formulation, all programme units will use a uniform template with activities and outputs linked to the Office's IWP. Further, the Office intends to hold quarterly meetings to review the work plan progress to allow for timely adjustments.

Work plans not linked to the Office's IWP may impact effectiveness. Generic actions and missing timelines will weaken the controls on achieving results.

Priority	Medium (Important)
Recommendation 1: The Office should improve the Integrated Work Plan formulation process by: (a) developing an overall Integrated Work Plan linked to the work plans of individual units; and (b) drafting specific enabling actions linked to time-bound activities.	
Management action plan: For 2017, all Office unit work plans will have direct links to the Integrated Work Plan. Furthermore, staff individual performance plans reflect key results aimed at directly contributing to the achievement of the units and the Office's objectives set for 2017. In the 2017 IWP, activities and enabling actions have been clearly articulated demonstrating specific contributions towards the Strategic Plan. **Estimated completion date:** March 2017	
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 2 Inadequate risk management process

The 'UNDP Policy on Enterprise Risk Management' requires all offices to include risk reporting in their IWPs and related regular annual reporting mechanisms. This includes a summary of the current risks landscape (risk matrix), a description of the overall impact of risks on the objectives set for the next financial year, and a list of the top key risks, as well as their treatment status.

The Office had identified seven risks in the risk-logs register section of the 2016 IWP in the corporate planning system. All activities stated under the risk treatment section were general and without substantive updates in 2016. For instance, one risk activity was described as "the Environment and Climate Change Unit partnerships need to be diversified to have longer-term development goals and to avoid possible relationship complications".

The audit also noted that, in general, the annual work plans of the units did not include the risks and actions required to manage them. For example, the Democratic Governance Unit annual work plan did not include any risks, while the Crisis Prevention and Recovery Unit had presented a list of risks, but did not include any action plans to mitigate these risks.

The Office's management commented that as part of the 2017 IWP, the Office had developed a consolidated Office Risk Plan, including the mitigating steps for the risks identified.

Failure to adopt an effective risk management process may have an adverse impact on the Office's overall work.

Priority	Medium (Important)
Recommendation 2: The Office should improve its risk management process by: (a) developing risk statements and related mitigating actions that are specific and adequately monitored; and (b) including key risks affecting the activities in the work plans of the units.	

Management action plan:

Recommendations (a) and (b) are being addressed (including guidance note as well as training) to ensure that well defined risks identified at the project level are monitored on a quarterly basis, whereas the IWP risks are monitored as part of the tracking progress on unit work plans and during mid-year reviews.

The Office will regularly monitor, through a separate module, the critical risks and assumptions stated in the 2017 annual work plans.

Estimated completion date: April 2017

2. Alignment with Corporate Direction

Issue 3 Budget overrides applied to meet funding needs

The 'UNDP Programme and Operations Policies and Procedures' include detailed guidelines on the various conditions applicable for budget overrides, such as: budget overrides apply to commitments only and not to payments; the maximum threshold for budget overrides at any point in time should not exceed 50 percent of funds available; and there should be written assurance from the donor that the instalment payment is in progress and the funds should be received within 30 days. Any exceptions should be communicated to the head of the respective Regional Bureau, as well as to the Comptroller.

The Office had an overall programme budget of $63 million in 2016, and it had agreed with the Regional Bureau for Asia and the Pacific to a programme delivery target of $52 million. The Office's two main projects had approved budgeted work plans of $26.6 million and $9 million, respectively.

The audit noted that the Office did not have adequate funds available for all project activities budgeted under these projects. This was caused by either contribution agreements that were not yet signed by donors, or funds committed by donors that were not received on time. In June 2016, the Office sought urgent bridge funding from the Regional Bureau for Asia and the Pacific for three ongoing projects, amounting to $4.6 million. The Regional Bureau advised the Office to apply budget overrides instead. As a result, the Office engaged in budget overrides amounting to $4.2 million from July to December 2016. At the time of the audit, the Office had still not recovered direct project costs from the respective projects amounting to $300,000, which pertained to the 2016 fourth quarter operational support services rendered to the projects.

The Office's management informed the audit team that extensive communication had taken place among the Office, the Regional Bureau and the Office of Financial Resources Management (OFRM). Both the Regional Bureau and OFRM had assessed the risk of undertaking the budget overrides as "low" as either they were supported by signed agreements or the Office was in advanced stages of signing cost-sharing agreements with the donors.

However, not all conditions in the budget override policy as stated in the 'UNDP Programme and Operations Policies and Procedures' were met. For instance, the budget overrides were applied to payments and not to commitments. Furthermore, the budget overrides took place without written assurance that the instalment payments were in progress. In addition, the Office did not inform the Regional Bureau and the Comptroller that funds were not received within 30 days of the budget override.

The Office's management commented that, given the current financial climate, the existing UNDP budget override policy should be revised allowing Offices to perform budget overrides without extensive restrictions. The Regional Bureau for Asia and the Pacific informed the audit team of the steps taken with OFRM in July 2016 to refine the standard operating procedure on risk management including the policy on budget overrides.

In February 2017, the Office enhanced its financial resources management by requiring the Finance Unit to be involved in budgeting, planning and control of its financial resources (core and non-core).

By not communicating all exceptions with the current budget override policy to both the head of the Regional Bureau, as well as to the Comptroller, the Office has exposed the organization to the incomplete recovery of the budget overrides.

Priority	High (Critical)
Recommendation 3: The Office should adhere to the UNDP policy on budget overrides, and recover the outstanding direct project costs within a specified timeframe.	
Management action plan: To further enhance programme financial resource management oversight and compliance, the Office has already centralized the management of all financial resources within the newly established Finance and Resource Management Unit (formerly called Budget and Finance Unit). The new centralized arrangement is followed by a review of respective internal process flows (including internal control framework review) to enable a tighter control over cash flows and release/expense of funds both for operational as well as programmatic activities. The Office has already initiated the recovery process for the direct project costs for operational services, which will be completed before end of March 2017. **Estimated completion date:** March 2017	
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 4 Inefficient workflows at Sub-office level

According to 'UNDP Strategic Plan 2014-2017', to deliver optimum results in a cost-effective manner, offices are required to establish a structure that promotes efficiency and internal controls that work effectively.

The Office had two Sub-offices, and five project offices. One Sub-office was delivering approximately $26 million, or 58 percent of the Office's programme delivery and employed 88 personnel. Each of the two largest projects of this Sub-office had dedicated support teams for operations, monitoring and evaluation activities. In addition, both projects also had dedicated personnel in the Office to facilitate the procurement, finance, and project management functions. The Office's Procurement and Finance Units had also established two posts in the Sub-office to facilitate support services.

A review of the workflows initiated at the Sub-office level indicated that these were extensive as they had to go through both the Sub-office and the Office. The involvement of personnel in both the Sub-office and the Office led to repetitive amendments causing protracted procurement transactions. As an illustrative example, in one procurement process initiated by the Sub-office, the Project Associate together with the Administration and Finance Assistants would prepare the terms of reference, which would be reviewed by the Operations Manager and endorsed by the Project Manager at the Sub-office. Subsequently, the documents would be routed to the Programme Unit of the Office. The Programme Assistant would check the document and submit it to the head of the Programme Unit, and then forward it to the Procurement Unit. In the event of any discrepancies, the document would be sent back to the Project Team in the Sub-office.

The Office's management shared with the audit team that the Sub-office was established in mid-2015 and acknowledged that a review of the overall business processes would be beneficial.

Operational workflows involving multiple units could cause duplicated actions impacting performance.

Priority	High (Critical)

Recommendation 4:

The Office should establish a business process that promotes efficiency and effectiveness by reviewing the current project structures to avoid the duplication of processes.

Management action plan:

The Office will be conducting comprehensive and in-depth reviews of projects and the Sub-office's core and common functions, including the internal control framework and staffing structures during the second half of March 2017. To that effect, support from the Regional Bureau for Asia and the Pacific and the Management Consulting Team will be mobilized.

Estimated completion date: July 2017

B. Programme

1. Programme/Project Design and Implementation

Issue 5 Weaknesses in management of programme financial instruments

The 'UNDP Programme and Operations Policies and Procedures' enable organizations to fund project activities through Micro-Capital Grant Agreements (MCGAs) and Responsible Party Agreements (RPAs). These MCGAs may not exceed $150,000, the project document should provide for an independent committee to review and endorse the selection of recipient institutions, and the committee must assess the performance of these institutions in managing the grants. Further, to receive multiple grants, the recipient organization must have produced the results agreed to in the prior grant agreement, and a new MCGA must be approved by a Steering Committee. If the $300,000 cumulative limit is to be exceeded, Country Offices must submit a request through the Regional Bureau for clearance by the Bureau for Management Services. The RPA guideline provides that the Vendor Sanctions policy of UNDP shall also apply to non-governmental organizations /civil society organizations engaged as Responsible Parties.

A review of these agreements used by the Office during 2016 noted the following:

(i) Weaknesses regarding management of MCGAs

During the audit period, the Office had signed a total of 32 MCGAs valued at $2.3 million. The review of 11 MCGAs valued at $1.6 million noted the following:

- Four MCGAs exceeded the stipulated amount of $150,000 per agreement. These agreements were not approved by a committee as required. A note-to-file by the Office justified the agreements on the basis of the urgency of the activities. However, these activities were mainly infrastructure rehabilitation-related and did not fully warrant urgent justification.
- The Office stated that an ad-hoc committee reviewed all agreements over the threshold of $50,000 to ensure transparency and adherence to the UNDP policy. As the Office was not able to provide minutes of the ad-hoc committees, there was no adequate assurance that reviews to ensure adherence to UNDP's policy on engaging organizations through the use of MCGAs.

(ii) Absence of criteria for the use of MCGAs or RPAs

The criteria applied for issuing an MCGA or an RPA contract were not always evident. For example, the Office signed an MCGA for $150,000 in November 2015, and an RPA for $1.6 million in October 2016 with the same partner, the same project and similar activities. There was no documented justification why different instruments were utilized for similar activities of the same project and partner. In another case, the Office had signed an MCGA for $150,000 on 10 February 2016 and an RPA for $1 million in June 2016 for similar activities.

(iii) Non-adherence to Vendor Sanctions policy

In 2015-2016, the Office signed 12 RPAs with a total value of $11.3 million. The non-governmental organizations/civil society organizations with which the Office signed RPAs were not vetted against the Vendor Sanctions list. In addition, six agreements did not link payments to specific activity outputs/milestones.

In the absence of compliance with MCGA and RPA controls, there is a risk that funds will not be used for intended purposes.

Priority	Medium (Important)
Recommendation 5: The Office should ensure compliance with UNDP guidelines on the management of Micro-Capital Grant Agreements and Responsible Party Agreements by: (a) ensure compliance with established thresholds; (b) establishing an independent mechanism to review and endorse the selection of recipient institutions and documenting the justification for using the different types of agreements; (c) vetting all partners against UNDP's Vendor Sanctions policy requirements; and ensuring specific, output-based milestones are identified as a condition for the release of funding tranches.	
Management action plan: The Office will ensure the balance between the programmatic and procurement policies in compliance with the relevant 'UNDP Programme and Operations Policies and Procedures' and in accordance with audit observations. **Estimated completion date:** May 2017	

Issue 6 Inefficient project reporting process

In line with the 'Delivering as One' objectives, participating offices are expected to streamline their business processes such as planning, monitoring and reporting across the Country Office to improve efficiency and reduce transaction costs.

In the case of one project, the Office maintained a separate log framework (results framework) for the different donors based on individually agreed outputs, indicators and activities. At the same time, the project also maintained an annual work plan for the entire project for the purpose of meeting UNDP internal requirements. The project provided separate progress and annual reports to each donor, resulting in fragmented reporting that increased the Office's workload.

Addressing each partner's reporting needs separately resulted in the inefficient use of resources, where unnecessary staff time was utilized in producing multiple reports for the same project. Further, the streamlining of the reporting process is important, especially given that the United Nations operates under 'Delivering as One' in the Country, where the single annual report should be acceptable to all donors and partners.

The Office's management explained that most donors required separate reporting for their funding streams, and that they would engage with the Resident Coordinator's Office to streamline the reporting with development partners as part of the currently ongoing new Country Programme Document development process.

The Office is at risk of not utilizing its resources efficiently when multiple reporting is undertaken for the same project.

Priority	Medium (Important)
Recommendation 6: The Office should improve the project reporting processes through discussions with donors. If required, the Office should seek the support of the Regional Bureau for Asia and the Pacific and the Bureau for External Relations and Advocacy to resolve this issue.	
Management action plan: The Office will work with the Resident Coordinator's Office to engage with UNDP partners on streamlining the reporting process, including developing and agreeing on a unified donor reporting format. The possibility of seeking support from the Regional Bureau for Asia and the Pacific will also be explored in 2017. **Estimated completion date:** September 2017	

Issue 7 Delays in project closure

The 'UNDP Programme and Operations Policies and Procedures' stipulate that projects should be operationally closed once activities have been implemented and no new activities are planned. The operationally closed projects should then be financially closed no more than one year after operational closure.

The Office's project portfolio included 22 ongoing projects and 13 projects pending operational closure. Out of these projects pending operational closure, 12 ended in December 2016 and 1 ended in December 2015. The Office indicated that 3 were further extended, while the remaining 10 would be operationally closed. Further, nine additional projects that were operationally closed between December 2008 and December 2015 were yet to be financially closed.

The Office's management stated that the recently established Finance Resource Management Unit would ensure that the projects are financially closed in a timely manner. Management further stated that these projects had not been financially closed because of pending fund balances, assets that required hand-over, and other balances that needed to be cleared by the implementing partners.

If projects are not financially closed in a timely manner, there is a risk of unauthorized expenditures.

Priority	Medium (Important)
Recommendation 7: The Office should ensure compliance with the 'UNDP Programme and Operations Policies and Procedures' on project closure by settling all of the discrepancies noted.	
Management action plan: The Office will review its own project closure procedures and will produce a standard operating procedure followed by trainings for applicable staff. **Estimated completion date:** May 2017	

Issue 8 Planned annual project results not fully achieved

The 'UNDP Programme and Operations Policies and Procedures' define outputs as results, for which the project is accountable. The annual work plans describe the outputs and underlying targets to be achieved during the year. Where it is anticipated that the project will be unable to implement the specific targets, the targets and budgets should be re-aligned.

Based on information extracted from the Executive Snapshot, the Office's programme delivery was $44.7 million against a programme budget of $63 million for 2016. The deficit in delivery was mainly due to the two largest projects implemented by the Office not meeting their delivery targets for 2016.

The 2016 delivery rates for these two projects were 66 and 72 percent, respectively. The following was noted:

- In the case of the first project, out of 36 activities planned for 2016, only 9 were fully completed, 25 were rated as on track, while 3 had not started. The Office's management stated that this was caused by security and local conditions beyond the control of the Office.
- In the case of the second project, out of 87 activities, 59 were reported as completed, 22 on track and 6 were off track or not yet started. The Office management stated that this was caused by delays in the development of software and to donor requirements.

The Office's management commented that some of the activities mentioned were multi-year in nature, and as such, their progress was still on track even though these activities would not be completed in 2016. However, for better tracking and monitoring purposes, the Office should have stated the anticipated percentage of completion during the reporting period together with revised budgets.

The Office may not achieve its development targets if the annual planned activities are not implemented.

Priority	Medium (Important)

Recommendation 8:

The Office should enhance project delivery by:

(a) establishing a regular progress monitoring system to ensure bottlenecks affecting project implementation are addressed by management in a timely manner; and
(b) ensuring budget revisions are undertaken when required.

Management action plan:

(a) The Office is using the Systematic Tracking for Accountability and Results monitoring and evaluation system (STAR) for tracking resource budgets and utilization on planned activities. The review of progress data to address challenges takes place at multiple levels across projects, programme units and senior management. The progress review mechanisms have already been refined and operationalized in 2017. The Office has also established regular interaction with the relevant government authorities. This includes quarterly Steering Committee meetings with the senior government counterparts and fortnightly meetings with the security agencies to update them on the progress and to solicit their support to resolve access issues.

(b) The Office ensures budgets are revised and reflected in Atlas as and when required. The status of these

budget revisions are also presented for review and action as part of the Monthly Management Report in the Senior Management Meeting. **Estimated completion date:** December 2017

C. Operations

1. Procurement

Issue 9 Limited use of e-Tendering

UNDP encourages offices to use the e-Tendering system, as it provides transparency and enhances controls over the receipt of bids.

During 2016, the Office had engaged in 31 procurement cases above $100,000 with a cumulative value of $4.9 million. Further, 15 cases in the range of $50,000 to $100,000 had been completed by the Office, with a total value of $1.1 million. The Office had used the e-Tendering system since April 2016 for procurement above $100,000. During this period, a total of seven procurement cases were undertaken using the e-Tendering system. The Office indicated that one reason for the low use of the e-Tendering system was the need to educate potential vendors on the use of the e-Tendering system. Some vendors had pointed out the cumbersome nature of the process. Office management added that they may increase the use of the e-Tendering system for future procurement cases.

The audit team noted that the use of e-Tendering for a larger number of procurement cases will not only enhance controls, but may also lead to more efficiency in the use of resources.

Priority	Medium (Important)
Recommendation 9: The Office should consider expanding the e-Tendering system for procurement cases of more than $50,000 and then gradually include the rest, while continuing with educating potential bidders on the use of the e-Tendering system.	
Management action plan: Office management has already approved an e-Tendering roll out plan for 2017. **Estimated completion date:** December 2017	

2. Human Resources

Issue 10 Weaknesses in leave management

According to the 'UNDP Programme and Operations Policies and Procedures', staff members under fixed-term appointments or permanent appointments are expected to avail their leave days within the period in which they are earned, subject to the exigencies of service. For service contract personnel, the 'Service Contract Guidelines' state that annual leave must be taken within the period of the service contract. Further, when the service contract is extended for an additional period, the service contractor may carry over accumulated annual leave up to a maximum of 18 days. Staff may carry over leave balances up to 60 days until the end of March of each year.

The following was noted in the planning of leave days between the staff and their supervisors:

- As of March 2016, there were 19 staff who forfeited their leave balances, ranging between 1.5 and 30 days.

- As of January 2017, there were 28 staff who had leave balances more than 60 days, ranging between 61.5 and 80 days. These staff might forfeit their leave balances beyond 60 days if they do not take leave before end of March 2017.

- Similarly, 27 out of 30 service contractors who separated during 2016 forfeited their leave balances. At the time of the audit fieldwork, 95 service contractors, representing 44 percent of all service contract holders, had leave balances ranging between 20 and 45 days as of the end of December 2016.

Excessive leave balances may be an indication of fraudulent activity, and forfeiting leave entitlements may impact staff morale and the achievement of the organization's objectives.

Priority Medium (Important)
Recommendation 10: The Office should ensure that all personnel prepare and agree on their leave plans with their supervisors to avoid excessive leave balances and to avoid forfeiting their leave entitlements.
Management action plan: The Office issued a memo to staff that incorporates guidelines on effective leave plans and their application process in e-services. Senior management is being encouraged to ensure that annual leave entitlements are availed prior to the cut-off date of 31 March 2017. Finally, the Human Resources Unit will conduct a periodical review of annual leave to ensure compliance accordingly. **Estimated completion date:** June 2017

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.