

UNITED NATIONS DEVELOPMENT PROGRAMME
Office of Audit and Investigations



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AUDIT

OF

UNDP COUNTRY OFFICE

IN

MALDIVES

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Report on the Audit of UNDP Maldives Executive Summary

The UNDP Office of Audit and Investigations (OAI) conducted an audit of UNDP Maldives (the Office) from 12 to 23 March 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 also reviewed the implementation of the One Leader and One Programme pillars of Delivering as One (DaO) by the United Nations agencies in Maldives. The objective was to assess the extent to which the One Leader and One Programme pillars are adequately configured and implemented to contribute to the achievement of the Country's development goals.

The audit covered the activities of the Office and DaO from 1 January 2016 to 28 February 2017. The Office recorded programme and management expenditures of approximately \$5 million. The last audit of the Office was conducted by OAI in 2011.

The audit was conducted in conformance with the *International Standards for the Professional Practice of Internal Auditing*.

Overall audit rating

OAI assessed the Office as **satisfactory**, which means, "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." This rating is based only on the review of the Office's activities and not on the DaO activities by the UN agencies in the Maldives.

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." Of the five recommendations, three are addressed to the Office and two are addressed to the UN Country Team (UNCT) for DaO. The recommendations addressed to the Office include strengthening of project management, project closure and direct contracting.

The five medium priority recommendations aim to ensure the following: (a) achievement of the organization's strategic objectives (Recommendation 1); and (b) compliance with legislative mandates, regulations and rules, policies and procedures (Recommendations 2 and 3). Two recommendations relate to alignment with the DaO standard operating procedures (Recommendations 4 and 5).

Management comments and action plan

The Resident Representative and the UNCT accepted all of the recommendations and are 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
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I. About the Office

The Office is located in Malé, Maldives (the Country). The Office comprised of 14 staff and 11 service contact holders, with a project portfolio totalling 6 projects. Operating under Delivering as One (DaO), the Office initiated a new United Nations Development Assistance Framework (UNDAF) for the period 2016-2020, focusing on four thematic areas: Youth and Children, Gender, Governance, and Environment and Climate Change. Environmental sustainability, climate change and disaster resilience are the central development challenges in the Country.

The Office was also one of the pilot offices for the clustering of operational processes, including finance and procurement. The Office was recently awarded significant funding by the Green Climate Fund, focusing on supporting vulnerable communities in the Country to manage climate change-induced water shortages.

II. Audit results

Satisfactory performance was noted in the following areas:

- (a) Governance. Adequate organizational structure, delegations of authority and risk management were established.
- (b) Financial resources management. The review included payment processing, disbursements and banking activities; these were found to be compliant with UNDP's financial policies and procedures. Adequate controls were established, and risks were regularly monitored.
- (c) Human resources management. The review of recruitment and separation processes, including Atlas (enterprise resource planning system of UNDP) profiles of staff, did not identify any reportable issues. Adequate controls were established.
- (d) ICT and general administrative management. OAI reviewed the Office's management of information, communication technology resources and processes. A physical review of the relevant facilities and equipment were also conducted. The systems managed by the Office, including hardware, software and systems security were operating effectively.
- (e) Staff and premises security. The Office was compliant with the Minimum Operating Security Standards (MOSS). The Country Security Plan and Business Continuity Plan were also endorsed.

OAI made five recommendations ranked medium (important) priority, three of which were addressed to the Office and two of which were addressed to the UNCT for DaO.

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:

Addressed to the Office:

- (a) Strengthen project management practices (Recommendation 1).
- (b) Ensure compliance with the 'UNDP Programme and Operations Policies and Procedures' on project closure (Recommendation 2).
- (c) Ensure all direct contracting is undertaken in accordance with UNDP Financial Rule No. 121.05 (Recommendation 3).

Addressed to the UNCT relating to DaO:

- (a) Implement the core elements of the One Leader pillar (Recommendation 4).
- (b) Strengthen the implementation of the One Programme (Recommendation 5).

The detailed assessment is presented below, per audit area:

A. Programme

Issue 1 Weaknesses in project management

The 'UNDP Programme and Operations Policies and Procedures' define outputs as results for which a project has direct accountability for delivery. These outputs are articulated in the annual work plans, which also identify specific targets to be achieved during the year that contribute to the overall project outputs. Indicators measure the progress towards achieving specific outputs, and should be specific, measurable, attainable, relevant and time-bound (SMART). According to the 'UNDP Programme and Operations Policies and Procedures', the annual review report, at minimum, shall consist of the Atlas standard format for the project progress report covering the whole year, with updated information for each element of the project progress report as well as a summary of results achieved against pre-defined annual targets at the output level. The report should also include financial information on planned budgets and expenditures.

OAI reviewed the implementation of the annual work plan activities for four projects: Tourism Adaptation Project (project 60884); Integrated Water Resources Management (project 61753); Low Emission Climate Resilient Development (project 77340); and Integrated Governance Programme (project 93667). The following weaknesses were noted:

Weaknesses in articulation of baselines, indicators and targets

- The 2016 annual work plan for project 61753 did not include any baselines, indicators or annual targets. Instead, it only reflected the outputs and sub-outputs as stipulated in the four-year project document. For project 77340 (joint programme), the 2016 and 2017 annual work plans did not reflect any indicators, although these had been reflected in the project inception report dated 2014. Project 76885 did not reflect any indicators for output 3. Similarly, project 60884 with a 2016 budget of \$0.3 million did not have a detailed annual work plan – only a description of the activities to be implemented.
- For projects 60884 and 93667, there were no annual targets identified in the 2016 annual work plans – only indicators and targets corresponding to the three-year project targets and results.

Weaknesses in monitoring of projects

- The Office did not have an overall monitoring plan for monitoring the Office's project portfolio during the audit period. Instead, monitoring was conducted on an ad hoc basis. For example, no project site monitoring reports were provided for projects 60884 and 93667 which were mostly implemented in Malé. For project 61753, only one monitoring mission report was available. Project 77340 had developed a project-level monitoring plan for 2016 and 2017 and some monitoring activities were undertaken.

Weaknesses in annual reporting

- In the absence of SMART indicators, baselines and targets, it was difficult to assess the actual results achieved.
- Annual reports for 2016 were not provided for projects 60884 and 61753.
- The 2016 annual report for project 77340 included the key activities implemented; however, several indicators were missing, and there was no direct linkage between the various indicators and the targets achieved. Further, as no financial report was appended, it was not possible to determine expenditures at the output level. The 2016 annual report for project 93667 only highlighted the activities achieved; however, it was difficult to determine whether it had met its 2016 targets or not, as annual targets had not been reflected in the 2016 annual work plan. Similarly, the report did not include a breakdown of the budget and expenditures for 2016; therefore, it was not possible to determine expenditures for the reported activities.

In the absence of adequate project planning, monitoring and reporting, the Office is at risk of not achieving planned developmental results.

Priority	Medium (Important)
Recommendation 1:	
The Office should strengthen its project management practices by ensuring:	
<ul style="list-style-type: none"> (a) annual work plans reflect appropriate indicators, baselines and annual targets; (b) a resourced monitoring plan is developed to monitor programme results; and (c) annual reporting adheres to UNDP reporting requirements. 	
Management action plan:	
<ul style="list-style-type: none"> (a) The Programme Management and Policy Unit will share harmonized work plan templates in line with the corporate requirement by 30 April 2017. Each project team will update work plans to reflect appropriate indicators, baselines and annual targets by 31 May 2017. (b) Project Teams will incorporate monitoring activities into annual works plans by 30 May 2017, and the Office will develop a monitoring plan consolidating project-level monitoring activities by 30 June 2017. (c) The Programme Management and Policy Unit will update project reporting templates in line with corporate requirements and review the project progress reporting including lessons learned, expenditures, risks, etc. by 30 June 2017. 	
Estimated completion date: December 2017	

Issue 2 Projects not operationally closed

The 'UNDP Programme and Operations Policies and Procedures' stipulate that projects should be operationally closed once activities have been implemented and no new activities have been planned.

The audit noted that 13 projects were not closed. Of these, four projects ended in 2009, 2010, 2011 and 2014, while the remaining nine ended in December 2016. The Office explained that these were at various stages of closure. As at March 2017, 8 out of 13 projects remained open. The Office stated that they were working with the Bangkok Regional Hub to close all of the remaining projects by 30 April 2017.

The Office risks unauthorized expenditures against these projects if they are not closed in a timely manner.

Priority	Medium (Important)
Recommendation 2:	
The Office should ensure compliance with the 'UNDP Programme and Operations Policies and Procedures' on project closure by settling all the discrepancies noted within a stipulated timeframe.	
Management action plan:	
The Programme Units will be familiarized with Atlas project closure requirements and ensure projects are closed in a timely manner.	
Estimated completion date: July 2017	

B. Operations

1. Procurement

Issue 3 Duplicate vendor profiles in Atlas

To create and approve new vendors, the 'UNDP Programme and Operations Policies and Procedures' require the verification of supporting documentation to ensure that the vendor is legitimate and to check for existing vendors to avoid duplicate records.

The audit identified 92 active vendors with duplicate records in Atlas. After a verification of vendor records, the Office requested the Global Shared Services Unit (GSSU) to deactivate 58 duplicate records. All 58 duplicate records had been deactivated and the remaining 34 vendors were confirmed to be valid. The audit reviewed 39 voucher samples and did not identify any duplicate payments.

The Office attributed the duplication to weak vendor set-up processes prior to 2016, resulting in some vendors being created multiple times. The vendor creation and approval process had been transferred from the Office to the GSSU as part of the clustering since August 2016.

Comment

Subsequent to the clustering of operational processes, no duplicate vendors were identified; since the Office had already taken corrective action, OAI did not make a recommendation.

Issue 4 Direct contracting not fully justified

The 'UNDP Programme and Operations Policies and Procedures' provide that staff may only use direct contracting when it is not feasible to undertake a competitive bidding process, and when proper justifications exist. UNDP Financial Rule No. 121.05 specifies nine instances when direct contracting is justified, including the need for standardization, which refers to the compatibility and consistency with existing equipment, systems or technologies.

A review of nine direct contracting cases each over \$5,000 amounting to \$173,000 disclosed that in three cases valued at \$29,260, the justifications were not in accordance with UNDP Financial Rule No. 121.05. For example, in one case, the Office indicated that the selected individual contractor had worked in the same capacity recently and had the necessary knowledge and experience. Therefore, the Office had identified the need for standardization as the justification for contracting the individual. However, this justification only applies to instances where there is a requirement for compatibility and consistency, which was not the case in this instance. Moreover, the selected justification generally applied to equipment, systems and technologies, and not to the tasks to be undertaken by the individual contractor.

Failure to comply with the UNDP requirements on direct contracting may have a negative impact on the Office's reputation and may lead to financial losses.

Priority	Medium (Important)
Recommendation 3:	
The Office should enhance controls by ensuring that all direct contracting is undertaken only in accordance UNDP Financial Rule No. 121.05.	
Management action plan:	
The Office will develop standard operating procedures for direct contracting to ensure that justification for the direct contracting is in accordance with the guidelines. Procurement briefings for staff will be held and will focus on direct contracting, and justifications for direct contracting will be monitored to ensure they are adequately warranted.	
Estimated completion date: December 2017	

Issue 5 Contracts, Assets and Procurement Committee cases not processed online

The 'UNDP Programme and Operations Policies and Procedures' require all procurement actions that are subject to the review of committees at any level to be processed through the web-based and fully automated Advisory Committee on Procurement (ACP) Online application. ACP Online manages the entire process, from the submission of a request, to the committee review and corresponding recommendation, and to the decision of the procurement authority.

In 2016, the Office submitted two procurement cases valued at \$133,942 and one asset disposal case with a net book value of \$4,326 to the Contracts, Assets and Procurement Committee (CAP). However, the procurement actions had not been processed through ACP Online application. The audit noted that the Office had not processed any CAP cases through the ACP Online application since 2012.

The Office explained that it was not aware of the requirement to record all procurement actions reviewed by the Committee through ACP Online.

Comment

After discussions with the Regional Advisory Committee on Procurement, the Office agreed to make post-facto submissions of the three cases and to submit all future procurement cases through ACP Online. Therefore, OAI did not make a recommendation.

C. Delivering as One

1. One Leader

Issue 6 Core elements of One Leader pillar not established

According to the DaO standard operating procedures, the core elements required for the One Leader pillar to function adequately include the following:

- Resident Coordinator provides formal inputs to the regular performance appraisal of all UNCT members.
- All UNCT members include in their agency's performance evaluations their contributions towards UNCT results.
- UNCT has an approved Code of Conduct and Working Arrangements as per the 'UN Development Group (UNDG) Guidance Note'.

The audit noted the following control weaknesses:

Performance goals and indicators for UNCT members not properly set up

The Assessment of Results and Competencies (ARC) requires that the goals and indicators be specific, measurable, attainable, relevant and time-bound (SMART) so that results are tangible. Indicators describe the evidence that will ensure the achievement of the goal.

The audit noted that some goals and indicators were not SMART. For instance, one indicator mentioned, "Set strategic direction for joint work planning and UNDAF implementation (All UNCT members)." It was not clear how the achievement of individual UNCT members would be assessed against this indicator. Similarly, another indicator referred to "Improve Operational Efficiency of UNCT through better coordination and implementation of Operations Management Team work plan." This indicator gave no indication on how the operational efficiency would be assessed.

Without proper performance goals, the performance is difficult to monitor, measure, and adjust when needed.

Code of conduct not updated

The 'UNDG Guidance Note on UN Country Team (UNCT) Conduct and Working Arrangements' (6 February 2014) provides that all UNCT members comply with the UN Charter and Standards of Conduct of the International Civil

Service Commission. This includes an expected set of qualities and knowledge and business process standards. Failure to comply is to be reflected in the performance evaluations. Further, section 6 of the UNDG Guidance Note provides that the UNCT membership roles and responsibilities should be laid out clearly within each UNCT (and could be further specified in their Codes of Conduct).

OAI noted that the UNCT had signed the Code of Conduct in August 2013. The Code of Conduct clearly articulated the UNCT endeavor to work collaboratively to enhance development results for UNDAF 2011-2015. However, with the transition to the new UNDAF 2016-2020 as well as with new UNCT members on board, the UNCT had not reviewed the Code of Conduct to ensure it was up to date. It was also not clear whether the Code of Conduct had been shared with newly appointed United Nations agency representatives. The Office stated that the Code of Conduct would be tabled during the UNCT meeting in April 2017.

In the absence of a clear and updated Code of Conduct, the UNCT may not be able to ensure clear accountabilities and cooperation in order to achieve development goals.

Non-adherence to the requirements of DaO as stipulated in the standard operating procedures may have an impact on attaining the objectives of promoting coherence.

Priority	Medium (Important)
Recommendation 4:	
The UN Country Team should implement the core elements of the One Leader pillar by:	
(a) establishing specific and measurable performance indicators; and	
(b) updating the Code of Conduct and having it endorsed by all members.	
Management action plan:	
The UNCT will update the Code of Conduct during the next UNCT meeting in April 2017, and will also establish more specific and measurable performance indicators once the new performance system is rolled out later in 2017.	
Estimated completion date: March 2018	

2. One Programme

Issue 7 Inadequate oversight and inadequate joint work plans

According to the UNDG's standard operating procedures for DaO, the UNDAF is the basis of the One Programme, which describes the collective vision and response of the United Nations system to national development priorities. Furthermore, each Results Group creates a joint work plan (JWP) to contribute to the achievement of UNDAF outcomes. To ensure maximum reduction of transaction costs for all involved partners, the Results Groups' JWP's will be the only work planning instruments, replacing agency-specific plans.

Steering Committee meetings not held

A UNDAF High-Level Steering Committee, the highest decision-making body, had been established to oversee the approval, implementation and evaluation of the UNDAF. The terms of reference require that the Steering Committee meet annually to assess progress, address challenges, and benefit from lessons learned for future cooperation between the United Nations system and the Government.

The Steering Committee had last met in 2015. In the absence of regular meetings, the Steering Committee risks not being able to address emerging issues in a timely manner.

The UNCT agreed to arrange annual Steering Committee meetings with the first meeting scheduled for May 2017. As such, OAI is not making a recommendation in this regard.

Inadequate joint work plans

The Outcome/Results Groups had been established as required and biannual JWPs had been developed. However, OAI noted the following weaknesses:

- Indicators and baselines were not clearly articulated. For example, the baseline and targets for output 4.1.1 of the Environment and Climate Change JWP were defined respectively as 'adequate' and 'not adequate', and did not provide a definition of what was considered as 'adequate or 'not adequate'.
- Agency-specific annual work plans and annual project reports were still developed by the United Nations agencies thereby undermining the objective of reducing transaction costs and enhancing coherence and coordination via joint work plans.
- At the time of audit, only one joint programme was in place.

By not meeting the requirements of DaO, the UNCT risks not achieving the related objectives of increased coherence, harmonization and reduction of transaction costs.

Priority	Medium (Important)
Recommendation 5:	
The Resident Coordinator and the UNCT should strengthen the implementation of the One Programme by ensuring baselines, indicators and targets are well articulated and measurable in the Joint Work Plans and increasing the number of joint programmes.	
Management action plan:	
<p>(a) Strengthen JWPs: UN lead agencies of the UNDAF Outcome Groups and the UNDAF Technical Team will strengthen the JWPs, including articulation of the baseline, indicators and targets.</p> <p>(b) JWP as the key work plan: While the mandates of the individual agencies (to require agency-specific work plans) are beyond UNCT Maldives' control, the UNCT will endeavor to replace the agency work plans with JWPs as the key planning document.</p> <p>(c) Joint Programmes: UNCT will explore joint funding opportunities. Joint Monitoring: UN lead agencies of UNDAF Outcome Groups with support from UNDAF Technical Team will endeavor to do more joint reporting.</p>	

Estimated completion date:

- (a) Within the annual review process (Jan-May) annually throughout the UNDAF 2016-2020 cycle.
- (b) Within the new work plan formulation process (Jan-May) annually throughout the UNDAF 2016-2020 cycle.
- (c) As and when funding opportunities arise during the UNDAF 2016-2020 cycle During the JWP implementation throughout the UNDAF 2016-2020 cycle.

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.