UNITED NATIONS DEVELOPMENT PROGRAMME
Office of Audit and Investigations

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AUDIT

OF

UNDP PACIFIC OFFICE

IN

FIJI

Report No. 1877

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Report on the Audit of UNDP Pacific Office in Fiji
Executive Summary

The UNDP Office of Audit and Investigations (OAI) conducted an audit of UNDP Pacific Office in Fiji (the Office) from 5 to 16 June 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 May 2017. The Office recorded programme and management expenditures of approximately $45 million during the audit period. The last audit of the Office was conducted by OAI in 2012.

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 the absence of a Standard Basic Assistance Agreement and lack of refunds of value added tax payments, and inadequate controls in the management of cash advances, and procurement cases not submitted to the Contract, Assets and Procurement Committee.

Key recommendations: Total = **10**, high priority = **4**

Objectives	Recommendation No.	Priority Rating
Reliability and integrity of financial and operational information	2, 4	Medium
Effectiveness and efficiency of operations	8, 10	Medium
Compliance with legislative mandates, regulations and rules, policies and procedures	1, 5, 6, 9	High
	3, 7	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. The high (critical) priority recommendations are presented below:

Absence of a Standard Basic Assistance Agreement and lack of refunds of value added tax payments (Issue1)	During the last audit of the Office undertaken in 2012, OAI raised an issue on the absence of the signed Standard Basic Assistance Agreement (SBAA) with the Government of Fiji. Subsequently, upon request from the Regional Bureau for Asia and the Pacific in 2013, and after mainly considering the political instability prevailing at the time, OAI withdrew the recommendation. However, the current audit noted that, despite follow-up actions undertaken by the Office, the SBAA had not been signed with the Government. The Office management explained that the Government of Fiji was not agreeable to sign the SBAA. The Office also informed the audit team that in 2016, the Government did not agree to reimburse the United Nations for value added tax (VAT) payments. Recommendation: The Office should, in consultation with the Regional Bureau for Asia and the Pacific, pursue its efforts the matter on signing the SBAA with the Government and reimbursing VAT payments.
Inadequate controls in the management of cash advances (Issue 5)	Although project activities were completed in 2015 and expenses of $920,000 were incurred in 2015, the respective advances were liquidated in 2016 and the expenses were recorded in financial year 2016. As a result, the 2015 programme expenses were understated and the 2016 expenses overstated by this amount. Further, there were significant delays ranging from 7 to 11 months in the liquidation of advances amounting to $345,000 for five projects. As at the date of the audit fieldwork, national implementation advances of $361,000 for nine projects were outstanding for more than six months. Recommendation: The Office should enhance controls over management of advances to implementing partners by: (a) ensuring that expenses are recorded in the financial period in which they were incurred; (b) providing clear guidance to implementing partners on the requirements of liquidating the advances to ensure timely liquidation of the advances; and (c) establishing internal procedures to monitor outstanding advances.
Inadequate controls over the management of project cash advances (Issue 6)	During the audit period, the Office made project cash advances of $1.2 million to implement workshops, seminars, and training, in remote locations. There were inadequate controls over the management of these project cash advances such as the UNDP Sub-office in Solomon Islands did not formally appoint Project Cash Advance custodians to manage this cash; there were delays in liquidations of these advances; inadequate supporting evidence to support payments made to beneficiaries; and absence of regular spot checks when custodians were handling large amounts of advances. Recommendation: The Office should ensure the management of project cash advances is in compliance with the 'UNDP Programme and Operations Policies and Procedures'. This should include: (a) that all recipients of project cash advances sign the cash custodian forms; (b) establishing a standard operating procedure for tracking and monitoring project cash advances so that advances are liquidated within the stipulated timeframe as well as supporting documents required from workshop participants such as photo IDs; these procedures should

	be complimented with random spot-checks by the Finance Unit; and (c) exploring alternative means of transferring payments to beneficiaries and documenting these for record purposes.
Procurement cases not submitted to the Contract, Assets and Procurement Committee (Issue 9)	The procurements from 16 different vendors exceeded the threshold of $50,000 by varying amounts, but the cases were not presented to the Contract, Assets and Procurement Committee for review. The total value of the purchase orders issued to the 16 vendors was approximately $1.5 million. There were no procedures in place in both the Office and the Sub-office in Solomon Islands to track vendors reaching the Contract, Assets and Procurement Committee threshold amount. Recommendation: The Office should enhance procurement management by: (a) establishing a tracking system to ensure that the procurement cases reaching the threshold of Contract, Asset and Procurement Committee review are submitted to the committee for review; and (b) submitting all cases which exceeded the relevant procurement threshold to the respective procurement review committees for post facto review.

Management comments and action plan

The Resident Representative and Resident Coordinator 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.

Brett Simpson
Officer-in-Charge
Office of Audit and Investigations

I. About the Office

The Office, located in Suva, Fiji (the Country) implements projects using both the national and the direct implementation modality. The Office is referred to as the UNDP Pacific Office in Fiji because it serves 10 Pacific Island countries; namely the Federated States of Micronesia, Fiji, Kiribati, the Marshall Islands, Nauru, Palau, the Solomon Islands, Tonga, Tuvalu and Vanuatu. The Office has a Sub-office in the Solomon Islands to manage projects implemented in that country. The Sub-office in Solomon Islands is headed by a Country Manager, who has managerial and representational responsibilities for the Joint Presence Office of UNDP, UNFPA, UN Women and UNICEF. The Pacific Office in Fiji, together with UNICEF and UNFPA, has established Joint Presence Offices in the eight other Pacific Island countries. Five of these Joint Presence Offices (in the Marshall Islands, Federated States of Micronesia, Kiribati, Vanuatu and Nauru) are led by UNFPA, UNICEF and UN Women, while UNDP leads the four Offices in Palau, Tuvalu, Tonga and the Solomon Islands.

In March 2016, the former UNDP Fiji Multi-Country Office and the UNDP Pacific Centre based in the Country were merged, resulting in a consolidated leadership and management structure in Suva for the purpose of providing a clear and coherent representation of UNDP to partners and beneficiaries. The Country Director position was introduced, with oversight on the overall management and provision of services related to the regional and country programmes. The integration also led to the creation of the Integrated Results Management Unit and of the Small Island Development States Engagement function. The Office oversees 10 countries, which implies particular challenges, such as limited flight connections and high travel costs, as well as limited internet connectivity.

II. Audit results

Satisfactory performance was noted in the following areas:

(a) Operations/ICT and General Administrative Management. Adequate controls were established in this area and no reportable audit issues identified.
(b) Operations/Staff and Premises Security. The review of the Office's security plan and security risk assessment did not identify any reportable audit issues.

OAI made four recommendations ranked high (critical) and six 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) Ensure compliance with the 'UNDP Programme and Operations Policies and Procedures' on project cash advances (Recommendation 6).
(b) Enhance controls over management of advances to implementing partners (Recommendation 5).
(c) Pursue its efforts the matter on signing the SBAA with the Government and reimbursing VAT payments (Recommendation 1).
(d) Enhance procurement management by establishing a tracking system and submitting procurement cases to review committees (Recommendation 9).

Medium priority recommendations, arranged according to significance:

(a) Enhance procurement management by considering the use of e-Tendering and establishing controls over bids (Recommendation 8).
(b) Ensure that the Interagency Working Group develops the action plans (Recommendation 10).

(c) Ensure that indicators/baselines/targets are established and they are specific, measurable, achievable, realistic and time-bound (Recommendation 2).
(d) Enhance project monitoring (Recommendation 3).
(e) Enhance controls in reporting project achievements (Recommendation 4).
(f) Escalate challenges encountered in recovering Government Contributions to Local Office Costs to the Regional Bureau for Asia and Pacific and obtain their guidance (Recommendation 7).

The detailed assessment is presented below, per audit area:

A. Governance

Issue 1 Absence of a Standard Basic Assistance Agreement and lack of refunds of value added tax payments

The Standard Basic Assistance Agreement (SBAA) forms the legal framework for cooperation between UNDP and the host country. The 'UNDP Programme and Operations Policies and Procedures' state that payments of value added tax (VAT) are refundable and UNDP offices should regularly submit a proper claim to the local tax authority.

During the last audit of the Office undertaken in 2012, OAI raised an issue on the absence of the signed SBAA with the Government of Fiji. Subsequently upon request from the Regional Bureau for Asia and the Pacific in 2013, and after mainly considering the political instability prevailing at the time, OAI withdrew the recommendation. However, the current audit noted that, despite follow-up actions undertaken by the Office, the SBAA had not been signed with the Government. The Office management explained that the Government of Fiji was not agreeable to sign the SBAA.

The Office also informed the audit team that in 2016 the Government did not agree to reimburse the United Nations for VAT payments.

Priority	High (Critical)
Recommendation 1: The Office should, in consultation with the Regional Bureau for Asia and the Pacific, pursue its efforts the matter on signing the SBAA with the Government and reimbursing VAT payments.	
Management action plan: The Office management, supported by the Regional Bureau for Asia and the Pacific, will pursue the matter of signing the SBAA with the Government of Fiji, including relevant VAT refund provisions. The Government has been honouring the Standard Agreement on Operational Assistance (October 1970) and has had a good track record of contributing towards Government Contributions to Local Offices Costs annually. The VAT is a UN-wide matter that concerns all UN agencies operating in Fiji. The Resident Coordinator wrote to the Prime Minister's Office on 12 August 2016 and received a response on 15 September 2016. The Government's response stated that VAT refunds cannot be facilitated under Fiji's current taxation laws. The Office sought legal advice from the UN Office of Legal Affairs, which subsequently helped UNDP drafted a Note Verbale to the Prime Minister's Office (dated 16 December 2016). The UN has not received any response	

from the Government to date. The Office will continue to pursue necessary follow-up and strive to address the VAT issue as part of regularizing the SBAA for Fiji.

Estimated completion date: July 2018

B. Programme

1. Programme/project design and implementation

Issue 2 Weak project results and resources frameworks

According to the 'UNDP Programme and Operations Policies and Procedures', the project results and resources framework helps to define project results to support the planning, management and monitoring of development activities. To ensure an effective results and resources framework, the monitoring and tracking must be done using SMART (specific, measurable, achievable, realistic and time-bound) indicators, baselines and targets. The offices are required to report on project profiles, including the progress in achieving the Annual Work Plans targets in the Corporate Planning System.

The audit team reviewed 9 projects out of a total of 65 projects in the Office's portfolio. The audit noted the following weaknesses in the Office's formulation of the results and resources frameworks for the nine projects reported on in the Corporate Planning System:

- One project included the indicator: "extent to which understanding of impacts of climate change is reflected in management arrangements, including impacts on jurisdiction." The corresponding target was "20 percent". The formulation of the indicator and its related target made it difficult to measure progress.

- One project included the indicator: "number of Pacific Islanders with post graduate certificate in ridge to reef management". The established target was ''finalize and advertise expression of interests for tertiary institutions to deliver post graduate certificate/course". The reported achievement was ''submissions received from at least three tertiary institutions and the Secretariat of the Pacific Community currently assessing applications." The indicator, target, and reported achievement were not consistent.

- Three projects did not include targets in the project documents. One project excluded baselines or were not clearly defined in the project annual work plan and the Corporate Planning System. Subsequent to the audit fieldwork, the Office commented that the baseline data had been entered in Atlas.

- The annual project reviews did not specifically assess whether project baselines, indicators, and targets were established and were SMART; and they did not provide guidance to adjust them, as necessary.

The Office management commented that the development of the results tracker tool by the Integrated Results and Management Unit would include a review of ongoing projects' results and resources frameworks, which would ensure improvements of projects' baselines, indicators and targets, so that they are SMART and coherent.

Without SMART and coherent indicators, baselines, and targets, it is difficult to monitor the progress of projects and to assess whether projects are on track in achieving established targets/outputs.

Priority	Medium (Important)
Recommendation 2: The Office should, as part of its annual project reviews, ensure that indicators/baselines/targets are established and they are specific, measurable, achievable, realistic and time-bound.	
Management action plan: The Office has already taken actions that include: (i) In-depth reviews of project Results and Resources Frameworks to ensure that evidence-based results are captured; (ii) detailed review of projects in Atlas highlighting areas for improvement, including baselines, indicators and targets, was completed and shared with programme teams for improvements; (iii) projects continuing to the next programme cycle are prioritized in this Atlas clean-up and will be monitored quarterly; and (iv) the projects developed since late 2016 were of better quality as measured against the Quality Assurance criteria, compared to older projects. This change was possible through strong leadership in identifying areas for improvement and development of standard operating procedures that have subsequently guided the project design and formulation for new projects. **Estimated completion date:** September 2017	

Issue 3 Inadequate project monitoring

According to the 'UNDP Programme and Operations Policies and Procedures', monitoring is a continuous function and regular monitoring must be planned to effectively assess the project's progress. Project Managers should maintain up-to-date project monitoring records, risk assessments, and actions taken to address risks and issues. Atlas is UNDP's main management tool for project management and oversight.

The audit team reviewed nine projects and noted the following project monitoring weaknesses:

(a) Lack of a comprehensive monitoring and evaluation plan: A comprehensive project monitoring plan, to ensure adequate oversight over project activities, was not developed. In the absence of this plan, there was no assurance of effective and efficient allocation of resources. For example, in 2016, the programme staff made one monitoring visit to 1 out of 14 countries covered by one project. On the other hand, the same programme staff conducted three site visits in 2016 for another project, which covered one country. For one other project, the programme staff explained that a monitoring visit would be determined after the receipt of the progress report. At the time of the audit fieldwork, the progress report had not been received; therefore, no monitoring visit had been undertaken during the audit period.

The programme staff explained that travel was challenging due to limited flights and high travel costs. However, conducting a risk assessment would facilitate the monitoring, planning, and allocation of resources to project areas that required close monitoring. The Office management also explained that to compensate for the absence of monitoring visits, they undertook monitoring activities through Skype or telephone calls. However, no documentation was provided as evidence of discussions made on progress towards achieving targets, and on challenges encountered in implementing project activities.

(b) Atlas logs not used: The audit team noted that risks, issues, and monitoring logs in the Atlas project management module were not consistently used for the nine projects reviewed. While initial risk identification, analysis, and evaluation were completed, the corresponding management plans and mitigating measures were not provided for two projects. Furthermore, the required regular monitoring and reassessment of existing risks (and identification of any emerging risks) were not consistently documented in Atlas.

The Office staff provided evidence of project risk management activities, such as Project Board meeting minutes, and annual project reports. However, for two projects, risk logs were maintained outside Atlas, mainly due to poor internet connectivity. Issue logs were not populated for the six projects reviewed. Also, monitoring logs were not populated in Atlas for three projects. Subsequent to the audit, the Office management informed the audit team that Atlas risk logs had been updated for two other projects.

The Integrated Results Management Unit (IRMU) indicated that the Office had encountered staff turnover and current project personnel were not familiar in managing project profiles in Atlas. As such, several training sessions were held in 2016 and 2017, including one-one-one coaching by IRMU with project personnel. Further, the IRMU was developing a checklist for projects to highlight Atlas updates that were required on a regular basis. Summaries of project performance against this checklist will be monitored and quarterly updates will be provided during the Office's programme oversight meetings.

The lack of adequate project monitoring may prevent the Office from identifying risks and from taking corrective measures in a timely manner, which could result in programmatic objectives not being achieved.

Priority	Medium (Important)
Recommendation 3: The Office should enhance project monitoring by: (a) developing a comprehensive annual monitoring plan based on risk assessments of projects to ensure adequate oversight of all projects and proper allocation of resources; and (b) requiring project managers to complete and regularly update Atlas risk, issue, and monitoring logs.	
Management action plan: The Office is pursuing action such as (a) consolidation of project risk monitoring in collaboration between the Integrated Results Management Unit and the programme teams; (b) a revised standard operating procedure will be rolled out that provides for requisite actions to update Atlas risk, issue, and monitoring logs; and (c) quarterly reviews will be undertaken to monitor progress. **Estimated completion date:** December 2017	

Issue 4 Weaknesses in reporting project achievements

According to the 'UNDP Programme and Operations Policies and Procedures', the Project Manager should monitor project progress to ensure the achievement of established target(s). Progress reporting aims to provide stakeholders of the progress made towards delivering intended results.

The audit reviewed nine projects and noted project reporting weaknesses, as follows:

(a) Inadequate progress reporting: Although progress reports were prepared, these reports contained only descriptions of activities implemented during the reporting period. The narratives on the progress in achieving annual targets were missing. For two projects funded by the Global Environment Facility, annual implementation reports provided progress towards the overall project targets and not on annual targets.

The Office management acknowledged the weakness and indicated that data collection for the 2016 Results Oriented Annual Report was a challenge. They also indicated that they had to request programme and project units for inputs on the status of achievements of targets where this information should have been readily available in the progress reports.

(b) Unsupported project achievements: Of the nine projects reviewed, the Office reported results for one project in its 2016 Results Oriented Annual Report. Specifically, the Office reported that 1,351 youths in two countries were equipped with organic farming skills and obtained farming training certifications. However, the supporting documentation provided to the audit team did not fully substantiate the reported number of youths trained. The programme staff indicated that this happened due to lack of oversight.

The reintegration of the UNDP Fiji Multi-Country Office and the UNDP Pacific Centre that took place in 2016 contributed to the weaknesses described in programme/project monitoring. The Office reported in its 2016 Results Oriented Annual Report that the main challenge in 2016 was setting up the new IRMU with inadequate monitoring staff.

In 2017, the IRMU started developing results tracking system to facilitate data collection and monitoring of progress towards achieving targets. A draft standard operating procedure for programme/project monitoring and implementing processes was also shared with the audit team. The standard operating procedure included the verification and validation of reported project achievements. The Office management further informed the audit team that the Results Tracker tool would be rolled out by July 2017.

Failure to report project achievement results accurately, may prevent stakeholders from appreciating the projects' progress towards their intended goals and targets.

Priority	Medium (Important)
Recommendation 4: The Office should enhance controls in reporting project achievements by: (a) requiring project managers to document the progress towards achievement of annual targets along with supporting documentation in the progress reports; and	

(b) finalizing the results tracking system and standard operating procedure for programme/project monitoring and implementing processes to ensure timely and accurate reporting of project achievements.
Management action plan: As mentioned earlier, the Office plans to revise the standard operating procedure in July 2017 to integrate risk management and results management reporting requirements and timelines, evaluation protocols and QA implementation requirements to guide the project managers. **Estimated completion date:** July 2017

C. Operations

1. Financial resources management

Issue 5 Inadequate controls in the management of cash advances

The 'UNDP Programme and Operations Policies and Procedures' require offices to closely monitor advances made to implementing partners and indicate that the Funding Authorization and Certification of Expenditures (FACE) form must be submitted to UNDP at least quarterly, signed by the authorized official of the implementing partner. The UNDP Programme Officer or Finance Associate must monitor outstanding advances balances to monitor the correct utilization of funds.

The audit reviewed the advances made to nine projects during the audit period and noted the following weaknesses:

(a) The Office had provided advances to national implementing partners to undertake project activities towards the end of financial year 2015. Although project activities were completed in 2015 and expenses of $920,000 were incurred in 2015, the respective advances were liquidated in 2016 and the expenses were recorded in financial year 2016. As a result, the 2015 programme expenses were understated and the 2016 expenses overstated by this amount.

(b) During the audit period, there were significant delays ranging from 7 to 11 months in the liquidation of advances amounting to $345,000 for five projects. One project had a delay of nine months for liquidating advances amounting to $278,000. Additionally, Atlas indicated other projects with long overdue advances of six months or more. This included an advance of $168,000 paid to a project in September 2016 of which only $7,000 (or 4 percent) had been spent till the date of the audit fieldwork, and the balance of $161,000 continued to remain with the partner. Similarly, for another project, an advance of $55,000 was paid in July 2015, however only $34,000 (or 61 percent) was liquidated in July 2016, while the balance of $21,000 remained outstanding. As at the date of the audit fieldwork, national implementation advances of $361,000 for 9 projects were outstanding for more than 6 months.

The Office management attributed various reasons to these delays, such as low staff capacity in national implementing partners and the time taken for supporting documents to be delivered to the Office, given the widely dispersed countries in the Pacific region. They further commented that no further advances would be processed for the above nine projects until all the outstanding advances were fully utilized and supporting documents submitted for liquidation. The Office has been undertaking capacity development activities of programme and project staff, through financial management training and greater awareness of deadlines.

The delays in the liquidation of advances was a recurring issue reported in the financial dashboard for the last three quarters of 2016 and for the first quarter of 2017. This issue was also highlighted in the previous OAI audit report (No. 977) in 2012.

Failure to adequately manage and monitor advances disbursed to national implementing partners may result in project activities to be delayed or not undertaken, which in turn would have an adverse impact on the projects' achievement of their intended results.

Priority	High (Critical)
Recommendation 5: The Office should enhance controls over management of advances to implementing partners by: (a) ensuring that expenses are recorded in the financial period in which they were incurred; (b) providing clear guidance to to implementing partners on the requirements of liquidating the advances to ensure timely liquidation of the advances; and (c) establishing internal procedures to monitor outstanding advances.	
Management action plan: The Office is taking various actions such as: (i) implementation of two liquidation deadlines for quarter four at year-end. The Project Units will be requested to submit their first quarter four report by 10 December and then again by 5 January. It is envisaged that this will capture most of the quarter four expenditures before the corporate deadline of 12/15 January; (ii) regular monitoring of outstanding advances and include the current practice of only disbursing advances once the 80 percent of the current and 100 percent of the previous advances are acquitted; (iii) revising the standard operating procedures and (iv) ongoing capacity development such as training of relevant staff with an emphasis on applicable deadlines and implications from not complying with them. **Estimated completion date:** January 2018	

Issue 6 <u>Inadequate controls over the management of project cash advances</u>

Cash advances for one-time project activities introduce high risks, therefore the 'UNDP Programme and Operations Policies and Procedures' provide that these should only be used if no alternatives to disburse payments exist. Further, these advances must be accounted for within seven days following the conclusion of the activity. Country Offices should also appoint Project Cash Advance Custodians who sign the appointment form and provide details on security arrangement relating to the advances.

The Office processed $1.2 million of project cash advances during the audit period. The Office informed the audit team that these advances were used to deliver workshops, seminars and training held in remote locations.

The audit noted the following weaknesses:

- The Sub-office in Solomon Islands did not appoint Project Cash Advance Custodians during the audit period.
- Out of 31 advances reviewed, amounting to $364,939, 21 of these, amounting to $178,395, were liquidated after 15 days from the date of conclusion of the activities. The longest delay was 58 days with respect to the liquidation of advances valued at $14,000.
- The supporting evidence for payments of transportation costs and daily subsistence allowance to workshop participants was not adequate, as it did not include sufficient evidence that these participants attended the events. Such evidences may include a copy of identification cards of participants, as well as photos from the workshop activities.
- There was inadequate evidence to suggest that the Office and project teams had explored alternative options to make payments. The audit noted that one project cash advance amounting to $12,500 was used for project activities undertaken in a hotel where the workshop was held, which was paid in cash instead of a bank transfer.
- In one case, a staff was unable to liquidate an advance of $6,000 as he handed over the cash to another staff who in turn had not refunded the cash received to date.
- Regular spot checks were not conducted by the Finance Unit over cash advances made during workshops or events, especially where custodians were carrying and handling large amounts of project cash advances.

The inadequate controls over project cash advances was a recurring issue, also reported in the last OAI audit in 2012 (Refer to OAI Report No. 977, Issue 8).

The weaknesses noted occurred mainly due to the lack of procedures in the Office. Subsequent to the audit fieldwork, the Office management commented that it recognized the issue and that it would address it by risk mitigation actions, including the adoption of standard operating procedures and staff training/sensitization. The Office added that it has had to disburse high amounts given the multi-country context of its operations in the Pacific, i.e. coverage of 10 countries that are remote and often have no functional banking infrastructure. Further, in some cases, financial institutions did not want to do disbursements without an account, due to the statutory requirements of local reserve banks.

Inadequate controls in managing the project cash advances may result in financial losses to UNDP.

Priority	High (Critical)

Recommendation 6:

The Office should ensure that the management of project cash advances is in compliance with the 'UNDP Programme and Operations Policies and Procedures'. This should include:

(a) signing of cash custodian forms by all recipients of project cash advances;
(b) establishing a standard operating procedure for tracking and monitoring project cash advances so that advances are liquidated within the stipulated timeframe as well as supporting documents required from workshop participants such as photo IDs; these procedures should be complimented with random spot-checks by the Finance Unit; and
(c) exploring alternative means of transferring payments to beneficiaries and documenting these for record purposes.

Management action plan: The Office has been taking immediate action to address this high-priority recommendation. Specifically: (a) The Sub-Office in Solomon Islands will consistently issue project cash advance custodian forms before new advance is disbursed (addressed with immediate effect). (b) A standard operating procedure will be finalized and rolled out with a management memo (guidance note) by end-July 2017. A training session for project management and programme staff will be conducted in August 2017, focusing on the issuance of project cash advances and supporting documentation and acquittal requirements. The Finance Unit will conduct random spot-checks at least twice per year. (c) Alternative means of transferring payments will be duly examined and documented in the above standard operating procedure and guidance note. The Finance Unit will continually ensure that alternative options are exhausted before undertaking to process project cash advances. **Estimated completion date:** October 2017.

Issue 7 Outstanding Government Contributions to Local Office Costs

Host governments are expected to contribute towards the local cost of Country Offices. The UNDP Executive Board "encouraged all host country governments to meet their obligations towards local Office costs."

As of 31 May 2017, an amount of $2.4 million of Government Contributions to Local Offices Costs (GLOC was outstanding from 10 countries. This included outstanding GLOC since 2008. The Office management informed the audit that there were several challenges in obtaining GLOC from the 10 countries despite the efforts made by the Office. Some of these challenges included the fact that 10 islands and territories involved were very small, with limited resources and were vulnerable to frequent natural disasters. It should be noted that the amount outstanding was for 10 countries, i.e. on average, about $200,000 per country. The Office management also added that they would continue to follow-up to ensure payments of all outstanding GLOC.

The outstanding GLOC was also reported in the last OAI audit in 2012 (Refer to OAI Report No. 977, Issue 2).

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

Priority	Medium (Important)
Recommendation 7: The Office should escalate the challenges encountered in recovering Government Contributions to Local Office Costs to the Regional Bureau for Asia and Pacific and obtain their guidance on the follow-up with the Governments to recover the payment within a specified timeframe.	
Management action plan:	

The Office has sent out to the Governments of Pacific Island Countries the outstanding arrears for GLOC, and will continue to follow up.

The Regional Bureau for Asia and the Pacific has been monitoring the situation closely. The Office will escalate further action to the Bureau as appropriate.

Estimated completion date: December 2017

2. Procurement

Issue 8 Inadequate control over receipt of procurement offers

The 'UNDP Programme and Operations Policies and Procedures' require procurement to be conducted in a manner that is fair and competitive. Therefore, the offers submitted by vendors should be kept secure until all offers are simultaneously opened at a designated time and place.

The audit noted that there were inadequate controls over the receipt of procurement offers, both manual and electronic submissions in the Office; as well as in the Sub-office in Solomon Islands:

- The Office had established a dedicated email address for bids received electronically. However, four staff had access to that email address, which increased the risks of a compromise to the integrity of offers.
- The Sub-office in Solomon Islands had also established a similar dedicated email beginning May 2017. Access to this email was available to two staff. Prior to May 2017, the practice was that three staff received proposals and bids in their own UNDP email accounts.
- For proposals received by post or manually, the two offices did not maintain a log to record all offers received. As such, there was no assurance that all proposals submitted were received by the Procurement Unit and considered for evaluation.
- The key to the locked box used for placing procurement bids in the Office was kept by an individual, i.e. the Head of the Procurement Unit. Further, there was no assurance that the Sub-office in Solomon Islands received procurement bids and placed them in secure box for offers received manually.

Failure to establish adequate controls in the management of procurement bids received may compromise the integrity of the overall procurement process and expose the Office to risk of procurement related irregularities.

Subsequent to the audit fieldwork, the Office management commented that they would enhance controls in the management of procurement bids received, which included recording manual bids received and having a lockable wooden bid box to store all manual bids received. The Office management also informed the audit team that they were preparing to implement e-Tendering by the third quarter of 2017.

Priority	Medium (Important)

Recommendation 8:

The Office should enhance procurement management by:

(a) considering the use of e-Tendering system for bidding processes for procurement cases over certain threshold; and
(b) establishing controls over bids received manually and electronically both in the Office and Sub-office in Solomon Islands to enhance the integrity of the bids received.

Management action plan:

The Office is pursuing action on this recommendation. Specifically:

(a) e-Tendering: Factoring in the challenges of awareness and training, complexity in accessing the Atlas by vendors and poor internet connectivity across the region, both offices are making preparations towards step-by-step launch of e-Tendering by/in Q3/2017. In the first instance, the Office plans to involve a group of prequalified vendors in a specific business area, and to train and work with them. On successful completion of e-Tendering with the selected vendors, both offices will pursue full uptake of e-Tendering around the mid-2018 to further strengthen the transparency and accountability frameworks within procurement.

(b) Bid receipts: The recommendation has been addressed. Both offices have already established a dedicated email account for bids received electronically. These will only be accessible through a password on the day of bid opening by the Procurement Head and Operations Manager. A log book will record all manual bids received. The details in the log will be verified to mitigate risks of bids not being included in all evaluations. The Sub-office has obtained a lockable tender box for the office.

Estimated completion date: December 2017

Issue 9 Procurement cases not submitted to the Contract, Assets and Procurement Committee

The 'UNDP Programme and Operations Policies and Procedures' require Offices to submit any contract or series of contracts including amendments to be awarded to a vendor with a cumulative value above $50,000 in the preceding 12 months' period, to the Contract, Asset and Procurement Committee (CAP).

The audit team noted that procurements from 16 different vendors exceeded the threshold of $50,000 by varying amounts, but the cases were not presented to the CAP for review. The total value of the purchase orders issued to 16 vendors was approximately $1.5 million. Of the 16 cases, 8 pertained to the Sub-office in Solomon Islands. There were no procedures in place in both the Office and the Sub-office in Solomon Islands to track vendors reaching the CAP threshold amount.

The Office management informed the audit team that with immediate effect it would track thresholds to ensure compliance with the 'UNDP Programme and Operations Policies and Procedures'.

Failure to submit procurement cases above $50,000 to CAP may lead to weaknesses in the procurement processes.

Priority	High (Critical)
Recommendation 9: The Office should enhance procurement management by: (a) establishing a tracking system to ensure that procurement cases reaching the threshold of Contract, Asset and Procurement Committee review are submitted to the Committee for review; and (b) submitting all cases which exceeded the relevant procurement threshold to the respective procurement review committees for post facto review.	
Management action plan: The Office is pursuing actions on the recommendation. Specifically: (a) Mandatory cumulative threshold query runs will be implemented with immediate effect to ensure timely capture of threshold monitoring and ensure zero post-facto submissions to both review committees. Prior to any purchase order/voucher being issued/raised, the cumulative threshold log will be updated and monitored for compliance. (b) Cases that exceeded the relevant procurement threshold will be submitted for respective procurement review committees for post-facto review. **Estimated completion date:** August 2017	

D. United Nations Leadership and Coordination

Issue 10 <u>Harmonized Approach to Cash Transfers not fully implemented</u>

To lessen the burden that the multiplicity of the United Nations procedures and rules create for its partners, the Framework for Harmonized Approach to Cash Transfers to Implementing Partners (HACT Framework) requires that participating United Nations agencies UNDP, UNICEF and UNFPA agree on and coordinate HACT activities. Compliance is achieved when the following four steps have been completed: (a) macro-assessment of the public financial system; (b) micro-assessments of implementing partners; (c) agreement with the Government on implementing the Harmonized Approach to Cash Transfers; and (d) development and implementation of an assurance and audit plan for implementing partners.

The audit reviewed the Office's role in implementing the Harmonizing Approach to Cash Transfers (HACT) and its compliance with the Framework for Cash Transfers to implementing partners. It was noted that limited progress has been made in implementing HACT during the audit period. The Office management explained that the HACT Inter-Agency Working Group was not active prior to 2017. The HACT Inter-Agency Working Group was reactivated in 2017 under the leadership of UNICEF and had plans to enable the full implementation of HACT soon. The plans included macro- assessments of public financial systems of various countries for the upcoming new programme cycle. With regards to micro-assessments, 11 out of 14 micro-assessments planned for 2016-

2017 were in progress in seven countries and the Office targeted the completion of the assurance plans by October 2017.

Failure to fully implement HACT would deprive the Office from enjoying the benefits of efficiency that can be gained as a result of this implementation.

Priority	Medium (Important)
Recommendation 10: The Resident Coordinator Office should ensure that the Interagency Working Group develop the action plans to enable full implementation of HACT, which includes conducting macro-assessments, micro-assessments and joint assurance plan.	
Management action plan: The HACT implementation plan was developed in May 2017 and the work is proceeding as planned. **Estimated completion date:** December 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.