

**UNITED NATIONS DEVELOPMENT PROGRAMME**  
**Office of Audit and Investigations**



*Empowered lives.  
Resilient nations.*

**AUDIT**  
  
**OF**  
  
**UNDP COUNTRY OFFICE**  
  
**IN**  
  
**INDONESIA**

**Report No. 2006**  
**Issue Date: 5 October 2018**

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## Table of Contents

<b>Executive Summary</b>	<b>i</b>
<b>I. About the Office</b>	<b>1</b>
<b>III. Audit results</b>	<b>1</b>
<b>A. Operations - Procurement</b>	<b>2</b>
<b>Definitions of audit terms - ratings and priorities</b>	<b>5</b>

## Report on the Audit of UNDP Indonesia Executive Summary

The UNDP Office of Audit and Investigations (OAI) conducted an audit of UNDP Indonesia (the Office) from 3 to 14 September 2018. 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 2017 to 31 August 2018. The Office recorded programme and management expenses of approximately \$49 million. The last audit of the Office was conducted by OAI in 2014.

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.”

### Good practice

There was a good practice worthy of note in the area of resource mobilization where the Office, through its new Innovative Financing Lab initiative, conceptualized new financing instruments and extended its partnerships to Islamic finance organizations around the Country in order to secure funding in support of the achievement of the SDGs. The Office’s approach in fostering a key strategic partnership with an organization that managed the world’s largest Islamic charity fund resulted in the signing of contribution agreements amounting to \$1.6 million during the audit period.

### Key recommendations: Total = 2, high priority = 0

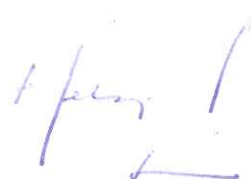
The audit did not result in any high (critical) priority recommendations. There are two medium (important) priority recommendations, which means “Action is required to ensure that UNDP is not exposed to risks. Failure to take action could result in negative consequences for UNDP.” These recommendations include actions to address ineffective procurement planning and the limited use of e-tendering.

The two recommendations aim to ensure the effectiveness and efficiency of operations.

### **Management comments and action plan**

The UN Resident Coordinator and UNDP Resident Representative accepted both recommendations and is in the process of implementing them. Comments and/or additional information provided have been incorporated in the report, where appropriate.

Low risk issues (not included in this report) have been discussed directly with management and actions have been initiated to address them.

A handwritten signature in blue ink, which appears to read 'H. Osttveiten', is enclosed in a rectangular box.

Helge S. Osttveiten  
Director  
Office of Audit and Investigations

## **I. About the Office**

The Office, located in Jakarta, Indonesia (the Country) comprised 34 staff and 158 service contract holders to run the Office and various development projects. The Country Programme 2016-2020 was designed to enable the Office to partner with the Government to tackle many challenges related to poverty and equality. The Country Programme 2016-2020 aimed to achieve this by contributing to four interrelated outcome areas to enhance equity, inclusiveness and development sustainability while strengthening the resilience of targeted groups.

## **II. Good practice**

OAI identified the following good practice:

The Office adopted an effective resource mobilization approach and conceptualized new financing instruments, which resulted in securing funds from Islamic financial institutions in the Country. The Office managed to capitalize on its ongoing relationship with an Islamic charity fund to build partnerships with other Islamic finance organizations in the Country. Similarly, the strategic partnership that the Office had developed with a local bank also opened up access to funding and partnerships with other regional banks. This approach adopted by the Office enabled it to sign contribution agreements amounting to \$1.6 million with these institutions during the audit period.

## **III. Audit results**

Satisfactory performance was noted in the following areas:

- (a) Governance. The Office exercised proper oversight and appropriate risk management to steer towards achieving its intended objectives. The audit team noted that adequate controls were in place for managing the Office.
- (b) Programme. The Office managed its programme effectively to ensure meeting the intended outcomes. Adequate oversight and management of projects were noted by the audit team, with effective controls in place.
- (c) Operations – Finance. Adequate controls were put in place to manage the Office's finances and the various processes related to financial management. The Office implemented additional measures to strengthen controls over cash disbursement – communicated to all staff in the form of an inter-office memorandum. No reportable audit issues were noted.
- (d) Operations – Human Resources. The review of processes relating to recruitment, separation, leave management, and trainings indicated that controls were adequate and working effectively.
- (e) Operations – General Administration. The audit disclosed that adequate controls were in place.
- (f) Operations – Information and Communication Technology. The audit included the Office's business continuity and disaster recovery plan, which had been tested satisfactorily during the audit period. No reportable audit issues were noted.
- (g) Operations – Safety and Security. The audit included the Office's security plan, security risk assessment, and security management team meeting minutes and no reportable issues were found.
- (h) UN Coordination and Leadership. The audit disclosed that adequate and effective controls were established.

OAI made two recommendations ranked medium (important) priority.

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

**Medium priority recommendations**, arranged according to significance:

- (a) Improve the procurement planning process (Recommendation 1).
- (b) Enhance efforts to use UNDP's e-tendering system in procurement processes when receiving bids from vendors (Recommendation 2).

The detailed assessment is presented below, per audit area:

## A. Operations - Procurement

### Issue 1      Ineffective procurement planning

The 'UNDP Programme and Operations Policies and Procedures' state that planning is an essential tool to ensure that procurement activities support project outcomes, are conducted in a timely manner and at a reasonable cost. Early and accurate planning is critical to avoid last minute procurement, which can lead to ineffective and inefficient outcomes.

The Office used the Procurement Management Platform, or PROMPT, which was developed by the Bangkok Regional Hub for its procurement planning and tracking purposes and is now available to all UNDP Country Offices. However, the Office had not used PROMPT effectively to record requests received and to monitor various phases in the procurement process. For example, based on a review of 15 cases in PROMPT amounting to \$0.6 million, it was noted that the request for procurement was keyed into PROMPT in December 2017 and subsequently the procurement of these goods and services were completed in December 2017 and January 2018. While the Office's programme delivery was \$28 million for 2017, about \$8 million in project expenditure was incurred in December 2017, indicating a significant portion of procurement transactions had taken place towards the end of the year, highlighting the need to improve the planning and timing of the overall procurement lifecycle.

In addition, the audit team reviewed a sample of 25 cases on the Advisory Committee on Procurement's online platform pertaining to procurement transactions undertaken by the Office, which indicated that in 14 of those cases, amounting to \$13 million, the bid evaluation period ranged from 43 days to 127 days, resulting in a protracted procurement process.

While the Office had a consolidated procurement plan (comprising procurements to be undertaken for projects and the Office) at the beginning of the year, based on information logged in PROMPT, it was not complete and was continuously updated, especially towards the year end. Information extracted from PROMPT indicated that 1,992 procurement actions were planned for 2017, and of these, about 30 percent (or 603 procurement actions) were planned in November and December, hence giving the Office limited time to undertake the entire procurement cycle for these transactions since there was a rush to complete them by the end of 2017.

The Office indicated that in some cases the evaluations were conducted by panels comprising members with technical expertise, which took longer to assemble, hence resulting in delays in completing the evaluation process.

Failure to plan effectively can result in the Office having to rush the procurement of goods and services, resulting in restricted competition and limits to obtaining best value for money.

<b>Priority</b>	Medium (Important)
<b>Recommendation 1:</b>	
The Office should improve its procurement planning process by:	
<ul style="list-style-type: none"> <li>(a) undertaking procurement planning using the PROMPT system, by consolidating the needs of goods and services for all units/projects; and</li> <li>(b) establishing procedures to closely monitor evaluations of bids received for procurement cases to ensure that they are completed in a timely manner.</li> </ul>	
<b>Management action plan:</b>	
The Office is in the process of reviewing and updating its business processes related to procurement, which would address the recommendations, and which would include reviewing the status of the procurement plan and establishing systems for monitoring and following up on procurement bid evaluations.	
<b>Estimated completion date:</b> 31 March 2019	

## **Issue 2**      Limited use of e-tendering

The 'UNDP Programme and Operations Policies and Procedures' require procurement to be conducted in a manner that is fair and competitive. The Office was given an increased delegation of procurement authority for \$300,000 until November 2017 and in the inter-office memo that granted this increased delegation, the regional Chief Procurement Officer had mentioned that to mitigate risks, all efforts shall be made to implement e-tendering in the Office. Further benefits of e-tendering include automation and streamlining of the procurement bid receipt process. This results in the capture of valuable data, an audit trail, a paperless process, and increased bidder confidence in UNDP tender processes.

However, during the audit period, the Office indicated that it had used e-tendering only twice out of 111 contracts processed (excluding individual contractors).

The Office explained that not using e-tendering was more convenient.

Not using the e-tendering system may prevent the Office from mitigating risks associated with procurement processes.

<b>Priority</b>	Medium (Important)
<b>Recommendation 2:</b>	
The Office should enhance its efforts to use UNDP's e-tendering system in its procurement processes, from advertising to receiving bids from vendors.	

**Management action plan:**

The Office will be incorporating e-tendering in its new business processes and commits to make e-tendering mandatory for procurement solicitations in contracts exceeding \$150,000 starting November 2018.

**Estimated completion date:** 31 January 2019



## 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.