UNITED NATIONS DEVELOPMENT PROGRAMME
Office of Audit and Investigations

AUDIT

OF

UNDP COUNTRY OFFICE

IN

SRI LANKA

Report No. 2008

Issue Date: 10 January 2019

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Report on the Audit of UNDP Sri Lanka
Executive Summary

The UNDP Office of Audit and Investigations (OAI) conducted an audit of UNDP Sri Lanka (the Office) from 19 to 30 November 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 October 2018. The Office recorded programme and management expenses of approximately $33 million. The last audit of the Office was conducted by OAI in 2013.

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

Overall audit rating

OAI assessed the Office as **partially satisfactory/some improvement needed**, which means "the assessed governance arrangements, risk management practices and controls were generally established and functioning, but need some improvement. Issues identified by the audit do not significantly affect the achievement of the objectives of the audited entity/area." This rating was mainly due weaknesses in project quality assurance and monitoring activities.

Key recommendations: Total = **3**, high priority = **1**

Objectives	Recommendation No.	Priority Rating
Achievement of the organization's strategic objectives	1	Medium
Effectiveness and efficiency of operations	2	High
	3	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 recommendation is presented below:

Weaknesses in project quality assurance and monitoring activities (Issue 2)	The following weaknesses were noted with regard to project quality assurance and monitoring activities: (a) Annual work plans: Six out of the nine projects reviewed were directly implemented by the Office, and of those six, four annual work plans

were signed between four and six months after the start of the year in 2017, and two of the annual work plans were signed four months after the start of the year in 2018.

(b) Programme assurance: Programme assurance monitoring was undertaken on an ad hoc basis; for five out of nine projects reviewed, there was no evidence of documented assurance monitoring.

(c) Harmonized Approach to Cash Transfer (HACT) assurance function: For 2017, out of nine programme monitoring visits planned, five were not undertaken, due in part to the restructuring of the Office at the time. For 2018 out of 29 programme visits planned, 7 were not undertaken and 10 were postponed to December 2018. The Office's management commented that during 2018, political unrest caused security concerns for staff, which led to postponing field visits until the situation stabilized.
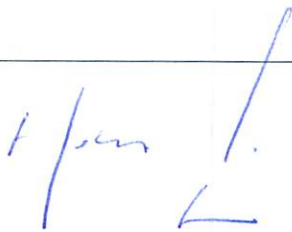
Recommendation: The Office should enhance project quality assurance and monitoring activities by:

(a) ensuring annual work plans are planned and endorsed at the beginning of the year, and developing or finalizing the business process workflows, including identifying timelines for each process to ensure timeliness;

(b) ensuring adequate Office oversight through assurance monitoring, including HACT assurance missions to address bottlenecks in a timely manner, and ensuring that project board meetings are scheduled and agreed upon in advance; and

(c) continuing to provide training for programme and operations staff on the 'UNDP Programme and Operations Policies and Procedures' requirements on quality assurance.

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.

Low risk issues (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 Colombo, Sri Lanka (the Country), had at the time of the audit, 54 personnel holding various employment contract types and was in the first year of its programme cycle of 2018 to 2022. The Office underwent a change management process that started in mid-2017 and resulted in a more integrated staffing structure envisioned to bring together teams of personnel with appropriate skill sets that would provide the much-needed high-level policy advisory service, advocacy and analytical work that would position UNDP well in the Country. The operating environment had witnessed some political turmoil in the Country in the preceding two months, which had an indirect impact on the Office's programme implementation and delivery of project activities. Further, the Office had several changes at the senior management level in 2018 due to the demise of the serving Head of Office in February 2018, which resulted in some level of disruptions in the Office.

II.   Audit results

Satisfactory performance was noted in the following areas:

(a) <u>Governance.</u> The Office exercised proper oversight and appropriate risk management to steer towards achieving its intended objectives. Adequate controls were in place for managing the Office.

(b) <u>Operations – Financial Management.</u> The review of voucher processing, management of direct project costs, project cash advances and those made to national implementing partners indicated that adequate and effective controls were in place. No reportable audit issues were noted.

(c) <u>Operations – Human Resources.</u> The review of recruitments, separations, leave management, and training indicated that controls were adequate and working effectively.

(d) <u>Operations – General Administration.</u> The audit disclosed that adequate controls were put in place.

(e) <u>Operations – Information and Communication Technology.</u> 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 noted.

(f) <u>Operations – Safety and Security.</u> The audit included the Office's security plan, security risk assessment, security management team meeting minutes and no reportable issues were found.

(g) <u>UN Coordination and Leadership.</u> The audit disclosed that adequate and effective controls were established.

OAI made one recommendation ranked high (critical) and 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.

High priority recommendations:
(a) Enhance project quality assurance and monitoring (Recommendation 2).

Medium priority recommendations, arranged according to significance:
(b) Enhance programme management (Recommendation 1).
(c) Enhance procurement management (Recommendation 3).

The detailed assessment is presented below, per audit area:

A. Programme

Issue 1   <u>Sub-optimal use of programme resources</u>

The 'UNDP Programme and Operations Policies and Procedures' stipulate that annual work plans should articulate activities that, based on prevailing expectations at the time, will be implemented in a given year. According to the 2017/18 Integrated Work Plan guidelines, Offices were required to review, and update estimated non–core programme delivery targets by funding stream and consult closely with their respective Bureaux regarding these targets as, in aggregate, they comprised UNDP's overall integrated planning assumptions.

The audit team reviewed the overall programme resources, delivery and budgets set in Atlas (enterprise resource planning system of UNDP) and noted the following downward trend of delivery as per the table below:

Table 1: 2016-2018 budget, resources available, Integrated Work Plan target, and expenditure figures

($ millions)	2016	2017	2018 (11 months)
Total resources	22.9	26	29.7
Total budget	16.5	18	26.7
Total utilization	14.4	13.7	13.7
IWP target	14	17	21.5
Delivery rate against budget (percent)	87	76	53
Delivery rate against available resources	63	53	46

Source: Executive Snapshot

In 2018, resources available were $29.7 million; the Office had budgeted $26.7 million with an internal Regional Bureau for Asia and the Pacific target for the Office of $21.5 million. As at 11 December 2018, the programme budget stood at $26.7 million, while delivery was $13.7 million, representing a 53 percent delivery rate.

The Office's management stated that there were various factors contributing to the low delivery rates: (a) the Office had undergone a restructuring exercise from mid-2017 to 2018, with new staff recruitments and other changes, disrupting the Office's operations; (b) changing political climate that impacted the implementation of projects; and (c) government staff changes impacting on previous working modalities and arrangements. Other factors included widespread disaster situations due to floods and droughts, which also negatively impacted project implementation.

Sub-optimal delivery figures may impact the sustainability of the Office.

Priority	Medium (Important)
Recommendation 1: The Office should enhance programme management by: (a) ensuring a more effective resource/budgeting allocation process, and ensuring that delivery target setting is more aligned with budgetary resources; and	

(b) ensuring better Office monitoring and oversight so as to remove implementation bottlenecks in a timely manner.

Management action plan:

The Office accepts the recommendation and moving forward, plans to complete work planning for next year during a strategic review retreat planned for 10 January 2019, and will conduct monthly performance review meetings, chaired by the Resident Representative, to ensure that activities are on track and implementation bottlenecks are identified and resolved at an early stage.

Further, quarterly delivery targets for projects will be set and monitored to ensure a more even spread of planned expenditure, and progress towards achieving these targets will be monitored very closely while also initiating a system whereby emergency project board meetings will be triggered in the event of poor delivery, so that implementation problems can be speedily addressed by the project board.

Estimated completion date: February 2019

Issue 2   Weaknesses in project quality assurance and monitoring activities

The 'UNDP Programme and Operations Policies and Procedures' require offices to adhere to project management procedures for proper implementation and management of programmes and projects in order to achieve organizational objectives.

The Office had 23 ongoing projects, 9 of which were nationally implemented and 14 of which were directly implemented by the Office. The audit team sampled nine projects with total incurred expenditures of $15.6 million out of $27.1 million total programme expenditure (58 percent).

The following weaknesses were noted:

(a) Annual work plans: Six out of the nine projects reviewed were directly implemented by the Office, and of those six, four annual work plans were signed between four and six months after the start of the year in 2017, and two of the annual work plans were signed four months after the start of the year in 2018.

(b) Programme assurance: Programme assurance monitoring was undertaken on an *ad hoc* basis; for five out of nine projects reviewed, there was no evidence of documented assurance monitoring.

(c) Harmonized Approach to Cash Transfer (HACT) assurance function: For 2017, out of nine programme monitoring visits planned, five were not undertaken, due in part to the restructuring of the Office at the time. For 2018 out of 29 programme visits planned, 7 were not undertaken and 10 were postponed to December 2018. The Office's management commented that during 2018, political unrest caused security concerns for staff, which led to postponing field visits until the situation stabilized.

Since the programme and project reforms earlier in the year, staff had several learning opportunities, including two dedicated sessions on the new programming/financial instruments as well as a mission from the Regional Bureau.

Weaknesses in project quality assurance and monitoring activities may prevent the Office from meeting its delivery targets.

Priority	High (Critical)

Recommendation 2:

The Office should enhance project quality assurance and monitoring activities by:

(a) ensuring that annual work plans are planned and endorsed at the beginning of the year, and developing or finalizing business process workflows, including identifying timelines for each process to ensure timeliness;
(b) ensuring adequate Office oversight through assurance monitoring, including HACT assurance missions to address bottlenecks in a timely manner, and ensuring that project board meetings are scheduled and agreed upon in advance; and
(c) continuing to provide training for programme and operations staff on the 'UNDP Programme and Operations Policies and Procedures' requirements on quality assurance.

Management action plan:

(a) The Office is already underway in developing the 2019 HACT assurance plan, which will be made available on the HACT platform, along with evidence of programme monitoring and financial spot checks.

(b) The Office is streamlining processes and has already commenced maintaining a list of pre-selected NGOs to expedite future contracting.

(c) The Office will continue to engage with staff on training needs, including providing opportunities for staff exchanges with other Country Offices and the continuation of the "Friday Learning Hour," which provides opportunities for formal knowledge exchange, based on the needs and recommendations of staff.

Estimated completion date: March 2019

B. Operations

1. Procurement

Issue 3   Shortcomings in procurement processes

A review of procurement processes highlighted the following shortcomings:

(i)   Non-use of purchase orders

The 'UNDP Programme and Operations Policies and Procedures' state that a commitment creates a legal obligation arising from a contract, agreement, or other form of undertaking by UNDP or based on a liability recognized by UNDP. Such commitments are represented in Atlas by purchase orders. They further add that when UNDP carries out the procurement, an e-requisition, a purchase order, and a purchase order voucher are required.

The Office performed procurement services on behalf of a UN agency during the audit period, comprising 18 transactions from October 2017 to November 2018, valued at $1.5 million, for police patrol boats, communication and IT equipment. For these procurement transactions, the Office undertook the entire procurement process from sourcing to the purchasing of goods and services. However, the Office did not raise e-requisitions and purchase orders in Atlas, relying instead on paper-based purchase orders for such transactions since staff lacked knowledge in raising purchase orders in Atlas when undertaking procurement transactions on behalf of another UN agency.

Failure to raise purchase orders in Atlas can bypass controls established for checking availability of funds or budgets as well as prevent proper tracking of transactions and the creation of audit trails of goods receipt and payments made.

> (ii)   Delays in evaluating procurement bids received

The audit team reviewed a sample of 15 cases on the Advisory Committee on Procurement (ACP) Online platform pertaining to procurement transactions undertaken by the Office. The audit team noted the bid evaluation period ranged from 30 to 79 days, resulting in a protracted procurement process.

Failure to complete bid evaluations in a timely manner may result in the Office not being able to procure goods and services on time and in not meeting project delivery targets.

Priority	Medium (Important)
Recommendation 3: The Office should enhance its procurement management by (a) complying with the 'UNDP Programme and Operations Policies and Procedures' so that purchase orders are raised in Atlas for transactions where UNDP carries out the entire procurement process on behalf of another UN agency; and (b) establishing procedures to closely monitor evaluations of bids received for procurement cases to ensure that they are completed in a timely manner.	
Management action plan: (a) The Office has already approached the Regional Bureau for Asia and the Pacific for technical guidance to implement this recommendation, with an SOP currently under development. (b) The Office is organizing a procedure to fast track the evaluation of bids and is working on establishing a roster system to appoint staff to bid evaluation teams, thus reducing the time taken for bid evaluations. **Estimated completion date:** March 2019	

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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.