UNITED NATIONS DEVELOPMENT PROGRAMME
Office of Audit and Investigations

AUDIT

OF

UNDP COUNTRY OFFICE

IN

THE PEOPLE'S DEMOCRATIC REPUBLIC OF ALGERIA

Report No. 1568

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(REDACTED)

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Report on the audit of UNDP People's Democratic Republic of Algeria
Executive Summary

The UNDP Office of Audit and Investigations (OAI) conducted an audit of UNDP's Country Office in the People's Democratic Republic of Algeria (the Office) from 15 to 26 November 2015. 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 and strategic management (organizational structure and delegations of authority, leadership/ethics and values, risk management, planning, business continuity, monitoring and reporting, financial sustainability);

(b) United Nations system coordination (development activities, Resident Coordinator Office, role of UNDP – "One UN", Harmonized Approach to Cash Transfers);

(c) programme activities (programme management, partnerships and resource mobilization, project management); and

(d) operations (human resources, finance, procurement, information and communication technology, general administration, safety and security).

The audit covered the activities of the Office from 1 April 2014 to 30 September 2015. During this period, the Office recorded programme and management expenditures of approximately $10.8 million. The last audit of the Office was conducted by OAI in July 2010.

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** which means, "Internal controls, governance and risk management processes were generally established and functioning, but needed improvement. One or several issues were identified that may negatively affect the achievement of the objectives of the audited entity." This rating was mainly due to the Office's financial sustainability being at risk, weaknesses in the hiring process and the management of individual contracts, and insufficiencies in the management of the procurement function.

Good Practice

The Office developed an e-application to manage the workflow from the receipt of service requests (by other agencies and projects) to cost recovery. The application also included contract management, automatic updates of the roster of individual consultants and service providers, payment requests, and monitoring of vendors. These innovations contributed to the strengthening of internal controls and performance of the Office.

Key recommendations: Total = **12,** high priority = **3**

The 12 recommendations aim to ensure the following objectives:

Objectives	Recommendation No.	Priority Rating
Achievement of the organization's strategic objectives	1, 5	Medium
	2, 8	High
Effectiveness and efficiency of operations	6, 7, 11	Medium
	9	High
Safeguarding of assets	12	Medium
Compliance with legislative mandates, regulations and rules, policies and procedures	3, 4, 10	Medium

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

Office's financial sustainability at risk (Issue 2)	The Office's financial sustainability was at risk due to a decline in the Office's ability to generate income, and to the absence of a resource mobilization strategy beyond 2016. There was a decrease in the Office's extrabudgetary reserves from 58 months during 2014 to 20 months based on the last estimate of 2015. While resources may be sufficient to support the Office for 2016, extrabudgetary reserves will only cover nine months in 2017 if the Office does not increase its resources or reduce its operating costs, which will be below the corporate target of 12 months. The Office had developed a partnership and a resource mobilization strategy for the period 2014-2016. For the forthcoming cycle (2016-2020), there was no written strategy. The non-core resources to be mobilized for the current cycle amounted to $18.7 million. As at the time of the audit, funds awaiting validation or finalization of a signed agreement represented approximately $12 million. <u>Recommendation:</u> The Office should strengthen the financial sustainability by: (a) developing a cost-reduction strategy to contain operational costs within acceptable limits, including finding alternatives to reduce rental costs; (b) strengthening the resource mobilization strategy and developing an action plan for its implementation and evaluation and drafting a strategy aligned with the next cycle with specific emphasis on the relationship with the Government; and (c) continuing the advocacy with the national counterpart to formalize the envisaged support to the United Nations system in terms of resource mobilization and to increase the level of their cost-sharing contributions.
Weaknesses in management of individual contracts (Issue 8)	Several weaknesses in the hiring process and management of individual contracts were noted based on the review of 10 cases, specifically: (a) repetitive and inadequate extensions of contracts and inadequate use of the direct contracting modality; (b) weak planning over procurement processes; and (c) inconsistencies in evaluations and payments. <u>Recommendation:</u> The Office should adhere to UNDP policies relating to individual contracts by: (a) correctly using the individual contract modality based on clear terms of reference and realistic timeframes; (b) awarding individual contracts competitively through timely, fair, and transparent selection processes; and (c) adequately managing contracts and raising purchase orders upfront to support payments to consultants.

Weaknesses in management of the procurement function (Issue 9)	The review of the procurement function through a sample of 35 procurement cases identified the following weaknesses: (a) absence of a requisition plan and unreliable procurement estimates; (b) unclear and incomplete terms of reference; (c) weaknesses during evaluations; (d) insufficient use of online system to review procurement cases above a certain threshold; (e) delays in the *post facto* submission of procurement cases to the regional review body; and (f) non-compliance with the organization's requirements in terms of certification for the Procurement Associate. Recommendation: The Office should strengthen the procurement function by: (a) improving procurement planning, including timely definition and establishment of the requisition plan early in the year for consolidation, and regularly evaluating and updating the plan; (b) preparing clear specifications of goods and services to be procured and ensuring that evaluations are fairly and transparently conducted in compliance with UNDP policies; (c) substantiating the independent review of the procurement process online by ensuring that discussion points are recorded online and the quality of the supporting documents contain evidence of the review process; (d) submitting *post facto* cases on time to the Regional Advisory Committee on Procurement; and (e) requiring the Procurement Associate to complete the level 2 procurement certification.

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 had been incorporated in the report, where appropriate.

Issues with less significance (not included in this report) have been discussed directly with management and actions have been initiated to address them.

Helge S. Osttveiten
Director
Office of Audit and Investigations

I. About the Office

The Office, located in Algiers, the People's Democratic Republic of Algeria (the Country), comprised 22 staff members, 7 service contract holders and 1 United Nations Volunteer. The Government and the Office had signed the Country Programme Action Plan for 2012-2014, which was extended to 2015. The main focus areas were: (a) democratic governance, (b) economic and social development, and (c) sustainable environment and development.

At the time of the audit, the Office had initiated a restructuring process, with the following few key steps yet to be undertaken to complete the process: (a) validation of the functional review and the corresponding organization chart by UNDP headquarters, (b) drafting of new job descriptions, (c) training of staff members, and (d) implementation activities within the next Country Programme Action Plan.

II. Good practice

The Office had developed an e-application to manage the workflow from the receipt of service requests (from agencies and projects) to cost recovery. The application also included a contracts management module, the automatic update of the roster of individual consultants and service providers, payment requests processing, and monitoring of vendors. These innovations contributed to the strengthening of internal controls and enhanced the Office's performance.

III. Audit results

Satisfactory performance was noted in the audit sub-areas of asset management and information and communication technology, where key controls were adequate and in place.

OAI made three recommendations ranked high (critical) and nine 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) Strengthen the Office's financial sustainability (Recommendation 2).
- (b) Adhere to UNDP policies relating to individual contracts (Recommendation 8).
- (c) Strengthen the procurement function (Recommendation 9).

Medium priority recommendations, arranged according to significance:
- (a) [redacted]
- (b) Secure project implementation, improve project monitoring and closure and improve ability to deliver (Recommendation 5);
- (c) Enhance risk management and reinforce monitoring activities (Recommendation 1).
- (d) Improve management of human resources (Recommendation 7).
- (e) Improve leave management (Recommendation 6).
- (f) Conform to the organization's monitoring and evaluation requirements (Recommendation 4).
- (g) Comply with the travel policy (Recommendation 10).
- (h) Finalize the implementation of the Harmonized Approach to Cash Transfers (Recommendation 3).
- (i) Manage and retain all supporting documentation in accordance with UNDP guidelines (Recommendation 11).

The detailed assessment is presented below, per audit area:

A. Governance and strategic management

1. Risk management, planning, monitoring and reporting

Issue 1 Weak risk management and planning

Risk management is the process through which an organization identifies, assesses and manages risks that can endanger the achievement of its planned objectives, and takes steps to reduce the probability of their occurrence and lessen their impact, if they cannot be avoided. This entails implementing a risk management plan. The 'UNDP Programme and Operations Policies and Procedures' require offices to: (i) maintain risk logs, monitor and report on risks and results both at the Office and project level; (ii) use Atlas (the enterprise resource planning system of UNDP) to record all project information; and (iii) draft procurement and human resources plans at the beginning of each year and monitor them.

The review of the quarterly financial briefings developed by the Office of Financial Resources Management, and the review of the organizational structure of the Office and of monitoring activities, as well as the analysis of seven projects totalling 69 percent of project expenditure incurred during the audit period, identified the following weaknesses:

- The Office did not have a mechanism to follow up on or anticipate project management issues. As an illustration, for the second and third quarters of 2015, the Office of Financial Resources Management reported the following same type of project management issues for the same amount in its quarterly financial briefings: (i) 5 inactive cost-sharing projects with a remaining balance of $26,546; (ii) 11 projects with passed end-dates by an average of 29 months amounting to $199,000; (iii) in 3 instances, outstanding audit recommendations from audits undertaken at the implementing partner level dated back to 2008 and 2011. The Office started to review those issues only at the time of the audit fieldwork.
- The use of Atlas as a project-monitoring tool was limited. In four cases out of seven (57 percent), risk logs, issue logs and monitoring logs were either not completed, or not updated. In two instances (28 percent), the last updates were made in 2012 and 2014, whereas the related projects were still ongoing. Furthermore, the Atlas project schedule was not complete; for instance, important information such as start and end dates, and percentage of completion were missing.
- Planning was also weak as illustrated by the following: (i) delays in initiating projects in three cases (42 percent) out of seven reviewed (the Office explained that the delay was mainly due to the fact that the projects' national directors were not nominated on time, to allow for the quick initiation of the projects after the signature of the project documents); (ii) the absence of a human resource plan; and (iii) inadequate procurement planning, which did not allow the Office to rationalize processes and achieve economies of scale (refer to Issue 10 for details on inadequate procurement planning).

While acknowledging the exceptions noted, the Office's management commented that it had been affected by several factors that impacted project management, i.e., the 2007 bombing that destroyed the Office's archives, and the turnover of focal points and counterparts at the Government level. They also added that despite those difficulties, significant efforts were made that allowed for the closure of 102 inactive projects. The Office's management further reported that they were working closely with the national counterpart to improve the overall planning process through a dedicated project, and that the new Country Programme Action Plan would address oversight and monitoring and evaluation concerns.

Without proper risk management and monitoring systems, the Office may not be able to act or make decisions on a timely basis to mitigate risks and address issues arising from monitoring activities, and therefore may not be able to achieve its objectives.

Priority	Medium (Important)

Recommendation 1:

The Office should enhance risk management and reinforce monitoring activities by:

(a) systematically implementing risk management, including the proper use of tools for monitoring risks and results;

(b) training all programme staff in the use of Atlas as a project-monitoring tool and conducting regular verifications to make sure that various logs are updated; and

(c) drafting human resources and procurement plans at the beginning of each year and regularly monitoring them.

Management action plan:

(a) Risk management will be implemented systematically by adopting and using tools for risks and results monitoring.

(b) The Office will continue to ensure training to all programme staff and promote Atlas as a project-monitoring tool. A dedicated follow-up mechanism will ensure proper implementation.

(c) Human resources and procurement plans will be drafted at the beginning of each year and regularly monitored.

Estimated completion date: December 2016

2. Financial sustainability

Issue 2 <u>Office's financial sustainability at risk</u>

The 'UNDP Programme and Operations Policies and Procedures' require all offices to maintain a minimum of 12 months of extrabudgetary reserves and to ensure financial sustainability by securing long-term financial resources. The 'UNDP Programme and Operations Policies and Procedures' also urge offices to establish effective partnerships, develop a resource mobilization strategy, as well as implement a corresponding resource mobilization action plan.

Following the analysis of the extrabudgetary status report over the past four years and the projects pipeline for the 2016-2020 cycle, the Office's financial sustainability was at risk considering the factors below:

(a) <u>Decline in Office's ability to generate income</u>

While the financial situation of the Office remained within the corporate limits of operational reserves (12 months or higher), over the past four years, the extrabudgetary reserves had been declining from 58 months during 2014 to 20 months based on the last estimate of 2015. The decrease indicated that the Office was not generating enough income but was rather utilizing its accumulated reserves. While resources may be sufficient to support the Office for 2016, extrabudgetary reserves will only cover nine months in 2017 if the Office does not increase its resources or reduce its operating costs, which will be below the corporate set target of 12 months. The reasons for the declining reserves are illustrated below:

- The Authorized Spending Limit of the Office was continuously declining from previous years. From $1.6 million during 2012, the total allocation was down to $0.9 million in 2015. Based on discussions with the Regional Bureau and the Office, further reductions were expected for 2016. According to the Office, this may result in the transfer of the costs of the Deputy Resident Representative post from core funds to the extrabudgetary funds budget, thereby resulting in a further decline of extrabudgetary reserves.

- Decline of General Management Support fees (GMS): $81,311 was collected in 2013, while the last estimate for 2015 was around $35,000. In respect to the low delivery level, the Office explained that in the past, there were more projects financed by third party donors with a GMS rate established at 7 to 8 percent. At the time of the audit, the Office was dependent on Government and Global Environment Funds with GMS rates set at 3 percent.

- High rental cost of the common premises: the UN agencies common premises hosted six agencies and the annual rental budget of the Office was approximately $355,000, which was not sustainable given the limited resources of the Office. Further, one of the tenants of the building was expected to relocate from the premises, which would increase the Office's contribution to common services.

The Office's management explained that it had made considerable efforts since 2013 to identify new premises and was working to finalize a new option which might have reduced rental costs by 40 percent. Moreover, the Government allocated a plot of land to UNDP in 2008 and committed during February 2014 to fully funding the construction of the UN House. On behalf of the United Nations Country Team and the Resident Coordinator, the Office was working with the Government to expedite the latter option. During meetings between the Office and government counterparts, the latter reiterated to the audit team the willingness of the Government to construct the UN House. However, because of the decline in oil prices, the priorities had changed and therefore the envisaged construction of the building was delayed.

(b) <u>Absence of a resource mobilization strategy beyond 2016</u>

The Office had developed a partnership and a resource mobilization strategy for the period 2014-2016. For the forthcoming cycle (2016-2020), there was no written strategy. The non-core resources to be mobilized for the current cycle amounted to $18.7 million. As at the time of the audit, funds awaiting validation or finalization of a signed agreement represented approximately $12 million. The Office had undertaken several initiatives, and had also made contacts with donors in the Country. However, these initiatives were not formalized in a written strategy, backed up by an action plan.

The Government was the second highest donor after the Global Environmental Fund, with one-third of Office resources mobilized during the current cycle. The Government was operating under a 50/50 cost-sharing model, which, given the low level of resources of the Office, can be limiting. Hence, there was room for further advocacy and improvement, in order to increase the contribution of the Government. This would require a specific approach. Management commented that *"for the first time, the Office was negotiating a written confirmation from the relevant ministry on its commitment to fund the Country Programme Action Plan in the amount stipulated in the Resources Mobilization Table attached to the Country Programme Document."* If achieved, this measure would contribute to improving the financial sustainability of the Office.

The Framework for Strategic Cooperation (equivalent to the United Nations Development Assistance Framework, or UNDAF) highlighted the need for the national counterpart to support the United Nations system and jointly develop a resource mobilization strategy. However, that strategy had not been drafted. During a meeting with the audit team, the UNDP focal point at the national counterpart level confirmed its willingness to support the United Nations for resource mobilization. This should be done through an institutional mechanism which will follow up on implementation of the Framework for Strategic Cooperation.

Delays in drafting and implementing a resource mobilization strategy may impact the funding of projects and the achievement of planned activities and results.

Priority	High (Critical)
Recommendation 2: The Office should strengthen its financial sustainability by: (a) developing a cost-reduction strategy to contain operational costs within acceptable limits, including finding alternatives to reduce rental costs; (b) strengthening the resource mobilization strategy and developing an action plan for its implementation and evaluation and drafting a strategy aligned with the next cycle with specific emphasis on the relationship with the Government; and (c) continuing the advocacy with the national counterpart to formalize the envisaged support to the United Nations system in terms of resource mobilization and to increase the level of their cost-sharing contributions.	
Management comments and action plan: The staffing was reviewed to ensure position funding through Direct Project Costing. The Office's efforts toward collecting Government Contributions to Local Office Costs of $550,000 resumed only in 2014 and in 2015, and are also being applied towards staffing and General Operating Expense purposes. The Office action plan is as follows: (a) a cost-reduction strategy is being applied to reduce operational costs by looking for a cheaper rental alternative and restructuring of the Office for better Direct Project Costing implementation; (b) a resource mobilization strategy for the new Country Programme Action Plan for the period 2016-2020 will be drafted; and (c) advocacy with the national counterpart will continue to formalize the envisaged support to the United Nations system in terms of resource mobilization and to increase the level of their cost-sharing contributions. **Estimated completion date:** December 2016	

B. United Nations system coordination

1. Harmonized Approach to Cash Transfers

Issue 3 Delay in implementation of Framework for Harmonized Approach to Cash Transfers

The 'Framework for Harmonized Approach to Cash Transfers' (HACT) requires that participating United Nations agencies agree on and coordinate HACT activities, to reduce the burden that the multiplicity of United Nations procedures creates for its partners. Compliance is achieved when the following components have been completed: (a) macro-assessment of the public financial system; (b) micro-assessments of implementing partners; (c) agreement with the Government on implementing HACT; and (d) development and implementation of an assurance and audit plan for implementing partners.

OAI reviewed the implementation of HACT and concluded that the initial 2015 plan that contained all the necessary milestones of the HACT Framework had been postponed and none of the required components above had been completed. For UNDP, the effective date to start implementing HACT was 1 January 2015. However, there was no indication of when the Office would become HACT compliant.

The Office explained that the macro-assessment process was launched under the leadership of UNICEF, which contracted an external consulting firm to conduct the exercise. However, it had been suspended due to insufficient information and documentation, notably the lack of a recent Public Expenditure and Financial Accountability assessment.[1] Given the lack of clarity on the completion timeframe of the next assessment, and following the advice of the headquarters of the two main agencies involved in HACT, the United Nations Country Team sought an exemption from the macro-assessment process.

The audit also noted disparities among the three implementing agencies (UNDP, UNICEF, and UNFPA) with UNDP lagging behind the two others. The two agencies had ongoing micro-assessment activities and were conducting spot checks.

Delays in the implementation of HACT increases the likelihood that weaknesses and risks at the implementing partners' level will not be timely identified and mitigated.

Priority	Medium (Important)
Recommendation 3: The Office should finalize the implementation of all required components of the Harmonized Approach to Cash Transfers and obtain further exemptions where required to expedite the process.	
Management comments and action plan: The micro-assessment of the implementing partner of Project No. 78496 using the direct payment modality was launched.	

[1] The Public Expenditure and Financial Accountability (PEFA) Program was founded in 2001 as a multi-donor partnership between seven donor agencies and international financial institutions to assess the condition of country public expenditure, procurement and financial accountability systems and develop a practical sequence for reform and capacity-building actions.

The Office will continue its advocacy with the national counterpart to ensure that all required components of the Harmonized Approach to Cash Transfers are implemented, including an assurance plan.

Estimated completion date: September 2016

OAI Response

OAI acknowledges the action taken by management; this will be reviewed at a later stage as part of the standard desk follow-up process of OAI.

C. Programme activities

1. Programme management

Issue 4 Outcome evaluations not conducted

According to the 'UNDP Programme and Operations Policies and Procedures', programme units (such as Country Offices, Regional Bureaux, policy and practice units) are required to have an evaluation plan, which derives from the United Nations Development Assistance Framework monitoring and evaluation plan. Full implementation of the evaluation plan (i.e. all planned evaluations) is the basis for the overall assessment of compliance.

For the cycle 2012-2015, there was no monitoring and evaluation framework, and planned outcome evaluations were not conducted. The Office's management acknowledged this issue and explained that for the past three years, emphasis was given to the need to revamp the Office and launch new projects, to boost delivery and build a trustful relationship with the national counterpart. In addition to that, in 2014 the support provided to the national election process impacted the Office. The Office's management further explained that they went through an Assessment of Development Results exercise, which was considered more useful than outcome evaluations.

By not conducting outcome evaluations, the Office did not comply with the UNDP evaluation policy, and it may be challenging to provide a basis for achievement of results to the related stakeholders.

Priority Medium (Important)

Recommendation 4:

The Office should conform to the organization's monitoring and evaluation requirements by conducting all evaluations as planned.

Management comments and action plan:

The Office engaged in open discussions with national counterparts regarding planned evaluations. Based on lessons learned from the previous cycle, a new plan will be discussed and accepted under the 2016-2020 Country Programme Annual Plan.

Estimated completion date: July 2016

2. Project management

Issue 5 Weaknesses in definition, monitoring and financial closure of projects

According to the 'UNDP Strategic Plan: 2014-2017', offices are required to focus their intervention on programme delivery and development results. Moreover, the 'UNDP Programme and Operations Policies and Procedures' set out the following provisions for the definition, monitoring and closure of projects: (i) project developers and concerned Country Office programme personnel should assess the project implementation capacity of all potential partners that have been identified; (ii) Combined Delivery Reports should be prepared at the end of each quarter and annually; (iii) projects should be operationally closed at the scheduled end date if not extended, and financially closed at the latest 12 months after their operational closure.

During the audit, several exceptions were noted, as described below:

- The Office had 25 projects, all implemented by national entities. However, none of them were assessed before entrusting them with project management. The Office justified such an exception by referring to the challenging context of operating in the Country, and informed the audit team that there was one ongoing micro-assessment.
- Quarterly Combined Delivery Reports were not prepared as required by project documents. Only annual Combined Delivery Reports were available.
- At the time of the audit fieldwork, the Office had 5 inactive cost-sharing projects with remaining balances of $26,000 in total and 11 projects with an end date exceeding 28 months and totalling $199,000. Based on discussions with the Office's management, 8 of these 11 projects were to be closed and the Office was still to take action. For the three other projects, the Office explained that delays in closing them mainly originated from constraints imposed by the national counterpart or other external factors (absence of a national project director, evaluation ongoing or pending validation by the national authorities).
- As at 23 December 2015, the overall delivery rate was 66 percent as per the UNDP Executive Snapshot, for a programme budget of $4.9 million. Four projects representing 80 percent of programme budget in 2015 had a delivery rate below 42 percent. The Office's management explained that several factors caused this situation, such as: (i) the Government involvement in project implementation was significant with long and complex processes, with little focus on delivery; (ii) there were difficulties with identifying high-level French speaking experts; and (iii) the vast size of the Country and difficulties in accessing some remote areas where security might not be guaranteed.

The above weaknesses may affect efficiency and effectiveness in project implementation, accuracy of financial reporting to donors as well as the Office's ability to achieve expected results.

Priority	Medium (Important)

Recommendation 5:

The Office should secure project implementation, improve project monitoring and closure and increase its ability to deliver by:

(a) conducting a capacity assessment of implementing partners before entrusting them with project management;

(b) preparing Combined Delivery Reports on a quarterly basis;

(c) putting in place a mechanism to track projects nearing their end dates, and to track inactive cost-sharing projects with balances in order to close them in a more timely manner;

(d) sensitizing the national counterparts on their responsibilities and identifying with them a mechanism to lessen the impact of high turnover at their level and shorten the disbursement process; and

(e) anticipating and planning for the recruitment of project personnel during the initiation phase and subsequently expediting the process to allow timely implementation of project activities.

Management comments and action plan:

Conducting capacity assessments of implementing partners was discussed during preparation of the Country Programme Action Plan, initiating the process with national counterparts to ensure a good common understanding and avoid any obstacle that may prevent the implementing partners' capacity assessment to occur.

UNDP programme staff and national counterpart personnel will be trained on project management, including using Atlas tools for monitoring and follow up.

Action plan is as follows:

(a) Capacity assessment of implementing partners will be conducted before entrusting them with project management.

(b) Combined Delivery Reports will be prepared and signed on a quarterly basis as agreed with implementing partners.

(c) A dedicated task force will be established to clear old projects and ensure a proper monitoring and follow up so all new projects will be closed in a timely manner.

(d) The Office will continue its advocacy with the Government to make sure that an appropriate hand-over is guaranteed during turnover, and to improve disbursement processes and ensure appropriate project staffing.

(e) Project personnel will be recruited during the initiating phase, as far as funding is available, to allow timely implementation of project activities.

Estimated completion date: December 2016

D. Operations

1. Human resources

Issue 6 Weaknesses within leave management

According to the 'UNDP Programme and Operations Policies and Procedures' related to the monitoring of staff absences, offices should ensure that annual leave requests are entered and approved in the Atlas e-system before the staff members go on leave. Staff members are responsible for informing their supervisors and HR focal points/leave monitors promptly of absence due to injury or illness to enable timely entry into the Atlas HR e-services module. Further, staff members should obtain authorization from the United Nations Medical Services Division for any sick leave of more than 20 days.

The audit tested the reliability of Atlas leave records for 14 staff members out of 22 by comparing these with the attendance records (Attendance Record Cards and the Monthly Leave Reports). The following results were obtained:

- Errors in the year-end leave certification: leave balances reported in Atlas as at 31 December 2014 exceeded balances in monthly leave reports by 56 days.

- Leave not always approved in Atlas before leave start date: This was noted in 64 cases out of 193 (35 percent) ranging from 1 to 339 days.

- Sick leave not taken in accordance with the organization guidelines: In 2014, one staff member used 32 days of sick leave, while another used 35 days of sick leave without submitting the balance above the 20 days to the UN Medical Services Division for approval.

- Non-compliance with policies and procedures on uncertified sick leave:

    - While there was annual leave not approved in a timely manner in Atlas as stated above, 13 out of 139 cases of uncertified sick leave were submitted more than 20 days after the return of the staff. In two cases, the adjustment was made more than 100 days later.
    - Two staff took more than two consecutive days of uncertified sick leave (i.e. 3.5 and 7 days each), which did not comply with the UNDP leave policy.

The above exceptions indicated that the Office did not have adequate oversight on the monitoring of leave requests.

Without proper leave planning, including timely submission and approval of leave requests, the Office cannot ensure that leave is authorized and proper resources are allocated to ensure continuity and efficiency of operations. Additionally, there is a risk that staff members may take excessive leave if not properly recorded.

Priority	Medium (Important)
Recommendation 6: Improve leave management by: (a) ensuring that leave requests are timely submitted and approved via Atlas e-service; (b) monitoring and reporting all types of sick and annual leave in compliance with policies and rules; and (c) reconciling monthly leave reports and Attendance Record Cards with Atlas and correcting discrepancies in a timely manner.	
Management comments and action plan: The Office agreed with this recommendation. Staff will be sensitized about the issue and a clear standard operating procedure will be drafted to reinforce leave management. Delays in submitting or approving leave will be reported in staff performance. Action plan is as follows: (a) Staff will be sensitized to submit leave requests in a timely manner and the manager will be alerted to approve via Atlas e-service as soon as the request is submitted. A monitoring system will be adopted. Delays in submitting or approving leave will be reported in the staff performance. (b) All types of sick and annual leave will be monitored and reported in compliance with policies and rules. (c) Leave reports and Attendance Record Cards will be reconciled monthly with Atlas and discrepancies will be corrected in a timely manner. **Estimated completion date:** December 2016	

Issue 7 <u>Deficiencies in management of human resources</u>

According to the 'UNDP Human Resources Strategy', people are UNDP's greatest asset. The development of talent is key to improving institutional performance and to fulfilling the mission and mandate of UNDP. Therefore, human resource management is critical for the success of the Office.

For the period reviewed, the following weaknesses were noted in human resource management:

(a) <u>Recruitment process not in accordance with the organization's policies</u> – The review of all recruitment cases (eight cases) showed the following:

- Longlisting process – A lack of documentation was noted; therefore, it was difficult to assess the reasons behind the inclusion or exclusion of candidates for all cases reviewed.
- Shortlisting process – In one case, the candidate selected at the NOB level did not have the Master's degree required. The Office indicated that the candidate had a three-year degree and had a total of two years of experience in the domain. The 'FTA and TA professional Recruitment Standards' defined by UNDP indicate that for NOB positions, candidates with a three-year degree should have a total of three years of experience in the area for which they are being recruited.

- In another case, one candidate who did not pass the written test was invited to participate in the interview, without this being formally approved and substantiated by senior management.

The exceptions noted could call into question the fairness and transparency of recruitment processes, and consequently affect the Office's ability to recruit the best candidate for the function, thus impacting its ability to deliver high quality services.

(b) Lack of career development of staff members – In 5 out of 10 Performance Management and Development reports reviewed, the professional development and learning along with career development goal sections were not completed. As a result, staff members did not have the opportunity to express their needs and aspirations in terms of career development, and the Office's management did not have a basis for planning learning activities and overall capacity development.

(c) Flexible working arrangements not adequately monitored – Based on information shared by the Office, 23 staff members adopted the flexible working arrangements option, allowing them flexible working hours at the beginning and/or the end of the day. However, the Office did not establish a monitoring system to ensure that the concerned staff members completed the regular number of hours per day/week. Inadequate monitoring of staff attendance could affect the overall performance of the Office.

Priority Medium (Important)

Recommendation 7:

The Office should Improve the management of human resources by:

(a) strengthening supervision over the recruitment process and ensuring that the various steps and decisions in the selection process are duly documented and kept on file;

(b) completing the various steps indicated in the Performance Management and Development forms, mainly those related to training needs and professional development; and

(c) defining a monitoring system to ensure that staff benefitting from flexible working arrangements complete the regular number of hours per day/week.

Management comments and action plan:

Action plan is as follows:

(a) A detailed standard operating procedure will be drafted to improve supervision over recruitment processes and to ensure that the various steps and decisions in the selection process are duly documented and kept on file. Justification on inclusion or exclusion of candidates will be included systematically.

(b) The various steps indicated in the Performance Management and Development forms, mainly those related to training needs and professional development, will be completed. The Office's training plan is under formulation to address the issues highlighted by this audit and respond to the Office's needs to reinforce its capacity for the implementation of the new Country Programme Action Plan cycle 2016-2020. The plan will be reflected in the staff Performance Management and Development forms, in particular the Professional Development and Learning section.

(c) A monitoring system is being defined to ensure that staff benefitting from flexible working arrangements complete the regular number of hours per day/week. To improve the actual monitoring system, a software system will be developed to produce an appropriate report. The Human Resources Unit will monitor and report staff attendance periodically to supervisors and senior management.

Estimated completion date: September 2016

2. Procurement

Issue 8 Weaknesses in management of individual contracts

The 'UNDP Programme and Operations Policies and Procedures' clearly mention conditions under which individual contracts are managed, and stipulate that: (a) the need for an individual contractor should be one-time and definitive, therefore once delivered, further need for such work is not foreseen; (b) amendments cannot be piggybacked on expired contracts; (c) the best value for money must be considered in the selection process for individual contracts; and (d) terms of reference be clearly defined and mention measurable deliverables. Furthermore, the 'UNDP Programme and Operations Policies and Procedures' also state that individual contracts are to be awarded competitively through a fair and transparent selection process.

The review of 10 individual contracts out of 58 noted the following:

(a) Delays in processing individual contract cases

In 4 out of 10 selection processes tested, the average time between the receipt of offers and the date when the evaluation took place was between 75 and 89 days.

(b) Inadequate use of the direct contracting modality

Out of the 10 procurement cases reviewed, 4 were completed through direct contracting. In two instances, the Office justified the direct contracting by the need to standardize quality of services, as the consultants provided similar services in the past. Based on UNDP policies, the argument of standardization is only valid when related to the procurement of equipment, systems and technologies.

(c) Inadequate management of contracts

- Repetitive extensions were given on individual contracts. For all 10 cases reviewed, the contracts were renewed and amended several times, ranging from two to four times. In three cases, the amended duration was more than double the initial contract term. In another case, the amended duration exceeded the initial duration by 84 days.
- Amendments/extensions of contracts were not adequately drafted, as the durations were from the beginning of the original contracts, while they should have only indicated the additional periods of extension. Eight amendments or extensions of expired contracts were noted. In one instance, the amendment was signed based on a contract that had expired eight months before.
- Payments to one consultant were established on a monthly basis rather than following milestones to be fulfilled by the contractor. The contract was signed for one year in 2014 and was renewed for 2015. The Office stated that the consultant was providing *ad hoc* services to the national counterpart; therefore, deliverables could not be defined upfront when signing the contract. UNDP policies establish that other contract modalities should be considered when it is difficult to quantify

or identify deliverables, mainly in situations where the tasks need to be performed on a continuous basis.

Weaknesses in the management of individual contracts may result in the organization not achieving best value for money, and may result in the Office not achieving its objectives.

Priority	High (Critical)

Recommendation 8:

The Office should adhere to UNDP policies relating to individual contracts by:

(a) correctly using the individual contract modality based on clear terms of reference and realistic timeframes;
(b) awarding individual contracts competitively through timely, fair, and transparent selection processes; and
(c) adequately managing contracts and raising purchase orders upfront to support payments to consultants.

Management comments and action plan:

The Office's action plan is as follows:

(a) Standard operating procedures for individual contract issuance and management were drafted and described to implementing partners, which helped the Office to improve the procurement process. The Office will continue its efforts to improve the procurement planning phase to ensure that the individual contract modality is correctly used, by reinforcing the implementing partners planning capacity. A pool of highly qualified technical advisors will be engaged at the project level to support terms of reference drafting and ensuring quality assurance.

(b) Specific training on procurement planning, drafting of terms of reference, offers evaluation and contract management will be offered to particular programme staff and implementing partner personnel. This measure will ensure that individual contracts are awarded competitively through timely, fair, and transparent selection processes.

(c) Workload redistribution will ensure that contracts will be adequately managed and project personnel will be sensitized to raise purchase orders upfront to support payments to consultants.

Estimated completion date: 30 September 2016

Issue 9 Weaknesses in management of the procurement function

The 'UNDP Programme and Operations Policies and Procedures' provide guidance on effective procurement. They indicate that during the definition stage of the project cycle, consideration must be given to the acquisition of goods, services and civil works for successful project implementation. In addition, all procurement actions must meet the following criteria: fairness and transparency and conduct in the interests of UNDP, in order to provide best value for money through a competitive process. The 'UNDP Programme and Operations Policies and Procedures' further require the Procurement Unit to be staffed with adequately trained and knowledgeable personnel in order to conduct procurement activities in the best interest of the organization.

The audit identified the following procurement related weaknesses:

(a) Shortcomings in procurement planning

For 2014 and 2015, the Office did not develop requisition plans at the project definition stage. Procurement needs were recapitulated in Excel templates and lacked key elements, such as the deadlines for services requested by the different units, specification of expertise, and competencies needed for consultancy purposes. Consequently, the Procurement Unit could not rely on the information available to plan and conduct procurement processes in an effective and efficient manner. As an illustration, the procurement needs initially consolidated for 2015 were around $5 million, while the last estimation prepared by the Office during the fourth quarter was around $3 million. This overestimation may call into question the validity of needs expressed during the planning stage. No exceptional event occurred in 2015 and the Office did not provide a solid justification for the variance noted.

(b) Unclear/incomplete terms of reference

In 3 out of 35 procurement cases reviewed, technical specifications and quality requirements were not adequately defined in the terms of reference, which resulted in significant variances in offers received, and in difficulties in evaluating competing offers as they were not technically and financially comparable. The Office's management commented that the terms of reference were drafted by a specialized service provider and approved by a national counterpart and UNDP quality assurance. The service requested was so innovative that the process resulted in a wide response rate, which gave the evaluators more choices and increased the competitive nature of the selection.

(c) Weaknesses during evaluations

- Panel members of evaluation committees did not always have the required skills to conduct a fair and consistent evaluation. In two cases valued at $212,000 and related to architectural services, the members did not have any relevant experience or expertise on the subject reviewed. Furthermore, specialized consultants and internal United Nations experts were not invited to participate in the evaluation.

  Three vendors were disqualified prior to the technical evaluation in one case. The panel's argument was based on financial reasons to support these exclusions, meaning that financial offers were opened before reviewing the technical evaluations.

- In one case, none of the bidders fulfilled the key criteria defined in the solicitation documents, such as the bidder's "work plan is detailed and reflects the needs of the mission." Nevertheless, the evaluation process continued.
- In one case, the technical score of the awarded bidder was overstated by 20 points: the question "General experience in design" was to be scored with up to 30 points, while the bidder was attributed 50 points.

(d) Contracts, Assets and Procurement Committee online module not fully utilized

Contracts, Assets and Procurement Committee members are responsible for conducting a thorough review of procurement processes and document it in the Contracts, Assets and Procurement Committee online system. The review of the minutes of 10 procurement cases approved by the Contracts, Assets and Procurement Committee showed that discussions/comments by the Committee members related to the fact that the rationale behind approving procurement processes was not reflected in the Contracts, Assets and Procurement Committee online system. The Office was only reporting the details of the technical and financial evaluation.

The following weaknesses were also noted:

- One procurement case was not submitted *post facto* to the Regional Advisory Committee on Procurement in a timely manner. The security contract had expired in 2009 and was yet to be renewed.
- Cumulative payments beyond the $150,000 threshold were not submitted *post facto* to the Regional Advisory Committee on Procurement.
- The Procurement Associate who was the most senior procurement practitioner had not attained the level 2 procurement certification, which is a requirement according to organization policies and procedures.

Weaknesses in the management of procurement processes may lead to the procurement function not being conducted in a fair, competitive and transparent manner. This may affect the Office's ability to demonstrate best value for money.

Priority High (Critical)

Recommendation 9:

The Office should strengthen the procurement function by:

(a) improving procurement planning, including timely definition and establishment of the requisition plan early in the year for consolidation, and regularly evaluating and updating the plan;

(b) preparing clear specifications of goods and services to be procured and ensuring that evaluations are fairly and transparently conducted in compliance with UNDP policies;

(c) substantiating the independent review of the procurement process online by ensuring that discussion points are recorded online and the quality of the supporting documents contain evidence of the review process;

(d) submitting *post facto* cases on time to the Regional Advisory Committee on Procurement; and

(e) requiring the Procurement Associate to complete the level 2 procurement certification.

Management comments and action plan:

The Office's action plan will be as follows:

(a) The Office will continue efforts to improve procurement planning by reinforcing implementing partners planning capacity in order to collect requisition plans as early as possible in the year. A pool of highly qualified technical advisers, in the respective areas of the concerned sectors, will be engaged at the project level to enhance quality assurance. Regular monitoring and reviews will ensure plan updates as required.

(b) There will be specific training offered to programme staff and implementing partner personnel on procurement planning, technical specification drafting, offer evaluations, and Contracts, Assets and Procurement Committee management, which will improve goods and services specification clarity and ensure that evaluations are fairly and transparently conducted in compliance with UNDP policies.

(c) The Office will substantially reinforce the independent review of procurement processes online by the Contracts, Assets and Procurement Committee by appropriate training and awareness/coaching sessions for Committee members to ensure that discussion points are recorded online and the quality of the supporting documents contain evidence of the online review process.

(d) The Office will submit all respective cases to the Regional Advisory Committee on Procurement in compliance with UNDP policies.

(e) Staff involved in the procurement function will be instructed to attain at least the level 2 procurement certification and this objective will be clearly indicated in the Office's training plan and staff objectives.

Estimated completion date: December 2016

3. General administration

Issue 10 Inadequate travel management

According to the 'UNDP Programme and Operations Policies and Procedures', Long-Term Agreements should be monitored and reported against the ceiling amount of the agreement, if applicable. They also state that for all staff members, travel should be managed efficiently through proper planning, administration and follow-up, and by adhering to travel policies and guidelines to ensure best value for money. Additionally, travel advances are subject to review against the travel claim, to be submitted no later than 15 days upon return from a travel mission, and any necessary adjustments should be made at the time the travel claim is settled.

The review of 16 travel cases amounting to approximately $18,300 identified the following weaknesses:

- In eight cases, staff members did not submit travel claims upon completion of mission. As a result, the audit could not verify that the travel took place as approved.
- There was no price comparison among itineraries and therefore trip analyses were not provided to demonstrate that the best value for money was achieved in 10 out of 16 cases reviewed. Management indicated that some tickets were purchased based on email and telephone exchanges with the travel agency but no evidence could be obtained. Moreover, eight tickets were not purchased at least 21 days prior to travel, as required by the UNDP travel policy.

In 2014, the Office, along with other UN agencies signed a three-year Long-Term Agreement with a travel agency for a total amount of $506,250. There was no mechanism to monitor and ensure that travel expenses did not exceed the contract agreement. As of November 2015, the Office's travel expenses amounted to approximatively $275,000 or 54 percent of the contract value, not including other UN agencies.

The non-submission of travel claims may result in the Office incurring unauthorized expenses. Furthermore, not purchasing tickets well in advance and not conducting a comparative analysis of different quotations may prevent the Office from obtaining best value for money. The lack of a mechanism to monitor travel expenses related to the Long-Term Agreement may result in expenses exceeding the agreement threshold.

Priority Medium (Important)

Recommendation 10:

The Office should comply with the travel policy by:

(a) requiring staff to submit travel claims along with adequate supporting documentation after the return of missions;

(b) performing for every travel, a trip analysis to review quotations and identify the lowest price in accordance with the organization's travel policy;

(c) promoting purchases of travel tickets at least 21 days before the mission date; and

(d) implementing a mechanism to periodically monitor and report all UN agency travel expenses against the travel Long-Term Agreement.

Management comments and action plan:

The Office's action plan is as follows:

(a) Travel standard operating procedures will be reviewed to enhance monitoring and follow-up mechanisms. Daily subsistence allowance advances will not exceed 80 percent, including for staff, to guarantee that supporting documents are submitted adequately after the return from missions. Hence, travel cases will not be closed without all supporting documents needed.

(b) Proper documentation of a trip analysis indicating the lowest price in accordance with the organization travel policy will be ensured and monitored regularly.

(c) The Office will promote the purchase of travel tickets as early as possible before the mission date.

(d) All travel expenses committed by UNDP against the travel Long-Term Agreement, including those engaged on behalf of UN agencies will be regularly monitored and reported through the new module, which will be incorporated in the actual e-application for business workflow management.

Estimated completion date: December 2016

Issue 11 Inadequate record management

In line with the 'UNDP Financial Regulations and Rules' and the 'UNDP Programme and Operations Policies and Procedures' content on records management, the head of the office must ensure that adequate supporting documents for transactions are maintained. These supporting documents may be kept in electronic format, as long as this is done in compliance with the UNDP E-Document Management Policy and the Digitization Guidelines' recommendations on document scanning. Where supporting documentation is not available in electronic format, hard copies should be maintained and securely filed for a minimum period of seven years to support transactions that are recorded in Atlas.

During the audit, the Office was not able to retrieve files pertaining to transactions selected for review in a timely manner due to an inadequate filling system. It took the Office several days to research and provide supporting evidence pertaining to procurement authorization forms, goods received notes from vendors, purchase orders, payment vouchers, invoices, and travel expense reports as these documents were not properly classified and attached with original files.

The Office's management acknowledged this issue and reported that lack of staffing and turnover at the end of 2014 and the beginning of 2015 was the main cause of the weaknesses in supporting documentation management.

Poor record management could lead to business inefficiencies and lead to errors not being timely detected.

Priority	Medium (Important)
Recommendation 11 : The Office should manage and file supporting documentation and records in accordance with UNDP guidelines.	
Management comments and action plan: As the Office is undergoing restructuring, workload distribution among staff will be reviewed and functions will be reorganized in order to improve supporting documentation and records management in accordance with UNDP guidelines. **Estimated completion date:** 30 September 2016	

4. Safety and security

[**NOTE**: This section has been redacted as it is deemed to contain sensitive information.]

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Definitions of audit terms - ratings and priorities

A. AUDIT RATINGS

- **Satisfactory** — Internal controls, governance and risk management processes were adequately established and functioning well. No issues were identified that would significantly affect the achievement of the objectives of the audited entity.

- **Partially Satisfactory** — Internal controls, governance and risk management processes were generally established and functioning, but needed improvement. One or several issues were identified that may negatively affect the achievement of the objectives of the audited entity.

- **Unsatisfactory** — Internal controls, governance and risk management processes were either not established or not functioning well. The issues were such that the achievement of the overall objectives of the audited entity could be seriously compromised.

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 that are considered moderate. Failure to take action could contribute to 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 <u>not included in this report</u>.