UNITED NATIONS DEVELOPMENT PROGRAMME
Office of Audit and Investigations

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AUDIT

OF

UNDP COUNTRY OFFICE

IN

LEBANON

Report No. 1157

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United Nations Development Programme
Office of Audit and Investigations

Report on the audit of UNDP Lebanon
Executive Summary

From 2 to 12 April 2013, the Office of Audit and Investigations (OAI) of the United Nations Development Programme (UNDP) conducted an audit of the UNDP Country Office in Lebanon (the Office). The audit covered the activities of the Office during the period from 1 January 2012 to 28 February 2013. During the period reviewed, the Office recorded programme and management expenditures totalling $39 million. The last audit of the Office was conducted by OAI in 2009.

The audit was conducted in conformance with the *International Standards for the Professional Practice of Internal Auditing*. These Standards require that OAI plan and perform the audit to obtain reasonable assurance on the adequacy and effectiveness of the governance, risk management and control processes. The audit includes reviewing and analysing, on a test basis, information that provides the basis for the conclusions and audit results.

Audit rating

OAI assessed the Office as **satisfactory**, which means "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." Ratings per audit area and sub-areas are summarized below.

Audit Areas	Not Assessed/ Not Applicable	Unsatisfactory	Partially Satisfactory	Satisfactory
1. Governance and strategic management				
1.1 Organizational structure and delegations of authority	Satisfactory			
1.2 Leadership, ethics and values	Satisfactory			
1.3 Risk management, planning, monitoring and reporting	Satisfactory			
1.4 Financial sustainability	Satisfactory			
2. United Nations system coordination				
2.1 Development activities	Satisfactory			
2.2 Resident Coordinator Office	Satisfactory			
2.3 Role of UNDP – "One UN"	Not Applicable			
2.4 Harmonized Approach to Cash Transfers	Partially Satisfactory			
3. Programme activities				
3.1 Programme management	Satisfactory			
3.2 Partnerships and resource mobilization	Satisfactory			
3.3 Project management	Partially Satisfactory			
4. Operations				
4.1 Human resources	Partially Satisfactory			
4.2 Finance	Satisfactory			
4.3 Procurement	Partially Satisfactory			
4.4 Information and communication technology	Satisfactory			
4.5 General administration	Satisfactory			
4.6 Safety and security	Satisfactory			
4.7 Asset management*	Satisfactory			
4.8 Leave management*	Satisfactory			
4.9 Global Environment Facility*	Not Applicable			

* Cross-cutting themes

Key issues and recommendations

The audit raised 6 issues and resulted in 6 recommendations, of which 2 (33 percent) were ranked high (critical) priority, meaning "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 and may affect the organization at the global level."

The high priority recommendations are as follows:

Project management (Issue 4)	Inadequate due diligence performed prior to signing agreements with business entities. The Office signed a memorandum of agreement with two private companies for a total amount of approximately $1.8 million. However, the Office did not adequately perform its due diligence in verifying whether the companies shared a commitment to the core United Nations values, for example, to ensure that business entities are not complicit in human rights abuses, and do not tolerate forced or compulsory labor or the use of child labor, as required by the revised guidelines on cooperation between UNDP and the private sector. OAI recommends that the Office ensure that adequate due diligence is performed for the two private companies on a post facto basis and any necessary corrective action is taken based on the outcome this exercise.
Human resources (Issue 5)	Use of improper contract modality relating to core function positions. The Office engaged 10 individuals under the service contract modality to perform core office functions. The Office explained that this was driven by the higher costs associated with the use of fixed-term appointments, the cost of which would exceed the budget available to fund these posts. OAI recommends that the Office ensure that personnel are hired using the proper contractual modality with due consideration to the nature of the post and the duties that they will perform.

Cross-cutting themes

As part of the 2013 OAI Annual Work Plan, all Country Office audits will include specific areas to be reviewed in more depth. Results from all audits will be compiled and analysed at the corporate level, and thereafter, a consolidated report will be issued separately. For this particular audit, the following were noted:

- **Asset management**. Satisfactory. No reportable issues noted.
- **Leave management**. Satisfactory. No reportable issues noted.
- **Global Environment Facility**. No reportable issues noted.

Management comments and action plan

The Resident Representative accepted all six recommendations and is in the process of implementing them.

Helge S. Osttveiten
Director
Office of Audit and Investigations

I. Introduction

From 2 to 12 April 2013, OAI conducted an audit of UNDP Lebanon. The audit was conducted in conformance with the *International Standards for the Professional Practice of Internal Auditing*. These Standards require that OAI plan and perform the audit to obtain reasonable assurance on the adequacy and effectiveness of the governance, risk management and control processes. The audit includes reviewing and analysing, on a test basis, information that provides the basis for the conclusions and audit results.

Audit scope and objectives

OAI audits assess the adequacy and effectiveness of the governance, risk management and control processes in order to provide reasonable assurance to the Administrator regarding the reliability and integrity of financial and operational information, effectiveness and efficiency of operations, safeguarding of assets, and compliance with legislative mandates, regulations and rules, policies and procedures. They also aim to assist the management of the Office and other relevant business units in continuously improving governance, risk management and control processes.

Specifically, this audit reviewed the following areas of the Office: governance and strategic management, United Nations system coordination, programme activities, and operations. The audit covered relevant activities during the period from 1 January 2012 to 28 February 2013. During the period reviewed, the Office recorded programme and management expenditures totalling $39 million. The last audit of the Office was conducted by OAI in 2009.

II. About the Office

The Office, located in Beirut, Lebanon (the Country) was established in 1960 and is currently working within the context of United Nations Development Assistance Framework 2010-2014, specifying common areas of intervention for United Nations agencies present in the Country.

The UNDP Country Programme was built around four main areas, including: (a) institutional development and democratic governance; (b) social development and regional disparities; (c) environmental sustainability; and (d) conflict prevention and peacebuilding.

The Office’s programme expenditures were stable over the past three years, totalling about $28 million annually. Expenditures decreased compared to the previous period from 2006 to 2009. A short war during 2006 significantly increased the Office's activities, with programme expenditures reaching $40 million during 2008. In 2012 and 2013, the Country was impacted by the Syrian crisis, which resulted in a large number of refugees crossing the borders. As a part of the United Nations response to the crisis situation, UNDP developed projects to facilitate the resolution of issues between the refugees and the host communities.

III. Detailed assessment

1. Governance and strategic management — Satisfactory

1.1 Organizational structure and delegations of authority — Satisfactory

The Office underwent a corporate review of its internal business processes and functions in 2009 as a result of changes in delivery. The Office consequently changed its workflow processes and performed an assessment of the Internal Control Framework in 2012 to better align staff roles and responsibilities to the new workflow and to ensure adequate segregation of duties.

The Office indicated that the changes in its organizational structure (i.e., the dissolution of the Programme Support Team Unit and moving those functions to the Finance Unit) affected the Office's morale and working environment, which translated into less than average results for 14 out of the 16 categories in the Global Staff Survey in 2012. Some of these categories included work-life balance, development impact and human resources management. The Office followed up by engaging an independent consultant who conducted one-on-one interviews with all staff. The findings were discussed and an action plan was prepared during the Office retreat conducted in the first quarter of 2013. The Office established a task force to ensure implementation of the agreed upon action plan. Since the Office was actively involved in addressing the issues, a recommendation has not been made. No other reportable issues were identified.

1.2 Leadership, ethics and values — Satisfactory

OAI reviewed compliance with the financial disclosure policy, the policy regarding the reporting of outside activities, as well as the completion of mandatory ethics training. Furthermore, interactions between senior management and staff members were reviewed through discussions with both staff members and management. No reportable issues were identified.

1.3 Risk management, planning, monitoring and reporting — Satisfactory

The OAI review of relevant information showed that the Office's risk management, planning, monitoring and reporting practices were adequate. The Office activated fast-track procedures for three projects, but had not actually used them at the time of the audit. These projects included two projects for social and local development (activated in March 2013), and one election project (activated in November 2012) that was delayed due to the postponement of the parliamentary elections in the Country. No other issues were identified.

1.4 Financial sustainability — Satisfactory

Extrabudgetary reserves, which represent the main source of funds for sustaining the Office's support structure, totalled 15 months at the end of 2012. While the reported reserves exceeded the minimum corporate requirement of 12 months, this had been achieved partly through the improper use of service contracts for personnel performing core office functions (see Issue 5 and corresponding Recommendation 5).

The Office expected the Country to move from a middle income country to a net contributing country. This, combined with a decrease in UNDP core funding, will further increase the importance of mobilizing extrabudgetary resources. The Office was developing a strategy to address anticipated future funding gaps (see section 3.2).

The Government fully paid its 2009 Government Contribution to Local Office Costs, which amounted to $960,000. The Government approved the 2010 and 2011 contributions amounting to $2.6 million or $1.3 million per year, which was expected to be paid in 2013. According to the Office, the 2012 Government contribution amounting to $1.5 million had not yet been approved or acknowledged by the Government. As a result, the total outstanding Government Contribution to Local Office Costs totalled $4.1 million at the time of the audit. The Office confirmed that it was regularly following up with the Government in regard to the status of the payment of outstanding contributions.

2. United Nations system coordination — Satisfactory

The United Nations Country Team included UNICEF, UNHCR, UNOHCHR, WFP, WHO, UNFPA, UNIDO, FAO, ILO, IOM, ESCWA, UNODC, UNESCO, UNIC, UNRWA, UNLOB/ILMAC, UNIFIL, UNTSO, UN-HABITAT, UNSCOL, IMF and the World Bank.

The United Nations presence in the Country is significant and complex. The United Nations Interim Force in Lebanon (UNIFIL), a peacekeeping mission, has been in the Country since 1978, and its most recent assistance mandate was extended in August 2012, with an expiration date of August 2013. The mandate of the United Nations Special Coordinator for Lebanon (UNSCOL) was to represent the offices of the Secretary-General.

OAI met with representatives of two United Nations agencies, who described cooperation within the Country Team as constructive. At the time of the audit, there were three joint programmes totalling $7 million.

No reportable issues were identified.

2.1 Development activities — Satisfactory

At the time of the audit, the Office was in the second half of its programming cycle. The United Nations Development Assistance Framework identified five outcomes for the programming period: (a) democratic governance and institutional development; (b) human rights; (c) gender; (d) socio-economic development and regional disparities; and (e) environmental sustainability. An independent mid-term review conducted in June 2012 confirmed the adequacy of the progress towards these outcomes in light of the complex operating environment.

The audit included a review of the United Nations Development Assistance Framework and its formulation process and assessed: the joint programme formulation processes; the coherence between United Nations Development Assistance Framework outcomes and programme results; the quality of joint programming documents and reporting; and the joint programme monitoring and evaluation and coordination mechanisms.

No reportable issues were identified.

2.2 Resident Coordinator Office — Satisfactory

The Resident Representative, acting as the Resident Coordinator, was also responsible for the Humanitarian Coordinator function. A review of the minutes of the United Nations Country Team and thematic group meetings, the Resident Coordinator Office Work Plan for 2012 and 2013 and the existing joint programmes did not identify any reportable issues.

2.3 Role of UNDP - "One UN" — Not Applicable

This area was not applicable to the audit as the Country was not a pilot for "One UN" nor was it a "Delivering as One" self-starter.

2.4 Harmonized Approach to Cash Transfers — Partially Satisfactory

Issue 1 Inadequate progress towards implementing the Harmonized Approach to Cash Transfers

According to the United Nations Development Group and the Programme and Operations Policies and Procedures, implementing the Harmonized Approach to Cash Transfers involves four key elements: (a) a macro-assessment of the financial management practices of the public financial system, (b) a micro-assessment of Implementing Partner financial systems and control frameworks; (c) assurance activities that include spot checks; and (d) the government's agreement with the Harmonized Approach to Cash Transfers implementation.

The Office had not made adequate progress towards full implementation of the Harmonized Approach to Cash Transfers. The last macro-assessment of the public financial management system was performed in March 2008, at the same time that micro-assessments of only two non-governmental organizations were performed. The Country Programme Action Plan covers Harmonized Approach to Cash Transfers compliance, noting that implementation has been coordinated with UNICEF and UNFPA. However, OAI was not provided with evidence demonstrating coordination among ExCom agencies (i.e. UNDP, UNFPA, UNICEF and WFP) regarding the identification of Implementing Partners for micro-assessments. OAI noted that in 2009, UNICEF conducted micro-assessments of 24 Implementing Partners. The Office attributed its lack of action to the complex nature of operating activities and the lack of capacity due to the focus on humanitarian activities.

The objective of harmonizing practices among United Nations agencies and lessening the burden of the multiplicity of United Nations procedures will not be achieved unless the Harmonized Approach to Cash Transfer requirements are met and are duly implemented.

Priority	Medium (Important)
Recommendation 1: The Office should, in coordination with the other ExCom agencies, pursue the full implementation of the Harmonized Approach to Cash Transfers.	
Management comments and action plan: __√__ Agreed _____ Disagreed The Office will consult with the relevant United Nations agencies to agree on common steps towards implementation of the Harmonized Approach to Cash Transfers.	

3. Programme activities — Satisfactory

3.1 Programme management — Satisfactory

The Country Programme Document for 2010-2014 was developed based on discussions among representatives of the Government, civil society, the private sector, the United Nations system, and the international community.

The Office provided support services to nationally implemented projects as a standard practice. This support was requested by and agreed to with the Government. The request stated that the Government recognized the complexities of the political environment and its lack of internal capacity. The Office started internal discussions regarding an exit strategy and decreased the number of support services, but did not see the possibility for such an exit in the near future. According to the Country Programme Action Plan, the Office and the Government agreed to increase the General Management Support fee to 5 percent for government cost-sharing as a result of providing support services for the implementation of programmes/projects in the Country.

OAI reviewed the composition and functioning of outcome boards, the consistency of development projects with the Country Programme Document and the United Nations Development Assistance Framework, annual reporting, and the alignment of development projects in Atlas.

No reportable issues were identified.

3.2 Partnerships and resource mobilization — Satisfactory

In 2012, the Office signed contribution agreements totalling $23 million with its main donors: the European Commission and USAID. Also, the Government had historically provided substantial cost sharing funds. OAI met with representatives of the Government and the donor community. All partners rated cooperation with the Office as positive.

The audit noted well established relations and effective cooperation with the Government in supporting programme delivery. At the time of the audit, a hard pipeline amounting to $65 million had been developed with the Government, USAID and the European Commission, which represented more than two years of programme delivery. The Office had prepared a resource mobilization strategy containing an overview of each donor and reflecting the input from individual programme portfolios as well as suggestions for potential collaboration and related action plans. However, the strategy did not match donor priorities with UNDP intervention areas. The Office agreed to perform a more detailed analysis using the standard UNDP Resource Mobilization Toolkit to clarify the strategy for building new partnerships.

Issue 2 <u>Non-standard partnership agreement with private donor</u>

In September 2012, the Office had signed a partnership agreement with a private company based in Spain. The contribution allocated for activities to be delivered by the Office represented €782,000 (about $1 million).

UNDP is one of six entities to partner with the private company to implement the regional project Machrek Energy Development - Solar (MED - Solar) supporting the installation of photovoltaic solar power plants with a planned implementation period of 30 months. The private company was awarded a grant from the Joint Managing Authority of ENPI CBC Mediterranean (ENPI CBCMED) Sea Basin Programme, European Neighbourhood and Partnership Instrument, an entity related to the European Union that funds activities in the Mediterranean region.

The partnership agreement between the private company and the Office included some terms that gave rise to inconsistencies with prevailing working and funding arrangements agreed upon between the European Commission and UNDP and documented in the Financial and Administrative Framework Agreement. For example, the partnership agreement gives the European Union-related entity the authority to commission audits of the Office's activities, whereas the Financial and Administrative Framework Agreement stipulates that "financial transactions and financial statements shall be subject to the internal and external auditing procedures laid down in the Financial Regulations, Rules and directives of the United Nations."

Any proposed deviation from the standard terms and conditions of the Financial and Administrative Framework Agreement or the working arrangement with the European Commission requires consultation with the UNDP Representation Office in Brussels which will then liaise, as necessary, with the relevant UNDP Headquarter units to obtain clearance on the proposed modifications prior to the finalization and execution of the agreement. Such consultation and clearance had not been obtained by the Office.

At the time of the audit, the Office was finalizing the operational arrangements for the project.

Priority	Medium (Important)
Recommendation 2: The Office should seek further guidance from the UNDP Representation Office in Brussels in order to properly address the inconsistencies between its partnership agreement and the Financial and Administrative Framework Agreement terms and conditions.	
Management comments and action plan: __√__ Agreed ____ Disagreed The Office has already contacted the Brussels office for guidance. The Office wishes to note that these issues will be resolved once an agreement is reached by UNDP and the European Union on the standard format to be used for funding modalities (e.g. Calls for proposals, ENPI projects) that fall outside the scope of the Financial and Administrative Framework Agreement. We understand that a negotiation with the European Union is ongoing and guidance will be issued soon by the Bureau for External Relations and Advocacy.	

3.3 Project management — Partially Satisfactory

The Office was implementing 63 projects, comprised of 28 directly implemented projects and 35 nationally implemented projects with a total budget of $127 million. Average programme delivery totalled about $28 million during the period 2010-2012. Energy and Environment was the largest portfolio, representing about 35 percent of delivery in 2012, followed by the Democratic Governance portfolio covering 31 percent of programme delivery during 2012.

OAI selected a sample of eight projects, representing 25 percent of the programme budget and 35 percent of programme delivery in 2012, and reviewed them with regard to appraisal, approval, monitoring, evaluation, and donor reporting. The Office had established adequate systems for project monitoring and effective implementation.

Issue 3 Delayed finalization of annual work plans

Annual work plans serve as the main guiding documents for project activities during the year. They specify the activities to be delivered and the timing of activities to be performed within a particular year. For three of the eight projects reviewed, the annual work plans had not been finalized until the end of the first quarter of the year, which negatively impacted the delivery of activities at the beginning of the year, particularly the procurement of goods and services.

The Office explained that the delays were caused by the complex approval procedure with the national Implementing Partners, which usually takes several months.

Failure to prepare and approve annual work plans in a timely manner may result in the delay of project implementation activities, which in turn may negatively impact resource allocation and the delivery of intended outcomes.

Priority	Medium (Important)
Recommendation 3: The Office should revise its process for preparing the annual work plans of projects in order to secure their approval prior to the end of the current year.	
Management comments and action plan: __√__ Agreed ____ Disagreed The Office will make its best efforts to comply with this recommendation. However, the difficult political context, in particular the protracted absence of a government with full powers, may hinder its implementation.	

Issue 4 <u>Inadequate due diligence performed prior to signing agreements with business entities</u>

The revised guidelines on cooperation between UNDP and the private sector require the conduct of adequate due diligence on the part of UNDP to ensure the business entity's commitment to the core United Nations values, for example, to ensure that business entities are not complicit in human rights abuses, and do not tolerate forced or compulsory labor or the use of child labor.

As part of the hydrochlorofluorocarbon (HCFC) phase-out project, the Office signed a memorandum of agreement with two private industrial companies. The agreement involved providing the two entities with financial resources (totalling about $1.8 million) to permit the installation of environmental systems. Specifically, these systems were to reduce carbon dioxide emissions and to comply with the control targets for hydrochlorofluorocarbon consumption. However, the Office failed to carry out adequate due diligence to verify whether the companies met relevant obligations and responsibilities as required by the United Nations Guidelines on Cooperation Between the United Nations and the Business Community, prior to signing the agreements. The Office's management indicated that they were not aware of the due diligence requirements.

Failure to ensure that business entities associated with UNDP share the United Nations core values and are not complicit in human rights abuses, and do not tolerate forced or compulsory labor or the use of child labor, could have a negative impact on the reputation of UNDP.

Priority	High (Critical)
Recommendation 4: The Office should ensure that adequate due diligence is performed for the two private companies on a post facto basis and any necessary corrective action is taken based on the outcome this exercise.	

Management comments and action plan: __√__ Agreed ____ Disagreed

The Office takes note of this concern and will ensure due diligence assessments are undertaken for all private business entities to be engaged with UNDP. The Office will undertake post facto assessments for the two private companies and will take any necessary corrective action according to the outcome of the assessment.

4. Operations — Satisfactory

4.1 Human resources — Partially Satisfactory

At the time of the audit, the Office had 38 personnel consisting of 4 international staff, 6 national officers, 16 General Service staff, 1 United Nations Volunteer and 11 service contract holders. In addition, 243 service contract holders and 94 individual contract holders were working on projects. The human resources function was performed by the Human Resources Associate and the Human Resources Assistant. Only one staff member was recruited during the audit period. This recruitment was reviewed, as were 9 randomly selected service contract holders, and 11 individual contract holders to verify compliance with relevant recruitment and selection processes. The recruitment and selection processes were competitive, transparent and properly documented. OAI also selected a sample of four separations and found no reportable issues.

The Office prepared a comprehensive human resources plan, including a plan for staff training and learning activities. All staff members had completed the mandatory UNDP training.

E-Recruitment (good practice): Electronic recruitment software developed by the Office was launched in May 2004 and enhanced in 2012. As a result, the Office discontinued the hard-copy submission of recruitment documents and only accepts on-line applications. The complete shift to electronic recruitment provided the Office with new opportunities to organize, review and monitor the human resources processes. The Office had already begun to take advantage of the opportunities provided relating to the recruitment process, having implemented several electronic efficiency improvements, including: user registration data, status of applications, notifications to applicants, short listing, and electronic reference checks.

Issue 5 Use of improper contract modality relating to core function positions

The service contract modality is intended to engage individuals for development projects or to conduct UNDP non-core support services that would normally be outsourced to an external company (e.g. custodial, security and information technology services). The service contract guidelines explicitly state that it is improper to use the service contract modality for hiring local office personnel to carry out core functions, i.e. functions that are of a continuing nature and are part of the central work of UNDP.

The Office engaged 10 individuals under the service contract modality, funded from the extrabudgetary resources to perform core office functions in various units of the Office, including the programme and operations sections. The Office explained that this was driven by higher costs associated with the use of fixed-term contracts, which would exceed the budget available to fund these posts. The service contract holders, which are by definition non-staff contractors, do not enjoy the same benefits as staff hired on fixed-term appointments. In addition, the Office indicated that this modality was used for positions where the work was directly related to project implementation activities. However, the Office was not monitoring and recording actual work performed by these individuals in order to allow for the subsequent allocation and charging of expenditures against project budgets. Also, the terms of reference of affected staff did not include specifications for services provided to particular projects. The Office was aware of this situation and had already made efforts prior to 2012 to rectify the situation by converting two positions from service contracts to fixed-term appointments.

In response to the draft report, Management also indicated that the service contract holders support project implementation activities in the different units of programme and operations. Their cost is recovered mainly through direct charge to project budgets (Implementation Support Services). All of them are supervised by UNDP staff members. None of them have approval rights in Atlas in accordance with the Internal Control Framework and standard operating procedures. The Office further stated the service contract positions mentioned in the report were included in the structure recommended by the 2009 Management Consulting Team mission, which was reviewed and cleared by the Office of Human Resources and the Organisational Design Unit in New York.

Allowing service contract holders to perform core functions may negatively impact the Office, as there are restrictions on the access rights and authority levels that can be given to service contract holders. For example, as service contract holders are not staff, allowing them to exercise approving roles in Atlas is prohibited. In addition, the reliance on service contract holders to perform core office functions could result in an imbalance in terms of salary and benefits among the Office's personnel.

Priority High (Critical)
Recommendation 5: The Office should ensure that personnel are hired using the proper contractual modality with due consideration to the nature of the post and the duties that they will perform.
Management comments and action plan: __√__ Agreed ____ Disagreed The Office agrees with the recommendation and will take the following steps: (a) revision of Terms of Reference of the service contract positions to better reflect project implementation support functions; and (b) proper monitoring and recording of the project implementation services provided by the service contract holders through a timesheet, to be signed by the respective Heads of Unit. Further comments provided by management have been added to the audit observation above.

4.2 Finance — Satisfactory

The Office recorded 5,320 vouchers valued at $19.4 million in 2012 and 744 vouchers with a value of $2.1 million in the first two months of 2013. The Finance Unit had four staff. OAI reviewed 54 of these vouchers with a total value of $4.3 million or about 20 percent of all vouchers recorded during the audit period. OAI also reviewed the payment process, adequacy of supporting documents, management of bank accounts, and the correct use of the Chart of Accounts. The Office had agreed to deactivate the 35 cases identified of obsolete and duplicate vendors from the vendor database to minimize the risk of duplicate payments. No reportable issues were identified.

4.3 Procurement — Partially Satisfactory

The Office recorded 969 purchase orders with a value of 16.7 million in 2012 and 99 purchase orders with a value of $5.7 million in the first two months of 2013. The Procurement Team was comprised of three staff. The Head of Office had a procurement delegation of authority up to $300,000. The Regional Advisory Committee on Procurement reviewed eight procurement cases submitted in 2012 and approved six of them. Two cases were rejected mainly due to changes in the contract scope during the procurement process, and limitations relating to international competition. No procurement cases were submitted to the Committee during the first two months of 2013. OAI reviewed 30 purchase orders valued at $3.3 million or about 15 percent of the total value of items procured using purchase orders during the audit period.

Issue 6 Incomplete selection process for individual contractors

According to the Programme and Operations Policies and Procedures, individual contractors must be selected through a competitive process with a minimum of three qualified offerors for contract amounts exceeding $5,000. The policy further requires that when contract amounts are expected to exceed $100,000, interviews must be conducted. However, there is nothing that prohibits business units from exercising their discretion to arrange for an interview for individual contracts below $100,000, when it is deemed beneficial to the process.

OAI reviewed the procurement files for 10 individual contractors, and found that in 3 cases the Office had proceeded with the process even though it included less than 3 qualified offerors. Further, in two of the cases the mandatory interviews were not performed as part of the evaluation process, even though the contracts were valued respectively, at $100,000 and $100,800. The Office indicated that it had incorrectly assumed that the requirement meant three offerors, not three qualified offerors. The Office also explained that regarding the lack of interviews for the two candidates, in the first case the contract amount was initially expected to be around $80,000, and in the second case the person had worked for the Office before as a service contractor and the Office had relied on the satisfactory performance evaluation from the prior contract.

Without having the relevant quorum of qualified candidates, the competition that should lead to best value for money could not be ensured. The Office may miss critical information if hiring on service contracts takes place without interviews when the services required are significant in terms of their duration and/or their high level of competencies and skills.

Priority	Medium (Important)
Recommendation 6: The Office should ensure that: (a) individual contracts are awarded based on a competitive process by requiring that the minimum quorum of qualified candidates is included in the process; and (b) interviews are carried out for individual contractors whose contract amounts are expected to approximate or exceed $100,000.	
Management comments and action plan: __√__ Agreed ____ Disagreed	

4.4 Information and communication technology — Satisfactory

OAI reviewed the disaster recovery (business continuity) plan, data backup procedures, use of licensed software, and procedures protecting information technology systems from viruses and attacks by hackers, and found them to be adequate. No reportable issues were identified.

4.5 General administration — Satisfactory

OAI reviewed the administration of the Office premises, record management, vehicle management and travel to determine whether these services were carried out in accordance with the relevant rules, policies and procedures and whether they were managed efficiently. The audit also sought to determine whether the Office recovered expenses incurred for the provision of services to other United Nations agencies. No reportable issues were identified.

4.6 Safety and security — Satisfactory

The Country is at security level 4 - substantial. The United Nations Special Coordinator for the Country is the Designated Official responsible for safety and security of United Nations agencies in the Country, north of the Litani River. The Designated Official has two deputies: the Head of the Economic and Social Commission for Western Asia and the UNDP Resident Representative. The latest Security Risk Assessment for the Country carried out in May 2012 identified five areas at medium residual risk. The rest of the areas were considered low risk. Mitigating measures were in place. Overall, the Office was compliant with the Minimum Operating Security Standards. No reportable issues were identified.

4.7 Asset management — Satisfactory

The Office performed mid-year and year-end asset counts and a year-end asset verification of project assets. These procedures confirmed the accuracy of the asset records. The net book value of assets as of 28 February 2013 was $421,000. OAI noted that the list of assets included 108 assets with a net book value of $0, as they had been fully depreciated. OAI verified a sample of assets and identified one obsolete asset kept in the storage room. The Office agreed to carry out a review to ensure that assets that are no longer in use or obsolete, are promptly disposed of.

4.8 Leave management — Satisfactory

All leave for fixed-term appointments was properly administered through e-Services in Atlas. According to the Atlas leave records, 10 of 22 staff will have accrued the maximum allowable annual leave of 60 days by 31 March 2013. The Office agreed to encourage staff to take annual leave to ensure better work-life balance (the Office staff had scored the work-life balance dimension low in the 2012 Global Staff Survey). Taking annual leave is necessary to avoid staff burn-out and to enable the Office to test back-stopping functions. No other reportable issues were identified.

4.9 Global Environment Facility — Not Applicable

The Office's project portfolio included seven projects funded by the Global Environment Facility. The total Global Environment Facility funding for these projects totalled contributions of $5.4 million in 2012. Total expenditures of these projects totalled $1.4 million in 2012. OAI reviewed whether the Office had effectively supported the UNDP Global Environment Facility projects and programme formulation, implementation, oversight, resource mobilization and knowledge management. No reportable issues were identified.

ANNEX Definitions of audit terms - ratings and priorities

A. AUDIT RATINGS

In providing the auditors' assessment, the Internal Audit Services of UNDP, UNFPA, UNICEF and WFP use the following harmonized audit rating definitions. UNDP/OAI assesses the Country Office or audited HQ unit as a whole as well as the specific audit areas within the Country Office/HQ unit.

- **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. *(While all UNDP offices strive at continuously enhancing their controls, governance and risk management, it is expected that this top rating will only be achieved by a limited number of business units.)*

- **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. *(A partially satisfactory rating describes an overall acceptable situation with a need for improvement in specific areas. It is expected that the majority of business units will fall into this rating category.)*

- **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. *(Given the environment UNDP operates in, it is unavoidable that a small number of business units with serious challenges will fall into this category.)*

B. PRIORITIES OF AUDIT RECOMMENDATIONS

The audit recommendations are categorized according to priority, as a further guide to UNDP management in addressing the issues. The following categories are used:

- **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 and may affect the organization at the global level.

- **Medium (Important)** Action is required to ensure that UNDP is not exposed to significant 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 <u>not included in this report</u>.