



**AUDIT**

**OF**

**UNDP COUNTRY OFFICE**

**IN**

**PAKISTAN**

**Report No. 1203**

**Issue Date: 17 December 2013**

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## Report on the audit of UNDP Pakistan Executive Summary

From 3 to 18 September 2013, the Office of Audit and Investigations (OAI) of the United Nations Development Programme (UNDP) conducted an audit of the UNDP Country Office in Pakistan (the Office). The audit covered the activities of the Office during the period from 1 January 2012 to 15 September 2013. During the period reviewed, the Office recorded programme and management expenditures totalling \$125 million. The last audit of the Office was conducted by OAI in 2011.

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 **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 weaknesses in project management, finance and procurement management. Ratings per audit area and sub-areas are summarized below.

Audit Areas	Not Assessed/ Not Applicable	Unsatisfactor y	Partially Satisfactory	Satisfactory
<b>1. Governance and strategic management</b>				
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			
<b>2. United Nations system coordination</b>				
2.1 Development activities	Not Assessed			
2.2 Resident Coordinator Office	Satisfactory			
2.3 Role of UNDP – “One UN”	Not Assessed			
2.4 Harmonized Approach to Cash Transfers	Not Assessed			
<b>3. Programme activities</b>				
3.1 Programme management	Satisfactory			
3.2 Partnerships and resource mobilization	Satisfactory			
3.3 Project management	Partially Satisfactory			
<b>4. Operations</b>				
4.1 Human resources	Satisfactory			
4.2 Finance	Partially 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 7 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 2)	<u>Weak project monitoring and assurance.</u> The Office did not establish an overall monitoring framework for projects. The programme staff conducted limited field visits during the audit period. Also, monitoring reports did not document progress made on achieving output indicators and baselines, and it was difficult to determine whether the projects were progressing towards intended results. There was also no tracking system in place to follow up on recommendations noted during monitoring activities. OAI recommends that the Office ensure compliance with the Programme and Operations Policies and Procedures on project monitoring and assurance: (a) establishing an overall monitoring framework to identify monitoring and assurance activities, determining when they will be undertaken, and determining which staff will conduct them; (b) ensuring programme monitoring visits are undertaken annually and are documented, including reporting against output indicators identified in the Annual Work Plans; and (c) developing a tracking system to ensure documented follow-up of recommendations resulting from monitoring activities.
Procurement (Issue 5)	<u>Inadequate controls in managing performance bonds and bank guarantees.</u> During the audit period, the Office received bank guarantees and performance bonds amounting to \$1.8 million from certain vendors. However, the Office did not establish adequate controls over the custody and retention of these bank guarantees and performance bonds. A complete record of all the bank guarantees and performance bonds was not maintained, and the Head of Office was not always recorded as the beneficiary. OAI recommends that the Office comply with the Programme and Operations Policies and Procedures concerning the management of performance bonds and bank guarantees by: (a) ensuring that the Resident Representative is noted as the beneficiary of these bank guarantees; (b) establishing procedures to record and retain these documents in the Office’s safe; and (c) requiring that performance bonds are issued by the Office’s official banking service provider whenever possible.

The implementation status of previous OAI audit recommendations (Report No. 756, 5 March 2012) was also validated. Of the 9 recommendations, 7 were fully implemented, and 2 were withdrawn.

## Cross-cutting themes

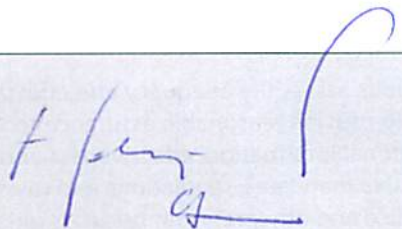
As part of the 2013 OAI Annual Work Plan, all Country Office audits will include specific areas to be reviewed in more depth. Results from all audits will be compiled and analysed at the corporate level, and thereafter, a consolidated report will be issued separately. For this particular audit, the following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

## I. Introduction

From 3 to 18 September 2013, OAI conducted an audit of UNDP Pakistan. 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 programme activities and operations. The audit covered relevant activities during the period from 1 January 2012 to 15 September 2013. In view of an audit that was planned to be undertaken in November 2013 on the United Nations "Delivering as One" programme, this audit only covered operational transactions relating to the Resident Coordinator Office. During the period reviewed, the Office recorded programme and management expenditures totalling \$125 million. The last audit of the Office was conducted by OAI in 2011. Audits of four directly implemented projects were undertaken in October 2012 and reports were issued in June 2013 (Audit Report Nos. 987, 988, 990 and 1057). That audit assessed two Early Recovery Programmes (Project IDs 77286 and 76296) and two Peace and Development projects (Project IDs 74261 and 72030). All four projects were rated "partially satisfactory."

The implementation status of previous OAI audit recommendations (Report No. 756, 5 March 2012) was also validated. Of the nine recommendations, seven were fully implemented, and two were withdrawn.

## II. About the Office

The Office, located in Islamabad, Pakistan (the Country), is one of eight pilot offices to have undertaken "Delivering as One" initiatives since signing the One UN Programme in February 2009. The Programme expenditures totalled \$77 million in 2011 and \$78 million in 2012. At the time of the audit, the Office had 63 personnel consisting of 5 international staff, 19 National Officers and 39 General Service staff. In addition, there were 64 service contract holders and 18 national United Nations Volunteers.

The Office completed its programme cycle in 2012 and initiated a new one for 2013-2017. The Office's development interventions were impacted by floods in 2012 that resulted in significant relief and recovery efforts. Additionally, security threats increased, hindering access to project areas. The 18th Amendment of the Country's constitution to devolve several key federal ministerial roles to provincial governments has also impacted on the national coordination mechanisms for environment, education, health, agriculture and other sectors. It also necessitated institutional capacity building of provincial governments to cope with the additional responsibilities.

### III. Detailed assessment

#### 1. Governance and strategic management

Satisfactory

The Office's management structure consists of the Resident Representative (who is also the United Nations Resident Coordinator), the Country Director and two Deputy Country Directors. The day-to-day management of the Office was delegated to the Country Director. The Office established a revised Internal Control Framework in August 2013 aimed at clarifying staff accountabilities and enhancing oversight of the Office's resources and activities.

The Office did not have a signed Standard Basic Assistance Agreement with the Government. OAI noted that both the Office and the Regional Bureau for Asia and Pacific had been following up with the Government and this was likely to take more time. Thus, OAI is not making a recommendation.

No other reportable issues were identified.

#### 1.1 Organizational structure and delegations of authority

Satisfactory

OAI reviewed the organization chart, reporting lines and delegation of authority to determine if the resources in the Office's Integrated Work Plan were aligned with its organizational structure. The Office formulated and implemented a Structural Adaptation Plan in June 2013, which focused on achieving the following six specific objectives: (a) developing policy advisory management services; (b) enhancing coherence and sharpening the programmatic focus; (c) having a decentralized presence; (d) strengthening oversight and risk management; (e) receiving additional support from Headquarters units; and (f) requesting the Regional Bureau for Asia and the Pacific to convene a technical working group to monitor and support implementation of this Structural Adaptation Plan. The Structural Adaptation Plan suggested the establishment of a Policy Unit and the estimated reduction of nine posts, which would result in \$0.5 million in savings. Subsequent to the audit field work, the Office informed OAI that the Structural Adaptation Plan had been fully implemented.

No reportable issues were identified.

#### 1.2 Leadership, ethics and values

Satisfactory

OAI reviewed the Global Staff Survey results, management's strategy for creating a harmonious working environment and compliance with the requirement for taking the "Ethics" training course. OAI interviewed several of the Office's staff members, representatives of the staff association and the Office's senior management.

The Office's Global Staff Survey results for 2012 indicated lower scores than the global average for several areas, including openness, fairness and respect, human resources management, free of prejudice and harassment and professional development. The Office advised that regular general staff meetings and senior staff group meetings had been held in 2013 to address concerns highlighted in the Global Staff Survey. The Office initiated actions such as conducting weekly training on Thursday and Friday mornings to improve staff capacity and enable sharing of knowledge among staff. Subsequent to the audit, the 2013 Global Staff Survey results highlighted an improved score in several indicators especially those related to the Office management team, work life balance and openness, fairness and respect.

At the time of audit only 46 percent of the staff (37 out of 80) had completed the mandatory “Ethics” training in the Learning Management System. Subsequent to the audit field work, the Office informed OAI that all staff had completed the mandatory “Ethics” training course. The Office also advised that upon joining, new personnel, including staff members and service contract holders, are provided with a printed copy of their applicable standards of conduct (which they acknowledge in writing), as well as an Ethics Office publication titled “Putting Ethics to Work.”

### 1.3 Risk management, planning, monitoring and reporting

**Satisfactory**

OAI reviewed the Office’s overall management of risks impacting UNDP’s objectives and mandate in the Country. OAI also assessed the Office’s planning, monitoring and reporting functions, such as the Results Orientated Annual Report and the development of the Office’s Integrated Work Plan.

No reportable issues were identified in this area.

### 1.4 Financial sustainability

**Satisfactory**

OAI reviewed the Office’s management of non-core financial resources, such as extrabudgetary resources and its recovery of Government Contributions to Local Office Costs. The Office had 28 months of extrabudgetary reserves at the end of 2012, which was estimated to decrease to 17 months by the end of 2013. This reduction was primarily due to funding the Country Director and Deputy Country Director (Programme) posts from extrabudgetary resources beginning in 2013. However, the Office developed a comprehensive strategy to mitigate the reduction of extrabudgetary resources by increasing the income base and reducing overall office costs in the long run. This included reducing the high rental costs of office space from 2014 onwards.

The Office also fully recovered Government Contributions to Local Office Costs up to 2012, and was in the process of recovering them for 2013.

## 2. United Nations system coordination

**Satisfactory**

### 2.1 Development activities

**Not Assessed**

This area was covered in the audit of “Delivering as One” in Pakistan conducted by OAI in November 2013; a separate report will be issued in due course.

### 2.2 Resident Coordinator Office

**Satisfactory**

OAI’s review was limited to examining a sample of operational transactions, and no exceptions were noted. The remaining aspects of this section were reviewed as part of the “Delivering as One” audit.

### 2.3 Role of UNDP - “One UN”

**Not Assessed**

This area was assessed as part of the “Delivering as One” audit.



## 2.4 Harmonized Approach to Cash Transfers

Not Assessed

This area was assessed as part of the “Delivering as One” audit.

## 3. Programme activities

Partially Satisfactory

### 3.1 Programme management

Satisfactory

The previous 2011-2012 programme cycle was limited to two years to ensure alignment with the then United Nations Development Assistance Framework 2009-2012. During this two-year period, the Office delivered \$155 million against a budget of \$174 million. Office operations were severely impacted by inclement weather conditions, including floods, earthquakes and security concerns. Heavy involvement in the crisis response limited the Office's contribution to its core thematic areas and its involvement at the policy level in long-term development issues. The Office made an effort to strengthen its involvement in these areas during the 2013-2017 programme cycle through implementation of the Structural Adaptation Plan, which included increased effort and advocacy with partners, and the establishment of a Policy Unit to anchor long-term strategic impact.

UNDP, UNFPA and UNICEF developed a Common Country Programme for 2013-2017 to further promote United Nations coherence, enhance joint programming, and accelerate a joint United Nations approach to “Delivering as One.” The operationalization of the Common Country Programme was outlined in the Common Country Programme Action Plan, with UNDP focusing on the following three main areas: (a) inclusive economic growth through the development of sustainable livelihoods; (b) increased national resilience to disasters, crises and external shocks; and (c) strengthening governance and social cohesion.

No reportable issues were identified.

### 3.2 Partnerships and resource mobilization

Satisfactory

OAI reviewed signed donor agreements, resource mobilization targets for 2012 and 2013, and met with donors supporting UNDP's projects. The Office mobilized a total of \$34 million, against a 2012 target of \$30 million. Additionally, the Office mobilized \$52 million for 2013 and \$15 million for 2014 against a target of \$52 million for each year of the Country Programme 2013-2017.

The main donors included the European Union, Japan, Norway, Swiss Agency for Development and Cooperation, and the Global Environment Facility. The Office made improvements in the quality and timeliness of reporting in the last year, and continues to do so within the framework of the Structural Adaptation Plan.

No reportable issues were identified.

### 3.3 Project management

Partially Satisfactory

At the time of audit, the Office had a project portfolio of 34 development projects (20 nationally implemented and 14 directly implemented by the Office) under the thematic areas below:

**Table 1: Annual expenditures of UNDP Pakistan by thematic area**

Thematic area	2011 Expenditure (\$ millions)	2012 expenditure (\$ millions)	2013 expenditure (Jan - Aug 2013) \$ millions
Poverty Reduction	7	4	1
Democratic Governance	12	6	9
Crisis Prevention	51	54	16
Energy and Environment	6	7	4
Unlinked	1	7	1
<b>Total</b>	<b>77</b>	<b>78</b>	<b>31</b>
<b>Budgets</b>	<b>112</b>	<b>87</b>	<b>52</b>

Source: Balanced Score Card

The Office originally indicated a delivery target of \$68 million for 2013; however this was corrected to \$52 million. The Office explained that this was due to two budget revision errors that were identified. The decrease in 2013 was also due to the completion of the Early Recovery Programme that accounted for a significant portion of the 2011 and 2012 expenditures.

During 2011-2013, the Office also undertook 10 project evaluations and 1 outcome evaluation (Environment and Climate Change). For 2012, all planned evaluations were undertaken, and others were ongoing at the time of audit.

OAI reviewed a sample of 10 projects, (79629, 83038, 57915, 80195, 78193, 77650, 42992, 58061, 53126 and 81893), of which 1 was funded by the Global Environment Facility. The projects represented 35 percent of total expenditures for the audit period. OAI reviewed the project development process, including Project Documents, consultations, implementation, monitoring, reporting and closure, and also met with two donors. OAI also reviewed the Annual Reports for the 10 projects and specific evidence relating to the progress shown by 2 projects (79629 and 81893).

OAI noted that while consultations with external stakeholders were conducted for most of the projects prior to implementation, for other projects deliberations on the Project Documents were not undertaken (85653 and 87334). Subsequent to the audit, the Office developed guidelines for the project appraisal process.

OAI also noted that in 2013, Project 79629 developed a web-based monitoring system that captured real-time implementation-related statistics. This system could be implemented by other projects, and is considered a good office practice.

### **Issue 1**      Financial closure of projects not completed in a timely manner

According to the Programme and Operations Policies and Procedures, a project should be operationally closed when the last UNDP-financed inputs have been provided and the related activities have been completed. Financial closure should be undertaken not more than 12 months after operational closure.

The Office made progress in closing 56 projects during the audit period. However, 22 operationally closed projects (prior to 2011) were yet to be financially closed. Of these, 20 related to the "One Programme" and

United Nations coordination projects. The Office stated that the project closure process was delayed by the Office's Structural Adaptation Plan, which impacted staff resources, especially Programme Associates, who were primarily responsible for project closures.

By not closing projects in a timely manner, the Office risks unauthorized expenditures charged against these projects.

<b>Priority</b>	Medium (Important)
<b>Recommendation 1:</b>	
The Office should ensure that: (a) all operationally closed projects are financially closed within 12 months of operational closure; and (b) the 22 projects operationally closed prior to 2011 are closed within an established timeframe.	
<b>Management comments and action plan:</b> <input checked="" type="checkbox"/> Agreed <input type="checkbox"/> Disagreed	
The Office initiated the following action to implement the recommendation:	
High priority was given to the operational and financial closure of projects, and the Office indicated that the remaining 22 operationally closed projects would be financially closed by December 2013.	

**Issue 2**      Weak project monitoring and assurance

The Programme and Operations Policies and Procedures provide that the project manager is responsible for the following: monitoring progress against the approved work plan; monitoring events as determined in the project monitoring schedule plan; updating the plan as required; and monitoring financial resources and accounting to ensure accuracy and reliability of financial reports.

For project assurance purposes, a representative from the UNDP office is required to visit each project at least once a year. Field visits are intended to validate results and provide the latest information on progress for annual report preparation.

OAI noted a number of weaknesses relating to project monitoring:

- The Office did not establish an overall monitoring framework for its projects. According to the Office, it was in the process of developing a framework for the new Country Programme (2013-2017).
- During the audit period, programme staff conducted only a limited number field visits. Of the 10 projects reviewed by OAI, programme staff visited only three projects for assurance purposes. Also, monitoring reports did not document the progress made in achieving output indicators and baselines identified in the Annual Work Plans and in Project Documents. Therefore, it was difficult to determine whether the projects were progressing towards the intended results.
- Except for Project 79629, the follow-up of recommendations resulting from the earlier monitoring visit was not documented.

The issues discussed partly contributed to the poor quality of outputs. For example, for Project 83038 (Sustainable Development through Peacebuilding, Governance and Economic Recovery Programme in Khyber Pakhtunkhawa), the lack of supervision by project staff resulted in technical issues, such as the absence of proper drains and uneven surfaces. In addition, the Monitoring Officer noted that contractors used sub-standard construction material and made unauthorized variations to the original designs due to poor supervision. Rigorous monitoring of this project was only instituted in mid-October 2012. The Office explained that security concerns and inclement weather hindered the regular monitoring of project activities in some provinces.

Lack of adequate monitoring of project activities may result in non-achievement of project outputs, thereby negatively impacting the Office's reputation and reducing donor confidence in UNDP's work.

<b>Priority</b>	High (Critical)
<b>Recommendation 2:</b>	
<p>The Office should ensure compliance with the Programme and Operations Policies and Procedures on project monitoring and assurance by:</p> <ul style="list-style-type: none"> <li>(a) establishing an overall monitoring framework to identify monitoring and assurance activities, determining when they will be undertaken, and determining which staff will conduct them;</li> <li>(b) ensuring programme monitoring visits are undertaken annually and are documented, including reporting against output indicators identified in the Annual Work Plans; and</li> <li>(c) developing a tracking system to ensure documented follow-up of recommendations resulting from monitoring activities.</li> </ul>	
<p><b>Management comments and action plan:</b>    <input checked="" type="checkbox"/> Agreed    <input type="checkbox"/> Disagreed</p> <p>The Office indicated that a number of steps had been taken to strengthen the monitoring and oversight of projects, which included clarifying project monitoring roles among personnel.</p>	

**4. Operations** **Partially Satisfactory**

**4.1 Human resources** **Satisfactory**

The Human Resources Unit had five posts (a Human Resources Specialist, a Human Resources Officer and three Human Resources Associates). The Office also provided human resource services to other United Nations agencies. OAI reviewed the overall management of the human resources functions, specifically the recruitment and separation processes, staff advances, payroll, mandatory training completed and management of leave balances to ascertain compliance with the relevant policies and procedures.

Since one medium priority issue was identified, this section was rated as "satisfactory."

**Issue 3**      Weaknesses within human resource management

- (a)      Mandatory training not fully completed

The Programme and Operations Policies and Procedures require all staff to complete mandatory courses in the Learning Management System. A total of 28 out of 63 staff (or 44 percent) did not complete the courses. However, subsequent to the audit fieldwork, all staff were able to complete the “Ethics” training course.

(b) Performance assessments not completed in a timely manner

The Programme and Operations Policies and Procedures require staff members to complete the Results and Competency Assessment and to establish individual learning plans and training needs. As of 31 August 2013, there were 20 staff members who did not complete their 2012 Results and Competency Assessments by the 31 March 2013 deadline. Subsequent to audit fieldwork, the Office informed OAI that 16 staff members had since completed the assessment and only 4 staff members had still yet to complete their assessment.

The delay in completing mandatory training increases the risk that staff members may not be able to perform their duties in accordance with UNDP policies and procedures. Furthermore, failure to complete the Results and Competency Assessments in a timely manner may prevent staff from receiving important feedback about their performance.

<b>Priority</b>	Medium (Important)
<b>Recommendation 3:</b>	
The Office should ensure compliance with Programme and Operations Policies and Procedures on human resources management by ensuring that: (a) all staff members complete all mandatory training within a specified time frame; and (b) Results and Competency Assessments are completed by the deadline established.	
<b>Management comments and action plan:</b> <input checked="" type="checkbox"/> Agreed <input type="checkbox"/> Disagreed	
The Office indicated that efforts were underway to ensure that mandatory training were completed and that Results and Competency Assessments were completed by the required deadline in 2014.	

**4.2 Finance**

**Partially Satisfactory**

During the audit period, the Office processed 17,033 vouchers totalling \$96 million. OAI reviewed 120 payment vouchers totalling \$19 million, or 20 percent of all vouchers paid. The review also covered bank account reconciliations, advances made to national Implementing Partners, revenue and expense management and payment and disbursement processes.

**Issue 4**            Incorrect recording of advances as expenses

The Programme and Operations Policies and Procedures state that expenses will be recognized when the goods (non-capital) or services have been received by UNDP. The Office provided 20 percent of contract values as advance payments to vendors for civil contracts. However, the Office recorded these advances as expenses instead of prepayments. During the audit period, the Office made advances of \$1.8 million to vendors for undertaking civil contracts, which were all recorded as expenses instead of advances. The Office explained that this happened mainly because International Public Sector Accounting Standards (IPSAS) were only adopted in

2012 and staff were not very familiar with the correct accounting entries at the early stage of IPSAS implementation in the Office.

Further, the Office recorded advances given to Responsible Parties as expenses instead of recording them as prepayments. During the audit period, the Office signed Letters of Agreement with Responsible Parties amounting to \$6 million.

These Office's accounting practices did not comply with the Programme and Operations Policies and Procedures and the International Public Sector Accounting Standards adopted by UNDP. Further, these accounting practices resulted in overstating expenses in the project's Combined Delivery Reports.

<b>Priority</b>	Medium (Important)
<b>Recommendation 4 :</b>	
The Office should ensure compliance with the Programme and Operations Policies and Procedures and International Public Sector Accounting Standards on the expense policy. This should include ensuring that the advances made to the vendors and Responsible Parties are recorded as prepayments instead of expenses.	
<b>Management comments and action plan:</b> <input checked="" type="checkbox"/> Agreed <input type="checkbox"/> Disagreed	
The Office initiated the following actions to implement the recommendation:	
Relevant guidance was issued to staff and approving managers on 25 September 2013. Further, as part of the new Internal Control Framework and payment workflow, the Finance Unit began completing pre-audits prior to the disbursement of funds.	

### 4.3 Procurement

**Partially Satisfactory**

The Procurement Unit had five posts (a Procurement Analyst, two Procurement Associates and two Procurement Assistants). OAI reviewed the Office's compliance with procurement and contract management policies. OAI selected a sample of 65 purchase orders with a value of \$7.4 million, which represented 47 percent of the value of total purchase orders processed between 1 January 2012 and 31 July 2013. Weaknesses noted in this area are discussed below.

#### **Issue 5**      Inadequate controls in managing performance bonds and bank guarantees

The Programme and Operations Policies and Procedures state that when an advance payment exceeding \$30,000 is made, the vendor shall provide a bank guarantee (valid for the duration of the contract) or a certified cheque. Further, contractors have to submit a bank guarantee equivalent to 10 percent or a performance bond equivalent to 30 percent of the contract amount when undertaking civil contracts.

The Office had custody over bank guarantees and performance bonds amounting to \$1.8 million as at 18 September 2013, which were received from vendors who were awarded civil contracts. During the audit fieldwork, the Office informed OAI that the overall management of performance bonds and bank guarantees needed improvement as there were some control weaknesses. OAI's review of the management of these performance bonds and bank guarantees highlighted the following discrepancies:

- (a) The beneficiary stated in these bank guarantees or performance bonds was not always the same. The stated beneficiaries in some bank guarantees and performance bonds included the Operations Manager, the Principal UNDP, the Project Manager and the Deputy Country Director. This gave rise to the risk of unauthorized UNDP personnel cashing these non-negotiable instruments, resulting in a financial loss to UNDP.
- (b) There was inadequate control and custody of these bank guarantees and performance bonds, as they were not placed in the Office's safe until August 2013. Prior to that time, these documents were kept in the office desk of a Procurement Unit staff member and at Project offices. Since August 2013, the Office placed all performance bonds and bank guarantees in the safe located in the Finance Unit.
- (c) The Office did not maintain complete records of the performance bonds and bank guarantees received from the vendors. For example, the Office provided a list containing 15 bank guarantees received. However, there were several other performance bonds and bank guarantees not recorded in the list.
- (d) The Office did not establish procedures for renewing or releasing these performance bonds or bank guarantees. The list provided by the Office included five expired performance bonds.
- (e) The performance bonds were issued by insurance companies, the financial standing of which were not determined by the Office. Further, there was no documented evidence to indicate that the Office had verified the legitimacy of these performance bonds or bank guarantees by checking with the issuers.

Inadequate control over the management of bank guarantees and performance bonds exposes UNDP to the risk of financial loss if unauthorized personnel cash these financial instruments.

<b>Priority</b>	High (Critical)
<b>Recommendation 5:</b>	
The Office should comply with the Programme and Operations Policies and Procedures concerning the management of performance bonds and bank guarantees by:	
<ul style="list-style-type: none"> <li>(a) ensuring that the the Resident Representative is noted as the beneficiary of bank guarantees;</li> <li>(b) establishing procedures to record and retain bank guarantees in the Office's safe; and</li> <li>(c) requiring that performance bonds are issued by the Office's official banking service provider wherever possible.</li> </ul>	
<b>Management comments and action plan:</b> <input checked="" type="checkbox"/> Agreed <input type="checkbox"/> Disagreed	
Subsequent to the audit fieldwork, the Office issued a memo to staff to rectify existing practices and to comply with the Programme and Operations Policies and Procedures. Specifically, the Office addressed the need to state the Resident Representative as the beneficiary on bank guarantees, establish procedures to record and retain bank guarantees in the Office's safe and the need to ensure that performance bonds are issued by the Office's official banking service provider. Also, the Office indicated that it had verified and validated the list of all active performance and advance guarantee instruments from the insurance company.	

**Issue 6** Weaknesses in the selection and management of individual contract holders

The Programme and Operations Policies and Procedures require that individual contract holders submit the offeror’s letter confirming interest and availability (including brief methodology of how they will approach the assignment), and their latest personal resume and financial proposal. In addition, a certification of satisfactory completion of work by the authorized official should be completed each time a payment is made. The Individual Contractor Performance Evaluation Form must be attached to the Certification for Payment Form when processing the final payment.

OAI reviewed 14 individual contracts and noted the following deficiencies:

- technical proposal was not on file (5 cases);
- financial proposal was not available on file (2 cases);
- supporting documentation for the basis of selection of five shortlisted candidates was not available; and
- performance evaluations were not completed at the end of the assignment (12 cases).

These issues arose because staff were unaware of the corporate policies. Inadequate documentation of recruitment processes may result in non-competitive selection. Lack of documentation of performance and deliverables may lead to consultants being paid without satisfactory completion of the work assigned.

<b>Priority</b>	Medium (Important)
<b>Recommendation 6:</b>	
The Office should ensure compliance with the Programme and Operations Policies and Procedures governing the individual contractor modality, by ensuring that: (a) complete information on the hiring of individual contractors is retained on file; and (b) performance evaluations are prepared and approved by the hiring manager prior to the final payment of the contractor.	
<b>Management comments and action plan:</b> <input checked="" type="checkbox"/> Agreed <input type="checkbox"/> Disagreed	
The Office indicated that they had developed policy guidance for their staff to bring additional focus to the provisions of the independent consultant’s chapter in the Programme and Operations Policies and Procedures.	

**Issue 7** Weaknesses in the use of contracts for consulting services and civil works

The Programme and Operations Policies and Procedures prohibit modifications or additions to the UNDP general terms and conditions for consulting services and civil works agreements.

OAI noted 3 cases out of 14 in which contracts did not adhere to corporate templates with regard to the following clauses:

- Clause 2 (Obligation of contractor) - The contracts usually did not have a specific payment milestone (which is typical of fixed price contracts) as in most cases the payments were based on certified bills of quantities; and



- Clause 4.5 (Advance payment) - The contract did not include the clause on progressive deductions to be made against the initial 20 percent mobilization advance granted to vendors.

Also, modifications were made within the general terms and conditions section in the following clauses:

- Clause 11 - Copyright, patents and other proprietary rights
- Clause 14 - Force majeure
- Clause 22 - Sexual exploitation

Furthermore, a civil works contract reviewed did not include the general conditions of contract section.

Without approval for the changes in the standard contracts, the Office may have made unauthorized commitments on behalf of UNDP.

After the audit, the Office issued an instruction to staff on using the most current contract templates from the Procurement Support Office website. Hence, OAI is not making any further recommendation.

#### 4.4 Information and communication technology

**Satisfactory**

OAI reviewed the Office's management of information and communication. This included staffing of the Information and Communications Technology Unit, disaster recovery, data backup and recovery, server room access control and network and systems security. The Office implemented all prior audit recommendations, which included strengthening and testing the disaster recovery plan.

No reportable issues were identified.

#### 4.5 General administration

**Satisfactory**

OAI reviewed the Memoranda of Understanding with United Nations agencies on common services provided by the Office, the long-term agreements with travel agents and the fuel supplier. The Office had expressed concern with the travel agents regarding the quality of service, directness of routes being offered and price competitiveness. As the Office was in the process of addressing these issues with the respective travel agents, and no other reportable issues were identified.

#### 4.6 Safety and security

**Satisfactory**

The United Nations Designated Official for Security in the Country was the UNDP Resident Representative and UN Resident Coordinator. The Office was located in a commercial building which had multiple security levels. The security phase in the Country varied from high to low depending on the location.

OAI reviewed a number of security documents, including the Security Risk Assessment, Security Plan and the Security Compliance Survey for the Country Office and the Office in Peshawar. Based on the desk review of these documents, no reportable issues were identified.

#### 4.7 Asset management

**Satisfactory**

At the end of 2012, the Office had 318 assets valued at \$ 2.3 million and 77 project assets valued at \$0.5 million. The Office conducted a physical verification of assets in December 2012 and reported no exceptions. OAI randomly selected 48 assets (representing 43 percent of the total value of \$2.8 million) for physical verification. Twelve of these assets were located outside of the main Country Office and could not be verified. Two assets selected were not on the asset register as they were fully depreciated, and one asset (an electronic board) had not been included on the register. The Office was informed of these issues and agreed to take action. No additional reportable issues were noted.

#### 4.8 Leave management

**Satisfactory**

The Office was using the Atlas electronic leave management system. OAI noted 28 staff members had annual leave balances in excess of 60 days as of September 2013. However, subsequent to the audit fieldwork, the Office advised that it had established measures to ensure there was adequate leave planning to prevent leave being forfeited. No additional reportable issues were noted.

#### 4.9 Global Environment Facility

**Not Applicable**

The Office had eight projects that received funding from the Global Environment Facility. OAI reviewed one Global Environment Facility funded project, the Wetlands Project (Atlas Award ID 38569). The project had a budget of \$11 million, of which \$3 million was funded by the Global Environment Facility for a period of 7 years. The project closed in June 2012. 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 not included in this report.