UNITED NATIONS DEVELOPMENT PROGRAMME
Office of Audit and Investigations

UNDP

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AUDIT

OF

UNDP COUNTRY OFFICE

IN

AZERBAIJAN

Report No. 1234

Issue Date: 22 January 2014

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Report on the audit of UNDP Azerbaijan
Executive Summary

From 23 September to 4 October 2013, the Office of Audit and Investigations (OAI) of the United Nations Development Programme (UNDP) conducted an audit of the UNDP Country Office in Azerbaijan (the Office). The audit covered the activities of the Office during the period from 1 January 2012 to 31 July 2013. During the period reviewed, the Office recorded programme and management expenditures totalling $17 million. The last audit of the Office was conducted by OAI in 2008.

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 weaknesses identified in the area of operations. 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	Partially 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	Not Applicable			
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	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 7 recommendations, of which 1 (14 percent) was 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." These recommendations include actions to address weakness in service contract recruitment and administration processes, Government Contribution to Local Office Costs not fully met, absence of Implementation Support Services charges, incorrect use of accounts for allocation of expenditure and weaknesses in the procurement process.

The high priority recommendation is as follows:

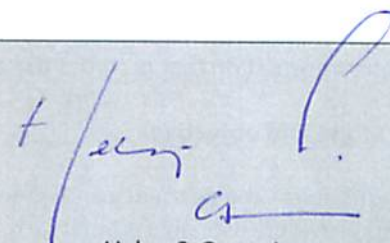|	
Human resources (Issue 3)	<u>Weakness in service contract recruitment and administration processes</u>. In all 13 cases reviewed, the long-listing and short-listing of candidates was done solely by the hiring manager and the reasons for selecting and rejecting candidates were not documented. Furthermore, candidate references were not always presented according to UNDP standard format and thus did not include all the required information about previous employment. Also, the Office contracted a government-owned medical insurance company without performing a cost analysis to determine if the premium was lower than the corporate insurance plan. Furthermore, the Office paid full insurance premiums to all service contract holders for social security coverage through the State Social Protection Fund, but could not provide adequate evidence that service contract holders were registered/ covered under this National Security Scheme.
	OAI recommends that the Office improve service contract recruitment and administration processes by: (a) ensuring that long-listing of candidates is conducted by a group of staff members, not just the hiring manager, and that short-listing is done by at least two staff members to assure transparency; (b) ensuring that candidate applications include all required information and detailed reference checks are done before hiring; (c) using the corporate medical insurance plan unless a cost analysis confirms that the premium for local medical insurance is lower; and (d) if local medical insurance proves to be less costly, obtaining adequate evidence from service contract holders that they are covered under the local scheme.

Cross-cutting themes

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

- **Asset management**: <u>Satisfactory</u>. No reportable issues noted.

- **Leave management**: <u>Satisfactory</u>. No reportable issues noted.

- **Global Environment Facility:** No reportable issues noted.

Management comments and action plan

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

Helge S. Osttveiten
Director
Office of Audit and Investigations

I.   Introduction

From 23 September to 4 October 2013, OAI conducted an audit of UNDP Azerbaijan. 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 31 July 2013. During the period reviewed, the Office recorded programme and management expenditures totalling $17 million. The last audit of the Office was conducted by OAI in 2008.

II.   About the Office

The Office, located in Baku, Azerbaijan (the Country) was established in 1992 and at the time of the audit, worked in close partnership with the Government, with its programming based on a Country Programme Document covering the period from 2011 to 2015 in the areas of: (a) economic development through promoting economic diversification to increase work opportunities and reduce regional differences in living standards; (b) environmental sustainability to ensure that current and future patterns of economic growth do not impact negatively on ecosystems, biodiversity and human health, at the same time reducing the vulnerability of the poor to negative environmental impacts and the consequences of mitigation measures; and (c) effective governance through support to the further development of strong, transparent and accountable public institutions, staffed by a professional civil service guided by appropriate laws. The Cabinet of Ministers was the Government's Coordinating Authority and line ministries, state committees, academic institutions and NGOs were the Implementation Partners for programme activities.

III.   Detailed assessment

1. Governance and strategic management	Satisfactory

1.1 Organizational structure and delegations of authority	Satisfactory

The Office regularly updated its Internal Control Framework, adjusting it to specific Office conditions with the last update in July 2013. OAI reviewed roles and responsibilities and have identified two conflicting roles in Atlas. The Human Resources Associate, although never exercised, held the global payroll administrator role, which is usually performed by finance staff members. Also, the Head of Finance held as a back-stopping role, but never exercised, the right to prepare and approve bank reconciliations in Atlas.

OAI noted that only one programme staff member had approving authority in Atlas to approve purchase orders for project portfolios. The programme staff member approved purchase transactions through review of a clearance sheet for each transaction. However, another operations staff member or senior management, depending on the size of transaction, also approved the transactions electronically in Atlas. This practice did not support efficient exercise of the oversight function and resulted in having two parallel approval processes.

The Office agreed to address the issue of potential conflicting roles ensuring adequate segregation of duties and to review approval processes for achieving better efficiency and use of capacity in the Programme Unit.

No other reportable issues were identified.

1.2 Leadership, ethics and values	Satisfactory

OAI reviewed compliance with the financial disclosure policy and the policy regarding reporting of outside activities, as well as the completion of mandatory ethics training. The Global Staff Survey for 2012 indicated higher than average scores for all areas assessed. OAI also held discussions with the head of the Staff Association and noted that they are fully aware of their responsibilities and no complaints were reported by staff members.

No reportable issues were identified.

1.3 Risk management, planning, monitoring and reporting	Satisfactory

OAI's review of relevant information and discussions with senior management and programme staff members showed that the Office's risk management, planning, monitoring and reporting practices were adequate.

No reportable issues were identified.

1.4 Financial sustainability	Partially Satisfactory

Extrabudgetary reserves represented 14 months at the end of 2012, which is above the corporate required minimum level of 12 months. Despite this, in the future the Office may face risks in sustaining an adequate level of extrabudgetary reserves. Firstly, positive trends in the local economy may decrease UNDP core budget allocation as the Country moves gradually from a lower middle income to a higher middle income country and potentially to the net contributing country category. Secondly, the Office took measures under human resources

management that were not fully aligned to UNDP policies and procedures, and corrective action may result in higher demand for extrabudgetary funds (see Issue 3).

The Office is aware of the need to compensate for expected cuts in core budget allocations through higher mobilization of extrabudgetary resources to cover Office costs.

Issue 1   The Government Contribution to Local Office Costs not fully met

In accordance with the provisions of the Standard Basic Assistance Agreements that govern UNDP operations in programme countries, host governments are expected to contribute towards the cost of Country Offices. Called the Government Contribution to Local Office Costs, this is calculated on an annual basis taking into account actual UNDP operating and staffing costs. The contribution has monetary (cash) and non-monetary (in-kind) parts. The amount to be paid is adjusted based on the country's economic development category.

The Government provides office premises as in-kind contribution to UNDP valued at $735,000 annually, including rent of $231,000 and police guard services valued at $467,000, but has made no cash payment against Government Contribution to Local Office Costs since 2007. The total value of the outstanding cash contribution was $1.3 million at the time of audit. For the past six years, the Office management could not recover the outstanding Government Contribution to Local Office Costs cash contributions, despite several efforts and communication with the Government in Baku directly and the Country's mission to the United Nations in New York.

From August 2011 through October 2012 the Government renovated the office premises at the request of UNDP. The reconstruction costs fully borne by the Government amounted to $1.38 million, as confirmed by an independent valuator. The Office approached the Bureau of Management to consider offsetting the contribution to renovation against unpaid Government Contribution to Local Office Costs cash targets. No resolution was available at the time of the audit.

Outstanding obligations not met by the Government decrease the amount of operational resources available to the Office for programme implementation and may have an impact on delivery of activities.

Priority	Medium (Important)
Recommendation 1: The Office should continue: (a) escalating the issue of the outstanding Government Contribution to Local Office Costs through the Regional Bureau for Europe and the Commonwealth of Independent States, ensuring that past and current obligations resulting from the Standard Basic Assistance Agreement signed in January 2001 are fully met by the Government; and (b) communicating with the Bureau of Management for guidance on the possibility of using capitalized renovation costs towards offsetting the outstanding cash commitments.	
Management comments and action plan: __√__ Agreed ____ Disagreed The Office has already been in touch with both the Regional Bureau for Europe and the Commonwealth of Independent States and the Bureau of Management regarding the issue.	

2.	United Nations system coordination	Satisfactory

The United Nations Country Team included FAO, ILO, IMF, IOM, OHCHR, UNAIDS, UNDP, UNFPA, UNHCR, UNICEF, UNODC, WHO, the World Bank as well as the UN Department of Public Information. OAI met with representatives of two United Nations agencies, who described cooperation within the Country Team as positive. At the time of the audit, there was one joint programme with a budget of $54,000.

No reportable issues were identified.

2.1	Development activities	Satisfactory

At the time of the audit, the Office was implementing the Country Programme Document (2011-2015) as agreed with the Government. The United Nations Development Assistance Framework for 2010-2015 was prepared with broad participation by government counterparts, United Nations agencies and other stakeholders.

OAI reviewed the United Nations Development Assistance Framework and its formulation process, assessed the joint programme formulation processes, ascertained the coherence between United Nations Development Assistance Framework outcomes and programme results, reviewed the quality of joint programming documents and reporting and assessed the joint programme monitoring and evaluation and coordination mechanisms. No reportable issues were identified.

OAI noted that the Office did not perform annual United Nations Development Assistance Framework reviews for 2011 and 2012. However, at the time of the audit, the Resident Coordinator's unit had scheduled an evaluation for November 2013.

2.2	Resident Coordinator Office	Satisfactory

The United Nations Resident Coordinator role was performed by the UNDP Resident Representative. OAI reviewed 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.

No reportable issues were identified.

2.3	Role of UNDP - "One UN"	Not Applicable

This area was not applicable as the Country was neither a pilot "One UN" country nor a Delivering as One self-starter.

2.4	Harmonized Approach to Cash Transfers	Not Applicable

Following a macro-assessment of the existing public finance management system conducted in 2007 it was decided not to proceed with the implementation of the Harmonized Approach to Cash Transfers. Given that operational implementation of the programme is done primarily by the Office through support services, direct payments are the primary cash modality used in the Country.

3. Programme activities	Satisfactory

3.1 Programme management	Satisfactory

UNDP activities in the Country are guided by a Country Programme Document (2011-2015), prepared in consultation with key partners in the Government, civil society, private sector, United Nations system and international community and approved by the Executive Board in September 2010.

The Country Programme Document is aligned with the State Programme for Poverty Reduction and Sustainable Development for 2008-2015, which embraces measures to achieve the Millennium Development Goals. It is centered on support to capacity development in order to achieve long-term and sustainable improvements in functional and technical capabilities at the organizational and individual level in three areas: (a) economic development through promoting economic diversification to increase work opportunities and reduce regional differences in living standards; (b) environmental sustainability to ensure that the current and future patterns of economic growth do not impact negatively on ecosystems, biodiversity and human health, at the same time reducing the vulnerability of the poor to negative environmental impacts and the consequences of mitigation measures; and (c) effective governance through support to the further development of strong, transparent and accountable public institutions, staffed by a professional civil service guided by appropriate laws.

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

UNDP policies and procedures identifies the Country Programme Action Plan as a formal agreement between UNDP and the government of a host country, which lays down an agreed plan for achieving developing targets in a set period of time. The Country Programme Action Plan helps address gaps in results management by explicitly linking outcomes and outputs in the Country Programme Document to activities which are articulated in the Country Programme Action Plan and the Annual Work Plan.

As with the previous programming cycle (2005-2009), the Office was operating without a Country Programme Action Plan. The Office indicated that while the Country Programme Action Plan was not signed, there was mutual agreement on areas of intervention as indicated in the Country Programme Document. Also, the Office accepted an alternative procedure of individual project approval involving all Government stakeholders to avoid delays to annual work plans for which lengthy project endorsement procedures could take up to one year.

As the issue was caused by factors beyond UNDP's control and as the Office, with support from the Regional Bureau for Europe and the Commonwealth of Independent States, has been mitigating the implications of not having a Country Programme Action Plan, OAI is not raising a recommendation.

3.2 Partnerships and resource mobilization	Satisfactory

The Office prepared a resource mobilization action plan providing a brief analysis of the environment and existing donors. This plan and the resultant activities helped the Office in July 2013 to sign an agreement with a government ministry to provide $10 million for project activities from September 2013 to October 2016. However, the resource mobilization plan did not constitute all elements of a comprehensive strategy (such as, matching of partner priorities with UNDP core competencies). The Office agreed to perform a more detailed analysis using the standard UNDP Resource Mobilization Toolkit to clarify the strategy for building new partnerships so that resource mobilization opportunities are not missed.

The Office's main partner is Government, representing almost 70 percent of the cost sharing for the period audited. The total resources mobilized during the audited period were $30 million ($13 million in 2012 and $17 million in the first seven months of 2013).

OAI met with representatives from relevant government ministries, United Nations agencies (UNFPA and UNICEF) and donors. All partners rated their cooperation with the Office positively.

No reportable issues were identified.

3.3 Project management	Partially Satisfactory

The Office was implementing a programme portfolio of 6 directly implemented projects and 18 nationally implemented projects with a total budget of around $30 million. The Office provided support services to national Implementing Partners at the request of the Government. Such services usually represented complete operational implementation referring to an agreement on provision of support services signed between the Office and the Government in February 2010. Programme delivery represented $11 million in 2012 and $3 million in the first seven months of 2013.

OAI reviewed a sample of six projects representing 75 percent of the programme budget and 80 percent of the programme delivery in the audited period. OAI reviewed the projects for appraisal, approval, monitoring, evaluation and donor reporting. The Office has established an adequate system of project monitoring and effective implementation.

Issue 2   Absence of implementation support service charges

UNDP recognize two cost recovery charge categories associated with implementation of programmes: (a) general management support for services not directly attributable to project inputs or activities and related to general oversight and management functions of UNDP, mainly programmatic support, including, among others, project identification, general monitoring and oversight, thematic and technical backstopping through various UNDP units; and (b) implementation support services for services that are directly incurred in the implementation of programmes and projects such as payments, recruitment of staff members or procurement of goods and services. The implementation support services are to be charged for all development projects on the basis of actual costs for clearly identifiable transactions or, if this is not possible, standard charges as determined by UNDP.

The Office had agreed with the Government on a higher general management support rate, recognizing that implementation support services were not charged. The general management support rate was agreed to be five percent, which is above the corporate minimum of three percent. General management support charges amounted to $363,000 in 2011 and $470,000 in 2012.

The Office introduced this practice following the Government requirement for identification of total project implementation costs upfront, at the time of project approval. No analysis has been performed to determine whether or not the higher charges for general management services compensate appropriately for not charging implementation support services since 2004.

Failure to recover implementation support service costs impacts the extrabudgetary reserves of the Office, including tying up existing operational resources to deliver support services, which in the long term may affect the financial sustainability of the Office.

Priority	Medium (Important)
Recommendation 2: The Office should ensure the costs associated with project implementation are identified, calculated and recovered.	
Management comments and action plan: __√__ Agreed ____ Disagreed The Country Office will identify and calculate all costs associated with project implementation and recover them through various mechanisms (including through Direct Project Costing, in accordance with the new guidelines).	

4. Operations	Partially Satisfactory

4.1 Human resources	Partially Satisfactory

At the time of the audit, the Office had 22 personnel consisting of 2 international, 5 national, and 14 general service staff members and 1 service contract holder. In addition, 44 service contract holders and 190 individual contract holders were working on projects during the audited period. The human resources function was performed by one Human Resources Administrative Associate. No staff member was recruited during the audited period.

OAI reviewed a sample of 6 fixed term appointments, including 1 rank-in-post and one OHCHR recruitment, 13 service contract holders and 8 individual contract holders to verify recruitment and selection processes and administration of personnel files. The recruitment process was found to be competitive, transparent and properly documented. The separation process was tested on a sample of three personnel, including two UNDP staff members and one WFP staff member, with no issues identified.

The Office prepared a comprehensive learning plan addressing staff member learning needs. All staff members had completed UNDP mandatory training.

The office hired a communications specialist under the service contract modality. The service contract holder was performing core office functions and was funded 70 percent from extrabudgetary and 30 percent from Resident Coordinator's funds. According to the Office, this exceptional situation was because the function was important and required, but there was a lack of financial resources to hire a fixed term appointment holder.

OAI noted that four job descriptions did not reflect the functions stated in the Internal Control Framework. Management agreed to update the job descriptions to be in harmony with the latest Internal Control Framework. Nevertheless, all staff members were aware of the additional duties as the Internal Control Framework was communicated to and signed by all staff members.

Issue 3   Weakness in service contract recruitment and administration processes

A.   Service contract recruitment

According to the Programme and Operations Policies and Procedures and the UNDP Recruitment and Selection Framework, long-listing and short-listing procedures must be followed and documented for all recruitment. While the composition of the long-listing and short-listing panels is flexible, for transparency and objectivity of the process, the hiring manager may not make selection decisions independently. Also, it is the responsibility of the hiring unit to ensure the proper and thorough verification of critical information, including academic qualifications, languages, nationality, prior United Nations employment and detailed reference checks.

During the recruitment process the Office tried to identify the best candidates from all applicants through various stages, including long-listing (selecting all technically qualified candidates), short-listing (selecting the best candidates to be invited for testing and interview) and reference checking. OAI noted that in all 13 cases reviewed, the long-listing and short-listing of candidates was done only by the hiring manager and no justifications for the selection or rejection of candidates were documented. Furthermore, the references received on candidates were not always in accordance with UNDP standard formats and thus did not include all information required about previous employment, for example information on a candidate's weaknesses as a service provider.

The Office's limited compliance with the required long-listing, short-listing and reference checking procedures does not provide adequate transparency regarding the recruitment process, nor does it provide adequate assurance that the process is fair or that the most suitable candidate is selected, and thus may present operational and reputational risks for the Office.

B.   Service contract administration

UNDP Offices may make their own arrangements for medical coverage of service contract holders provided that the premium is lower than the corporate insurance plan. The Office contracted a government-owned medical insurance company without performing a cost analysis ensuring that the premium was lower than the corporate insurance plan.

Also, in countries where a national social security scheme exists, individuals under a service contract may contribute directly to such a scheme, if permitted by the local legislature. To use this option, the UNDP Office must receive adequate evidence that the individual is covered. The Office paid insurance premium to all service contract holders for social security coverage through the State Social Protection Fund but could not provide adequate evidence that the service contract holders were covered under this National Security Scheme.

Priority	High (Critical)
Recommendation 3: The Office should improve service contract recruitment and administration processes by: (a) ensuring that long-listing of candidates is conducted by a group of staff members, not just the hiring manager, and that short-listing is done by at least two staff members to assure transparency; (b) ensuring that candidate applications include all required information and detailed reference checks are done before hiring;	

(c) using the corporate medical insurance plan unless a cost analysis confirms that the premium for local medical insurance is lower; and

(d) if local medical insurance proves to be less costly, obtaining adequate evidence from service contract holders that they are covered under the local scheme.

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

(a) The Office will ensure that long-listing and short-listing of candidates will be conducted by different staff members.
(b) The Office will make every effort to use the UNDP format for references.
(c) The Office will perform a cost analysis to determine if the premium currently paid is comparable to the corporate premium.
(d) The Office will obtain evidence from service contract holders that they are covered under the country's National Social Security Scheme.

4.2 Finance   Partially Satisfactory

OAI reviewed the Office financial management processes and controls. During the period under review the Office processed 4,548 vouchers valued at $14.9 million. OAI reviewed a sample of 30 vouchers totalling $5.5 million.

OAI also reviewed the Office's bank reconciliation process. The Office did not have an electronic interface between Atlas and the local bank and disbursements were mainly made through manual checks. The Office informed OAI that local banks did not offer the option for electronic interface. However, they anticipated that their bank may offer this service in 2014.

Issue 4   Incorrect use of accounts for allocation of expenditure

According to the Programme and Operations Policies and Procedures, correct use of the Chart of Accounts is critical for accurate financial, management and donor reporting. All Atlas financial users must fully understand the purpose of each chart field.

For the period under review, expenditures amounting to approximately $2.5 million were charged to the sundry account. OAI noted that some of the expenditures were incorrectly charged to this account, for example payments made on behalf of other agencies were wrongly charged, therefore inflating the sundry account.

In some cases the accounts used by project personnel for their payment requests and the accounts used for payment by the Finance Unit were different. The Office explained that the finance section corrected a wrong account initially used by the project personnel in a request.

The incorrect use of account codes may lead to incorrect accounting of transactions and misleading financial reports.

Priority	Medium (Important)
Recommendation 4: The Office should ensure the correct use of the Chart of Accounts by: (a) using the sundry account only for expenses that cannot be allocated to other accounts; and (b) training project staff members on the correct use of the Chart of Accounts.	
Management comments and action plan: __√__ Agreed ____ Disagreed The Office will make every effort to use the correct Chart of Accounts.	

Issue 5   Lack of cash forecasting

The Office obtained a Standing Authorization for Accepting Local Currency Receipts from All Sources from Treasury in 2011. As part of the conditions for the standing authorization, the Office was required to prepare monthly cash forecasts and update them on a weekly basis, including agency disbursement requirements. OAI noted that the Office did not prepare the forecasts.

The Office explained that it was difficult to forecast cash receipts from the Government, which was the main donor, because the receipts were random. The Office had not communicated the challenges of preparing the forecast to Treasury; therefore the Office was not in compliance with the Standing Authorization for Accepting Local Currency Receipts from All Sources.

Lack of cash forecasting may result in insufficient cash balance for daily operational needs.

Priority	Medium (Important)
Recommendation 5: The Office should communicate with the Treasury to alert them of their challenges in preparing cash forecasts. This should enable the Treasury to reassess risks of not preparing the cash forecasts and any compensating controls that may need to be put in place.	
Management comments and action plan: __√__ Agreed ____ Disagreed The Office will communicate with the Treasury regarding the cash forecasts.	

4.3 Procurement   **Partially Satisfactory**

The Office recorded 620 purchase orders valued at $7.5 million during the review period. The procurement team was made up of two Procurement Associates. Both reported to the Operations Manager. The Regional Advisory Committee on Procurement reviewed six procurement cases during the period under review and approved five of them. One case was rejected mainly because the following areas needed improvement: (a) procurement process and evaluation; (b) value for money analysis; and (c) overall presentation and organization of

attachments. OAI reviewed a sample of 36 purchase orders with a total of $3.7 million representing 49 percent of total purchase order value.

Issue 6   Weaknesses in the procurement process

One of the general principles for executing procurement per UNDP's Financial Regulations and Rules is that due consideration is given to best value for money. OAI noted the following issues which may preclude the Office from achieving best value for money.

Contract extended without competition: According to Programme and Operations Policies and Procedures, any extension of a long-term agreement beyond the approved maximum duration requires committee review. A long-term agreement for travel services was approved by the Regional Advisory Committee on Procurement in 2011 for a period of two years. OAI noted that the contract was extended in 2013 based on satisfactory performance, without a competitive procurement or review process.

Lack of consultant roster: OAI noted that there was no central roster for consultants. Four out of eight individual contracts reviewed were not advertised and the source of candidates was indicated as:
- prior good performance (one case);
- terms of reference sent to potential candidates (two cases); and
- recommendations from the Government followed by competitive process (one case).

The Office explained that advertising was not required as candidates were sourced by prior nomination of known individuals with good qualifications and outstanding performance for the type of assignments involved, as per UNDP rules. OAI noted that each project either keeps its own roster or requests potential candidates from the Bratislava Regional Centre's roster.

Contract, Assets and Procurement Committee members had not completed procurement training: OAI noted that Contract, Assets and Procurement Committee members had not completed procurement training, except for procurement staff members (Secretaries to the Contract, Assets and Procurement Committee) and the Operations Manager (Alternate Chair).

By extending a contract without competition, the absence of a consultant roster and by not adequately training Contract, Assets and Procurement Committee members, the Office may fail to achieve best value for money.

Priority	Medium (Important)
Recommendation 6: The Office should improve the procurement process by: (a) ensuring compliance with the Programme and Operations Policies and Procedures by going through the required competition and committee review for renewal of time-bound, long-term agreements; (b) establishing a central roster for consultants; and (c) encouraging Contract, Assets and Procurement Committee members to complete the required procurement training.	
Management comments and action plan: __√__ Agreed _____ Disagreed (a) The Office will renew the long-term agreements only after the committee review. (b) The Office will make every effort to establish the central roster of consultants.	

(c)   The Office will encourage the members of Contract, Assets and Procurement Committee to take the required procurement training.

Issue 7   Weakness in vendor management

According to the Programme and Operations Policies and Procedures, entering bank details in Atlas requires complete accuracy to ensure that Electronic Fund Transfer payments will proceed correctly. The buyer is required to: (a) review Atlas vendor records to avoid creating duplicates; (b) assemble complete and reliable supporting documentation; (c) input required vendor information in Atlas; and (d) check for accuracy and completeness. The Programme and Operations Policies and Procedures also recommend that the vendor's banking details be provided by the bank to avoid the risk of error.

OAI noted that there were 39 cases in which at least two active vendors shared the same bank account in Atlas. The Office explained that this was often because banks and/or vendors changed names without changing the account and in such cases the Office created new vendors instead of updating the existing vendor profile. Once electronic banking is introduced there will be a risk of paying to the wrong accounts.

Priority	Medium (Important)
Recommendation 7: The Office should strengthen its vendor management by reviewing and updating the vendor database and verifying account details with the vendor's bank.	
Management comments and action plan: __√__ Agreed ____ Disagreed The Office will review and update its vendor database.	

4.4 Information and communication technology   Satisfactory

OAI reviewed the Office's information and communication technology structure, management and the mechanisms for disaster recovery.

The information and communication technology function was outsourced following guidance from the information and communication technology focal point in Bratislava Regional Centre and the Office of Information Systems and Technology. OAI held discussions with the Operations Manager and the service provider and reviewed physical security and back-ups. The outsourcing arrangement was being properly implemented and functioning well.

No other reportable issues were identified.

4.5 General administration   Satisfactory

OAI reviewed general administration activities of the Office including common premises, travel and vehicle management and assessed if these services were carried out in accordance with regulations, rules, policies and procedures, whether resources were managed efficiently, and whether expenses incurred in the provision of

services to other United Nations agencies were recovered. The Government provided the Office premises for United Nations agencies for free. The Office administered the common and shared services. The latest revision of distribution of charges was done in April 2013 when a number of agencies occupying the office space changed. OAI also reviewed a sample of 12 travel vouchers and noted that travel management was in accordance with UNDP policies and procedures.

No reportable issues were identified.

4.6 Safety and security	Satisfactory

The Country was at security level 1 - Minimal. The Resident Representative/Resident Coordinator was appointed the Designated Official for the Country in 2012. The Operations Manager was appointed the Country Office Security Focal Point in 2009. The latest security risk assessment was done in May 2012, which resulted in 7 medium, 8 low and 2 very low risk levels, all with adequate mitigating measures in place. The Country security plan was last updated in June 2013.

No reportable issues were identified.

4.7 Asset management	Satisfactory

The Office performed both the required mid-year and year-end physical asset verifications for Country Office assets in 2012 and mid-year in 2013. The counting confirmed the accuracy of asset records. The assets net book value as of 30 June 2013 was $239,962. OAI performed a physical asset verification during the fieldwork by sampling 11 assets valued at $35,152 and noted no discrepancies. The Office agreed to improve the documentation used for recording and following up on potential discrepancies identified during the asset count.

No other reportable issues were identified.

4.8 Leave management	Satisfactory

Leave for fixed term staff members was properly administered through eServices in Atlas. Atlas leave records show that 17 staff members accrued the maximum allowable limit of 60 days for annual leave as of 31 August 2013. The Office was encouraging staff members to take leave as it was necessary to avoid burn-out and to also enable the Office to test its back-stopping functions.

No other reportable issues were identified.

4.9 Global Environment Facility	Not Applicable

The Office's project portfolio included six projects funded by the Global Environment Facility. Contributions amounted to $9.2 million and expenditure totalled $0.5 million during the audited period. OAI confirmed the Office had effectively supported Global Environment Facility projects and programme formulation, implementation, oversight, resource mobilization and knowledge management processes.

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.