



**AUDIT**

**OF**

**UNDP COUNTRY OFFICE**

**IN**

**SRI LANKA**

**Report No. 1260**  
**Issue Date: 5 February 2014**

## **Table of Contents**

<b>I. Introduction</b>	<b>1</b>
<b>II. About the Office</b>	<b>1</b>
<b>III. Detailed assessment</b>	<b>2</b>
<b>1. Governance and strategic management</b>	<b>2</b>
1.1 Organizational structure and delegations of authority	2
1.2 Leadership, ethics and values	2
1.3 Risk management, planning, monitoring and reporting	3
1.4 Financial sustainability	3
<b>2. United Nations system coordination</b>	<b>3</b>
2.1 Development activities	3
2.2 Resident Coordinator Office	4
2.3 Role of UNDP - "One UN"	4
2.4 Harmonized Approach to Cash Transfers	4
<b>3. Programme activities</b>	<b>6</b>
3.1 Programme management	6
3.2 Partnerships and resource mobilization	6
3.3 Project management	6
<b>4. Operations</b>	<b>10</b>
4.1 Human resources	10
4.2 Finance	12
4.3 Procurement	13
4.4 Information and communication technology	16
4.5 General administration	16
4.6 Safety and security	17
4.7 Asset management	17
4.8 Leave management	22
4.9 Global Environment Facility	22
<b>ANNEX Definitions of audit terms - ratings and priorities</b>	<b>23</b>

## Report on the audit of UNDP Sri Lanka Executive Summary

From 14 to 30 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 Sri Lanka (the Office). The audit covered the activities of the Office during the period from 1 January 2012 to 15 October 2013. During the period reviewed, the Office recorded programme and management expenditures totalling \$23 million. The last audit pertaining to the Office was completed by OAI in February 2013.

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.” Ratings per audit area and sub-areas are summarized below.

Audit Areas	Not Assessed/ Not Applicable	Unsatisfactory	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	Satisfactory			
2.2 Resident Coordinator Office	Satisfactory			
2.3 Role of UNDP – “One UN”	Not Assessed			
2.4 Harmonized Approach to Cash Transfers	Partially Satisfactory			
<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	Partially Satisfactory			
4.2 Finance	Partially Satisfactory			
4.3 Procurement	Partially Satisfactory			
4.4 Information and communication technology	Satisfactory			
4.5 General administration	Partially Satisfactory			
4.6 Safety and security	Satisfactory			
4.7 Asset management*	Unsatisfactory			
4.8 Leave management*	Satisfactory			
4.9 Global Environment Facility*	Not Applicable			

\* Cross-cutting themes

## Key issues and recommendations

The audit raised 12 issues and resulted in 14 recommendations, of which 6 (43 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.”

The high priority recommendations are as follows:

Project management (Issue 3)	<u>Weak project monitoring, assurance and reporting.</u> Programme staff had undertaken limited field visits and project risk logs were not updated in a timely manner. Furthermore, project boards did not meet as frequently as stipulated in project documents and the project annual work plans were signed late. A number of the reports were activity focused or did not cover all project output targets. OAI recommends that the Office ensure that: (a) programme monitoring visits are undertaken annually and risk logs are updated when new risks are identified; (b) project boards meet in accordance with the frequency stipulated within the programme document and approve the annual work plans in the final quarter of the preceding year; and (c) project progress reports are prepared in accordance with the Country Programme Action Plan and provide an assessment of project performance against targets identified in the Annual Work Plan.
Procurement (Issue 7)	<u>Inadequate management of performance bonds and bank guarantees.</u> The Office did not establish adequate controls for managing and securing bank guarantees and performance bonds provided by vendors, and did not maintain a complete record of these guarantees and bonds. Further, the Head of Office was not always shown as the beneficiary on these financial instruments. OAI recommends that the Office enhance the management of performance bonds and bank guarantees by: (a) ensuring that the Resident Representative is noted as the beneficiary of bank guarantees; (b) establishing procedures to record and retain bank guarantees in the Office safe; and (c) maintaining a complete record of all performance bonds and bank guarantees received from vendors.
Asset management (Issues 10)	<u>Unclear control over vehicles.</u> The Office procured 49 vehicles for other United Nations agencies, which were registered in the name of the UNDP Resident Representative. Although these vehicles were under the operational control of the respective United Nations agencies, UNDP's responsibilities for registering these vehicles were not clear. Further, the Office had not correctly reported to the Government the details of vehicles registered under the Resident Representative, and had not securely maintained vehicle registration records.  OAI recommends that the Office enter into formal agreements with United Nations agencies concerning vehicles belonging to them but registered to UNDP's Resident Representative to ensure that there is clarity concerning UNDP's role with regard to the vehicle registration process.  OAI also recommends that the Office ensure that accurate quarterly reports are submitted to the relevant government ministry. This should include undertaking a physical verification of all vehicles registered to the UNDP Resident Representative to confirm their existence and implement a time bound action plan to transfer vehicles to former Implementing Partners where appropriate.

Additionally, OAI recommends that Office ensure that there are adequate controls over vehicle registration certificates. This should include: (a) ensuring that all vehicle registration certificates are secured in the custody of a senior staff member; and (b) establishing controls to ensure that an updated list of vehicle registration certificates is maintained.

- (Issue 12) Incomplete asset records. The Office's 30 June 2013 asset statement was inaccurate as some assets were not included. Further, the Office could not provide a comprehensive list of development project assets, indicating acquisitions and disposals prior to 2012. OAI recommends that the Office comply with the Programme and Operations Policies and Procedures relating to asset management by: (a) ensuring that accurate records of all assets are maintained and submitted to the Office of Financial Resources Management; and (b) establishing a system for tracking pre-2012 development assets, and conducting a physical verification of all such assets.

The 2013 audit (Report No. 1058, 19 February 2013) had one recommendation which was considered "lesson learned" as the directly implemented project was closed. OAI followed up on another previous audit conducted in 2010 (Report No 707, 18 October 2010) which resulted in nine recommendations. Of these recommendations, eight were fully implemented and one was withdrawn.

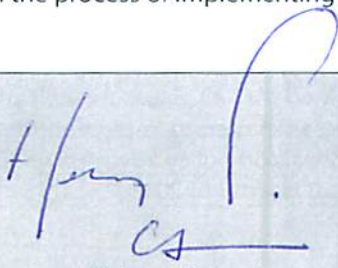
#### Cross-cutting themes

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.** Unsatisfactory. The Office did not have adequate controls over its assets and there was no assurance that these were adequately safeguarded. Please see Issues 10, 11 and 12 for further details.
- **Leave management.** Satisfactory. No reportable issues.
- **Global Environment Facility.** No reportable issues noted.

#### Management comments and action plan

The Resident Representative accepted all 14 recommendations and is in the process of implementing them.



Helge S. Ostveiten  
Director  
Office of Audit and Investigations

## **I. Introduction**

From 14 to 30 October 2013, OAI conducted an audit of UNDP Sri Lanka. 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 15 October 2013. During the period reviewed, the Office recorded programme and management expenditures totalling \$23 million. The last audit pertaining to the Office was completed by OAI in 2013.

The 2013 audit (Report No. 1058, 19 February 2013) had one recommendation which was considered “lesson learned” as the directly implemented project was closed. OAI followed up on another previous audit conducted in 2010 (Report No 707, 18 October 2010) which resulted in nine recommendations. Of these recommendations, eight were fully implemented and one was withdrawn.

## **II. About the Office**

The Office, located in Colombo, Sri Lanka (the Country) had a total of 42 staff with a portfolio of 28 projects (15 nationally implemented and 13 directly implemented).

Prior to 2013, the Office channeled a significant share of programme delivery through the seven project field offices in the north and east of the Country. However, as the flagship Transition Recovery project was scaled down in 2013, two of the project field offices were closed and four others were scaled down and moved to different premises.

Programme delivery from January to September 2013 was only \$4.8 million of the \$13.8 million budgeted. The Office explained that 2013 was the first year of the new programme cycle and that significant management resources were devoted to implementing the transformation plan from August 2012 to July 2013 to enable greater emphasis on policy advisory work. The Office indicated that it expected programme delivery to escalate during the last quarter of 2013.



### **III. Detailed assessment**

#### **1. Governance and strategic management**

**Satisfactory**

The Office's management structure consisted of the Resident Representative (who was also the United Nations Resident Coordinator), the Country Director and the Deputy Country Director. The day-to-day management of the Office was delegated to the ad interim Country Director.

##### **1.1 Organizational structure and delegations of authority**

**Satisfactory**

OAI assessed the accuracy of organization charts, reporting lines and delegations of authority to determine if the resources in the Office's Integrated Work Plan were aligned with its organizational structure. The Office formulated a transformation plan in May 2012 to scale up its policy support capacity and to meet the Office's shift towards undertaking more nationally implemented projects under the new programme cycle (2013 to 2017). This transformation plan was approved by the Regional Bureau of Asia and the Pacific and its implementation was completed in July 2013.

The transformation plan resulted in the merger of the Deputy Country Director (Programme) and Deputy Country Director (Operations) positions into a single Deputy Country Director position. As of the audit date, the Office had two Deputy Country Directors, one who joined in October 2013, and another who was temporarily assigned to the Office for three months from mid-September to mid-December 2013.

Prior to December 2012, the Office had seven project field offices in various provinces to provide support for directly implemented projects. The previous OAI audit in 2010 recommended that the Office enhance its oversight over these project field offices by undertaking more field visits. However, the Office only conducted two field visits subsequent to the 2010 audit. Office management explained that the oversight mechanism relating to these project field offices had been enhanced by requiring them to submit all original invoices and supporting documents to the Office when processing payments.

No reportable issues were identified in this area.

##### **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 the Ethics training course. OAI also interviewed several of the Office's staff, representatives of the Staff Association and the Office's senior management.

The Global Staff Survey results for 2012 indicated lower scores than the global average for some categories, such as Professional Development, Communications and Knowledge Sharing and Development Impact. The Office held a staff retreat in May 2013, where discussions included actions to be taken to address concerns in the 2012 Global Staff Survey results. The Office also held weekly senior management meetings and senior management regularly participated in UN Country Team meetings. Regular meetings were also held between senior management and staff.

OAI noted that 69 percent of the staff (29 out of 42) had completed the mandatory Ethics training in the Learning Management System. The issue concerning the staff's failure to complete all mandatory training is discussed in section 4.1 (refer to Issue 4).

### 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 and development of its Integrated Work Plan. While the Office clearly articulated and updated risks and issues facing the Office's operations, the projects had not regularly updated its risk log for the risks faced in implementing their activities (refer to Issue 3).

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 21 months of extrabudgetary reserves as at September 2013 which were estimated to decrease to 20 months at the end of 2013. The Office had recovered the Government Contributions to Local Office Costs.

No reportable issues were identified in this area.

## 2. United Nations system coordination

**Satisfactory**

The United Nations Country Team comprised of ADB, FAO, ILO, IOM, OCHA, OHCHR, UNAIDS, UNESCO, UNFPA, UN-HABITAT, UNHCR, UNICEF, UNDP, UNIDO, UNODC, UNOPS, UNV, UN WOMEN, WFP, World Bank, and WHO. During the audit period, there were four joint programmes and one joint initiative involving multiple United Nations agencies. The United Nations Country Team had four pillar groups and three cross-cutting groups working on various key thematic areas. No reportable issues were identified in this area.

### 2.1 Development activities

**Satisfactory**

In October 2012, the Government signed the United Nations Development Assistance Framework for the new programme cycle (2013-2017), which was developed with the participation of all key stakeholders. The four pillars of the United Nations Development Assistance Framework were: (a) Equitable Economic Growth and Sustainable Livelihoods; (b) Disparity Reduction, Equitable and Quality Social Services; (c) Governance, Human Rights, Gender Equality, Social Inclusion and Protection; and (d) Environmental Sustainability, Climate Change and Disaster Risk Reduction.

No reportable issues were identified.



## 2.2 Resident Coordinator Office

**Satisfactory**

OAI reviewed the Resident Coordinator's Annual Reports, Annual Work Plans, budgets and staffing in the Resident Coordinator Office. Additionally, OAI met with a number of United Nations agency heads, and government and donor representatives to assess the quality of services provided in terms of United Nations coordination.

No reportable issues were noted.

## 2.3 Role of UNDP - "One UN"

**Not Assessed**

Since the Country was not a pilot for "One UN" or a "Delivering as One" self-starter, this area was not assessed.

## 2.4 Harmonized Approach to Cash Transfers

**Partially Satisfactory**

OAI reviewed the Office's role in implementing Harmonized Approach to Cash Transfers and its compliance with the relevant Framework. Although the Office made progress, it was not yet fully compliant, as discussed below:

### **Issue 1** Weaknesses in implementing the Harmonized Approach to Cash Transfers

#### (a) Absence of a formal working group

To reduce transaction costs and lessen the burden that the multiplicity of United Nations procedures and rules creates for its partners, the Framework (dated September 2005) states that the participating United Nations agencies (UNDP, UNICEF and UNFPA) should agree on and coordinate activities relating to the Harmonized Approach to Cash Transfers, including establishing a working group.

The working group had not been established nor a formal implementation plan been available, as it appears that the Office was focusing on other activities such as the roll-out of the new Country Programme. OAI was only able to locate minutes of a meeting dated May 2013 which indicated that representatives of United Nations agencies met to discuss progress in the implementation. According to a timetable reviewed by OAI, micro-assessments would be conducted of Implementing Partners for the cycle beginning November 2013. However, there was no formal plan or road map towards implementation of the Harmonized Approach to Cash Transfers that included a joint assurance plan and assurance activities for deciding the cash transfer modality based on Implementation Partners' financial capacities, educating key stakeholders on the principles and objectives of this harmonized approach, and enhancing capacities of Implementing Partners.

In the absence of a formal working group and an implementation plan, there was a risk that the implementation of this harmonized approach would be delayed due to the lack of coordination among all relevant agencies.

#### (b) Macro-assessment undertaken without government involvement

The Framework for Cash Transfers to Implementing Partners states that a review of the Public Financial Management system called a macro-assessment should be conducted by the Office for every programme cycle. However, the United Nations agencies should not undertake or contract for original research for a macro-assessment without involvement from the Government. If there is inadequate data to complete the macro-

assessment, the agencies should propose to the Government that adequate data be developed so that a macro-assessment can be completed.

The Office had undertaken a macro-assessment of the Country's public financial system during the previous cycle in November 2007, but the Government was not involved in that assessment, and did not validate its results. Office management explained that the Government was not fully committed to the implementation of the harmonized approach in the Country, and that despite several discussions with the Government regarding the implementation of this harmonized approach and conducting a macro-assessment, no firm commitment or plan had been received from the Government.

(c) Inadequate assurance plan

The Framework requires that participating agencies agree on an assurance plan that is commensurate with the level of risk associated with the Implementing Partners, as determined through the micro-assessment. At the time of the audit, the Office had neither established a joint assurance plan with other agencies nor undertaken any joint assurance activities. Moreover, the Office had not determined the levels and types of assurance that would be used or the resources required to undertake assurance activities.

As such, the Office had not fully met the development objective stated in the aforementioned Framework.

<b>Priority</b>	Medium (Important)
<b>Recommendation 1:</b>  The Office should fully implement the Harmonized Approach to Cash Transfers modality by: <ul style="list-style-type: none"> <li>(a) establishing a formal working group and developing an implementation plan;</li> <li>(b) ensuring that the Government is engaged and informed about the need to undertake a macro-assessment of the public financial management system or leveraging on existing assessments; and</li> <li>(c) establishing assurance and joint audit plans and conducting assurance activities, including conducting spot checks.</li> </ul>	
<b>Management comments and action plan:</b> <input checked="" type="checkbox"/> Agreed <input type="checkbox"/> Disagreed  Management advised that: <ul style="list-style-type: none"> <li>(a) A formal working group will be established in early 2014 and will be tasked with developing the implementation plan for all related activities. This will include preparing the assurance plans, conducting assurance activities, including spot checks of joint Implementing Partners.</li> <li>(b) The Resident Coordinator Office will continue to engage with the Government in regard to undertaking the macro-assessment.</li> </ul>	

### 3. Programme activities

**Satisfactory**

#### 3.1 Programme management

**Satisfactory**

OAI reviewed the Country Programme Document and Country Programme Action Plan for the period from 2013 to 2017. The Country Programme Document has four outcomes focusing on two areas: governance for empowerment and social inclusion; and environmental sustainability and resilience. The total budget required for achieving these goals was estimated to be \$60 million, of which \$5.2 million was from core resources.

The May 2012 Sri Lanka transformation plan recommended that the Office maintain a stronger policy advisory component. In response, a Policy Unit was established in 2013 with the objective of strengthening the quality of the Office's contribution to policy dialogue and formulation, while supporting the substantive aspects of programming and strategic partnerships. The Annual Work Plan for 2013 for this Policy Unit focused on project design and strategic planning, project assurance and quality oversight, support to project implementation, outreach activities, cluster unit meetings and policy research. As the Unit was newly established at the time of the audit, it was too soon to assess its performance.

OAI reviewed the design, review, approval and monitoring of the Country Programme Document and Country Programme Action plan.

No reportable issues were identified.

#### 3.2 Partnerships and resource mobilization

**Satisfactory**

OAI reviewed donor agreements, resource mobilization targets for the new programme cycle, and met with the donors supporting UNDP's projects. As of October 2013, the Office advised that it had confirmed and non-confirmed funding of \$45 million against a target of \$60 million for the Country Programme 2013-2017.

Principle donors included the European Union, Australia, Norway and the Global Environment Facility.

No reportable issues were identified in this area.

#### 3.3 Project management

**Partially Satisfactory**

At the time of audit, the Office had a project portfolio of 28 development projects under the following thematic areas:

**Table 1: UNDP Sri Lanka CO Programme expenditures by thematic area**

(All figures in \$ millions)

Thematic area	2011	2012	2013 (Jan - Sept)
Environment	0.6	1.3	0.8
Democratic Governance	4.1	2.5	1.8
Crisis prevention & recovery	9.5	10.1	2.0
Poverty	0.4	0.4	0

other	0.1	0	0.1
<b>Total</b>	<b>14.7</b>	<b>14.3</b>	<b>4.7</b>
<b>Budget</b>	<b>23.1</b>	<b>21.0</b>	<b>13.8</b>

Source: UNDP intranet programme overview

Against a 2013 budget of \$13.8 million, programme expenditures for the period from January to September 2013 were only \$4.7 million. The Office explained that the main reason for the low level of expenditures was the delay in starting several projects, as the new Country Programme Action Plan was not signed until May 2013. Other reasons included delays in procurement for projects (such as Project Nos. 56796, 64076, and 48867) as well as delays in obtaining project approval from the government counterpart (Project Nos. 72059 and 71214). The Office indicated that the reasons for the delays were being addressed and that programme implementation would improve.

OAI reviewed six projects (Project Nos. 59712, 64076, 56823, 14821, 48867 and 68311) with expenditures of \$13.8 million, including one funded by the Global Environment Facility (Project No. 59712). These projects represented 60 percent of total expenditures for the audited period. OAI reviewed project development, project documents, implementation, monitoring and evaluation as well as donor reporting and closure of projects, and met with two donors.

## **Issue 2**      Weaknesses in project design, appraisal and approval

### (a)      Inadequate formulation of Results and Resources Framework

The Results and Resources Framework helps to define project results to support the planning, management and monitoring of development activities. The Framework measures project progress in relation to the outcome, and verifies if the outcome has been achieved. Therefore, outcomes, outputs and activities must be specific, measurable, achievable, relevant and time-bound. The project design must include annualized output targets.

OAI noted the following weaknesses within the Results and Resources Framework of the projects sampled:

- The Results and Resources Framework of two projects (Project Nos. 59712 and 48867) did not include annualized output targets. In addition, Project No. 56823 included 42 indicators, for which the baselines and targets were not established. The final evaluation in July 2012 recommended “strengthening the base line information, establishing better monitoring and evaluation frameworks.” Without annualized output targets, it is not feasible to assess if projects are on track to achieve their overall targets.
- The Results and Resources Framework for Project No. 14821 was not prepared beyond 2004, although the project continued until 2013. An updated Framework is required in order to set targets for the duration of the project against which achievements can be monitored.

### (b)      Lack of monitoring plans

The Programme and Operations Policies and Procedures stipulate that planning for monitoring and evaluation starts at the time of programme or project design, and must be planned together. OAI noted that monitoring plans had not been prepared for four of six sampled projects (Project Nos. 68311, 59712, 14821 and 48867).

The Office stated that the monitoring plans were often not finalized due to other competing demands. In the absence of a monitoring plan there is a risk that problems will not be detected early, which may result in cost overruns or implementation delays.

(c) Lack of capacity assessments for Implementing Partners

The Programme and Operations Policies and Procedures require that potential Implementing Partners' capacities be assessed and where deficiencies are noted, the assessment should include recommendations to address them.

OAI noted that capacity assessments were not undertaken for four of the nationally implemented projects sampled (Award Nos. 64076, 56823, 59712 and 68311) to determine whether they had the necessary financial and management systems to manage funds entrusted to them.

Without capacity assessments, the Office may not be able to determine the risks involved in working with the Implementing Partner and the measures needed to mitigate those risks, which include the level of monitoring and assurance activities required.

Priority	Medium (Important)
<b>Recommendation 2:</b>  The Office should ensure compliance with the Programme and Operations Policies and Procedures on project design, appraisal and approval by ensuring that: <ul style="list-style-type: none"> <li>(a) a Results and Resources Framework is established for each project that includes annualized output targets;</li> <li>(b) an overall monitoring framework is prepared identifying the monitoring and assurance activities, when these will be undertaken, and the staff who will conduct these activities; and</li> <li>(c) capacity assessments of potential Implementing Partners are completed, and that the results are used to decide on the suitability of a partner as well as the extent of monitoring and assurance activities needed.</li> </ul>	
<b>Management comments and action plan:</b> <input checked="" type="checkbox"/> Agreed <input type="checkbox"/> Disagreed  Management advised that: <ul style="list-style-type: none"> <li>(a) Work is ongoing with regard to establishing and revising Results and Resources Framework for the projects to include annualized output targets, except for projects which are closing by 31 December 2013. The target completion date is end of January 2014.</li> <li>(b) The monitoring framework as well as the monitoring plans are currently being prepared and will be operational by the end of the first quarter of 2014.</li> <li>(c) Capacity assessments of partners will be conducted to identify capacity gaps as well as to determine the extent of monitoring and assurance activities needed.</li> </ul>	

### **Issue 3**      Weak project monitoring, assurance and reporting

The Programme and Operations Policies and Procedures require that for project assurance purposes, a representative from the UNDP office should visit each project at least once a year. Field visits serve the purpose of validating results. The project boards provide oversight by meeting as stipulated within the project document. The project board must approve project annual work plans, review expenditures and monitor the project's progress. Annual work plans should be approved in the last quarter of the preceding year and signed by Implementing Partners before implementation.

#### **(a) Weaknesses relating to the monitoring and assurance of projects**

During the audit period (2012-2013), programme staff had undertaken limited field visits, and had not updated risk logs on a timely basis when new risks were identified (see table 2 below).

**Table 2: Project oversight during Jan 2012 to September 2013**

Award	Delivery during audit period (in \$ million)	Project assurance monitoring visits documented during audit period (20 months)	Project risk log last updated
48867	10.2	2	June 2012
14821	1.1	1	June 2011
56823	2.1	0	Feb 2013
59712	0.1m	0	Dec 2012
64076	0.3m	1	Aug 2013

As can be seen from the above table, the monitoring visits were not always undertaken and the risk logs were not updated regularly. The Project Boards also did not meet regularly to provide project oversight in four of the six sampled projects (Project Nos. 14823, 56823, 59712 and 48867) in accordance with the corresponding programme documents. Approval of the Annual Work Plan was delayed by more than two months beyond the start of the year for Project Nos. 64076, 59712 and 56823.

#### **(b) Project reporting weaknesses**

The Country Programme Action Plan required that Implementing Partners provide quarterly financial and progress reports. The Programme and Operations Policies and Procedures stipulate that these project progress reports provide analysis of project performance over the reporting period. The weaknesses noted in the project reporting are discussed below.

A number of the reports reviewed were activity focused and not all of the output indicators had been reported on output levels regarding Project Nos. 56823 and 64076. Further, the annual project report for Award No. 48867 did not cover all project output targets. In two instances, quarterly reports had not been prepared by the project team (64076, 59712).

The Office explained that the reporting weaknesses highlighted were due to inadequate capacity at the project level.

Regular and comprehensive reporting is important for documenting the achievement of intended results as well as identifying necessary corrective actions.



<b>Priority</b>	High (Critical)
<b>Recommendation 3:</b>  The Office should ensure compliance with the Programme and Operations Policies and Procedures on project monitoring and assurance by ensuring that: <ul style="list-style-type: none"> <li>(a) programme monitoring visits are undertaken and risk logs are updated when new risks are identified;</li> <li>(b) project boards meet in accordance with the frequency stipulated within the programme document and approve the annual work plans in the final quarter of the preceding year; and</li> <li>(c) project progress reports are prepared in accordance with the Country Programme Action Plan and provide an assessment of project performance against the targets identified within the Annual Work Plan.</li> </ul>	
<b>Management comments and action plan:</b> <input checked="" type="checkbox"/> Agreed <input type="checkbox"/> Disagreed  Management advised that: <ul style="list-style-type: none"> <li>(a) The Office has established mechanisms to ensure that monitoring visits take place on time and reports are submitted within one week of the return from mission. A project monitoring tool has been developed that will assist in tracking financial delivery, reporting against output indicators, regular monitoring of project risks and of field visits and submission of field visit monitoring reports.</li> <li>(b) The Office has also established a calendar for 2014, for project board meetings in accordance with the frequency stipulated within the programme/project documents. Further, the annual work plan review process has been streamlined and the 2015 annual work plans will be approved in the last quarter of 2014.</li> <li>(c) The programme officers and analysts will enhance oversight to ensure that project staff regularly prepare quality progress reports that provide an assessment of project performance against targets.</li> </ul>	

<b>4. Operations</b>	<b>Partially Satisfactory</b>
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<b>4.1 Human resources</b>	<b>Partially Satisfactory</b>
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As at the audit date, the Office had 45 staff (10 international staff, 16 national officers and 19 General Service staff members). Recruitment for three posts (one national officer and two programme analysts) was in process. OAI reviewed recruitment procedures based on a sample of 8 fixed-term appointments and 5 service contract recruitment actions, staff member development, benefits, and administration and separations based on the sample of 9 staff with fixed-term appointments and 11 service contract separations.

**Issue 4**      Mandatory training not completed

All UNDP staff are required to complete a series of mandatory training courses in the Learning Management System. Of 42 staff members, 35 (83 percent) had not completed the required mandatory training.

Failure to complete the mandatory training may negatively impact staff members' knowledge and capacity to deal with issues and situations within the Office.

The Office informed OAI that it had developed a learning and development plan in October 2013 that required all staff to complete the mandatory courses by February 2014. Further, completion of both Basic and Advanced Security courses had been made mandatory before signing the appointment letter.

<b>Priority</b>	Medium (Important)
<b>Recommendation 4:</b>	
The Office should ensure that all staff members complete the mandatory training courses as soon as possible.	
<b>Management comments and action plan:</b> <input checked="" type="checkbox"/> Agreed <input type="checkbox"/> Disagreed	
Management advised that prompt action had been taken to encourage staff to complete the mandatory courses and allocated specific "learning time" on Friday afternoons. As a result, several staff members completed the mandatory training subsequent to the audit.	

#### **Issue 5**      Weaknesses in management of service contracts

During the period under review, the Office hired 203 service contractors for development projects. OAI noted the following weaknesses in the recruitment and separation of service contractors.

- (a) The service contract template used by the Office did not include all of the clauses contained in the Service Contract User Guide, such as those relating to sexual exploitation and abuse. The Service Contract User guide is a legal document between UNDP and the individual and should not be modified without clearance by the Office of Human Resources and the Legal Support Office.
- (b) The Service Contract User Guide restricts the hiring of retired staff receiving pensions to a non-renewable maximum period of six months. OAI noted one case where a 62 year-old retired staff member was hired for two 12-month contracts. The Office clarified that this individual was hired based on an exceptional request made by a United Nations agency. The Office assured OAI that it would discuss with the agency well in advance of the June 2014 contract expiration and recommend that this position be regularized with a suitable replacement.
- (c) The 18 service contracts issued on behalf of other United Nation agencies reviewed by OAI did not specify that the service was limited to the particular agency.
- (d) The Service Contract User Guide requires that formal notice be given to service contract holders one month before the contract expires. The Office had not informed the service contract holders of non-extension in any of the 11 service contract separations reviewed by OAI, as the Office was not fully aware of this requirement.

The use of non-standard contracts for hiring personnel and failure to conform to policy requirements on engaging service contractors exposes UNDP to legal consequences and potential reputational risks.

<b>Priority</b>	Medium (Important)
<b>Recommendation 5:</b>  The Office should ensure compliance with the Service Contract User Guide for the management of service contract holders by: <ul style="list-style-type: none"> <li>(a) liaising with the Office of Human Resources concerning the current service contract templates and replacing all the signed non-standard service contracts;</li> <li>(b) ensuring that the service contracts issued on behalf of other United Nations agencies stipulate that the related appointments service was limited to those agencies; and</li> <li>(c) adhering to service contract regulations and providing formal notices to personnel whose contracts are not being extended.</li> </ul>	
<b>Management comments and action plan:</b> <input checked="" type="checkbox"/> Agreed <input type="checkbox"/> Disagreed  Management advised that: <ul style="list-style-type: none"> <li>(a) The service contract template was revised from November 2013 to include all the clauses stipulated in the standard contract, including those relating to sexual exploitation and abuse.</li> <li>(b) Effective November 2013, the contract letter templates were revised for agencies, specifying that services under the related appointments were limited to those agencies.</li> <li>(c) One month's formal notice for ending contracts has been introduced with immediate effect from November 2013.</li> </ul>	

## 4.2 Finance

## Partially Satisfactory

During the audit period, the Office processed payment vouchers valued at \$18.3 million. OAI reviewed 70 payment vouchers, valued at \$3.7 million, representing 20 percent of the total processed, as well as petty cash and safe operations, cash and banking, outstanding national implementation modality and staff advances, and expense management.

The Programme and Operations Policies and Procedures require that monthly physical cash counts and reconciliations be undertaken. However, the Office undertook monthly petty cash counts for only four months in 2013 (February, April, May and July). As management agreed to take corrective measures, no recommendation was made. The other weakness noted is discussed below:

### Issue 6      Civil works advances recorded as expenses

The International Public Accounting Standards and UNDP Programme and Operations Policies and Procedures require that funds released before the related activities are undertaken should be recorded as advances, and only expensed when the activities are carried out. OAI noted that advances made to contractors for civil works on signing of the construction agreements were immediately recorded as expenses rather than shown as advances. In another case, a 75 percent advance payment for printing services was recorded as an expense. From the sample reviewed, five advances totalling \$95,400 were recorded as expenses. The Office confirmed

that these advances were all processed as expenses as it was difficult to track them and distinguish them from progress payments. However, OAI did not accept this explanation, as all progress payments are accompanied by certification of work performed.

The recording of advances as expenses leads to overstatement of the Combined Delivery Report and inaccurate financial statements.

<b>Priority</b>	Medium (Important)
<b>Recommendation 6:</b>	
The Office should ensure compliance with International Public Sector Accounting Standards and UNDP Programme and Operations Policies and Procedures and record all advance payments made before the related activities are undertaken as prepayments and only expense them when the related goods or services are received by UNDP.	
<b>Management comments and action plan:</b> <input checked="" type="checkbox"/> Agreed <input type="checkbox"/> Disagreed	
Management stated that it has taken steps to make the pre-payments modality a standard practice by January 2014 and will provide training for concerned staff on key steps in the recording and documentation process.	

### 4.3 Procurement

**Partially Satisfactory**

The Office issued 919 purchase orders valued at \$8.4 million during the audit period. OAI reviewed a sample of 67 procurement transactions valued at \$1.9 million (or 23 percent of total procurement) to assess compliance with procurement and contract management policies, as well as the management of individual contracts. OAI reviewed the Office's management of performance bonds and bank guarantees received from vendors in respect of the civil works contract. The weaknesses noted are discussed below:

#### **Issue 7**      Inadequate management of 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 or a certified cheque. Further, contractors should 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 did not maintain complete records of all bank guarantees or performance bonds received from vendors. Hence, it was not possible to determine the total value of these bank guarantees received during the audit period. At the time of the audit, the Office reported that it had bank guarantees amounting to \$30,000. OAI noted the following weaknesses in the management of the performance bonds and bank guarantees:

- (a) The beneficiary stated in these bank guarantees or performance bonds was not consistent. The stated beneficiaries included the Deputy Country Director – Operations, Head of Procurement and Head of Field Office. This gave rise to the risk of unauthorized UNDP personnel encashing the financial instruments which may have resulted in financial losses for UNDP.

- (b) There were inadequate controls over the custody and retention of the bank guarantees and bonds, as they were not placed in the Office safe, but rather were kept in the project field offices in various provinces.
- (c) The Office had not maintained a complete record of the performance bonds and bank guarantees received from vendors. As such, it was difficult for the Office to monitor these financial instruments for renewal.
- (d) Where practical, the Office should encourage vendors to have the Office's bank issue the bonds. However, the bank guarantees were not always issued by the Office's bank. Further, there was no documented evidence to indicate that the Office had verified the legitimacy of the performance bonds or bank guarantees by checking with the issuers.

The Office clarified that the main Transition Recovery project was implemented by seven field offices. Given the scattered geographic location of the field offices, localized vendors and the need to meet delivery demands, procurement was delegated to the field offices. This made the monitoring of this process challenging.

Inadequate management of bank guarantees and performance bonds exposes UNDP to the risk of financial losses if unauthorized personnel encash these financial instruments.

<b>Priority</b>	High (Critical)
<b>Recommendation 7:</b>	
The Office should enhance controls over the management of performance bonds and bank guarantees by:	
<ul style="list-style-type: none"> <li>(a) ensuring that the the Resident Representative is shown 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) maintaining a complete record of all performance bonds and bank guarantees received from vendors.</li> </ul>	
<b>Management comments and action plan:</b> <input checked="" type="checkbox"/> Agreed <input type="checkbox"/> Disagreed	
Management advised that it had established additional controls effective 1 December 2013, which include:	
<ul style="list-style-type: none"> <li>(a) Checking the beneficiary on bank guarantees/bid bonds at the bid opening stage to ensure they only show the name of the Resident Representative. Only on full compliance of the bond instrument is the bid accepted for further processing.</li> <li>(b) Centralizing the safekeeping original bond instruments which are now kept in the Finance Unit's safe box. Unless the original instruments are received, the purchase orders or contracts are not released.</li> </ul>	

#### **Issue 8**      Contract management deficiencies

- (a) Inadequate management of individual contracts

The Programme and Operations Policies and Procedures require that reference checks be conducted before contracting individuals and that those individual contracts be signed prior to the start date. The individual

contract holders' performance should be assessed and the assessment attached to the certification for payment when processing the final payment.

OAI reviewed 10 individual contracts and noted that no reference checks or performance evaluations were conducted in any of these cases. Further, in four contracts, the start date was earlier than the date of the contractor's signature. This exposed UNDP to legal risks as the individual contractor had effectively started the assignment without a contract.

The Programme and Operations Policies and Procedures also stated that subject to proper justification, it may be appropriate to consider a single offeror as the sole suitable individual for selection. However, in four cases, the Office had not provided adequate evidence to support its action to enter into direct contracting.

(b) Deficiencies in civil contracts

The standard civil works contract template used by the Office refers to the Sri Lanka Country Office's website regarding UNDP contract general terms and conditions. These general terms and conditions were not attached to the civil works contracts signed by the vendors. This gives rise to legal risks as the general terms and conditions may be amended from time to time on the website, which may result in the risk of vendors disputing the contracts' general terms and conditions.

(c) Milestone payment not clearly stated in civil works contracts

The standard contract template used by the Office did not explicitly state the milestones for when payments were to be made to vendors apart from the percentage of completion. Hence, there may have been confusion as to when a certain percentage had been reached because the Bills of Quantities submitted by the vendors did not indicate the percentage of completion, but only the specific activities. It is important that payment milestones in civil contracts be clearly stated, rather than merely indicating a general completion percentage.

Priority	Medium (Important)
<b>Recommendation 8:</b>  The Office should ensure compliance with the Programme and Operations Policies and Procedures on the management of contracts by ensuring that:	
(a) reference checks are conducted before contracting with individuals and that contracts are signed before the start of work; (b) the performance of all individual contract holders is assessed and that these assessments are attached to certification for payment forms when processing the final payments; (c) any waiver of a competitive process is adequately justified and documented; (d) the general terms and conditions are attached to all civil contracts, and alternatively, the Office could include the general terms and conditions in the Request for Proposal or the Invitation to Bid documents to avoid including this information in every contract; and (e) all milestone payments in the civil contracts are clearly stated instead of using a general percentage of completion.	



**Management comments and action plan:**    ☒ Agreed    ☐ Disagreed

Management advised that it had developed a standard operating Procedure and a check list to ensure reference checks are undertaken and that a performance evaluation is documented before the payment request is made to Finance Unit. Further, the new contracts in 2014 will include a clause under which contractors agree to read and understand the contents of the relevant general terms and conditions.

Management also clarified that the percentage basis was adopted as an indicative 'milestone' figure based on the practice in the industry within the Country. The Office will, however, insert the correct or applicable measure and pay basis in all future contracts.

#### 4.4 Information and communication technology

**Satisfactory**

The Office's Information and Communication Technology Unit was headed by a national officer and supported by one General Service staff member.

OAI reviewed the Office's information and communication technology structure, as well as hardware and software management, systems security, the Information Management Plan and the mechanisms for disaster recovery. The Office had submitted the Disaster Recovery Plan to the UNDP Office of Information Systems and Technology and it also successfully tested the Plan in 2012 and 2013.

No reportable issues were noted.

#### 4.5 General administration

**Partially Satisfactory**

OAI reviewed general administration activities, including local and international travel, common premises and vehicle management.

A review of a sample of 15 international trips showed that travel management was performed in accordance with the Programme and Operations Policies and Procedures. The Office ensured that staff members submitted travel claims on time with appropriate supporting documentation. OAI's review of common premises, as well as hospitality management, found them to be in line with applicable policies and procedures. The one weakness noted is discussed below:

##### **Issue 9**      Inadequate control of vehicle use and fuel consumption

The Programme and Operations Policies and Procedures require preparation and verification of a daily vehicle log, and monitoring of fuel consumption and vehicle repairs. While drivers maintained the vehicle movement log records, they were not signed by the staff passengers nor reviewed for reasonableness by a responsible official. Further, requests for fuel through the coupon system were approved without an assessment of the reasonableness of fuel used in the past. During the period under review, the Office incurred \$71,000 in motor vehicle maintenance and fuel costs.

Failure to maintain vehicle movement logs and to assess the reasonableness of fuel usage increased the risk of misuse of UNDP resources.

<b>Priority</b>	Medium (Important)
<b>Recommendation 9:</b>  The Office should ensure compliance with the Programme and Operations Policies and Procedures on the management of UNDP vehicles by: (a) ensuring that vehicle movement logs are countersigned by the travelers and reviewed by transport supervisors; and (b) establishing procedures for assessing the reasonableness of fuel usage, including comparison of vehicle mileage and fuel consumption before approving vehicle refueling.	
<b>Management comments and action plan:</b> <input checked="" type="checkbox"/> Agreed <input type="checkbox"/> Disagreed  Management stated that as of December 2013, the daily vehicle travel log sheet will be maintained for each vehicle and signed by the traveler. The Office will also track fuel consumption for each vehicle.	

#### 4.6 Safety and security

**Satisfactory**

The Resident Representative was also the United Nations Designated Official for Security in the Country. The Office's approved security plan was based on a valid security risk assessment. The security plan was updated regularly, with the last update in July 2013. During the period under review, the Security Management Team met monthly. OAI reviewed the security plan and the security risk assessment documents as well as the minutes of Security Management Team meetings held during 2012-2013. The Office was assessed as being 85 percent compliant with the Minimum Operating Security Standards by the United Nations Department of Safety and Security.

No reportable issues were noted.

#### 4.7 Asset management

**Unsatisfactory**

OAI's review of this area included physically verifying a sample of assets, assessing the controls established for managing and safeguarding assets, examining the asset disposal process and ascertaining whether the Office maintained a complete record of assets in the Atlas asset register. OAI noted significant control deficiencies, as discussed below.

#### **Issue 10**      Vehicle control and registration issues

(a)      Unclear arrangements for vehicles of other United Nations agencies

Vehicles procured for use by the Office or projects are to be registered in the name of the UNDP Resident Representative. The Office also procured vehicles for other United Nations agencies, which were registered in the name of the UNDP Resident Representative. According to the Office, 49 vehicles (value not available) belonged to other United Nations agencies. Although these vehicles were under the operational control of the respective United Nations agencies, UNDP's roles and responsibilities for undertaking the vehicles' registration process had not been clarified. This would have exposed UNDP to legal and reputational risks if the vehicles were misused or lost.

The Office advised that it was in the process of hiring a United Nations Volunteer to reorganize the records for the vehicles listed under the UNDP Resident Representative to determine their value.

(b) Inaccurate reporting to the government ministry

A government ministry required the Office to submit a quarterly statement of all vehicles registered in the name of the UNDP Resident Representative. The latest report for the quarter ending 30 June 2013 submitted to the ministry included 195 vehicles as shown in the table below:

**Table 3: Details of vehicles submitted to government ministry**

No of vehicles	Vehicles belonging to or assigned to	Remarks
22	UNDP	
49	Other United Nations agencies	
97	With various government offices (vehicles purchased under nationally implemented projects)	
27	Asserted to be assigned to different government offices (vehicles purchased under nationally implemented projects)	No details were available regarding these vehicles and the government offices to which they were assigned.
<b>Total 195</b>		

As shown in the table above, 27 vehicles were assigned to government offices although it was not clear to which government offices these vehicles were assigned. The Office was also not able to provide any evidence of when the last physical verification of these vehicles was undertaken. As such, there was no assurance that the vehicles were physically available since the list included vehicles that had been registered more than 30 years prior. In fact, 24 vehicles were over 20 years old. The Office informed OAI that since 2009, it had been transferring these vehicles to former Implementing Partners or had been disposing of them. There were challenges in getting the former Implementing Partners to pay taxes and accept transfer of ownership of the vehicles. However, the Office had been able to transfer some of these vehicles.

As a result of the above, the Office ran the risk of not submitting an accurate report to the Government for vehicles that were available.

(c) Vehicle registration certificates were not kept securely

Vehicle registration certificates are important to establishing legal ownership of vehicles and should be kept in a secure place which will allow them to be easily accessible when required. Controls over the custody of vehicle registration certificates were inadequate. OAI noted that the certificates were kept in the open by the Transport Unit. Thus, the certificates were easily accessible to Office drivers and other staff. As the Office did not maintain a consolidated list of the vehicles and the total number of registration certificates available, it was not clear if all the registration certificates were available.

<b>Priority</b>	High (Critical)
<b>Recommendation 10:</b>	
The Office should enter into formal agreements with the United Nations agencies concerning vehicles belonging to them but registered to UNDP's Resident Representative to ensure that there is clarity concerning UNDP's role with regard to the vehicle registration process.	
<b>Management comments and action plan:</b> <input checked="" type="checkbox"/> Agreed <input type="checkbox"/> Disagreed	
Management advised that it had taken various steps to address the above recommendation. For example, the Office prepared terms of reference concerning vehicle management and reconciliation and will hire additional personnel from January 2014 to work in these areas. Also, the Office indicated that it would prepare Memorandums of Understanding with other United Nations agencies to clarify respective roles and responsibilities. This initiative was planned to be completed by the end of February 2014.	

<b>Priority</b>	High (Critical)
<b>Recommendation 11:</b>	
The Office should ensure that accurate quarterly reports are submitted to the relevant government ministry. This should include undertaking a physical verification of all vehicles registered to the UNDP Resident Representative to confirm their existence and implement a time bound action plan to transfer vehicles to former Implementing Partners where appropriate.	
<b>Management comments and action plan:</b> <input checked="" type="checkbox"/> Agreed <input type="checkbox"/> Disagreed	
Management advised that they had already initiated efforts to effect the transfer and disposal of 58 vehicles registered under the UNDP Resident Representative. Once this backlog was cleared, the relevant government ministry would be provided with updated quarterly lists and the Office would continue to work with projects and United Nations agencies and other Implementing Partners to effect transfer and dispose of vehicles to substantially reduce the inventory and the related liability.	

<b>Priority</b>	High (Critical)
<b>Recommendation 12:</b>	
The Office should ensure that there are adequate controls over vehicle registration certificates. This should include: (a) ensuring that all vehicle registration certificates are secured in the custody of a senior staff member; and (b) establishing controls to ensure that an updated list of vehicle registration certificates is maintained.	
<b>Management comments and action plan:</b> <input checked="" type="checkbox"/> Agreed <input type="checkbox"/> Disagreed	
Management advised that the Office's Administration Unit had already taken over the full custody of all original registration certificates and was now reconciling these registration documents against each vehicle on record. Further, all certificates will be filed individually and scanned documents archived for working documents purposes such as renewals.	

**Issue 11**            Inadequate management of vehicle parking

Since 2011, the Office has had an arrangement for parking the Office's vehicles, particularly those which were to be disposed of, at a parking yard operated by a vendor. As at the time of the audit field work, there were 12 vehicles parked in this yard.

OAI noted a number of weaknesses in this arrangement. Although the Office paid \$10,000 in 2013 for parking the vehicles, it had not entered into a formal agreement with the vendor on their respective roles and responsibilities with regard to parking. Specifically, the Office had not established any controls or informed the vendor regarding who was authorized to park or retrieve vehicles from the yard on behalf of the Office. OAI noted that a former Office staff member, at the time his service ended in May 2013, removed a vehicle from the yard without authorization. The Office was not aware of the missing vehicle until September 2013. The vehicle, at the time when it was removed from the parking yard was assigned to another United Nations agency, and after intervention by a solicitor, the vehicle was retrieved in October 2013.

During its physical verification, OAI noted that one vehicle recorded as being parked at the yard could not be located. The Office informed OAI that the vehicle had been transferred back to a project office, although no records were available documenting this movement.

The Office informed OAI that the vehicles parked in the yard were mainly awaiting disposal. However, OAI noted that there was only limited evidence to show that the Office had undertaken adequate efforts to dispose of these vehicles in the past few years. As a result, the Office incurred financial losses as the vehicles deteriorated and depreciated in value in addition to the parking charges of \$10,000 paid in 2013.

OAI also noted that of the 12 vehicles parked at the yard, 5 were supposed to be in good working condition. However, it was not clear why these five vehicles, which were in good condition (including one in very good condition), had to be disposed of.

<b>Priority</b>	Medium (Important)
<b>Recommendation 13:</b>  The Office should enhance controls over the vehicles parked in the vendor's parking yard by: (a) formalizing an agreement with the parking service provider and clearly stipulating the responsibilities of both parties as well as the officials authorized to park and retrieve vehicles for UNDP; and (b) ensuring that vehicles kept in the vendor's parking yard for extended periods are either disposed of or used as appropriate to avoid deterioration and loss of value.	
<b>Management comments and action plan:</b> <input checked="" type="checkbox"/> Agreed <input type="checkbox"/> Disagreed  Management advised that the Office had finalized a formal agreement with the vendor regarding parking arrangements. This agreement included internal control of vehicle inventories at any given time, daily rates, authority to move in/out and permission to conduct spot checks.	

**Issue 12**                      Incomplete asset records

The Programme and Operations Policies and Procedures require that a physical count of assets be conducted at least bi-annually to ensure that the data included in the Atlas fixed asset data corresponds to the items physically available. These activities form the basis of the certification letter submitted to the Office of Financial Resources Management bi-annually.

The Office reported assets amounting to \$738,000 as at 30 June 2013 in its mid-year certification. These included all management and development project assets acquired after 1 January 2012. In addition, the Office reported development project assets acquired before 1 January 2012 amounting to \$527,000, which were controlled and used by the Office.

OAI noted that the 30 June 2013 statement sent to the Office of Financial Resources Management was inaccurate, as some assets were not included. For example, four vehicles that were physically verified during the audit and three vehicles listed in the quarterly statement submitted to the relevant government ministry for June 2013 were not included in the certification. Failure to correctly record and report assets can lead to inaccurate asset records and cast doubt on the credibility of the Office's certification letters.

The Programme and Operations Policies and Procedures require that development project assets that meet the use and control criteria but procured before 1 January 2012 be identified, physically verified, and tracked over a 3-year period outside of Atlas using an Excel template. However, the Office could not provide a comprehensive list of such assets, indicating the acquisitions and disposals made. This list should form the basis of the bi-annual certifications and clearly explain asset movements from the previous certifications.

Subsequent to the audit field work, the Office forwarded a list of project assets. However, as the field work had already been completed, OAI was not able to verify the accuracy of the information provided.



<b>Priority</b>	High (Critical)
<b>Recommendation 14:</b>	
The Office should comply with the Programme and Operations Policies and Procedures relating to asset management by: (a) ensuring that accurate records of all assets are maintained and submitted to the Office of Financial Resources Management; and (b) establishing a system for tracking pre-2012 development assets, and conducting a physical verification of all such assets.	
<b>Management comments and action plan:</b> <input checked="" type="checkbox"/> Agreed <input type="checkbox"/> Disagreed	
Management advised that the asset management initiatives (including vehicles) that it intends to carry out mentioned under management comments and action plans of previous recommendations stated above, will also cover the point on asset tracking systems and best practices in asset management.	

#### 4.8 Leave management

**Satisfactory**

OAI reviewed the procedures in place for absence management and leave balance monitoring. Staff members used the e-service for leave applications in Atlas while manual attendance and leave records were maintained for service contract holders.

OAI noted that as of September 2013, 18 staff (43 percent) had leave balances of over 60 days, including one staff member with 74 days. OAI noted that 24 staff members who had exceeded the 60 day roll-over limit lost their leave balances (those annual leave days above the 60 days) in March 2013. Also, 36 of the 84 service contract holders (43 percent) had leave balances in excess of 18 days, including one with a balance of 39 days as at 30 September 2013. The Service Contract User Guide provides that only a maximum of 18 days can be carried over to the next contract and no payment is made for unutilised leave balances upon separation.

OAI discussed the above issues with management, who agreed that a formal annual leave plan and monitoring would be developed to ensure minimal disruption of office operations and to avoid accumulation of leave days that may result in the loss of earned leave for staff members.

As management agreed to address this matter, OAI has not raised an issue.

#### 4.9 Global Environment Facility

**Not Applicable**

Seven of the Office's 28 projects were funded by the Global Environment Facility. The total budget for these projects was \$6.7 million, and expenditures during the audit period totalled \$100,000, which represented 1 percent of the Office's programme expenses. OAI reviewed one Global Environment Facility funded project: Invasive Alien Species (Atlas Award No. 59712). The project had a budget of \$1.8 million with a timeframe of three years. The audit findings relating to the project reviewed by OAI have been discussed in the project management section above (see section 3.3 of this report).

## 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.
- **Partially Satisfactory** Internal controls, governance and risk management processes were generally established and functioning, but needed improvement. One or several issues were identified that may negatively affect the achievement of the objectives of the audited entity.
- **Unsatisfactory** Internal controls, governance and risk management processes were either not established or not functioning well. The issues were such that the achievement of the overall objectives of the audited entity could be seriously compromised.

### B. PRIORITIES OF AUDIT RECOMMENDATIONS

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.
- **Medium (Important)** Action is required to ensure that UNDP is not exposed to risks that are considered moderate. Failure to take action could contribute to negative consequences for UNDP.
- **Low** Action is desirable and should result in enhanced control or better value for money. Low priority recommendations, if any, are dealt with by the audit team directly with the Office management, either during the exit meeting or through a separate memo subsequent to the field work. Therefore, low priority recommendations are not included in this report.