UNITED NATIONS DEVELOPMENT PROGRAMME
Office of Audit and Investigations

AUDIT

OF

UNDP COUNTRY OFFICE

IN

KUWAIT

Report No. 1265

Issue Date: 20 May 2014

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<center>**Report on the audit of UNDP Kuwait**
Executive Summary</center>

The UNDP Office of Audit and Investigations (OAI) conducted an audit of UNDP Kuwait (the Office) from 12 to 23 January 2014. The audit aimed to assess the adequacy and effectiveness of the governance, risk management and control processes relating to the following areas and sub-areas:

(a) governance and strategic management (organizational structure and delegations of authority, leadership, ethics and values, and financial sustainability);

(b) United Nations system coordination;

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

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

The audit covered the activities of the Office from 1 January 2012 to 31 October 2013. The Office recorded programme and management expenditures totalling $16.2 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*.

Overall audit rating

OAI assessed the Office as **unsatisfactory**, which means "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." This rating was mainly due to weaknesses in organizational structure and delegation of authority, programme management, human resources, and procurement.

Key recommendations: Total = **13**, high priority = **7**

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

Outdated documentation of internal controls and operating procedures (Issue 1)	The Office had not updated its Internal Control Framework since 2006 in order to tailor it to the generic corporate Internal Control Framework. In addition, the Office had not established standard operating procedures to provide guidance to staff. Also, the delegation of authority from the Head of Office to the various managerial levels was not formally accepted (signed) by staff to ensure they were aware of the delegated tasks. Recommendation: Strengthen existing internal controls and operating procedures by: (a) documenting the Internal Control Framework based on the operational guide in the UNDP 'Programme and Operations Policies and Procedures'; (b) providing guidance to staff by establishing standard operating

procedures for the Office's main processes; and (c) requesting staff to acknowledge (by signing) the delegated authority from the Head of Office.

Country Programme Document and Country Programme Action Plan not aligned (Issue 2)	The Office is expected to develop the Country Programme Action Plan (CPAP) based on the Country Programme Document (CPD). However, OAI noted that the two documents were not aligned. For example, outcomes in the revised CPAP were not included in the CPD, and vice versa. Recommendation: Align the current CPAP with the approved CPD for 2015-2018 by ensuring that: (a) they contain the same outcomes and related evaluation plans; and (b) both documents contain outputs for each outcome and that the outcomes/outputs reported by the Office in the Results Oriented Annual Report align with those contained in the CPAP.
Improper use of service contract modality (Issue 5)	The Office used the service contract modality to engage the Travel and Registry Assistant, which is considered a core function. Further, at the time of the audit, three out of eight vacant positions were advertised as service contract positions, although they were also considered core office functions. Recommendation: Avoid using the service contract modality for engaging personnel who will perform core functions.
Weaknesses in managing service contracts (Issue 7)	OAI identified weaknesses in the review of the recruitment of service contract holders. For example, the Office was not involved in the short-listing, interviewing, and selection of candidates. Instead, the Office issued contracts based on requests from the Government, which evaluated and selected some candidates who were not nationals of the Country and did not hold local work authorization. In addition, terms of reference were not signed by service contract holders, attendance sheets were not maintained and declarations of impartiality were not signed by the former government employees hired by the Office. Recommendation: Improve the management of service contracts by: (a) ensuring that the Office participates in the entire recruitment process, including short-listing, interviewing and selecting suitable candidates as required by UNDP policies and procedures; (b) performing a competitive and transparent recruitment process for every new position to be filled by service contractors including contract extensions and maintaining proper documentation of the entire process; (c) requiring selected candidates to sign the contract terms of reference to acknowledge awareness of their duties; (d) ensuring personnel hired under service contracts possess local work authorization; (e) maintaining attendance sheets for all service contract holders; and (f) requiring former government employees to sign declarations of impartiality.
Procurement on behalf of nationally implemented projects not in compliance with UNDP regulations and rules (Issue 9)	OAI's review of the Office's procurement on behalf of nationally implemented projects identified the following issues: procurement of goods and contracted project personnel without the required Letter of Agreement; signing contracts with vendors before receiving the funds to cover contractual obligations; signing contracts with vendors without raising the corresponding purchase order in Atlas; inconsistency in procurement processes among the Office's

programme units ; the lack of adequate and complete supporting documentation of the procurement and selection processes; and limited capacity of the Procurement Unit.

Recommendation: Improve procurement processes for nationally implemented projects by: (a) signing a Letter of Agreement between the Office and the Government for provision of support services, defining specific services to be provided for each project; (b) agreeing to a level of procurement support to nationally implemented projects as the Office's procurement capacity allows; (c) signing contracts with vendors only when sufficient funds have been received; (d) raising a purchase order for the entire contracted amount in Atlas; (e) maintaining adequate documentation concerning procurement and selection processes; and (f) ensuring that adequate staff resources are allocated to the Office's procurement function.

Weak procurement management
(Issue 10)

The Office did not prepare a Consolidated Procurement Plan. In addition, it used direct contracting extensively without providing justification; inadequately used purchase orders; did not maintain the documents supporting vendor selection and performance; did not submit all relevant procurement cases to the Regional Advisory Committee on Procurement; and signed contracts after the contract start date.

Recommendation: Strengthen procurement management practices by: (a) preparing and implementing a Consolidated Procurement Plan; (b) using direct contracting modality in accordance with UNDP Financial Rule No. 121.05; (c) creating a purchase order when a commitment is made, rather than at the time of payment; (d) adhering to procurement procedures, including improved instructions to offerors, maintaining relevant supporting documentation and conducting periodic vendor performance evaluations; (d) submitting all required supporting documentation to the applicable procurement review committee in a UNDP working language; and (f) signing contracts with the contractor before work begins and monitoring the period of duration.

Inadequate management of individual contract modality
(Issue 11)

OAI identified the following deficiencies in the use of the individual contract modality: (a) insufficient evidence that technical evaluations of proposals complied with UNDP regulations and rules and that transparent and competitive processes were followed; (b) no evidence that the references of the selected offeror were checked; (c) no submissions were made to the respective review committee; (d) unclear criteria for determining payments to consultants; and (e) contracts were extended or subsequent contracts were awarded to complete work agreed to in the original contract.
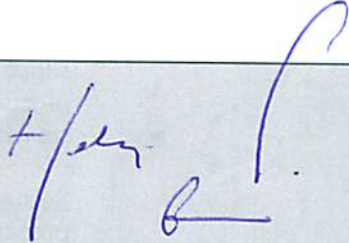
Recommendation: Comply with the policies and procedures governing the individual contractor modality by: (a) informing applicants of necessary information to be provided and ensuring that this information, including financial proposals is received during the solicitation process; (b) selecting individual contractors on a competitive basis by performing full technical and financial evaluations and reference checks before selecting contractors under the Office's full control; (c) submitting the cases exceeding the delegated authority for review by the relevant committees; and (d) defining clear and quantifiable outputs in the contract and linking them directly to payment

schedules; (e) attaching the agreed terms of reference and relevant annexes to the respective contracts; and (f) conducting proper planning of services needed from individual contractors and monitoring the accumulated amount awarded to them during the 12 month-period.

Management comments and action plan

The Resident Representative accepted all of the recommendations in the areas of organizational structure and delegations of authority, programme management, project management, human resources, finance, procurement, information and communication technology, and asset management and is in the process of implementing them. Comments and/or additional information provided had been incorporated in the report, where appropriate.

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

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Director
Office of Audit and Investigations

I.   About the Office

The Office, located in Kuwait City, Kuwait (the Country) was established in 1968. At the time of the audit, the Office worked in close partnership with the Government. The Office's programming was based on a Country Programme Document covering the period from 2008 to 2014 in the areas of: (a) governance and development planning to increase the effectiveness of public institutions and development planning; (b) gender and social development to promote gender equality and to empower civil society; (c) economic development and private sector to improve the business environment; and (d) environment to ensure environmental sustainability. The General Secretary of the Supreme Council of Planning and Development was the Government's Coordinating Authority and line ministries, state committees, and NGOs were the implementing partners for programme activities.

II.   Audit results

Satisfactory performance was noted in the following area:
<u>United Nations coordination</u>. The control processes were generally established and functioning adequately.

OAI proposes 13 recommendations that are ranked high (critical) and medium (important) priority.

Low priority issues/recommendations were discussed directly and agreed with the Office and are not included in this report.

High priority recommendations, arranged according to significance:
  (a)   Strengthen existing internal controls and operating procedures (Recommendation 1).
  (b)   Align the current CPAP with the approved CPD for 2015-2018 (Recommendation 2).
  (c)   Avoid using the service contract modality for engaging personnel who will perform core functions (Recommendation 5).
  (d)   Improve the management of service contracts (Recommendation 7).
  (e)   Improve procurement processes for nationally implemented projects (Recommendation 9).
  (f)   Strengthen procurement management practices (Recommendation 10).
  (g)   Comply with the policies and procedures governing the individual contractor modality (Recommendation 11).

Medium priority recommendations, arranged according to significance:
  (a)   Establish and clearly define outputs and timeframes for projects (Recommendation 3).
  (b)   Strengthen capacity in managing and monitoring projects (Recommendation 4).
  (c)   Improve the management of the human resources function (Recommendation 6).
  (d)   Establish appropriate segregation of duties for financial functions (Recommendation 8).
  (e)   Improve the Disaster Recovery Plan (Recommendation 12).
  (f)   Strengthen the asset management process (Recommendation 13).

The detailed assessment is presented below, per audit area:

1. Organizational structure and delegations of authority

Issue 1   Outdated documentation of internal controls and operating procedures

According to the UNDP 'Programme and Operations Policies and Procedures', each Head of Office has overall responsibility for establishing and maintaining adequate internal controls in the office, and for ensuring documentation of the office's internal control procedures.

The Office had not updated its Internal Control Framework since 2006 in order to tailor the generic corporate Internal Control Framework to reflect its own internal control procedures, taking into account local circumstances and the characteristics of its operations. The Office had not established standard operating procedures to guide staff in performing their functions. Also, the delegation of authority from the Head of Office to the Deputy Resident Representative (Atlas Manager Level 3) and the two Programme Analysts (Atlas Manager Level 2) was not formally accepted (signed) by receiving staff to ensure they were aware of the delegated tasks.

This situation led to weak internal control and the improper segregation of duties. For example, the Finance Associate was performing the following conflicting functions: operating the paycycle, printing checks, signing checks as bank signatory, performing bank reconciliations, receiving cash and creating deposit vouchers for all cash deposits (see Issue 9). Also, the Human Resources Associate held two conflicting Atlas access rights - Human Resources Administrator and Global Payroll Administrator.

Priority	High (Critical)
Recommendation 1: Strengthen existing internal controls and operating procedures by: (a) documenting the Internal Control Framework based on the operational guide as published in the UNDP 'Programme and Operations Policies and Procedures'; (b) providing guidance to staff by establishing standard operating procedures for the Office's main processes; and (c) requesting staff to acknowledge (by signing) the delegated authority from the Head of Office.	

Management action plan:
 	
(a) The Internal Control Framework for the Office was established during April 2014 and has been implemented as of 1 May 2014.
(b) Standard operating procedures for the Office's main processes have been established during April 2014 and have been implemented as of 1 May 2014. Standard operating procedures have been established for the following processes:
    ▪ the Recruitment process for service contracts;
    ▪ the Procurement process valued between $5,000 and $50,000;
    ▪ the Procurement process valued between $50,000 and $150,000;
    ▪ the Procurement process valued above $150,000;
    ▪ the Direct Payment process (non-PO Voucher); and
    ▪ the Payment process (PO Voucher).	

(c) Delegation of Authority letters have been prepared for and acknowledged/signed by the Deputy Resident Representative and three Programme Analysts, in accordance with the newly established Internal Control Framework. A Delegation of Authority letter will be prepared for and acknowledged/signed by the Operations Manager as soon as they are recruited.

Estimated completion date: May 2014

OAI Response

OAI will validate the implementation status of this recommendation as part of its follow-up process.

B. Programme activities

1. Programme management

Issue 2   Country Programme Document and Country Programme Action Plan not aligned

The Office is expected to develop the Country Programme Action Plan (CPAP) and sign it with the Government based on the Country Programme Document (CPD) approved by the UNDP Executive Board.

In April 2009, the Office signed the CPAP for 2009-2013 with the Government. The Office and the Government revised this document in July 2011 to extend it through 2014. However, in June 2012, the UNDP Executive Board approved an extension of the CPD from the original period (2008-2012) to include two additional years, 2013 and 2014. Further, OAI identified the following misalignments between the two documents:

- Four of the 13 outcomes in the revised CPAP did not appear in the CPD and 2 CPD outcomes were not included in the revised CPAP.
- There were no evaluation plans for 8 of 15 CPD outcomes.
- There were no outputs for 4 outcomes in the revised CPAP.
- The outcomes/outputs which the Office reported on in the Results Oriented Annual Report were not fully in line with the CPAP Outcomes/Outputs.

This situation may lead to implementing programmes and projects in the host country that differ from those approved by the UNDP Executive Board.

Priority	High (Critical)
Recommendation 2:	
Align the current Country Programme Action Plan with the approved Country Programme Document for 2015-2018 by ensuring that:	
(a) they contain the same outcomes and related evaluation plans; and	
(b) both documents contain outputs for each outcome and that the outcomes/outputs reported by the Office in the Results Oriented Annual Report align with those contained in the Country Programme	

	Action Plan.

Management action plan:

- The Office acknowledges the non-alignment of the Country Programme Document, which was the result of not following up with Headquarters in regard to changes to the Country Programme Action Plan. The Office has been following up with Headquarters for suggested adjustments in Atlas, as this would require resubmission for Executive Board approvals.
- To counteract this, the Office has maintained a parallel process to track the alignment and ensure sound Results Oriented Annual Reporting.
- The Office has aligned itself with the new Strategic Plan outcomes and outputs and targets to ensure alignment with the corporate.
- The Office has also updated its own targets for 2014 in the system relating to the Results Oriented Annual Report for 2014.
- The Office has developed a new Country Programme Document for the years 2015-2018, for which all outcomes and outputs are aligned with the Strategic Plan outcomes and outputs as well as the national development priorities. The Office will make sure that Results Oriented Annual Report will be fully aligned with the outcomes and outputs.

Estimated completion date: June 2014

2. Project management

Issue 3   Weak project design and lack of clear outputs

According to UNDP 'Programme and Operations Policies and Procedures', a proper project design should ensure that the office's planned outputs and outcomes are achievable. Clearly defined project results are needed to ensure good decision-making in regard to how to perform necessary functions, and to clarify who is responsible for carrying out these functions.

OAI reviewed seven projects. One of these projects, "Support capacity development of the General Secretary of the Supreme Council of Planning and Development to direct strategic planning priorities of the state of Kuwait" did not have clearly defined project results. It allowed for ad hoc funding of a wide range of assignments, and missions originating from different partners and ministries that could not have been planned in advance. In this regard, project resources were not linked to a clear Annual Work Plan or identifiable deliverables.

Consequently, there was no assurance that the results achieved by the project fell within the purview of the CPD.

Priority	Medium (Important)
Recommendation 3:	

Redesign the project "Support capacity development of the General Secretary of the Supreme Council of Planning and Development to direct strategic planning priorities of the state of Kuwait", setting out clearly defined outputs and timeframes, and in the future only engage in projects with clearly defined outputs agreed in the Country Programme Document.

Management action plan:

- The components of a comprehensive Annual Work Plan for the "Support capacity development of the General Secretary of the Supreme Council of Planning and Development to direct strategic planning priorities of the state of Kuwait" have been discussed and agreed during the board meeting on 9 April 2014. The Annual Work Plan is being developed with concrete outcomes and outputs.
- Recruitment for a Project Manager for the project is under way.
- The project evaluation is scheduled for 2014, with suggested design of the project for its new phase during the next Country Programme Document.

Estimated completion date: July 2014

Issue 4   Weak project management and monitoring

According to UNDP 'Programme and Operations Policies and Procedures', the design, implementation and monitoring of projects require rigorous documentation on implementing partner selection, quarterly progress reporting, issues logs, risk logs, and an exit strategy.

OAI reviewed seven projects and noted the following:
- The implementing partner selection process, including identification and assessment, was not carried out for any of these projects.
- Cost-sharing agreements for six of the seven projects were not signed.
- Quarterly progress reports from the implementing partners were not submitted regularly. For example, two projects had not submitted progress reports since March 2012.
- None of the projects had prepared exit strategies.
- None of the projects were subjected to independent mid-term reviews or final evaluations.

Also, OAI reviewed the Atlas project module of the seven projects and noted the following:
- Results were not captured fully in six cases.
- The Atlas project monitoring log was not used in four cases and not updated in three cases.
- Risk logs were not updated in three cases and not used at all in four cases.
- Project related documents were not uploaded in six cases, and in one case only the Project Appraisal Committee meeting minutes were uploaded.

The Office implemented projects under the national implementation modality as recorded in Atlas for all development projects. However, the Office provided all support services to these projects, including contracting, procurement, and payments, without signing a Letter of Agreement with the implementing partners for the provision of those support services in six of the seven projects reviewed by OAI.

As a result, there was no sufficient documentary evidence to ensure that the projects implemented by the relevant partners would achieve defined targets, use resources efficiently or be sustainable.

Priority	Medium (Important)

Recommendation 4:

Strengthen capacity in managing and monitoring projects by:

(a) improving the implementing partner selection process and ensuring that cost-sharing agreements are signed, and progress reports are regularly submitted by implementing partners;
(b) developing exit strategies and subjecting projects to mid-term reviews and final evaluations;
(c) capturing project results in Atlas, using project monitoring logs, and updating risk logs and project-related documents in Atlas; and
(d) signing a Letter of Agreement with the implementing partners regarding the services provided to projects by the Office.

Management action plan:

- The Office has established a Learning Committee and a Whole Office Learning Plan is being developed.
- A four-day intensive training programme was conducted from 13-17 April 2014 for the Office staff, project managers and the national counterpart on project and programme planning, quality assurance, results-based management, Monitoring and Evaluation, and Atlas use.
- The post of Monitoring and Evaluation Analyst is under recruitment.
- The Office will ensure that standard government cost sharing agreement will be used for all projects and that progress reports are regularly submitted and checked for quality. They will be captured in the system together with regular updates on the risks logs.
- The Office is in the process of discussing the services it provides based on which a Letter of Agreement will be prepared and signed.

Estimated completion date: June 2015

C. Operations

1. Human resources

Issue 5 Improper use of service contract modality

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

The Office used the service contract modality to engage the Travel and Registry Assistant, which is considered one of the Office's core functions. The Office explained that this assistant was initially hired under a project budget. Further, at the time of the audit, three of eight vacant positions (Programme Associate, Programme Assistant and Procurement Associate) were advertised as service contract positions although they were also

considered core office functions. The Office was using this approach to reduce costs.

Using service contract holders to perform core functions may limit the Office's ability to adequately segregate duties, as service contract holders should not have approving rights in Atlas. In addition, the different levels of remuneration and benefits between service contract holders and fixed-term or temporary appointments according to United Nations staff rules may create a disparity among personnel in the office performing the same or similar tasks.

Priority	High (Critical)
Recommendation 5:
Avoid using the service contract modality for engaging personnel who will perform core functions.
Management action plan:
Due to the lack of local capacity in the Country and the difficulty in recruiting local qualified staff, only a limited number of individuals have been hired under the service contract modality for a short period of time in order to raise staff capacity and to start implementing adequate work procedures. **Estimated completion date:** December 2014

Issue 6   Weak human resources management

The Office is required to comply with UNDP human resources policies and procedures and maintain evidence of that compliance. OAI reviewed a sample of 21 personnel contracts, including fixed-term appointments and service contracts, to determine if these complied with relevant policies and procedures and to assess the effectiveness of the Office's selection and separation processes. The following human resource management weaknesses were noted:

(a) Non-completion of UNDP mandatory training courses
UNDP policies and procedures stipulate that mandatory training courses are important to ensure staff and managers understand the various policies, regulations, goals and objectives of the organization. At the time of the audit, 14 of 21 staff members had not completed such mandatory training. Without such training, staff members may not be able to properly carry out their roles and responsibilities in accordance with UNDP policies and procedures.

(b) Job descriptions not signed by all staff
According to UNDP policies and procedures, job descriptions represent an important tool in ensuring that the duties and responsibilities of staff members are clear. OAI noted that in all seven recruitment cases for fixed-term appointments, the staff members did not sign the job descriptions to acknowledge acceptance of their duties and responsibilities. By not acknowledging the job description in writing, staff members may have a different understanding of their expected duties and responsibilities.

(c) Absence of a Compliance Review Panel
According to UNDP policies and procedures, office level positions are classified by human resources staff and certified by the Deputy Resident Representative/Deputy Country Director or the Operations Manager. Classification documents are then submitted to the Compliance Review Panel, which reviews

the classification package, examines the completeness of the submission, and makes recommendations to the Resident Representative, who approves classification recommendations.

The Office did not establish a Compliance Review Panel to review and approve post classifications. Thus, none of the classifications conducted during the audit period could be reviewed and approved. Failure to conduct proper job classification may lead to unfair work distribution and personnel grade levels.

(d) <u>No evidence of recovered costs for human resources services provided</u>
The Office had been providing human resources services to United Nations agencies but could not provide OAI with any evidence to show that costs associated with these services were recovered during the audit period. As a result, UNDP may not be receiving adequate compensation for services provided to these agencies.

By not properly managing the human resources function, the Office may not achieve its objectives.

Priority	Medium (Important)
Recommendation 6: Improve the management of the human resources function by: (a) requiring all staff to complete all UNDP mandatory training courses; (b) ensuring all staff members sign their job descriptions to acknowledge their expected duties and responsibilities; (c) establishing a Compliance Review Panel to review and approve the classification of posts; and (d) documenting and recovering the costs of human resources services provided to United Nations agencies.	
Management action plan: ▪ The Whole Office Learning Plan will include the tracking of all mandatory training courses for staff. ▪ The process has been initiated for all staff to sign their job descriptions in acknowledgement of their duties and responsibilities. ▪ The Office will establish a Compliance Review Panel to review and approve classification of posts. ▪ The services provided to other United Nations agencies will be documented and recovered based on the Universal Price List and as part of the shared services plan. **Estimated completion date:** June 2014	

Issue 7	Weakness in managing service contracts

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 actions. While the composition of the long-listing and short-listing panels is flexible, to ensure process transparency and objectivity, the hiring manager may not make selection decisions independently. Also, the hiring unit is responsible for ensuring proper and thorough verification of critical information, including academic qualifications, language skills, nationality, and detailed reference checks prior to United Nations

employment. Furthermore, if the contract is to be signed by UNDP, its staff should represent a majority of the interview panel members for the selection of the successful candidate.

OAI reviewed the recruitment process of eight service contract holders and noted the following weaknesses:

- The Office was not involved in the selection of candidates, including long-listing, short-listing, interviewing, and performing the desk review. The Office only advertised vacant positions and issued the contracts based on requests from the Government, which evaluated and selected candidates. Further, the documents related to the evaluation and selection processes performed by the Government were not available during the audit mission.
- None of the service contract holders signed the terms of reference as an acknowledgment of their duties.
- The Office hired personnel who had worked for the Government without having them sign a declaration of impartiality.
- In one case, the Government requested a contract extension with a change in the position's title. The Office renewed the contract reflecting the new title, although this should have been considered as a new position, requiring a new competitive recruitment process.
- In seven cases, the service contracts were granted to individuals that were not nationals of the Country, and did not hold a local work authorization prior to their recruitment.

Further, during 2012 and 2013, the Office converted 11 consultants from individual contracts to the service contract modality without ensuring that a transparent and competitive process had taken place.

Also, the Office did not maintain service contractor attendance sheets in order to monitor their attendance.

The non-compliance with UNDP regulations and rules in the recruitment process of the service contracts was not questioned by the Office's management.

By not complying with recruitment policies and procedures, there is no assurance that recruitment was fair, competitive, and transparent, or that the most qualified candidate was selected. Furthermore, by not maintaining attendance sheets, the Office risks making salary payments for work not actually performed.

Priority	High (Critical)

Recommendation 7:
 	
Improve the management of service contracts by:
 	
  (a) ensuring the Office participates in the entire recruitment process including long-listing, short-listing, interviewing and selecting suitable candidates as required by the UNDP policies and procedures;
  (b) performing a competitive and transparent process for every new position to be filled by service contractors including contract extensions and maintaining proper documentation of the entire process;
  (c) requiring selected candidates to sign the terms of reference to acknowledge awareness of their duties;
  (d) ensuring that personnel engaged under service contracts possess a local work authorization;
  (e) maintaining updated and certified attendance records for all service contract holders; and
  (f) requiring former government employees to sign declarations of impartiality.	

Management action plan:

(a) & (b) Standard operating procedures for recruitment of service contracts have been established in April 2014 addressing the proper process and UNDP corporate rules and regulations. The process and procedures will also be discussed and agreed upon with the implementing partner and proper training will be conducted for the concerned parties.

(c), (d), (e) & (f) The Office agrees with the OAI recommendations and will start implementing the required procedures.

Estimated completion date: June 2014

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2. Finance

Issue 8   Inadequate segregation of functions and granted profiles in Atlas

The 'Operational Guide of the UNDP Internal Control Framework' establishes that the 'finance' role refers to staff members in the Finance Unit with the Atlas user profile of 'finance.' Their functions include performing bank reconciliations, creating general ledger journal entries and vouchers, uploading donor (contribution) agreements to the document management system, and acting as custodians of the office safe. Any exceptions must be approved by the Comptroller, based upon full justification and the application of appropriate controls by the respective office. This Framework assumes that the Finance Unit includes the Programme Support Unit. When the Programme Support Unit is not combined with the Finance Unit, offices should maintain either a direct or "matrixed" reporting responsibility to the Operations Manager.

At the time of the audit, two staff members (a Finance Associate from the Finance Unit and Finance Assistant from the Programme Support Unit), along with an individual contractor had the treasury/finance user profile in Atlas. The Programme Support Unit's Finance Assistant did not report directly or indirectly to the Operations Manager, but instead reported to the Programme Section, and the Office had not requested an exception to the Internal Control Framework from the Comptroller. This situation was the result of weak supervision by the office's management.

Also, as discussed in Issue 1, the Finance Associate was performing various functions that did not ensure segregating the duties of operating the paycycle, printing checks, signing cheques as bank signatory, performing bank reconciliations, receiving cash and creating deposit vouchers for all cash deposits.

These situations violate Financial Regulation 20.02, which states that there must be a segregation of duties to implement an appropriate level of checks and balances upon the activities of individuals. By not having appropriate segregation of functions and Atlas profiles, the Office runs the risk of having undetected errors and/or fraud.

Priority	Medium (Important)

Recommendation 8: Establish appropriate segregation of duties for financial functions by granting appropriate Atlas profiles for finance staff in accordance with the Internal Control Framework, and seek the Controller's approval for having the Programme Support Unit's Finance Assistant not reporting to the Operations Manager.
Management action plan: The recommendation has already been addressed and the financial procedures have already been adjusted in April 2014. A Finance Assistant has been recruited and finance procedures are now following the newly established Internal Control Framework, including Atlas user profiles. Both the Finance Associate and the Finance Assistant are reporting to the Operations Manager. The Programme Support Unit's Programme Assistant (previously Finance Assistant) no longer has a treasury/finance user profile in Atlas. Standard operating procedures for direct payments and for payment through purchase order vouchers have already been established during April 2014. **Estimated completion date:** May 2014
OAI Response OAI will validate the implementation status of this recommendation as part of its follow-up process.

3. Procurement

Issue 9 <u>Procurement on behalf of nationally implemented projects not in compliance with UNDP regulations and rules</u>

UNDP policies and procedures prescribe that Country Office support services to nationally implemented projects is a modality in which the Country Office provides support services upon request from the government. In this modality, the support services rendered by UNDP must be in full compliance with UNDP's 'Financial Regulations and Rules' and its policies and procedures, and not those of the government. The nature and scope of the services must be described in annexes to the Project Document or Annual Work Plan. In addition, a Letter of Agreement must be signed by the Resident Representative and the national government, through an authorized official, in order for UNDP to provide Country Office support services to nationally implemented projects.

OAI reviewed procurement processes conducted by the Office for nationally implemented projects during the audit period, primarily the contracting of individual consultants, and noted the following weaknesses:

- The Office procured goods and contracted project personnel without the required Letter of Agreement with the Government, which would establish clearly defined activities and responsibilities in support of nationally implemented projects.
- The Office signed contracts with vendors and project personnel valued at about $10 million, assuming full responsibility for the procurement and the selection processes that were not under its control. The Government was involved in the evaluation of proposals; its representatives comprised the majority of

the Evaluation Committee members (Project Recruitment Board) and had the final authority in approving selected vendors and project personnel.

- The Office signed contracts but did not raise purchase orders in Atlas for all procurements of goods and services. Thus, procurement activities were not properly reflected in the procurement reports reviewed by the Headquarters units. The total amount of Atlas purchase orders raised for project personnel by the Office was $720,000, while the contracted amount, including both international and local consultants for nationally implemented projects during the audited period was $10.1 million. In addition, without appropriate use of Atlas purchase orders, the Office significantly weakened the internal controls regarding the payment for procurement actions, since the control process of three-way matching of the requisition, the purchase order and the voucher could not done for these cases. The Office explained that it raised partial purchase orders in Atlas as it had not yet received all funds to cover the entire contractual obligations. Entering into commitments before receipt of funds exposes the Office to financial risk and possible reputational damage, in case funds are not received when payments are due.

- Procurement processes and procedures were not consistent within the Office and each programme unit functioned independently. Further, the programme units, without the required authority usually sub-delegated the selection processes of vendors to project personnel (service contractors or consultants) who were not aware of UNDP procurement rules and regulations. The procurement process was owned neither by the Procurement Unit nor by the programme units.

- The Office did not keep adequate and complete supporting documentation of the procurement and selection processes conducted on behalf of the nationally implemented projects. Missing information impeded the ability to trace the flow of procurement activities and limited the proper assessment of process efficiency and compliance with procurement rules and regulations.

- The Office's Procurement Unit had limited capacity. The procurement function was performed by only one staff member who was also responsible for information and communication technology functions. The limited involvement of the Procurement Unit in the purchasing activities for nationally implemented projects presented the risk of losing track of procurement processes, resulting in the lack of compliance with UNDP procurement rules and regulations.

Priority	High (Critical)

Recommendation 9:

Improve procurement processes for nationally implemented projects by:

(a) signing a Letter of Agreement between the Office and the Government for provision of support services, and defining specific services to be provided for each project;
(b) agreeing to a level of procurement support to nationally implemented projects as the Office's procurement capacity allows;
(c) signing contracts with vendors only when sufficient funds have been received;
(d) raising a purchase order for the entire contracted amount in Atlas;
(e) maintaining adequate documentation concerning procurement and selection processes; and
(f) allocating adequate staff resources to the Office's procurement function.

Management action plan:

(a) & (b) The Office agrees with OAI's recommendation and will discuss and agree with the Government/ implementing partner on the projects' implementation modality and on the level of procurement support.

(c) Sufficient funds for procurement contracts are guaranteed through the signed and agreed upon Project Document and Annual Work Plan.

(d) Raising purchase orders in Atlas for the entire contracted amount:

   o For the Management project: the Office agrees with OAI's recommendation and will implement it immediately.

   o For Development Projects: the funds are received from the Government in tranches distributed over the calendar year and not in one time, consequently raising a purchase order for the entire amount of contract will result in budget error. The funds for the contracted amount are guaranteed by the signed and agreed Project Document and Annual Work Plan. The purchase orders will be raised in accordance with the trenches of funds received to avoid budget error, and the approval of the Purchase Orders will be granted to the adequate approval level according to the total value of contract.

(e) UNDP is part of the tripartite Project Recruitment Panels Committee (Supreme Council for Planning and Development, UNDP & beneficiary); the final decision is agreed upon between the three represented entities equally. To improve the processes and ensure the quality, standard operating procedures have already been established in April 2014.

(f) A Procurement Associate, according to the newly established office structure, has been recruited while a Procurement Expert has been engaged since 1 April to streamline office procurement procedures and documentation along with building the capacity of the concerned staff members.

Estimated completion date: October 2014

Issue 10   Weak procurement management

The 'Programme and Operations Policies and Procedures' indicate that during the project definition stage, consideration must be given to the acquisition of goods, services and work for the successful implementation of the project. In addition, all procurement needs are to be conducted in a fair and transparent manner, in the interest of UNDP, and provide best value for money through a competitive process.

The following weaknesses were noted in the review of the procurement activities:

(a) No Consolidated Procurement Plan in place

The Office did not prepare a Consolidated Procurement Plan during the audit period. Only one project (72396 Traffic Strategy) developed a Procurement Plan, and the procurement of goods and services was not linked to outputs and did not indicate the estimated amount or the procurement method to be used. A Consolidated Procurement Plan provides the Office with an opportunity to identify economies of scale and better use of resources. Furthermore, adequate procurement planning could contribute to more efficient processes through a shortened procurement period and improved project delivery.

(b) Unjustified direct contracting

The Office used the direct contracting modality in 9 of the 10 individual contracts signed during the audit period without providing justification as required by UNDP Financial Rule No. 121.05. Without a competitive, transparent procurement process, the Office may not obtain the best value for money.

(c) Incorrect use of Atlas purchase orders

Purchase orders represent legally binding commitments entered into with third parties within a relevant period, for goods and services required by UNDP. Thus, Atlas purchase orders need to be raised immediately

for the full amount when obligations exceed $5,000, ensuring that funds are available when payments have to be made. However, OAI noted the following:

- The Office raised Atlas e-requisitions only after soliciting and receiving the quotation from vendors rather than before solicitation.
- Atlas purchase orders were created and approved at the time of payment and not when the contracts were signed, thus failing to encumber funds for meeting a contractual obligation.
- The Office did not raise one Atlas purchase order for a contracted amount for a particular year, but split it into several purchase orders to match agreed payment instalments. Splitting contractual obligations into several lower amounts decrease the level of authority needed for approving purchase order in Atlas.

Incorrect use of Atlas purchase orders may lead to approving commitments by staff without an adequate delegation of authority, over commitments of available funds and inaccurate procurement reporting.

(d) Weaknesses in the procurement function

OAI noted the following weaknesses regarding procurement activities:

- There was no evidence concerning the sources and modality for advertising solicitation documents.
- Solicitation documents did not contain the instructions to offerors regarding the administrative, technical and financial requirements of the proposals, the evaluation criteria or methodology for the proposal evaluation.
- Procurement supporting documents contained no information on the bid opening procedure or the members of the Bid Opening Committee, the evaluation of administrative requirements and the members of the Evaluation Committee. The Office also accepted offers that should have been rejected as they did not meet requirements. For example, the technical and financial proposals were submitted together contrary to the instructions provided, and vendors included another company's references without justification.
- The Office did not keep minutes of the Evaluation Committee or the Contracts, Assets and Procurement Committee meetings. Furthermore, the Office prepared the Contracts, Assets and Procurement Committee letter with its final recommendation to the Head of Office on contracting the vendor without providing results of evaluations.
- The Office did not conduct vendor performance evaluations. Without these evaluations, the Office cannot address the non-performance of vendors, which may lead to increased costs or failed procurement activities.

(e) Weaknesses in the quality of submissions to the Regional Advisory Committee on Procurement

All procurement cases exceeding the delegated procurement authority of the Head of Office must be reviewed by the Regional or Headquarter Advisory Committee on Procurement, as applicable. The Office prepared six submissions to the Advisory Committee during the audit period with the following results: one case was rejected; two were cancelled with one being resubmitted; two were only noted and not reviewed due to Post facto submissions; and only two cases were recommended for the Chief Procurement Officer's approval. In all cases, the submitted supporting documentation was incomplete and needed improvement or needed further clarification. In addition, some of the supporting documentation was in Arabic. As the independent review process is a key phase of the procurement cycle, the procurement process may face delays if submissions lack quality and/or if communication is done in languages not spoken by all parties involved.

(f)   Inadequate contract management

The contract management process allows a business unit to track and manage the clauses, terms, conditions, commitments and milestones throughout the life of its contracts to maximize business benefits and minimize associated risks. OAI noted the following issues related to the signing of contracts:

- In various instances, contracts were signed after the contract start date.
- Local Long Term Agreements signed with three vendors providing cleaning, security, and travel services were expired at the time of the audit, although services continued to be provided.

The retroactive signing of contracts puts UNDP and the contractor in an ambiguous legal position as to their respective liabilities and increases the risk of a legal dispute.

Priority	High (Critical)

Recommendation 10:

Strengthen procurement management practices by:

    (a)   preparing and implementing a Consolidated Procurement Plan;
    (b)   using direct contracting modality in accordance with UNDP Financial Rule No. 121.05;
    (c)   creating a purchase order when a commitment is made, rather than at the time of payment; and
    (d)   adhering to procurement procedures, including improved instructions to offerors, maintaining relevant supporting documentation and conducting periodic vendor performance evaluations;
    (e)   submitting all required supporting documentation to the applicable procurement review committee in a UNDP working language.; and
    (f)   signing contracts with the contractor before work begins and monitoring the period of duration.

Management action plan:

(a)   & (b) The Office agrees with OAI recommendation, and will start preparing and implementing a consolidated annual procurement plan, and adequate procedures for direct contracting modality.
(c)   Raising purchase orders in Atlas for the entire contracted amount:
- For Management Project: the Office agrees with OAI recommendation and will implement immediately,
- For Development Projects: the funds are received from the Government in trenches distributed over the calendar year and not in one time, consequently raising a Purchase Order for the entire amount of contract will result in budget error. The funds for the contracted amount are guaranteed by the signed and agreed Project Document and Annual Work Plan. The Purchase Orders will be raised in accordance with the trenches of funds received to avoid budget error, and the approval of the Purchase Orders will be granted to the adequate approval level according to the total value of contract.
(d)   & (e) Standard operating procedures have been already established in April 2014. The Procurement Associate, according the newly established office structure, has been recruited and all the required procurement procedures and documentation will be assured.
(f)   The Office agrees with OAI recommendations and will start implementation immediately.

Estimated completion date: January 2015

Issue 11   Inadequate management of individual contract modality

The 'Programme and Operations Policies and Procedures' stipulate that the individual contract modality is to be used for the procurement of services of an individual to perform time-bound and non-staff related tasks aimed at delivering clear and quantifiable outputs. The engagement of individuals as contractors under the individual contract modality is subject to the general procurement principles established by UNDP 'Financial Regulations and Rules.'

OAI reviewed 10 of 41 contract files and identified the following weaknesses in procuring individual contractors:

- Solicitation documents did not indicate deliverables timeframes, payment conditions, information on the documents required to be submitted in applications, and the evaluation criteria of technical and financial proposals.
- Insufficient evidence that the technical evaluation of proposals was in line with UNDP rules and regulations and that transparent and competitive processes were followed. All 10 files reviewed contained poor documentation of the technical evaluation of proposals, containing only a letter in Arabic from the Government detailing the members of the Evaluation Committee (with a majority representing the Government) and the decision on the final candidate without specifying any criteria used for the selection. Based on this letter, the Office raised and signed the contract with the selected consultant.
- The Office kept only the curriculum vitae of the selected candidate on file and not those of all candidates who applied for the position as required.
- The Office could not provide any evidence of reference checks of selected candidates.
- One case exceeded the threshold requiring review by a procurement committee but no review was performed.
- Payments to consultants were determined using unclear criteria. The Office did not conduct financial evaluations of the proposals since no financial proposals had been requested from applicants. Furthermore, the financial conditions were agreed to after the consultant had been selected.
- Payments to consultants were not linked to timeframes or achieved milestones. Instead, the contracts established equal monthly payments, and in some cases, the contracts did not quantify the total amount to be paid to the consultants.
- The terms of reference were not attached to the signed contracts.
- The individual contracts with consultants were extended or subsequent contracts were awarded allowing consultants to finalize their agreed upon work for a longer period of time. This practice resulted in awarding a series of contracts to the same contractor for the same work, leading to extra costs for the Office and potential reputational risks due to the lack of transparency.

Priority	High (Critical)
Recommendation 11: Comply with the policies and procedures governing the individual contractor modality by: (a) informing applicants of necessary information to be provided and ensuring that this information, including financial proposals is received during the solicitation process; (b) selecting individual contractors on a competitive basis by performing full technical, financial evaluations and reference checks before selecting contractors under the Office's full control; (c) submitting the cases exceeding the delegated authority for review by the relevant committees;	

(d) defining clear and quantifiable outputs in the contract and linking them directly to payment schedules;

(e) attaching the agreed terms of references and relevant annexes to the respective contracts; and

(f) conducting proper planning of the services needed from individual contractors, confirming all deliverables were received before awarding new contracts and monitoring the accumulated amount awarded to them during the 12 month-period.

Management action plan:

(a), (b), (c), (d), (e) & (f) The Office agrees with the OAI recommendations and will start implementation immediately. More adequate controls will be granted through:
- establishing standard operating procedures for individual contractors;
- availability of the Procurement Expert and Associate;
- additional training and capacity building for planning of the services needed from the individual contractors for office staff, Project Managers, project staff, and implementing partners (initial training has already been conducted during April 2014).

Estimated completion date: June 2014

4. Information and communication technology

Issue 12 Outdated and untested Disaster Recovery Plan

Information systems operated by UNDP are critical assets in helping the organization to fulfill its mission. There are always threats, both natural and man-made, which can damage or disable critical information systems. Country Offices need to carefully plan recovery strategies to reduce the cost and time required for restoration. The Disaster Recovery Plan should, inter alia, include information about business requirements, back-up arrangements, and recovery procedures. In addition, Country Offices need to ensure that the plan is kept up-to-date and regularly tested.

The Disaster Recovery Plan prepared by the Office in 2012 did not follow the existing corporate template, had not been tested in more than 365 days, and was not validated by the Office of Information Systems and Technology. In addition, it was prepared when the Office was in the process of moving to its new premises and had not been updated since then.

An outdated Disaster and Recovery Plan could make it difficult for the Office to quickly and completely recover its information systems in case of disaster due to inadequate information, the lack of preparation, and lack of knowledge of the procedures to be followed. In addition, by not regularly testing the Plan, the Office will not be able to identify whether it is adequate and meets its purpose.

Priority	Medium (Important)
Recommendation 12:	
Improve the Disaster Recovery Plan by:	
(a) updating the Plan in accordance with the corporate Disaster Recovery Plan template and having it	

validated by the Office of Information Systems and Technology; and
(b) testing the Plan regularly.

Management action plan:

- The current Disaster Recovery Plan is under revision to ensure that the requirements of the UNDP corporate policy are met.
- The Disaster Recovery Plan will be validated though the Office of Information Systems and Technology and will be regularly tested.
- The Office recruited an ICT staff member who will ensure its regular testing.

Estimated completion date: August 2014

5. Asset management

Issue 13   Weak asset management

The 'Programme and Operations Policies and Procedures' and Financial Rule 124.01 stipulate that physical verifications shall be made of supplies, property, plant and equipment owned by UNDP, or entrusted to UNDP annually or at such intervals as deemed necessary to ensure adequate control over such property. Furthermore, Country Offices are required to maintain complete and accurate records of all assets. The asset inventory must be updated on a monthly basis to track relocation or eventual disposal of items.

The Office had 58 assets with a total net book value of $194,357. OAI identified the following weaknesses in asset management:
- The Office did not prepare verification reports for the mid-year and year-end asset physical verification. The Office used a storage room in the building to store old assets and equipment from various projects. No list of these items was available to ensure completeness.

OAI conducted a verification of a sample of the assets and noted the following:
- Three monitors and two desk computers were stored in the Office's storage room and used when needed, but not included in the list of assets.
- Three laptops did not have tag numbers and were not included in the list of assets.
- Three photocopiers were used by the Office but were not included in the asset list.
- The Office was not able to provide any information about one printer that did not function and was not included in the list of assets.
- The list of assets included four items valued at $8,059 that OAI could not locate in the Office.
- The Office used office premises, including various assets and furniture provided by the Government. Except for the furniture, no list of assets donated to UNDP by the Government was prepared. No physical verification was done of these assets by the Office or the Government.
- In September 2013, the assets focal point identified the loss of one laptop. At the time of audit, the case was still open.

OAI concluded the Office assets are not properly safeguarded.

Priority	Medium (Important)

Recommendation 13:

Strengthen the asset management process by:

(a) completing the mid-year and year-end physical asset verification reports;
(b) maintaining a complete and up-to-date list of assets in the storage room;
(c) updating the list of in service assets, including all assets controlled and used by the Office;
(d) preparing a complete list of all assets donated by the Government that are located on the premises and used by the Office; and
(e) following up on the status of missing or lost assets and taking the corrective actions.

Management action plan:

- The Office has completed the mid-year and year-end physical asset verification for 2013, and will ensure the timely submission of the 2014 asset verification.
- An asset management focal point was appointed in March 2014.
- The Office will ensure that the Asset Management Team regularly implements all of the elements of this recommendation.

Estimated completion date: December 2014

Definitions of audit terms - ratings and priorities

A.   AUDIT RATINGS

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

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

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

B.   PRIORITIES OF AUDIT RECOMMENDATIONS

- **High (Critical)**   Prompt action is required to ensure that UNDP is not exposed to high risks. Failure to take action could result in major negative consequences for UNDP.

- **Medium (Important)**   Action is required to ensure that UNDP is not exposed to risks that are considered moderate. Failure to take action could contribute to negative consequences for UNDP.

- **Low**   Action is desirable and should result in enhanced control or better value for money. Low priority recommendations, if any, are dealt with by the audit team directly with the Office management, either during the exit meeting or through a separate memo subsequent to the fieldwork. Therefore, low priority recommendations are not included in this report.