

**UNITED NATIONS DEVELOPMENT PROGRAMME**  
**Office of Audit and Investigations**



*Empowered lives.  
Resilient nations.*

**AUDIT**

**OF**

**UNDP COUNTRY OFFICE**

**IN**

**BOSNIA AND HERZEGOVINA**

**Report No. 1329**  
**Issue Date: 4 September 2014**

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## Report on the audit of UNDP Bosnia and Herzegovina Executive Summary

The UNDP Office of Audit and Investigations (OAI) conducted an audit of UNDP Bosnia and Herzegovina (the Office) from 26 May to 6 June 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, risk management, planning, monitoring and reporting and financial sustainability);
- (b) United Nations system coordination (development activities, Resident Coordinator Office, role of UNDP – “One UN”, Harmonized Approach to Cash Transfers);
- (c) Programme activities (programme management, partnerships and resource mobilization, project management); and
- (d) Operations (human resources, finance, procurement, information and communication technology, general administration, safety and security, asset management, leave management).

The audit covered the activities of the Office from 1 January 2013 to 31 March 2014. The Office recorded programme and management expenditures totalling \$34 million. The last audit of the Office was conducted by OAI in 2009.

The audit also included a performance audit segment focused on pilot initiatives carried out by the Office during the same audit period. This performance audit addressed the following overall question: Does the Office provide relevant and documented feedback to the initiator of the pilot and UNDP Headquarters? The question focused on whether the Office effectively planned, monitored, and evaluated its pilot initiatives to ensure that benefits were realized and that lessons learned were documented/disseminated. The criteria and related lines of enquiry against which pilot initiatives were audited were developed by OAI and are primarily based on good practices defined in the PRINCE II methodology. OAI defined pilots to be non-routine, time-bound activities implemented with a view to test an idea or a process leading to a decision to expand its implementation in some manner or to put it on hold.

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

### Key recommendations

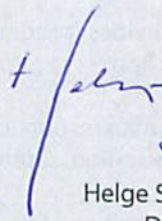
The audit did not result in any high (critical) priority recommendations. There are four medium (important) priority recommendations, which means, “Action is required to ensure that UNDP is not exposed to risks that are considered moderate. Failure to take action could contribute to negative consequences for UNDP.” These recommendations include actions to address: non-compliance with the ‘Internal Control Framework’; weaknesses in the procurement function; the non-submission of the United Nations House lease agreement to

the Advisory Committee for Procurement; and the improvement of the planning and management of pilot initiatives.

### Management comments and action plan

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

  
Helge S. Osttveiten  
Director  
Office of Audit and Investigations

## I. About the Office

The Office, located in Sarajevo, Bosnia and Herzegovina (the Country) was established in 1996. At the time of the audit, the Office was implementing its second 'United Nations Development Assistance Framework' covering the period from 2010 to 2014 in the areas of: (a) democratic governance; (b) social inclusion; (c) environment; and (d) human security. The government structure in the Country was complex, and was based on a unique system in which multiple parties and multiple entities shared power despite having their own constitutions. The complex structure, along with post-conflict dynamics and recovery needs were the main challenges in development. At the time of the audit The Office was preparing for the new 'United Nations Development Assistance Framework' cycle covering the period 2015-2019 and the implementation of the "Delivery as One" mechanism.

## II. Audit results

Satisfactory performance was noted in the following areas in the Office:

- (a) Governance and strategic management (excluding organizational structure and delegations of authority). Project risk management, planning and reporting in Atlas (the enterprise resource planning system used by UNDP) were well-managed. No issues were identified in the areas of leadership/ethics and financial sustainability.
- (b) United Nations system coordination. Staffing, planning, budgeting and reporting of activities by the United Nations Country Team were found to be adequate. United Nations agencies indicated that there was improvement in joint programme implementation since the opening of the United Nations House. The Office was in the final stage of the 'United Nations Development Assistance Framework' 2010-2014 and had finished the draft for the next cycle (2015-2019), which included the "Delivering as One" approach. Meetings with donor representatives and a government representative showed that UNDP had a good reputation in terms of responsiveness and delivering as planned.
- (c) Programme activities. The overall structure of the Office was well-organized with good programme assurance roles. Programme sector heads had a good overview of each project, and communication flow was adequate.
- (d) Human resources. OAI reviewed recruitment, separation, performance assessment and learning management. OAI noted that for 9 out of 43 staff members, performance assessments for 2013 were still in progress and the performance plan for the year had not been finalized for 15 out of 34 staff members. In response to the draft audit report, the Office indicated that it had completed all pending 2013 performance assessments, uploaded targets for all staff in 2014 assessments and reported that all staff had completed required mandatory training courses. No other issues were identified.
- (e) Finance. The processes and controls over monitoring of receivables from staff, as well as the procedures for approval, disbursement and accounting of payments were found to be adequate.
- (f) General administration. OAI reviewed general administration activities, including management of travel, common premises, fuel, and vehicles. Controls were found to be adequate and functioning effectively. OAI also reviewed management of assets and conducted a physical verification of a sample of assets and did not identify any reportable issues.

- (g) Information and communication technology. Adequate controls were in place and were functioning effectively. Safety and security systems of the server room were found to be adequate. The Office had an approved and updated 'Disaster Recovery Plan' and 'Business Continuity Plan'.
- (h) Safety and Security. No reportable issues were identified in this area.

OAI made four recommendations ranked medium (important) priority.

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

**Medium priority recommendations**, arranged according to significance:

- (a) Strengthen the internal control system (Recommendation 1).
- (b) Strengthen the procurement of individual contractors (Recommendation 2).
- (c) Report the procurement case of the United Nations House lease agreement to the Advisory Committee on Procurement, taking into account the total amount of the contract. (Recommendation 3).
- (d) Maximize the effectiveness and impact of pilot initiatives (Recommendation 4).

## A. Governance and strategic management

### 1. Organizational structure and delegations of authority

#### **Issue 1**      Non-standard set-up of 'Internal Control Framework' elements

According to the UNDP 'Programme and Operations Policies and Procedures', each head of office has an overall responsibility for establishing and maintaining adequate internal controls in the office, and for ensuring documentation of the office's internal control procedures. The 'Internal Control Framework' is an important management tool for implementing effective internal controls and segregation of duties, thereby reducing the risk of fraud and other non-compliant behaviour. The UNDP 'Programme and Operations Policies and Procedures' also require that any exceptions to the 'Internal Control Framework' set-up must be approved by the Controller, based upon full justification and the application of appropriate controls by the Office.

The Office did not fully follow the corporate 'Operational Guide of the Internal Control Framework for UNDP' with the latest 'Internal Control Framework' issued on 1 January 2013. In particular, the following areas were found to weaken the 'Internal Control Framework' set-up:

- According to the 'Internal Control Framework' guidelines, the second authority (manager level 1) must be a UNDP staff member at the national officer or international level. However, the Office assigned the approving role of manager level 1 to six General Service staff members from operations and programme units. The Office explained that these General Service staff members were all long-serving staff with extensive experience, ranging from 9 to 18 years, with substantive knowledge of the 'Programme and Operations Policies and Procedures'.
- There were nine staff members with both manager level and project manager roles in Atlas. The Office was therefore not observing the segregation of duties requirement between first authority (project manager) and second authority (approving manager).

- The Office assigned a human resource staff member with a treasury/finance user profile and vendor approval access role in Atlas. These roles were not consistent with the staff member's primary functions. In response to the draft audit report, the Office removed this profile from the staff member's responsibilities and therefore OAI is not making a recommendation in this respect.
- The head of finance had conflicting roles in Atlas payroll management, allowing her to perform both the roles of global payroll administrator as well as disbursing officer – payroll. The Office explained that the global payroll administrator role had never been exercised by the head of finance (who was not aware of having this role in Atlas). In response to the draft audit report, the Office correctly cancelled her global payroll administrator authorization. OAI is therefore not making a recommendation in this regard.

The Office did not consult Headquarters to obtain the required clearance for not following corporate guidelines. The approval is required to help the Office evaluate whether the existing controls reduce risks to an acceptable level. Non-compliance with corporate guidelines in the set-up of user profiles increases the risk of unauthorized transactions being processed, which may result in the loss of financial resources.

<b>Priority</b>	Medium (Important)
<b>Recommendation 1:</b>	
Strengthen the internal control system by:	
<ul style="list-style-type: none"> <li>(a) assigning manager level 1 role to staff members at the national officer or international level;</li> <li>(b) segregating first (project managers) and second authority roles (approving managers); and</li> <li>(c) obtaining clearance from the UNDP Controller for the existing 'Internal Control Framework' established by the Office.</li> </ul>	
<b>Management action plan:</b>	
The Office sent a letter to the UNDP Controller requesting the approval of the Office's specific 'Internal Control Framework' set-up.	
<b>Estimated completion date:</b> September 2014	

## B. Operations

### 1. Procurement

#### Issue 2 Weaknesses in individual contract procurement process

UNDP policies and procedures require that business units ensure that adequate controls are in place for the entire procurement process. The following weaknesses were noted in the review of the individual contract procurement activities:

(a) Individual contractors were not planned for

Procurement plans were prepared for 2013 and 2014. However, these plans were not used for the planning of the procurement of individual contractors, as they were managed by the Human Resource Unit. Adequate use of the procurement plans could have contributed to more efficient procurement processes.

(b) Direct contracting with insufficient justification

The 'UNDP Financial Regulations and Rules' clearly indicate when direct contracting is justified. The Office contracted 168 individual contractors during the period under review. Out of 11 individual contracts reviewed valued at \$358,000, 7 valued at \$258,000 were procured without the required competitive process. Direct contracting was approved by the head of office, but lacked proper documentation justifying the need to waive the competitive process as required by UNDP's financial rules. Without a competitive and transparent procurement process, the Office may not provide an equal and fair opportunity for all potential candidates and may not obtain the best value for money.

<b>Priority</b>	Medium (Important)
<b>Recommendation 2:</b>	
Strengthen the procurement of individual contractors by planning their procurement and using the direct contracting modality only in accordance with 'UNDP Financial Regulations and Rules'.	
<b>Management action plan:</b>	
<p>(a) The Office will incorporate individual contract planning in the annual procurement plan.</p> <p>(b) For cases of direct contracting, the Office will adequately document and justify exemptions to the competitive process as per the UNDP financial rules.</p>	
<b>Estimated completion date:</b>	
<p>(a) January 2015</p> <p>(b) August 2014</p>	

**Issue 3**      United Nations House lease agreement not reviewed by relevant procurement review committee

According to UNDP policies and procedures, all procurement cases exceeding the delegated procurement authority of the head of office must be reviewed by the Regional (up to \$2 million) or Headquarter Advisory Committee on Procurement (above \$2 million), as applicable. The independent review process is a key phase of the procurement cycle, confirming that offers received are the result of a fully compliant process, and that sufficient budgetary funding exists for the proposed contract.

Following the competitive procurement process advertised through an invitation to bid, the Office signed a five-year lease agreement in January 2013 for the rent of the United Nations House premises that accommodated 12 United Nations agencies, including UNDP. The total amount of the contract was \$3.8 million, falling under the scope of the Headquarters Advisory Committee on Procurement. The total UNDP share for five years was



expected to be \$1.6 million. The Office committed to the payments without having the necessary delegated procurement authority from the Chief Procurement Officer.

<b>Priority</b>	Medium (Important)
<b>Recommendation 3:</b>	
Report the procurement case of the United Nations House lease agreement to the Advisory Committee on Procurement, taking into account the total amount of the contract.	
<b>Management action plan:</b>	
The Office will submit the United Nations House lease agreement procurement case to the Advisory Committee on Procurement.	
<b>Estimated completion date:</b> September 2014	

### C. Management of pilot initiatives

#### **Issue 4**      Pilot initiatives not effectively planned and managed

UNDP offices are under increasing pressure to innovate and find new ways of demonstrating results while reducing costs. To do so, they must pilot or test new ideas and adopt those that show the greatest potential. Such innovation must be managed “deliberately” to ensure that limited seed resources are allocated to the most promising ideas, and that resulting pilots are effectively managed and monitored to ensure that results and lessons learned are integrated in the decision-making process of offices.

The Office implemented 20 initiatives in the last few years. Of the 20 initiatives identified by the Office, OAI selected 10 for review. While some of these may have been deemed pilot initiatives, OAI did not identify instances where the Office deliberately set out to implement an activity on a test basis with clear intent that a decision to expand, maintain or abandon the activity would be made at a later point, after assessing results based on clear criteria defined at the outset.

#### Objectives, success factors and risks impacting pilot initiatives not properly documented.

Based on good project management practices, there should be terms of reference or a “business case” defining the objectives of the initiative, resource requirements, and success factors. Furthermore, OAI expected that risks that could impact the success of the pilot initiative would have been identified and managed, and that accountability for the delivery of the pilot would have been formally and clearly assigned.

While the goals and targets of the pilot were explained verbally by the responsible parties, they were not documented formally in 3 out of 10 cases reviewed. In one case, the goals of the initiative were documented, but specific targets were not defined, which made it difficult to monitor and determine the extent of the success of the initiative. OAI further determined that risks that could impact the success of the pilot were not documented in 4 of 10 cases reviewed.

Inadequate documentation impacts the ability of the Office to manage risks and assess the initiatives in an objective and transparent manner and to communicate results.

Resources used and results of pilot initiatives not monitored effectively.

Good project management practices indicate that resources used to implement pilots should be tracked and analysed periodically to identify over-runs and implement corrective actions. OAI expected to find that results/targets were measured regularly, and compared against success factors defined at the launch of the initiative for further decision-making.

Although some of the costs could be determined from Atlas or recalculated after the fact, resources used to implement initiatives were not monitored throughout the duration of the initiatives. Moreover, while results were achieved in all instances, such results were not compared against documented targets to determine success, due to the fact that targets had not been defined during initiation.

Lessons learned not documented properly.

OAI expected to find that lessons learned from the implementation of the pilots would be documented and used to expand upon existing pilots, or to improve the design of future pilots.

OAI determined that in four cases, lessons learned were not formally documented. OAI reviewed some presentations showcasing the pilots in which some lessons learned were displayed, but these did not constitute a deliberate effort to reflect on the implementation of the pilot to determine what worked well and what could have been done better.

<b>Priority</b>	Medium (Important)
<b>Recommendation 4:</b>	
Maximize the effectiveness and impact of the pilots by:	
<ul style="list-style-type: none"> <li>(a) developing clear terms of reference outlining target results, inputs planned, responsible parties, and success factors for each;</li> <li>(b) measuring the use of resources and achievement of results and compare them against targets, and analyse variances to allow timely corrective action and accountability; and</li> <li>(c) documenting and disseminating lessons learned, enabling the Office and UNDP to build on the knowledge gained from the pilot.</li> </ul>	
<b>Management action plan:</b>	
For its future pilot initiatives (designated as pilots and corresponding to the 'pilot initiative' definition from the start), the Office will ensure that:	
<ul style="list-style-type: none"> <li>(a) terms of reference are developed, outlining target results, inputs planned, responsible parties and success factors;</li> <li>(b) the use of resources and achievement of results are measured, comparing them against targets, analysing variances to allow timely corrective action and accountability; and</li> <li>(c) lessons learned are documented and disseminated, enabling the Office and UNDP to build on knowledge gained from the pilot.</li> </ul>	
<b>Estimated completion date:</b> When a new pilot is developed	

## 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.