UNITED NATIONS DEVELOPMENT PROGRAMME
Office of Audit and Investigations

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AUDIT

OF

UNDP COUNTRY OFFICE

IN

INDONESIA

Report No. 1332

Issue Date: 10 October 2014

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Report on the audit of UNDP Indonesia
Executive Summary

The UNDP Office of Audit and Investigations (OAI) conducted an audit of UNDP Indonesia (the Office) from 9 to 27 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, financial sustainability);

(b) United Nations system coordination (Resident Coordinator Office, Harmonized Approach to Cash Transfers);

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

(d) operations (human resources, finance, procurement, information and communication technology, general administration, safety and security, asset management, leave management); and

The audit covered the activities of the Office from 1 January 2013 to 31 May 2014. The Office recorded programme and management expenditures totalling $53 million during the audit period. The last audit of the Office was conducted by OAI in 2009.

OAI also included a performance audit segment focused on the review of the Office's practices for monitoring development projects with the purpose to address the question: Is the Office effectively monitoring its performance, and is it successful in integrating performance results in decision-making? The audit work focused on whether the Office: (a) established results-based planning; (b) carried out results-based monitoring; and (c) properly reported on results and took action to improve performance. OAI's work was limited to the effectiveness of the monitoring and did not include an assessment of efficiency aspects or visiting project sites. Overall, OAI concluded that the Office had effective monitoring practices. The detailed results of this audit work are presented as a separate section at the end of the report.

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 **partially satisfactory**, which means, "Internal controls, governance and risk management processes were generally established and functioning, but needed improvement. One or several issues were identified that may negatively affect the achievement of the objectives of the audited entity." This rating was mainly due to the various issues noted in programme and operations activities of the Office.

Good practices

Programme activities

(a) The Office developed internal project appraisal guidelines to provide additional guidance on key issues, such as gender mainstreaming, exit and sustainability, and quality of results framework. The guidelines assist programme units with developing new proposals and ensuring that programme activities lead to high quality results.

(b) The Office created templates for Quarterly Monitoring Reports and Donor Reports. The templates helped standardize monitoring processes, and increase the knowledge of the programme and project staff with respect to project and programme monitoring.

Key recommendations Total = **12**, high priority = **2**

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. The high (critical) priority recommendation is presented below:

Direct project cost recovery not in line with corporate guidelines (Issue 1)	The Office did not adhere to the policy regarding the recovery of direct support services, which calls for recovery on the basis of actual costs or Universal Price List rates. Instead, the Office recovered costs at a flat rate of 5 percent of disbursements. In addition, the cost recovery of support services provided by the Office was not conditioned by a duly signed agreement with the Government. Recommendation: Be able to readily demonstrate that the recovery of direct support services is based on actual direct costs incurred and after an agreement to this effect has been signed with the Government.
Weaknesses in management of project cash advances (Issue 5)	Controls over project cash advances of $1.5 million paid during the audit period to facilitate the implementation of workshops in remote locations needed to be enhanced. The amount advanced was often in excess of the amount actually utilized and previous cash advances were not cleared within seven days. Recommendation: Comply with the 'Programme and Operations Policies and Procedures' on project cash advances and enhance controls over project cash payments.

Management comments and action plan

The Resident Representative accepted all of the recommendations 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.

Antoine Khoury
Officer-in-Charge
Office of Audit and Investigations

I. About the Office

The Office, located in Jakarta, Indonesia (the Country) comprised of 56 staff and 163 service contract personnel, with total expenditures of $53 million from January 2013 to May 2014. The Country Programme 2011-2015 included the following four components: Millennium Development Goals and Poverty Reduction; Environment, Energy and Climate Change; Democratic Governance; and Crisis Prevention and Recovery. The Office programme portfolio had undergone significant changes in the recent past. The focus of delivery was largely on disaster recovery from 2010 to 2012. However, in 2013, the Environment and Climate Change portfolio accounted for 60 percent of the programme resources. Of this, the Reducing Emissions from Deforestation and Forest Degradation (REDD+) project accounted for more than 25 percent of the total programme resources in 2013. Further, resource mobilization from traditional donors had become challenging since the Country was considered as having middle income status.

II. Good practices

OAI identified good practices, as follows:

Programme activities:

(a) Development of internal project appraisal guidelines to complement the 'Programme and Operations Policies and Procedures' but provide greater guidance on key issues such as (a) gender mainstreaming, (b) exit and sustainability, (c) scale-up and replication, (d) quality of results framework and availability of baselines, etc. The tool provides all programme units developing new proposals with clear guidance on the issues they need to address to ensure quality programming and to lead to better results.

(b) A set of templates for Quarterly Monitoring Reports and Donor Reports that has helped to standardize processes and monitor performance, and increase the knowledge of the programme and project staff with respect to project and programme monitoring.

III. Audit results

Satisfactory performance was noted in the following areas:

(a) United Nations system coordination. The Resident Coordinator Office was providing coordination services for 19 resident United Nations agencies, 4 non-resident agencies, and 4 other United Nations-affiliated entities. At the time of the audit, it was headed by a United Nations Volunteer whose contract was scheduled to end in February 2015. Further funding for the post had not been secured. Other staff included one national Coordination Officer and three support staff. The Resident Coordinator indicated that discussions were ongoing to garner adequate support for the coordination function.

(b) Programme activities. The Office had made progress in the implementation of the 2011-2015 programme, and had instituted a strong results-based management structure throughout its programming. OAI met with government counterparts and donors, and both expressed their appreciation for the work undertaken by the Office.

(c) Partnerships and resource mobilization. The Office had established partnerships with Australia, European Union and Norway. The Office was also actively working with the private sector and foundations and had made considerable progress in engaging the non-traditional sectors in supporting the country programme. All donor contracts were signed and adequate monitoring procedures were in place to ensure proper recording of donor funds received.

(d) Safety and security. OAI reviewed the Security Plan, the Security Risk Assessment as well as the Security Management Team meeting minutes. Controls were generally noted to be adequate and functioning effectively.

(e) Information and communication technology. OAI reviewed the inventory of the software purchases, licenses, and confirmed that all were up to date. The infrastructure network was developed, and both the Disaster Recovery Plan and the Business Continuity Plan had been tested by the Office. The controls in this area were functioning adequately.

OAI made 12 recommendations 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) Comply with the 'Programme and Operations Policies and Procedures' and project cash advances and enhance controls over project cash payments (Recommendation 5).
(b) Demonstrate that the recovery of support services is based on actual direct costs incurred and subject to a signed agreement with the Government (Recommendation 1).

Medium priority recommendations, arranged according to significance:

(a) Comply with the 'Programme and Operations Policies and Procedures' on individual contractors (Recommendation 6).
(b) Enhance controls over the receipt of bids submitted manually and through email (Recommendation 7).
(c) Streamline the process of recruiting service contract holders (Recommendation 4).
(d) Obtain a duly signed request from the national implementing partner that explains the need for the Office to provide its support services (Recommendation 2).
(e) Strengthen the management of Long-Term Agreements (Recommendation 8).
(f) Strengthen controls over travel (Recommendation 9).
(g) Complete UNDP mandatory training and performance assessments within the specified timeframe (Recommendation 3).
(h) Strengthen the writing capacity of staff in order to address recurring and systemic needs (Recommendation 10).
(i) Develop and implement an action plan for the timely completion of an information system (Recommendation 11).
(j) Establish a monitoring tracking mechanism (Recommendation 12).

The detailed assessment is presented below, per audit area:

A. Governance and strategic management

OAI reviewed the organizational structure and delegations of authority, leadership/ethics and values, risk management, planning, monitoring and reporting, and financial sustainability.

1. Financial sustainability

Issue 1 Direct project cost recovery not in line with corporate guidelines

The UNDP cost recovery policy states that the Office must recover any direct costs incurred on the basis of actual costs or on a transaction basis using the Universal Price List. Further, there must be a signed agreement between the Resident Representative and the national Government to provide such support services.

The Office recovered direct costs on the basis of the Universal Price List rates for services provided to the Global Environment Facility-funded projects and to other United Nations agencies. However, for all other projects, the Office recovered direct project costs at a flat rate of 5 percent per transaction for the back-end transactions undertaken by the Office as agreed with the Government in 2010. During 2013, the Office recovered $0.5 million through the application of the 5 percent flat rate.

A review of the direct project cost recovery process highlighted the following:

- There was inadequate justification for applying the flat rate of 5 percent instead of the Universal Price List; the 5 percent recovered for Project No. 60694 in 2013 was reversed in 2014 based on an agreement with the Government and the Regional Bureau for Asia and the Pacific.

- As the level of support provided to projects varied, applying a uniform rate to all projects may have resulted in additional cost to some projects. For instance, Project No. 57787 had dedicated personnel to undertake administrative functions that included procurement, finance and human resources, whereas other projects did not have such personnel.

- The salaries of nine service contract holders who worked as part of the Office's programme units were charged to the projects (61140, 56845, 65312, 60694, 51288, 60070, 60044, 57787, 71337 and 61763). However, the Office also recovered the 5 percent direct project cost on the salaries of these nine service contract holders, which resulted in additional costs for the projects. In response to the draft report, the Office indicated that the amount involved was only $15,000 and had already been corrected.

- In one project (57787), the Office recovered Country Office support services at 5 percent, even though the project document stated that, "implementation support services will be charged per transaction."

- For three out of the four nationally implemented projects reviewed, a letter of agreement on Country Office support services had not been signed with the Government (Project Nos. 57787, 60467 and 60694).

- The Office did not undertake a periodic analysis (at least yearly) against the actual direct costs incurred by the Office in providing its support services, which would have justified the use of the 5 percent flat rate.

The Office clarified that where the provision of Country Office support services were applicable, the project document shared with the donors normally included the cost recovery arrangements. However, OAI noted that the project documents reviewed (60044, 57787, 60467 and 60014) did not specify the 5 percent rate charged.

OAI recognizes that it could be cumbersome to apply the Universal Price List system, and the use of a flat rate offers an easier and simpler approach. Nonetheless, the use of a flat rate to recover direct support services needs to be continuously monitored and, if necessary, adjusted to the actual costs incurred. The Office indicated that based on an analysis undertaken in early 2014, the cost recovery would have been higher by 15 percent if they had applied the Universal Price List ($561,500 earned through 5 percent rate compared to $645,000 using Universal Price List rates).

Management indicated that they would adopt the extended Universal Price List for all projects in 2015. To facilitate this, the Office was developing a web-based tool that would allow for partners or clients to submit requests for support services. The web-system would also allow the Office to track the status of these requests, and recover costs incurred for services delivered.

By utilizing a flat rate, the Office runs the risk of not fully recovering all costs related to support services provided.

Priority	High (Critical)
Recommendation 1: Be able to readily demonstrate that the recovery of support services is made against actual direct costs incurred by the Office and an agreement to this effect has been signed with the Government specifying the nature of the services to be provided.	
Management action plan: The Office began using Universal Price List rate for all new projects as of July 2014 (namely awards 82941 and 80998). The flat rate fee will not be used for any new programmes as of this date. All existing projects will be converted to the Universal Price List method starting in 2015 with the formal launch of the new web-based system. The Office will also ensure that the standard signed Country Office support services agreement is attached to all new project documents and will include the Universal Price List. **Estimated completion date:** December 2014	

B. Programme activities

1. Project management

As of June 2014, the Office had 34 ongoing projects, 10 of which were directly implemented and 24 nationally implemented. OAI sampled five projects for detailed review (Project Nos. 60694, 57787, 60467, 60044 and 60014), with a cumulative expenditure of $24 million out of combined programme delivery of $37 million in 2013.

Issue 2 Significant Country Office support to nationally implemented projects

The 'Programme and Operations Policies and Procedures' require that UNDP provide Country Office support services at the request of the Government. Where such services are provided, UNDP rules and regulations should be followed, including establishing exit strategies.

The UNDP policy requires that nationally implemented projects be managed and implemented by national entities. However, the Office provided substantial operations support to various nationally implemented projects. OAI reviewed the Country Office support to national implementation and noted the following:

- During 2013, the Office provided Country Office support to projects at an overall rate of 60 percent. The support was similar to that provided in 2009, when the last audit was undertaken (refer to OAI Report No. 629, Recommendation No. 1), and a recommendation was made for an exit strategy to be developed. Although the strategy was developed, it was not fully implemented.

- The capacity assessments of implementing partners did not give rise to any major concerns, as the risk rating of these partners ranged between low and medium, however, the Office still provided substantial support.

- The 2014 Office Integrated Work Plan had identified a risk of the "Possible reduction of the Office income due to the declining Country Office support service resulting from the greater use of national implementation advocated by the Government." In the management response, the Office had indicated that negotiations were held with the relevant Government ministry, and an agreement was reached on the continuation of Country Office support services.

- For three out of the four nationally implemented projects reviewed (60694, 60467, 60014), a documented request for Country Office support services from the implementing partner had not been provided.

The Office explained that the Country Office support services were requested by the Government and generally discussed during the Local Project Appraisal Committee meetings. A meeting with one of the Government ministries confirmed to OAI that national implementing partners do request for support services from the Country Office.

The high number of requests resulted in a relatively large Country Office structure to provide the operational support services. At the project level, each project maintained a project management unit with a minimum of four staff comprising of one Programme Coordinator and three support positions.

Management stated that if the Government had contracted another third party for these services, then it would have likely paid higher costs. They added that the management costs for providing these services were closely monitored and kept to a minimum. The Office had developed guidelines for project management units to ensure that management costs were capped at 15-20 percent of the project expenditure. While OAI appreciated that the Office was monitoring these costs, there were no guidelines to determine whether the threshold of 15-20 percent was reasonable.

The Office earned $0.6 million from Country Office support services towards its extrabudgetary earnings in 2013, representing 20 percent of total extrabudgetary revenue.

Given the significant level of Country Office support, the Office may face the following risks:

(a) sustainability in maintaining the relatively large organizational structure in addition to the escalating operating costs in the Country;
(b) provision of significant operational support such as travel, recruitment, procurement and cash payments may detract from focusing on the upstream policy-level support to the Government in line with the changing Country context;
(c) fiduciary risk solely transferred to UNDP; and
(d) UNDP's interests may not be protected in the absence of a formal letter of agreement for Country Office support between the Office and the implementing partner.

Management stated the following:

- The core office structure had reduced over the past four years, from 70 core staff to 46.
- The distribution of roles and responsibilities among programme, operations and project management units ensures that the Country Office support modality does not prevent the programme team from delivering upstream services.
- They consider the fiduciary risks as a manageable risk given their experience and the robustness of Office financial management systems.
- While a formal letter of request from the Government for Country Office support services was not required, the request for Country Office support was discussed in the Local Project Appraisal Committee and the Annual Work Plan included the services to be provided by UNDP.

The UNDP 'Programme and Operations Policies and Procedures' do not provide clear guidance where Country Office support to national implementation provided is not driven by capacity gaps, but by reluctance of the implementing partners to take fiduciary accountability for funds advanced.

Priority	Medium (Important)
Recommendation 2: Obtain a duly signed request from the national implementing partner that explains why there is a need for the Office to provide its support services to a nationally implemented project.	
Management action plan: The Office will take immediate steps to ensure that all Country Office support requests are accompanied by a signed agreement. The specific services relevant to the project will either be included as an annex to the project document or outlined in the Annual Work Plan. **Estimated completion date**: September 2014	

C. Operations

1. Human resources

OAI reviewed the recruitment, separations, benefits and entitlements and leave for staff and service contract holders. At the time of audit, the Office had 56 staff (8 International, 20 National, and 28 General Service) and 163 service contract personnel (67 professional service contract, and 96 support service contract).

Issue 3 Mandatory training and performance assessments not completed

(a) Mandatory trainings

According to the 'Programme and Operations Policies and Procedures,' all staff are required to complete six UNDP mandatory courses that are important for understanding the policies, regulations as well as the objectives of the organization. At the time of audit, 45 out of 56 staff members (80 percent) had not completed all the mandatory courses. Additionally, out of 163 office personnel holding service contracts, only 9 had fully completed the mandatory courses.

(b) Performance Assessments

A performance assessment not only measures a staff member's contributions towards corporate results, but is also a vital tool for career development. As at May 2014, only 24 out of 56 (43 percent) staff in the Office had completed their performance assessments, even though the deadline for completion of the process was 28 February 2014. The Office indicated that the performance assessment system was new and staff experienced challenges in using it. However, there were still eight staff members who had not completed their assessments from 2012, which were based on the previous system. These assessments should have been completed by March 2013.

As the performance assessment process had not been completed within the required timeframe, the Office's learning plan for 2014 did not incorporate the learning requirements from the performance assessment process and was mainly based on results of the Global Staff Survey and a staff retreat. The professional learning and development dimension profile also ranked lowest (44 percent) in the results of the Global Staff Survey for the Office in 2013.

Failure to complete the mandatory training may impact the staff knowledge of organizational policies and capacity to appropriately address related issues within the Office. Capacity gaps may not be adequately identified without completed performance assessments.

Priority	Medium (Important)
Recommendation 3: Complete the UNDP mandatory training and performance assessments within the specified timeframe. The learning manager should track and monitor the progress for mandatory training regularly.	
Management action plan: ▪ The Office has consulted with the Learning Management System team to allow registration of service contract holders without a requirement for them to be hired in Atlas. This will speed up registration in the Learning Management System and allow new service contract holders to complete mandatory trainings. ▪ The Office will include a monthly progress update on mandatory learning completion in its regular management meetings to monitor compliance. ▪ For 2015 onwards, the Office will incorporate the inputs from the performance assessments, Global Staff Survey and management retreats in developing its learning plan for the year. **Estimated completion date:** December 2015	

Issue 4 Use of service contract holders for core functions

The 'Service Contract Guidelines' require that the use of service contractors be restricted to non-core office functions that can be outsourced to external companies and in development projects.

In addition to the 56 staff in the Office, there were 27 service contract personnel (or 32 percent of Office staff and service contractors), 18 of whom were performing core office functions. OAI also noted that 11 of these service contractors had been engaged for five years on average, and two service contractors had served for nine years.

The Office indicated that programme delivery had decreased significantly since 2006, and using service contractors had provided the Office with the flexibility to adjust its human resource capacity according to the reduced delivery and portfolio changes.

A heavy reliance on service contractors could impact the overall morale of the Office's workforce, since not all personnel enjoy the same level of benefits and entitlements. To address this imbalance, the Office indicated that they had extended benefits to service contractors in addition to those provided in the 'Service Contract Guidelines' to reduce the inequalities in benefits. For example, the service contractors were enrolled in a health insurance scheme along with their families.

Priority	Medium (Important)
Recommendation 4: Streamline the process of recruiting service contract holders by complying with the 'Service Contract Guidelines' and not using service contract holders for the performance of core office functions, and seeking guidance from the Regional Bureau when the Office finds it necessary to depart from this requirement.	

Management action plan:

The Office will:

- Review all service contract positions to ascertain that all core functions are covered by at least one fixed-term appointment incumbent. In the event that a core function is solely covered by service contract holders, the Office will convert the service contract holder performing tasks against these functions to a fixed-term appointment depending on financial viability.
- Consult with the Regional Bureau for advice on appropriate staffing arrangements given the changing development landscape.

Estimated completion date: June 2015

2. Financial management

OAI reviewed 34 accounts payable vouchers with a value of $5.3 million, or 13 percent of all vouchers paid during the audit period. The review included disbursements, bank reconciliation, management of petty cash, project cash advances, and advances to implementing partners under the national implementation modality.

Issue 5 Weaknesses in management of project cash advances

As cash transactions involve high risk, the 'Programme and Operations Policies and Procedures' provide that the project cash advances be used only when there are no alternative options to disburse payments for one-time project activities, and must be fully accounted for within seven days following the conclusion of the activity. A project cash advance appointment form must be completed and signed for all personnel receiving advances. The Finance Unit is responsible for ensuring proper management of project cash advances.

During the audit period, the Office made project cash payments of $1.5 million. This included $0.83 million of project cash advances to 49 staff members and $0.68 million paid to two travel agents. These cash payments were used to facilitate the implementation of workshops, seminars and training held in remote locations. The decision to use the travel agents to distribute cash payments on behalf of UNDP was made to mitigate the security risks of having staff carry the cash themselves.

OAI noted the following weaknesses in the management of these advances and payments:

- The Office did not appoint any of the 49 staff paid advances as Project Cash Advance Custodians.

- The amount advanced was often in excess of the amount actually utilized (in three of six cases reviewed, less than 43 percent of the advance was used). The Office indicated that it operated by providing best estimates of the amounts required to run the workshop and the view that it would be riskier to advance fewer resources than required. Additionally, this was a strategic decision taken by the Office after careful consideration of the programming context and the stakes involved in this specific project, which was designated a national priority.

- Previous cash advances were not cleared within seven days (five out of five cases reviewed) and subsequent advances were issued prior to clearance of the previous advance (three of five cases reviewed). For example, on 18 March 2013, a sum of $23,425 was advanced; only $5,258 was liquidated on 2 May 2013. A second advance of $15,980 was provided on 23 May 2013, before the previous advance had been fully liquidated. The names on the daily subsistence allowance receipt forms were not independently reconciled with the list of workshop participants (four out of four cases reviewed). The Office stated that the delay in settlement was partly due to the remoteness of the locations where the workshops took place.

The Office further indicated that certain measures had been undertaken to mitigate the risks associated with project cash advances, including issuing a memo to all staff outlining the responsibilities of staff who received project cash advances. Additionally, in June 2012, the Office made an amendment to the existing two travel agents' Long-Term Agreements to enable them to disburse workshop related payments on behalf of UNDP. While this arrangement was considered a risk mitigating action, it also gave rise to the following issues:

- The distribution of workshop related payments and corresponding commission rates had not been assessed within the initial procurement process (commission rates charged by the two travel agents were 2.5 percent and 5 percent).

- The Long-Term Agreement did not include controls related to cash payments, such as roles and responsibilities of the travel agent in disbursing cash payments. As a result, daily subsistence allowance payments to workshop participants were not verified against the participants' identification prior to making payments.

The Office stated that they exercised close scrutiny and oversight over cash advances and all funds were fully accounted for. OAI has taken note of the measures put in place by the Office to mitigate the risks associated with project cash advances, however, in the absence of further strengthening to address the weaknesses mentioned above, the Office risks a possible misuse of funds.

Priority	High (Critical)

Recommendation 5:

Comply with the 'Programme and Operations Policies and Procedures' on project cash advances and enhance controls over project cash payments by:

(a) completing Project Cash Advance Custodian appointment forms for all personnel receiving advances;
(b) liquidating advances within the required timeframe with adequate supporting documentation;
(c) limiting advances to the amounts actually required to prevent overpayment of project advances; and
(d) establishing controls over payments for the workshops and seminars so that there is assurance that the payments are made against the attendee list.

Management action plan:

The Office indicated that it will:

- formally use the Project Cash Custodian appointment form by July 2014; and
- further enhance controls with respect to workshop documentation, to support the payment of daily subsistence allowance to workshop participants, and ensure that official identification is provided by all workshop participants prior to receiving daily subsistence allowance payments. New guidelines have already been drafted and will be implemented as of September 2014.

Note: While the Office agrees in principle with the recommendations on amounts to be advanced and timeframe for settlement, the practical implementation of these recommendations will need to be managed on a case by case basis so as not to jeopardize implementation of the project in question and the relationships with partners and stakeholders. The Office will therefore consult with the Regional Bureau on any needed enhancements in the risk management arrangements for these situations.

Estimated completion date: September 2014

3. Procurement

During the audit period, the Office issued 4,183 purchase orders totalling $22 million. OAI reviewed 65 purchase orders worth $3.3 million, procurement plans for 2013 and 2014, management of vendors, segregation of duties, and adequacy of controls within the bidding process. The Reducing Emissions from Deforestation and Forest Degradation project (60694) was granted 'fast track procedures' approval for the period from September 2011 to September 2014. This approval included increased procurement delegation authority of $500,000.

Issue 6 Weaknesses in managing individual contracts

During 2013, 30 percent of Office procurement related to 343 contracts for individual contractors valued at $6.7 million. The majority of these contractors worked as Project Technical Consultants. The following weaknesses were noted:

- The 'Programme and Operations Policies and Procedures' state that individual contractors shall not be used for regular and continuing functions which are not time-bound or linked to specific deliverables. An individual contract beyond 12 months requires the approval of the Regional Bureau Director. Within the audit period, 41 individual contractors had worked for more than 12 months; 7 of these had been working for the Office since 2011 as Project Technical Consultants. While the requisite approvals from the Regional Bureau Director had been obtained, this practice was not in line with the requirement that individual contractors should be recruited for time-bound activities. The Office stated that 36 out of 41 contract extensions related to the Reducing Emissions from Deforestation and Forest Degradation project (60694), which had been extended seven times since its inception due to uncertainties in the operating and political environment.

- The performance of the individual contractor must be evaluated and monitored regularly by the responsible manager to ensure the contractual obligations are fully met. The individual contractors' performance form should be used to monitor performance; however, this was not completed in 10 out of 20 cases reviewed. A certification of payment form confirming satisfactory completion of work by the requesting unit should be completed before each payment is made; however, this was not available in 7 out of 20 of the cases sampled. The Office indicated that the responsible manager notified the Finance Unit, either through a one-page note or an email confirming that the deliverables were produced and were satisfactory, and that a payment should be made to the individual contractor.

The individual contracting modality may no longer be appropriate when contracts are issued and amended over several years. Furthermore, the limited number of applicants may not provide value for money. In the absence of regular evaluation and certification of deliverables, individual contractors may be paid without having met the contractual obligations.

Priority	Medium (Important)

Recommendation 6:

Comply with the 'Programme and Operations Policies and Procedures' on individual contracts by:

(a) ensuring the individual contract modality is appropriate where work has or is likely to be extended beyond 12 months;
(b) preparing a certificate of deliverables confirming that contractual obligations have been met prior to authorizing payments; and
(c) completing a performance evaluation at the end of the assignment.

Management action plan:

- With the recent approval of a one year interim phase of the Reducing Emissions from Deforestation and Forest Degradation project (60694), and the current negotiation of a two year Phase 2, the Office has taken steps to regularize the staffing arrangements for the project. To date, against the 36 positions identified, 9 former individual contractor positions have been restructured into service contract positions with terms of reference that are long-term. These positions have already been advertised. The policy of the Office is to review all of the individual contractor positions and, where applicable, create service contracts where tasks can be converted into recurrent functions. The remaining positions will be those that are strictly deliverable-based and short-term in nature. These will remain as individual contractors.
- The Office will also immediately commence using the Certification of Payment form to confirm satisfactory completion of the deliverables under the contract.

Estimated completion date: December 2014

Issue 7 <u>Inadequate controls over receipt of procurement offers</u>

The 'Programme and Operations Policies and Procedures' require that procurement be conducted in a manner that is fair and competitive to obtain best value for money. The offers submitted by vendors should be kept secure until all offers are simultaneously opened at a designated time and place. OAI noted that controls over the receipt of offers were inadequate for both manual and electronic submissions.

(a) Electronic submissions

The Office had established a generic email account to receive proposals, quotations, and bids. Eight staff members had access to this email; therefore, there was no assurance that the integrity of the procurement process had not been compromised. The head of the Information and Communication Technology Unit confirmed it was not possible to determine if there had been unauthorized access to the email account or whether offers received had been deleted.

The Office indicated that in May 2014, controls over access to the email account were enhanced by creating a two-part password to access it (one part held by the eight staff members with buyer profiles and the other held by the Procurement Specialist). The head of the Information and Communication Technology Unit retained the full password and managed revisions to the existing password, however, the risk of sharing bid information with suppliers and bid deletion still existed.

(b) Manual submission

The offers submitted manually by vendors were received by the Office's receptionist, recorded in a bid log sheet and held at the reception area until the end of each day when they were transferred to the Procurement Unit. OAI noted that these offers were not stored in a secure container. During bid opening, there was no evidence to confirm the bids received were reconciled against the bid log sheet for completeness.

If offers are not secured adequately, there is the risk of misplacement or manipulation of bids, which can compromise the integrity of procurement.

Priority	Medium (Important)
Recommendation 7: Enhance controls over the receipt of bids submitted manually and through email by: (a) coordinating with the Office of Information Systems and Technology on options to prevent inappropriate access to procurement email addresses used for receiving offers; (b) ensuring bids are received in a secured box and at the bid opening stage, reconciling all documents received to the bid log sheet to confirm completeness.	
Management action plan: The Office will: ▪ consult with the Office of Information Systems and Technology on options to prevent inappropriate access to procurement email addresses used for receiving offers; and ▪ take measures to ensure that bids are received in a secured box, and at bid opening, reconcile all documents received with the bid log sheet to confirm completeness. **Estimated completion date:** September 2014	

Issue 8 Weaknesses in management of Long-Term Agreements

The Long-Term Agreement refers to a written agreement between UNDP and a supplier for the provision of specific goods and services at prescribed prices for a defined period of time. In cases where there is a significant change in the scope/type of work for an existing contract, UNDP's procurement guidelines call for a new competitive process to be conducted.

OAI sampled the three largest Long-Term Agreements by contract value: two Long-Term Agreements for the provision of travel services valued at $6 million each and a Long-Term Agreement for the provision of security services valued at $1 million. The three Long-Term Agreements were each signed for a duration of three years; the security services agreement had expired in February 2014, while the two travel related agreements expired in May 2014. The new tendering process for these contracts was delayed due to the quality of the initial tender documents submitted. The following weaknesses were noted:

- The feedback from the Contracts, Assets and Procurement Committee on the Long-Term Agreement for travel stated that "value for money" will be achieved by conducting a secondary bidding process between the two travel agents. In 6 out of the 13 travel procurement cases sampled, quotes were solicited from only one travel agent.

- During the initial review of the existing travel Long-Term Agreements, the Regional Assets, Contracts and Procurement Committee recommended that an annual assessment be completed for each of the travel agents and reviewed by the Contracts, Assets and Procurement Committee, with any extension granted on the basis of satisfactory performance. The recommended annual assessments were not submitted to the Contracts, Assets and Procurement Committee.

In the absence of a robust competitive procurement process, the Office may not get the best value for money. Extensions beyond the established duration could lead to the perception of preference or collusion among suppliers, resulting in uncompetitive prices.

Priority	Medium (Important)
Recommendation 8: Strengthen the management of Long-Term Agreements by: (a) finalizing the new Long-Term Agreement for the travel and security services; (b) obtaining two quotations for each travel; and (c) having the Contracts, Assets and Procurement Committee review the annual performance assessments of the travel agents.	
Management action plan: The Office has initiated the process to tender the Long-Term Agreement of travel services. Based on the discussions with the Advisory Committee on Procurement, the Office will select one travel agent and put in place performance benchmarks to ensure that the selected travel agent provides competitive value for money quotations. The Office will also conduct an annual performance review of the travel agent. **Estimated completion date:** December 2014	

4. General administration

OAI reviewed local and international travel, common premises, vehicle management, and fixed assets. The weaknesses in the management of travel expenditure are detailed below.

Issue 9 Inadequate controls over travel expenditure

Travel expenditure was a significant cost for the Office in 2013 and amounted to $2.8 million ($1 million for domestic and $1.3 million for international flights, and daily subsistence allowance payments of $0.5 million).

The 'Programme and Operations Policies and Procedures' require that each travel request include the following: the name of the traveler; purpose of travel and authorized itinerary; dates of official business; details of the travel advance; and corresponding daily subsistence allowance calculation. A travel expense form is to be completed within 14 days of the travel and should be supported by the relevant ticket and aircraft boarding pass.

OAI identified the following weaknesses in the management of travel related expenditure:

- Travel authorization requests did not include a detailed itinerary and objective of the travel, such as meeting invitations or workshop timetables. Without these details, it was not possible to determine the basis upon which the travel itinerary was approved and whether the corresponding daily subsistence allowance calculation was accurate (7 out of 13 cases reviewed). In four of the travel authorization samples reviewed, the travel authorization for the National Project Director was approved by the National Project Manager.

- Completed travel expense forms and/or boarding passes were not available to support travel expenditure (4 out of 13 cases).

Without adequate traveller itinerary information, the corresponding flight-related expenditure and daily subsistence allowances may be overstated, leading to financial losses for the organization.

Priority	Medium (Important)
Recommendation 9: Strengthen controls over travel by ensuring: (a) travel requests and calculation of daily subsistence allowance are supported by a detailed itinerary and approved by the supervisor with supporting evidence indicating the purpose of the travel; and (b) travel expense forms are prepared within 14 days of return and supported by the ticket and boarding passes.	
Management action plan: ▪ The Office will conduct periodic travel-related workshops starting in August 2014. ▪ The new web-based system will include tools to improve the management of travel. **Estimated completion date:** November 2014	

D. Monitoring practices

The Office had 34 ongoing projects with a total expenditure of $37 million in 2013. OAI selected 5 of 34 projects (Nos. 57787, 60014, 60044, 60467 and 60694) to gain an understanding of the project designs and to determine how the Office monitored project activities and performance. The five projects covered the three thematic areas of the Office's programme and had a total expenditure of $24 million, or 65 percent of the Office's programme expenditure in 2013.

The audit team reviewed the Office's programme and project documents as well as the records of all 18 personnel and 3 consultants involved in monitoring the sampled projects. The audit team interviewed the

Office's senior management (Country Director and Deputy Country Director), head of the Human Resources Unit, 22 programme and project personnel, 3 consultants, and the National Project Director of Project No. 57787.

Based on the review of documents and interviews conducted, OAI noted the following:

- *Overall monitoring arrangements*

  In July 2012, the Office developed the 'Guidelines for Monitoring, Reporting and Evaluation,' which included clear descriptions of the roles and responsibilities of the monitoring personnel and the reporting requirements and related templates. The audit team found the Guidelines comprehensive and useful for monitoring performance. For example, it provided step-by-step procedures in conducting project monitoring and assurance, explanation on the difference between monitoring and assurance, and the personnel responsible for every step.

  Additionally, OAI reviewed the Office's training records and noted that programme and project personnel received training in results-based management. Specifically, training workshops were facilitated since 2011 and senior UNDP officers were invited to conduct the training.

- *Establishing result-based planning*

  OAI found that outputs in the Annual Work Plans were consistent with the approved project documents. The Office granted the heads of the three programme units the authority to manage their respective programme portfolio. With regards to the Annual Work Plans of the sampled projects, the Office established performance indicators (i.e., baselines, indicators, and targets) for the planned outputs of the projects. OAI reviewed the 2013 performance assessments of the unit heads and noted that the performance results of their respective units were taken into consideration when assessing their individual performance.

  Additionally, the Office established a clear organization for reporting on performance results. The review of 18 personnel records disclosed that their job descriptions prescribed their reporting responsibilities, including to whom the personnel should be reporting to. During interviews with the selected personnel, OAI noted that they were aware of their reporting responsibility.

- *Carrying out results-based monitoring*

  The Office conducted regular meetings and monitoring activities to discuss the implementation of project activities and to analyse the progress of the projects in achieving their annual targets. Specifically, bi-monthly meetings headed by the Deputy Country Director were held with the programme personnel to discuss the status of project implementation. The Office also provided evidence of project site visits conducted during the audited period by the Office senior management and personnel. Furthermore, the Office conducted annual reviews of its Country Programme Action Plan (since 2011) involving government partners, UN agencies, and other stakeholders, to discuss the progress of achieving the intended outcomes and assess whether the established outcome indicators needed to be revised. The results were then presented to the Outcome Board for review and approval.

  Based on the review of the supporting documents, OAI assessed that the controls put in place ensured that performance was being monitored, deviations were analysed and appropriate actions were taken.

- *Properly reporting monitoring results and taking actions to improve performance*

  The Office prepared quarterly internal monitoring reports and submitted periodic performance reports to donors. These reports specified the project achievements, lessons-learned, and actions taken to improve the performance. For example, the Project Managers submitted quarterly project progress reports in terms of actual financial expenditure against the budget, progress in achieving annual targets, challenges encountered and actions taken, and lessons-learned. Then, the Office's Programme Officers checked the accuracy of the reports by obtaining supporting documentation and conducting project site visits.

Overall, OAI noted that the Office instituted effective monitoring practices. It established monitoring guidelines, established results-based planning, carried out results-based monitoring and properly reported on results and took actions to improve performance. OAI identified the following areas requiring improvement that would allow the Office to maintain effective monitoring of its performance.

Issue 10 <u>Skill gaps not effectively addressed</u>

According to the 'Programme and Operations Policies and Procedures,' the Office should provide training and development to personnel in connection with their services and in the interest of UNDP. During the performance evaluation, professional development and learning should be discussed. Furthermore, UNDP issued a policy for individual contractors to ensure proper use of this modality, which is intended for time-bound tasks aimed at delivering clear and quantifiable outputs.

The Office informed OAI that there were skill gaps in writing quality reports and other required documents. The Office's senior management indicated that they were spending extra efforts and hours in order to ensure the high quality of written reports and documents. To address this, the Office hired three international contractors to assist the programme units and projects in preparing reports and other documents and, starting June 2013, to also improve the capacity of the personnel. In this respect, as of June 2014, the Office had paid a total of $0.5 million in fees to the three international contractors.

The Office relied on the international contractors to meet recurring and systemic needs and hired them using the individual contract modality. In OAI's view, this type of contract modality is not suitable for this purpose and individual contracts are meant to procure services of an individual to perform time-bound tasks aimed at delivering clear and quantifiable outputs. Instead, the Office should have considered other, more sustainable and long-term solutions for addressing gaps in the skills of personnel in the programme units and projects.

A year after the strengthening of the personnel capacity was added to the terms of reference of the three international contractors, there was no noticeable decrease in the Office's reliance on the contractors for preparing reports and other documents. The Office did not provide evidence that an individual assessment of personnel skills gaps was conducted to determine specific training needs and that an assessment was performed on the one-on-one coaching that was provided to the personnel.

The Office's management acknowledged the reliance on the international contractors and indicated that they were exploring other options to address the gaps, including using the services of external editors. The Office also informed OAI of its planned writing skills training sessions in the third quarter of 2014.

It might not be effective or sustainable for the Office to solely rely on temporary and short-term individual contractors to address a continuous and recurring need to produce quality reports and other documents. This arrangement could also have some undesired side-effects. For example, it could result in less motivation by staff in the programme units to improve their writing skills.

Priority	Medium (Important)
Recommendation 10: Strengthen the writing capacity of staff in order to address recurring and systemic needs, and explore using external editors instead of individual contractors to address these needs.	

Management action plan:

The Office indicated that it is taking the following measures:

- putting out a request for services (in January 2014) for contractors and now has in place a roster of editors, report writers and communications experts on Long-Term Agreements;
- diversifying the range of modalities used, including possible international staff under fixed-term appointments for portfolios with long-term funding commitments (environment).; and
- continuing to invest in staff capacity building and recently completed a successful 8-week business writing course offered to 47 staff.

Estimated completion date: February 2015

Issue 11 Information system not fully established

According to UNDP's Information Management Strategy, an information system should be established to support the effectiveness and efficiency of Country Office operations.

The Office had not finished establishing the information system for collecting, storing, and safeguarding programme documents, and sharing information on lessons-learned, challenges encountered and actions taken. The Office maintained a file server to store documents and developed a portal for easy access to electronic documents and information sharing. However, the links in the portal as well as user access rights had not been established. For any required information in preparing progress reports or determining the status of project activities, the Office had to request it from the respective programme units and this information is then manually put together, which at times caused delays. Further, the Office had not established procedures to ensure availability of critical documents on a central file server. Often, the supporting documentation was only maintained on the individual computers of staff.

The head of the IT Unit stated that the expected migration to Office 365 and cloud computing, which the Office was waiting for advice from Headquarters about its timing, contributed to the delays in completing the implementation of its information system. The Office's senior management indicated that standard operating procedures for electronic filing, safeguarding, and retention of documents were being developed.

Without a fully established information system, there is an increased risk of losing critical documents or not being able to produce required progress reports in a timely manner.

Priority	Medium (Important)
Recommendation 11: Develop and implement an action plan for the timely completion of an information system, including establishing standard operating procedures for the gathering and safeguarding of documentation that supports the preparation of monitoring reports, and information sharing.	
Management action plan: The Office is taking the following measures: ▪ enhancing the existing electronic file management system by (a) refining and standardizing the nomenclature of file classification for easy retrieval, and (b) developing standard operating procedures and handing over protocol for departing staff; ▪ continuing to migrate data to a new share folder in accordance with the Office's new Guideline on Document Management System; and ▪ redesigning its existing web-based information management platform in order to (a) make it more user-friendly, (b) support donor report monitoring, and (c) better align it with the shared folder file management system. **Estimated completion date:** January 2015	

Issue 12 Delayed submission of internal monitoring reports

The Office's 'Guideline for Monitoring, Reporting and Evaluation' requires that quarterly monitoring and internal project assurance reports be completed 30 days after the end of each quarter. The Office's personnel were required to use the monitoring report templates.

Four of the five sampled projects (57787, 60014, 60467, and 60044) did not meet the deadline in reporting project performance, with delays ranging from two to five months. The reports were for internal use by the Office to document the progress of project activities, including reporting the costs and analysing the performance in achieving the annual targets. The Office stated the reasons for the delay were due to inadequate personnel capacity, delays in receiving information from the provinces, and the need to ensure the good quality of the reports.

For the remaining project (60694), quarterly monitoring report templates were not being used. The Office explained that internal weekly management meetings were being held for this project because it required close monitoring. The Office's senior management provided copies of meeting minutes and other supporting documentation on the project monitoring and assurance activities being undertaken. OAI noted that they were adequate.

If the monitoring reports are not submitted at the set deadline, the Office may not be able to respond to any emerging issues in a timely manner.

Priority	Medium (Important)
Recommendation 12: Establish a monitoring tracking mechanism for the timely submission of reports, including sending reminders to Project Managers on the reporting deadlines.	
Management action plan: The Office indicated that it will develop and implement an electronic report monitoring system. This system will also allow tracking of other items, including project document and agreement expiry timelines. **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.