

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



*Empowered lives.  
Resilient nations.*

**AUDIT**

**OF**

**UNDP COUNTRY OFFICE**

**IN**

**BAHRAIN**

**Report No. 1347**

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## Report on the audit of UNDP Bahrain Executive Summary

The UNDP Office of Audit and Investigations (OAI) conducted an audit of UNDP Bahrain (the Office) from 22 to 26 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 (development activities, Resident Coordinator Office);
- (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 26 June 2014. The Office recorded programme and management expenditures totalling \$3.7 million during the audit period. 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 **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."

Bahrain is a net contributor country, where all programme activities and administrative costs are funded by the host Government. The Office had been advised by the Government in September 2012 that it would not fulfill its financial commitment for the 'Country Programme Document 2012-2016'. Therefore, this decision had a significant impact on the Office activities. However, after extensive consultations, in May 2013, the Government advised UNDP that it wished to maintain its cooperation with the organization.

The overall assessment of the audit findings recognizes that the Office's long-term financial sustainability and programme activity is dependent on Government support and as such is a risk beyond the control of the Office.

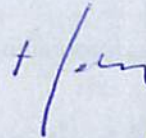

**Key recommendation:** Total = 1, high priority = 0

The audit did not result in any high (critical) priority recommendations. There is one medium (important) priority recommendation, 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." This recommendation includes action to address inadequacies noted in project management.

### Management comments and action plan

The Resident Representative accepted the recommendation and is in the process of implementing it. 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.

Helge S. Ostveiten  
Director  
Office of Audit and Investigations

## I. About the Office

The Office, located in Manama, Bahrain (the Country) is a net contributor country, where all programme activities and administrative costs are funded by the host Government. The 'Country Programme Document 2012-2016' was approved by the Executive Board in 2011. Due to the complex political situation that started in February 2011, the implementation of programme activities proved to be very challenging. In September 2012, the Government informed the Office that it would not fulfill its financial commitment for the 'Country Programme Document 2012-2016'. The Office explained the consequences of the Government decision, which had a significant impact on the Office activities. After numerous meetings and interventions at different Government levels, the Government communicated to the Resident Representative in May 2013 that it wished to continue cooperating with UNDP.

## II. Audit results

Satisfactory performance was noted in the following areas:

- (a) United Nations system coordination. Key controls were operating effectively and no exceptions were noted. OAI reviewed the United Nations Resident Coordinator Office, its coordination function, annual reports submitted to the United Nations Development Operations Coordination Office, minutes of the United Nations Country Team meetings and joint initiatives undertaken. Regular United Nations Country Team meetings were held and thematic working groups were established. The Harmonized Approach to Cash Transfers was not implemented because the Office made direct cash transfers to vendors for programming activities. No exceptions were noted in this area.
- (b) Human resources. OAI reviewed the recruitment of three personnel, the completion status of performance assessments, as well as the completion status of mandatory courses. The recruitment process for all three cases was found to be in accordance with established policies and procedures. At the time of the audit, performance assessments for 13 staff were not complete, and not all staff had completed mandatory training courses. Subsequent to the audit fieldwork, all performance assessments and mandatory training courses were completed by all staff.
- (c) Financial management. OAI reviewed 34 accounts payable vouchers valued at \$0.3 million, or 22 percent of the total vouchers raised. OAI also reviewed the paycycle, electronic fund transfers, payments to vendors, and bank reconciliations. No reportable issues were noted.
- (d) Procurement. OAI reviewed 17 purchase orders with a total value of \$0.3 million (or 36 percent of total procurement value) and noted that the receipt of offers was inadequate for both manual and electronic submissions. For instance, the Office had created a generic email account where proposals, bids, and quotations were received. However, the staff member responsible for managing the account shared the password with other staff when on leave. Furthermore, hard copy submissions of offers and bids were not placed in a secure, locked box. Subsequent to the audit, the Office confirmed that it had created separate email accounts for the receipt of proposals, and had begun placing offers in a secure box. Since appropriate actions were taken to address these issues, no recommendation is being made.
- (e) Information and communication technology. OAI's review of the Information and Communication Technology Unit included software and hardware management, back-up and restoration arrangements, a site visit of the Office's servers and the latest available Disaster Recovery Plan. Generally, controls were adequate. As per the Disaster Recovery Plan, the Office was required to keep back-up tapes offsite in a secure place. It also required that a fire extinguisher be placed in the server room. OAI noted that these

requirements were not implemented at the time of the audit. Subsequent to the fieldwork, the Office indicated that an agreement was reached with the United Nations Environment Programme office in the Country to store back-up tapes on their premises. Hence, OAI is not making a recommendation.

- (f) Safety and security. OAI reviewed the security plan, security risk assessment, and the availability of an updated United Nations staff list and no reportable issues were identified. OAI also noted that the Office was in compliance with the Minimum Operational Security Standards.
- (g) Asset management. As of the end of December 2013, the Office reported 102 items of capital assets in the system amounting to \$402,000. OAI reviewed the Office's processes in accounting for its capital and non-capital assets. There were no reportable issues noted.

OAI made one recommendation 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 recommendation:**

- (a) Enhance project management by liaising with implementing partners and the Government Coordinating Authority to convene regular project board meetings to discuss the progress of projects.

The detailed assessment is presented below, per audit area:

## A. Governance and strategic management

OAI reviewed the following four sub-areas in this section: organizational structure and delegation of authority; leadership/ethics and values; risk management, planning and monitoring; and financial sustainability of the Office.

The complex and challenging operating environment had considerable implications for the Office and its programme, as discussed below:

- The Office's programme expenditure declined from \$1.3 million in 2012, to \$1 million in 2013. For the first half of 2014, the delivery was only \$0.3 million, or 21 percent of budgeted expenses.
- During the audit period, there were delays in the approval of new projects, and there were challenges in enabling implementing partners to participate in project governance activities, such as attending project board meetings. The low programme expenditure resulted in the Office's management ratio for 2012 and 2013 to escalate to 49 percent and 58 percent, respectively, while the average in the region was 10 percent. Further, the Office's management expenses of \$1.5 million for 2013 (mainly staff salary costs) far exceeded the programme expenses of \$1 million.
- The Office received the 2013 Government Contribution to Local Office Costs payment in four installments during 2013. However, the 2014 contribution amounting to \$1.45 million was outstanding at the time of the audit.

- The Office's long-term financial sustainability was dependent on continued Government financial support, as all programmatic and management costs were being borne by the Government.

The Office indicated that cooperation with the Government had resumed over recent months, however, the approval of new projects had been slow.

#### **Comment**

As the above concerns were largely due to the complex and challenging operating environment, and as the Regional Bureau for Arab States was fully aware of the issues, and given that there had been progress in cooperation with the Government, OAI is not making any recommendations.

## **B. Programme activities**

### **1. Programme management**

The 'Country Programme Document 2012-2016' approved by the Executive Board in 2011 recommended establishing a Tripartite Review Committee comprising of two government ministries and UNDP to perform the functions of a programme board to oversee the Country Programme. However, during the current programme cycle, these Tripartite meetings had not taken place regularly. The Government raised three issues, which included the request to appoint a Country Programme Action Plan Coordinator in the Office, the auditing of UNDP projects by the Government Supreme Audit Institution (since funds are disbursed by the Government) and access to UNDP's Atlas system. The Country Programme Action Plan Coordinator was expected to follow up on Tripartite Committee meeting recommendations; support the elaboration, approval and commencement of new UNDP initiatives and pipeline projects; ensure aggregated financial and results reporting to Tripartite members; provide input to the preparation of UNDP country programmes and action plans; and support annual reporting and regular monitoring of Country Programme Action Plan progress.

The Office discussed these issues with the Regional Bureau and other Headquarters Units and subsequently addressed them to reach an amicable resolution with the Government. In the last Tripartite Review Committee meeting in June 2014, one of the government ministries confirmed its decision to directly hire the Country Programme Action Plan Coordinator in the coming months, with the Office providing the terms of reference. Further, the Tripartite Review Committee agreed on the audit of nationally implemented projects through the Supreme Audit Institution for financial year 2014 onwards, and on the external access to Atlas for nationally implemented projects once the legal agreements were in place.

During the period from 2011 to 2013, the Government continued to defer the approval of new projects. It was only in June 2014 that the Tripartite Review Committee approved three new projects.

#### **Comment**

As mentioned earlier, there were limited programme activities during the audit period and the challenges were beyond the control of the Office, and since there was some progress in the approval of projects, OAI is not making a recommendation.

## 2. Partnerships and resource mobilization

The Results and Resources Framework in the 'Country Programme Document 2012-2016' indicated that the total estimated programme resources for the current programme cycle would be \$13.5 million. However, from 2012 to the audit fieldwork date, the Office's total programme expenses amounted to \$2.6 million. As explained earlier, the complex operating environment resulted in a small project portfolio and low programme delivery since 2012. However, the Office explained that it had developed six new projects as of the audit fieldwork date with a budget of \$10 million, although these had yet to be approved by the Government.

## 3. Project management

At the time of the audit, the Office had a portfolio of five operationally active projects, which were all nationally implemented. OAI reviewed all five projects with total project expenses of \$1.3 million during the audit period. The following deficiencies were noted:

### Issue 1 Weaknesses in project management

#### (a) Limited project board meetings

The 'Programme and Operations Policies and Procedures' require at least one project board meeting to be held per year for each project. However, the actual frequency depends on risks involved, the complexity of a project, and the availability of project board members. OAI noted that regular project board meetings were not convened for three of the projects (00078585, 00051910, 00082421) during the audit period. For example, for project 00078585, only one project board meeting was held during the audit period. For projects 00051910 and 00082421, no project board meetings were held during the audit period, despite the fact that the projects faced delays and other challenges. The Office indicated that this was due to the challenges in getting the project board members to agree to attend project board meetings.

#### (b) Project extensions not authorized

All five of the projects reviewed were scheduled to close either during 2013 or 2014. Due to the challenges referred to above, these projects experienced delays and had to be extended for a year (00078585, 00051910, and 00082421). However, as the project board meetings were not convened regularly, the extension of projects 00078585 and 00051910 were not formally approved by the project board. The Office indicated that the projects did not anticipate any cost extensions. Subsequent to the audit fieldwork, the project board approved the extension of project 00078585.

#### (c) Delays in the approval of annual work plans

The 'Programme and Operations Policies and Procedures' require that annual work plans be prepared and approved by the project boards at the beginning of the year and subsequently signed by implementing partners. There were delays in the project boards approving the work plans and in the implementing partners signing annual work plans. For example, the 2013 Annual Work Plan for project 00078585 was signed on 4 March 2013, while the 2014 Annual Work Plan for projects 00075437 and 00074889 were signed in June 2014. The 2014 Annual Work Plan for project 00051910 was approved by the implementing partner on 19 June 2014.



(d) Limited project deliveries

Overall project expenditure during the audit period for all projects reviewed was less than what was budgeted. For instance, the budgeted expenses for project 00082421 were \$0.5 million for 2013, while the actual expenditure was only \$50,000 (or 10 percent). For projects 00075437 and 00074889, the budgeted expenses for 2013 were \$0.5 million, but the actual expenses were only \$0.4 million.

The Office explained that it was aware of the above shortcomings and in some instances, the challenging operating environment contributed to the inadequacies.

Failure to implement projects in a timely manner may result in projects failing to achieve their intended objectives and may result in additional costs.

<b>Priority</b>	Medium (Important)
<b>Recommendation 1:</b>	
Enhance project management by liaising with implementing partners and the Government Coordinating Authority to convene regular project board meetings to discuss the progress of projects, solutions for challenges faced by projects, and to ensure that annual work plans are approved and implemented in a timely manner.	
<b>Management action plan:</b>	
The Office indicated that it was in the process of implementing the audit recommendation. It further added that the recommendation would be discussed at the next Tripartite Review Committee meeting and communicated to the relevant implementing partners.	
<b>Estimated completion date:</b> 30 June 2015	

## 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.