

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



*Empowered lives.  
Resilient nations.*

**AUDIT**

**OF**

**UNDP COUNTRY OFFICE**

**IN**

**The former Yugoslav Republic of Macedonia**

**Report No. 1422**  
**Issue Date: 19 February 2015**

---

## Table of Contents

<b>Executive Summary</b>	<b>i</b>
<b>I. About the Office</b>	<b>1</b>
<b>II. Audit results</b>	<b>1</b>
<b>A. Governance and strategic management</b>	<b>2</b>
1. Financial sustainability	2
<b>B. Operations</b>	<b>3</b>
1. Procurement	3
<b>Definitions of audit terms - ratings and priorities</b>	<b>5</b>

## Report on the audit of UNDP Office in the former Yugoslav Republic of Macedonia Executive Summary

The UNDP Office of Audit and Investigations (OAI) conducted an audit of the UNDP Office in the former Yugoslav Republic of Macedonia (the Office) from 10 to 21 November 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, 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 30 September 2014. The Office recorded programme and management expenditures totalling \$16 million. The last audit of the Office was conducted by OAI in 2008.

The audit was conducted in conformance with the *International Standards for the Professional Practice of Internal Auditing*.

### Overall audit rating

OAI assessed the Office as **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:** Total = 2, high priority = 0


The two recommendations aim to ensure compliance with legislative mandates, regulations and rules, policies and procedures (Recommendations 1 and 2).

The audit did not result in any high (critical) priority recommendations. There are two 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 arrears in Government Contributions to Local Office Costs, and a nationally implemented project whose procurement processes were not in line with the Letter of Agreement and UNDP guidelines for such projects.

### Management comments and action plan

The Resident Representative accepted both 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.



Helge S. Ostveiten  
Director  
Office of Audit and Investigations

## I. About the Office

The Office is located in Skopje, the former Yugoslav Republic of Macedonia (the Country). At the time of the audit, the Office had 14 staff supported by 30 service contract holders. In just two decades after peacefully gaining its independence, the Country has made considerable progress in social and economic reform, establishing itself as an upper middle-income country. The UNDP country programme for the Country focuses on three strategic areas of intervention: (a) social inclusion; (b) local governance and territorial development; and (c) environmental protection.

## II. Audit results

Satisfactory performance was noted in the following areas:

- (a) United Nations system coordination: The United Nations Country Team has 10 resident agencies (UNDP, UNICEF, UNHCR, UNFPA, UN Women, UNAIDS, ILO, IOM, UNRCO, WHO) and 3 non-resident agencies (UNESCO, UNEP, UNIDO). Meetings with four United Nations agencies indicated that cooperation within the Country Team was positive. At the time of the audit, no joint programmes were being implemented. The Office does not implement the Harmonized Approach to Cash Transfers as no cash transfers are given to the implementing partners and the Office implements nationally implemented projects with the provision of support services, including human resources, procurement and finance services. No reportable issues were identified.
- (b) Programme activities: UNDP activities in the Country are guided by the 'Country Programme Document 2010-2015' which was approved by the Executive Board in 2009 and prepared in wide consultation with key partners in government, civil society, private sector, United Nations agencies and international partners and donors. The review of the project appraisal, approval, monitoring, evaluation and donor reporting processes showed that the Office had adequate systems in place for project monitoring, problem solving and effective implementation. National counterparts interviewed by OAI provided positive feedback on UNDP's performance and cooperation. No reportable issues were identified.
- (c) Human resources: Recruitment and separation processes for fixed-term appointments and service contracts were transparent and fully documented. Review of performance assessments and learning management activities in the Office did not identify any reportable issues.
- (d) Finance: Control procedures over receivables, payment processing, disbursements and administration of petty cash were found to be adequate. No reportable issues were identified.
- (e) Information and communication technology: The Office had an updated 'Disaster Recovery Plan' in place and the Office of Information Systems and Technology recently provided positive comments and recommendations. The Office was in the process of implementing these recommendations and testing the 'Disaster Recovery Plan' after moving to its new premises. No reportable issues were identified.
- (f) Safety and security: The Country was at security level 2 – low. The Office was generally compliant with the Minimum Operating Security Standards. In January 2015, the Office relocated to new premises which had an earthquake proof certificate, as well as a proper stand-off distance from the street. No reportable issues were identified.

OAI made two 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) Follow up with the Bureau of Management and the Government to resolve the Government Contribution to Local Office Costs in arrears (Recommendation 1).
- (b) Redefine the procurement processes for the nationally implemented project (Recommendation 2).

The detailed assessment is presented below, per audit area:

## A. Governance and strategic management

### 1. Financial sustainability

#### Issue 1 Arrears in Government Contribution to Local Office Costs

In accordance with the provisions of the Standard Basic Assistance Agreements that govern UNDP operations in programme countries, host Governments are expected to contribute towards the cost of Country Offices. Known as the 'Government Contribution to Local Office Costs', these are calculated on an annual basis, taking into account actual UNDP operating and staffing costs. The contributions have monetary (cash) and non-monetary (in-kind) components. The amount to be paid is adjusted based on the country's economic development category.

Outstanding contributions due for the period 2008 to 2013 totalled \$3.5 million. The 2014 cash target was \$0.6 million. It should be noted that the programme was more than 50 percent funded by the Government.

The Office approached the Bureau of Management and requested approval to offset the outstanding amount by having the Government contribute to programme activities.

Outstanding obligations not met by the Government decrease the amount of available funds that could be used by UNDP to implement its development programmes.

<b>Priority</b>	Medium (Important)
<b>Recommendation 1:</b>	
Follow up with the Bureau of Management and the Government to resolve the issue of Government Contributions to Local Office Costs in arrears by identifying a mutually agreed upon mechanism for debt settlement.	
<b>Management action plan:</b>	
In consultation with the Bureau of Management, the Office will attempt to negotiate an agreement with the Government to offset the Government Contribution to Local Office Costs in arrears with commitments by the Government to the ongoing UNDP programme in the Country. This arrangement will be proposed during discussions on the new UNDP country programme for 2016-2020.	
<b>Estimated completion date:</b> October 2015	

## B. Operations

### 1. Procurement

#### **Issue 2**      Procurement support to nationally implemented project not in line with UNDP guidelines and Letter of Agreement

The 'National Implementation by the Government of UNDP Supported Projects: Guidelines and Procedures' prescribe that every procurement activity must be undertaken by the same entity (either the Government or UNDP) from sourcing, to signing and managing the contract. While the guidelines encourage collaboration and consultation between the two parties in managing the procurement process, they also state that the entity managing the process and the contract until its expiration shall be the same entity, which assumes full accountability and responsibility for the contract. Further, the Letter of Agreement signed with the Government states that the procurement of goods and services shall be in accordance with UNDP regulations, rules, policies and procedures.

The project 'Self-employment Programme' (Project No. 57149, Output Nos. 86539 and 89696) provided beneficiaries with in-kind grants consisting of equipment and materials for the start-up of their business. Each grant to beneficiaries amounted to \$4,000. In 2013, the project awarded 930 grants totalling \$3.7 million, representing 44 percent of the Office's delivery. During 2014, the target was to create 950 sustainable jobs.

OAI's review of procurement activities of the project noted that the Office was providing procurement services that did not comply with the requirements of the relevant guidelines. The Office developed operational guidelines and internal procedures for the procurement of goods and equipment according to which part of the procurement process was conducted by UNDP, while another part was conducted by project beneficiaries. As such, UNDP was not managing the full procurement process and the respective procedures were not fully applied, as indicated below:

- For procurements valued at less than \$2,500, beneficiaries were responsible for selecting the best offers. For procurements exceeding \$2,500, beneficiaries were obtaining at least three quotations and submitted them to the Office for selection of the best offers. UNDP was then responsible for either paying invoices from beneficiaries for procurements below \$2,500, or directly processing payments for procurements exceeding \$2,500. The procured goods were received directly by beneficiaries in both cases.
- For procurements exceeding \$2,500, the Office was raising e-requisitions, creating and approving purchase orders and certifying the receipt of goods in Atlas (enterprise resource planning system of UNDP), even if the goods were actually received by the beneficiaries.

The Office indicated that the small grants provided as part of the self-employment programme were not a straightforward procurement process, but rather part of a broader capacity development effort, aimed at helping new micro-businesses implement their business plans in the most efficient way. The Office stated that the UNDP monitoring officers working on the project exercised control at every step, in view of the fact that the Office was using Atlas tools while at times delegating one set of procurement decisions (collection of offers) to new business owners. The Office further developed a control that included conducting random field visits, in order to verify that equipment and goods were delivered.

Without full ownership of procurement processes, the Office cannot ensure adherence to UNDP rules and regulations or the achievement of best value for money, fairness, integrity, transparency and the interests of UNDP.

<b>Priority</b>	Medium (Important)
<b>Recommendation 2:</b>	
Redefine the procurement processes for the nationally implemented project by:	
(a) aligning the operational procedures to the provisions of the Letter of Agreement to ensure compliance with relevant UNDP guidance regarding the provision of procurement support services; and	
(b) complying with UNDP policies and procedures which require the use of e-requisitions and purchase orders in Atlas for procurement processes under the full control of the Office.	
<b>Management action plan:</b>	
(a) The Office will work with the Government to amend the Letter of Agreement to precisely define the support services provided by UNDP.	
(b) The Office will seek specific approval from the Bureau of Management to continue to use Atlas for this purpose.	
<b>Estimated completion date:</b> 1 April 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.