

UNITED NATIONS DEVELOPMENT PROGRAMME
Office of Audit and Investigations



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AUDIT

OF

UNDP COUNTRY OFFICE

IN

INDIA

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Report on the audit of UNDP India Executive Summary

The UNDP Office of Audit and Investigations (OAI) conducted an audit of UNDP India (the Office) from 23 June to 2 July 2015. 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, 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).

The audit covered the activities of the Office from 1 January 2014 to 30 June 2015. The Office recorded programme and management expenditures totaling \$69 million. The last audit of the Office was conducted by OAI in 2011.

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 weaknesses in the Office’s management of micro-capital grant recipients as well as extensive use of direct contracting without sufficient justification.

Good practice

The Office has implemented a rigorous process for project closure, with a detailed checklist that goes over and beyond the corporate requirements. The process is also well documented.

Key recommendations: Total = 8, high priority = 2

The eight recommendations aim to ensure the following: (a) reliability and integrity of financial and operational information (Recommendations 4 and 5); (b) effectiveness and efficiency of operations (Recommendations 1, 2 and 3) and (c) compliance with legislative mandates, regulations and rules, policies and procedures (Recommendations 6, 7 and 8).

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

Inadequate controls over the management of micro-capital grant recipients
(Issue 6)

The Office signed 69 micro-capital grant agreements valued at \$6 million for the current programme cycle of 2013-2017. There were weaknesses in the management of micro capital grants such as lack of an independent mechanism to identify applicants for the grants, the Project board not meeting regularly, no annual report with the aggregated contributions of the micro-capital grant agreements, and inadequate monitoring. The Office stated that programmatic and financial monitoring was done through periodic reports and meetings with project partners at the Office. However, these were not supported by field visits or spot checks to independently verify the information presented by the micro-capital grant recipients.

Recommendation: The Office should comply with the 'UNDP Programme and Operations Policies and Procedures' on the selection of micro-capital grant recipients by broadening the prospective grant recipient identification process to attract a wider range of applicants, regularly monitoring grant recipients, and capturing results and linking them to the overall country programme in the project annual report.

Weak justification for direct contracting
(Issue 8)


During the audit period, the Office procured \$1.3 million value of goods through direct contracting, representing 21 percent of total procurement. The sample review of 10 procurement cases valued at \$300,000 indicated that in 8 cases totalling \$200,000, the justifications were not in accordance with the UNDP Financial Rules and Regulations. There were also cases with no adequate documentation to support that the best value for money was achieved.

Recommendation: The Office should enhance controls over direct contracting by complying with UNDP's Financial Rule No. 121.05; and documenting justifications of how the principle of best value for money was achieved through direct contracting.

Management comments and action plan

The Resident Representative accepted all the recommendations and 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 New Delhi, India (the Country) was comprised of 86 staff including two United Nations Volunteers. The current Country Programme Document covered the period of 2013-2017 and focused on 4 of the 6 United Nations Development Action Framework outcomes, namely: (a) inclusive growth and poverty reduction; (b) democratic governance; (c) sustainable development; (d) gender equality and inclusion. The Office established an innovative financing modality known as Development Support Services, under which the Government allocated its own budgetary funds to UNDP to receive policy advice and capacity development in the areas identified as priorities.

II. Good practice

OAI identified a good practice, as follows:

The Office had implemented a rigorous process for project closure, with a detailed checklist that exceeded the requirements of UNDP's Programme and Operations, Policies and Procedures. The process was well documented and implemented by the Office when undertaking closures of projects during the audit period. This enabled the Office to ensure that all requirements were fulfilled before projects were closed in Atlas system.

III. Audit results

Satisfactory performance was noted in the following areas:

- (a) Programme Management. Adequate controls were established and no reportable issues noted.
- (b) United Nations system coordination. Systems in the Resident Coordinator's Office for planning, budgeting, and reporting of activities by the United Nations Country Team were found to be adequate.
- (c) Partnerships and Resource Mobilization. OAI reviewed the Office's overall relationship with partners, resource mobilization strategy and development project funding sources. No reportable issues were noted.
- (d) Financial management. OAI reviewed 50 vouchers valued at \$6.5 million, or 11 percent of the total vouchers raised during the audit period. OAI also reviewed payments to vendors, advances to national implementing partners and bank reconciliations. No reportable issues were noted.
- (e) General Administration. The controls were generally well established and functioning adequately, including the areas of asset management and information and communications technology.
- (f) Safety and security. OAI reviewed the security plan, security risk assessment, and the updated United Nations staff list and no reportable issues were identified.

OAI made two recommendations ranked high (critical) and six recommendations ranked 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) Enhance controls over direct contracting (Recommendation 8).
- (b) Comply with the 'UNDP Programme and Operations Policies and Procedures' on the selection of micro-capital grant recipients (Recommendation 6).

Medium priority recommendations, arranged according to significance:

- (a) Implement the action plan to address concerns highlighted in the 2014 Global Staff Survey and closely monitor progress (Recommendation 1).
- (b) Strengthen results management and monitoring (Recommendation 4).
- (c) Ensure that project boards approve the annual work plans of projects timely (Recommendation 3).
- (d) Further enhance organizational structure (Recommendation 2).
- (e) Strengthen the annual project reporting (Recommendation 5).
- (f) Enhance controls in human resources management (Recommendation 7).

The detailed assessment is presented below, per audit area:

A. Governance and Strategic Management

1. Organizational structure and delegation of authority

Issue 1 Declining Global Staff Survey scores

UNDP conducts yearly global surveys that consist of questions on a wide range of topics. Feedback is collected from all UNDP staff worldwide and questions are also raised on what could be done to improve the work environment. All offices are expected to review the Global Staff Survey results together with their staff, identify priorities for improvement, develop action plans and targets, and implement them.

The Office consistently recorded lower scores than the global median scores in recent years. In 2012, the survey results were low and the Office had developed specific action plans in 2013. In 2014, the Office did not develop any new action plan, as management noted that the issues highlighted in the 2013 survey were similar to those of 2012.

The Office's 2014 scores were significantly lower than the 2013 scores. The 2014 results showed lower scores for all 11 dimensions in the survey. The Office explained that these were partly due to a change management process that took place in 2014 and to the reduction of local staff salaries (19.4 percent for National Officers and 13.4 percent for General Service staff).

With the Global Staff Survey scores deteriorating further in 2014, the Office developed an action plan in May 2015. The Office management explained that the action plan was broadened to include general staff wellness and effectiveness of the organization, and that they had instituted initiatives such as a regular newsletter to reach out to the staff members and a learning workshop in February 2015.

Delays in addressing the results of the Global Staff Survey could further demotivate staff.

Priority	Medium (Important)
Recommendation 1:	
The Office should implement the action plan to address concerns highlighted in the 2014 Global Staff Survey as well as prior surveys and closely monitor progress.	
Management action plan:	
The Office has developed a very robust action plan to address the Global Staff Survey concerns and a number of action points have been completed or are in progress. The Office will closely monitor and regularly report to Senior Management on progress made and on any need for corrective course.	
Estimated completion date: November 2015	

Issue 2 Inadequacies in the newly implemented organizational structure

The 'Operational Guide of the Internal Control Framework' for UNDP specifies that each Head of Office has the overall responsibility for establishing and maintaining adequate internal controls in his/her office. Likewise, the 'UNDP Programme and Operations Policies and Procedures' define the control environment as one component of the internal control system. The control environment includes the Office's organizational structure.

Based on communication with the Regional Bureau for Asia and the Pacific, the Office had anticipated a reduction in the funding from core resources in the future. The Office considered various options and prepared a proposal for a structural change in June 2014.

The revised structure approved by the Regional Bureau in August 2014 was finally implemented on 1 April 2015. Subsequently, a Management Change Team visited the Office from 6 to 15 April 2015 to review key business processes, such as programme management, procurement, human resources and finance.

The review of the change management process indicated the following:

- While the structural change process started in late 2013, the revised structure was implemented from 1 April 2015, without establishing clear roles and responsibilities for some units, such as the newly established Independent Oversight Unit (that comprised of two staff).
- As part of the restructuring, the Monitoring and Evaluation sub-unit was transferred to the Resources and Planning Unit. The Resources and Planning unit was essentially involved in financial management, while the Monitoring and Evaluation sub-unit was involved in programmatic monitoring. Further, the Terms of Reference of the Programme Officers included monitoring and evaluation functions suggesting a possible overlap in tasks and duties.
- The Office funded 8 posts (5 National Officers and 3 General Service posts) in the Communications and Partnerships Unit, however, these staff performed work for all the United Nations agencies in the Country. Given the high cost structure of this Unit and the services provided not exclusively to the Office, the sustainability of this arrangement could impact the Office financially.

- The Office had not undertaken a detailed analysis to assess the workload that should have formed the basis for allocating human resources to the various units. For instance, there was no justification for dedicating a senior experienced staff to the Independent Oversight Unit (one NO-C) together with a General Service staff (at G5 level).

The Office management explained that they had used the workflow analysis rather than the work load study because the staffing level in the new organigram was the bare minimum to deliver the significantly higher delivery that was projected. OAI acknowledges the challenges the Office faces. However, lack of clarity in staff carrying out their roles may impact the success of this new approach.

Priority	Medium (Important)
Recommendation 2:	
The Office should further enhance organizational structure, by:	
(a) establishing specific terms of reference for all Units within the organigram to avoid overlapping activities between the Units; and	
(b) consider transferring the Monitoring and Evaluation sub unit under the Country Director or Deputy Country Director Programme.	
Management action plan:	
The Office is reviewing the existing organigramme and will incorporate the recommendations made above.	
Estimated completion date: September 2015	

A. Programme Activities

1. Project Management

Issue 3 Delay in approval of Annual Work Plans

The 'UNDP Programme and Operations Policies and Procedures' require that Annual Work Plans identify specific annual targets to be approved by the Project Board in the last quarter of the preceding year and signed by implementing partners before implementation. The Annual Work Plans specify the activities to be delivered along with the resources allocated for the activities and the respective timelines for implementation.

There was a delay in approving the 2014 and 2015 Annual Work Plans. During 2014, the Annual Work Plans of 16 projects were signed in the second quarter, while three were signed in the third quarter of 2014. The late signature of the Annual Work Plans impacted on the delivery of activities, particularly on the procurement of goods and services.

The Office explained that the delays were caused by the complex approval procedure, as many national Implementing Partners were not willing to sign any agreement until after the national elections held in May 2014 and to make changes in senior government staff directly responsible for the partnership with UNDP.

Further, the target for resource assignments from the core allocation approval for the Office was received from the Regional Bureau for Asia and the Pacific on 6 February 2014, delaying the Annual Work Plan finalization process.

The audit results indicated no significant improvement in 2015, as 38 out of 41 Annual Work Plans were approved by end of June 2015.

The lack of timely approval of the Annual Work Plans may result in the delay of project implementation activities, which in turn may impact the delivery of intended outcomes.

Priority	Medium (Important)
Recommendation 3:	
The Office should ensure that project boards approve the Annual Work Plans of projects in a timely manner to secure the government counterparts' approval prior to start of the year.	
Management action plan	
The Office will make all efforts to ensure the timely approval of the annual work plans. This will include completing discussions with the implementing partners and Government counterparts timely so that the work plans are approved by December. The Office will establish a tracker to enable senior management and Heads of Units to track the progress.	
Estimated completion date: December 2015	

Issue 4 Weaknesses in project assurance

The 'UNDP Programme and Operations Policies and Procedures' require Offices to have adequate assurance systems in place and functioning, to ensure compliance, accountability and intended outcomes.

The following weaknesses in the Office's project assurance mechanisms were noted:

- (a) Inadequate Results and Resources Frameworks -The 'UNDP Programme and Operations Policies and Procedures' require that projects develop comprehensive results and resources framework, identify the outputs, indicators, baselines, indicative activities and a budget for each of the activities to be implemented. None of the six project documents or Annual Work Plans reviewed included indicators and baselines in the results framework. Further, the developmental change could not be determined for all projects. Indicators and baselines related to the target groups (women and children) were not included in the project documents. Similarly, changes in capacity as a result of capacity building interventions could not be determined in the absence of baselines and indicators.

In the case of project no. 74556 it supported micro-capital grant recipients in order to improve policy and programme implementation processes within Government. However, as no indicators or benchmarks were identified, measuring the progress towards the overall project objective was not possible.

Without properly defined Results and Resources Frameworks, the Office cannot assess the progress of the respective projects, account for resources spent on activities or measure the project's impact.

The Office management explained that there were several processes for monitoring the progress of projects, including the critical results path for each project and monthly implementation review meetings with the Government coordinating agency. However, these processes focused on the implementation of activities and related expenditures without a clear linkage to the progress made towards overall project outputs.

- (b) Field monitoring visits not undertaken for some projects - The 'UNDP Programme and Operations Policies and Procedures' stipulate that as part of their assurance function, programme officers undertake field/site monitoring visits to validate information reported by project staff. The assurance visits should be a combination of both programmatic and operational reviews.

During 2014 and the first quarter of 2015, the Office programme officers did not conduct field visits for three out of the six projects reviewed. Further, spot checks were not undertaken as part of these visits to review documents related to finance, procurement and recruitment undertaken by the implementing partners.

The Office management stated that they had advised the programme staff on the need to conduct field visits and project monitoring visits. Further, they reported that the respective Programme Unit reviewed the reports submitted and that field visits were undertaken, however these were not necessarily documented.

Inadequate project assurance and monitoring mechanisms may result in projects performing poorly, or not attaining the intended outputs/outcomes, and increase the risk of resources being mismanaged and problems identified not being resolved.

Priority	Medium (Important)
Recommendation 4:	
The Office should strengthen results management and monitoring through:	
<ul style="list-style-type: none"> (a) clearly formulating Results and Resources Frameworks in accordance with UNDP corporate results-based management principles and including properly defined indicators, targets, outputs and activities; and (b) undertaking field monitoring for all projects as per the 'UNDP Programme and Operations Policies and Procedures'. 	
Management action plan:	
The Office will ensure that the baselines, targets and outputs are clearly defined in the Annual Work Plans for all projects for the year 2016 onwards, and that every programme officer develops and implements a field visit plan with clear objectives and timelines.	
The Monitoring and Evaluation sub-unit will ensure monitoring plans are implemented across all projects.	
Estimated completion date: December 2015	

Issue 5 Weaknesses in project reporting

The 'UNDP Programme and Operations Policies and Procedures' require that the annual project reports include a summary of results achieved against pre-defined annual targets and baselines, measured against a set of quantitative and qualitative indicators. The annual report should include revalidation of the project and programme results and that the delivery of outputs will lead to the desired outcomes. For development projects, the Office should report progress against developmental outputs and outcomes.

The review of 2014 annual reports for the six projects highlighted the following:

- The annual reports focused on activities, such as signing of agreements (Project no. 71718), number of nurses that received training, and number of workshops organized (Project no. 73062). Further, for Project no. 73182 a list of items had been procured, without much emphasis placed on the progress towards achieving outputs or on contributions towards programmatic outcomes. Instead, the installation or not of the items procured was reported as progress. Two of the six reports (Project nos. 71718 and 73182) did not include the financial information required, such as budgets and expenditure. For Project no. 73182, the delivery was only \$8 million against a budget of \$15.7 million; hence, a reader of the annual report would not be able to determine the extent to which the annual work plan was implemented.
- The annual report did not include challenges and risks, and it was not possible to determine the project status against the annual work plan, and reasons for not achieving the planned budgets (Project nos. 71718, 73182, and 74556).
- A formal format for reporting was not established and some annual reports were drafted using excel sheets, and various different tables and templates (Project nos. 71718, 73182, and 74556).

The Office management explained that project no. 73182 was a Development Support Services project and largely comprised of procurement activities. Therefore, progress updates were sent on quarterly basis via email. For project no. 71718, the Office management stated that as the project was under Montreal Protocol, monitoring was done through consultations and visits. As such, no annual report was being submitted, but instead a verification report of work done was submitted to the Executive Committee. However, the agreement signed with the donor for the particular project stated that an annual report be provided, with clear linkage between project activities and the impact on overall project objective. Therefore, the Office should have submitted an annual report for 2014. Further, these being development projects, the Office should have reported progress against developmental outputs and outcomes.

There is a risk that the Office may not be able to accurately measure progress toward results, as well as identify bottlenecks and take timely action taken to address them.

Priority Medium (Important)
Recommendation 5:
The Office should strengthen the annual project reporting by ensuring adherence to the 'UNDP Programme and Operations Policies and Procedures', that include results-focused reporting against identified baselines and indicators of progress.

Management action plan:

The Office will ensure that the annual project progress reports be prepared in the standard template and that they are focused on the results achieved and lessons learnt by September 2015. Further, the annual reporting process will be completed by February 2016.

Estimated completion date: February 2016

Issue 6 Inadequate controls over management of micro-capital grant recipients

The Office signed 69 micro-capital grant agreements valued at \$6 million for the current programme cycle of 2013-2017. Of these, 33 were completed with a value of \$2.45 million, while 35 (valued at \$3.6 million) were ongoing at the time of the audit. One agreement worth \$0.05 million was yet to start, even though the start date was 10 July 2014. Of these agreements 36 were to be funded from project No. 86909. The proposals were reviewed by a Grants Steering Committee set up by the Office and the Committee met as and when required.

Several weaknesses were noted:

- The 'UNDP Programme and Operations Policies and Procedures' require that micro-capital grant recipients be selected by the project boards/project steering committees or identified during the development of the programme document. If non-governmental organizations are used as providers of professional services, they shall be selected based of an open and independent selection procedure. The project document shall provide for an independent mechanism that would review and endorse the selection of recipient institutions, and assess the performance of these institutions in managing the grants.

The Office did not establish an independent mechanism to identify prospective grant recipient applicants for the micro-capital grants. Instead, a list was drawn up by the Resident Coordinator in conjunction with the Planning Commission.

- For two micro-capital grant proposals reviewed in October 2014, the Grant Steering Committee had recommended the budget to be split, with one portion funded through the micro-capital grant agreement, while costs related to travel and workshops be borne by UNDP through vendors. This was recommended to ensure the allocations were within the thresholds. However, it was not clear how the workshops/travel components would be funded outside of the overall agreement.
- While the Office guidelines stated that the programmatic and financial monitoring would be undertaken by the programme/project units, there was limited evidence of such monitoring by the Office (except for two field visits in April-May 2014, which were not directly related to the monitoring of activities). The Office management stated that programmatic and financial monitoring was done through periodic reports and meetings with project partners at the Office. The project deliverables were examined by the respective Programme Officers before the release of financial tranches and any discrepancies were addressed. However, these were not supported by field visits or spot checks to independently verify the information presented by the micro-capital grant agreement recipients.
- The project board did not hold any meetings in 2014 and 2015.
- As the micro-capital grant agreement modality was used as a stand-alone intervention across all thematic areas, it was difficult to assess progress and the aggregate contribution of these interventions to the overall Country Programme because there was no annual report that aggregated the contributions of the

agreements. In October 2014, the Grants Review Committee proposed that the micro-capital grants portfolio for the current cycle needed an outcome-level review to ascertain how it was contributing to the overall objectives of the Country Programme cycle for the period 2013-2017. An internal review of the portfolio was undertaken by a United Nations Volunteer, with the objective of making the necessary linkages to the Country Programme Action Plan and the thematic areas. However, this report was not designed to review what worked and what did not, nor challenges and the risks identified.

The inadequate management of micro-capital grants entails reputational as well as risk of financial loss.

Priority	High (Critical)
Recommendation 6:	
The Office should comply with the 'UNDP Programme and Operations Policies and Procedures' on the selection of micro-capital grant recipients by:	
<ul style="list-style-type: none"> (a) broadening the prospective grant recipient identification process to attract a wider range of applicants; (b) regularly monitoring grant recipients; and (c) capturing results and linking them to the overall country programme in the project annual report. 	
Management action plan:	
The prospective grant recipients identification will be standardized as per UNDP guidelines and results will be linked in the overall Country Programme Action Plan and the Annual Work Plan.	
Estimated completion date: December 2015	

C. Operations

1. Human Resources

Issue 7 Weaknesses in human resources management

The audit indicated the following:

(a) Mandatory trainings not completed - According to the 'UNDP Programme and Operations Policies and Procedures' all staff are required to complete six mandatory courses that are important for understanding the policies and objectives of the organization. There were 20 staff in the Office who had not completed all mandatory trainings as at April 2015.

(b) Staff with large number of leave balances - In accordance with 'UNDP Programme and Operations Policies and Procedures', staff can carry forward a total of 60 days of annual leave balances while any leave balances exceeding 60 days would be forfeited as at 31 March of the following year. However, 55 staff (out of a total of 86 staff) had a total annual leave balance of 60 days or more as at May 2015. The Office explained that it has introduced a system of reminding supervisors and supervisees every 3 months of the status of their annual leave balances to encourage staff to take their leave.

By not taking annual leave, staff members are deprived of their entitlements which may demotivate staff and lead to unproductive staff force. Further, the lack of completion of mandatory trainings on a timely basis would prevent staff from obtaining adequate knowledge on various aspects enabling them to perform their tasks effectively in UNDP.

Priority	Medium (Important)
Recommendation 7:	
The Office should enhance controls in human resources management by:	
(a) having all staff in the Office complete mandatory trainings within a time bound plan; and	
(b) requiring unit heads to develop and implement annual leave plans.	
Management action plan:	
The Office agreed to implement the recommendations with immediate effect.	
Estimated completion date: September 2015	

2. Procurement

Issue 8 Weak justification for direct contracting

Direct contracting is a procurement method that allows the award of a contract without competition. The 'UNDP Programme and Operations Policies and Procedures' provide that staff may only use this method when it is not feasible to undertake a competitive bidding process, and when proper justifications exist. Further, the Office should maintain records to support an assessment of how best value for money was achieved through direct contracting. The UNDP Financial Rule No. 121.05 specifies nine instances when direct contracting is justified.

Of the Office procurement contracts, 21 percent (\$1.33 million out of total procurement contracts of \$6.35 million) were undertaken using direct contracting. A review of 10 procurement cases amounting to \$350,000 disclosed that in eight cases valued at \$230,000, the justifications were not in accordance with the UNDP Financial Rule No. 121.05. In three cases valued at \$98,000, the Office was not able to provide adequate evidence that there was no competitive market place for the requirements. Furthermore, a review of 10 individual consultants contracts amounting to \$310,000 disclosed that in six cases valued at \$150,000, the justifications were also not in accordance with the UNDP Financial Rule No. 121.05. Further, in two cases valued at \$39,000 the Office was not able to provide adequate evidence that there was no competitive market place for the requirements. In one instance (contract value amounting to \$10,000), the waiver of the competitive process was only granted after the receipt of services from the consultant. In three cases (amounting to \$93,000), the Office did not have adequate documentation to support that the best value for money was achieved.

Failure to comply with the UNDP requirements on direct contracting may impact the Office's reputation and lead to financial loss.

Priority	High (Critical)
Recommendation 8:	
The Office should enhance controls over direct contracting by:	
<ul style="list-style-type: none"> (a) undertaking direct contracting only in accordance with UNDP's Financial Rule No. 121.05; and (b) documenting justifications of how the principle of best value for money was achieved through direct contracting. 	
Management action plan:	
A training was conducted for programme staff on direct contracting, and the Office will ensure that staff are aware of the procedures and how to justify future direct contracting.	
Estimated completion date: September 2015	

Issue 9 Protracted Procurement Process

The 'UNDP Programme and Operations, Policies and Procedures' mandate the rationale use of resources while responding effectively to the needs of programmes and operations by ensuring the timely availability of high quality goods and services as required.

In early 2014, the Office was requested to undertake the procurement of three interconnected project components relating to a combination of IT services (software development and hardware provision) and human resources for the implementation of training and other activities. The budgeted cost of this entire procurement was \$16.5 million.

The procurement process for these three components that was initiated in February 2014 was yet to be fully completed at the time of the audit fieldwork. The procurement underwent various phases such as an ex-ante review by the Advisory Committee on Procurement, the preparation of a Request for Proposals in consultation with the responsible party, a pre-bidding meeting and the evaluation of proposals received from bidders.

The procurement process was delayed due to various reasons, including lack of adequate capacity in the Office to handle a complex procurement case of this nature, which combined all three interconnected project components into two separate solicitation processes. Only one technically qualified proposal was received and the related financial proposal was complicated, which required protracted discussions with the bidder. Further, a vendor filed a protest alleging that the procurement process was not transparent.

In view of the above, the Office, in consultation with the Regional Bureau of Asia and the Pacific cancelled the procurement process on 17 December 2014.

The procurement process restarted in February 2015 with the three interconnected components' procurement being undertaken in three separate solicitation processes.

The Office management clarified that they realized the challenges and have enhanced controls by undertaking the revised procurement process in February 2015 with the assistance of various external entities such as close collaboration with the Procurement Support office, the Regional Bureau of Asia and the Pacific, respective procurement committees and a procurement staff seconded to the Office. The Office management added that

while cognizant of the need to complete the procurement transaction in a timely manner, the delay did not impact project progress as the funds for this procurement could only be received after the framework agreement was signed between the Government and the donor in June 2015. The Office management indicated that it has increased its procurement capacity by recruiting a P4 Procurement Officer, expected to join in July 2015.

The delay in completing the procurement process may adversely affect the Office's image and impede the success of Development Support Services business model.

Comment

OAI is not making any recommendation given the actions already taken by Management.

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.