



**AUDIT**

**OF**

**UNDP COUNTRY OFFICE**

**IN**

**PHILIPPINES**

**Report No. 1620**  
**Issue Date: 17 June 2016**

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## Report on the Audit of UNDP Philippines Executive Summary

The UNDP Office of Audit and Investigations (OAI) conducted an audit of UNDP Philippines (the Office) from 12 to 20 April 2016. 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, business continuity, monitoring and reporting, financial sustainability);
- (b) United Nations system coordination (development activities, Resident Coordinator Office, role of UNDP – “One UN”, Harmonized Approach to Cash Transfers);
- (c) programme activities (programme management, partnerships and resource mobilization, project management); and
- (d) operations (human resources, finance, procurement, information and communication technology, general administration, safety and security).

The audit covered the activities of the Office from 1 January 2015 to 12 April 2016. The Office recorded programme and management expenditures of approximately \$27 million in 2015 and \$4 million from January to April 2016. The last audit of the Office was conducted by OAI in 2011. Furthermore, an audit of the ‘Support to Typhoon Recovery and Resilience in The Visayas Project’ was undertaken in September in 2014.

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 cost recovery policy not being fully implemented, implementation challenges related to the ‘Early Recovery for Areas Affected by Typhoon Haiyan Project’ (Haiyan Project), and weaknesses in the management of project cash advances.

### Good practices

#### Finance:

The Office developed a comprehensive checklist for approving accounts payable journal and payment vouchers.

#### Governance and strategic management:

The Office developed a management dashboard that provided a snapshot of Office progress of various indicators at any given time.

**Key recommendations:** Total = 10, high priority = 3

The 10 recommendations aim to ensure the following:

| Objectives   | Recommendation No. | Priority Rating |
|--|--------------------|-----------------|
| Achievement of the organization's strategic objectives                               | 1, 2, 3            | Medium          |
|  | 4                  | High            |
| Reliability and integrity of financial and operational information                   | 8                  | High            |
| Effectiveness and efficiency of operations   | 9                  | Medium          |
| Compliance with legislative mandates, regulations and rules, policies and procedures | 6                  | High            |
|  | 5, 7, 10           | Medium          |

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:

Cost recovery policy not fully implemented (Issue 4)      While the Office had recovered the operational costs incurred to support project implementation, it had yet to implement charging direct project costs to projects that included programme-related costs, such as programme planning, quality assurance, and advisory support.

Recommendation 4: The Office, with the support of the Regional Bureau for Asia and the Pacific, should take steps to recover costs for services provided to the projects in accordance with the UNDP cost recovery policy. This should include full recovery of direct project costs based on the staff members' time spent on project activities.

Inadequate controls over 'Early Recovery for Areas Affected by Typhoon Haiyan Project' (Issue 6)      The audit reviewed the progress made by the Office in implementing Haiyan Project activities in 2015 and noted that only about \$8.3 million (61 percent) of the project budget of \$13.5 million was expended at year-end, with 20 activities completed, 17 partially implemented, and 4 activities not initiated. A review of the various reports and discussions identified issues relating to weaknesses in implementation of project activities and in project procurement planning, which resulted in the lower than planned expenditures during 2015

Recommendation 6: The Office should enhance controls over the 'Early Recovery for Areas Affected by Typhoon Haiyan Project' by ensuring the following: (a) programme and operations staff are included in the annual planning process to provide guidance where relevant, and to have a common understanding of the expectations; (b) alternative implementation instruments such as micro-capital grants with local entities are used in the procurement of small-value items; (c) project budgets are based on realistic estimates to ensure planned procurements are well resourced; and (d) project delays beyond the control of the Project Manager are escalated to the Project Board.

Delays in liquidating  
project cash advances  
(Issue 8)

The 'UNDP Programme and Operations Policies and Procedures' provide that project cash advances must be closed and fully accounted for within seven days following the conclusion of a one-time project activity. There were delays in liquidating 20 out of the 30 project cash advances reviewed. Of the 20, 7 cash advances totalling \$156,000 were liquidated more than 100 days after the conclusion of the project activities. The remaining 13 cash advances were liquidated between 30 and 100 days after the conclusion of the project activities. Furthermore, the Office released 8 out of 30 project cash advances although previous cash advances were not yet liquidated.

Recommendation 8: The Office should further enhance controls over project cash advances by: (a) establishing specific procedures to ensure liquidation of project cash advances seven days after completion of the project activities and avoiding releasing cash advances until previous advances are fully liquidated; and (b) exploring options to further reduce the level of project cash advances.

**Implementation status of previous OAI audit recommendations:** Report No. 1412, dated 6 March 2015.

Total recommendations: 12

Implemented: 12

#### Management comments and action plan

The Resident Representative accepted all 10 recommendations and is in the process of implementing them.

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 Manila, Philippines (the Country) comprised of 37 staff members and 115 service contract holders supporting a programme portfolio of 54 projects at the time of the audit. The programme portfolio was made up of three cluster areas, namely, Democratic Governance, Inclusive Sustainable Development, and Resilience and Peace Building. The Country is a lower middle-income country with a Human Development Index rank of 115 out of 188 countries. The economy remains one of the fastest growing major economies in Asia. The Country's vulnerability to climate change and the frequent occurrence of natural disasters, such as the Haiyan Typhoon in November 2013, pose a serious threat to the progress in several areas of the national economy and development.

## II. Good practices

OAI identified good practices, as follows:

### Finance:

The Office developed a comprehensive checklist for approving accounts payable journal and payment vouchers, to ensure complete information and supporting documents are available before processing the vouchers.

### Governance and strategic management:

The Office developed a management dashboard that provided a snapshot of Office progress of various indicators at any given time. The progress was discussed at the programme management meetings for action, which enhanced the quality of monitoring of monitoring progress.

## III. Audit results

Satisfactory performance was noted in the following areas:

- (a) United Nations system coordination. The Office met the planning, reporting and coordination requirements and adequately recorded expenditures in Atlas (enterprise resource planning system of UNDP).
- (b) Partnerships and resource mobilization. The Office had developed a resources pipeline, and had available resources totalling \$39 million in 2015. Further, the Office had signed government cost-sharing agreements totalling more than \$80 million, which could increase in 2017.
- (c) General administration and asset management. General administration, including management of assets, was in line with UNDP's policies and procedures.
- (d) Information and communication technology. The controls were found adequate and in line with the organization's information and communication technology requirements.
- (e) Safety and security. Safety and security controls were assessed as adequate and functioning.

OAI made three recommendations ranked high (critical) and seven 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) Take steps to recover costs for services provided to the projects in accordance with the UNDP cost recovery policy (Recommendation 4).
- (b) Enhance controls over the 'Early Recovery for Areas Affected by Typhoon Haiyan Project' (Recommendation 6).
- (c) Enhance controls over project cash advances by establishing specific procedures for their timely liquidation (Recommendation 8).

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

- (a) Adequately manage risks related to government cost sharing (Recommendation 1).
- (b) Streamline the Office's programme portfolio (Recommendation 3).
- (c) Enhance efficiency and effectiveness of business processes (Recommendation 2).
- (d) Strengthen project management (Recommendation 5).
- (e) Ensuring projects are operationally and financially closed within specified time frames (Recommendation 7).
- (f) Enhance controls over procurement processes (Recommendation 9).
- (g) Ensure compliance with the 'UNDP Programme and Operations Policies and Procedures' on human resources management (Recommendation 10).

The detailed assessment is presented below, per audit area:

## A. Governance and strategic management

### Issue 1 Risks related to a government cost-sharing project

According to the 'UNDP Programme and Operations Policies and Procedures', resources received through government cost sharing are fully integrated into UNDP's budget and are used in accordance with UNDP's administrative rules and regulations. The programmatic and operational instruments utilized by UNDP, including accountability and control frameworks, are the same as for any other modality.

In 2015, the Office and the Government explored opportunities for the Office to provide support in addressing budget delivery bottlenecks. At the time of the audit, the Office had already signed two agreements: one with the Department of Education (DepEd) for approximately \$63 million for the procurement of school items, and another with the Climate Change Commission for \$11 million over three years. An additional agreement was also in the final stages of negotiations. Subsequent to the audit mission, the Office indicated that the amount of \$63 million was received in full.

Given the complex nature of the DepEd project, the scale and the country-wide delivery, the Office coordinated the development of the \$63 million project closely with the Regional Bureau for Asia and the Pacific and the Procurement Support Office, and the Office received full support from them.

The audit reviewed the DepEd project agreement dated 23 March 2016, which was for a one-year duration. The Office would procure and distribute information and communication technology equipment and other items to a number of education centres/schools within the Country during 2016. The Office agreed on a 5 percent General Management Services fee, of which 3 percent would be retained by UNDP and the balance of 2 percent would be utilized for capacity-building and technical assistance services for DepEd. The Office also expected that the 12 percent value-added tax savings would be utilized to cover the direct project costs.



OAI acknowledged the approach to secure government funding and the significance it may have had for the Office and UNDP.

The Office made significant progress in implementing the project, with support from the Regional Bureau for Asia and the Pacific and the Procurement Support Office. A capacity risk assessment, including lessons learned from the Haiyan Project, would be utilized to mitigate some of the associated risks. Further, two dedicated international consultants had been recruited, in addition to support staff. A detailed procurement plan had also been developed comprising specifications of items to be procured and agreed with DepEd. The request for quotations had already been sent to the pre-qualified vendors and tentative timelines had been developed for completion of the procurement and delivery of items by early 2017.

With the scale of the DepEd project involving the delivery of items across the Country, the tight deadlines and limited budget for cost recovery of services provided by the Office, the audit identified the following risks:

1. With the exception of General Management Services fees, the Office confirmed that DepEd would not fund the related project support and other relevant costs that would directly be charged to the project because there was no budget allotted for these costs.
2. The Office expected that the procurement of items would result in savings because it would be exempted from paying the 12 percent value-added tax, which DepEd would have otherwise incurred if they directly procured the items. The Office planned to leverage on these savings to recover project support costs. However, the savings alone might not have been enough to fully cover the support costs.
3. The tentative direct project costs identified by the Office were incomplete, as explained below:
  - (a) The programme staff, management and other staff time dedicated to support the project had not been included in the direct project costs. The Office stated that these were being tracked internally.
  - (b) The General Management Services fee and Technical Assistance Fund was estimated at \$3 million. Of this amount, \$1.2 million would be deployed for capacity-building/technical assistance, resulting in only a \$1.8 million General Management Services share for the Office.
  - (c) The Office had allocated \$0.8 million for monitoring activities that would also be funded from the savings on value-added tax exemption. However, the audit could not determine how this cost of \$0.8 million was calculated.
  - (d) A sum of \$0.5 million for project staffing, and travel costs etc., had not been incorporated into the overall project budget. The Office stated that these charges could be covered from the savings on value-added tax exemption.
4. The corresponding programme planning that should have driven the procurement process was not very clear. Specifically, a consolidated annual work plan, incorporating both project and programme activities along with the respective costs had yet to be developed. The Office stated that the programmatic value in terms of improving education quality, enhancing public service accountability and capacity was deemed very important and central to the nature of the project. However, these were contingent upon the availability of funds from the procurement component cost savings.

Subsequent to the audit, the Office stated that a Project Manager had been recruited and would be on board by end of June 2016. The Project Manager would further develop the project document to incorporate all the missing programmatic aspects.



5. Certain text included in the signed project document may expose UNDP to certain liabilities. Examples of this text included the following: "In extreme and unavoidable circumstances where the time frame is extended to complete the procurement and delivery... this will be done at no additional cost to DepEd, and at the sole expense of UNDP. However, if additional costs to deliver are incurred and which are legitimate project costs which cannot be covered by any liability of the supplier, DepEd shall consider any justifiable request from UNDP for additional funding." This should be clarified so that UNDP will not be held liable for delays that it has no control over.

Further, the project document also stated that in case of conflict between the provisions of the project document and its annexes (which also included the agreement), the provisions of the project document shall prevail unless otherwise agreed upon by DepEd and UNDP. Since the agreement provisions are legally binding, the statement in the project document may expose UNDP to liabilities. Subsequently, the Office reported that some of the text had been negotiated and placed the onus on DepEd to cover all legitimate additional costs that do not fall within the liability of the supplier.

6. Given the scale and complexity of the procurement as well as the fact that the procurement was undertaken on behalf of the Government, an independent oversight mechanism to monitor the project implementation and procurement should be implemented to address emerging risks or challenges.
7. Initially, the Office planned to recruit one international consultant to support the DepEd project. However, management made a decision to recruit two international consultants with the same terms of reference. The two consultants had been working together on the procurement for DepEd project since February 2016, but there was no specific segregation of responsibilities between the two consultants. The segregation of duties is an important internal control to prevent errors or fraud. It is also a basis for evaluating performance.
8. The Project Manager and Project Assistant posts had not yet been filled at the time of audit. As a result, procedures and controls had yet to be established to ensure that facilities in the schools were ready and validated by the actual delivery date, that procedures for receipt were established, and that authorities designated to receive were determined. Subsequent to the audit fieldwork, the Office stated that Project Manager had been recruited and would be on board by the end of June 2016 and the other recruitments were being completed.

In response to the highlighted risks above, the Office's management indicated that they were aware of most of the risks and that they were working towards addressing or mitigating them, and were closely liaising and consulting with the Procurement Support Office and the Regional Bureau for Asia and the Pacific to ensure that the procurement process was not only efficient but also in compliance with the organizational policies and procedures. Management added that given the urgency to deliver the equipment and items to the schools, there was a limited window for negotiations, especially since the Country was entering into elections in May 2016. The project document was prepared in less than one month, and the limited amount of time did not allow for all factors to be taken into consideration. Therefore, the Office applied 'adaptive risk-taking', and indicated that adjustments would be made as the project was rolled out.

The Office's management stated that the monitoring component included third party monitoring at the government level and the capacity-building component would be funded through the savings on value-added tax exemption. They added that the capacity-building component would be implemented once the procurement component was delivered.

The highlighted risks above might result in additional costs and reputational damage for UNDP if not adequately managed.

|  |                    |
|--|--------------------|
| <b>Priority</b>  | Medium (Important) |
| <b>Recommendation 1:</b><br><br>The Office should adequately manage the risks related to government cost sharing by: <ul style="list-style-type: none"> <li>(a) ensuring cost-effectiveness and efficiency by establishing appropriate cost accounting systems as well as monitoring; and</li> <li>(b) recruiting the remaining project staff as soon as possible so that the project activities can proceed and necessary procedures and controls can be put in place before the actual delivery of items.</li> </ul>   |                    |
| <b>Management action plan:</b><br><br>The Office's management acknowledged the observation. <ul style="list-style-type: none"> <li>(a) The costs for the full direct project costs are being tracked. The Office will outline total delivery costs to DepEd and continue discussions on cost recovery.</li> <li>(b) The costs incurred in the implementation of the government cost-sharing projects are being tracked and monitored. The costs will be presented to the Government's partners to show the Office's costs in supporting the projects.</li> </ul> <p>The Office further added for initiating the procurement process, all critical staff were already on board at the time of the audit. The recruitment for the two remaining positions for the DepEd project are in the process of being completed.</p> |                    |
| <b>Estimated completion date:</b> <ul style="list-style-type: none"> <li>(a) December 2016</li> <li>(b) June 2016</li> </ul>   |                    |
| <b>OAI Response:</b><br><br>OAI acknowledged the actions taken by management; these will be reviewed at a later stage as part of the standard desk follow-up process of OAI.   |                    |

## **Issue 2**      Business processes not fully streamlined

According to the 'UNDP Programme and Operations Policies and Procedures', one objective of the financial sustainability and effectiveness exercise is to enhance productivity, reduce transaction costs and increase cost-efficiency and effectiveness through the streamlining of business processes.

In July 2015, the Office completed a change management process, with the objective of enhancing the efficiencies and effectiveness of the Office, recognizing the need to:

- (a) balance out workload and cut down on low/no value added processes;
- (b) review and adjust roles and responsibilities, team terms of references and job descriptions to the changing environment; and
- (c) prepare the Office for large-scale operations when moving into government cost sharing.

The Change Management Team proposed 46 actions to be taken by the Office. At the time of the audit, the Office fully implemented 24, while 16 were in progress and 6 were not yet implemented.

A review of the revised business processes of the Office disclosed that further streamlining of some key processes was needed, specifically relating to the quality assurance function, as highlighted below:

- The preparation of the annual work plan involved a number of levels of review that could have been streamlined by consulting stakeholders at the planning stage. The first draft of the annual work plan prepared by the implementing partner was reviewed by the Project Board and then submitted to the Office's Programme Unit for review. It was sent back to the implementing partner for revision and signature. Thereafter, it was again submitted to the Programme Unit for final review, and the Management Support Unit then forwarded it to the National Economic and Development Authority for final endorsement. This long and repetitive review process contributed to the delayed endorsement of annual work plans, thus impacting on project implementation (see also Issue 5).
- The quality assurance role of the Management Support Unit was not clear on the following processes: (a) preparation of annual work plans; (b) programmatic cost-sharing contribution agreements; and (c) project formulation, negotiation and approval process. Similarly, Programme Analysts were also performing quality assurance roles at the cluster level, although these roles were not reflected in the business processes, such as annual work planning and project formulation.

There is a risk that the Office's resources will not be utilized optimally in the absence of fully mapped out business processes.

| Priority  | Medium (Important) |
|---|--------------------|
| <b>Recommendation 2:</b>  |                    |
| The Office should enhance efficiency and effectiveness of business processes by:  |                    |
| <ul style="list-style-type: none"> <li>(a) ensuring the implementation plan resulting from the change management process is fully implemented within a given time frame;</li> <li>(b) streamlining the annual work planning process to reduce the number of reviews by enhancing consultation with stakeholders at the initial stage of planning; and</li> <li>(c) specifying the role and responsibilities of the Management Support Unit and Programme Analysts for the various business processes to avoid any gaps.</li> </ul>  |                    |
| <b>Management action plan:</b>  |                    |
| <ul style="list-style-type: none"> <li>(a) An additional 7 of the 16 ongoing action items have been completed as of 20 May 2016. The implementation of remaining action items are ongoing.</li> <li>(b) The streamlining of the annual work planning process will be discussed with stakeholders. The submission of bi-annual work plans for projects with multi-year resources will be initiated this year. This will lessen the number of reviews between the three parties and will allow for revisions any time within the two-year period.</li> <li>(c) The business processes involving the Management Support Unit and Programme Analysts will be reviewed to clarify the respective roles.</li> </ul> |                    |
| <b>Estimated completion date:</b>   |                    |
| (a) October 2016  |                    |

- (b) Commencing November 2016  
(c) August 2016

**OAI Response:**

OAI acknowledges the actions taken by management on recommendation (a); these will be reviewed at a later stage as part of the standard desk follow-up process of OAI.

**Issue 3**      Fragmented programme portfolio

According to the 'UNDP Programme and Operations Policies and Procedures', offices are accountable for contributing to developmental results in the most relevant, efficient and effective way. Hence, offices are required to review and streamline their programme portfolios to enhance productivity, reduce transaction costs and increase efficiency and effectiveness.

The Office's programme portfolio included many small value projects, which could lead to high transaction costs. An analysis of programme financial delivery is shown in Table 1 below:

Table 1: Programme financial delivery during the period 2013-2015

| Description                            | 2013<br>(\$ millions) | 2014<br>(\$ millions) | 2015<br>(\$ millions) |
|--|-----------------------|-----------------------|-----------------------|
| Total number of projects               | 43                    | 69                    | 54                    |
| Programme budget                       | 20                    | 32                    | 31                    |
| Programme financial delivery           | 15                    | 26                    | 23                    |
| Budget of five largest projects        | 9                     | 22                    | 20                    |
| Delivery of five largest projects      | 8.4 (56%)             | 20 (77%)              | 14.5 (63%)            |
| Combined budget of balance of projects | 11                    | 10                    | 11                    |
| Delivery of balance projects           | 6.6<br>38 projects    | 6<br>64 projects      | 8.5<br>49 projects    |

Source: Executive snapshot as at 27 April 2016

- The financial delivery of the five largest projects ranged between 56 to 77 percent from 2013 to 2015, indicating a concentration of delivery in very few projects. Furthermore, total delivery for 49 projects represented 37 percent of total financial delivery in 2015 alone.
- There were three projects that had a cumulative financial delivery of less than \$320,000 in the last 4 years. Two projects that were ongoing for 2 years had a cumulative financial delivery of less than \$350,000 each. Another three projects ongoing for 2 years had a cumulative financial delivery of less than \$200,000 each.

During 2015, the Office had 54 ongoing projects, of which 20 (37 percent) had budgets of less than \$0.5 million. Further, 15 of these 20 projects had budgets of less than \$0.3 million. A large number of projects with relatively low monetary values may increase high transaction costs and require a relatively large number of staff to administer them. This may lead to a focus on transactional processes rather than the substantive/strategic-level priorities of the Office.

The Change Management Team report (July 2015) also stated that additional efficiency gains could be identified through streamlining the Office's programme portfolio, and that considering the costs required for establishing and administering a project, this set-up did not appear to be economically viable. The report also recommended that the Office limit the projects to a total budget of below \$0.5 million.

The Office's management stated that they were aware of this legacy issue that was partially necessitated by the regional programme approach, which allocated small amounts for activities to a number of Country Offices. Management added that the small value projects were considered 'catalytic-type' projects, and would be phased out through attrition. The Office would also be consolidating similar projects under a single project ID.

Operating a large number of projects with low budgets increases the risks of high operating costs, fragmented approaches to development, and inefficient utilization of resources.

|   |                    |
|---|--------------------|
| <b>Priority</b>   | Medium (Important) |
| <b>Recommendation 3:</b>  |                    |
| The Office should streamline its programme portfolio to ensure an effective and efficient programme approach and to reduce administrative costs and enhance efficiency gains.   |                    |
| <b>Management action plan:</b>  |                    |
| At least 15 small value projects will be operationally closed within the year, thus reducing the total number of projects. The Office will start managing projects through a programme approach, and therefore the remaining smaller projects will be consolidated under a single project (award). This should further decrease the total number of projects to about 35. Transactional services of these projects will also be reviewed with the objective of enhancing efficiency and reducing risks. |                    |
| <b>Estimated completion date:</b> December 2016   |                    |

#### **Issue 4**      Cost recovery policy not fully implemented

According to the 'UNDP Programme and Operations Policies and Procedures', direct project costs are organizational costs incurred in the implementation of a development activity or service that can be directly traced and attributed to that development activity (projects and programmes) or service. Therefore, these costs are included in the project budget and charged directly to the project budget for the development activity and/or service, and reflects the true direct costs of achieving the development results and objectives funded from both core and non-core resources.

During 2015, the Office recovered only \$216.80 in direct project costs. Programme staff provided specific support to projects under their portfolios; however, costs related to staff time spent on these projects were not fully recovered. The Office stated that the agreement with the implementing partners for the existing projects did not include the recovery of costs on staff time to projects. Therefore, it was difficult to implement the direct project costs for existing projects. The programme-related costs, such as programme planning and quality assurance and advisory support, were not recovered by the Office. The Office also stated that it was implementing 15 Global Environment Facility-related projects that had restrictions on charging staff time costs. At the time of the audit, the Office had also not undertaken an analysis of programme staff time spent supporting individual projects to determine the applicable direct project costs.

Failure to comply with the corporate cost recovery policy may negatively impact the resources available to support UNDP development efforts.

|  |                 |
|--|-----------------|
| <b>Priority</b>  | High (Critical) |
| <b>Recommendation 4:</b>   |                 |
| The Office, with the support of the Regional Bureau for Asia and the Pacific, should take steps to recover costs for services provided to the projects in accordance with the UNDP cost recovery policy. This should include full recovery of direct project costs based on the staff members' time spent on the project activities.                     |                 |
| <b>Management action plan:</b>   |                 |
| Management indicated that the ability to cost recover for the staff time, aside from the operational costs, from the specific projects is dependent on the Government partner's and donors' acceptance of the charges.   |                 |
| The Office has set up a tracking mechanism to record the staff cost/time and general operating expenses for project-specific activities. The costs incurred in providing services to the projects will be presented to the government partners and donors to show the impact on the budget and to convince them to include these in the project budgets. |                 |
| <b>Estimated completion date:</b> December 2016  |                 |

## B. Programme activities

### 1. Project management

#### Issue 5 Weaknesses in project management

Five projects (Nos. 79145, 65172, 76225, 73428 and 77295) were reviewed with a total expenditure of \$13.5 million, representing 50 percent of the total expenditure totalling \$27 million during 2015. A review of the country programme and project monitoring processes in 2015 disclosed the following weaknesses:

#### (a) Delays in approval of project 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.

According to the Office's monitoring dashboard, the approval of 26 out of 43 annual work plans (60 percent) for 2016 were still pending as of the audit fieldwork. There were also delays in the approval of annual work plans for 2015. Specifically, annual work plans for eight projects had pending approval as at 8 June 2015. The 2015 annual progress reports for three projects noted the negative impact of the delays in the annual work plan approvals. For Project No. 65258, the implementing partner utilized their own funds for some of the activities to avoid delays. For Project No. 59793, the delivery rate was 68 percent only, and the delay in approving the annual work plan was a contributing factor for the low delivery.



The Office explained that the delays were caused by the complex approval procedure at the government level, involving both the implementing partners and the national coordinating agency. A review of the business process related to annual work plan preparation was also reviewed, and the audit noted that the process could be streamlined (see Issue 2).

The lack of timely approval of the project annual work plans may affect project implementation activities, which in turn may negatively impact the delivery of intended outcomes.

(b) Inadequate results and resources frameworks

The 'UNDP Programme and Operations Policies and Procedures' require that projects develop a comprehensive results and resources framework, identify the outputs, indicators, baselines, indicative activities and a budget for each of the activities to be implemented.

There were weaknesses in the project results and resources frameworks, including inappropriate indicators that were not specific, measurable, attainable, relevant and time bound. Furthermore, projects were not using indicators to measure progress towards target results (Projects Nos. 65172 and 77295). Examples of inappropriate indicators included: alternative livelihood activities and/or adjustments in farming; fishing implemented in communities; target communities/households availing risk financing options; and risk financing options developed (Project No. 65172). For Project No. 77295, annual targets were not clearly articulated. The 2015 annual progress report for Project No. 65172 identified weak or missing performance measures and stated, in part, "due to the absence of performance measures/non-quantification of the expected outputs in the project's annual work plans, the physical rate of delivery could not be assessed."

Without properly defined results and resources frameworks, the Office will not be able to assess the progress of the respective projects, account for resources spent on activities, or measure the project's impact.

(c) Weak monitoring practices

The 'UNDP Programme and Operations Policies and Procedures' stipulate that offices should ensure that key results and issues pertaining to project performance are fed into the outcome and programme level monitoring. In addition to this, a detailed programme level monitoring and evaluation plan should be elaborated at the initiation stage for each UNDP country programme.

- The Office's overall monitoring and evaluation strategy was not developed to provide real-time data for assessing the results of its development interventions, accountability for monitoring, data management, analysis and reporting. Only two projects (Nos. 77295 and 65172) had developed project-level monitoring plans. The Office stated that the monitoring plans were included in the project document; however, these plans only provided a reporting mechanism and frequency.
- While field visits were undertaken and documented for Project Nos. 77295 and 79145, no reports were made available for Project Nos. 76225 and 73428. For Project Nos. 65172, the Office provided a checklist-type report. Furthermore, the field visit reports were activity-oriented rather than results-oriented. The Office's monitoring, via a dashboard, was focusing on compliance and quantitative measurements, such as financial delivery, resource mobilization and spot checks. The Programme Unit staff were not adequately involved in substantive monitoring activities because monitoring was viewed to be the responsibility of a consulting firm contracted by the Office to undertake assurance spot checks for implementing partners that received cash advances.



In the absence of adequate monitoring, the Office may not be able to identify issues affecting project progress and address them in a timely manner.

|  |                    |
|--|--------------------|
| <b>Priority</b>  | Medium (Important) |
| <b>Recommendation 5:</b><br><br>The Office should strengthen project management by: <ul style="list-style-type: none"> <li>(a) developing and finalizing annual work plans before the beginning of the new fiscal year;</li> <li>(b) developing results and resources frameworks with clearly articulated baselines, indicators and targets;</li> <li>(c) developing monitoring frameworks for each project, indicating what is to be monitored, who will monitor it, frequency, data collection methods and the resources required for monitoring; and</li> <li>(d) regularly conducting assurance monitoring by the programme staff, and documenting results with applicable follow-up actions.</li> </ul>   |                    |
| <b>Management action plan:</b><br><br><ul style="list-style-type: none"> <li>(a) The Office will issue a calendar for 2017 annual work plan finalization and review points to further streamline the business process for annual work plan approval.</li> <li>(b) As of 13 May 2016, all approved annual work plans have monitoring and evaluation plans that follow the 'UNDP Monitoring and Evaluation Handbook' guidelines. The Management Support Unit will continue to monitor actual implementation.</li> <li>(c) The Office developed a programme monitoring template in September 2015 for assurance monitoring. Programme staff conducting field visits will be required to document their visits and the status of projects and upload these in Atlas.</li> <li>(d) The Office will conduct a Theory of Change workshop in mid-2016 and will continue to conduct results-based management, monitoring and evaluation, and data clean-up workshops with Project Management Units. The Office also plans to develop a portfolio of sector-specific SMART indicators for use by programme teams.</li> </ul> |                    |
| <b>Estimated completion date:</b> January 2017   |                    |
| <b>OAI Response:</b><br><br>OAI acknowledges the actions taken by management; these will be reviewed at a later stage as part of the standard desk follow-up process of OAI.   |                    |

**Issue 6**      Inadequate controls over 'Early Recovery for Areas Affected by Typhoon Haiyan Project'

The largest project directly implemented by the Office during 2014 and 2015 was the Haiyan Project. The Haiyan Project's activities were delivered in partnership with local government, non-governmental organizations, and other United Nations agencies in the region.

The audit reviewed the progress made by the Office in implementing the Haiyan Project activities in 2015 and noted that only about 61 percent of the project budget was expended at year-end, with 20 activities completed, 17 partially implemented, and 4 activities not initiated. The implementation of activities by project component was as follows:

Table 2: Haiyan Project delivery rates in 2015 by project component

| Component  | 2015                    |                              |                  |
|--|-------------------------|------------------------------|------------------|
|  | Budget<br>(\$ millions) | Expenditure<br>(\$ millions) | Delivery<br>Rate |
| Disaster resilient public infrastructure   | 2.9                     | 2.0                          | 69%              |
| Sustainable livelihoods  | 2.2                     | 0.8                          | 36%              |
| Resettlement/Housing   | 1.0                     | 0.7                          | 70%              |
| DRRM and recovery coordination   | 1.0                     | 0.6                          | 60%              |
| Project management   | 1.3                     | 0.8                          | 57%              |
| Waste management   | 0.6                     | 0.13                         | 22%              |
| Technical, vocational, livelihood and estate management training   | 0.4                     | 0.05                         | 13%              |
| Cash for livelihoods   | 0.25                    | 0.2                          | 80%              |
| Community preparedness   | 0.4                     | 0                            | 0%               |
| Access component: such as Rehabilitation of Local Government Units, livelihood stabilization, post-disaster coordination established, capacity-building activities | 3.7                     | 3                            | 78%              |
| <b>Total</b>   | <b>13.7</b>             | <b>8.3</b>                   | <b>61%</b>       |

Source: Project annual report 2015, 2015 annual work plan, and Executive Snapshot (May 2016)

A review of the various reports and discussions identified the following issues, resulting in lower than planned expenditures during 2015:

(a) Weaknesses in implementation of project activities

- Activities of the Office were implemented in the same areas where other United Nations agencies, non-governmental organizations and government institutions were implementing activities. For instance, the training on alternative livelihood skills was delayed due to lack of participants, as a similar training had already been provided earlier by a non-governmental organization. It was not clear whether the Office had undertaken a mapping exercise initially to identify areas where the other organizations were planning to implement, or implementing similar activities to prevent overlapping efforts. The Office stated that effort was made to delineate the geographical sites of the Haiyan Project to ensure complementarity.
- Site identification and infrastructure design took considerable time, thereby delaying the implementation of the infrastructure activities. The Office's management stated that government site clearances were delayed due to various levels of bureaucracy, while the infrastructure design delay was due to the unavailability of technical experts that were to be provided by the donors. It was also not clear whether preparatory work related to construction assessments and soil analysis were undertaken prior to construction.

(b) Weaknesses in project procurement planning

- There were significant delays in the procurement of items for the livelihoods component of the project. Out of a budget of \$2.2 million for 2015, only \$0.8 million was expended. The audit noted that the procurement personnel were not fully engaged in the Haiyan Project's annual work planning process to provide inputs on items planned to procure, including the specifications that needed to be detailed in the procurement request.
- For the livelihood component, the project was procuring many small-value items (less than \$50), such as boiler pots, plastic sealers, small farm animals, and food items, that entailed high transaction costs. This resulted in a protracted procurement process, with some procurement being deferred to 2016. The

Office did not explore other options to procure small-value items, such as outsourcing the activity to a local non-governmental organizations or civil society organizations using available programme instruments (such as micro-capital grants).

- Inadequate funds were allocated for items to be procured, and separate procurement requests were prepared for similar items. As a result, the Office did not benefit from economies of scale. This also resulted in having to refer back to the project and programme cluster on numerous occasions to ensure adequate budget was available, thereby prolonging the procurement process.

While monitoring activities were undertaken and project personnel were taking actions to address procurement delays, it was not clear whether these significant challenges, which were beyond the control of the Project Manager, were escalated to the Project Board for decision-making. The Office stated that these delays were discussed and addressed internally with the support of senior management and other units.

A risk assessment of the procurement capacities in the Office, which was undertaken by Procurement Support Office in February 2016, identified that the interface between projects and the Procurement Unit was the key bottleneck, and contributed to the issue of incomplete specifications and inaccurate cost-estimation leading to delays and tender cancellations. The Procurement Support Office also identified the need to strengthen the contract management capacity in the projects to ensure consistent monitoring of service delivery and terms and conditions.

A joint workshop between the Programme Unit and Procurement Unit was held in March 2016 to discuss the procurement challenges. Aside from enhancing coordination and understanding of respective roles, procurement plans for the 2016 annual work plan were also drafted collectively among programme and operations teams.

The Haiyan Project had the largest impact on the overall Office delivery in 2015. Other factors that impacted the project's performance included inclement weather for most of 2015, and donor delays in approving revised activities.

Subsequent to the audit, the Office instituted financial and assurance monitoring measures, and developed guidelines for the use of micro-capital grant agreements as alternative implementation modalities. A mid-year Project Board meeting was planned to monitor progress and to discuss or address major issues requiring the Project Board's approval.

Projects that are not adequately planned and managed may not achieve their intended results.

| Priority   | High (Critical) |
|--|-----------------|
| <b>Recommendation 6:</b>   |                 |
| The Office should enhance controls over the 'Early Recovery for Areas Affected by Typhoon Haiyan Project' by ensuring the following:   |                 |
| <ul style="list-style-type: none"> <li>(a) programme and operations staff are included in the annual planning process to provide guidance where relevant, and to have a common understanding of the expectations;</li> <li>(b) alternative implementation instruments such as micro-capital grants with local entities are used in the procurement of small-value items;</li> <li>(c) project budgets are based on realistic estimates to ensure planned procurements are well resourced; and</li> <li>(d) project delays beyond the control of the Project Manager are escalated to the Project Board.</li> </ul> |                 |

**Management action plan:**

The Office acknowledged the observations and recommendations.

**Estimated completion date:** September 2016

**Issue 7**      Delayed project closure

The 'UNDP Programme and Operations Policies and Procedures' require that operationally closed projects be financially closed within 12 months of operational closure. Any residual balances should be cleared within this time frame to enable the financial closure of projects. Furthermore, projects that have ended should be operationally closed in Atlas.

The Office's programme portfolio included 17 projects that were operationally closed between 2010 and 2014; however, they had not been financially closed as of the date of the audit. Further, there were 12 projects with end dates ranging from 2007 to 2014 that had not been operationally closed in Atlas.

The Office indicated that they had financially closed 149 projects between 2007 and 2015. However, they were unable to financially close the 17 projects because of pending donor balances, open audit observations, and pending asset transfers. They added that they were in the process of clearing these issues.

Projects not closed timely may face the risk of inappropriate or unapproved charges being made against them.

|   |                    |
|---|--------------------|
| <b>Priority</b>   | Medium (Important) |
| <b>Recommendation 7:</b>  |                    |
| The Office should ensure financial closure of the 17 operationally closed projects and operational closure of 12 ended projects within a specified deadline.  |                    |
| <b>Management action plan:</b>  |                    |
| The Office stated that all 12 projects had been operationally closed, while 9 of the 17 operationally closed projects had been financially closed. The Office will continue implementing its closure action plan to ensure closure of the remaining projects. |                    |
| <b>Estimated completion date:</b> December 2016   |                    |
| <b>OAI Response:</b>  |                    |
| OAI acknowledges the actions taken by management; these will be reviewed at a later stage as part of the standard desk follow-up process of OAI.  |                    |

## C. Operations

### 1. Finance

#### Issue 8 Delays in liquidating project cash advances

The 'UNDP Programme and Operations Policies and Procedures' provide that project cash advances must be closed and fully accounted for within seven days following the conclusion of the one-time project activity and that new cash advances are not to be paid prior to liquidation of previous cash advances. The project cash advance guidelines indicate that there are inherent security and financial risks of carrying cash. Hence, offices should seek alternative options to reduce cash payments.

The last audit of 'Support to Typhoon Recovery and Resilience in the Visayas' undertaken by OAI in 2014 reported weaknesses in the management of project cash advances (Report No. 1412, Recommendation No. 5). In the current audit, improvements were noted in the management of project cash advances, such as the appointing of cash custodians, conducting spot checks and cash counts, entrusting some project cash advances to Finance Unit staff instead of project staff, continuous follow-up regarding unliquidated project cash advances, and ensuring that all project cash advances paid in 2015 were cleared by year-end.

However, control weaknesses were still noted, as follows:

- (a) There were delays in liquidating 20 out of the 30 project cash advances reviewed. Of the 20, 7 cash advances totalling \$156,000 were liquidated more than 100 days after the conclusion of the project activities. The remaining 13 cash advances were liquidated between 30 and 100 days after the conclusion of the project activities.
- (b) The Office released 8 out of 30 project cash advances, although previous cash advances were not yet liquidated.

The Office clarified that the delays in liquidation were due to slow transmittal of documents or incomplete supporting documents resulting in holding the liquidation in the system until submission of full documentation.

OAI noted reduced levels of cash advances totalling \$0.5 million for the period from January 2015 to March 2016 as compared to \$4.4 million for the period 30 November 2013 to 31 July 2014. However, given the inherent risks with cash payments, the Office should explore further options to reduce the project cash advances.

The above weaknesses occurred mainly due to the Office not establishing adequate procedures to ensure prompt liquidation of long-outstanding advances and to ensure new advances were not granted unless previous advances were cleared.

Inadequate controls in managing project cash advances may result inappropriate use of cash advances, which could lead to financial losses for UNDP.

|   |                 |
|---|-----------------|
| <b>Priority</b>   | High (Critical) |
| <b>Recommendation 8:</b>  |                 |
| The Office should further enhance controls over project cash advances by: |                 |

- (a) establishing specific procedures to ensure liquidation of project cash advances seven days after completion of the project activities and avoiding releasing cash advances until previous advances are fully liquidated; and
- (b) exploring options to further reduce the level of project cash advances.

**Management action plan:**

- (a) The Office agreed to ensure prompt liquidation of cash advances by maintaining a ledger in the Finance Unit to monitor the project cash advance activity's completion date. Periodic reminders will be sent, with clear consequences for amounts not liquidated within the required time frame.
- (b) During the lessons learned workshop conducted in March 2016, the Programme, Procurement, and Finance Teams identified the items and vendors for which the services/goods will be contracted by the Procurement Unit and paid through electronic fund transfer or cheque. This will minimize the items and amounts for which the project cash advances will be made.

**Estimated completion date:** 30 June 2016

## 2. Procurement

### Issue 9 Weaknesses in procurement management

- (a) Inadequate controls over receipt of procurement offers

The 'UNDP Programme and Operations Policies and Procedures' require procurement to be conducted in a manner that is fair and competitive. Therefore, the offers submitted by vendors should be kept secure until all offers are simultaneously opened at a designated time and place.

There were inadequate controls over the receipt of manual offers from vendors. The offers were received by the Office Registry and forwarded to the Procurement Unit. There were inadequate controls to ensure that all offers received by the Office Registry were delivered to the Procurement Unit and considered for procurement. There was a risk that all offers may not have been registered and/or forwarded to the Procurement Unit. Further, the integrity of the proposals may have been compromised through unauthorized opening and tampering.

- (b) 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.

The review of 35 procurement transactions disclosed the following weaknesses:

- The procurement process for hiring a Programme and Database Consultant with a budget of \$109,000 was initiated in August 2015. However, the procurement had not been completed as of April 2016. The main reason for the delay was the requesting unit took three months to evaluate the offers, which normally should have taken a maximum of one week only.

- The procurement of an information technology system valued at \$67,000 took approximately six months. According to the Office, there was a budget limitation. There was also a delay at the project level in reaching a decision on the offers received.
- Even though there was a corporate Long-Term Agreement to provide the services identified in the Terms of Reference, the Office decided to go through a competitive procurement process in hiring a consultant under an individual contract, which took 100 days and ended without success. Subsequently, the Office decided to use the corporate Long-Term Agreement, which could have been used in the first place.
- Another procurement for a consultancy service with a budget of \$9,000 took around 120 days to complete. There was no clear justification for the protracted process, except that the offers received were higher than the budget by 14 percent. In OAI's view, the process and time spent by the requesting unit and the Procurement Unit could have been avoided if the allocated amount was revised, as the variance was not significant.

The delay in completing the procurement process may negatively affect the achievement of project outputs.

(c) Procurement processes without e-requisitions

The Internal Control Framework requires that all procurement activities (except for non-travel transactions below \$2,500) commence with a requisition. Furthermore, all project requisitions must be entered in the Atlas e-procurement module and be approved by the respective Project Managers.

The audit noted that for over 220 procurements, e-requisitions and purchase orders were raised in Atlas on the same day. According to the Procurement Unit, a printed procurement request form was used to initiate the procurement. The e-requisitions were created only after the evaluation and selection of vendors was completed or after the procurement commitment was agreed with vendors.

The Programme Support Unit conducted a risk assessment of the procurement function in the Office in February 2016. The assessment, which mainly focused on the Haiyan Project, also noted the issue of using manual procurement requests as a substitute for e-requisitions. The Office's management indicated they were in the process of establishing an e-tendering system, which was expected to be completed by August 2016.

Since the available budget for procurement was not determined through the creation and approval of e-requisition, there is a risk that the Office may not be able to meet its commitment with vendors due to insufficient budget.

|  |                    |
|--|--------------------|
| <b>Priority</b>  | Medium (Important) |
| <b>Recommendation 9:</b>   |                    |
| The Office should enhance controls over the procurement processes by:  |                    |
| <ul style="list-style-type: none"> <li>(a) establishing procedures for proper receipt of offers from the vendor, which could include installing a dedicated locked box for the bids received;</li> <li>(b) ensuring proper coordination between the Procurement Unit and requesting units on the procurement budget to ensure procurement processes are completed in a timely manner; and</li> <li>(c) raising e-requisitions in Atlas as an initial step in the procurement process.</li> </ul> |                    |



**Management action plan:**

- (a) The Office will continue to encourage bidders to submit their offers electronically using the current procedure, and shall endeavor to rollout the e-tendering where feasible. The registration of bids will be reconciled with the actual envelopes that the Procurement Unit will receive. A secured room for the safekeeping of bids received is included in the revised floor plan to be implemented by the Office.
- (b) The Procurement Unit will continue to work with the requesting units to find solutions to ensure that the budgets for the goods and services being procured are reflective of the market prices and the specifications are prepared in consideration of the requirements of the project as well as the budget available.

**Estimated completion date:** September 2016

### 3. Human resources

**Issue 10**      Weaknesses in human resources management

(a) Excessive leave balances

The 'UNDP Programme and Operations Policies and Procedures' require staff members to avail themselves of their leave within the period in which it is earned, subject to the exigencies of service. Further, staff members forfeit leave balances exceeding 60 days by 1 April of each year.

- As of 31 March 2015, 20 out of 35 local staff members (57 percent) forfeited their leave balances in excess of 60 days.
- As of 29 February 2016, there were 19 staff members that had leave balances of more than 60 days, of which 12 had leave balances of over 70 days. The Office indicated that there were staff members who had taken leave before the end of March 2016; however, supporting evidence was not provided.

There is a risk that forfeited leave may negatively impact staff morale. In addition to staff members' health concerns, there is a risk that staff who do not avail themselves of leave may be involved in inappropriate activities.

(b) Delays in completing Performance Management Development process

The 'UNDP Programme and Operations Policies and Procedures' require staff members and supervisors to complete the Performance Management and Development (PMD) process within established deadlines, including key results and supervisor's assessment of their staff performance for the covered period.

As of April 2016, PMDs for 23 out of 37 staff members (62 percent) were not completed for the period from February 2015 to January 2016. Further, only 1 out of 37 staff members (3 percent) had completed the PMD key results for the period February 2016 to January 2017, while the remaining 36 had either not started their key results or still in progress.

Subsequent to the audit mission, the Office informed that 2015 PMDs for 6 staff members were only pending, and the key results for 10 staff members were approved by the relevant supervisors.

Failure to complete staff assessments timely, may lead to performance issues and staff capacity gaps not being addressed.

(c) Mandatory training courses not completed

The 'UNDP Programme and Operations Policies and Procedures' require all staff to complete mandatory training courses in the Learning Management System, including safety and security courses for service contract holders.

Office staff made significant progress in completing mandatory courses. As of April 2016, 34 out of 37 (92 percent) staff members had completed all mandatory courses. However, none of the 24 service contract holders had completed the mandatory safety and security training courses. Subsequent to the audit mission, the Office reported that two more staff members had completed the mandatory courses and 23 service contract holders had completed the safety and security training courses.

The delay in completing the mandatory training courses increases the risk that staff members and service contract holders may not be able to perform their duties in accordance with UNDP policies and procedures.

|  |                    |
|--|--------------------|
| <b>Priority</b>  | Medium (Important) |
| <b>Recommendation 10:</b><br><br>The Office should ensure compliance with the 'UNDP Programme and Operations Policies and Procedures' on human resources management by: <ul style="list-style-type: none"> <li>(a) directing staff members to prepare and agree on their leave plans with their supervisors in order to avoid forfeiting leave entitlements;</li> <li>(b) completing the 2015 PMD assessments and 2016 PMD key results within the required time frame; and</li> <li>(c) establishing a time frame for the staff members and service contract holders to complete the mandatory courses.</li> </ul> |                    |
| <b>Management action plan:</b><br><br>The leave and travel plans are included in the management dashboard, which is discussed during the regular Management Team Meeting. Team Leaders supervising staff members with leave balances in excess of 62.5 days are reminded to encourage staff to schedule and take their leave.  |                    |
| <b>Estimated completion date:</b> <ul style="list-style-type: none"> <li>(a) Ongoing – presented at every Management Team Meeting, which is held every two weeks</li> <li>(b) Completion of 2015 PMDs - May 2016; completion of 2016 PMD keys results - June 2016</li> <li>(c) Completion of mandatory training by staff members and service contract holders - June 2016</li> </ul>   |                    |
| <b>OAI Response:</b><br><br>OAI acknowledges the actions taken by management; these will be reviewed at a later stage as part of the standard desk follow-up process of OAI.   |                    |

## 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.