

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



*Empowered lives.  
Resilient nations.*

**AUDIT**

**OF**

**UNDP COUNTRY OFFICE**

**IN**

**SENEGAL**

**Report No. 1712**  
**Issue Date: 16 December 2016**

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## Report on the Audit of UNDP Senegal Executive Summary

The UNDP Office of Audit and Investigations (OAI) conducted an audit of UNDP Senegal (the Office) from 11 to 22 July 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 (leadership, corporate direction, corporate oversight and assurance, corporate external relations and partnership);
- (b) programme (quality assurance process, programme/project design and implementation, knowledge management);
- (c) operations (financial resources management, ICT and general administrative management, procurement, human resources management, staff and premises security); and
- (d) United Nations leadership and coordination.

The audit covered the activities of the Office from 1 January 2015 to 30 April 2016. The Office recorded programme and management expenditures of approximately \$51 million. The last audit of the Office was conducted by OAI in 2011.

In June 2016, OAI, through Moore Stephens LLP, conducted an audit (covering financial transactions as well as internal controls and systems) of the *Programme d'urgence de Développement Communautaire* (PUDC) project. That audit covered the period from 1 January to 31 December 2015. The audit firm rendered an unqualified opinion to the financial statements. There were internal control weaknesses noted related to the management of individual contracts, human resources, supporting documentation and filing of transactions, and Treasury management. The audit firm assessed the project internal controls as partially satisfactory. It should be noted that the audit firm reviewed the internal controls pertaining to transactions processed in 2015 only, while the current audit covered 2015 and first four months of 2016. Therefore, the current audit also covered the implementation of activities and transactions processed in 2015.

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 payment processes, deficiencies in the procurement and management of civil works, and improper contracting of a vendor for the supply of agricultural equipment.

**Key recommendations:** Total = 13, high priority = 4

Objectives	Recommendation No.	Priority Rating
Achievement of the organization's strategic objectives	1, 2, 3, 5, 7	Medium
Reliability and integrity of financial and operational information	4, 8	Medium
Effectiveness and efficiency of operations	6	High
	13	Medium
Compliance with legislative mandates, regulations and rules, policies and procedures	12	Medium
	9, 10, and 11	High

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:

**Weakness in payment process (Issue 6)**

The Office had 425 cancelled and reissued vouchers with a total value of \$4 million. This was made up of 155 cancelled and unpaid vouchers amounting to \$0.3 million and 270 reissued and paid vouchers amounting to \$3.7 million. The audit team reviewed a sample of 30 cancelled vouchers amounting to \$1.7 million and noted that the reason for the high number of cancelled vouchers was the weak capacity of the finance staff processing the vouchers and the lack of proper guidance provided to the staff. Also, there was no interface between Atlas (enterprise resource planning system of UNDP) and the local bank in the Country because the banking system could not read the Universal File Format (UFF) files extracted from Atlas.

**Recommendation 6:** The Office should strengthen the management of the payment process by: (a) implementing measures to reduce the number of payment cancellations, such as providing proper guidance and training to staff members to avoid human errors that cause payment cancellations; (b) directing staff to properly complete the request for payment cancellation form, including properly documenting the reasons for payment cancellations; and (c) conducting a survey with the aim to identify if another local bank can provide the Office with better services.

**Deficiencies in procurement and management of civil works (Issue 9)**

The audit team visited 6 out of 22 civil works projects managed by the Office and noted weaknesses. Specifically, two of six sites visited related to the construction of water towers and security lodge that were reported as 100 percent completed. However, the field visits disclosed that the work was still in progress. The audit team also noted delays for two of six sites visited related to the drilling works of the PUDC project and the construction of roads. However, contracts were not amended to reflect the delays. Also, the vendor was already working on the additional work that was not included in the original contract for road construction during the OAI field visit in July 2016. The additional work was contracted by a post-facto amendment to the contract in September 2016 and it increased the price by \$76,000 (8.5 percent of original contract price).

In addition, the review of the evaluation and awarding process for the construction of 80.3 km of roads disclosed that proposals received were not fully compliant with the Request for Proposal, that there were unwarranted rejections of bids, and that the awarded vendor was not fully compliant with the Invitation

to Bid.

Recommendation 9: The Office should strengthen management and monitoring of civil works contracts by: (a) properly assessing work completion; (b) amending the civil works contracts with updated dates when delays are noted prior to the additional work; and (c) clearly specifying milestones in the civil works contracts so the completion rate reported in the minutes could be easily aligned to them.

Recommendation 10: The Office should enhance the process of procuring civil works by: (a) complying with the comments from the Advisory Committee on Procurement (ACP) for future bidding processes; and (b) using bidding conditions aligned to market conditions.

Improper contracting of vendor for the supply of agricultural equipment (Issue 10)

For one Invitation to Bid case amounting to \$2.8 million for the supply of road wheel harvesters, the second lowest priced technically responsive vendor was awarded the contract based on the arguments that the equipment brand offered by the lowest priced bidder (procured by the beneficiary during an earlier procurement process) had unfavourable user feedback and poor performance issues. OAI noted that the decision was not based on technical assessments by specialized engineers, but was mainly based on verbal feedback from farmers stating several problems with the equipment.

Recommendation 11: The Office should strengthen procurement management by providing all relevant information for ACP review.

### Management comments and action plan

The UN Resident Coordinator and UNDP Resident Representative accepted 10 out of the 13 recommendations and is in the process of implementing them. Comments and/or additional information provided had been incorporated in the report, where appropriate.

Issues with less significance (not included in this report) have been discussed directly with management and actions have been initiated to address them.

The three recommendations were not agreed upon and the Director, Regional Bureau for Africa, accepted the risk of not taking action on the issues identified (refer to issue 9, recommendations 9 and 10; and issue 10, recommendation 11).



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## I. About the Office

The Office is located in Dakar, Senegal (the Country). The Office had 49 staff members, 16 service contract holders and 6 United Nations Volunteers (UNV) at the time of the audit. The United Nations Development Assistance Framework (UNDAF) 2012-2016 had been extended for another two years (2016-2018). The UNDAF for the Country was based on three national priorities, namely, (i) modernization of the agricultural sector under rural development, (ii) social development, and (iii) improving economic governance, judicial, public and local administration. The Office was working in partnership with the Government and was playing an active part in harmonizing the efforts of all the United Nations agencies active in the Country. The Government was fully funding the PUDC project, which was the largest project being managed by the Office in the Country.

## II. Audit results

Satisfactory performance was noted in the following areas:

- (a) Information and communication technology and general administration. The information and communication technology systems managed by the Office, including hardware, software, systems security, and the disaster recovery mechanisms were adequately operating. Also, general administration internal controls were generally well established and functioning adequately. The management of assets was found to be in line with the UNDP policies and procedures and no reportable issues were identified.
- (b) Staff and premises security. According to the UNDSS website, the Country was at security level 2 (Low). The Country's Security Plan was last updated on 23 March 2016. The Security Risk Assessment was endorsed on 8 July 2015. The Office was 97 percent compliant with the Minimum Operating Security Standards (MOSS). The Business Continuity Plan was last updated in March 2016 and evacuation drill testing was conducted in June 2016.
- (c) Human resources management. Adequate controls were established in human resources management. The review of recruitment and separation processes did not identify any reportable issues. Identified low priority issues were discussed with management during the fieldwork and the exit meeting and additional information received was verified by the audit team.

OAI made four recommendations ranked high (critical) and nine recommendations ranked medium (important) priority. Low priority recommendations were discussed directly and agreed upon with the Office and are not included in this report.

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

- (a) Strengthen management and monitoring of civil works contracts (Recommendation 9).
- (b) Enhance the process of procuring civil works (Recommendation 10).
- (c) Strengthen procurement management (Recommendation 11).
- (d) Strengthen the management of the payment process (Recommendation 6).

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

- (a) Undertake measures to address the legal risks related to contracts signed with consortiums (Recommendation 12).
- (b) Communicate with the Bureau for Management Services for guidance on the possibility of using the provision of a building as a substitute for GLOC (Recommendation 1).
- (c) Establish a detailed exit strategy for the PUDC project (Recommendation 3).



- (d) Obtain the approval of the Office of the Administrator and the Regional Bureau on the 'UNDP Policy and Procedures for Engagement on National Salary Supplementation Schemes and National Salary Payment Schemes' (Recommendation 4).
- (e) Enhance project monitoring framework for the PUDC project (Recommendation 5).
- (f) Sign Service Level Agreements for services provided to the United Nations agencies (Recommendation 7).
- (g) Ensure that purchase orders are raised in Atlas in compliance with the 'UNDP Programme and Operations Policies and Procedures' (Recommendation 8).
- (h) Implement the Harmonized Approach to Cash Transfer modality (Recommendation 13)
- (i) Seek guidance from the Regional Bureau and/or the Legal Office relating to the cost-sharing agreement for the PUDC project (Recommendation 2).

The detailed assessment is presented below, per audit area:

## **A. Governance**

### **Issue 1**      Government Contributions to Local Office Costs outstanding since 2010

In accordance with the provisions of the Standard Basic Assistance Agreements (SBAA) that govern UNDP operations in programme countries, host governments are expected to contribute towards operating and staffing costs of Country Offices on an annual basis. These are referred to as Government Contributions to Local Office Costs (GLOC), and are calculated on an annual basis. The contributions can be monetary or in kind. The amounts to be paid are adjusted based on the country's economic development category. Articles 5 and 6 of the SBAA signed between UNDP and the Country clearly differentiate the monetary and non-monetary contributions.

Total outstanding GLOC from 2010 to 2015 amounted to nearly 925,960,267 FCFA (US \$1.5 million). The review of records made available to the audit team disclosed that the Office sent a total of five letters to the Government between 2012 and 2016 following up on the outstanding GLOC. In January 2014, the Office received a letter from the Government acknowledging the outstanding GLOC from 2010 to 2012 amounting to \$1 million and informed the Office that the Government would process the payment. However, the GLOC payment remained outstanding.

According to the Office, the Government made efforts by providing UNDP with a building for the Regional Office. Also, it was expected that the Government would build a 'United Nations City'. The Government may provide facilities as in-kind contributions; however, in-kind contributions cannot fully substitute monetary contributions, according to the SBAA.

Outstanding GLOC may decrease the amount of operational resources available to the Office for programme implementation and may have a negative impact on the delivery of activities.

<b>Priority</b>	Medium (Important)
<b>Recommendation 1:</b>	
The Office should, in consultation with the Regional Bureau, communicate with the Bureau for Management Services for guidance on the possibility of using the provision of a building for the Regional Office as a substitute for Government Contributions to Local Office Costs.	

**Management action plan:**

The Office will communicate with the Bureau for Management Services in consultation with the Regional Bureau for Africa to explore how to implement the recommendation.

**Estimated completion date:** June 2017

## B. Programme

### Issue 2 Lack of government cost-sharing agreement for PUDC project

Government cost-sharing refers to programme governments' national resources contributed towards a UNDP programme or project. As per UNDP Financial Rule 107.02, "Cost-sharing contributions shall be set forth in the Project Document and/or in an agreement with the contributing party. These contributions shall be due in advance of the related commitments and disbursements according to a schedule of payments agreed to in writing by UNDP."

There was no cost-sharing agreement signed with the Government for the PUDC project to define the legal framework of the government contributions and the disbursement schedule. The cost-sharing agreement had the signature of the Office's senior management only. The Office indicated that the signed agreement was not received from the Government.

The Office explained that the government contributions were committed through the Project Document and the Government considered that signing the Project Document was sufficient to process disbursements of funds. However, the Project Document did not contain the mandatory legal clauses of a cost-sharing agreement and a detailed schedule of payments. Furthermore, the Project Document stipulated that the detailed disbursement schedule would be included in a separate agreement.

The lack of a cost-sharing agreement may result in the lack of a legal framework that would regulate the relationship between the Office and the Government.

<b>Priority</b>	Medium (Important)
<b>Recommendation 2:</b>	
The Office should seek guidance from the Regional Bureau and/or the Legal Office relating to the cost-sharing agreement for the PUDC project that the Government did not sign. This may include obtaining clearance to amend the Project Document to incorporate the cost-sharing agreement clauses as an alternative option.	
<b>Management action plan:</b>	
Regarding the PUDC, the Government cost-sharing document was drafted, discussed and submitted for signature to the Government. It should be noted that despite the absence of this financing agreement duly signed by the Government, the current payment of contributions allow the Office to honor its commitments in a timely manner.	
<b>Estimated completion date:</b> December 2016	



### OAI Response

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 3 Incomplete exit strategy plan for PUDC project

The 'UNDP Programme and Operations Policies and Procedures' indicate that national implementation is standard for programme activities, and direct implementation by UNDP is an option in situations when national institutions, United Nations agencies, or civil society organizations have limited capacity to implement the programme activities. Offices should establish an exit strategy at the design stage of any directly implemented project.

One of the six projects reviewed were directly implemented by UNDP (i.e. the PUDC project since February 2015). Based on the review of records made available to the audit team, the exit strategy with the following important details had not been established for the PUDC project:

- (a) identifying the national entity to which UNDP would later hand over the implementation of the projects;
- (b) identifying the areas where capacity-building should be strengthened;
- (c) providing the details of the required activities to strengthen the national entity's capacity in order to be ready to take over the implementation of the projects;
- (d) determining the expected transition period; and
- (e) developing a transition plan with targets and milestones.

In response to the draft audit report, the Office indicated that preparing an exit strategy was one of the requisites for the Regional Bureau to approve direct implementation of the project. The Office indicated that the strategy included capacity-building of beneficiaries, developing and disseminating tools, and fully involving the beneficiaries throughout the life of the project. The exit strategy was embedded in all UNDP projects. However, OAI could not identify the above points embedded in the Project Documents.

By not establishing a detailed exit strategy, the sustainability of the activities related to the projects is at risk.

<b>Priority</b>	Medium (Important)
<b>Recommendation 3:</b>	
The Office should establish, in collaboration with the Government, a detailed exit strategy for the PUDC project. This should include identifying the national entity, identifying the areas needing capacity-building and the required activities, determining the transition period, and developing a transition plan with targets and milestones.	
<b>Management action plan:</b>	
The Office takes note of the OAI recommendation and underlines the fact that elements of an exit strategy are being applied along the PUDC implementation. In addition to the existing exit strategy, the Office will engage in discussions with the Government to develop a detailed one towards the strengthening of national capacity and the sustainability of the PUDC.	

**Estimated completion date:** June 2017

**Issue 4**      No headquarters approval for providing salary supplements to government officials

Direct payments to government officials for additional work on development projects may be acceptable in well-defined exceptional circumstances, provided that specific conditions are met, as stipulated in the 'UNDP Policy and Procedures for Engagement on National Salary Supplementation Schemes and National Salary Payment Schemes'. Such an engagement requires the approval of the Office of the Administrator and the Regional Bureau concerned.

Upon the request of the Government, starting from May 2015, the Office paid salary supplements amounting to \$52,931 to six government officials in relation to the PUDC project. Also, the Project Document stipulates the payment of salary supplements can be made to a National Director (government official) appointed by the Government that acts as the focal point for the project. However, the salary supplements were neither authorized by the Office of the Administrator nor by the Regional Bureau concerned.

The Office indicated that it submitted a request to the Regional Bureau to obtain the approval for the payment to government officials. However, the audit disclosed that the request was only submitted to the Bureau for Management Services instead of the Regional Bureau and the Office of the Administrator.

The lack of approved salary supplements may result in the improper use of funds and may have a negative impact on the reputation of the Office.

<b>Priority</b>	Medium (Important)
<b>Recommendation 4:</b>	
The Office should obtain the approval of the Office of the Administrator and the Regional Bureau on the 'UNDP Policy and Procedures for Engagement on National Salary Supplementation Schemes and National Salary Payment Schemes' clearly indicating the mechanism for calculating the level of salary supplements. The Office should discontinue the payment scheme if approval is not obtained.	
<b>Management action plan:</b>	
Headquarters did not approve the request. Consequently, the Office discontinued the payment scheme. The Office had discussions with the Government to cover these costs directly from their end.	
<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.	

## Issue 5 Weak monitoring framework for PUDC project

According to the 'UNDP Programme and Operations Policies and Procedures', the purpose of monitoring is to improve development effectiveness and efficiency through reviewing performance, and using evidence to adjust programming for optimal results. Good monitoring starts with good planning and clear identification of what a programme or project will strive to achieve with specified resources.

According to the Project Document, the PUDC project should be contributing to UNDP Strategic Plan development outcome 1, "Growth and development are inclusive and sustainable, incorporating productive capacities that create employment and livelihoods for the poor and excluded" and outcome 3, "Countries have strengthened institutions to progressively deliver universal access to basic services." The below weaknesses were noted:

- The outputs under these two outcomes were not defined.
- Only 3 out of 44 performance indicators could be directly linked to the UNDP Strategic Plan Integrated Results and Resources Framework indicators.
- The 44 indicator baselines were not set up.
- Only 5 out of the 44 indicators contained defined targets.
- The sources and the means of verifying the 44 indicators were not defined.

At the time of the audit, OAI acknowledged that the Office hired a Monitoring and Evaluation Officer for the PUDC projects who was working on setting up a comprehensive monitoring and evaluation plan. In response to the draft audit report, the Office shared with OAI the draft monitoring and evaluation plan.

This situation would make it difficult to assess and quantify the contribution of the PUDC to the UNDP Strategic Plan 2014-2017 and therefore difficult to justify the resources used for the outcome.

Priority	Medium (Important)
<b>Recommendation 5:</b>	
The Office should enhance the monitoring framework for the PUDC project by:	
(a) setting up a comprehensive monitoring and evaluation plan for the PUDC project, including clearly establishing the project outputs, baselines, and targets, and providing the source and means of verifying the 44 indicators; and	
(b) amending the Project Document by incorporating the new monitoring and evaluation plan.	
<b>Management action plan:</b>	
The Office has set up a monitoring and evaluation framework for the PUDC project and provided the audit team with the required evidence.	
<b>Estimated completion date:</b> December 2016	
<b>OAI Response</b>	
The recommendation is to incorporate the monitoring and implementation framework into the Project Document. OAI will assess the implementation upon receipt of a signed version of the Project Document.	

## C. Operations

### 1. Financial resources management

#### Issue 6 Weaknesses in payment process

##### A. Large number of cancelled payments

Cancelling a payment in Atlas is normally done in cases when the payment is rejected/returned by the bank (i.e., the payment needs to be reprocessed or in case of a cancelled cheque, the payment needs to be cancelled permanently). If the payment needs to be reprocessed, the related voucher is put on hold in Atlas and can be reissued once the reason for the rejection of the payment has been addressed. When a payment is cancelled, Atlas will create a correction entry cancelling the earlier created payment entry.

During the audit period, the Office had 425 cancelled and reissued vouchers with a total value of \$4 million. These were made up of 155 cancelled and unpaid vouchers amounting to \$0.3 million and 270 cancelled, reissued and paid vouchers amounting to \$3.7 million.

The audit team reviewed a sample of 30 cancelled vouchers amounting to \$1.7 million and noted that the main reason for having such a high number of cancelled vouchers in the Office was weak capacity of the finance staff processing the vouchers and the lack of proper guidance provided to the staff. The errors were discovered only after payment vouchers were created in Atlas.

In order to keep track of these cancellations and avoid any misuse of funds, the Office developed a document called 'Request for payment cancellation'. The document seemed to be a good tool for monitoring the cancelled payment but not for improving the payment process and limiting the number of cancellations. Nevertheless, there were several weaknesses with the document and with the process, as follows:

- (a) The document did not include a clear reason for a voucher cancellation and was not supported by any documentation. This information could have helped in analysing and addressing the underlying reason for the voucher cancellation.
- (b) The cancel action section of the tool was not properly used by the requester, as it included three options: reissue, put on hold, or do not issue. The requester did not pay attention when selecting the proper action required following the cancellation of the voucher.
- (c) In 18 out of the 30 cases reviewed, the document only included the approver's signature without a name and function, which made it difficult to determine who was authorizing the cancellation of vouchers.

##### B. Absence of electronic interface between Atlas and the local bank

According to the 'UNDP Programme and Operations Policies and Procedures', Country Offices may establish electronic interfaces between Atlas and local banks where local banks have electronic banking capabilities. Country Offices are responsible for maintaining such established local interfaces.

There was no interface between Atlas and the local bank in the Country because the banking system could not read the UFF files extracted from Atlas. After completing the paycycle in Atlas, the Office was manually preparing requests for money order payments for each transfer approved in Atlas. After senior management approved the

request for money orders, they were delivered to the bank for processing. The Office was using the e-banking facility only to view the account balances and transactions.

In response to the draft report, the Office indicated that Treasury was coordinating with the bank to determine other ways to proceed with the electronic payments without compromising data integrity. The bank would submit a proposal to address the interface issue, which would be reviewed by Treasury. The Office also indicated that it had considered all possible options with the local bank and the only option remaining was to change the bank. The audit team noted that the Office had not conducted a survey to determine if other banks could provide better services.

Having large numbers of payment cancellations and processing manual payments is not efficient. Also, these may lead to the misuse of funds and to financial losses for UNDP.

<b>Priority</b>	High (critical)
<b>Recommendation 6:</b>	
The Office should strengthen the management of the payment process by:	
<ul style="list-style-type: none"> <li>(a) implementing measures to reduce the number of payment cancellations, such as providing proper guidance and training to staff members, to avoid human errors that cause payment cancellations;</li> <li>(b) directing staff to properly complete the request for payment cancellation form, including properly documenting the reasons for payment cancellations; and</li> <li>(c) conducting a survey with the aim to identify if another local bank can provide the Office with better services.</li> </ul>	
<b>Management action plan:</b>	
<ul style="list-style-type: none"> <li>(a) &amp; (b) The Office takes note of this recommendation for which it has already implemented.</li> <li>(c) Following the consultation with the Bureau for Management Services, the survey is no longer required given that the Bureau for Management Services through the bank used by UNDP HQ is in consultation with the local bank for the implementation of other payment options.</li> </ul>	
<b>Estimated completion date:</b>	
<ul style="list-style-type: none"> <li>(a) &amp; (b) implemented</li> <li>(c) September 2017</li> </ul>	
<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.	

#### **Issue 7**      Service Level Agreements with other United Nations agencies not established

The 'UNDP Programme and Operations Policies and Procedures' state that a Service Level Agreement is required to stipulate conditions for the provision of a specific set of business operations/services from UNDP to another United Nations agency. A local Service Level Agreement with each agency should be signed to clarify service

provision levels and corresponding expectations, such as timelines for service completion. Furthermore, a Service Level Agreement is a formal agreement between two or more parties that articulates the terms and conditions of a particular service relationship. Governance processes, oversight and monitoring of service levels ensure that services provided meet client expectations.

The Office was providing finance, procurement, human resources and general administration services to over 20 United Nations agencies. The audit team noted that Service Level Agreements were signed with only two agencies. A memorandum of understanding was signed with one of the United Nations agencies in 2011; however, it did not include all of the required details, as described above.

In addition, the Office did not recover all costs associated with providing services to these agencies. At the time of the audit, there was an outstanding amount of \$47,825 that had yet to be recovered from the United Nations agencies for services provided between 2014 and 2016.

In response to the draft audit report, the Office shared Service Level Agreements signed with two United Nations agencies. However, these Service Level Agreements expired in 2014.

Without signed Service Level Agreements, disagreements or conflicts may arise between UNDP and other agencies in relation to the timeliness or the type of services being provided.

<b>Priority</b>	Medium (Important)
<b>Recommendation 7:</b>	
The Office should sign Service Level Agreements with United Nations agencies to which services are being provided and recover all outstanding associated costs.	
<b>Management action plan:</b>	
The Office progressed with signing additional Service Level Agreements.	
<b>Estimated completion date:</b> December 2016	
<b>OAI Response</b>	
The recommendation also includes recovering the outstanding associated costs. 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.	

## 2. Procurement

### Issue 8 Incorrect use of purchase orders

According to the 'UNDP Programme and Operations Policies and Procedures', all purchase orders must represent, at any given point in time, a genuine legally binding commitment to third parties. The amount and the extent of the commitment should be complete and properly stated in Atlas. Multi-year contracts that reflect legal obligations (commitments) of future years should be maintained outside of Atlas until future years are open in Atlas, at which time they should be immediately entered in Atlas.



OAI reviewed 28 purchase orders totalling \$22 million and representing 29 percent of the total value of purchase orders issued during the audit period. For 16 out of 28 purchase orders reviewed totalling \$2.2 million, the Office raised a purchase order for each payment in situations where contracts were paid in multiple instalments. Furthermore, purchase orders were raised when payments were made and not when contracts were signed. According to the Office, most of the contracts managed by the Office related to PUDC civil works projects and had durations exceeding one year. Therefore, to comply with best practices in civil works management, the Office decided to create partial purchase orders linked to the contract payment schedule. However, this could be better achieved by raising one purchase order for an annual amount with several lines linked to the payment schedule.

By not raising a purchase order at the time of contract signing and/or for the full contractual amount, the total funds needed to meet the obligation may not be available, creating a risk that the Office might not have sufficient funds at the stipulated time of payment.

<b>Priority</b>	Medium (Important)
<b>Recommendation 8:</b>	
The Office should ensure that purchase orders are raised in Atlas in compliance with the 'UNDP Programme and Operations Policies and Procedures' for the full amount of the annual contractual obligation after contracts are signed, and with instalments matching the partial milestones during a particular year.	
<b>Management action plan:</b>	
The Office takes note of the recommendations, and given the particularity of the PUDC project, the Office would like to refer to the 'UNDP Programme and Operations Policies and Procedures', in its section 8 on the management of purchase orders and commitments:	
"Offices can also make use of the milestone method for purchase orders, which allows for a commitment to be established in a staggered way at the time that milestones are recorded, rather than all at once for the full amount at the time that the purchase order is budget-checked. This provides a mechanism for entering into multi-year contracts, but reduces the required budget availability only by the relevant amount at any given point in time."	
<b>Estimated completion date:</b> December 2017	
<b>OAI Response</b>	
From December 2016, offices are now able to set up multi-year purchase orders for projects that have future year resources and budgets. This allows UNDP to better track deliverables of a supplier for a given procurement action through a single purchase order reference. OAI will review the full implementation of the recommendation as part of the standard desk follow-up process of OAI.	

## Issue 9 Deficiencies in procurement and management of civil works

According to the 'UNDP Programme and Operations Policies and Procedures', adequate contract management ensures that all parties to the agreement fully meet their respective obligations as efficiently and effectively as

possible. It allows a business unit to track and manage the clauses, terms, conditions, commitments and milestones throughout the life of its contracts to maximize business benefits and minimize associated risks.

The audit team visited 6 out of 22 civil works projects managed by the Office in the region, where \$3.7 million out of a total \$36.6 million was expended during the audited period. The following weaknesses were noted:

- Issues related to completion of water towers - For two sites visited (total contract amount of \$2.9 million), the water towers and security lodge were reported as 100 percent completed by the PUDC project based on the minutes of a meeting from June 2016 attended and signed by the construction company and supervising firm. Although a remark in the minutes indicated that the percent reflected “main work”, this was not clearly defined in the minutes or readily identifiable in the contract. During the audit team’s visit in July 2016, work such as the installation of generators, fences and power supply systems was not completed and the construction sites were deserted and did not have workers. This raised questions as to whether the main work was actually completed as stated in the minutes. Notwithstanding, invoices for payments equivalent to half of the contract amount had been approved, which could suggest that the work was about half-complete. The meetings attended by PUDC, the construction company, and the supervisory firm representatives were held on a monthly basis for reporting on progress.

According to the agreement signed on 16 June 2015, the supplier in charge of the construction of the water towers had to finish all required work no later than 1 May 2016. At the time of the audit, after the work completion date, no additional amendment to the contract was signed to reflect the delays in construction, potential new dates of finishing, and related payments. According to the Office, the completion of the “main work” stated in the minutes pertained to the completion of the structural system or structural frame. However, the structural system or structural frame was not defined in the contract and therefore monitoring and reporting on the progress of the construction work was difficult.

- Issues related to completion of drilling works - For two sites visited (total contract amount of \$1.2 million), the drilling works were reported as 95 percent completed by the PUDC project based on the minutes of a meeting from June 2016 attended and signed by the construction company and supervising firm. Although remarks in the minutes indicated that the percentages reflected “main work”, the work was only about 42 percent complete based on the approved invoices for payments compared to the contract amount. Also, during the field visit on 19 July 2016, it was noted that the work was delayed and the pump stations were not installed. The Office had faced challenges with the supplier in relation to finalizing the work. The initial agreement was amended twice in order to provide additional time for the vendor to complete the work. The second amendment stipulated that all activities had to be executed before 10 July 2016. At the time of the audit, after the work completion date, no additional amendment to the contract was signed to reflect the additional delays and new potential deadlines.
- Delays in the construction of rural roads - For one of the two sites visited (total contract amount of \$0.9 million) on 19 July 2016, it was noted that the work was not completed. According to the agreement signed on 18 June 2015, the vendor had to finish all required work no later than 15 October 2015. According to the vendor’s engineer, the delay was related to additional work requested by the Office. At the time of the audit, after the work completion date, no additional amendment to the contract was signed to reflect the additional work required by the Office, delays or new potential deadlines. Management explained that the contract was still binding as the work was not fully completed. The Office shared, in response to the draft report, an amendment to the initial agreement signed on 8 September 2016 (post facto) to extend the work for an additional 10 months (until 20 September 2016). As confirmed during OAI’s site visit in July 2016, the vendor was already working on the additional work that was not included in the original contract. The additional work was contracted by a post-facto amendment to the contract and it increased the price by \$76,000 (or 8.5 percent of original price). At the time of the audit, 31 percent of the contract amount was

certified and paid. The ACP, during its review, recommended to the Office to have a contingency plan in place in case there were delays due to the inability of the construction company to undertake all awarded lots concurrently. No such plan was evident even though work was delayed for about a year.

#### A. Procurement of civil works

The 'UNDP Programme and Operations Policies and Procedures' indicate that proper procurement, evaluation and monitoring of civil works are crucial to ensuring that the best interests of UNDP are taken into account. In this regard, they state that large and/or high-risk procurement activities require broader sourcing and more detailed market understanding. The evaluation team must exercise reasonable judgment in conducting the preliminary examination to avoid unwarranted rejections of bids/proposals.

For one case amounting to \$3 million and relating to the construction of 80.3 km of roads, OAI noted the following issues in regard to the evaluation and awarding process:

- Proposals received not fully compliant with Invitation to Bid - All three proposals received, including the awarded vendor's proposal, were administratively/technically not compliant. The audit team noted that the main reason was the restrictive administrative and technical bidding conditions that were not aligned to the local market conditions. It was not clear why the Office required such demanding conditions (e.g., providing references from at least six previous similar construction works, and assigning an engineer with at least 10 years of experience) when such conditions could not be met with any of the vendors who bid.
- Comments from ACP - According to the ACP, the evaluation process was not well documented. Neither the evaluation report nor the post-qualification report had any quantitative information to demonstrate that the recommended bidders had met the capacity, experience and financial resource requirements. A more detailed post-qualification report and technical evaluation tables with quantitative information had been produced after the ACP requested them. The two rejected offers were rejected due to missing administrative documents and not on substantive grounds. This was criticized by the ACP. Also, the ACP noted that a case of such complexity and high value should have been submitted to ACP for ex-ante review as recommended by the 'UNDP Programme and Operations Policies and Procedures'.

In response to the draft report, the Office explained that they strengthened the management of complex procurement cases by submitting the draft solicitation documents to the ACP for review prior to commencement of the vendor solicitation process.

Inadequate civil works management and procurement processes could lead to financial losses and delays in the execution of contracts. Furthermore, the difference between the situation on the ground and the reported status could cause reputational damage to UNDP.

<b>Priority</b>	High (Critical)
<b>Recommendation 9:</b>	
<p>The Office should strengthen the management and monitoring of civil works contracts by:</p> <ul style="list-style-type: none"> <li>(a) properly assessing work completion;</li> <li>(b) amending the civil works contracts with updated dates when delays are noted prior to the additional work; and</li> <li>(c) clearly specifying milestones in the civil works contracts so that the completion rate reported in the minutes could be easily aligned to them.</li> </ul>	

### Management action plan:

With reference to the above recommendation, please note the following:

(a) & (c) Management and monitoring of civil works are done according to the procedure and the rule of art. The Office completed the assurance mechanism by putting in place a quality control mechanism that is implemented by a certification firm which performs systematically the technical audit.

(b) The expiration of the contract does not legally exempt the contractor to finish the works and therefore the contract is still binding until the achievement of required deliverables by the contractor. The amendment of the contract is not automatic; it can only be extended once all the parties agree on the justifications and its timeline.

Discussions between the Office and other actors on potential amendments were still ongoing at the time of the audit for better assessment.

Based on the above, the Office rejects the recommendation.

**Estimated completion date:** NA

### OAI Response

OAI observed material delays in the implementation of civil works contracts and these delays were not reflected in the reporting on work completion and subsequent amendment of contracts. Unless proper monitoring and reporting of work progress is improved, the Office will continue to face the risk of material delays. Therefore, OAI is retaining the recommendation.

**Priority** High (Critical)

### Recommendation 10:

The Office should enhance the process of procuring civil works by:

- (a) complying with the comments from the ACP for future bidding processes; and
- (b) using bidding conditions aligned to market conditions.

### Management action plan:

The Procurement Services Unit advice was taken into account in all procurement processes. The nature of the project (Emergency project on FTP procedures) could not allow the Office to go through the steps described above.

Based on the above, the Office rejects this recommendation.

**Estimated completion date:** NA

### OAI Response

By performing due diligence in understanding the local market conditions and learning from the ACP comments on the procurement cases submitted for review, the Office will be able to conclude procurement processes more efficiently. Therefore, OAI is retaining the recommendation.

### Issue 10 Improper contracting of vendor for the supply of agricultural equipment

The 'UNDP Programme and Operations Policies and Procedures' provide guidance on effective procurement practices. The selection of suppliers should be based on a transparent, open, competitive process, and the evaluation of offers should be fair, consistent and pre-established in the bid documents. No new criteria may be introduced and used to evaluate bids, or be used as justification for the selection of an offeror if such criteria have not been required of the bidder at the time of solicitation.

For one Invitation to Bid case amounting to \$2.8 million for the supply of a combine harvester with tracks, the second lowest priced technically responsive vendor, Vendor B, was awarded one out of the two lots. This was based on the arguments that the equipment brand offered by the lowest bidder, Vendor A, had unfavourable user feedback and poor performance issues as indicated by the beneficiary (the Government) in 2014. OAI noted that the decision was not based on technical assessments by specialized engineers, but was mainly based on verbal feedback from farmers. These farmers mentioned several problems with the equipment offered by Vendor A. The feedback collected was documented in a report dated 14 November 2015.

According to the evaluation documents, the awarded Vendor B's offer was rejected during the first stage of the evaluation process. The submission and subsequent responses by the Office to the ACP indicated that Vendor B did not meet various technical requirements specified in the Invitation to Bid. These requirements included minimum years of experience (11 years instead of 15 required), and the minimum amount of contract value during the last five years (\$0.8 million instead of \$3 million required). Also, the evaluation team indicated that there were concerns related to the accuracy of Vendor's B financial statements, which had seemed to be manipulated. This information was not repeated in the revised technical evaluation submitted to the ACP; therefore, the ACP did not question the validity of the financial statements. The ACP accepted that the requirement of 15 years of experience might be too restrictive and accepted 11 years of experience proposed by Vendor B.

The ACP was also not informed that Vendor B had been contracted by the Office before, in June 2015, for the amount of \$0.8 million. This contract was approved by the Resident Representative, after the Contracts, Assets and Procurement Committee review, as the Resident Representative had a delegated authority of up to \$1 million. According to the contract, the delivery and installation was expected by 15 August 2015.

According to the amendments to the contract, there were delays in delivery:

- Amendment No. 1 signed on 22 October 2015 changed the delivery date to 14 October 2015.
- Amendment No. 2 signed on 12 November 2015 extended the delivery date to 31 July 2016.

OAI noted that the Office paid, on 19 July 2016, the first installment of \$0.6 million or 70 percent of the contract value.

The ACP recommended the new case to the Chief Procurement Officer for approval on 28 December 2015, which was subsequently approved. Selecting the second lowest bidder (Vendor B) resulted in increasing the cost by \$1.3 million compared to the lowest offer.

Non-compliance with procurement guidelines may result in non-competitive procurement practices. Furthermore, when procurement decisions are not properly justified, best value for money cannot be ensured.

<b>Priority</b>	High (Critical)
<b>Recommendation 11:</b>	
The Office should strengthen procurement management by providing all relevant information for ACP review.	
<b>Management action plan:</b>	
<p>The Office respected in all means the procurement processes conducted in the PUDC programme implementation.</p> <p>Concerning the selection of the bidder related to the combine harvester with tracks, the Office was guided by the findings of the due diligence mission which is a normal process for decision-making.</p> <p>According to the field mission report, the Office collected additional information on the performance of the equipment. After a thorough analysis, the Office noticed that the lowest bid could not guarantee the best value for money over a long-term period, as a similar product in the Country did not perform as well as expected and was abandoned by the users in the field.</p> <p>The contract awarded was in conformity with the 'UNDP Programme and Operations Policies and Procedures' in regard to best value for money principles and mitigated the reputational risk of the organization.</p> <p>The presented case is an unusual circumstance (sudden change of the awarding recommendation in the last stage of awarding process). It involuntarily happened that no association with the mentioned previous purchases with the second recommended bidder for different products in other independent competitive processes amounting to \$0.8 million was mentioned. This is what happened and it was not a deliberate intention to mislead the ACP.</p> <p>Based on the above the Office rejects this recommendation.</p>	
<b>Estimated completion date:</b> NA	
<b>OAI Response</b>	
<p>The Office did not submit the relevant information to the ACP for review.</p> <p>Without implementing the audit recommendation, the Office will not be able to fully mitigate the risk of selecting a vendor that will not be able to deliver the required goods or services.</p> <p>Therefore, OAI is retaining the recommendation.</p>	



## Issue 11 Contracts signed with consortium

According to the 'UNDP Programme and Operations Policies and Procedures', if an Offer of a joint venture is determined by UNDP as the most responsive and offers the best value for money, UNDP shall award the contract to the joint venture, in the name of its designated lead entity, who shall sign the contract for and on behalf of all the member entities.

During the audit period, the Office signed contracts with 36 consortiums for \$68 million. The Office signed the mentioned contracts with the consortium leader or main entity, as a representative appointed by the two vendors. Thus, by the Country's law, the consortium leader was acting as a simple agent and the contracting party was the consortium itself.

The report prepared by the Legal Office following a mission in the Country from 16 to 23 February 2016 included the following assessment:

- According to the Country's laws, the consortium could not create a legal personality.
- Only entities with legal personality may contract.
- The contracts signed by the Office could be considered invalid because they were not signed by all the members of the consortiums, which would have been the proper approach. Due to the time and procedural delays obtaining such signatures would entail, the Legal Office indicated that the Office could have adopted another solution to protect UNDP's interests. The consortium leader could have signed the contract under his/her name, as an individual, which would have rendered him/her the only responsible individual representing UNDP's interests.

The Office, except the report from the mission mentioned above, did not share with OAI any concrete actions taken to assess and manage risks relating to the agreements already signed and the future contracts.

Having contracts with consortiums that are not legal entities may impede enforceability of the contracts.

Priority	Medium (Important)
<b>Recommendation 12:</b>	
The Office, with the support of the Legal Office and the Bureau, should undertake measures to address the legal risks related to contracts signed with consortiums.	
<b>Management action plan:</b>	
The Office is undertaking the risk assessment of contracts signed for the appropriate mitigation of risks.	
<b>Estimated completion date:</b> June 2017	

## D. United Nations leadership and coordination

### Issue 12 Harmonized Approach to Cash Transfers not fully implemented

The Harmonized Approach to Cash Transfers (HACT) is an integral part of the common country programming process. HACT implementation involves a series of steps, taken with partners, to assess financial management risks, identify capacity development needs, and build assurance mechanisms into the design of a country programme at the planning stage. HACT compliance is achieved when the following four steps have been completed: (a) macro-assessment of the public financial system; (b) micro-assessments of implementing partners; (c) agreement with the Government on HACT implementation; and (d) an assurance and audit plan concerning implementing partners has been developed and implemented.

At the time of the audit, a macro-assessment was not fully completed and approved by the Government. According to the Office, the United Nations Country Team was updating the macro-assessment and an interim report would be presented to the Government for approval.

The objectives of harmonizing practices among the United Nations agencies, including lessening the burden of using multiple procedures, will not be achieved unless HACT requirements are implemented.

<b>Priority</b>	Medium (Important)
<b>Recommendation 13:</b>	
The Office, in coordination with other UN agencies, should implement the Harmonized Approach to Cash Transfer modality and ensure that its requirements are fully adhered to in a timely manner.	
<b>Management action plan:</b>	
The micro-assessment field exercise is completed. The interim report will soon be shared by the third parties in charge of the process.	
<b>Estimated completion date:</b> June 2017	
<b>OAI Response</b>	
OAI acknowledges the action taken by management; this 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.