AUDIT

OF

UNDP COUNTRY OFFICE

IN

TIMOR-LESTE

Report No. 1720

Issue Date: 31 October 2016

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Report on the Audit of UNDP Timor-Leste
Executive Summary

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The UNDP Office of Audit and Investigations (OAI) conducted an audit of UNDP Timor-Leste (the Office) from 6 to 14 September 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, 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 31 August 2016. The Office recorded programme and management expenditures of approximately $14 million in 2015 and $6 million as at August 2016. The last audit of the Office was conducted by OAI in 2012.

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 governance and strategic management, and operations.

Key recommendations: Total = **13**, high priority = **3**

The 13 recommendations aim to ensure the following:

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

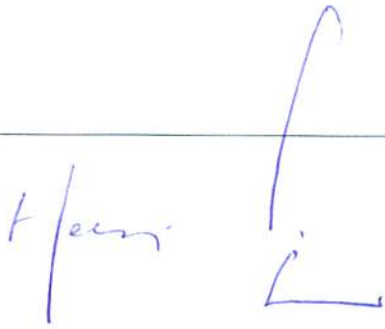|	
Declining extrabudgetary reserves (Issue 1)	The Office's sustainability was of concern due to the decreasing extrabudgetary resources. The main reasons were the decline in revenue and increase in expenses. Recommendation: The Regional Bureau for Asia and the Pacific and the Office should enhance the management of extrabudgetary resources by: (a) reducing costs through enhancing related business processes at the Office level and considering clustering of services; and (b) increasing the Office's financial and programme delivery.
Weaknesses in cost recovery for services provided (Issue 8)	The Office's cost recovery for implementation support services provided to UN agencies and projects had declined from $200,000 in 2014 to $40,000 in 2015. The audit noted that costs for services provided may have not been fully recovered due to the lack of a tracking system for services provided to projects and UN agencies. Furthermore, there was inadequate application of Direct Project Costing for services provided by programme staff. Recommendation: The Office should enhance its cost recovery for implementation support services by: (a) establishing a tracking system to record the services rendered to UN agencies and development projects and recovering the relevant costs at regular intervals (i.e. quarterly)– this should include efforts to recover costs for services provided to them during 2014 and 2015; and (b) ensuring that the staff costs attributed to development projects are applied as proportionate Direct Project Costing.
Weaknesses in vehicle management (Issue 12)	The Office had a large fleet of 34 vehicles that were not fully utilized. For instance, four of the six vehicles in one project had not been used for a year and another project with one staff had three vehicles. There were also weaknesses in vehicle disposal, maintenance, and monitoring. Recommendation: The Office should ensure compliance with the 'UNDP Programme and Operations Policies and Procedures' relating to vehicle management. This should include: (a) undertaking an analysis of vehicle requirements of the Office and the projects so that vehicles in excess of the requirements can be disposed; (b) developing a vehicle maintenance schedule and implementing procedures to ensure vehicles are maintained in line with this schedule; and (c) developing procedures for local use of official vehicles and establishing a tracking system to record and monitor unofficial use of Office vehicles.

Management comments and action plan

The Resident Representative accepted all 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.

Helge S. Osttveiten
Director
Office of Audit and Investigations

I.   About the Office

The Office, located in Dili, Timor-Leste (the Country) comprised of 49 staff members with a programme portfolio of 19 projects focusing on three thematic areas: Democratic governance, Resilience and Sustainable Development. Timor-Leste went through a major political transition in 2015 with a change in the Country's leadership. The cabinet of ministers was also reorganized to introduce coordinating roles for three ministries in the area of economic affairs, social sector, and state administration. Creating a more efficient and service-oriented public sector remained a priority, along with accountability and diversification of the economy. The progression to a middle-income country resulted in a number of development partners opting for direct budget support. In addition, at the time of the audit, the economy was being impacted by the falling oil prices.

II.   Audit results

Satisfactory performance was noted in the following areas:

(a)   <u>United Nations system and coordination.</u> The Office met the planning, reporting and United Nations coordination requirements. The review of expenditures disclosed that they were properly recorded in Atlas (enterprise resource planning system of UNDP).

(b)   <u>Safety and security.</u> The security level in the Country was rated low for most areas, and the review of safety and security measures did not find any exceptions.

(c)   <u>General administration.</u> The Office was generally compliant in this area.

OAI made 3 recommendations ranked high (critical) and 10 recommendations ranked medium (important) priority.

Low priority issues/recommendations were discussed directly and agreed with the Office and are not included in this report.

Medium priority recommendations that had been implemented as advised by the Office (and independently validated by OAI) prior to the issuance of this report are not included in this report.

High priority recommendations, arranged according to significance:
(a)   Enhance the management of extrabudgetary resources (Recommendation 1).
(b)   Enhance cost recovery for implementation support services provided to projects and UN agencies (Recommendation 8).
(c)   Comply with the 'UNDP Programme and Operations Policies and Procedures' relating to vehicle management (Recommendation 12).

Medium priority recommendations, arranged according to significance:
(a)   Enhance the Integrated Work Plan management to include specific and relevant activities and reporting (Recommendation 2).
(b)   Enhance programme and project management (Recommendation 3).
(c)   Enhance financial management (Recommendation 7).
(d)   Enhance resource mobilization efforts through focal points and relevant communication (Recommendation 6).
(e)   Enhance controls over procurement management (Recommendation 9).
(f)   Ensure that ended projects are operationally and financially closed in Atlas within the required timeframe (Recommendation 5).

(g) Ensure compliance with ICT disaster recovery standards (Recommendation 13).
(h) Document and maintain meeting minutes (Recommendation 4).
(i) Ensure the timely completion of mandatory courses and Performance Management Development assessments (Recommendation 10).
(j) Enhance controls to safeguard all custodial items (Recommendation 11).

The detailed assessment is presented below, per audit area:

A. Governance and Strategic Management

Issue 1 — Declining extrabudgetary reserves

Organizational and financial planning requires that offices limit expenditures to available resources. Offices are advised to maintain nine months of extrabudgetary reserves at all times.

The Office's extrabudgetary reserves decreased from 20 months in 2014 to 14 months in 2015. As at 31 August 2016, the extrabudgetary projection for 2016 was two months. The main reason was the decline in revenue and an increase in costs, as described below:

- The Office's programme delivery declined from $13 million in 2014 to $11 million in 2015. The programme delivery target of $10 million for 2016 was unlikely to be met as the Office had expended only $4 million as at August 2016. The low delivery affected the General Management Support fees, which declined from $0.5 million in 2014 to $0.3 million in 2015, and which was expected to decrease further in 2016.

- The total cost recovery from UN agencies and projects had decreased significantly from $200,000 in 2014 to $40,000 in 2015. Further, Direct Project Costing was not fully implemented. The Office had not recovered the proportionate cost of the time spent by the Country Director on the management and oversight of the respective projects (for further details refer to Issue 8).

The Office attributed the decline to a number of factors, namely, a decrease in core resources; a downturn in oil prices, which resulted in the introduction of a freeze on government public transfers in late 2015 that affected government cost sharing; and declining third party cost sharing as a result of the Country achieving middle-income status.

The Office also stated that the main reason for the declining extrabudgetary reserves was due to the centralization of 80 percent of the extrabudgetary balance at the Headquarters level, resulting in a reserve of two months for 2016. The Regional Bureau for Asia and the Pacific informed OAI that from 2016 onwards, all extrabudgetary resources were centralized, and offices no longer maintained extrabudgetary balances. Additionally, communication from the UNDP Administrator indicated that from 2017, all management resources would be centralized at UNDP Headquarters, including extrabudgetary, cost recovery revenue, Government Contributions to Local Office Costs, etc. Nevertheless, there was a need for the Office to recover the costs for services provided to projects and UN agencies.

The 2016 management efficiency ratio for the Office as at September 2016 was 21 percent, compared to the target of 8 percent in 2014 and 11 percent for 2015. The high ratio was due to the number of projects with small delivery. The increasing ratio indicated the need to explore options to reduce operational costs and increase programme delivery. The Office expected the management ratio to be 14 percent by end 2016.

Should the current trend in declining extrabudgetary reserves continue, the Office may not be able to fully sustain its operations.

Priority	High (Critical)
Recommendation 1: The Regional Bureau for Asia and the Pacific and the Office should enhance the management of extrabudgetary resources by: (a) reducing costs through enhancing related business processes at the Office level and considering clustering of services; and (b) Increasing the Office's financial and programme delivery.	
Management action plan: The Regional Bureau for Asia and the Pacific explained that from 2016, all extrabudgetary resources were centralized and offices no longer maintained extrabudgetary balances. The Office will enhance efforts for resource mobilization, continue to reduce costs (including energy) and improve efficiency of business processes. **Estimated completion date:** July 2017	

Issue 2   Weakness in planning and implementing Integrated Work Plan

The Country Office Integrated Work Plan (IWP) is a tool to establish annual programmatic and operational priorities, and outlines what the Country Offices plan to do during the course of the year in response to corporate priorities as well as other, country-specific priorities and significant 'additional' results.

The 'Corporate Strategic Planning System Guidance Note on Preparation of Integrated Work Plans' provides that the Enabling Actions should be both strategic (critical to achieve the highest returns), and specific (what, how much, by when, and eventually where is the action being undertaken).

OAI reviewed the Office's 2015 and 2016 planning, monitoring, and achievement reported against these actions and noted the following weaknesses:

(a) Some of the activities documented to achieve the Enabling Actions for 2016 were neither specific nor relevant for the Office. For instance:

   (i)   the activities to achieve Enabling Actions included "Facilitate and strengthen national capacities to mobilize additional and innovative forms of public and private finance for climate change." The audit disclosed that this activity was quite general and did not reflect any indicators, baselines or specific actions that would be undertaken to achieve the activity. Similarly, the activity related to "Business process efficiency enhanced through automation and technology use" was ambiguous without any specifics mentioned.

(ii)   On the use of an approved business model developed by the Regional Hub, the Office's planned activities included (a) principal and governance mechanism rolled out for pooling extrabudgetary resources and investment fund and (b) policy criteria developed and rolled out for utilization of the regional risk reserve. As these two activities related to the region and were not specific to the Office, they should have been the responsibility of the Regional Bureau for Asia and the Pacific, rather than that of the Office.

(iii)   Planned activities in the 2016 IWP, such as the sustainability model through pooling of extrabudgetary resources, was already implemented in 2015.

(b)   There were weaknesses in IWP staff resources planned for 2015 and 2016, as discussed below:

(i)   The Office planned to have 62 staff positions for 2015 and 2016 to meet the IWP results for the respective years. However, the Office had planned the same level of staff resources for both years even though the budget of $12 million in 2016 was much less than budget of $17 million in 2015.

(ii)   The staffing resources indicated in the IWP were not accurate, as they included two professional staff from UNDSS.

(iii)   The 2015 and 2016 IWP did not reflect a staff cost distribution between different funding sources even though some staff provided oversight or contributed towards different projects. Therefore, the staff costs should have been shared among projects and the Office (refer to Issue 8 regarding the Direct Project Costing). The Office stated that the distribution of staff costs among different projects was not possible due to budget constraints.

(c)   For 2015, the Office had planned to establish a quality assurance system and processes to enhance programme effectiveness and achievement of results (under Organisation Result 1.1). Overall, the Office indicated that this Enabling Action was "partially achieved" and reported that it (i) simplified business processes on programme management; (ii) drafted an M&E framework and harmonized monitoring tools such as a field visit monitoring report, quarterly and annual reports that will be implemented in 2016; and (iii) developed programme financial oversight templates to track delivery. Further, the Office had yet to establish processes to enhance quality assurance beyond the guidelines and templates.

(d)   Although the Office planned a gender mainstreaming activity in 2015, the Office reported no progress against this activity. The Office stated that a dedicated gender specialist/focal point was not available to ensure gender mainstreaming was implemented. However, the Office planned to strengthen mainstreaming by including specific gender-related targets for the existing staff resources.

Some of the reasons contributing to the partial achievement of management targets were that the Communications and Management Support Unit tasked with monitoring the IWP did not have adequate staff. Further, the use of the IWP was initiated only recently and hence staff were not fully familiar with the new approach.

The Office risks not meeting its developmental results if the IWP activities are not properly formulated and implemented.

Priority	Medium (Important)
Recommendation 2: The Office should enhance Integrated Work Plan management in accordance with the corporate requirements. This should include establishing activities that are specific and relevant, developing results-based budgeting for resources, and ensuring accurate reporting of results.	
Management action plan: The Office will enhance programme management that will include bi-monthly programme management meetings with a focus on implementation of the quality standards and templates and one M&E result to be included as part of the Performance Management Development 2017 for all programme staff. The Projects will revise their Results and Resources Frameworks and monitoring and evaluation framework to make them more results oriented so that the outputs are clearly articulated and linked to indicators that are specific, measurable, assignable, realistic and time-bound. **Estimated completion date:** November 2016-Jan 2017	

B.   Programme Activities

1.   Project Management

Issue 3   Programme and project management weaknesses

The audit team selected six projects for detailed review (Project Nos. 75260, 65586, 14960, 72017, 14955 and 82979), with a total expenditure of $9 million, representing 45 percent of total expenditure for the audited period. OAI noted the following weaknesses in project management:

(a)   Weak Results and Resources Frameworks

The 'UNDP Programme and Operations Policies and Procedures' require projects to develop a comprehensive Results and Resources Framework, identify the outputs, indicators, baselines, indicative activities, and a budget for each of the activities being implemented.

The 2015 and 2016 annual work plans for Project Nos. 14955, 75260, and 82979 did not reflect any indicators, baselines or annual targets. The 2015 and 2016 annual work plans for Project No. 82979 included indicators that were phrased as activities, for example, "several training sessions organized for relevant officials on planning, monitoring and evaluation unit."

Additionally, the project progress reports focused more on activity-level achievements, for example, "Strengthening the institutional capacity of the Authority by hiring of a Human Resource Officer" was reported as a result achieved by Project No. 82979. Similarly, Project No. 75260 stated the following as progress for 2015: "Completed designing and construction of 11 climate-proof infrastructure in three municipalities." However, there was no confirmation if the climate-proof infrastructure constructed was

functional or if it met the intended purposes. As a consequence, the actual results or progress achieved was difficult to assess.

The Office indicated that additional training and monitoring at all levels (project development and approval) on the results-based management framework would be conducted, with the first session slated for October 2016.

(b) Inadequate programme and project oversight

The 'UNDP Programme and Operations Policies and Procedures' state that offices must ensure adequate monitoring by preparing annual project reports, and maintaining issue, monitoring and risk logs.

- The Office had developed an M&E framework; however, corresponding M&E plans for 2015 and 2016 were not developed. According to the IWP, $0.2 million had been spent at the project level for M&E activities. In the absence of M&E plans, it was difficult to assess the reasonableness of the expenditures incurred.

- In 2015, the Office developed various templates such as a results tracker, a project monitoring plan, field visits and quarterly reports. However, as of September 2016, field visit templates were not consistently used. Furthermore, Project Nos. 14955 and 72017 focused more on activity-level reporting, while Project No. 75260 reported against indicators. Lastly, there was no evidence that programme staff undertook project monitoring for assurance purposes, and clear delineation between project monitoring and assurance was not evident.

- At the project level, project personnel indicated that they undertook field visits. However, these visits were to attend specific activities and were not necessarily for monitoring missions. Except for Project No. 75260, none of the field visit reports reviewed identified what monitoring activities were undertaken, and what indicators were assessed. Furthermore, emerging risks were not consistently documented.

Should weaknesses in project management continue, the Office is at risk of not using resources efficiently and effectively and not meeting its developmental targets.

Priority	Medium (Important)
Recommendation 3: The Office should enhance programme and project management by: (a) updating its Results and Resources Frameworks to include specific and measurable indicators, targets, and baselines; (b) developing an annual monitoring plan that outlines planned activities, staff responsibilities, and allocated resources; and (c) ensuring standardized templates are consistently utilized by programmes and projects.	
Management action plan: The Office will enhance project management through implementation of the Quality Assurance Standards. By monitoring progress of projects/portfolios on a quarterly basis, the Communications and Management	

Support Unit will review targets and Results and Resources Frameworks before signature.
Estimated completion date: January 2017

Issue 4   Lack of minutes and annual project reviews

The 'UNDP Programme and Operations Policies and Procedures' stipulate that offices are required to document minutes of meetings and discussions to facilitate the follow-up of actions identified therein.

The minutes of Project Board meetings were not available for Project Nos. 75260, 65586, 14960, 14955 and 82979 in 2016, and for Project Nos. 72017, 14955 and 82979 in 2015. As a result, it was not clear whether the Project Board decisions were followed up by the Office and projects. Furthermore, there were no records of the required annual project reviews in collaboration counterparts and stakeholders undertaken in 2015.
The Office stated that Project Board meetings were held at least twice a year, but were not always documented. They also stated that annual project reviews were undertaken for Project Nos. 82979, 72017, and 75260 through Project Board meetings. However, minutes of these meetings were not available.

In addition, management indicated that they held weekly meetings with key programme and operations staff; however, these meetings were also not always documented.

It was difficult to assess what was discussed during meetings, and whether challenges identified therein were addressed and followed up. Not documenting important meetings and annual project reviews also hinders the Office's ability to address challenges appropriately and in a timely manner, which could negatively impact the achievement of programme objectives.

Priority   Medium (Important)
Recommendation 4:   The Office should document and maintain minutes of the Project Board meetings, annual project reviews, and programme/management meetings to ensure proper implementation and follow-up of key decisions made.
Management action plan: The Office will (i) improve documentation and obtain missing signatures for past Project Board meetings for 2015-2016 projects; and (ii) monitor documentation of all boards and meetings in the regular management meetings.   **Estimated completion date:** Jan 2017

Issue 5   Delays in closing projects in Atlas

The 'UNDP Programme and Operations Policies and Procedures' stipulate that projects should be operationally closed once activities have been implemented and no new activities are planned. These operationally closed projects should then be financially closed no more than one year after operational closure.

According to information in Atlas, 15 projects that ended between June 2004 and June 2016 had not been operationally closed, and were still reflected as 'ongoing' in Atlas. The Office stated that operational closure of the 15 projects was in progress.

The risk of unauthorized expenditures being charged to these projects increased due to delays in operationally and financially closing them in Atlas.

Priority	Medium (Important)
Recommendation 5: The Office should ensure that ended projects are operationally and financially closed in Atlas within the required timeframe.	
Management action plan: The Office has started the project closure process. **Estimated completion date:** March 2017	

2. Partnerships and Resource Mobilization

Issue 6   Resource mobilization challenges

UNDP partnership guidelines require offices to mobilize additional resources for the effective implementation of programme objectives.

The Office had met its resource mobilization target of $10 million in 2015; however, it only achieved 61 percent of the target for 2016 (target of $12.7 million). As at September 2016, the Office had only mobilized $34.3 million (or 46 percent) against a total resource target of $75 million for the Country Programme Document (CPD) 2015-2019. The resources mobilized for the CPD for 2015-2019 were as follows:

Table 1: Status of resource mobilization for 2015-2019

Funding source	Target ($ millions)	Amount mobilized as at September 2016 ($ millions)	CPD gap ($ millions)
Core/regular	3	2.5	0.5
Government cost sharing	22	2.8	19.2
Third party cost sharing	20	15*	8
Vertical funds	30	14	16
Total	**75**	**34.3***	**43.7**

Source: Office documents   *Includes $3 million carried over from previous cycle.

The Office faced some funding challenges, as discussed below:

- Due to funding constraints within the Bureau for Policy and Programme Support, funding commitments of $0.26 million were not released to Project Nos. 56605 and 80251. These two projects also had 2016 budget deficits totalling $0.33 million. Further, Project No. 81807, with a budget of $12.6 million (2014-2018) had utilized all the available project funds of $1.5 million, with no funding available for 2017 onwards. The audit team noted that nine projects did not have available resources beyond 2016, thereby impacting the implementation of projects and meeting delivery targets.

- In its Resource Mobilization Strategy dated February 2016, the Office had indicated that traditional donors were leaving, and with the drop in oil prices, the Government had placed a freeze on public transfers, which was affecting the government cost-sharing options. The Office had started an engagement process with all partners based on demonstrating value added through government cost sharing, but also looking at the operational options to reduce the temporary impact of the "public transfer" issue.

- A review of the Partnership Survey for 2015 highlighted several results that were below the UNDP average results, including contribution to development debates and international development goals, ensures value for money and cost-effectiveness, accountable and transparent, and high quality professionals.

In response, the Office stated that actions such as mainstreaming gender in all new programmes, strategic planning and campaigning for Sustainable Development Goals implementation, client orientation and improved efficiency and a staffing structure aligned with the current CPD had been initiated. Further, due to the staff nationalization exercise undertaken in 2015, a number of key positions remained vacant. The Office was currently focusing on communications, and had outlined a number of related activities under the Communications and Management Support Unit work plan.

The Office may not be able to implement programme activities to achieve development results if resource mobilization challenges are not addressed.

Priority:	Medium (Important)
Recommendation 6: The Office should enhance resource mobilization by appointing focal points for resource mobilization, with a targeted focus on ensuring relevant information/communication is shared with partners.	
Management action plan: Partner engagement is under implementation and a list of focal points at the management and programme level will be established. Targets for resource mobilization will be established and included as part of the staff Performance and Management Development assessment indicators. **Estimated completion date:** January 2017	

C. Operations

1. Finance

Issue 7   Weaknesses in financial management

(a) Inadequate controls over project cash advances

The 'UNDP Programme and Operations Policies and Procedures' provide that project cash advances should only be used when there are no other alternative options to disburse payments for one-time project activities. The project cash advances must be closed and actual expenses fully accounted for within seven days after the last day of the project activities. The 'UNDP Programme and Operations Policies and Procedures' also indicate that the request for project cash advances must specify the need and the justifications, and provide details on the security arrangement with the dual goals of successfully delivering the project requirements and protecting UNDP staff and cash assets.

The Office issued project cash advances totalling $296,000 from 1 January 2015 to 30 June 2016. The audit team noted the following weaknesses in the management of project cash advances:

- The Office indicated that alternative options were not available within the local environment to meet the requirement of the one-time project activities. However, this justification had not been documented at the time of approving the advances.
- Delays in liquidation of cash advances were noted in 38 cases (with a total value of $170,000) out of the 50 cases reviewed. The delays ranged between 16 to 88 days, with an average delay of 33 days.
- A review of 6 out of 58 requests for project cash advances disclosed lack of details and/or documentation on the security arrangement to protect UNDP staff and cash assets.

The Office commented that all required measures for managing project cash advances would be put in place, including a proper tracking system, to ensure the proper use and timely liquidation of project cash advances.

Inadequate controls in managing the project cash advances may result in financial losses for UNDP.

(b) Incorrect recording of advances as expenditure

According to the UNDP Internal Control Framework, offices are required to ensure that payments are recorded accurately.

The Office signed two Letters of Agreement for Project Nos. 87262 and 82001 with government entities to undertake project activities valued at $1.2 million during the audit period. However, three payments amounting to $173,000 and another payment of $480,000 made against these two Letters of Agreement were recorded as expenses under account code 72610 for Micro Capital Grants-Credit and account code 72605 for Grants to Institute & other Beneficiaries, respectively, instead of recording them as advances. The Office agreed that these payment vouchers should have been recorded as advances. In processing the payment vouchers, the Finance Unit did not confirm that the correct account codes were utilized to record these payments.

The failure to record financial transactions correctly overstated the Statement of Expenditures.

(c)   Vouchers cancelled and deleted without adequate documentation

The 'UNDP Financial Regulations and Rules' require offices to process payments on the basis of supporting documents, which ensure that the services or goods have been received, and that payments have not previously been made. Further, the 'UNDP Programme and Operations Policies and Procedures' provide that if the vouchers are cancelled, there should be adequate documentation for the cancellation.

During the audit period, 52 payment vouchers totalling $48,000 were cancelled after they were approved. Further, 74 vouchers totalling $257,000 were deleted after they were created. However, the Office had not documented the reasons for cancelling or deleting the vouchers. As such, the audit team could not determine the reasonableness of the actions. The Office explained that vouchers were deleted as a result of the cancellation of related activities.

The Office is at risk of making unauthorized payments and wasting resources from spending time to process, cancel and delete vouchers.

Priority	Medium (Important)
Recommendation 7: The Office should enhance its financial management by: (a) enhancing controls over project cash advances that include documenting their justification and complying with the 'UNDP Programme and Operations Policies and Procedures' cash advance guidelines and policy; (b) ensuring that the Finance Unit verifies the account codes used prior to the approval of vouchers; and (c) establishing procedures, including supporting documentation for raising and approving vouchers only when the activities have been completed to avoid cancelling and deleting vouchers.	
Management action plan: The Office indicated that the procedures for cash advance liquidation are in place and the procedures for voucher issuance and deletion will be implemented soon. **Estimated completion date:** December 2016	

Issue 8   Weaknesses in cost recovery for services provided

The 'UNDP Programme and Operations Policies and Procedures' provide for full cost recovery for services provided by UNDP offices to projects and UN agencies. The audit team noted weaknesses in the recovery of implementation support services and the Direct Project Costing.

(a) The Office's cost recovery for implementation support services provided to UN agencies and projects had declined from $200,000 in 2014 to $40,000 in 2015. The audit team noted that costs for services provided in 2015 may not have been fully recovered in view of the following:

▪   In 2015, the Office did not recover costs for the procurement of 57 individual contracts for projects.

- The costs for the services of payroll validation and disbursement for 53 project personnel during 2015 were not recovered.
- There was no cost recovery for 18 purchase orders and 8 recruitment and contract extensions from UN agencies. Subsequent to the audit, the Office indicated that costs had been recovered for five purchase orders and the rest were in the process of being recovered.
- Cost recovery for use of Office vehicles by staff was not evident. Further, logbooks did not clearly reflect usage by Office/UN staff (refer to Issue 14).

This weakness was mainly due to the lack of a tracking system for services provided to projects and UN agencies.

The Office stated that (i) the decline in costs recovered was mainly due to reduced requests for services from other agencies, (ii) and that it had completed cost recovery for services provided from January to April 2016 amounting to $94,000 and was in process of recovering for the period from May to September 2016.

While the Office had made progress in recovering service costs for 2016, at the time of audit, there was no tracking system for services rendered. The Office indicated that it was making efforts to recover the costs of services provided during 2014 and 2015. Subsequent to the audit, the Office reported that it had recovered the costs of services provided to Global Environment Facility-funded projects (75260 and 81757) in 2014 and 2015; however, it was not possible to recover the service costs from other projects due to funding constraints.

(b) The 'UNDP Programme and Operations Policies and Procedures' state that Direct Project Costs are charged directly to the project budget for the development activity.

As of June 2016, the Office recovered Direct Project Costs for only five programme staff, though the Office's organization chart had 10 programme staff to be charged to development projects. In addition, the staff costs of the posts of the Country Director and one Programme Associate were charged to the Office's budget only. As both were key positions that provided services to development projects, their proportionate time costs should have been recovered from the development projects as Direct Project Costs. The Office stated that in 2016 many of the projects were Global Environment Facility-funded and faced budget constraints; therefore, applying Direct Project Costing for all programme staff costs was not possible. Hence, in addition to the five programme staff mentioned above, transactional services provided to projects by other Office staff were also recovered. The Office indicated that four programme positions would be abolished upon separation of the incumbents in 2016 due to budget constraints.

Inadequate procedures and the lack of a tracking system in place to record cost recovery may expose the Office to financial losses.

Priority	High (Critical)
Recommendation 8:	
The Office should enhance its cost recovery for implementation support services by: (a) establishing a tracking system to record the services rendered to UN agencies and development projects and recovering the relevant costs at regular intervals (i.e. quarterly)– this should include efforts to recover costs for services provided to them during 2014 and 2015; and (b) ensuring that the staff costs attributed to development projects are applied as proportionate Direct Project Costing.	

Management action plan:

The Office indicated that it will (a) comply with the cost-recovery policy through quarterly monitoring (b) make gradual improvement in the full implementation of Direct Project Costing.

Estimated completion date: January 2017 for(a) and December 2017 for (b)

2. Procurement

Issue 9   Weaknesses in procurement management

(a)   Inadequate justification for direct contracting

The 'UNDP Programme and Operations Policies and Procedures' provide that offices may use direct contracting, also known as sole source or single source, when it is not feasible to undertake a competitive bidding process, and when proper justifications exist. Further, to avoid conflict of interest, the 'Individual Contract Guidelines' state that requesting units are responsible for preparing the Terms of Reference (TOR) for the hiring of individual contractors.

Audit noted the following weaknesses in the procurement of the individual contracts:

- One individual contract (IC number TIM/IC/2016/009) for $72,000 was procured through direct contracting. The justification provided was that there was no competitive marketplace for the requirement, with limited available human resources locally with knowledge and experience relevant to the TOR. The nature of the consultancy described in the TOR related more to project management. However, there was no documentation justifying the limited marketplace for such a consultancy. In OAI's view, such services were available widely, and the Office's justification that there was a genuine exigency was not adequately supported.

  OAI also noted that the individual contractor hired was already working as a United Nations Volunteer for the same project (Common Premises Project) and himself prepared the TORs for the contract for which he was selected. This presented a conflict of interest, and may have given the incumbent undue advantage over other candidates. The Office indicated that given the restricted timeline and exigency to initiate the project, the selected candidate had the requisite experience both in the Country and with this particular project; therefore, the candidate was best suited to undertake the project. In OAI's view, the Office should have documented adequate justification, which was not available.

- For another contract (IC number TIM/IC/2015/015) amounting to $63,000, the contractor was selected through a competitive process. However, the contractor was offered another contract (TIM/IC/2015/034) with extensions totalling $58,500 using direct contracting, and the supporting documents for the contract provided by the Office did not include justification for direct contracting; value for money was also not provided. The Office explained that the TIM/IC/2015/015 contract was partially completed and payment was made only for an amount of $36,000. The Office reselected the contractor stating that the TORs for the second consultancy were similar to the original contract TOR. In OAI's view, since the TOR of the two contracts were not the same, the Office should have undertaken a new procurement process, or amended the old contract to reflect the period extended. Further, the contracting of the individual for the second consultancy without completing the deliverables of the

first, resulted in two project deliverables (Project 65586) not being implemented as planned. These were the national CSR policy and the Social Business Fund financing models. The Office stated that this was a high-level request from the Government, and the only available applicant with the requisite qualification was the selected candidate. This however, did not preclude the Office from clearly documenting the justification for direct contracting.

▪ The 'Individual Contract Guidelines' provide that "former staff members in receipt of a pension benefit from the UN Joint Staff Pension Fund may not receive more than $22,000 per twelve-month period in emoluments from the UN system or may not be engaged under a contract in excess of six months, whichever comes first." However, the Office had engaged a former retired UN staff member as an individual contractor valued at $95,000 for nine months from 22 June 2016 to 31 March 2017. While the current status as a retiree was disclosed in the application documents, the Office did not take this into consideration at the time of contracting the individual.

Failure to comply with requirements of the 'UNDP Programme and Operations Policies and Procedures' on direct contracting may impact the Office's reputation and lead to financial losses.

(b) 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.

The Office did not have adequate controls over bids submitted electronically and manually. OAI identified three requests for proposals valued at $157,000, where the offerors were invited to submit bids by courier or email. As the responsible procurement staff had access to the email address dedicated to the submission of bids, there was a risk that the offers could have been tampered with. Further, all offers submitted manually or through courier were received by the Office Registry, which then passed it to the Procurement Unit. However, the Registry did not have a dedicated box to receive the bids. As such, there was a risk that not all of the offers received were registered and forwarded to the Procurement Unit. In addition, there was a risk that late offers were still considered.

There was a risk that the integrity of the proposals may have been compromised.

Priority	Medium (Important)
Recommendation 9: The Office should enhance controls over procurement management by: (a) ensuring that adequate justification for direct contracting is documented; (b) revising the individual contract of the retired UN staff member, taking into account the conditions and limitations; and (c) establishing procedures for receiving offers in a secure manner, including a dedicated locked box for the bids received manually and adequate access controls for the receipt of offers through emails.	
Management action plan: The Office will enhance controls over the receipt of bids and staff will complete the certification by the first	

quarter 2017.

Estimated completion date: March 2017

3. Human Resources

Issue 10   Non-completion of mandatory training courses and Performance Management Development assessments

(a)   Mandatory trainings not completed

According to the 'UNDP Programme and Operations Policies and Procedures', all UNDP personnel are required to complete a series of mandatory training courses. These include the following courses: Basic Security; Advanced Security; UNDP Legal Framework; Ethics; Gender Journey; and Prevention of Harassment. The Basic and Advanced Security certificates are valid for three years, after which staff members must retake them.

The Office provided the status of mandatory course completion. As at 30 June 2016, the completion rates ranged from 27 to 65 percent, as indicated in the table below.

Table 2: Status of mandatory trainings

Description	Basic Security	Advanced Security	Prevention of Harassment	Gender Journey	Ethics Training	Legal Framework
Number of staff who had not completed the training	17	28	36	33	32	34
Percentage of staff who completed the training	65%	43%	27%	33%	35%	31%

Source: Office

Only two staff (5 percent) had completed all six mandatory courses. Furthermore, 17 of the 32 Basic Security certificates reviewed were expired as at 30 June 2016. Similarly, 15 of 21 Advanced Security certificates reviewed were expired as at 30 June 2016.

The Office explained that the low completion rate was due to other competing tasks and operational priorities. It agreed to take a number of actions, such as the inclusion of mandatory training as part of the onboarding process for new staff, the inclusion of mandatory training in staff Performance Management Development appraisals, and group sessions to encourage the completion of these courses.

Failure to complete these mandatory trainings may negatively impact staff knowledge and capacity to deal with issues and situations within the Office.

(b)   Performance assessments not completed on time

The 'UNDP Programme and Operations Policies and Procedures' require staff members to complete, within a certain time frame, annual Performance Management Development assessments and establish individual learning plans to address training and development needs.

As at 30 June 2016, 13 of 49 staff had not completed their 2014 performance self-assessments, which should have been completed by 31 March 2015. Further, 9 of 49 staff had not completed their 2015 performance assessments, which should have been completed by 31 March 2016.

The Office stated that it had made efforts to enhance to the completion of Performance Management Development assessments through email reminders, learning sessions, and individual guidance. In addition, the Office agreed to include the Performance Management Development assessment completion rate in the supervisors' appraisals and to review completion status at management meetings.

The failure to complete the Performance Management Development assessment process in a timely manner may prevent staff from receiving important feedback from supervisors on their performance.

Priority	Medium (Important)
Recommendation 10 The Office should ensure the timely completion of mandatory courses and Performance Management Development assessments in compliance with the 'UNDP Programme and Operations Policies and Procedures'.	
Management action plan: The Office will ensure that the mandatory courses and outstanding performance assessments are completed by March 2017 and January 2017, respectively. **Estimated completion date:** March 2017	

4. Asset Management

Issue 11   Inadequate controls over custodial items

According to the 'UNDP Programme and Operations Policies and Procedures', custodial items are attractive items that may be susceptible to theft or loss, and valued below the capitalization threshold of $1,500 but higher than $500. The list of custodial items shall be maintained by the office IT focal point, as attractive items predominantly tend to be information and telecommunications equipment. Such items should be recorded and tracked outside the Atlas asset module using an Excel spreadsheet or any other application, to ensure the management and safeguarding of such custodial items.

The audit team noted that that Office did not maintain a consolidated list of custodial items. Furthermore, the audit team was unable to determine whether the custodial items were verified and records were updated periodically.

The Office informed the audit team that its IT Unit had a list of custodial items for use by the Office staff and the project-related custodial items were managed by the project personnel. The Office also stated that plans were underway to consolidate custodial items from all units in 2016 and that some projects already submitted their draft list of custodial items.

The lack of a central management system for all custodial items increases the likelihood of theft, misuse, or loss.

Priority	Medium (Important)
Recommendation 11: The Office should enhance controls to safeguard all custodial items by: (a) preparing a consolidated list of all custodial items in the Office and in the projects; and (b) regularly updating the list of custodial items whenever items are returned, reassigned, or disposed.	
Management action plan: The Office will ensure that all recommendations above are addressed by the end of 2016. **Estimated completion date:** 31 December 2016	

Issue 12   <u>Weaknesses in vehicle management</u>

The 'UNDP Programme and Operations Policies and Procedures' require offices to implement controls necessary for vehicle management. They also provide guidelines for the efficient use of the vehicles.

As of July 2016, the Office had 34 vehicles with a net book value of $0.4 million. Of these, 6 vehicles were used by the Office and 28 vehicles were used by 10 projects. The audit disclosed the following weaknesses in the management of vehicles:

(a)   Vehicles over five years old not reviewed for disposal

According to the 'UNDP Programme and Operations Policies and Procedures', vehicles over five years old or vehicles with 100,000 kilometers must be considered for disposal, unless the vehicles are still in good, usable condition.

The audit team noted that 24 of the 34 vehicles had passed the recommended disposal life of 5 years, including one vehicle that had exceeded 12 years in 2016. However, the Office had not conducted an analysis of the repairs and maintenance costs of these vehicles to determine whether it was economical to maintain them. The Office stated that 22 out of the 24 vehicles had been purchased for project use. The Office further indicated that given the project budget situation, replacing them with new vehicles may not have been an option. The remaining two Office vehicles over five years old would be disposed of in 2017.

(b)   Vehicles in excess of requirements

The 'UNDP Financial Regulations and Rules' provide that offices must ensure the efficient and economic use of all resources.

The Office did not have adequate controls to monitor vehicle utilization and had not conducted an analysis to determine the continued need for such a large number of vehicles. The audit disclosed that:

- One project with only one staff had three vehicles during the audit period.
- One project with six staff had six vehicles. Four of them had been parked in the UN compound and had not been utilized since mid-2015.

- Two project vehicles were not used during 2015. Two other project vehicles covered less than 1,000 kilometers each in 2015.
- The 2015 mileage covered by nine vehicles was not available as the logbooks for these vehicles could not be located.
- Two of the eight motorbikes for Project No. 90965 were not used.

(c) Preventive maintenance not systematically carried out

According to the 'UNDP Programme and Operations Policies and Procedures', offices are required to prepare a maintenance schedule for each vehicle annually, and to send each vehicle to an authorized motor mechanic according to the maintenance schedule developed.

The Office had not developed a maintenance schedule for its vehicles. A review of maintenance records of 34 vehicles for 2015 indicated that 30 had no maintenance records, including 13 vehicles that already covered over 5,000 kilometers. There was no system in place to monitor whether drivers and those responsible for the vehicles were complying with the requirements. As a result, there is an increased risk that vehicles may break down and not be available when needed. The lack of regular maintenance may also reduce vehicles' useful life.

(d) Lack of a system to monitor unofficial use of Office and project vehicles

The 'UNDP Programme and Operations Policies and Procedures' provide that the heads of offices must establish procedures for the use of official vehicles and may grant permission for the use of official vehicles for non-official purposes.

The Office allowed for the non-official use of office vehicles, but there were no written operational procedures established to track and monitor the unofficial use of Office and project vehicles or to be reimbursed from staff. The audit disclosed that the logbook records from July 2015 to June 2016 (for six sample vehicles) did not document the purpose of each trip and did not indicate whether the trip was official or unofficial. In addition, the logbooks did not always have the user's signature to certify the trip information. As a result, OAI could not identify the unofficial use of vehicles and it's not clear whether the costs were reimbursed by the staff.

The Office agreed to undertake a thorough review of vehicle management, including vehicle utilization, establishing procedures for the private use of Office vehicles, and a tracking system to ensure the maintenance of vehicles.

Failure to ensure efficient utilization of resources and to recover amounts due may result in a waste of resources and may impact donor relations.

Priority	High (Critical)
Recommendation 12: The Office should comply with the 'UNDP Programme and Operations Policies and Procedures' relating to vehicle management by: (a) undertaking an analysis of vehicle requirements of the Office and the projects so that vehicles in excess of the requirements can be disposed; (b) developing a vehicle maintenance schedule and implementing procedures to ensure vehicles are maintained in line with this schedule; and	

(c) developing procedures for the local use of official vehicles and establishing a tracking system to record and monitor unofficial use of Office vehicles.

Management action plan:

The Office indicated that some actions have been taken to address the recommendations such as:

- recover costs for private use of official vehicles;
- review the plans for utilization of projects vehicles; and
- drivers have been trained to update the daily logbook.

Estimated completion date: Feb 2017

5. Information and Communication Technology

Issue 13 Weaknesses in ICT management

OAI reviewed the management of the ICT system and noted the following weaknesses:

(a) Tests of critical ICT system and infrastructure not conducted annually

The 'UNDP Programme and Operations Policies and Procedures' provide that offices must conduct annual tests of critical ICT systems and/or infrastructure. The time between two tests involving the same critical ICT system or a specific disaster recovery arrangement shall not exceed 365 calendar days.

The Office last tested the ICT system on 26 December 2013 and the next test was scheduled for November 2016. The Office explained that it would not have been cost effective to conduct the annual testing due to the Office's relocation in 2014 and the change of internet service provider in 2015. Nevertheless, the Office did not provide any documented cost benefit analysis to support its decision.

Failure to conduct annual tests deprives the Office the opportunity for continuously assessing the adequacy of the disaster recovery arrangement, which may negatively affect how the Office recovers data and continues operations in the event of a disaster.

(b) Inadequate server room management

The Office's ICT resources should be properly managed to avoid losses and to avoid extra costs for the organization.

The audit team conducted a physical verification of the ICT server room and noted the following:

- The server cabling was not well arranged and could negatively affect server performance.
- The server room was used as storage for ICT consumables, which could increase the risk of fire in the server room.

 (c)   Recent back-up external hard disks not stored in an off-site location

The ICT Disaster Recovery Standards for UNDP offices require off-site storage of critical ICT data no older than a calendar week. The Office's Disaster Recovery Plan also requires a weekly back-up and storage off-site.

The audit team observed that the two recent weekly back-up hard disks were stored in the Office, which was mainly due to staff not observing the off-site storage requirements The audit team also noted that the Office used the Resident Representative's residence as an off-site location for storing back-up media. However, there could be challenges with this arrangement of storing and retrieving back-up media, particularly when the Resident Representative is on leave or travelling.

Non-adherence to the corporate requirement for ICT management presents the risks of exposing the organization to loss or theft of critical information, and unnecessary internet interruptions.

Priority	Medium (Important)
Recommendation 13: The Office should ensure compliance with the ICT Disaster Recovery Standards, including: (a) conducting annual tests of critical ICT systems; (b) improving the server room management and storing back-up media in the designated off-site location weekly; and (c) establishing procedures for storage and retrieval of back-up media of authorized staff from the off-site location, including steps to be taken during the absence of the Resident Representative.	
Management action plan: The Office will ensure full implementation of the recommendation by the end of 2016. **Estimated completion date:** 31 December 2016	

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.