UNITED NATIONS DEVELOPMENT PROGRAMME
Office of Audit and Investigations

UNDP

Empowered lives.
Resilient nations.

AUDIT

OF

UNDP COUNTRY OFFICE

IN

GEORGIA

Report No. 1771

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Report on the Audit of UNDP Georgia
Executive Summary

The UNDP Office of Audit and Investigations (OAI) conducted an audit of UNDP Georgia (the Office) from 27 March to 7 April 2017. 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, and staff and premises security); and

(d) United Nations leadership and coordination.

The audit covered the activities of the Office from 1 January 2016 to 31 January 2017. The Office recorded programme and management expenditures of approximately $21 million. The last audit of the Office was conducted by OAI in 2011.

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

Overall audit rating

OAI assessed the Office as **satisfactory**, which means, "The assessed governance arrangements, risk management practices and controls were adequately established and functioning well. Issues identified by the audit, if any, are unlikely to affect the achievement of the objectives of the audited entity/area."

Good practices

Finance/Reporting and monitoring. The Office had developed software that produced comprehensive analytical reports using various and specific Atlas (the enterprise resource planning system of UNDP) queries. It reflected IPSAS and showed the projects' financial positions.

Finance/Cost recovery. The Office had developed, in 2005, software that had since been recognized as a tool created for recovering costs of services provided to projects and other United Nations agencies. This system had been shared with other UNDP offices.

Key recommendations: Total = **3**, high priority = **0**

The audit did not result in any high (critical) priority recommendations. There are three medium (important) priority recommendations, which means, "Action is required to ensure that UNDP is not exposed to risks. Failure to take action could result in negative consequences for UNDP." These recommendations include actions to address weaknesses in programme/project design and implementation, ICT and general administrative management, and human resources management.

The three recommendations aim to ensure the following: (a) achievement of the organization's strategic objectives (Recommendation 1); (b) effectiveness and efficiency of operations (Recommendation 2); and (c) compliance with legislative mandates, regulations and rules, policies and procedures (Recommendation 3).

Management comments and action plan

The Resident Representative accepted all three recommendations and is in the process of implementing them. Comments and/or additional information provided have 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
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Office of Audit and Investigations

I.   About the Office

The Office, located in Tbilisi, Georgia (the Country) had two project offices in Batumi and Sukhumi. At the time of the audit, the Office had 30 staff members, 84 service contract holders and 1 United Nations Volunteer. The '2016-2020 United Nations Development Assistance Framework' focused on the following pillars: (1) Democratic governance; (2) Job, livelihood and social protection; (3) Education; (4) Health; and (5) Human security and community resilience. The Office's Programme was concentrated mostly on pillars 1, 2, and 5. The Office's portfolio comprised of 36 projects, which were mainly under the full support to national implementation modality.

II.   Good practices

OAI identified good practices, as follows:

Finance/Reporting and monitoring. The Office had developed software that produced comprehensive analytical reports using various and specific Atlas queries. This software helped the Office, among others, to have a clear picture about the following: the current financial situation at output, project, department and portfolio/thematic area levels; the status of national implementation advances; the current Atlas budget versus cash availability at project, fund and donor levels; and the General Management Service fees budgeted per project fund and donor collected against extrabudgetary reserves.

Finance/Cost recovery. The Office had developed, in 2005, software that had become a recognized tool for recovering costs of services provided to projects and other United Nations agencies. This system had since been shared with other UNDP offices and was adjusted in 2016 following the introduction of the Direct Project Costing methodology.

III.   Audit results

Satisfactory performance was noted in the following areas:

(a) Governance and strategic management: An adequate organizational structure and delegations of authority, risk management and financial sustainability structures were established. The Global Staff Survey results reflected positive feedback.

(b) United Nations coordination: Adequate controls were established to manage and lead the United Nations coordination role in the Country. The joint programming and reporting was initiated in 2016.

(c) Operations/Procurement: Management had established adequate risk management, compliance, and control functions related to the procurement process.

OAI made three recommendations ranked medium (important) priority.

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

Medium priority recommendations, arranged according to significance:
(a) Obtain the required DIM authorization in a timely manner (Recommendation 1).
(b) Avoid using the service contract modality when filling vacant positions that require performing core functions (Recommendation 3).

(c) Develop a tool to monitor the timeliness of the service contractor recruitment process (Recommendation 2).

The detailed assessment is presented below, per audit area:

A. Programme management

1. Programme/Project design and implementation

Issue 1   Projects implemented under direct implementation modality without prior authorization from Regional Bureau

According to the 'UNDP Programme and Operations Policies and Procedures', the direct implementation modality (DIM) is the modality whereby UNDP takes on the role of implementing partner. UNDP assumes overall management responsibility and accountability for project implementation. Accordingly, UNDP must follow all policies and procedures established for its own operations. The responsibility for the execution of the DIM projects rests with UNDP. This role in some projects is reflected in the Standard Basic Assistance Agreement signed by UNDP with the Government (or other document of agreement with the host Government). Regional Bureaux and Country Offices must make sure that approval is granted for direct implementation before the initiation of project/programme activities.

The audit noted the following with regard to projects implemented under DIM:

- The 'Study and Research on Election Media Coverage for 2016 Parliamentary Elections in Georgia' project was being implemented through DIM with no prior authorization from the Regional Bureau. The Office submitted the DIM authorization request to the Regional Bureau for this project in January 2017, after the closing date of the project, which was 31 December 2016.

- The audit further noted that the project lacked a documented capacity-building and exit strategy within the project design, contrary to what is required for all projects implemented under DIM.

- The DIM authorizations for two other projects (i.e., 'Confidence Building Early Response Mechanism' and 'Horizons Project – Strengthening Community Resilience in Abkhazia'), were granted by the Regional Bureau in February 2017, even though those projects had started operations in January and June of 2016, respectively. The Office's management explained that the Government confirmation of the projects was only received in October 2016, which impacted on the timeliness of obtaining the Regional Bureau's authorization.

- The Office started a similar project in 2017, 'Study and Research on Election Media Coverage for 2017', which was implemented through DIM, also without prior authorization from the Regional Bureau.

Priority	Medium (Important)
Recommendation 1: The Office should coordinate with the Regional Bureau in order to obtain the required DIM authorization in a timely manner.	
Management action plan: The recommendation is accepted and the Office will ensure the timely submission of DIM authorization requests. **Estimated completion date:** June 2017	

B. Operations

1. ICT and general administrative management

Issue 2   Weaknesses within fuel management process

The 'UNDP Programme and Operations Policies and Procedures' on vehicle management set the requirements and responsibilities of the Office, which require the existence of sufficient controls, including fuel management.

There were a total of 28 vehicles with a combined fuel expenditure of $84,185 during 2016. The fuel was sourced through a Long-Term Agreement with a local supplier and was purchased at participating petrol stations through a top-up card for Office vehicles and a coupon system for project vehicles. Coupons were exchanged for a specified amount of fuel. The required fuel for project vehicles was requested and managed by the Project Managers, while the Operations Manager handled the Office's fuel usage. The fuel coupon order and distribution process was managed centrally by the Finance Unit and provided to drivers when required.

The Office did not complete a fuel consumption reasonableness test to determine whether the value of fuel used by each vehicle was reasonable, based on the total recorded mileage within the month. Coupons were not limited to the use of one vehicle. Project Managers requesting coupons from the Finance unit did not attach supporting documents to the fuel usage requests. Also, there was no independent reconciliation between the coupons received by the Finance Unit and those distributed to projects.

The above weaknesses occurred because the Office did not develop standard operating procedures to ensure that the Office had sufficient controls on fuel management.

Without adequate controls surrounding the use of fuel cards and coupons, they may not be used as intended.

OAI Comment: OAI is not issuing a recommendation in this case since the Office recently developed and provided to the audit team standard operating procedures on vehicle and fuel management, addressing all points raised.

2. Human resources management

Issue 3 — Delays in service contractors' recruitment process

The Office was using revised standard operating procedures for the recruitment of service contract holders since July 2015. These guidelines provide a timeline for the recruitment process of service contractors for new and ongoing projects. Subsequent to the approval of the Terms of Reference for a service contract position, the approximate time frame given from the posting of the vacancy to the signature of the contract should be 29 days, plus the time required for medical certification for both new and ongoing projects.

The audit team reviewed all eight service contractor recruitment cases – the total number of cases handled by the Office during the period under review. The recruitment period, from the posting of the vacancy to the signature of the contracts, took over 100 days in six cases, and over 180 days and in two cases.

Given the nature of project cycles, the delays in the hiring process may impede project delivery, and delays in the hiring process may result in the most qualified candidate not being available by the time the contract is offered.

Priority	Medium (Important)
Recommendation 2: The Office should develop a tool to monitor the timeliness of the service contractor recruitment process to avoid delays in the future. The standard operating procedure in use should be reviewed to consider more reasonable timelines for filling vacancies.	
Management action plan: The recommendation is accepted. The Office will review the current service contract standard operating procedures to improve the timeliness and efficiency of the recruitment process. **Estimated completion date:** December 2017	

Issue 4 — Incorrect contract modality applied for core functions

The service contract modality is intended to engage individuals for development projects or for the performance of non-core support services, which would normally be outsourced to an external vendor (e.g., custodial, security and information technology services). The 'Service Contract Guidelines' state that service contract holders should not perform core functions, specifically functions that are of a continuing nature and are part of the central work of UNDP.

The Office engaged one individual under the service contract modality who was performing core functions in the Office, covering both programme and operations functions. The Office explained that this was driven by the higher costs associated with the use of fixed-term contracts, which would have exceeded the budget available to fund these posts.

Since service contract holders are not granted approving rights in Atlas, there is an increased risk of duties not being adequately segregated due to the limited number of staff members that can perform certain functions. In addition, the different levels of remuneration and benefits between service contract holders and staff under fixed-term appointments may create tension among personnel in the Office performing the same or similar tasks.

Priority	Medium (Important)
Recommendation 3: The Office should avoid using the service contract modality as a cost-saving measure when filling vacant positions that require performing core functions, and should consult with the Regional Bureau on the issue of limited institutional budget for the fulfillment of core functions.	
Management action plan: The recommendation is accepted. In the future, the Office will avoid hiring service contract holders for performing core functions. The Office will also consult the Regional Bureau on the issue of limited institutional budget for the fulfilment of core Office functions. **Estimated completion date:** December 2017	

Definitions of audit terms - ratings and priorities

A.   AUDIT RATINGS

- **Satisfactory**

  The assessed governance arrangements, risk management practices and controls were adequately established and functioning well. Issues identified by the audit, if any, are unlikely to affect the achievement of the objectives of the audited entity/area.

- **Partially Satisfactory / Some Improvement Needed**

  The assessed governance arrangements, risk management practices and controls were generally established and functioning, but need some improvement. Issues identified by the audit do not significantly affect the achievement of the objectives of the audited entity/area.

- **Partially Satisfactory / Major Improvement Needed**

  The assessed governance arrangements, risk management practices and controls were established and functioning, but need major improvement. Issues identified by the audit could significantly affect the achievement of the objectives of the audited entity/area.

- **Unsatisfactory**

  The assessed governance arrangements, risk management practices and controls were either not adequately established or not functioning well. Issues identified by the audit could seriously compromise the achievement of the objectives of the audited entity/area.

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. Failure to take action could result in 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.