UNITED NATIONS DEVELOPMENT PROGRAMME
Office of Audit and Investigations

AUDIT

OF

UNDP COUNTRY OFFICE

IN

BENIN

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Report on the audit of UNDP Benin
Executive Summary

The UNDP Office of Audit and Investigations (OAI) conducted an audit of UNDP Benin (the Office) from 19 to 28 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 28 February 2017. The Office recorded programme and management expenditures of approximately $16.5 million. 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 / major improvement needed**, which means, "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." This rating was mainly due to weaknesses in the management of individual contracts and weaknesses in procurement processes and activities.

Good practice

The Office received, from the UNDP Bureau for Policy and Programme Support, the Silver Gender Award, which denoted good practices in promoting gender equality and the empowerment of women. The achievement was based on an established score of 70 percent, with the Office fulfilling 26 out of 37 benchmarks. It was a significant improvement from the baseline of 54 percent in 2015.

Key recommendations: Total = **10**, high priority = **2**

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

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

Weaknesses in management of individual contracts (Issue 7)	The audit found weaknesses in the management of individual contracts, related to inadequate procurement and sourcing of consultants, unjustified direct contracting, inadequate contract management, and weaknesses in the evaluation of candidates. Recommendation 7: The Office should improve individual contract management by: (a) complying with UNDP policies and procedures for individual contractor recruitment and management that includes changes in sourcing strategy, evaluation of candidates and contracts management based on requirements set by the organization's policies and procedures; (b) establishing mechanisms to strengthen the oversight process over individual contractor management in order to timely spot and mitigate associated risks; and (c) providing appropriate procurement awareness trainings to both the programme and operations staff involved in the recruitment of individual contractors.
Weaknesses in procurement processes and activities (Issue 8)	Several weaknesses were found in the management of procurement processes and activities. These included inadequate vendor management processes, and weaknesses in the management of civil contracts. Recommendation 8: The Office should strengthen procurement processes and activities by: (a) requiring that UNDP vendor forms are used and that all sections of the forms are completed and signed, and data provided in the vendor forms is verified, and matches the legal supporting documentation provided by the vendors; (b) improving contract terms and, as necessary, enforcing penalties when terms are breached; and (c) capturing the entirety of contract value when purchase orders are raised.

Management comments and action plan

The Resident Representative accepted all of the 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.

Antoine Khoury
Deputy Director
Office of Audit and Investigations

I. About the Office

The Office, located in Cotonou, Benin (the Country), comprised of 41 staff members, 55 service contract holders and 33 United Nations Volunteers at the time of the audit. The Country Programme Document, covering the period 2014-2018 focused on the following areas: (a) accountable and representative governance institutions serving people; (b) sustainable development; and (c) inclusive and sustainable growth. The Office had a portfolio of 17 ongoing projects and delivered approximately $16.4 million during the period under review.

II. Good practice

The Office received, from the UNDP Bureau for Policy and Programme Support, the Silver Gender Award, which denoted good practices in promoting gender equality and the empowerment of women. The achievement was based on an established score of 70 percent, with the Office fulfilling 26 out of 37 benchmarks. It was a significant improvement from the baseline of 54 percent in 2015.

III. Audit results

(a) Operations/Staff and premises security. Safety and security controls were assessed to be adequate and functioning well.

(b) Operations/Information and communication technology. No reportable issues were identified.

OAI made two recommendations ranked high (critical) and eight recommendations ranked medium (important) priority.

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

High priority recommendations, arranged according to significance:
- (a) Improve individual contract management (Recommendation 7).
- (b) Strengthen procurement processes and activities (Recommendation 8).

Medium priority recommendations, arranged according to significance:
- (a) Improve partnership and resource mobilization (Recommendation 1).
- (b) Improve the annual integrated work planning (Recommendation 2).
- (c) Strengthen capacity-building and pursue the implementation of HACT (Recommendation 3).
- (d) Improve project monitoring and oversight (Recommendation 4).
- (e) Improve the handling of temporary project deficits and funding gaps (Recommendation 5).
- (f) Improve travel management (Recommendation 6).
- (g) Strengthen the management of recruitment processes (Recommendation 9).
- (h) Improve the management of the Resident Coordinator's Office budget (Recommendation 10).

The detailed assessment is presented below, per audit area:

A. Corporate external relations and partnership

1. Partnership and resource mobilization

Issue 1 Inadequate resource mobilization and partnership strategies

The financial sustainability of UNDP Country Offices depends on their ability to mobilize resources and develop partnerships. Therefore, the 'UNDP Programme and Operations Policies and Procedures' require Country Offices to establish an effective partnership and resource mobilization action plan, which should be updated at the beginning of each year. In addition, the UNDP Partnership Survey solicits feedback from the UNDP country-level partners on UNDP's performance in programme countries, and on the role and performance of UNDP. The results are utilized to understand the perceptions of partners and to improve the work of the organization. In addition, the 'UNDP Programme and Operations Policies and Procedures' state that direct project costs are organizational costs incurred in the implementation of a development activity or service that can be directly traced and attributed to that development activity or service. To this effect, a workload analysis should be conducted to identify direct project costs incurred that should be recovered.

The audit noted the following weaknesses that could impact partnerships and financial sustainability:

(a) Inadequate resource mobilization strategy

The Office aimed to mobilize a total of $64 million in resources during the 2014-2018 Country Programme cycle. At the time of the fieldwork, the Office was moving towards the implementation of the second half of the cycle and yet, a resource mobilization strategy had not been finalized. For instance, critical information was missing, as described below:

- As of June 2017, the Office mobilized $30 million (47 percent) of the total planned for the 2014-2018 cycle. The Governance pillar only raised $2.5 million out of the $15 million (17 percent) planned for the cycle.
- In its Country Programme Document, the Office strongly advocated to mobilize resources with non-traditional donors like the BRICS countries (Brazil, Russia, India, China and South Africa). Yet, its resource mobilization actions plans did not make a reference to this strategy, which could have helped raise additional resources.
- There was no clear and formalized mechanism as to how to effectively implement the resource mobilization plan. As an example, there were three Thematic Leaders with the responsibility of mobilizing resources. However, this was not always specified in their job descriptions or included as a key performance indicator in their Performance Management and Development plans.

(b) Cost-recovery policy not fully implemented

The audit noted weaknesses in the implementation of Direct Project Costing, as follows:

- In the case of one project with a large component of its delivery being implemented by UNDP, the Office did not apply the Direct Project Costing policy. The Office explained that this was because funds for the implementation of activities against the project had not yet been received from the donor. This, however, does not exempt the Office from the requirement of applying Direct Project Costing.
- For another project, the direct project costs had not been included in the workload analysis prepared at the beginning of 2016, and thus the respective costs were not allocated using the multiple funding lines

approach adopted by the Office. The respective direct project costs amounting to $33,000 were subsequently allocated to the project using a journal entry that recorded the costs as revenue to extrabudgetary resources, as opposed to them being recorded as expenses to the project.

(c) Negative results from partnership surveys not addressed

The 2015 partnership survey results were only received from the Regional Bureau for Africa in March 2017, following a request from OAI. The survey results disclosed the following perceptions from 19 partners that responded to the survey:

- 42 percent of respondents did not believe UNDP was a partner of choice in democratic governance;
- 68 percent of respondents did not believe UNDP was a partner of choice in institutional capacity-building for the delivery of basic services;
- 63 percent of respondents did not believe UNDP was a partner of choice in gender equality and women's empowerment;
- 68 percent of respondents did not believe UNDP was a partner of choice in reducing the likelihood of conflict and the risk of natural disasters, including from climate change; and
- 79 percent of respondents did not believe UNDP was a partner of choice in early recovery and rapid return to sustainable development in post-conflict/disaster settings.

The Office commented that despite the negative results, adequate communication had been put in place to promote UNDP as a valued partner. Yet, as of April 2017, no specific action plan had been developed to tackle the root causes of these issues and to improve the perceptions highlighted above.

Inadequate resource mobilization strategy and cost-recovery processes may jeopardize the Office's financial sustainability. Failure to address partners' negative perceptions of the Office could negatively impact the Office's quest for additional donor resources.

Priority	Medium (Important)
Recommendation 1: The Office should improve partnership and resource mobilization by: (a) revising the resource mobilization action plans on an annual basis and taking the necessary action in order to reduce the resource mobilization gap; (b) complying with cost recovery requirements by systematically applying Direct Project Costing across all projects; and (c) addressing through a plan any negative perceptions received through the partnership survey results.	
Management action plan: (a) The resource mobilization plan has now been updated and included in the Office's Thematic Leaders' terms of reference is the responsibility of mobilizing resources. Furthermore, the resource mobilization action plans will be updated annually to consider the remaining resources to be mobilized for the cycle; (b) The Office will systematically apply cost recovery mechanisms to projects when necessary. (c) A formal action plan will be implemented to improve the perception of partners on UNDP activities.	

Estimated completion date: March 2018

B. Programme management

1. Project design and implementation

Issue 2 Inadequate Integrated Work Plan

The Integrated Work Plan (IWP) is a UNDP instrument that establishes annual programmatic and operational priorities, and outlines what Country Offices plan to do during the year in response to corporate priorities as well as other, country-specific priorities, and significant 'additional' results. As per the 'UNDP Guidance Note on Preparation of Integrated Work Plans', enabling actions which capture what activity or task needs to be achieved, 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). Furthermore, the variety of external and internal factors that create uncertainty regarding the realization of organizational goals should be formally captured within the IWP as potential risks.

OAI reviewed the Office's 2016 and 2017 IWPs and monitoring and noted the following weaknesses:

- In both IWPs, there were no enabling actions to support all of the Office's top programmatic and organizational priorities that were planned in the previous years' Results Oriented Annual Reporting (ROAR).
- The existing enabling actions were not found to be specific, measurable, and time-specific, to allow for adequate monitoring and reporting of the achieved activities.
- The current IWP's risks landscape did not include financial, operational, reputational, safety and security, compliance, and development results risks. The Office had only identified two risks in the risk-register section of the 2016 and 2017 IWPs in the corporate planning system. Furthermore, all activities stated under the risk treatment section were generic and without substantive updates in 2016 and 2017.

The Office's management explained that risks were also listed during project implementation. However, the IWP is a different exercise, and the audit review of the project documents also noted weaknesses in the implementation and monitoring of risks.

Inadequate risk identification and enabling actions that are not measurable and not linked to the Office's work plan may impact the Office's ability to achieve intended objectives and results.

Priority	Medium (Important)

Recommendation 2:

The Office should improve the annual integrated work planning in accordance with the corporate guideline requirements by:

(a) integrating in the work plan all top programmatic and organizational priorities;
(b) establishing activities that are specific, measurable and relevant; and
(c) identifying all appropriate risks during the annual work planning.

Management action plan:

The Office will take the following actions:

(a) align the programmatic and organizational priorities of the Office with the enabling actions defined in the upcoming 2018 IWP;
(b) indicate the specific and measurable nature of the activities defined under each enabling action; and
(c) explicitly reflect in the 2018 IWP any type of risk that could compromise the achievement of the Office's objectives.

Estimated completion date: January 2018

Issue 3 Absence of capacity-building plan and exit strategy and weaknesses in the implementation of the Harmonized Approach to Cash Transfers

The Country Programme Document provided that the Country Programme should be nationally implemented and under the general supervision of the respective government ministry. For that purpose, a Letter of Agreement was signed in February 2015 between the Government and UNDP. Per the 'UNDP Programme and Operations Policies and Procedures', for an entity to execute or implement a UNDP project, a capacity assessment should be completed, covering the following areas: technical, managerial, administrative, and financial capacity.

Furthermore, the framework for the Harmonized Approach to Cash Transfers to Implementing Partners (HACT) requires a micro-assessment of the implementing partner's management capacity to determine the overall risk rating and assurance activities. The risk rating is taken into consideration to determine the cash transfer modalities for an implementing partner.

The audit noted the following weaknesses that could impact programme management and the implementation of HACT:

(a) Absence of capacity-building plan and exit strategy on projects deliverables

The audit reviewed the implementation of the current Country Programme Document and noted that the Office had signed a Letter of Agreement with the Government for the provision of services support covering the current programming cycle 2014-2018. However, the audit found no formalized capacity-building plan projecting development activities for implementing partners. Furthermore, the Letter of Agreement did not establish an exit strategy with the view to transfer ownership and accountability of projects' deliverables to the national partners.

The Office's management explained that while a formalized capacity assessment and capacity-building plan had not been established for all projects, there were several instances where national partners benefitted from UNDP's expertise and trainings.

(b) Harmonized Approach to Cash Transfers not fully implemented

The audit also noted that the Office had initiated actions to implement HACT together with other United Nations agencies including a joint macro-assessment that was completed in November 2015. However, as of April 2017, there was still no assurance plan (financial audits, internal control audits, special audits, programming visits and spot checks), based on the results of macro- and micro-assessments.

The Office's management further explained that the implementation of the HACT framework was in progress, and that it had established some mitigating controls with Financial Assistants for each project receiving advance payments. However, these functions cannot substitute HACT assurance activities.

In the event a capacity assessment is not completed and the role of UNDP in strengthening capacity is not properly defined and formalized, long-term programme results may not be achieved. In addition, without appropriate completion of the assurance activities, the HACT framework would only serve as a mechanism for risk assessment/identification, rather than a mechanism for risk management and mitigation. Furthermore, the objectives of harmonizing practices among United Nations agencies and lessening the burden of the multiplicity of United Nations procedures will not be achieved unless HACT requirements are met and are duly implemented.

Priority	Medium (Important)
Recommendation 3: The Office should strengthen capacity-building and pursue the full implementation of HACT by: (a) developing a capacity-building plan and an exit strategy with the view to transfer ownership and accountability of projects; and (b) completing all necessary components of the HACT framework.	
Management action plan: The Office will take the following actions: (a) develop, in the short term, a capacity-building plan for implementing partners, as well as make available at the beginning of the next cycle an assessment of the capacities of the partners identified for the implementation of the new programme, with a formal exit strategy that will clarify the role of UNDP, as well as the oownership and accountability of the national partners; and (b) establish for 2018 an assurance plan based on the results of the micro-evaluations, and the experience with the implementing partners. **Estimated completion date:** March 2018	

Issue 4 Lapses in project monitoring and oversight

The 'UNDP Programme and Operations Policies and Procedures' stipulate that project level monitoring should include quarterly monitoring outputs, related indicators of progress, as well as risks and issues. Risk assessment is the overall process of risk (a) identification, (b) assessment, (c) prioritization, (d) taking action, and (e) monitoring. Furthermore, offices are required to properly perform the following monitoring activities: (i) conduct field visits; and (ii) conduct annual reviews of projects to assess their performance and appraise the annual work plan for the following year.

The following weaknesses were found after OAI's review of project documents for six projects amounting to $5.5 million:

- Risk logs not timely updated in Atlas: The audit team noted that risk, issues and monitoring logs in Atlas (enterprise resource planning system of UNDP) were not updated routinely. For the six projects reviewed, risk logs were not exhaustive or updated in Atlas to consider potential risks faced by the projects. For three trip reports reviewed, it was noted that highlighted issues and potential risks should have been captured in the risk register for monitoring purposes. In addition, the audit found that the log sheets were not usually updated for projects 00079540 and 00090819 since inception.

- Field visits not routinely conducted by Monitoring and Evaluation Experts: The Office had three Monitoring and Evaluation Experts whose key roles were to assist in the implementation of the project and build the implementing partners' capacities. This entailed follow-up on the indicators and conducting quality control of the project results, among other key tasks. During the period reviewed, the audit team noted that monitoring and oversight visits underlying core functions of monitoring and evaluation were not conducted, even though this task was specifically spelled out in the terms of reference. These visits would have allowed the Monitoring and Evaluation Experts to reinforce procedures, to introduce new concepts, to detect implementation issues, and undertake quick remedial actions where needed. Further, it would have provided visibility to the Office's management.

The Office's management explained that risk management is an integral process of project management, even though updates in Atlas are not always made timely.

Inadequate project monitoring may prevent the Office from identifying risks and from taking corrective measures in a timely manner. Moreover, inadequate monitoring arrangements may hinder the Office from having the capacities, and skills needed for evidence-based analysis and programming. All these may result in the non-delivery of expected outputs, which could negatively affect UNDP's reputation.

Priority	Medium (Important)
Recommendation 4: The Office should improve project monitoring and oversight by: (a) capturing and regularly updating all risks affecting the achievement of projects; and (b) requesting fields visits from all monitoring and evaluation staff; and (c) developing adequate tools to facilitate monitoring of programme and project activities.	
Management action plan: The Office will take the following actions: (a) establish a quarterly update process on the status of all risks at each project level; (b) conduct a site visit at the beginning of the year for each project; and (c) improve field visits both by Monitoring and Evaluation Experts and Programme Officers and develop monitoring and reporting tools. **Estimated completion date:** December 2017	

C. Operations

1. Financial resources management

Issue 5 Inadequate handling of project deficits

The 'Operational Guide of the Internal Control Framework for UNDP' and the 'Risk management guidelines for contributions by donors to Other Resources' stipulate that under certain conditions, projects may enter commitments in the absence of available cash during periods of temporary deficits. A commitment made during periods of temporary deficits must be covered by a budget override policy duly approved by the Comptroller and must be cleared within one month by a receipt of donor funds. Moreover, the 'UNDP Programme and Operations Policies and Procedures' state that changes to a project budget affecting the scope (outputs), completion date, or total estimated project costs require a formal budget revision that must be signed by the signatories of the original project document.

The audit noted that five journal entries worth $1.6 million were raised during the audit period to refund inter-project loans. While some of the loans were taken from TRAC or core funds, $1.3 million of such loans were from donor funds. The audit further found that while authorization from the donor was obtained prior to effecting the loan, in one instance, the loan exceeded the authorized amount by $126,000 with no additional justification or explanation. The Office's management explained that funds for the election project in 2015 were not received timely from the donor, necessitating the inter-project loans. Nevertheless, UNDP policies do not provide for inter-project loans and limit the pre-financing of activities to commitments only, as long as a budget override policy is in place, which was not the case in the Office.

Subsequent to the audit, the Office developed a budget override policy that was approved by the Comptroller. The absence of an approved budget override policy weakened the ability of the Office to properly manage budgets and timely address funding gaps. In addition, inter-project loans increase financial risks and may lead to incorrect shortfalls in those project budgets that were arbitrarily used to cover temporary deficits. This practice could also put at risk the management of resources and the accountability for project budgets.

Priority Medium (Important)

Recommendation 5:

The Office should improve the handling of temporary project deficits and funding gaps by:

(a) discontinuing the practice of using inter-project loans to cover temporary budget deficits; and
(b) developing a mechanism for addressing funding gaps on a timely basis, including budget revisions when necessary.

Management action plan:

(a) The Office has developed an override policy, which has been approved by the Comptroller and will now serve as the basis for handling funding gaps.
(b) Discussions will be held with donors to ensure timely availability of funds.

Estimated completion date: December 2017

2. ICT and general administration management

Issue 6 Weaknesses in management of travel

The 'UNDP Programme and Operations Policies and Procedures' stipulate that official travel is to be undertaken based on the most direct and economical route. In addition, they prescribe rules that must be used to determine Daily Subsistence Allowance entitlements. Upon return to the duty station, F10 travel claim forms must be completed within 10 business days to document the travel, irrespective of whether a refund or reimbursement is due.

During the audit period, the Office processed 91 travel purchase orders valued approximatively at $98,000. The audit reviewed 23 cases of international travel amounting to $48,154, and noted the following weaknesses:

- The Office only used one itinerary in six cases, while in another two cases no supporting documents were provided to show how the itinerary was selected. With a single itinerary, even coming from multiple travel agencies, it is not possible to determine the most direct and economic route, as per the policy. This weakness was primarily due to the Office's practice of not asking the travel agencies to provide three different itineraries. The audit noted that there was no documentation from the travel agencies indicating that other itineraries were not available.
- In 13 cases, the F10 travel claim forms were missing. Without F10s, it was not possible to determine whether the missions took place and whether any costs were to be refunded to the organization. This occurred because there was no clarity on who had accountability for ensuring that F10s were duly completed and there was no process to monitor the completion of F10s.

Inadequate management of travel and non-compliance with the travel policy could lead to inconsistencies or abuse of travel entitlements as well as higher costs.

Priority	Medium (Important)
Recommendation 6: The Office should improve travel management by: (a) using multiple itineraries in deciding the most direct and economical route and, as appropriate, obtaining confirmation that alternative itineraries are not available; and (b) outlining the accountability and process to be used to ensure that F10s are timely completed by all travellers whose travel is organized by the office.	
Management action plan: (a) The Office agrees with the recommendation and changed the method of selection by rotating travel agencies by asking them for three different itineraries. (b) A memo has been signed by management for the systematic submission of the F10s. **Estimated completion date:** Done	
OAI Response 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.	

3. Procurement

Issue 7 Weaknesses in management of individual contracts

The engagement of individual contractors under the individual contract modality is subject to the general procurement principles established by the UNDP Financial Regulations and Rules, namely, best value for money fairness, integrity and transparency, effective competition, as well as the interests of UNDP. The policy stipulates that for contracts over $5,000, a minimum of three qualified offers must be considered. Under certain circumstances, and subject to proper justification, it may be appropriate to consider a single offeror for the selection. According to the policy, reference checks are an important part of a vendor selection process; the offeror deemed to be most suitable shall be subject to two reference checks. Furthermore, UNDP's Financial Rule No. 121.05 provides only nine permissible justifications for direct contracting. Finally, one consultant could hold more than one contract from various business units only if there are no conflicts in terms of time and/or workload management.

During the audit period, the Office directly recruited 56 individual contractors. The audit noted the following weaknesses in the selection process of 17 recruitments of consultants:

(a) Inadequate sourcing of consultants

- Two individuals were directly contracted for $30,000 in total, without any supporting evidence to demonstrate that the conditions for direct contracting as described in Financial Rule 121.05 were applicable. The Office's justification for using the direct contracting modality was that ''The proposed contract is for relevant services that cannot be objectively evaluated.'' No further justification was provided as to why the requested services could not be objectively evaluated. In addition, the audit noted that for one of the two cases, the reasons for direct contracting were not related to the complexity or uniqueness of the work to be done as required by the organization's policy, but were rather based on time constraints.
- In seven cases above $5,000, the Office shortlisted less than three candidates for the desk panel's review, yet the Office proceeded with the competitive process. There was no documented evidence that the Office attempted to ensure that a minimum of three candidates met the minimum requirements established for the selection process, especially for cases where international competition was suggested. In two of these cases, the staff approving the overall recruitment process highlighted the limited and lack of experience of the only technically qualified candidate, yet the Office proceeded with the recruitments, without any supporting evidence of the rationale for such recruitment.
- One candidate was recruited even though he did not have the required educational qualifications as per the terms of reference for the assignment. A review of the candidate's resume (P11) showed that he misrepresented his master's degree credentials, as an attached note from a faculty member stated that the candidate had yet to complete his master's thesis.
- For 7 out 17 cases, the audit noted that the Office was not able to identify suitable candidates. Despite this challenge, the Office had not conducted a sourcing analysis, market research or created an adequate roster to expand the pool of candidates.

(b) Inadequate individual contracts management

- Where payments were based on several deliverables, management had not established a timeline for each intermediate deliverable, in all cases reviewed. Only the final report date was defined as a milestone. Thus, there was no indication of how the Office monitored deadlines, especially the payments for intermediate deliverables. As a consequence, the audit found that in two cases amounting to $35,000, the final deliverables attached to the last payments were not produced by the individual contractors, but rather by another consultant. The Office's management explained that the latter was using inputs from the other individual contractors to finalize his report. However, the Office was not able to provide the final deliverable of the said contractors to justify the payment made.

- Two individual contractors were recruited for four months to work on two different assignments, each within the same business unit. The audit noted that in considering fees for service, weekends and holidays were not excluded from the contracts. Indeed, the Office paid the consultants at a rate based on 120 days, including weekends and holidays. Those four contracts amounted to approximately $69,000.
- The Office extended in September 2016 an individual contract that had expired in June 2014. The UNDP policies provide that only active contracts may be amended, as expired contracts are no longer valid and the obligations of both parties to the other cease to exist.

(c) Weaknesses in the evaluation of proposals

- The evaluation of individual contractors was mostly based on a panel's collective rating, rather than on individual notations. This led to inconsistencies in the evaluation process. In five cases, candidates received grades even though they did not meet the selection criteria, according to the audit. As an example, when the selection criteria included "excellent written and oral communication skills in French or English" and "working references/reputation in the specific field", there were no interviews or written tests conducted, nor were there reference checks obtained for experience in the specific fields. Therefore, it was not possible to determine how the panel assessed the candidates.
- In another case, candidates received positive grades for information they did not provide.
- In two cases of recruitments of consultants for sustainable development work, two procurement staff who were also panel members did not have the required skills to conduct the technical expertise and methodology evaluation, which were key components of the selection process.
- Reference checks were not obtained in 6 out of 17 recruitment files reviewed.

Most of the issues noted above were due to inadequate planning from the project units and because of a lack of adequate oversight mechanisms in place to spot and mitigate risks associated with the management of individual contractors.

After the end of the audit fieldwork, the audit team was copied on an email addressed to the UNDP Anti-Fraud Hotline, which raised allegations of irregularities, including in the recruitment of individual contractors for a specific project. The allegations were passed on to the OAI Investigations Section for review, which performed its independent assessment and concluded that the allegations were unsubstantiated and the case was closed. Allegations of a similar nature were brought to the attention of the Office's management earlier, before they were addressed to the Anti-Fraud Hotline and shared with the audit team. When preparing for the field mission, the audit team had inquired whether the Office's management was aware of any potential cases, and their response was negative. The 'UNDP Legal Framework for Addressing Non-compliance with UN-standards of Conduct' (Chapter I/Section 2) stipulates, "managers shall report allegations of wrongdoing to OAI as soon as they are aware of such allegations." The Office's management subsequently informed the audit team that they considered the allegations baseless, hence the non-disclosure of this information to the audit team.

By not complying with individual contractor recruitment and management policies and procedures, there is no assurance that the most qualified candidates will be selected and that best value for money, fairness, integrity and transparency in the competitive process will be achieved.

Priority	High (Critical)

Recommendation 7:

The Office should improve individual contract management by:

(a) complying with UNDP policies and procedures for individual contractor recruitment and management that includes changes in sourcing strategy, evaluation of candidates, and contracts management based on requirements set by the organization's policies and procedures;
(b) establishing mechanisms to strengthen the oversight process over individual contractor management in order to timely spot and mitigate associated risks; and
(c) providing appropriate procurement awareness trainings to both the programme and operations staff involved in the recruitment of individual contractors.

Management action plan:

(a) A new mechanism has been established to strengthen internal controls over individual contractor recruitments and management.
(b) The Office has started implementing this recommendation.
(c) A training session has been organized on 25 May and 26 May to the entire programme and procurement staff.

Estimated completion date: Done

OAI Response

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.

Issue 8 <u>Weaknesses in procurement processes and activities</u>

The 'UNDP Programme and Operations Policies and Procedures' require the review and verification of supporting documents when creating a vendor or when updating vendor information in Atlas. Contract management is subject to the general procurement principles established by the UNDP policies. The process ensures that all parties to a legally binding agreement fully meet their respective obligations as efficiently and effectively as possible. The contract management process 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. Contract management includes monitoring performance (i.e., quality standards, delivery), effecting payments, and initiating amendments and the orderly resolution of any disputes that may arise in the overall process. Further, contract management ensures that all residual obligations, such as warranties, guarantees, and after sales services and support are clearly defined in terms of responsibility, liability, procedures and timeframes.

The following weaknesses were noted during the review of procurement activities:

(a) Inadequate vendor management processes

The audit team reviewed a sample of 10 vendor forms (out of a list of 2,500 approved vendors in Atlas) for verification of completeness and accuracy of information through the related documents. In all cases, there was no evidence that the Office had conducted the minimum due diligence (e.g., confirmed company registration with government authorities, checked financial statements, personal identity documents, annual statements, verified the entity against the United Nations Security Council 1267 Committee's list of terrorists and the UNDP suspended vendors list, etc.) before the vendor was approved in Atlas. In all 10 cases, only the vendor bank information was required and supporting documents such as registration details were missing.

The Office's management commented that some vendors were directly contracted by the Government and they expected the Government to perform this due diligence. However, the same issue was found for all four tested vendors directly contracted by the Office. Furthermore, the audit noted that the Office had developed its own vendor form template, which did not include a "For Office Use" section. This negatively impacted the Office's process of validating the completeness of vendor supporting documentation, and contributed to weakened management oversight of the vendor recruitment process.

(b) Weaknesses in contract management

- For four contracts, worth approximatively $1 million, related to civil works between 2016 and 2017, the audit noted that outputs were not provided within the time stipulated in the contract, thus warranting multiple contract revisions. One of the reasons the contracts were delayed was that the Office had unilaterally set a timeline for execution of the civil works, rather than seeking a professional commitment from the contractors and using penalty clauses defined in the contracts. The Office's management explained that the delays were due to circumstances that could not be anticipated, including the weather. The Office further explained that penalty clauses were not levied against the contractors because the contracts were extended in agreement with the Office to take into account the weather constraints. Nevertheless, the reason for using contractual instruments was to allow the Office to hold vendors accountable to the commitments they had made.
- According to the signed four agreements mentioned above, the contractor should provide and thereafter maintain liability insurance. However, the Office did not obtain such insurance certificates, which could have covered third party claims for death or bodily injury, or loss of or damage to property, arising from or in connection with the provision of services under the contract. During the audit period, the Office processed 260 purchase orders for a total of $5.2 million. The audit team reviewed a sample of 30 transactions amounting to $2 million. In one case, the Office did not record the entire value of the contract ($1.2 million) at the time of the purchase orders creation, but instead created three purchase orders valued at $355,000, against three payments representing large civil works. In discussions with the Office, the audit team understood that one underlying cause for the Office not recording the total value of the contract during the purchase order creation was the late receipt of funds from the donor. Thus, without the necessary funds and given that the Office did not have a budget override policy (refer to issue 5), it had to raise piecemeal purchase orders to cover the amount that the funds available could cover.

Not thoroughly reviewing and validating vendor information could lead to irregularities or to the creation of fictitious vendors, which may not be detected in a timely manner. Setting unjustified delivery timelines and failure to enforce contract terms may result in delays in project completion and may negatively affect the delivery of the Office. Additionally, failure to record the entire amount of a contract when a purchase order is created may lead to inefficiencies and potential liabilities for the Office.

Priority	High (Critical)

Recommendation 8:

The Office should strengthen procurement processes and activities by:

(a) requiring that UNDP vendor forms are used and that all sections of the forms are duly completed and signed, and data provided in the vendor forms is verified, and matches the legal supporting documentation provided by the vendors;
(b) improving contract terms and, as necessary, enforcing penalties when terms are breached; and
(c) capturing the entirety of contract value when purchase orders are raised.

Management action plan:

(a) A memo has already been issued and the form with the required supporting documents is currently being used.
(b) The Office will consider related risks before establishing an agreement with contractors.
(c) The Office takes note of the recommendation and will capture the entirety of contract value when purchase orders are raised.

Estimated completion date: December 2017

OAI Response

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.

4. Human resources

Issue 9 Weaknesses in recruitment processes

The 'UNDP Programme and Operations Policies and Procedures' set out specific guidelines for recruitments of staff and service contractors. Internal recruitments must at be advertised on Country Office websites. Controls must be established to ensure that all applications are accounted for and considered during the recruitment process.

The audit reviewed a sample of six recruitments completed between 2016 and 2017 and noted that the posts for internal candidates and posts handled by third-party vendors were not advertised on the Office's website. For processes that were limited to internal candidates, the practice and perception in the Office was that the post was only opened to staff in the Office and therefore an advertisement within the Office through an internal memo would suffice. For recruitment processes that were handled via third-party vendors, advertisement was through local newspapers and on the website of the vendor, but not on the Office's website.

With respect to receipt of applications, the audit noted that these were received by email with no controls to log the receipt of applications, thus posing a risk of overlooking applicants. Moreover, there was no summary of why candidates were excluded from or included in longlists.

The Office's management explained that since October 2016, it had started using the e-Recruit platform, which would help mitigate the weaknesses that were noted. However, the new process had not been in place long enough to establish sufficient data for the audit team to assess its effectiveness.

Limiting advertisement of vacant posts and having inadequate controls over the receipt of applications could result in qualified candidates being inappropriately excluded.

Priority	Medium (Important)
Recommendation 9: The Office should strengthen the management of recruitment processes by: (a) ensuring that recruitments are advertised, in line with policies and procedures; (b) all applications are received using the online platforms; and (c) rationale for excluding or including candidates is properly documented.	
Management action plan: (a) The Office is now using the e-Recruit system for all its recruitments. (b) The entire process is now conducted on the said platform. (c) All applicants are now considered because applications are received on the e Recruit platform and each step is documented. **Estimated completion date:** Done	
OAI Response 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.	

D. United Nations Leadership and Coordination

Issue 10 Lapses in management of Resident Coordinator's Office budget

Resident Coordinator Office (RCO) budgets should be established in Atlas in accordance with the United Nations Development Operations Coordination Office (DOCO) guidelines and should be linked to annual work plan outputs. The funding for the RCO is allocated by DOCO, based on the United Nations Development Group (UNDG) cost-sharing mechanism. Offices are required, for proper financial reporting of the RCO budget, to create two projects in Atlas, one for the management of the staff salary costs and another one for the management of general operating expense (GOE) costs. Furthermore, since 2013, the UNDP policy advocates appropriate allocation of coordination expenses to the underlying management and development effectiveness costs categories. As such, the cost recovery expenses are no longer to be allocated to United Nations development coordination activities.

The review of the RCO budget management and execution of its annual work plan revealed the following weaknesses:

- For 2016 and 2017, the Office did not develop a results-based budget linked to outputs of the annual work plan. Thus, OAI could not establish a direct link between the budget in Atlas and the United Nations Country Team annual work plan.
- For 2015 and 2016, the Office charged a total of $60,000 for expenses to the extrabudgetary reserves account (11300) even though this process/policy had not been in place since 2013.
- In 2016, the RCO budget structure in Atlas did not reflect the separation of salaries and GOE as required by DOCO for proper financial oversight and reporting. The required budget structure was not followed by the RCO, making monitoring of the use of the funds and financial reporting difficult. In 2016, the allocation from DOCO comprised of two parts: (1) the equivalent pro-forma costs for salary costs, which equaled $111,683; and (2) GOE, which equaled $100,000. However, at the end of year 2016, $137,000 had been used for salary costs.

The issues above were mainly caused by the lack of adequate training in planning, and by an absence of periodic monitoring of the use of coordination budgets. Subsequent to the audit fieldwork, the Office had taken the necessary actions to correct errors in the salary structure and in developing a results-based budget for the year 2017.

Ineffective management of the RCO budget could lead to inaccurate expense reporting to UNDG and Member States.

Priority	Medium (Important)

Recommendation 10:

The Office should improve the management of the Resident Coordinator's Office budget by:

(a) discontinuing the use of account 11300 (extrabudgetary reserves) to record Resident Coordinator Office expenses; and
(b) proving adequate training to the Resident Coordinator Office staff on budget allocation and enforcing oversight on expenses in order to limit errors and irregularities.

Management action plan:

The Office will take the following actions:

(a) discontinue the use of account 11300 (extrabudgetary reserves) to record Resident Coordinator Office expenses; and
(b) provide adequate training to the Resident Coordinator Office staff.

Estimated completion date: March 2018

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 <u>not included in this report</u>.