UNITED NATIONS DEVELOPMENT PROGRAMME
Office of Audit and Investigations

AUDIT

OF

UNDP PROGRAMME OF ASSISTANCE TO THE PALESTINIAN PEOPLE

Report No. 2009
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Report on the Audit of UNDP Programme of Assistance to the Palestinian People
Executive Summary

The UNDP Office of Audit and Investigations (OAI) conducted an audit of the UNDP Programme of Assistance to the Palestinian People (the Office) from 6 to 17 August 2018. 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 2017 to 30 April 2018. In view of the management structure of the Office and the fact the it is led by a Special Representative of the Administrator, and not a Resident Representative, the audit did not cover the management of the Resident Coordinator system as part of the United Nations Leadership and Coordination area. The Office recorded programme and management expenses of approximately $152 million. The last audit of the Office was conducted by OAI in 2014.

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

Overall audit rating

OAI assessed the Office as **partially satisfactory/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 Office's control environment, weaknesses in large-scale infrastructure project implementation, and deficiencies in procurement management.

Good practice

In 2016, the Office, with the support of an IT company, created an online assets system. The system includes all information on fixed assets and inventory managed by the Office in Jerusalem, Ramallah and Gaza. Information on assets can be accessed using the assigned custodian, Office ID or location. The main purpose of the system is to have full control over the assets and inventory in all locations. All assets are assigned bar codes, which are read through a reading device that facilitates the physical count process during mid-year and year-end physical verification exercises.

Key recommendations: Total = **7**, high priority = **3**

The seven recommendations aim to ensure the following:

Objectives	Recommendation No.	Priority Rating
Achievement of the organization's strategic objectives	2, 3	Medium
	4	High
Reliability and integrity of financial and operational information	1	High
Effectiveness and efficiency of operations	5	High
Compliance with legislative mandates, regulations and rules, policies and procedures	6, 7	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. The high (critical) priority recommendations are presented below:

Weakness in control environment of the Office (Issue 1)	The following weaknesses were identified within the control environment in which corporate policies had not been adhered to on a systematic basis:

(a) Costs of projects lacking funds being charged to projects with a cash balance

A review of a sample of 20 payment vouchers found that 3 vouchers, amounting to $3.3 million, were charged to a project that had a cash balance because the project that the payments corresponded to lacked funding at the time of payment. The Office also indicated that this practice had occurred with other projects during the audit period. In all, $11.9 million of project expenditures had been charged to projects that had a cash balance at the time when payments were due, as a short-term 'loan', without evidence of donor approval. Furthermore, the Office did not have a centralized tracking mechanism to record these charges and their reversals.

(b) Recording project cash advances as expenditure to meet expenditure targets

Within a sample of 20 payment vouchers, 2 instances were identified where advances of $5.2 million had been incorrectly recorded as expenditures.

Recommendation: The Office should: (a) in consultation with the Controller, design and implement a budget override policy for relevant projects, and reverse transactions where expenditure has been charged to the incorrect projects; and (b) adhere to the IPSAS requirements for the recording and reversal of advances.

Weaknesses in large-scale infrastructure project implementation (Issue 4)	Two out of the six projects reviewed related to large-scale infrastructure projects. The audit team noted weaknesses in project implementation, as follows:

(a) Project Hebron Courthouse Building

There were delays in construction work due to challenges in the excavation work, geo-technical testing, and redesign of foundation plans after being rejected by the Construction Technical Committee. The rejection of the plans caused the suspension of the construction works in January 2018 and the construction works were still suspended by the end of the fieldwork (mid-August 2018). The Office planned to review the contractor's time schedule. The audit team also noted that the risk assessment for this project was updated in May 2018, while the previous one was from October 2013.

(b) Project Construction of Waste Water Treatment Plant in Khan Younis (Gaza Strip)

The Coastal Municipalities Water Utility, an organization created by local municipalities of Khan Younis and commissioned to implement two project components, faced challenges in the construction work. There were delays in the acquisition of land for the infiltration basins and challenges in acquiring construction materials and equipment. The activities were planned to be completed by the second quarter of 2018.

Recommendation: For large infrastructure projects, the Office should record all risks regularly, and based on the risk assessments, assess and implement mitigating actions for these risks.

Deficiencies in the management of procurement (Issue 5)

The audit team noted weaknesses in procurement, as follows:

(a) Lack of documentation of Contracts, Assets and Procurement Committee (CAP) reviews of procurement activities

The audit team sampled 12 out of 62 procurement cases reviewed by the CAP during the audit period and found that in all but one case, the review was not documented in the ACP Online application. The single case where the review was documented was by way of a comment endorsing the case without assessing the document provided, which evaluated the proposals.

(b) Incorrect use of purchase orders in Atlas system

The audit team noted that there were 76 purchase orders (valued at $7.6 million) raised to facilitate payment to suppliers contracted by implementing partners. However, the related procurements were undertaken by the implementing partner, who was therefore responsible for raising purchase orders and the Office was requested to only process the payment. As a result, the commitments and total value of the procurement at the Office level for the audit period was mispresented, inflating the volume of the procurement activities in the Atlas system by 14 percent of the total procurement completed by the Office.

Recommendation: The Office should improve procurement management by: (a) documenting the Contracts, Assets and Procurement Committee reviews and minutes in the ACP Online application before recommending the procurement cases to the head of office for approval; (b) and discontinuing the issuance of purchase orders for procurement processes that are not undertaken by UNDP.

Management comments and action plan

The Special Representative of the Administrator accepted all seven recommendations and is in the process of implementing them. Comments and/or additional information provided have been incorporated in the report, where appropriate.

Low risk issues (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 Jerusalem, had, at the time of the audit, 65 staff members, 112 service contract holders and 7 United Nations Volunteers (UNVs). The Office was operating under a 'Development for Freedom' strategic document covering the period from 2012 to 2014; between 2014-2018 there was no programme document. The Office developed the Palestinian Programme Framework (PPF) for 2018-2021 (equivalent to country programme). At the time of the audit, the PPF was under review by the Regional Bureau for Arab States and Headquarters. The programme priorities included areas of intervention to: enhance responsive and inclusive governance to increase access to sustainable and quality basic services, public goods and rights; build resilience to climate change and disasters, ensure sustainable use of natural assets and close the energy gap; and foster access to sustainable and inclusive economic and productive opportunities.

II.   Good practice

OAI identified a good practice, as follows:

ICT and general administrative management/Asset management

In 2016, the Office, with the support of an IT company, created an online assets system. The system includes all information on fixed assets and inventory managed by the Office in Jerusalem, Ramallah and Gaza. Information on assets can be accessed using the assigned custodian, Office ID or location. The main purpose of the system is to have full control over the assets and inventory in all locations. All assets are assigned bar codes, which are read through a reading device that facilitates the physical count process during mid-year and year-end physical verification exercises.

III.   Audit results

Satisfactory performance was noted in the following areas:

   (a)   ICT and general administrative management: The internal controls put in place for the management of software and hardware; assets, and travel were found to be adequate. Observations on the management of the transportation unit were communicated to management and the Office agreed that the new structure will address these observations. No reportable issues were identified.

   (b)   Staff and premises security: Staff and premises security was found to be well managed. No reportable issues were identified.

OAI made three recommendations ranked high (critical) and four 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)   In consultation with the Controller, design and implement a budget override policy and adhere to the IPSAS requirements for the recording and reversal of advances (Recommendation 1).
   (b)   For large infrastructure projects, record all risks regularly, and based on the risk assessments, assess and implement mitigating actions for these risks (Recommendation 4).

(c) Document the Contracts, Assets and Procurement Committee reviews and minutes in the ACP Online application before recommending the procurement and use purchase orders only for procurement processes undertaken by UNDP (Recommendation 5).

Medium priority recommendations arranged according to significance:
(a) Improve the design and implementation of projects (Recommendation 3).
(b) Improve donor reporting (Recommendation 2).
(c) Renew the macro-assessment and implement the assurance plan in accordance with the HACT guidelines (Recommendation 7).
(d) Improve the management of human resources (Recommendation 6).

The detailed assessment is presented below, per audit area:

A. Governance

1. Leadership

Issue 1   Weakness in control environment of the Office

The 'Operational Guide of the Internal Control Framework' for UNDP outlines that each head of office has overall responsibility for establishing and maintaining adequate internal controls in his/her office. Likewise, the 'UNDP Programme and Operations Policies and Procedures' define the control environment as one of the components of the internal control system that sets the tone for the organization and provides the foundation for an effective internal control system. The control environment encompasses ethical values, management's philosophy and operating style, organizational structure, assignment of authority and responsibility, human resources policies and practices, and efficiency, competence and integrity of personnel.

The following weaknesses were identified within the control environment:

(a) Costs of projects lacking funds being charged to projects with a cash balance

The audit team reviewed a sample of 20 payment vouchers and found that 3 vouchers, amounting to $3.3 million, were charged to a project that had a cash balance because the project that the payments corresponded to lacked funding at the time of payment. The Office explained that this decision was taken as there were insufficient project funds available due to delays in donor disbursements. The Office also indicated that this practice had occurred with other projects during the audit period. In all, $11.9 million of project expenditures had been charged to projects that had a cash balance at the time when payments were due, as a short-term 'loan', without evidence of donor approval. Furthermore, the Office did not have a centralized tracking mechanism to record these charges and their reversals. The Office was able to provide supporting evidence that $10.6 million charged to the projects that had a cash balance when the actual projects had deficits were subsequently amended and the balances paid.

The Office confirmed that it discontinued this practice and developed a budget override policy, for projects where the donor makes payments in arrears. However, the audit team did not receive any supporting documents confirming that the Office consulted with the Controller on the design and implementation of the policy.

(b) Recording project cash advances as expenditure to meet expenditure targets

Of the 20 payment vouchers sampled, 2 were cash advances made to implementing partners totalling $5.2 million that had been incorrectly recorded as expenditures. Management explained that it had decided to do this during November and December in order to meet expenditure targets for 2017.

This treatment is inconsistent with the application of IPSAS and can lead to an overstatement of reported expenditure in the financial year for the Office.

(c)   Salary advances made to staff

A total of 48 staff received salary advances amounting to $394,352 within the audit period. The audit team reviewed five cases and found that there was inadequate justification documented within the advance request forms to determine whether they met the requirements under the UNDP policy.

In four of the five cases reviewed, the same staff member had received emergency advances in the previous year at the maximum permitted amount. In each case, the new advance had been requested in January, indicating the recurring nature of these payments. In addition, two service contract holders received advances even though the policy is applicable only to staff members.

The Office confirmed that the policy would be enforced more rigorously going forward.

Since the Office had already taken action and no further staff advances had been made in 2018, no recommendation is being made in this regard.

In each of the examples outlined above, the Finance Unit was aware of the corresponding policies; however; following the instructions of management, these policies were not adhered to. This can lead to a weakening of the overall control environment, which in turn affects the overall integrity and performance of the Office.

Priority	High (Critical)
Recommendation 1: The Office should improve the internal control environment by: (a) in consultation with the Controller, design and implement a budget override policy for relevant projects and reverse transactions where expenditure has been charged to incorrect projects; and (b) adhere to the IPSAS requirements for the recording and reversal of advances.	
Management action plan: (a) The request for approval of the budget override is to be submitted to the Comptroller. A communique was sent out on 26 September 2018 requesting programme and finance staff to adhere to the implementation of the budget override policy for relevant projects. The submitted requests, approved by the Special Representative, are tracked by the Management Support Unit and reviewed on a weekly basis during the Expanded Management and Solutions Team (EMST) meetings. (b) Programme and finance staff were requested to fully adhere to IPSAS requirements for recording advances against advance accounts. **Estimated completion date:** November 2018	

2. Corporate external relations and partnership

Issue 2   Weaknesses in donor reporting

Donor reports are prepared according to the financing agreement. UNDP is accountable for ensuring that donor reports are prepared according to the expected quality, the agreed-upon frequency and in a timely fashion. If information in the project progress report is not detailed or sufficient enough, then a reporting format should be agreed to at the time of signing the contribution agreement.

The audit team reviewed the financial and progress reports of a sample of six projects submitted to five out of the seven related donors and found the following:

- Reports were not submitted according to the schedule agreed to with donors. The audit team noted that this situation caused delays in the closure of five project outputs (refer to issue 3-c).
- Financial reports revealed inaccuracies in the figures reported.
- Although the required templates were followed, the progress reports had lacked substantial information.

In October 2014, the Office developed a standard operating procedure (SOP) on donor reporting and circulated it to staff. The SOP guided the process of editing and clearing the donor reports. It also assigned responsibilities to keep track on the reporting calendar and to ensure that the reports were timely, complete, and of the desired quality standard. The SOP, however, was not followed and some practices were discontinued. For example, the reporting calendar that was put in place in early 2016 was later discontinued when the responsibilities were transferred from one staff to another. The last update to the SOP was made in March 2018 that improved the roles and responsibilities of staff, but it was still in draft form pending the finalization of the new Office structure.

Failure to submit quality donor reports on time can impact the desired level of accountability that governs the Office on the use of resources, which can also jeopardize donor relationships.

Priority	Medium (Important)
Recommendation 2:	
The Office should improve donor reporting by: (a) finalizing and enforcing the use of the standard operating procedures; (b) developing a tracking system on submission of reports; and (c) strengthening the control and quality assurance processes.	
Management action plan:	
(a) The current standard operating procedure for donor reporting has been enforced since 2015. The Office will be reviewing the standard operating procedure upon completion of the office transition plan of 2018. (b) The donor reporting tracking system was introduced in 2016 but was not fully followed across the board by programme staff. The Office will fully enforce the donor tracking system as of January 2019. (c) The Office will:	

1) Communicate and circulate the reviewed/modified standard operating procedure.
2) Provide programme staff with additional report writing training that focuses on providing donors with substantial content that follows corporate results-based management and in line with the current standard operating procedure for donor reporting.
3) Ensure the submission of progress reports by programme staff to the Management Support Unit for financial review and clearance and equally to the Communication Unit for the overall quality control after being cleared by the Programme Analysts. The Office acknowledged that some reports have less details per donor requirements and focus on results and deliverables (process oriented).

Estimated completion date: February 2019

B.   Programme

1. Project design and implementation

Issue 3   Weaknesses in project design and implementation

The audit team reviewed a sample of six projects, comprising 13 outputs, with delivery of $54.5 million, equivalent to 53 percent of total delivery in 2017 and budget amounting to $53.3 million, equivalent to 59 percent of total budget for 2018. The audit team noted the following:

 (a)   Inadequate assessment, management and follow-up of project risks

The 'UNDP Programme and Operations Policies and Procedures' state that in order to contribute to a project's success, risks must be identified, assessed, prioritized and mitigated. Risk treatment and mitigation measures need to be considered and an appropriate risk management plan needs to be developed and implemented. This involves planning for and implementing resources to carry out selected actions to address the risks. These actions must be incorporated in the project work plan, including project monitoring and reporting to ensure that all risk management activities are being implemented and have the desired effect. Risks must be identified and assessed using the project risk log, which shall be submitted to the Project Appraisal Committee as an annex to the project document. The risk log must then be maintained and updated as needed in Atlas (enterprise resource planning system of UNDP) for the duration of the project.

The audit team reviewed the risk management register in and out of the Atlas project module and noted:

- In five out of the six projects reviewed, the risk identification, assessment and risk mitigation process was not adequately formulated during the design phase of the project.
- Risk logs were updated in 2017 in 7 out of the 13 ongoing outputs reviewed. In 2018, in 6 out of the 12 ongoing outputs reviewed, these updates included an output with a risk identified without an assessment or management response or risk mitigation actions; and another output that reported the same risk log since 2013.

The audit team also noted that, although the Office operated in a challenging context, the existent risks were not properly incorporated in the project work plan and their effect in the general implementation of the project was not properly assessed either.

The lack of adequate risk management practices may result in risks not being captured and addressed in a timely manner, which could jeopardize the achievement of results.

(b)   Weak monitoring of project activities

Monitoring is a continuous management function that provides decision makers with regular feedback on the consistencies or discrepancies between planned and actual results. All UNDP programming activities are required to adhere to monitoring standards. At the project level, the 'UNDP Programme and Operations Policies and Procedures' provide guidance on monitoring activities to undertake during the project implementation stage.

During the review of the sampled projects, the audit noted the following:

- Projects with significant budget had dedicated monitoring and evaluation staff but none of the sampled projects had a monitoring plan.
- The Office developed a Programme Monitoring Visit template that was circulated in August 2016. The template, however, was not consistently used by the programme teams.
- There were no standardized monitoring templates for project field visits.
- No financial monitoring reports were evidenced. The Office indicated that financial monitoring of projects was carried out through Harmonized Approach to Cash Transfers (HACT) assurance activities (refer to issue 7).
- There was limited follow-up monitoring for completed sub-projects related to income generation, microfinance and grants to beneficiaries implemented by civil society organizations, to ensure sustainability and the ability to address in a timely manner any need for additional support to sub-projects.

Weaknesses in project monitoring may prevent the Office from managing for mutually agreed results and may impact future project interventions.

(c)   Delays in project closure

Projects should be closed in a timely manner to manage fiduciary risk, meet donor expectations, avoid costly extensions and enable the timely transfer of assets for the sustainability of results. Financial closure must take place, at the latest, within 12 months of operational closure or after the date of cancelation.

As at the time of the audit, 10 outputs were operationally closed for more than a year and pending financial closure. Reasons for delays in five cases were due to pending completion or approval of final project reports, while in the remaining cases, the delays were due to pending clearance of balances. The Office explained that closing the outputs financially was very challenging especially in the case of remaining balances, and that the Office had been closely following up with donors and UNDP Headquarters. The Office estimated that around 400 projects had been completed and closed since 2012.

By not closing projects in a timely manner, the Office risks unauthorized expenditures being charged against these projects.

Priority	Medium (Important)
Recommendation 3:	
The Office should improve the design and implementation of projects in the areas of:	

(a) Risk, by
- improving the risk identification, assessment and risk mitigation during the design of projects, and reassessing this periodically and as needed; and
- incorporating the risks in the project work plan, including project monitoring and reporting.

(b) Monitoring, by
- developing strategic and integral monitoring plans that include planning of adequate site visits and use of the standardized monitoring templates for field monitoring activities; and
- implementing a follow-up monitoring system for completed sub-projects.

(c) Closure, by
- expediting the closure of finalized projects.

Management action plan:

(a) In 2017, the Office started conducting mandatory comprehensive training for programme personnel to increase the capacity of the staff and ensure proper management of risks and updates in Atlas. The Office will ensure risks for new projects are incorporated within the project design stage through the pre-LPAC process as well as update during implementation.

(b) The Office will enforce the use of the Programme Monitoring Visit template that was circulated in August 2016 for all projects.

(c) The Office will seek advice from the Regional Bureau for Arab States on how to better deal with this issue and continue to follow up with the donor until issue is solved.

Estimated completion date: December 2018

Issue 4   Weaknesses in large-scale infrastructure project implementation

The 'UNDP Programme and Operations Policies and Procedures' define a UNDP programme as a plan for effectively contributing to outcome level development results through UNDP projects. A development project, as a time-bound instrument to deliver outputs that contributes to outcome-level development change, should be reflected in the programme, along with the results delivered by other projects and instruments.

Two out of the six projects reviewed related to large-scale infrastructure projects. The audit team noted weaknesses in project implementation, as follows:

(a) Project Hebron Courthouse Building

There were delays in construction work due to challenges in the excavation work, geo-technical testing, and redesign of foundation plans after being rejected by the Construction Technical Committee. The rejection of the plans caused the suspension of the construction works in January 2018 and the construction works were still suspended by the end of the fieldwork (mid-August 2018). The Office planned to review the contractor's time schedule.

The Office also indicated that it faced challenges after the re-scoping of the project in 2013, such as: change of the lot because of property issues; delays in survey works and topographic investigation; delays in the formulation and approval of designs; change in project manager and delays in bringing on board the new project manager; long coordination process with different local authorities; and delays in contracting the construction company. Donors indicated that there were several shortcomings in project management that led to delays in the design and construction of the Courthouse.

None of these challenges were captured in risk logs and assessed by the Project Appraisal Committee. The audit team also noted that the risk assessment for this project was updated in May 2018, while the previous one was from October 2013.

(b) Project Construction of Waste Water Treatment Plant in Khan Younis (Gaza Strip)

The audit team visited the project construction site and verified the progress of works and acknowledged that the main cause of delays was the acquisition of construction materials to the Gaza Strip due to political constraints.

The Coastal Municipalities Water Utility, an organization created by local municipalities of Khan Younis and commissioned to implement two project components, faced challenges in the construction work. There were delays in the acquisition of land for the infiltration basins and challenges in acquiring construction materials and equipment. The activities were planned to be completed by the second quarter of 2018.

The audit disclosed that some of the risks identified during the design phase (such as fuel shortages, frequent electricity outages, and lack of required electrical power) may have hindered the operations and sustainability of the plant once construction was completed. Although the project developed some alternate solutions, no decision was taken on how to deal with these issues after construction of the plant was completed.

After the audit, the Office informed the audit team that the project was about to end before the end of 2018 and the plant was expected to be operational in March 2019.

Approving projects without taking adequate actions to address assessed risks may lead to delays in project implementation. Delays in project implementation may result in changes to initial project designs and budgets, and may lead to financial and reputational risks for the office.

Priority	High (Critical)
Recommendation 4: For large infrastructure projects, the Office should record all risks regularly, and based on the risk assessments, assess and implement mitigating actions for these risks.	
Management action plan: The Office has carried quite a high number of evaluations compared to other UNDP offices, as confirmed by the evaluation office at Headquarters. Those lessons are always captured within the projects, the Office's IWP, and the progress on those lessons is reported in the project and office reports.	

Implementing projects is full of chronic challenges in the context of Palestine, especially the Gaza Strip, which has gone through three wars and a continuous blockade for the past 10 years that limited not only the implementation but also access to materials required for the completion of the projects, and the water sector. Even though the programme and project teams are ensuring setting a proper timeframe for implementation, still the timeframe of the project is not a direct formula considering the unpredictable context in which not all can be foreseen. In addition, some delays were mainly out of UNDP's control due to donor and government project re-scoping, and reprogramming of funds, which ultimately had an implication on the project design and implementation time-frame.

Despite this fact, the Office has been capitalizing on the lessons learned from the implementation of the large-scale infrastructure projects, which is evident by an infrastructure portfolio that makes 71 percent of the overall portfolio (around USD 62 million) in 2018. This illustrates a solid track-record.

Estimated completion date: December 2018

OAI Response

While OAI acknowldeges that many of the delays in project implementation in the two projects were out of the control of the Office, recording and addressing project risks in a timely manner could have mitigated some of the risks underpinning the delays, and resulted in more robust project management, aligned to the expectations from donors and stakeholders.

C. Operations

1. Procurement

Issue 5   Deficiencies in the management of procurement

(a) Lack of documentation of Contracts, Assets and Procurement Committee (CAP) reviews of procurement activities

The Procurement Oversight and Procurement Review Committees policy indicates that to ensure procurement activities are conducted in line with accepted professional purchasing practices and appropriate rules and regulations, UNDP requires an independent review of the procurement process. The review confirms that offers received are the result of a fully compliant process, and, that Procurement Review Committees render independent written advice and recommendations on a procurement action to the person approving the procurement action.

The 'UNDP Programme and Operations Policies and Procedures' also state that procurement actions subject to the review of the committees at any level shall be processed through the web-based fully automated ACP Online application, which manages the entire process including the committee review. The responsibilities of the members of the Procurement Review Committee include reviewing minutes and endorsing the recommendation and/or providing comments. Any voting and tie-breaking process shall be recorded, capturing all salient points, as part of the committee review report. The ACP Online application provides specific fields for the Procurement Review Committee to document its review and comments.

The audit team sampled 12 out of 62 procurement cases reviewed by the CAP during the audit period and found that in all but one case, the review was not documented in the ACP Online application. The single case where the review was documented was by way of a comment endorsing the case without assessing the document provided, which evaluated the proposals.

The importance of documenting the CAP committee review for the Office is emphasized in light of the following facts:
1) The head of office had procurement delegation of authority up to $1 million.
2) The volume of procurement reached $47 million during the audit period.
3) The Office was working in a challenging environment.
4) 43 CAP cases valued at $12 million out of a total 62 CAP cases valued at $34 million worth of procurement were conducted by the procurement unit in the sub-office in Gaza, which consists of only one Procurement Analyst holding a service contract and one UNV Procurement Assistant.

The Office explained that documenting the CAP minutes and discussions in the ACP Online application were not considered necessary. However, due to the lack of documenting CAP reviews and discussions, there was no explicit evidence of assurance that procurement activities were critically reviewed or if they were conducted in line with appropriate rules and regulations and should have been recommended for approval by the head of office.

 (b)   Incorrect use of purchase orders in Atlas system

The 'UNDP Programme and Operations Policies and Procedures' state that a commitment creates a legal obligation arising from a contract, agreement, or other form of undertaking by UNDP or based on a liability recognized by UNDP. Such commitments are represented in Atlas by purchase orders. Purchase orders are raised for the procurement of goods and services. All purchase orders must represent, at any given point in time, a genuine legally binding commitment to third parties. The amount and the extent of the commitment should be complete and properly stated in Atlas.

During the review of purchase orders, the audit team noted that there were 76 raised during the audit period with a total value of $7.6 million to facilitate payment to suppliers contracted by implementing partners. However, the related procurements were undertaken by the implementing partner, who was therefore responsible for raising purchase orders and the Office was requested to only process the payment. As a result, the commitments and total value of the procurement at the Office level for the audit period was mispresented, inflating the volume of the procurement activities in the Atlas system by 14 percent of the total procurement completed by the Office.

The Office commented that the reason for this was to track payments. However, there are other means of tracking such payments through payment vouchers processed by the Finance Unit.

Raising purchase orders for procurement not conducted by UNDP provides an inaccurate picture of procurement activities and may mislead decision makers using procurement reports.

The Office acknowledged the issues and confirmed that it would ensure compliance with the 'UNDP Programme and Operations Policies and Procedures'.

Priority	High (Critical)

Recommendation 5:

The Office should improve procurement management by:

(a) documenting the Contracts, Assets and Procurement Committee reviews and minutes in the ACP Online application before recommending the procurement cases to the head of office for approval; and
(b) discontinuing the issuance of purchase orders in Atlas for procurement processes that are not undertaken by UNDP.

Management action plan:

(a) The Procurement Unit will:

    i. Provide a training session to the CAP secretary and members to ensure that they understand what is expected from them, such as CAP members roles and responsibilities, main principles governing procurement processes, and the required documentation and inclusion of CAP review minutes as part of the required documentation for endorsement and recommendation.
    ii. Follow up with the CAP secretary to ensure proper adequate comments are included in each CAP case.

(b) Issuing Atlas purchase orders for non-UNDP procurement processes, has been discontinued.

Estimated completion date: November 2018

OAI Response

OAI acknowledges the action taken by management in relation to recommendation 5 (b); this will be reviewed at a later stage as part of the standard desk follow-up process.

2. Human resource management

Issue 6   Deficiencies in the management of human resources activities

(a) Weaknesses in the management of service contract holders

The 'UNDP Programme and Operations Policies and Procedures' state that an evaluation of service contact holders must be completed before the expiry of the contract, and in the event a contract will not be renewed, an advance notice must be issued to the service contact holder at least one month prior to separation. A checklist must be completed by the Human Resources Unit to confirm that all the separation requirements have been met.

The audit team reviewed the separation procedures for eight service contract holders and found that in five cases, a separation checklist was not completed, in three cases a final evaluation was not available and in one case there was no evidence to support that a one-month notice period was provided to the separating service contract holder.

An evaluation is required to document the extent to which the service contact holder fulfilled the responsibilities as set out in the terms of reference; written notice is required in order to fulfil the organization's legal obligations.

The Office acknowledged these observations and explained that the team leaders needed reminding of the importance of completing the requirements before the contract expiry.

(b)   Retention of high annual leave balances

A staff member can accumulate a maximum of 60 days of annual leave balance, which can be carried forward each year with a cut-off date of 31 March. As of 30 April 2018, 28 staff members had leave balances in excess of 60 days.

The Office commented that the issue of not taking leave had been present for a number of years although the Office regularly encouraged staff to plan and take annual leave.

Taking regular leave is important not only from a work-life balance perspective, but also as an internal control.

Priority	Medium (Important)
Recommendation 6: The Office should improve the management of human resources by: (a) completing the administrative requirements before the expiration of the service contracts; and (b) preparing consolidated leave plans and following up on them to ensure leave is taken.	

Management action plan:
 	
(a)   The Human Resources Unit will liaise with supervisors and continue the follow up on completing the administrative requirements prior to expiration of the service contracts along with relevant checklist. The Human Resources Unit will review and ensure all documentation is provided or reject/escalate to senior management for their advice/action and support to the Unit in case of non-compliance.
 	
(b)   The Human Resources Unit assumed responsibility of monitoring annual leave as of May 2018. The Unit will:
   i.   continue circulating email reminders on leave guidelines;
   ii.   encourage staff to exercise their leave balances and;
   iii.   monitor leave against submitted annual leave plans with the objective to hold both supervisors and staff accountable to meeting the submitted plan and exercising their leave.
 	
Estimated completion date: December 2018	

D.   United Nations leadership and coordination

Issue 7   Weaknesses within HACT implementation

According to the 'UNDP Programme and Operations Policies and Procedures', full compliance with HACT is achieved when the following components are complete: (a) macro-assessment of the public financial system,

undertaken once per programme cycle; (b) micro-assessments of implementing partners; and (c) preparation and implementation of an assurance plan that details the spot checks for each implementing partner, to determine whether funds transferred were used for their intended purpose and in accordance with the work plan.

The following observations were noted in relation to HACT implementation:

The macro-assessment had not been updated since 2013. The Office explained that this was due to the UN programme cycle being extended until the end of 2017, and that the Office was in discussions with the related UN agencies regarding a renewal of the macro-assessment. The assessment may be delayed until the next Common Country Assessment, and therefore would continue to rely on the macro-assessment completed in 2013.

The Office prepared an assurance plan covering the audit period, which included spot checks and programmatic visits for the relevant implementing partners and responsible parties. During fieldwork, it was confirmed that for 17 out of the 20 responsible parties, no spot checks had been completed within the audit period. The Office explained that there had been challenges in coordinating the visits with the responsible party. While spot checks had not been completed, the Office indicated that during 2018, the project teams continued to review and verify reported expenditures within the submitted Funding Authorization and Certificate of Expenditures (FACE) forms, in lieu of completing spot checks where the frequency is derived from the associated risk level of the responsible party.

Unless all HACT requirements are fulfilled, the objectives of harmonizing practices among the UN agencies may not be achieved. Furthermore, failure to complete spot checks of responsible parties may lead to financial losses for the organization.

Priority	Medium (Important)
Recommendation 7: The Office should renew the macro-assessment and implement the assurance plan in accordance with the HACT guidelines.	
Management action plan: (1) The Office will continue the implementation of the HACT Framework by relying on the earliest macro-assessment conclusions until a new macro-assessment is carried out as per the HACT Framework, article 7.7, and to put forth again to the Resident Coordinator and UN Country Team the need to carry out a macro-assessment at the time the Common Country Assessment is renewed. (2) Equally, the Office will enforce the implementation of the HACT assurance plan within the context of the Office. **Estimated completion date:** (1) January 2020 (2) January 2019	

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.