UNITED NATIONS DEVELOPMENT PROGRAMME
Office of Audit and Investigations

AUDIT

OF

UNDP COUNTRY OFFICE

IN

IRAQ

Report No. 2011

Issue Date: 29 January 2019

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Report on the Audit of UNDP Iraq
Executive Summary

The UNDP Office of Audit and Investigations (OAI) conducted an audit of UNDP Iraq (the Office) from 25 November to 6 December 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 31 August 2018. The Office recorded programme and management expenses of approximately $400.3 million. The last audit of the Office was conducted by OAI in 2015.

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

Overall audit rating

OAI assessed the Office as **partially satisfactory/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 leadership, human resources management, procurement, and financial resources management.

Good practice

The Stabilization Programme was established to restore essential services in post-conflict areas in the Country and to facilitate the return of Internally Displaced Persons. The Programme had been widely praised by donors in terms of its speed of delivery in challenging circumstances. Part of the success can be attributed to the establishment of a service centre expediting procurement processes. Furthermore, the Office was closely monitoring the full implementation of programme activities.

Key recommendations: Total = **7**, high priority = **4**

The seven recommendations aim to ensure the following:

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

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

Weaknesses in Office's control environment (Issue 1)	A Management Consulting Team mission completed a review of the Office in April 2017 and a transformation plan was developed in May 2017. Due to delays in the implementation of the Management Consulting Team recommendations and transformation plan, the following issues were noted:

- **Outdated job descriptions.** The job descriptions of the Head of the Service Centre, Operations Manager, and Procurement Associate did not reflect the actual roles being performed.

- **Outdated Internal Control Framework and delegations of authority.** The Internal Control Framework was last updated in 2016 and did not reflect the changes in structure and senior management. In addition, the delegations of authority were not updated.

- **Outdated standard operating procedures.** The Office's standard operating procedures had not been revised following the changes in the Office's structure.

- **Business Continuity Plan not updated and tested.** The Office's Business Continuity Plan was last updated in May 2017; however, it did not reflect changes in the Office's organizational structure and was not tested.

Recommendation: The Office should enhance its control environment by: (a) fully implementing the transformation plan, including revising job descriptions and reporting, and updating the Internal Control Framework, delegations of authority, and the standard operating procedures; and (b) updating the Business Continuity Plan and completing an annual simulation exercise.

Weaknesses in human resources management (Issue 4)

Out of 134 staff in 2017, 54 had not yet started or completed their performance management and development processes. In addition, not all staff completed their mandatory courses and there was no regular follow up.

Recommendation: The Office should improve its human resources management by: (a) finalizing staff performance management and development processes for 2017 and 2018; and (b) ensuring the completion of mandatory training courses within the staff performance management and development learning plans and preparing and implementing a timetable for the completion mandatory courses.

Weak evaluation of bids (Issue 5)	During the audit period, the Office processed a high volume of procurement cases, which included 746 submissions ($638 million) to the relevant procurement review committees. However, past performance was not considered during the evaluation of bids. Within the audit sample of 20 performance assessment reports, three instances of non-performance had been reported by the Office. For example, the performance evaluation of a contractor indicated that no future contracts exceeding $300,000 should be considered because the contractor was dealing with too many projects at the same time, impacting the overall quality of work. However, despite this performance assessment, the supplier was subsequently awarded two additional contracts valued at $521,000 and $648,000.
	Recommendation: The Office should ensure that for future procurement exercises, past performance assessments of bidders are considered during the bid evaluations.
Lack of controls in using chart of accounts and managing contracts (Issue 7)	There were 10 cases amounting to $8.2 million relating to project activities that were incorrectly charged to overhead accounts.
	In addition, the contract terms for one contract with a value of $1.1 million required the first payment to be made at the completion of 90 percent of the work. However, the Office paid the first invoice amounting to $458,075 covering 60 percent completion of work only. In another contract amounting to $1.7 million, the contractor was supposed to be paid at 100 percent completion of work only. However, the Office made its first payment amounting to $1.1 million when 63 percent of the work was completed.
	Recommendation: The Office should strengthen controls in using the chart of accounts and managing contracts by: (a) providing training and oversight to staff in using the correct chart of accounts; and (b) ensuring that all payments adhere to the provisions of the contract signed with vendors – any amendments should be agreed upon and signed at the appropriate management level.

Management comments and action plan

The Resident Representative 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.

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Director
Office of Audit and Investigations

I.   About the Office

The Office is located in Baghdad, Iraq (the Country) with an operational office in Erbil, and field offices in Basra, Karabala, Anbar as well as project offices in Sulaimanyah and Duhok. At the time of the audit, the Office employed 109 staff members supported by 126 service contract holders, and 50 United Nations Volunteers. The Country Programme Document 2016-2020 included the following thematic pillars: public institutional reform, effective devolution of administrative and fiscal powers, and stabilization. The Office was undergoing a significant restructuring process, which began with a Management Consulting Team mission in April 2017. The total delivery of the Office increased significantly, which was mainly driven by the Stabilization Programme, with confirmed funding of $957 million as of December 2018.

II.   Good practice

OAI identified the following good practice:

The Stabilization Programme was implementing over 3,000 projects across 31 districts in the Country. The Programme had been widely praised by donors in terms of its speed of delivery in challenging circumstances. Part of the success can be attributed to the establishment of a service centre to expedite procurement processes. The Office required the designated members of the Contracts, Assets, and Procurement Committee to prioritize the review of procurement cases.

The audit team noted a transparent project management in which key risks and investigations cases were shared with the Project Steering Committee. Furthermore, project implementation was supported by multiple layers of monitoring, and the status of implementation of all projects was tracked on a weekly basis.

III.   Audit results

Satisfactory performance was noted in the following areas:
   (a) <u>ICT and general administrative management.</u> The internal controls put in place for the management of software and hardware, assets, travel, and transportation management were generally found to be adequate.
   (b) <u>Staff and premises security.</u> Staff and premises security area management was found to be adequate and all security measures were found to be in place. No reportable issues were identified.

OAI made four recommendations ranked high (critical) and three recommendations ranked medium (important) priority.

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

High priority recommendations, arranged according to significance:
   (a) Enhance the control environment (Recommendation 1).
   (b) Strengthen controls in using the chart of accounts and managing contracts (Recommendation 7).
   (c) Ensure that for future procurement exercises, past performance assessments of bidders are considered (Recommendation 5).
   (d) Improve human resources management (Recommendation 4).

Medium priority recommendations, arranged according to significance:
    (a)   Ensure compliance with cost recovery policies and the recovery of Government Contributions towards Local Office Costs (Recommendation 6).
    (b)   Strengthen project management (Recommendation 3).
    (c)   Strengthen programme management (Recommendation 2).

The detailed assessment is presented below, per audit area:

A. Governance

1. Leadership

Issue 1   Weaknesses in Office's control environment

The 'UNDP Programme and Operations Policies and Procedures' define the control environment as one of the components of the internal control system. The Business Continuity Management Policy states that each office must prepare and maintain a Business Continuity Plan, to ensure that the organization can carry out its functions, when faced with an emergency.

A Management Consulting Team mission completed a review of the Office in April 2017 and a transformation plan was developed in May 2017. In September 2018, the Office developed a follow-up document on the transformation plan, which included revisions to the initial proposed organizational structure. The document was approved by the Regional Bureau for Arab States on 5 December 2018. The Office explained that the implementation of the plan was delayed because an immediate change in structure might have affected the delivery and implementation of the 2017 programme.

Due to delays in the implementation of the Management Consulting Team recommendations and transformation plan, the following issues were noted:

▪   Outdated job descriptions. The job descriptions of the Head of the Service Centre, Operations Manager, and Procurement Associate did not reflect the actual roles being performed. In addition, the reporting lines for the Head of the Service Centre, Procurement Specialist, and Asset Focal Point were not followed.

▪   Outdated Internal Control Framework and delegations of authority. The Internal Control Framework was last updated in 2016 and did not reflect the changes in structure and senior management. In addition, the delegations of authority were not updated. As a result, the Head of the Stabilization Programme, the Operations Manager, and Head of the Service Centre did not have valid delegations of authority from May to December 2018:

▪   Outdated standard operating procedures. The Office's standard operating procedures had not been revised following the changes in the Office's structure. This was required to clarify processes and their owners within the Office.

▪   Business Continuity Plan not updated and tested. The Office's Business Continuity Plan was last updated in May 2017; however, it did not reflect changes in the Office's organizational structure and was not tested. The Office appointed a Business Continuity Plan focal point in December 2018 to revise the Business Continuity Plan.

Weaknesses in the Office's control environment could lead to unclear processes and may negatively impact Office performance. Additionally, the absence of an up-to-date and tested Business Continuity Plan may affect the continuity of operations in the event of an emergency.

Priority	High (Critical)
Recommendation 1: The Office should enhance its control environment by: (a) fully implementing the transformation plan, including revising job descriptions and reporting, and updating the Internal Control Framework, delegations of authority, and the standard operating procedures; and (b) updating the Business Continuity Plan and completing an annual simulation exercise.	
Management action plan: (a) The Office is currently reviewing and updating the job descriptions as well as the reporting lines for all the positions impacted by the restructuring as per the approved Office structure. The Internal Control Framework will also be updated accordingly. (b) The Office is in the process of updating the Business Continuity Plan. **Estimated completion date:** June 2019	

B. Programme

1. Programme/Project Design and Implementation

Issue 2   Weaknesses in programme management

The 'UNDP Programme and Operations Policies and Procedures' stipulate that the Programme Manager (Resident Representative or his/her designate) should ensure that each programme component has an Outcome Board to monitor the realization of the expected outcome(s). In addition, completed projects should be operationally closed in Atlas (enterprise resource planning system of UNDP) and financially closed within 12 months after their operational closure. Furthermore, the Country Programme Document Results and Resources Framework indicators must have a baseline and realistic target and clearly communicate the expected results.

The audit team observed the following weaknesses:

(a) Programme structure not aligned with the Country Programme Document

The Office initially included three thematic pillars (public institutional reform, effective devolution of administrative and fiscal powers, and stabilization), was revised into four pillars (stabilization, economic diversification and employment, governance and reconciliation programme, and environment and energy programme).

As a result of the above, the Results and Resources Framework within the Country Programme Document was no longer aligned with the existing programme structure. For example, the Country Programme Document did not include indicators for the environment and energy pillar. Also, the budget for the stabilization component initially set at $100 million increased to more than $1 billion in the existing programme structure.

The misalignment of the existing programme structure and the Country Programme Document may create difficulties in making a meaningful assessment of the programme results.

(b)   <u>Outcome Boards not established</u>

With the exception of the stabilization pillar, the Office did not establish Outcome Boards for the other three programme pillars. As a result, there was no formal monitoring and assurance of the Office's progress towards meeting the established outcomes in its Country Programme. The Office explained that delays in establishing Outcome Boards were caused by delays in establishing the new programme structure (refer to Issue 1).

(c)   <u>Delays in project closure</u>

A review of the Atlas query on project status disclosed that 91 projects had an end date prior to 31 December 2017. However, these projects had not been operationally closed in Atlas. The Office agreed to take immediate actions on the cases identified. The delay in project closure may prevent the Office from using resources effectively.

Priority   Medium (Important)
Recommendation 2:   The Office should strengthen its programme management by: (a)   revising the Results and Resources Framework within the Country Programme Document to align it with the existing programme structure;   (b)   establishing Outcome Boards for each programme pillar to monitor progress and provide assurance in the achievement of programme outcomes; and   (c)   establishing a mechanism to monitor project expiration dates and to initiate timely project closure.
Management action plan: (a)   The Country Programme Document evaluation is scheduled to be conducted by the Independent Evaluation Office in February 2019, in addition to three project evaluations to be undertaken during the first and second quarter of 2019. The Country Programme Document and the Results and Resources Framework will be reviewed and adjusted in February or March 2019. Furthermore, based on the evaluation findings plus the most recent country analysis under the United Nations Development Assistance Framework exercise a new Country Programme Document covering 2020-2024 will be developed and submitted to the Executive Board in September 2019 to ensure full relevance and alignment with the national priorities.   (b)   The Office will liaise with the respective government counterparts to establish an Outcome Board for the Country Programme Document Outcome. It's hoped to have full Outcome Boards for the next Country Programme Document of which it's expected to be submitted to the Executive Board by the end of this year for approval.

(c)   The Office has been working determinedly to close the completed projects operationally and financially in Atlas. To date, only 10 projects require action on financial and operation closure, of which the closure exercise has already been started and expected to be fully completed by the end of April 2019. As for the 91 projects, the operational and financial closure have been done correctly but the running status of these projects in Atlas will be examined, reviewed and handled accordingly. Going forward, the Office is taking the necessary action to put in place an effective mechanism to monitor project closures regularly.

Estimated completion date: November 2019

Issue 3   Weaknesses in project management

The 'UNDP Programme and Operations Policies and Procedures' require offices to ensure that project documents have the required elements, such as: well-defined project activities, outputs, and outcomes; project monitoring and evaluation; and transition arrangements. Further, offices must ensure adequate monitoring by preparing annual progress reports, and maintaining issue, monitoring and risk logs. Each project should contain a monitoring and evaluation framework indicating what will be monitored, by who and when. The Project Board should meet at least annually to review achievement of project results, corresponding challenges and endorse the annual work plan at the start of the year.

The audit team selected six projects for a detailed review and noted the following weaknesses

(a)   Inconsistencies within the project document

For three out of the six projects sampled, the information in the project documents was incomplete. Specifically:

▪   One project document had an end date of December 2016 and was not extended (despite receiving $91 million in additional funding). The Results and Resources Framework had not been updated to reflect activities beyond this date, and the project document did not include a multi-year work plan.

▪   Another project did not follow the standard project document template. Instead, the Office followed the donor agreement. The Results and Resources Framework did not include annual output targets and the multi-year work plan was incomplete.

▪   For a third project, the multi-year work plan excluded expected outputs, activities and funding sources. The Results and Resources Framework indicators were represented as activities (e.g., 'two study visits undertaken') and baselines included subjective information (e.g., 'awareness of risks very low' and 'gaps in weather forecasting'), creating difficulties in monitoring achievements.

The Office explained that the revision of the one project document was in progress.

Incomplete project documents and not well formulated Results and Resources Frameworks could prevent effective monitoring of project implementation and results.

(b)   Inadequate project oversight

▪   The annual progress reports were incomplete; risks, challenges, lessons learned, and an analysis of planned versus actual outputs were not included. Further, an analysis of budget use excluded an

explanation of significant over/under expenditure. The Office indicated that the format of the annual progress report would be updated to ensure consistent presentation.

▪ The Atlas project monitoring module including risk logs had not been updated within the audit period for the sampled projects. However, offline risk logs were updated on an annual basis.

▪ The monitoring and evaluation framework in project documents did not contain details on who and when activities should be monitored.

▪ The Project Boards did not endorse the annual work plans, and meeting minutes excluded discussions on project risks and progress of planned activities.

Without adequate monitoring systems, project risks and mitigating actions may not be identified in time causing delays and cost overruns.

(c)   Delays in the finalization of exit strategies

The Office had not developed a sustainability/transition strategy for three projects. The Office explained that a transition strategy would be prepared in 2019. Without sustainable exit strategies, the Office is at risk of not meeting its development objectives.

The Office acknowledged the issues identified within project formulation and oversight and indicated that through the ongoing restructuring process (refer to issue 1) it would be strengthening the Programme Support Unit, whose role would be to improve quality and consistency across the areas identified.

Priority	Medium (Important)

Recommendation 3:

The Office should strengthen its project management by:

(a) ensuring project documents follow the corporate template, including annualised outputs targets, as well as information on how project results will be sustained and preparing annual progress reports that adhere to UNDP reporting requirements;
(b) strengthening monitoring by utilizing the Atlas project module, and ensuring the monitoring and evaluation framework for each project includes information on activities to be monitored, by whom and when; and
(c) ensuring that annual work plans are endorsed by Project Boards at the beginning of each year.

Management action plan:

One of the key objectives of the Office restructuring was to strengthen the capacity of the Core Programme Team to reinforce full compliance with the programme and project quality assurance activities throughout the programme/project cycle (design, implementation, monitoring and closure). Two heads of thematic pillars have been recruited, in addition to the head of the Programme Support Unit, who is currently on a three-month detailed assignment. The recruitments of the head of the third thematic pillar plus the Programme Support Unit head are expected to be completed by the end of April.

The Core Programme Team will play a significant role to support and oversee all projects to ensure that the 'UNDP Programme and Operations Policies and Procedures' are fully adhered to for effective and efficient programme/project design and implementation.

Estimated completion date: July 2019

C. Operations

1. Human Resources Management

Issue 4 <u>Weaknesses in human resources management</u>

According to the 'UNDP Programme and Operations Policies and Procedures' effective performance management and development are to be completed in a timely manner. Furthermore, mandatory training courses are important for ensuring that staff and managers understand the various policies, regulations as well as the goals and objectives of the organization. In addition, it is expected that all staff members, including managers, complete the mandatory courses and obtain their certificates of completion.

(a) <u>Performance management and development process not completed</u>

Out of 134 staff in 2017, 54 had not yet started or completed their performance management and development processes. Furthermore, 24 out of 109 staff in 2018 had not completed their mid-year management and development documents.

In the event staff performance is not assessed in a timely manner, weaknesses in performance may not be addressed.

(b) <u>Mandatory courses not completed</u>

As of December 2018, not all staff completed their mandatory courses. Details of non-completion is presented in the table below:

Course name	Non-completion rate (out of 109 staff)
Ethics and Integrity at UNDP	16 (15%)
UN Prevention of Harassment Sexual Harassment and Abuse of Authority	15 (14%)
Gender Journey	16 (15%)
Legal Framework	18 (17%)
UN Human Rights and Responsibilities	28 (26%)
Prevention of Sexual Exploitation and Abuse of the Local Population	42 (39%)

There had been no regular follow up on the completion of the mandatory training since the separation of the Learning Manager. The Office indicated that as of December 2018, the Office appointed a new Learning Manager.

Not completing the UNDP mandatory training courses may lead to staff members not being aware of important policies that are relevant to their roles and responsibilities.

Priority	High (Critical)
Recommendation 4: The Office should improve its human resources management by: (a) finalizing staff performance management and development processes for 2017 and 2018; and (b) ensuring the completion of mandatory training courses within the staff performance management and development learning plans and preparing and implementing a timetable for the completion mandatory courses.	
Management action plan: The Office is following up with staff and their line managers on the pending performance management and development process for the years 2017 and 2018 as well as the incomplete mandatory courses to ensure completion of all pending performance management and development processes and mandatory courses. The Office will also ensure that the mandatory courses are included in staff learning plans. In addition, HR will work closely with the new Learning Committee to develop a mechanism to ensure that new hires will have completed all the mandatory courses within two weeks of joining the Office. **Estimated completion date:** June 2018	

2. Procurement

Issue 5   Weak evaluation of bids

The 'UNDP Programme and Operations Policies and Procedures' require performance evaluation documents to be consulted when considering any subsequent engagement of the same supplier in UNDP. The performance assessment provides a means by which feedback and possible action can be taken in the event of poor vendor performance.

During the audit period, the Office processed a high volume of procurement cases, which included 746 submissions ($638 million) to the relevant procurement review committees. However, past performance was not considered during the evaluation of bids. Within the audit sample of 20 performance assessment reports, three instances of non-performance had been reported by the Office. For example, the performance evaluation of a contractor indicated that no future contracts exceeding $300,000 should be considered because the contractor was dealing with too many projects at the same time, impacting the overall quality of work. However, despite this performance assessment, the supplier was subsequently awarded two additional contracts valued at $521,000 and $648,000.

By not taking into consideration contractor past performances during the evaluation of bids, the Office may be exposed to financial losses.

Priority	High (Critical)
Recommendation 5: The Office should ensure that for future procurement exercises, past performance assessments of bidders are considered during the bid evaluations.	
Management action plan: The Office is in the process of establishing a 'Vendor Evaluation Review Committee' to determine the appropriate actions in cases of non-performing vendors. **Estimated completion date:** 31 March 2019	

3. Financial Resources Management

Issue 6 Inadequate implementation of cost recovery and outstanding Government Contributions towards Local Office Costs

Direct project costs are organizational costs that can be attributed to a development activity and are included in the project budget. UNDP can provide services to other UN entities if: (i) these are consistent with the regulations, rules, policies and procedures; and (ii) the requesting UN entity agrees to pay the costs and remains financially responsible. The standard basic agreement that governs UNDP operations in programme countries provides that Government Contributions towards Local Office Costs are expected from host governments.

The audit team noted the following weaknesses:

- The Office was not fully recovering direct project costs. The Office explained it collected direct project costs using the Universal Price List and proportionally only for common shared services. In 2017, direct project costs of $1.79 million were recovered. However, for the services provided by the Operations Unit, no direct project costs were charged to the largest project of the Office. Further, there were no projections or calculations of direct project costs in 2018.

- The Office was providing HR, procurement, finance and administration services to eight other UN agencies. During 2018, no cost recovery was made for the provision of these services. Furthermore, the Office had not signed a Service Level Agreement with seven of the eight UN agencies.

- As of 31 October 2018, there were outstanding Government Contributions towards Local Office Costs of $1.02 million covering a two-year period (2016 and 2017). The last contribution received was for 2015. The Office explained that they were following-up with the Government.

Non-compliance with cost recovery policies and non-payment of Government Contributions towards Local Office Costs may negatively impact the financial sustainability of the Office.

Priority	Medium (Important)

Recommendation 6:
The Office should ensure compliance with cost recovery policies and the recovery of Government Contributions towards Local Office Costs by: (a) completing a workload study to determine the correct cost recovery from the projects and recovering direct project costs from all the projects; (b) signing a Service Level Agreement with respective UN agencies where the Office provides support services and recovering any outstanding amounts for support services already provided; and (c) enhancing efforts to collect the outstanding Government Contributions towards Local Office Costs.
Management action plan: (a) The Office is conducting a workload survey related to individual development projects. Based on this, direct project costs will be calculated. **Estimated completion date:** March 2019 (b) The Office will sign a memorandum of understanding for common services managed by UNDP indicating cost recovery rates. While the majority of services will be provided based on a Universal Price List, the Office will also sign Service Level Agreements with Local Price List where required. **Estimated completion date:** March 2019 (c) The Office management will continue its effort to collect the Government Contributions towards Local Office Costs. **Estimated completion date:** December 2019

Issue 7   Lack of controls in using chart of accounts and managing contracts

The 'UNDP Programme and Operations Policies and Procedures' provide guidance on the correct use of the chart of accounts as it relates to the Atlas financial systems for control, budgeting and reporting. All payments must also be based on supporting documents.

During the period under review, the Office processed 13,432 vouchers amounting to $330 million. The audit team reviewed a sample of 54 vouchers amounting to $36 million. The following weaknesses were noted:

(a) Incorrect use of chart of accounts

- 10 cases amounting to $8.2 million relating to project activities (e.g., clean-up project in two governorates, rubble and debris removal, purchase of sub-stations and cable feeder for governorates) were charged to overhead accounts (e.g., stationery and other office supplies, custodial and cleaning services and utilities). The Office explained that the misclassification of expenditure occurred due to the incorrect account code used at the requisition stage.

(b) Payments not in accordance with agreed contract terms

- The contract terms for one contract with a value of $1.1 million required the first payment to be made at the completion of 90 percent of the work. However, the Office paid the first invoice amounting to $458,075 covering 60 percent completion of work only.

- In another contract amounting to $1.7 million, the contractor was supposed to be paid at 100 percent completion of work only. However, the Office made its first payment amounting to $1.1 million when 63 percent of the work was completed.

  The payments were made to provide the companies with liquidity to continue the work. The interim payments were based on an Engineering Certificate and Project Manager approval. However, no amendment was made to the contract reflecting the change in payment terms and approval at the Office management level.

Incorrect use of account codes may lead to misleading financial reporting. Furthermore, not adhering to contract specifications places an additional liquidity burden on the organization and increases the risk of financial losses.

Priority	High (Critical)
Recommendation 7: The Office should strengthen controls in using the chart of accounts and managing contracts by: (a) providing training and oversight to staff in using the correct chart of accounts; and (b) ensuring that all payments adhere to the provisions of the contract signed with vendors – any amendments should be agreed upon and signed at the appropriate management level.	
Management action plan: Both recommendations are noted and will be implemented accordingly. **Estimated completion date:** June 2019	

Issue 8 Non-compliance with the HACT Framework

The 'Framework for Harmonized Approach to Cash Transfers' (HACT) requires participating UN agencies to coordinate HACT activities to reduce the burden of organizational procedures on implementing partners. Compliance is achieved when the following is completed: (a) macro-assessment of the public financial system; (b) micro-assessments of implementing partners; and (c) an assurance plan, which details the spot checks for each implementing partner, based on the results of the micro-assessment. Assurance activities include planning, periodic on-site reviews, programmatic monitoring, scheduled audits and special audits.

A review of the implementation of HACT identified the following shortcomings:

- Micro-assessments had not been completed for all 47 implementing partners. The Office indicated that a micro-assessment exercise would be completed in January 2019 for 20 implementing partners (16 NGOs and 4 government partners). The Office indicated that these related to new implementing partners.

- The Office had prepared an assurance plan, which included spot checks. However, no spot checks were performed during the audit period. While the Office signed a contract with a third-party firm in November 2018 to conduct spot checks, the Office was still discussing the timeline for completion of the spot checks at the time of audit.

- For the 2017 financial year, the Office did not submit to OAI audit reports for nine NGOs covering a total of $2.6 million of expenses. This was one of the underlying reasons for the unsatisfactory rating of the Office on the review of HACT Financial audits. The Office informed the audit team that it had already started planning for the 2018 financial year audits.

If micro-assessments and spot checks are not being conducted, the Office may not have adequate information on the programmatic implementation/delivery capacity of its implementing partners, which may result in funds not being used for intended purposes.

Since the micro-assessments were in progress and the Office had already signed a contract for the implementation of spot checks, OAI is not issuing a recommendation.

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.