

**UNITED NATIONS DEVELOPMENT PROGRAMME**  
**Office of Audit and Investigations**



*Empowered lives.  
Resilient nations.*

**AUDIT**  
  
**OF**  
  
**UNDP COUNTRY OFFICE**  
  
**IN**  
  
**BOSNIA AND HERZEGOVINA**

**Report No. 2059**

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## **Table of Contents**

<b>Executive Summary</b>	<b>i</b>
<b>I. About the Office</b>	<b>1</b>
<b>II. Audit results</b>	<b>1</b>
<b>A. Operations</b>	<b>2</b>
1. Procurement	2
2. Human Resources Management	4
<b>Definitions of audit terms - ratings and priorities</b>	<b>6</b>

## Report on the Audit of Bosnia and Herzegovina Executive Summary

The UNDP Office of Audit and Investigations (OAI) conducted an audit of UNDP Bosnia and Herzegovina (the Office) from 24 June to 5 July 2019. 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 2018 to 31 March 2019. The Office recorded programme and management expenses of approximately \$40.2 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 **satisfactory**, which means “The assessed governance arrangements, risk management practices and controls were adequately established and functioning well. Issues identified by the audit, if any, are unlikely to affect the achievement of the objectives of the audited entity/ area.”

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

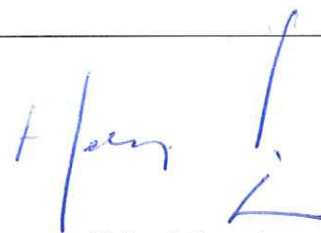
The audit did not result in any high (critical) priority recommendations. There are three medium (important) priority recommendations, which means “Action is required to ensure that UNDP is not exposed to risks. Failure to take action could result in negative consequences for UNDP.” These recommendations include actions to address weaknesses in operations and human resources management.

The three recommendations aim to ensure the following: (a) effectiveness, efficiency and economy of operations (Recommendations 1 and 2; and (b) compliance with legislative mandates, regulations and rules, policies and procedures (Recommendation 3).

### **Management comments and action plan**

The Resident Representative accepted the three 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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## I. About the Office

The Office, located in Sarajevo, Bosnia and Herzegovina (the Country), was established in 1996. At the time of the audit, the Office had 43 staff on fixed-term contracts, 135 service contract holders, and 16 United Nations Volunteers. The 2015–2019 Country Programme Document was extended to 2020 and covered the following areas: (a) access to justice and increased human security; (b) reduction of regional, economic and social disparities; (c) sustainable management of environmental and energy resources, and green jobs creation; and (d) access to services and employment opportunities for the most vulnerable. The Country had a complex constitutional structure with 13 constitutions, 14 legal systems, and more than 140 ministries, creating challenges for programme implementation. Following the parliamentary election in October 2018, the Government had yet to be formed as of the date of the audit field mission.

## II. Audit results

Satisfactory performance was noted in the following areas:

- (a) Governance: No reportable issues were identified in relation to organizational structure, delegation of authority, risk management, business continuity and financial sustainability.
- (b) Programme and project management: The Office managed its programme effectively, and adequate oversight and management of projects were noted, with no reportable issues.
- (c) Finance management: Controls over financial transactions were established and functioning. The Office signed an agreement with the Government in 2015 to pay the yearly Government Contributions towards Local Office Cost (GLOC) and reduce the arrears over a 10-year period.
- (d) ICT and general administrative management: ICT systems managed by the Office were operating effectively. General administration controls were well established and functioning adequately. No reportable issues were identified.
- (e) Staff and premises security: Staff and premises security management was found to be adequate and all security measures were in place. No reportable issues were identified.
- (f) United Nations leadership and coordination: Adequate controls were established to manage and lead United Nations coordination in the Country.

OAI made three recommendations ranked medium (important) priority.

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

**Medium priority recommendations**, arranged according to significance:

- (a) Improve the performance of the procurement process (Recommendation 1).
- (b) Improve civil work contract management as part of the procurement process (Recommendation 2).
- (c) Conduct the service contract remuneration survey to update the remuneration scale for service contract holders (Recommendation 3).

The detailed assessment is presented below, per audit area:

## A. Operations

### 1. Procurement

#### Issue 1 Weaknesses in the procurement process

The value for money proposition of the procurement process depends on the effectiveness, efficiency and economy of the process. The 'UNDP Programme and Operations Policies and Procedures' support this by specifying activities such as annual planning, risk assessments, and timely selection of the most suitable suppliers to achieve the project outcomes.

The Office processed 1,726 purchase orders amounting to \$28.53 million from 1 January 2018 to 31 March 2019. The audit selected a sample of 46 procurement cases amounting to \$9.6 million to assess the procurement risk management, strategies and planning in the Office.

##### a) Weaknesses in effectiveness due to insufficient procurement planning

- The consolidated procurement plan for 2018 (27 projects for \$19.4 million) and 2019 (20 projects for total of \$11 million) differed significantly, even though the delivery averaged \$40 million for both years. In addition, the Office was expecting delivery to increase further. By not updating the consolidated plans as the year progressed, the Office did not assess how they could be improved at the end of the year, to guide the development of the new plan.

Insufficient procurement plans may impact the effectiveness of the procurement process and may prevent the Office from delivering the outputs needed to achieve the project outcomes.

##### b) Weaknesses in efficiency due to delays in the procurement process

- In 15 cases amounting to \$2.9 million, the evaluation and internal business review processes took from 24 to 72 days.

Delays in the evaluations and business review of procurement cases may impact the efficiency of the procurement process and may prevent the Office from getting the most from the resources available.

##### c) Weaknesses in the economy of the procurement process due to incomplete procurement sourcing activities and insufficient collection of penalties for late delivery

- In 20 out of 44 procurement cases amounting to \$3.6 million, the Office did not obtain the minimum requirement of three qualified suppliers. The Regional Advisory Committee on Procurement also recommended the need to identify more qualified suppliers in its procurement cases.
- In six procurement cases amounting to \$2.1 million, most offers including the selected supplier had been much lower than the internal estimate used to prequalify or disqualify suppliers. Large variances (such as 28 percent below the estimation) cast doubt on the reliability of the internal estimates.
- The Office maintained a list of suppliers; however, in compiling this list, the Office did not complete due diligence procedures or a pre-assessment of their capacity to support project activities.
- Five out of the top 12 highest civil works contracts were granted four contract extensions. However, the Office had not enforced the contract clauses, such as the penalty clauses.

Incomplete activities in the procurement sourcing may impact the economy of the procurement process and may prevent the Office from minimizing the costs of resources.

The procurement process showed weaknesses in effectiveness, efficiency and economy and this may impact the overall performance of the procurement process and the value for money proposition.

<b>Priority</b>	Medium (Important)
<b>Recommendation 1:</b>	
The Office should improve the performance of the procurement process by:	
<ul style="list-style-type: none"> <li>(a) preparing a consolidated procurement plan, incorporating project requisition plans, and having it regularly monitored and updated during the year;</li> <li>(b) analysing the procurement plans and drawing lessons from prior year procurement activities to develop an appropriate sourcing strategy; and</li> <li>(c) developing and complying with internal performance indicators (including internal timelines for the procurement evaluation stages) that would enable better monitoring of the process and potentially leading to improved efficiency.</li> </ul>	
<b>Management action plan:</b>	
<ul style="list-style-type: none"> <li>(a) Projects will be requested to prepare more precise and detailed procurement plans based on which the Office will prepare a consolidated procurement plan on an annual basis, now introducing a process of quarterly reviews/updates of project procurement plans, monitoring of progress achieved and update of the plans in PROMPT.</li> <li>(b) At the end of 2019, the Office will do a thorough analysis of the 2019 PROMT plan vs. its realization with an aim to identify gaps, variances and main lessons learned to be incorporated and applied in 2020 procurement planning. The results will also be used to complete a regular update of a vendor roster organized by different vendor categories.</li> <li>(c) The Office will establish an internal timeline for the procurement evaluation stage that will be incorporated in the Office's standard operating procedures and infrastructure standard operating procedures and regularly monitored by the General Services Unit in charge of procurement. Project Managers will be held responsible for unjustifiable lengthy evaluation stages.</li> </ul>	
<b>Estimated completion date:</b> March 2020	

<b>Priority</b>	Medium (Important)
<b>Recommendation 2:</b>	
The Office should improve the civil work contract management as part of the procurement process by:	
<ul style="list-style-type: none"> <li>(a) providing realistic estimates for contract duration, and closely monitoring contract execution; and</li> <li>(b) addressing weak supplier performance on a timely basis, including the penalty enforcement.</li> </ul>	

**Management action plan:**

- (a) Prior to finalization of tendering documents for civil works and advertising, contract duration will be re-assessed/reviewed by the Office's Engineers' Team in order to ensure that the indicated timelines are realistic and feasible. This requirement will be included in the relevant standard operating procedures. Close monitoring of works will be performed on a regular basis, ensuring that deadlines are met.
- (b) Poor supplier performance will be properly documented. The tracking system on vendor performance already exists on the Office's SharePoint and is available to the Office staff. Project Managers will be reminded on the importance of the regular and proper utilization of this tool. Contractual penalties will be applied, where appropriate.

**Estimated completion date:** December 2019

## 2. Human Resources Management

### Issue 2      Outdated survey informing the service contract remuneration scale

The 'Handbook on Setting Remuneration for Service Contract Personnel' states that, at the time of data collection for the service contract remuneration survey, the periodicity of adjustment of surveyed organizations should be ascertained. Service contract remuneration scales should generally be updated annually. Data should be collected from comparator organizations at a time during the year when a majority of these organizations revise remuneration packages. As noted above, this data should be to the anticipated prospective effective date.

The service contract remuneration scale being used by the Office was last dated 1 January 2016. The Office explained that it was the decision of the Resident Representative and the Resident Representative a.i. in 2017 and 2018, respectively, to postpone the service contract remuneration scale review due to other competing priorities. Furthermore, the Office explained that the annual service contract remuneration survey exercise created an additional burden for the Office in terms of time to complete as well as the associated cost.

An outdated remuneration scale may deviate from prevailing conditions found in the local labour market, which may lead to salaries being uncompetitive.

<b>Priority</b>	Medium (Important)
<b>Recommendation 3:</b>	
The Office should conduct the service contract remuneration survey to update the remuneration scale for service contract holders.	
<b>Management action plan:</b>	
The Office will initiate the process of service contract remuneration survey at the beginning of August 2019 with the following timeline:	



- Select a consultant to conduct the service contract remuneration survey by 15 September 2019.
- Conduct the survey by 15 November 2019.
- Submit the results to Office of Human Resources for approval by 30 November 2019.
- Establish the new service contract remuneration scale with effective date 1 January 2020.

**Estimated completion date:** December 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.