

UNITED NATIONS DEVELOPMENT PROGRAMME
Office of Audit and Investigations



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AUDIT

OF

UNDP COUNTRY OFFICE

IN

PAKISTAN

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Report on the Audit of UNDP Pakistan Executive Summary

The UNDP Office of Audit and Investigations (OAI) conducted an audit of UNDP Pakistan (the Office) from 19 March to 4 April 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 28 February 2019. The Office recorded programme and management expenses of approximately \$74 million. The last audit of the Office was conducted by OAI in 2017.

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/some improvement needed**, which means “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.” This rating was mainly due to project documents and results frameworks not being updated, weaknesses in programme assurance monitoring, and non-compliance with policies regarding the hiring of individual contractors.

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.”

The three recommendations aim to ensure the following:

Objectives	Recommendation No.	Priority Rating
Achievement of the organization's strategic objectives	1	Medium
Compliance with legislative mandates, regulations and rules, policies and procedures	2, 3	Medium

Implementation status of previous OAI audit recommendations: Report No. 1762, 31 March 2017.

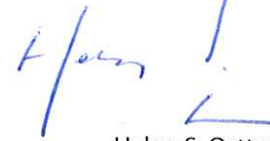
Total recommendations: 10

Implemented: 10

Management comments and action plan

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

Low risk issues (not included in this report) have been discussed directly with management and actions have been initiated to address them.

A handwritten signature in blue ink, appearing to read 'H. Ostveiten', is positioned above the printed name.

Helge S. Ostveiten
Director
Office of Audit and Investigations

I. About the Office

The Office, located in Islamabad, Pakistan (the Country) had sub-offices in Peshawar and another in Quetta. The Office had 64 personnel and 203 service contract holders at the time of the audit. The Office underwent a realignment process that started towards the end of 2017 and which intended to improve the efficiency of the staffing structure. This was also expected to enable the Office to provide much needed high-level policy advisory services, advocacy, and analytical work that would position UNDP well in the Country. The Office's new Country Programme cycle, which began in 2018, was aligned with the Vision 2025 and priority areas of the United Nations Sustainable Development Framework for Pakistan/One-UN Programme III, 2018-2022, as agreed with the Government.

II. Audit results

Satisfactory performance was noted in the following areas:

- (a) Governance. The Office exercised proper oversight and appropriate risk management to steer towards achieving its intended objectives. The audit team noted adequate controls were in place for managing the Office.
- (b) Operations/Financial resources management. A review of voucher processing, management of direct project costs, project cash advances and advances made to national implementing partners indicated that adequate and effective controls were in place. No reportable audit issues noted.
- (c) Operations/Human resources. The audit team reviewed processes related to recruitment, separation, leave management, and training and found that controls were adequate and working effectively.
- (d) Operations/General administration. The audit disclosed that adequate controls were put in place.
- (e) Operations/Information and communication technology. The audit team reviewed the Office's business continuity and disaster recovery plan, which had been tested satisfactorily during the audit period. No reportable audit issues noted.
- (f) Operations/Safety and security. The audit assessed the Office's security plan, security risk assessment, security management team meeting minutes and no reportable issues were found.
- (g) UN coordination and leadership. The audit disclosed that adequate and effective controls were established.

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) Strengthen project portfolios by finalizing pending project documents and developing a clear results framework for each project (Recommendation 1).
- (b) Enhance the programme monitoring and assurance function (Recommendation 2).
- (c) Enhance management of individual contractors (Recommendation 3).

The detailed assessment is presented below, per audit area:

A. Programme

1. Project design and implementation

Issue 1 Project documents and results frameworks not updated

The 'UNDP Programme and Operations Policies and Procedures' stipulate that a project document that meets UNDP's quality standards must be developed for all projects linked with the programme's theory of change that articulates the causal chain related to the development challenge and its underlying assumptions.

The audit team reviewed a sample of 10 projects out of 23, representing 76 percent of expenditures for 2018 and 79 percent of expenditures through 28 February 2019. The audit disclosed the following:

- Five projects did not have valid project documents. All were operating under results frameworks that had expired. Furthermore, the newly introduced outputs had different scopes compared to the original ones.
- Activities and budgets for the projects were developed on an annual basis without a clear reference to an overall project/programme strategy. Further, fragmented annual work plans were developed based on individual project outputs. For example, one project had two different annual work plans developed in 2018 for the two outputs under this project based on sources of funding.
- Three projects had multiple strategies each, since separate concept notes were drafted for each donor. As a result, there were several results frameworks, with different outputs, indicators, baselines and targets, which did not coherently converge to a singular theory of change for each project.

In the absence of a clear strategy for implementing projects, the Office risks not attaining the development objectives set out in the Country Programme.

Priority	Medium (Important)
Recommendation 1: The Office should strengthen project portfolios by: <ul style="list-style-type: none"> (a) finalizing pending project documents and developing strategy documents for all new projects initiated; and (b) ensuring that the theory of change approach is utilized, including developing a clear results framework for each project. 	
Management response and action plan: The Office will finalize pending project documents and have them reviewed and approved.	
Estimated completion date: December 2019	

Issue 2 Weaknesses in programme assurance monitoring

According to the 'UNDP Programme and Operations Policies and Procedures', the purpose of monitoring is to improve development effectiveness and efficiency through reviewing performance and using evidence to adjust programming for optimal results.

The audit team reviewed the project assurance monitoring processes and noted that there was no overall monitoring strategy. For instance:

- Each project conducted its own project monitoring without following a structured and integrated approach.
- Field monitoring visits were undertaken on an *ad hoc* basis, due to restricted access to the Federally Administered Tribal Areas (FATA) region. The Office had contracted third-party entities to undertake monitoring activities in the FATA region and elsewhere.
- Field visits were undertaken by programme staff, without clearly identifying the output indicators to be monitored or linkage to the Harmonized Approach to Cash Transfer assurance plan and were mostly to attend specific activities or to facilitate project delivery.
- The Office maintained a tracker on recommendations to be updated by programme units; however, it did not give assurance that recommendations had been implemented.

In the absence of a robust and integrated programme assurance monitoring process, the Office risks not achieving project results.

Priority	Medium (Important)
Recommendation 2:	
The Office should enhance its programme monitoring and assurance function by developing a comprehensive monitoring strategy outlining specific assurance monitoring actions to be undertaken by different parties at specific times with specific objectives, and planned actions should be followed up on.	
Management response and action plan:	
The Office will develop an integrated programme monitoring plan and tracker.	
Estimated completion date: June 2019	

B. Operations

1. Procurement

Issue 3 Non-compliance in the selection of individual contractors

There were 324 individual contracts processed during the audit period with total contracts valued at \$3.1 million. The following issues were noted:

(i) **Weak justification for direct contracting**

As per 'UNDP's Programme and Operations Policies and Procedures', offices can waive a competitive process and undertake direct contracting if the total value of the individual contract is \$10,000 or below. For procurement cases above \$10,000, as per UNDP Financial Rule No. 121.05 there are nine permissible justifications for direct contracting.

The Office undertook 153 direct contracting of individual contractors amounting to \$1.4 million; 31 of them were for contracts each valued at \$10,000 or more. The audit team reviewed the justifications for seeking a waiver to competitive processes and noted that in 17 cases (55 percent), amounting to \$0.4 million, they did not meet the conditions stated in the 'UNDP's Programme and Operations Policies and Procedures' as the note to file did not justify the waiver.

Failure to comply with the UNDP requirements on direct contracting may impact the Office's reputation and lead to financial losses.

(ii) **Absence of individual contractor roster**

The 'UNDP Programme and Operations Policies and Procedures' state that where there is a significant demand for individual contractors, it is highly recommended that business units establish a roster of qualified candidates. Country Offices, Regional Centres and Headquarters may establish and maintain rosters to facilitate identification and selection. Rosters may provide easy access to a pool of contractors who are potentially suitable and have a demonstrated track record.

While the Office used direct contracting in 153 cases, the Office did not have an individual contractor roster. The audit disclosed that the Office only used the Headquarters and Regional Bureau for Asia and the Pacific maintained rosters on two occasions.

The absence of a comprehensive and well-maintained local individual contractor roster or failure to utilize Headquarters' rosters may contribute to delays in hiring individual contractors and may prevent the Office from contracting the most qualified candidates.

Priority	Medium (Important)
Recommendation 3: The Office should enhance the management of individual contractors by: <ul style="list-style-type: none"> (a) ensuring justifications for direct contracting comply with UNDP Financial Rule No. 121.05; and (b) establishing a comprehensive individual contractor roster, and where appropriate, consider utilizing Headquarters-maintained rosters. 	
Management action plan: The Office will strengthen the wording in documentation relating to direct contracting cases and, where feasible, such contracts will be advertised in the future. Further, a roster of individual consultants will be established with generic terms of reference, i.e., for standard functions and deliverables.	
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.