AUDIT

OF

UNDP COUNTRY OFFICE

IN

PHILIPPINES

Report No. 2087

Issue Date: 1 November 2019
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Report on the Audit of UNDP Philippines
Executive Summary

The UNDP Office of Audit and Investigations (OAI) conducted an audit of UNDP Philippines (the Office) from 2 to 13 September 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 August 2019. The Office recorded programme and management expenses of approximately $75 million. The last audit of the Office was conducted by OAI in 2016.

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 weaknesses in the management of projects and sub-optimal programme delivery.

Key recommendations: Total = 4, high priority = 2

The four recommendations aim to ensure the following: (a) achievement of the organization's strategic objectives (Recommendations 1 and 2, high priority), and (b) compliance with legislative mandates, regulations and rules, policies and procedures (Recommendations 3 and 4, medium priority).

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:

- Inadequacies in management of National Acceleration Modality projects (Issue 1): Deficiencies were noted in management of the National Acceleration Modality projects, such as lack of clarity in roles to be undertaken by the government counterpart and the Office. Some of these issues included extensions of projects beyond their originally intended timelines, inadequate risk management practices, and inadequate due diligence in the management of responsible parties.
Recommendation: The Office should enhance the management of National Acceleration Modality projects by: (a) ensuring projects are well designed, taking into account the capacities and readiness of each of the related partners, and undertaking risk assessments and due diligence of the partners implementing the activities; (b) defining in the project document clear roles and responsibilities of UNDP and the government counterparts in project implementation; and (c) undertaking a lessons learned exercise, and documenting these lessons to inform any future engagement on government cost-sharing projects.

Sub-optimal programme delivery (Issue 2)

The Office had been recording a trend of sub-optimal programme delivery rates against available programme resources over a period of three years (ranging from 59 percent in 2017 to 29 percent in 2019). Furthermore, a procurement transaction amounting to $14 million was completed even though the goods and services were yet to be delivered.

Recommendation: The Office should improve programme delivery against available resources by ensuring close monitoring of projects and outlining a prompt response plan to implementation challenges, especially with concerning government counterparts, to boost programme delivery.

Management comments and action plan

The Resident Representative accepted all four 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. Ostriveiten
Director
Office of Audit and Investigations
I. About the Office

The Office, located in Manila, Philippines (the Country) had 38 personnel comprising International Professionals, National Officers, and General Service staff. The Office’s 2019–2023 Country Programme Document focussed on (i) mitigating and adapting to the effects of climate change; (ii) ensuring transparent and accountable Delivery of Public Services; and (iii) achieving stability to counter insurgencies and violent extremism. In late 2017, the Office’s leadership had identified the need to undertake a comprehensive change effort to ensure that it had the necessary capabilities to provide advisory services and solutions to the Government on complex and multi-sectoral ‘SDG like’ challenges and insights to helping the Government deliver effective and efficient basic services. In line with this, a transformation plan was developed and implemented in 2018, which resulted in a significant change in the Office’s structure and personnel, such as the redesign of several posts incorporating new skill sets and the establishment of an integrated office structure.

II. Audit results

Satisfactory performance was noted in the following areas:

(a) **Governance.** The review included areas pertaining to the Office’s general strategic planning, management and general oversight as well as the Global Staff Survey results, the Office’s structure and reporting requirements. No reportable audit issues were noted.

(b) **Financial management.** The review of voucher processing, and the management of direct project costs indicated that adequate and effective controls were in place. No reportable audit issues were noted.

(c) **Human resource management.** The audit team reviewed processes related to recruitment, separation, leave management, and training and found that controls were adequate and working effectively.

(d) **Safety and security.** The review highlighted no exceptions and all controls were adequate and working effectively.

(e) **Information and communication technology.** The review of back-up procedures and the management of ICT functions in the Office indicated that adequate controls were established and functioning well.

(f) **General administration.** The review indicated that adequate and effective controls were exercised in this area. No reportable audit issues were identified.

(g) **UN coordination.** The review indicated that the controls were well established and no reportable issues were noted.

OAI made two recommendations ranked high (critical) and two 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 management of National Acceleration Modality projects (Recommendation 1).

(b) Improve programme delivery against available resources by ensuring close monitoring of projects and outlining a prompt response plan to implementation challenges (Recommendation 2).
Medium priority recommendations, arranged according to significance:

(a) Enhance procurement planning (Recommendation 3).
(b) Address weaknesses in contract management (Recommendation 4).

The detailed assessment is presented below, per audit area:

<table>
<thead>
<tr>
<th>A. Programme</th>
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<tr>
<td>1. Programme/project design and implementation</td>
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<td>Issue 1</td>
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</table>

According to the ‘UNDP Programme and Operations Policies and Procedures’, projects are key to achieving the outcome intended by the programme, and controls over these projects are required to ensure that they can deliver, have clear goals, justify resources, identify deviations from plans and report on performance periodically. Under the Direct Implementation Modality, UNDP assumes overall management responsibility and accountability for project implementation. Accordingly, UNDP must follow all policies and procedures established for its own operations.

During the audit period, the Office was implementing six government cost-sharing projects referred to as National Acceleration Modality projects, which were directly implemented. The objectives of these National Acceleration Modality projects were to accelerate the provision of services by government institutions, which had experienced delays due to bottlenecks within government planning, budgeting and procurement systems.

Deficiencies were noted in the management of three out of these six projects, as indicated below:

(a) The duration of the three projects was extended for more than two years. For one project, negotiations to revise the new timelines were not undertaken until one month before the initial project end date, where only 10 percent of the activities had been implemented, resulting in additional costs for the Office.

(b) A comprehensive risk assessment was not undertaken for one of the six projects, as it did not include project design and planning-related risks.

(c) For the third project, the project document was poorly designed, omitting key information for the implementation of activities, such as those relating to cash grants and procurement. In addition, the project document and cost-sharing agreements did not clearly outline roles and responsibilities of UNDP and the government counterpart. The following weaknesses were also noted in the management of responsible parties by this project:

- The selection and assessment of all 21 responsible parties were undertaken by the government partner with the Office failing to perform adequate assessments and due diligence in the process.
- During the audit period, $4.4 million was disbursed to these 21 responsible parties. However, activities amounting to only $1.4 million were completed while the balance of $3 million still remained with the responsible parties. Subsequent to the audit fieldwork, and in consultation with the Office, the government counterpart requested all responsible parties to stop the disbursement of funds for further project activities and return all unused funds to the Office by 30 September 2019.
The Office explained that the above issues were mainly attributed to the lack of clarity in the roles of the government counterparts and the Office in implementing the project, which was further complicated by frequent changes to government officials, thereby delaying the implementation of these projects.

Failure to adequately manage projects may result in the risk of the Office not being able to achieve its intended outcomes.

<table>
<thead>
<tr>
<th>Priority</th>
<th>High (Critical)</th>
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<tbody>
<tr>
<td><strong>Recommendation 1:</strong></td>
<td></td>
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<tr>
<td>The Office should enhance the management of National Acceleration Modality projects by:</td>
<td></td>
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<tr>
<td>(a) ensuring projects are well designed, taking into account the capacities and readiness of each of the related partners, and undertaking risk assessments and due diligence of the partners implementing the activities;</td>
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<tr>
<td>(b) defining in the project document clear roles and responsibilities of UNDP and the government counterparts in project implementation; and</td>
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<tr>
<td>(c) undertaking a lessons learned exercise, and documenting these lessons to inform any future engagement on government cost-sharing projects.</td>
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<tr>
<td><strong>Management action plan:</strong></td>
<td></td>
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<tr>
<td>The Office will clarify roles and responsibilities with its government counterpart while articulating governance arrangements in project documents in the future for all National Acceleration Modality projects. It will also undertake a lessons learned exercise, and will document these to inform any future engagement on government cost-sharing projects.</td>
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<tr>
<td><strong>Estimated completion date:</strong></td>
<td>June 2020</td>
</tr>
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**Issue 2  Sub-optimal programme delivery**

The 'UNDP Programme and Operations Policies and Procedures' stipulate that annual work plans should articulate activities to be implemented in a given year, with these activities evenly spread out across each quarter to ensure reasonable and sustained progress towards project results.

The audit team reviewed the overall programme resources, delivery and budgets set in Atlas (enterprise resource planning system of UNDP), as outlined in the table below:
Table 1.

<table>
<thead>
<tr>
<th>Programme indicators</th>
<th>2019 (January to September) $ millions</th>
<th>2018 $ millions</th>
<th>2017 $ millions</th>
</tr>
</thead>
<tbody>
<tr>
<td>Total programme resources available</td>
<td>69</td>
<td>73</td>
<td>74</td>
</tr>
<tr>
<td>Total programme budget</td>
<td>52</td>
<td>34</td>
<td>48</td>
</tr>
<tr>
<td>Programme internal delivery target (set by RBAP*)</td>
<td>46</td>
<td>30**</td>
<td>47</td>
</tr>
<tr>
<td>Total programme delivery</td>
<td>20</td>
<td>31</td>
<td>44</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Delivery rates</th>
<th>Percentage [%]</th>
<th>Percentage [%]</th>
<th>Percentage [%]</th>
</tr>
</thead>
<tbody>
<tr>
<td>Programme delivery rate against budget</td>
<td>38</td>
<td>91</td>
<td>92</td>
</tr>
<tr>
<td>Programme delivery rate against available programme resources</td>
<td>29</td>
<td>42</td>
<td>59</td>
</tr>
</tbody>
</table>

Source: Executive Snapshot

* Regional Bureau for Asia and the Pacific
**Original target was $41 million, subsequently revised downwards to $30 million.

In 2018, the Office recorded a programme delivery of $31 million, which amounted to 75 percent of the Regional Bureau for Asia and the Pacific’s original internal target of $41 million. However, the programme delivery target was revised to $30 million subsequently during the year (hence enabling the Office to achieve a programme delivery rate of 103 percent compared to the revised target of $30 million). This programme delivery of $31 million translated to 42 percent of total available resources in 2018. The downward revision of the delivery target to $30 million in 2018 was due to delays in receiving funds.

As of the end of September 2019, the Office achieved a programme delivery of $20 million, which was 43 percent of its internal target set by the Regional Bureau for Asia and the Pacific and 29 percent of total available resources. The Office commented that several issues, such as challenges with government counterparts, contributed to delays and a lower overall programme delivery rate against available resources. Subsequent to the audit fieldwork, the Office completed a procurement transaction related to a delayed project amounting to $14 million, although goods and services relating to this procurement transaction were yet to be delivered as of October 2019. Nonetheless, this boosted the Office’s total programme delivery to $36 million as at the end of October 2019, which translated to a 78 percent delivery rate of its internal delivery target.

Concerns over project management weaknesses were noted (see Issue 1), which hampered programme delivery during the audit period. The Office had been showing a trend of sub-optimal programme delivery rates against available programme resources (as indicated by the figures above) over a period of three years (ranging from 59 percent in 2017 to 29 percent in 2019). The Office commented that some programme resources were received very late during the last quarter of the year, hence only $59 million and $40 million was available to be utilized for 2017 and 2018, respectively. Therefore, according to the Office, the programme delivery rate against available programme resources that could be budgeted during the year was 75 percent and 77 percent in 2017 and 2018, respectively. Nonetheless this still meant that the Office did not utilize available programme resources amounting to $11 million and $5 million in 2017 and 2018, respectively, even though these funds were received early in the year (during the first three quarters) and which could have been programmed and utilized.

Failure to utilize available programme resources in a consistent manner may be detrimental to future resource mobilization efforts and may have a negative impact on programme results.
Priority: High (Critical)

**Recommendation 2:**

The Office should improve programme delivery against available resources by ensuring close monitoring of projects and outlining a prompt response plan to implementation challenges, especially with concerning government counterparts, to boost programme delivery.

**Management action plan**

The Office will work closely with the Regional Bureau for Asia and the Pacific in the future to set realistic delivery targets and to monitor performance in line with the agreements with the donors. Regular delivery meetings will be held with counterparts to review performance and identify adaptive measures to put in place to accelerate the achievement of expected results and disbursement of funds.

**Estimated completion date:** March 2020

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**B. Operations**

**1. Procurement**

**Issue 3: Inadequate procurement planning**

The ‘UNDP Programme and Operations Policies and Procedures’ state that all business units and Country Offices are required to develop consolidated procurement plans on an annual basis. Offices are also required to conduct an analysis of this plan as well as review and update it regularly. The policies also require the use of PROMPT, a corporate web-based planning tool to prepare procurement plans.

The Office had not fully used the procurement planning tool, PROMPT, during the audit period. The 2018 consolidated procurement plan was produced manually based on the planning information from PROMPT, but it was not used as a planning tool to consolidate procurement requirements as acknowledged by the Procurement Unit.

For 2019, the PROMPT dashboard showed that most of the procurement plan submissions by project management units were only made after May 2019. As a result of late planning submissions, it was not possible to create an office-wide consolidated procurement plan in the beginning of 2019 to consolidate procurement requirements and to achieve efficiencies and economies of scale.

The Office explained that the above was partly attributed to disruptions resulting from the change management process that had taken place in the Office in 2018.

Inadequate procurement planning may result in the Office having to rush the procurement of goods and services, which may result in failing to obtain best value for money and may compromise the quality of programme results.
Priority: Medium (Important)

**Recommendation 3:**

The Office should enhance procurement planning by:

(a) undertaking procurement planning in a timely manner; and
(b) effectively using the PROMPT system by entering procurement planning information and consolidating all procurement plans in the beginning of the year to enable economies of scale.

**Management action plan:**

Management will ensure that PROMPT is updated as soon as the annual planning exercise for 2020 is completed with a deadline of 1 February 2020. The Office will request the Bangkok Regional Hub and/or the Bureau for Management Services for a training session for requestors and for the Procurement Unit. Management will also make the required amendments in procurement workflows, which will necessitate the use of PROMPT as a planning tool before any procurement action will be taken up by the Procurement Unit. Additionally, management will start using PROMPT dashboard data as a management tool in the weekly management meetings to track progress, and identify risks and mitigation measures.

**Estimated completion date:** February 2020

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**Issue 4  Weaknesses in contract management**

The ‘UNDP Programme and Operations Policies and Procedures’ require that all contracts be managed effectively to avoid consequences such as the misunderstanding of technical requirements, inadequate monitoring of supplier performance, late certification of milestones/deliverables, delayed or late payments, and unclear roles and responsibilities, all of which may result in poor performance, failed contracts and costly contract amendments/extensions and opportunities.

The review of the Office’s contract management showed that amendments from delays and contract scope changes were not kept at a minimum. Overall, out of 40 procurement samples reviewed, there were 12 (30 percent) procurement transactions with two or more amendments, as supported by the procurement sample review below:

- All five civil work contracts amounting to $0.6 million had multiple amendments due to delays or scope changes. For example, one civil work contract worth $72,000 had nine amendments, which extended its 90-day construction period to 400 days. After several delays, the Office investigated the cause of the delays in March 2019, but no mitigation actions were proposed. As a result, the contract was extended two more times after the March 2019 review.

- One service contract amounting to $74,000 for the development of the Country Programme Document had five amendments, resulting in the original 4-month contract becoming a 13-month contract. The reasons cited for the extensions were not very clear, yet the Office approved these five extensions.

Although the Office conducted procurement risk assessments for its high-value and/or complex procurement requirements, they were not effective to identify and mitigate the above-mentioned challenges.
Shortcomings in contract management may result in poor performance, failed contracts, and costly administrative burdens from amendments. The amendments to the civil works contracts delayed the completion of the project. In addition, amendments to the service contract significantly delayed the completion of the Country Programme Document.

<table>
<thead>
<tr>
<th>Priority</th>
<th>Medium (Important)</th>
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**Recommendation 4:**

The Office should address weaknesses in contract management by:

- (a) improving the procurement planning process to ensure all major risks are identified and mitigated when contracting;
- (b) ensuring adequate monitoring and management of contractual risks; and
- (c) identifying underlying causes of delays and implementing effective mitigation measures to prevent further delays.

**Management action plan:**

The Office agrees with the recommendation, and will adhere to it fully. The Regional Bureau for Asia and the Pacific has assigned an International Operations Manager who is due to arrive by end of the year with a strong procurement background and will be an added resource to help implement complete contract management with support from the Bangkok Regional Hub’s Regional Procurement Specialist.

**Estimated completion date:** February 2020
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.