



**AUDIT**

**OF**

**UNDP PHILIPPINES**

**Accelerating Bottom-Up-Budgeting through Inclusive and Effective Governance**  
**(Directly Implemented Project No. 94900, Output No. 98964)**

**Report No. 2104**

**Issue Date: 16 August 2019**

**Report on the Audit of UNDP Philippines**  
**Accelerating Bottom-Up-Budgeting through Inclusive and Effective Governance**  
**(Project No. 94900, Output No. 98964)**  
**Executive Summary**

The UNDP Office of Audit and Investigations (OAI), through BDO LLP (the audit firm), from 13 to 23 May 2019, conducted an audit of Accelerating Bottom-Up-Budgeting through Inclusive and Effective Governance (Project No. 94900, Output No. 98964) (the Project), which is directly implemented and managed by the UNDP Country Office in Philippines (the Office). This was the first audit of the Project.

The audit firm conducted a financial audit to express an opinion on whether the financial statements present fairly, in all material aspects, the Project's operations. The audit covered the Project's Combined Delivery Report, which includes expenses for the period from 1 January to 31 December 2018 and the accompanying Funds Utilization statement<sup>1</sup> as of 31 December 2018. The audit did not include expenses processed and approved in locations outside of the country (such as UNDP Regional Centres and UNDP Headquarters). The audit did not cover the Statement of Assets as no assets were held by the Project. In addition, the audit did not cover the Statement of Cash Position as no separate bank account was established and maintained for the Project.

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

**Audit results**

Based on the audit report and corresponding management letter submitted by the audit firm, the results are summarized in the table below:

Project Expenses*	
Amount (in \$ '000)	Opinion
3,546	Unmodified

\*Expenses recorded in the Combined Delivery Report were \$3,986,758.84. Excluded from the audit scope were transactions that relate to expenses processed and approved by other UNDP offices outside of the country (\$441,182.22).

**Key recommendations:** Total = 4, high priority = 0

The audit did not result in any high (critical) priority recommendations. There are four 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 insufficient due diligence and risk assessment activities, and weaknesses in the Project's procurement processes.

The four recommendations aim to ensure the following: (a) achievement of the organization's strategic objectives (Recommendation 1); (b) effectiveness and efficiency of operations (Recommendation 2); and (c)

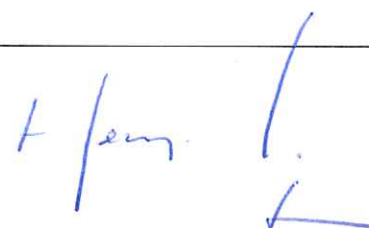
<sup>1</sup> The Funds Utilization statement includes the balance, as at a given date, of five items: (a) outstanding advances received by the project; (b) undepreciated fixed assets used at the project level; (c) inventory held at the project level; (d) prepayments made by the project; and (e) outstanding commitments held at the project level.

compliance with legislative mandates, regulations and rules, policies and procedures (Recommendations 3 and 4).

At the time this report was being issued, OAI was investigating complaints relating to parties involved with the Project.

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

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

A handwritten signature in blue ink, appearing to read 'H. Osttveiten', is enclosed within a rectangular box.

Helge S. Osttveiten  
Director  
Office of Audit and Investigations



UNITED NATIONS DEVELOPMENT PROGRAMME (UNDP)

## **FINAL AUDIT REPORT**

Financial audit of the UNDP directly implemented Project 94900  
Output 98964

“Accelerating Bottom-up Budgeting (BUB) through Inclusive and  
Effective Governance”

The Philippines

## IDENTIFICATION

Project name:	Accelerating Bottom-Up-Budgeting through Inclusive and Effective Governance
UNDP Country Office:	The Philippines
Atlas Project ID:	94900
Atlas Output ID:	98964
Auditor:	BDO LLP
Period subject to audit:	1 January to 31 December 2018

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## EXECUTIVE SUMMARY

BDO LLP conducted the financial audit of “Accelerating Bottom-Up-Budgeting through Inclusive and Effective Governance (BUB)” (Project ID 94900 and Output ID 98964) (the project), directly implemented by UNDP Philippines for the year ended 31 December 2018. The audit was undertaken on behalf of UNDP, Office of Audit and Investigations (OAI).

### Audit opinions

We have issued audit opinions as summarised in the table below and as detailed in the next section:

<b>Project Financial Position</b>	Unmodified
<b>Statement of Fixed Assets</b>	Not applicable
<b>Statement of Cash Position</b>	Not applicable

### Management letter summary

As a result of our audit, we have raised four audit findings with a net financial impact of nil, as summarised below:

No.	Title	Priority	Net financial impact US\$
1	Insufficient due diligence and risk assessment activities	Medium	-
2	Ineffective procurement strategy	Medium	-
3	Direct contracting of suppliers without appropriate justification	Medium	-
4	Single sourcing of suppliers for micro-purchases	Medium	-
<b>Total</b>			-

### Prior year audit

The project was not audited in the prior year.



Mark Henderson  
Partner

BDO LLP  
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8 August 2019



## THE AUDIT ENGAGEMENT

### Audit Objectives and Scope

The objective of the financial audit was to express an opinion on the DIM project's financial position which includes:

- Expressing an opinion on whether the financial expenses incurred by the project between 1 January and 31 December 2018 in the Combined Delivery Report (CDR), the Funds Utilization statement as at 31 December 2018 and the accounts receivable and accounts payable as at 31 December 2018 are fairly presented in accordance with UNDP accounting policies and that the expenses incurred were: (i) in conformity with the approved project budgets; (ii) for the approved purposes of the project; (iii) in compliance with the relevant regulations and rules, policies and procedures of UNDP; and (iv) supported by properly approved vouchers and other supporting documents.
- Expressing an opinion on whether the Statement of Fixed Assets, at net book value, presents fairly the balance of depreciated assets of the UNDP project as at 31 December 2018. This statement must include all assets available as at 31 December 2018 and not only those purchased in a given period.  
Where a DIM project does not have any assets or equipment, it is not necessary to express such an opinion.
- Expressing an opinion on whether the Statement of Cash Position held by the project presents fairly the cash and bank balance of the UNDP project as at 31 December 2018.

In cases where the cash transactions of the audited DIM project are made through the country office bank accounts, this type of opinion is not required.

The Financial Audit was conducted in accordance with the International Standards of Auditing (ISA), the 700 series. As applicable, the audit report provides the progress made in implementing the recommendations raised in the previous year's audit report.

The scope of the audit relates only to transactions concluded and recorded against the UNDP DIM project between 1 January and 31 December 2018. The scope of the audit did not include:

- Activities and expenses incurred or undertaken at the level of "responsible parties", unless the inclusion of these expenses is specifically required in the request for proposal; and
- Expenses processed and approved in locations outside the country such as UNDP Regional Centres and UNDP Headquarters and where the supporting documentation is not retained at the level of the UNDP country office.



## AUDIT OPINIONS

### Independent Auditor's Report to UNDP - Accelerating Bottom-Up-Budgeting through Inclusive and Effective Governance (BUB)

#### Project Financial Position

#### To the Director of the Office and Audit and Investigations, United Nations Development Programme

We have audited the financial position of the UNDP project ID 94900, Accelerating Bottom-Up-Budgeting through Inclusive and Effective Governance (output ID 98964), for the period 1 January to 31 December 2018 which includes: (a) the accompanying Combined Delivery Report (CDR); (b) the Funds Utilization statement ("the statement"); and (c) the project-related accounts receivable and accounts payable.

The CDR expenditure totalling \$ 3,986,758.84, is comprised of expenditure directly incurred by the UNDP Country Office in the Philippines for an amount of \$ 3,545,576.62 and expenditure incurred by entities other than the Country Office for an amount of \$ 441,182.22. Our audit only covered the expenditure directly incurred by the UNDP Country Office in the Philippines of \$ 3,545,576.62.

#### Unmodified opinion

In our opinion, the attached CDR and Funds Utilization statement present fairly, in all material respects, the expenses of \$ 3,545,576.62 directly incurred by the UNDP Country Office in the Philippines and charged to the project for the period 1 January to 31 December 2018 in accordance with UNDP accounting policies and were: (i) in conformity with the approved project budgets; (ii) for the approved purposes of the project; (iii) in compliance with the relevant regulations and rules, policies and procedures of UNDP; and (iv) supported by properly approved vouchers and other supporting documents.

#### Basis for opinion

We conducted our audit in accordance with International Standards on Auditing. Our responsibilities under those provisions and standards are further described in the 'Auditor's responsibilities' section of this report.

We are independent of UNDP in accordance with the International Ethics Standards Board of Accountants' Code of Ethics for Professional Accountants. We have fulfilled our other ethical responsibilities in accordance with these requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

#### Management responsibilities

Management is responsible for the preparation of the CDR and the Funds Utilization statement of the project and for such internal control as management determines is necessary to enable the preparation of a CDR and Funds Utilization statement that are free from material misstatement, whether due to fraud or error.

#### Auditor's responsibilities

Our objectives are to obtain reasonable assurance about whether the CDR and the Funds Utilization statement are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these documents.

As part of an audit in accordance with ISAs, we exercise professional judgment and maintain professional scepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the CDR and the Funds Utilization statement, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the organization's internal control.

We communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.



Mark Henderson  
Partner

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8 August 2019



## Independent Auditor's Report to UNDP - Accelerating Bottom-Up-Budgeting through Inclusive and Effective Governance (BUB)

### Statement of Fixed Assets

We noted that the UNDP project Accelerating Bottom-Up-Budgeting through Inclusive and Effective Governance (BUB) had no assets.

## Independent Auditor's Report to UNDP - Accelerating Bottom-Up-Budgeting through Inclusive and Effective Governance (BUB)

### Statement of Cash Position

We noted that the UNDP project Accelerating Bottom-Up-Budgeting through Inclusive and Effective Governance (BUB) did not have a dedicated bank account for DIM project activities subject to audit and accordingly a Statement of Cash Position was not produced.

## MANAGEMENT LETTER

The audit findings and recommendations arising from the financial audit of the project are set out in our management letter below:

Finding n°: 1	Title: Insufficient due diligence and risk assessment activities
<p><b>Observation:</b></p> <p>UNDP Programme and Operations Policies and Procedures states:</p> <p><i>Direct Implementation (DIM) is the modality whereby UNDP takes on the role of Implementing Partner. In DIM modality, UNDP has the technical and administrative capacity to assume the responsibility for mobilizing and applying effectively the required inputs in order to reach the expected outputs. UNDP assumes overall management responsibility and accountability for project implementation.</i></p> <p>The BUB project involved working with beneficiaries to implement numerous small donor approved community projects on behalf of Local Government Units (LGUs) who would have otherwise been unable to deliver the projects. However, we noted that the project management team did not carry out sufficient due diligence of projects and beneficiaries prior to signing the project document. This subsequently led to ineffective resource planning and delays in project implementation.</p> <p>The lack of due diligence led to inefficient resource planning including: the premature hiring of staff at the regional offices, underestimating the contribution required by the procurement department, and misunderstandings with the LGUs. These factors are discussed in further detail in the sections below.</p> <p>The subsequent delays in the project required a no-cost extension to 30 September 2019. As of May 2019, of the total 487 projects only 285 are completed, 183 are ongoing and 19 are still at the pipeline stage with only four months until the end of the project.</p> <p><b>Insufficient due diligence</b></p> <p>The project management team did not perform the following areas of due diligence:</p> <ul style="list-style-type: none"> <li>• <u>Identification of sub-projects</u> - The Strategy Section of the Project Document between DSWD, the project donor, and UNDP set out 497 selected sub-projects, which increased to 555 after further discussions. After further analysis of the individual LGU proposals by the project teams, 1,101 sub-projects were identified. With such a high number of sub-projects within the proposals, we would expect these to have been discussed or reviewed as part of the due diligence. However, the number of sub-projects was not identified at the planning stage. While staff effort for project activities is not tracked on timesheets, the significant number of sub-projects substantially increased the workload for both the project teams and the procurement unit.</li> <li>• <u>Understanding the status of the proposal (including LGU's review)</u> - On signing the project document on 12 May 2016, the project team understood that the LGUs' projects were approved and ready to be implemented. However, in the first few months of implementation it became evident that the majority (93.3%) of proposals had not yet been submitted by local communities for approval by the LGUs (July 2016: 37 submitted of planned 555 projects).</li> </ul> <p>There were then significant delays in starting the project due to the LGUs failure to agree and approve the project proposals from local beneficiaries in a timely manner (July 2016: 3 approved of 555 planned projects). Project staff were hired and allocated at the regional offices to commence work at the start of the project; however, the lack of approved proposals from LGUs meant they were unable to begin implementing the project. These delays resulted in a lack of project staff utilisation and a high turnover of regional project staff at the start of the project.</p> <p>If sufficient due diligence had been carried out then the project team would have understood the status of the projects before commencement, and regional staff could have been hired at a later date when more projects were approved. Subsequently, project management decided that the</p>	

regional offices should aid in the LGU's review and approval of proposals to enable the agreed activities to be delivered in line with the contract.

- The early hiring of regional project staff placed constraints on the project budget, requiring the termination of regional staff employment contracts during the audit period. A significant number of projects remain either ongoing (37.6%) or at the pipeline stage (3.7%). These projects will not have the regional staff to support them. This will have an impact on overall delivery and increase the implementation costs for these projects, as they will have to be run from the country office
- Understanding the underlying LGU policies and procedures - The project team expected that managing a large volume of projects across multiple LGUs would allow economies of scale to reduce the individual unit cost per project. The varied and specialised nature of the individual proposed projects and non-conformity of documentation and processes across DSWD regional offices meant that synergies could not be realised. By not performing due diligence on the partner organisations involved in project implementation, and not fully understanding the nature of the projects, the project team underestimated the workload.
- Understanding of the types of projects - The lack of experience in procuring and distributing the specialised items (e.g. livestock) required for the beneficiaries' projects led to a greatly increased workload by the procurement unit and project team. On review of the due diligence reports, we did not identify any detailed analysis of individual projects by the project team. Subsequently, the gap in skills and expertise in procuring items necessary to deliver some projects was not identified from the onset.

Failing to perform adequate due diligence increases the risk of the project failing to deliver its agreed outputs. Underestimating project workload increases the risk that UNDP is distracted from its core mission or is unable to deliver on commitments. In addition, a failure to understand the beneficiary projects and activities may result in an inappropriate start date, duration, or budget being agreed with the donor.

#### **Insufficient risk assessment**

UNDP Programme and Operations Policies and Procedures also states that:

*Along with potential benefits, UNDP must assess risks of potential partnerships and articulate ways to manage and migrate them.*

We noted that the risk assessment performed on the project was limited to a financial analysis of the best/worst case financial scenarios, but this was not sufficiently detailed and did not identify potential risks or mitigation strategies.

Without performing an adequate risk assessment and designing appropriate risk mitigation strategies, project management may agree to activities which are not in line with UNDP's overall strategy or risk appetite.

**Priority: Medium**

#### **Recommendation:**

We recommend that, for future projects, management complete the following:

- Detailed due diligence:
  - Review each proposal in detail to gain an understanding of the type of project, the level of work required, and its current status;
  - Review the policies and procedures in place at the LGUs; and,
  - Base the project agreement on this information to ensure the start date, timeframes and budgets are realistic.
- Risk assessments:
  - Assess the project risks by category, likelihood and significance in accordance with UNDP guidance;

- Design appropriate risk mitigation strategies for the identified risks; and,
- Monitor the identified risks throughout the project.
- Update the donor and partner organisations (LGUs and DSWD) on a regular basis on overruns, ensuring that the communication of any delays are documented.

**Management comments:**

Management agrees with the Audit recommendations and has now strengthened due diligence at the formulation stage of the project document - reflected in a number of subsequent new projects with significantly improved design and risk management. Risk assessment and regular updates with donors/partners during project implementation are now in place and with direct engagement of senior management. However, Management notes the need for improved documentation of these processes. The Programme Management Unit responsible for the oversight of the project has also been strengthened.

<b>Finding n°: 2</b>	<b>Title: Ineffective procurement strategy</b>
<p><b>Observation:</b></p> <p>UNDP Programme and Operations Policies and Procedures states:</p> <p><i>Based on the information gathered, potential buying strategies should be identified and evaluated.</i></p> <p><i>Based on the information gathered, an understanding of the nature of the procurement activities, a knowledge of the market and an understanding of existing risks, UNDP will develop unique procurement strategies for each project.</i></p> <p><i>Procurement strategies will seek to meet identified project goals and to mitigate existing risks.</i></p> <p>The procurement strategy applied for the project was not appropriate, as the activities required a large volume of small scale procurement at a regional level, adding pressure to the central procurement unit and leading to delays in project implementation.</p> <p><u>Pre-qualified list of national suppliers for small local projects</u></p> <p>Project management made the decision to perform a large nation-wide procurement process to create a pre-qualified supplier list of civil works contractors. This was then used to request quotations from vendors at a local level.</p> <p>In the majority of cases, the pre-qualified contractors were not suitable, as demonstrated by the majority of quotations received from this pre-qualified list being deemed to be unacceptable, as the prices quoted exceeded the budget. In addition, they often lacked experience of working in rural areas, and charged a premium for the foreseen risks and additional costs of doing so.</p> <p>Pre-qualification involved significant effort internally by the procurement unit when reviewing tenders, and externally by the prospective vendors when preparing their bids. A failure to use the selected suppliers may also have a negative impact on a vendor's willingness to respond to tenders in the future, and on UNDP's reputation as a customer.</p> <p>The technical evaluation of each potential applicant required a review of their supporting documentation and comparative assessment by four staff. In total 31 contractors were accepted as part of the pre-qualification. While staff effort for project activities is not tracked on timesheets, such a large assessment of potential applicants would have taken up a significant portion of project, technical and procurement staff time on and around the assessment dates.</p> <p>Further direct costs for dissemination, including the four postings of the prequalification in a national newspaper, added to the prequalification costs.</p> <p>Of the thirteen construction work packages assessed as part of the audit, only one vendor was selected from the prequalification list.</p> <p><u>Procurement strategy planned without sufficient understanding of projects</u></p> <p>Initial procurement for the projects was performed in August 2016, despite the majority of projects proposals not being agreed until the start of 2018. As a result of this, the procurement team were not aware of all of the project activities and requirements when pre-qualifying suppliers for use on the projects.</p>	
<b>Priority: Medium</b>	
<p><b>Recommendation:</b></p> <p>We recommend that project management only draft a procurement strategy when they have a thorough understanding of the nature of the projects to be implemented, with the advice and input of the procurement unit.</p> <p>The procurement strategy should be assessed at each stage and modified where appropriate.</p> <p>Due to the significant effort required to create a pre-qualified supplier list, we recommend that the project team and procurement unit only perform such a large-scale tendering exercise where they</p>	



have sufficient understanding of the underlying procurement requirements and are confident that this approach is most appropriate.

**Management comments:**

Management agrees with the Audit recommendations. A procurement strategy was drafted based on the available information at the time of inception of the project to consolidate the procurement of standardized goods and services and benefit from economies of scale. However, weak LGUs capacity challenged the quality of available information. Staff recruited for project implementation were redirected to support both DSWD and LGUs to build capacity in the design of projects. It is in fact in the context of a developing country with low governance capacities that UNDP added value. UNDP also subsequently adopted a range of contracting modalities including working with CSOs to ensure projects were delivered on time and within budget.

**Finding n°: 3****Title: Direct contracting of suppliers without appropriate justification****Observation:**

Financial Rule No. 121.05 of UNDP Financial Regulations and Rules states:

*(a) The Chief Procurement Officer may determine for a particular procurement action that using formal methods of solicitation is not in the best interest of UNDP when:*

*(vi) A formal solicitation has not produced satisfactory results within a reasonable prior period;*

*(b) When a decision is made pursuant to subparagraph (a) above, the Chief Procurement Officer shall record the reasons in writing and may then award a procurement contract, either on the basis of an informal method of solicitation, or on the basis of a directly negotiated contract, to a qualified vendor whose offer substantially conforms to the requirements at an acceptable price.*

UNDP Programme and Operations Policies and Procedures states:

*Although the direct contracting modality waives the competitive process, this method does not diminish the responsibilities and accountabilities of procurement staff.*

Direct contracting is a waiver that can be applied to the competitive purchase of goods or services between US\$ 10,000 and US\$ 150,000 where a competitive process is shown to be ineffective. We noted that a procurement waiver for direct contracting was applied to significant purchases without appropriate justification. This was in contradiction of UNDP's key procurement principles and circumvented appropriate value checks in the local market.

A formal procurement process was performed at a national level to identify a list of pre-qualified construction firms to bid on future request for quotations for civil works contracts across the country; however the majority of quotations received from this pre-qualified list were not accepted.

Subsequently, the procurement unit contracted directly with local suppliers, justifying the procurement waiver based on the pre-qualified list not producing acceptable quotations. This method of direct contracting was a substantial change in strategy and market.

Smaller businesses failed to be short listed on the national tender as they:

- were unaware of the procurement being conducted at a national level, as this was not advertised through their usual media;
- were unable to draft and submit tender documentation which would meet the minimum UNDP standards due to a lack of skill and familiarity with requirements; and
- did not meet the technical criteria required for submitting a bid, such as financial and registration requirements.

As there was a significant change in the procurement strategy, both in terms of acceptance criteria for the vendor, and in the market where the quotations were being requested, this does not constitute an acceptable justification for direct contracting in line with UNDP guidelines.

The justification for direct contracting was approved in the Procurement Review Committee Report and was not raised as an issue.

This affected service contracts totalling US\$ 322,335.91 across 7 vendors.

By applying direct contracting without appropriate justification, there is an increased risk that poor purchasing decisions are made, and that the principles of best value for money and fairness, integrity, and transparency are not being respected.

The regional project teams were charged with sourcing suitable construction contractors for the project when the direct contracting method was adopted. Due to the rural areas in which the projects operate, there is an increased risk of regional staff collaborating with local businesses when performing procurement, hindering a fair and transparent procurement process. The risk is exacerbated by the limited conflict of interest checks performed by the procurement team at the UNDP Country Office.

**Priority: Medium**

**Recommendation:**

We recommend that a competitive procurement process is carried out unless the procurement clearly meets one of the scenarios detailed in the UNDP Programme and Operations Policies and Procedures. Procurement should be performed in line with UNDP's key procurement principles. We recommend the project team carry out additional competitive procurement procedures in line with the UNDP Programme and Operations Policies and Procedures, and not contract with local suppliers directly.

**Management comments:**

The Management agrees with the Audit finding and recommendation. The project management team, owing to the need to expedite delivery, failed to adequately test the market before deciding to adopt direct sourcing. The competency and cost of the various direct sourced suppliers do however reflect the current market based on a review of similar works undertaken.

**Finding n°: 4****Title: Single sourcing of suppliers for micro-purchases****Observation:**

UNDP Programme and Operations Policies and Procedures states:

*Inclusive sourcing for procurement is essential to effective competition as well as fairness, integrity and transparency. The following are key components:*

- a. Define the sourcing method*
- b. Conduct market research*
- c. Identify vendors*
- d. Appraise and manage vendors*

Single sourcing is relevant to micro-purchases of goods or services below US\$ 10,000 where canvassing (by phone, internet or shopping) should be performed. We noted that procurement conducted at the regional offices did not consistently abide by UNDP's key procurement principles.

Single sourcing of travel providers without appropriate justification

When procuring hotels, the regional project team were only able to provide limited documentation to support the procurement process that had been performed. While evaluation matrices were provided for some quotations, these were often limited to one vendor, and few were supported by quotations or communication with the vendor. We selected a sample of four accommodation providers and noted exceptions for all instances.

For the selection of hotels, we identified instances whereby:

- The project team for region II claimed the vendor was the only local hotel able to provide reliable internet and free use of electronics. There was no documentation provided to support this claim.
- Documentation including evaluation matrices, quotations, and official responses from suppliers were consolidated by the regional project team for Central Luzon. However, the regional project team failed to submit all operational documents to the head office on their last day (10 November 2018). The team committed to submitting all project documents, including issued equipment, during the exit conference held on 16 November 2018. To date, there have been no responses from any of the formal project team.
- The region VII project team only sent one request for quotation via email and no other suppliers were contacted for quotations.
- The regional project team for CARGA claimed the selection was the only hotel nearby willing to open a credit line with UNDP. Again, UNDP failed to provide documentation to support this claim.

For car rental providers, we selected nine car rental providers and identified exceptions for six with similar gaps in procurement documentation identified as follows:

- The regional project team provided an evaluation matrix but were unable to provide the corresponding quotations. The team claimed these were obtained via SMS/text canvassing but were unable to provide evidence to this.
- The regional project team claimed that the winning bid corresponded to one of the only car rental suppliers with a credit line, able to issue official receipts and agreeing to UNDP credit terms. The regional project team failed to transfer the supporting documentation for the procurement to the UNDP country office when their employment contracts ended.
- The regional project team provided quotations from January 2018; however, no quotations were requested for successive months as the winning vendor was the only service provider willing to open a credit line with UNDP. There was no evidence on file to support this claim.

- Regional project staff explained the winning provider was the only one available for the requested travel dates and only accepted cash payments. However, we were not provided with evidence to corroborate this explanation.
- The regional team only provided the quotation received from one service provider; however, it is unclear if other vendors were contacted for quotations.

Evaluation matrices often only had one quotation, and it was unclear if other bidders were contacted for quotations, or if these quotations were obtained through direct contracting. The project team at UNDP CO were unsure if other vendors had been contacted.

Without documentation to support the procurement processes performed by the regional project teams, we were unable to verify that the quotations evaluated were genuine and that the procurement process occurred as stipulated by UNDP guidelines. There is a risk of regional staff biasing local procurement decisions.

Where the project team claimed that the selected service provider was the only vendor to comply with UNDP requirements, we performed our own analyses of the local market to identify other qualifying vendors. Where we did identify other qualifying vendors, the prices charged were equal to, or higher than, the hotels selected; hence, we gained assurance that the prices obtained offered value for money.

#### Lack of review of procurement decisions made at regional level

The procurement unit confirmed that, as per the micro-procurement guidelines, a Purchase Order (PO) and contract are not required unless they are procuring assets, consultant services and/or critical services above US\$5,000. However for such payments (without a PO/contract) all other supporting documentation should be retained. The responsible project manager should verify that these documents are being appropriately archived.

As the Finance and Admin Assistant at the UNDP Country Office was unable to provide documentation to support the competitive procedures performed by the regional project teams, this indicates a lack of review and oversight by the project team at the UNDP Country Office.

#### **Priority: Medium**

#### **Recommendation:**

All supporting documentation regarding procurement decisions made should be filed and retained. Enquiries made to suppliers resulting in single source procurement should also be kept on file, to ensure that there are no other suitable suppliers and that direct contracting is appropriate.

The Office should ensure that they are providing sufficient oversight over decisions made by the regional project teams, and that all procurement decisions made by the regional teams are adequately supported by documentation, which is filed and retained.

#### **Management comments:**

Management agrees with the Auditors comments. Procurement is now centralised. Micro-purchasing is subject to oversight from GSSU and without their endorsement payments cannot be made.



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8 August 2019



# Annexes

## Annex 1: Combined Delivery Report



UN Development Programme  
Report ID: unglcdrp

### Combined Delivery Report By Project

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#### Selection Criteria :

Business Unit : PHL10  
Period : Jan-Dec (2018)  
Selected Project Id : 00094900  
Selected Fund Code : 30071  
Selected Dept. IDs : B0428  
Selected Outputs : 00098964

Project Id : 00094900 Accelerating the BUB through I	Period :	Jan-Dec (2018)
Output # : 00098964 Accelerating BUB implementatio	Impl. Partner :	99999 UNDP
	Location :	Philippines

	Govt Exp	UNDP Exp	UN Agencies Exp	Total Exp
<b>Dept: 42801 (Philippines - Central)</b>				
<b>Fund : 30071 (Programme Cost Sharing GOV1)</b>				
71605 - Travel Tickets-International	0.00	672.51	0.00	672.51
71615 - Daily Subsistence Allow-Intl	0.00	2,273.08	0.00	2,273.08
71635 - Travel - Other	0.00	754.63	0.00	754.63
75105 - Facilities & Admin - Implement	0.00	111.01	0.00	111.01
<b>Total for Fund 30071</b>	<b>0.00</b>	<b>3,811.23</b>	<b>0.00</b>	<b>3,811.23</b>

**Total for Dept : 42801 0.00 3,811.23 0.00 3,811.23**

#### Dept: 42804 (Philippines - Dem. Governance)

#### Fund : 30071 (Programme Cost Sharing GOV1)

64397 - Services to projects -CO staff	0.00	78,446.05	0.00	78,446.05
71305 - Local Consult.-Sht Term-Tech	0.00	61,276.13	0.00	61,276.13
71360 - Local Consult-Security	0.00	1,702.55	0.00	1,702.55
71405 - Service Contracts-Individuals	0.00	424,648.04	0.00	424,648.04
71410 - MAIP Premium SC	0.00	380.18	0.00	380.18
71415 - Contribution to Security SC	0.00	16,154.00	0.00	16,154.00
71605 - Travel Tickets-International	0.00	20,998.66	0.00	20,998.66
71610 - Travel Tickets-Local	0.00	471.90	0.00	471.90
71615 - Daily Subsistence Allow-Intl	0.00	72,180.78	0.00	72,180.78
71620 - Daily Subsistence Allow-Local	0.00	827.45	0.00	827.45
71635 - Travel - Other	0.00	78,847.42	0.00	78,847.42
72105 - Svc Co-Construction & Engineer	0.00	83,516.60	0.00	83,516.60
72120 - Svc Co-Trade and Business Serv	0.00	0.00	0.00	0.00
72145 - Svc Co-Training and Educ Serv	0.00	40,285.49	0.00	40,285.49
72160 - Svc Co-Education & Health Serv	0.00	7,647.71	0.00	7,647.71
72165 - Svc Co-Social Svcs, Social Sci	0.00	9,924.77	0.00	9,924.77
72210 - Machinery and Equipment	0.00	247,899.10	0.00	247,899.10
72215 - Transportation Equipment	0.00	8,023.98	0.00	8,023.98
72220 - Furniture	0.00	38,530.11	0.00	38,530.11
72305 - Agri & Forestry Products	0.00	275,226.64	0.00	275,226.64
72310 - Minerals,Mining & Metal Prdcts	0.00	997.35	0.00	997.35
72315 - Food & Textile Products	0.00	34,903.30	0.00	34,903.30
72320 - Wood & Paper Products	0.00	2,476.79	0.00	2,476.79
72330 - Medical Products	0.00	42,343.78	0.00	42,343.78
72350 - Medical Kits	0.00	14,830.23	0.00	14,830.23
72399 - Other Materials and Goods	0.00	132,851.57	0.00	132,851.57
72401 - Prefab structure/other buildin	0.00	1,001,150.38	0.00	1,001,150.38
72405 - Acquisition of Communic Equip	0.00	215,487.19	0.00	215,487.19
72410 - Acquisition of Audio Visual Eq	0.00	3,829.83	0.00	3,829.83
72415 - Courier Charges	0.00	14,403.29	0.00	14,403.29



# Financial Audit report of the UNDP DIM Project 94900 Output 98964



UN Development Programme  
Report ID: unglcdrp

## Combined Delivery Report By Project

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Project Id : 00094900 Accelerating the BUB through I		Period : Jan-Dec (2018)		
Output # : 00098964 Accelerating BUB Implementatio		Impl. Partner : 99999 UNDP		
		Location : Philippines		
	Govt Exp	UNDP Exp	UN Agencies Exp	Total Exp
72420 - Land Telephone Charges	0.00	260.19	0.00	260.19
72425 - Mobile Telephone Charges	0.00	4,137.01	0.00	4,137.01
72440 - Connectivity Charges	0.00	2,920.76	0.00	2,920.76
72445 - Common Services-Communications	0.00	203.00	0.00	203.00
72505 - Stationery & other Office Supp	0.00	110,620.44	0.00	110,620.44
72510 - Publications	0.00	37,356.73	0.00	37,356.73
72615 - Micro Capital Grants-Other	0.00	276,379.71	0.00	276,379.71
72715 - Hospitality Catering	0.00	640.99	0.00	640.99
72815 - Inform Technology Supplies	0.00	1,664.35	0.00	1,664.35
73105 - Rent	0.00	25,797.00	0.00	25,797.00
73107 - Rent - Meeting Rooms	0.00	330.30	0.00	330.30
73110 - Custodial & Cleaning Services	0.00	4.08	0.00	4.08
73125 - Common Services-Premises	0.00	369.37	0.00	369.37
73440 - Lease Heavy equip/other equip	0.00	2,086.59	0.00	2,086.59
74210 - Printing and Publications	0.00	5,760.76	0.00	5,760.76
74215 - Promotional Materials and Dist	0.00	175,075.27	0.00	175,075.27
74510 - Bank Charges	0.00	16.66	0.00	16.66
74520 - Storage	0.00	934.73	0.00	934.73
74525 - Sundry	0.00	635.43	0.00	635.43
74596 - Services to projects -GOE	0.00	9.28	0.00	9.28
74720 - Distribution Cost	0.00	143.70	0.00	143.70
74725 - Other L.T.S.H.	0.00	32,574.55	0.00	32,574.55
75105 - Facilities & Admin - Implement	0.00	115,851.51	0.00	115,851.51
75705 - Learning costs	0.00	252,980.55	0.00	252,980.55
75707 - Learning – subsistence allowan	0.00	552.35	0.00	552.35
76110 - Foreign Exch Translation Loss	0.00	666.28	0.00	666.28
76125 - Realized Loss	0.00	12,326.06	0.00	12,326.06
76135 - Realized Gain	0.00	- 20,184.90	0.00	- 20,184.90
Total for Fund 30071	0.00	3,970,374.02	0.00	3,970,374.02
Total for Dept : 42804	0.00	3,970,374.02	0.00	3,970,374.02
Dept: 42805 (Philippines - Energy &Envrnmt)				
Fund : 30071 (Programme Cost Sharing GOV1)				
72505 - Stationery & other Office Supp	0.00	2,603.71	0.00	2,603.71
74215 - Promotional Materials and Dist	0.00	2,751.84	0.00	2,751.84
75105 - Facilities & Admin - Implement	0.00	160.66	0.00	160.66
76125 - Realized Loss	0.00	27.01	0.00	27.01
76135 - Realized Gain	0.00	- 0.08	0.00	- 0.08
Total for Fund 30071	0.00	5,543.14	0.00	5,543.14
Total for Dept : 42805	0.00	5,543.14	0.00	5,543.14
Dept: 42808 (Philippines - Poverty Reduct'n)				
Fund : 30071 (Programme Cost Sharing GOV1)				
64397 - Services to projects -CO staff	0.00	4,777.98	0.00	4,777.98



UN Development Programme  
Report ID: ungldrp

### Combined Delivery Report By Project

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Run Time: 20-02-2019 07:02:18

Project Id : 00094900 Accelerating the BUB through I		Period : Jan-Dec (2018)		
Output # : 00098964 Accelerating BUB implementation		Impl. Partner : 99999 UNDP		
		Location : Philippines		
	Govt Exp	UNDP Exp	UN Agencies Exp	Total Exp
74596 - Services to projects -GOE	0.00	2,047.70	0.00	2,047.70
75105 - Facilities & Admin - Implement	0.00	204.77	0.00	204.77
Total for Fund 30071	0.00	7,030.45	0.00	7,030.45
Total for Dept : 42808	0.00	7,030.45	0.00	7,030.45
Total for Output : 00098964	0.00	3,986,758.84	0.00	3,986,758.84
Project Total :	0.00	3,986,758.84	0.00	3,986,758.84

Mark Henderson  
Partner

BDO LLP  
150 Aldersgate Street  
London EC1A 4AB  
8 August 2019



HARVEY BUENA, Programme Manager

EMMANUEL BUENDIA, DG Team Leader

ENRICO GAVEGLIA, OIC

Signed By :  Date : February 20, 2019

Signed By : \_\_\_\_\_ Date : \_\_\_\_\_



UN Development Programme  
Report ID: unglcdrp

# Combined Delivery Report By Project

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## Selection Criteria :

Business Unit : PHL10  
Period : Jan-Dec (2018)  
Selected Project Id : 00094900  
Selected Fund Code : 30071  
Selected Dept. IDs : B0428  
Selected Outputs : 00098964

Project Id : ALL		Period : Jan-Dec (2018)		
Output # : ALL		Impl. Partner :		
		Location :		
	Govt Exp	UNDP Exp	UN Agencies Exp	Total Exp
42801 - Philippines - Central	0.00	3,811.23	0.00	3,811.23
42804 - Philippines - Dem. Governance	0.00	3,970,374.02	0.00	3,970,374.02
42805 - Philippines - Energy & Environmt	0.00	5,543.14	0.00	5,543.14
42808 - Philippines - Poverty Reduct'n	0.00	7,030.45	0.00	7,030.45



UN Development Programme  
Report ID: unglcdrb

### Combined Delivery Report by Activity

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#### Funds Utilization

##### Selection Criteria :

Business Unit : PHL10  
Period : Jan-Dec (2018)  
Selected Project Id : 00094900  
Selected Fund Code : ALL  
Selected Dept. IDs : ALL  
Selected Outputs : 00098964

Project/Award: 00094900 Accelerating the BUB through I

Period : As Of Dec31,2018

Output #	Impl. Partner	UNDP AMOUNT
00098964	:99999 UNDP	
Outstanding NEX advances		0.00
Undepreciated Fixed Assets		0.00
Unamortized Intangible Assets		0.00
Inventory		0.00
Prepayments		22,977.98
Commitments		2,992,537.23

Enrico Gaviglia  
Deputy Resident Representative  
UNDP Philippines

Mark Henderson  
Partner

BDO LLP  
150 Aldersgate Street  
London EC1A 4AB  
8 August 2019



## Annex 2: Audit finding priority ratings

The following categories of priorities are used:

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. <b>Therefore, low priority recommendations are not included in this report.</b>

#### FOR MORE INFORMATION:

BDO LLP International Institutions and Donor Assurance team

<https://www.bdo.co.uk/en-gb/services/advisory/consulting/international-institutions-and-donor-assurance>

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