



**AUDIT**

**OF**

**UNDP COUNTRY OFFICE**

**IN**

**MALAYSIA**

**Report No. 2225**  
**Issue Date: 16 October 2020**



---

## 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. Development Activities</b>	<b>2</b>
1. Country Programme	2
<b>B. Operations</b>	<b>3</b>
1. Procurement – Goods and Services	3
2. Human Resources – Recruitment of Staff	4
<b>Definitions of audit terms - ratings and priorities</b>	<b>6</b>

## Report on the Audit of UNDP Malaysia Executive Summary

The UNDP Office of Audit and Investigations (OAI) conducted an audit of UNDP Malaysia (the Office) from 15 July to 5 August 2020. 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
- (b) Development activities
- (c) Operations – procurement, finance, human resources, administrative services, information communication and technology (ICT)

The audit covered the activities of the Office from 1 January 2019 to 30 April 2020. The Office recorded programme and management expenses of approximately \$10 million. The last audit of the Office was conducted by OAI in 2015.

The audit was conducted in conformance with the *International Standards for the Professional Practice of Internal Auditing*. Due to the COVID-19 pandemic, the audit was conducted remotely. Scope limitations due to the nature of the remote audit related to the following activities:

- (a) A review of original supporting documentation could not be carried out, and therefore the audit team relied on scanned copies of documents provided by the Office for all audit areas reviewed.
- (b) Meetings with Office staff and personnel were carried out virtually, which limited the audit team's understanding of the Office's working environment.
- (c) Project visits and meetings with counterparts were not conducted.
- (d) Safe and petty cash contents were not verified.

### Overall audit rating

OAI assessed the Office as **partially satisfactory/major improvement needed**, which means "The assessed governance arrangements, risk management practices and controls were established and functioning, but need major improvement. Issues identified by the audit could significantly affect the achievement of the objectives of the audited entity/area." This rating was mainly due to weaknesses in the effectiveness of programme planning, in the monitoring and control of procurement processes, and in the effectiveness of recruitment processes.

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

The three recommendations aim to ensure the following:

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

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

Weaknesses in effective programme planning (Issue 1)

The audit team noted that the available Country Programme resources had not been adequately planned for programme delivery. In 2019 and as of April 2020, the Office budgeted 62 percent and 48 percent of available resources for 2019 and 2020, respectively. Project annual work plans and budgets were approved late, resulting in the late start of project implementation, which impacted delivery.

**Recommendation:** The Office should strengthen the effectiveness of programme planning by (a) ensuring optimal allocation of available resources when preparing programme budgets, and adjusting budgets and delivery targets when additional resources are mobilized during the year; and (b) finalizing and signing annual work plans within the last quarter of the year prior to implementation, which will allow implementation of annual work plans to commence immediately.

Weaknesses in the monitoring and control of procurement processes (Issue 2)

Weak monitoring and controls were noted in procurement process of individual contracts and in the procurement of goods and services. From seven selected cases of individual contracts: (a) in five cases with a contract value of \$278,200, the contracted individuals did not meet the minimum criteria; (b) in two cases with a contract value of \$59,400, the competitive process was waived without the Office demonstrating reasons for the waivers; (c) in one case valued at \$75,000, an individual contractor was selected with different terms of reference from what was advertised. In addition, in 62 procurement transactions totaling \$1.05 million, the purchase orders were processed after the receipt of good/services and invoice from the supplier.

**Recommendation:** The Office should improve the monitoring and control of procurement processes by: (a) ensuring the competitive and transparent procurement of individual contractors, and only resorting to direct contracting when there is a justifiable reason and when value for money is ensured; (b) developing a standard operating procedure to give staff guidance to staff on the use a purchase orders.

Weaknesses in effectiveness of recruitment processes (Issue 3)

The recruitment process resulted in the hiring of four staff that did not meet the required qualifications. For two cases, the Office could not demonstrate that the recruitment processes resulted in the hiring of the most qualified individuals.

**Recommendation:** The Office should improve the effectiveness of the recruitment processes for both staff and service contract holders by strengthening oversight, and specifically by: (a) ensuring that shortlisted candidates have the required qualifications and relevant work experience; and (b) waiving competitive recruitment of service contract holders only when it is authorized by the Bureau Director.



---

### Management comments and action plan

The Resident Representative accepted all of the recommendations and is in the process of implementing them.

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

Helge S. Ostveiten  
Director  
Office of Audit and Investigations

## I. About the Office

The Office, located in Kuala Lumpur, Malaysia (the Country) and its Country Programme covered the period 2016–2020 with the following development priorities:

- a) Inclusive and Development Growth; and
- b) Sustainable and Resilient Development.

During the period from January 2019 to April 2020, the Office spent \$8.85 million on development activities, an increase of 25 percent compared to the previous period.

The largest development projects in terms of expenses during the period covered by the audit were:

Title	Expenditure Jan.-Dec. 2019 \$million	Expenditure Jan.-Apr. 2020 \$million
98730 HCFC Management Plan 2	1.17	0.05
118153 Engagement Facility	1.00	0.32
85914 Green Technology Application on Low Carbon Cities	0.93	0.13
66114 Protected Area Financing in Malaysia	0.79	0.22
112026 Achieving 2030 Agenda for Sustainable Development	0.59	0.07
<b>Total</b>	<b>4.48</b>	<b>0.79</b>

The largest sources of funding of the Office’s development activities for the period covered by the audit were:

Donor	Funding for the period \$million
Global Environment Facility (GEF)	10.00
Government of Malaysia	9.40
Montreal PC	2.34
<b>Total</b>	<b>21.74</b>

## II. Audit results

Satisfactory performance was noted in the following areas:

- (a) Operations – Information, Communication and Technology. Controls and procedures on information communication and technology were found to be adequate.
- (b) Operations – Finance. Controls on the management of finance were found to be adequate.
- (c) Operations – Administrative Services. Controls and procedures were found to be adequate.

OAI made three recommendations ranked high (critical) 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) Strengthen the effectiveness of programme planning (Recommendation 1).
- (b) Improve the monitoring and control of the procurement processes (Recommendation 2).
- (c) Improve the effectiveness of recruitment processes for staff and service contract holders (Recommendation 3).

The detailed assessment is presented below, per audit area:

## A. Development Activities

### 1. Country Programme

#### **Issue 1**      Weaknesses in effective programme planning

Available resources should fully be used for the delivery of development results. At the project level, annual work plans should be planned and approved in the last quarter of the preceding year for the timely commencement of project implementation.

The audit team noted that available Country Programme resources had not been effectively planned for programme delivery. In 2019, out of total of \$21.8 million in available resources, the Office budgeted \$13.6 million. This represented 62 percent of available resources. As of 30 April 2020, the Office had budgeted \$8.7 million out of \$18.1 million in total available resources for 2020, representing 48 percent of available resources. This was below the average for the Regional Bureau for Asia and the Pacific, which as of 30 April 2020, budgeted for 99 percent of available resources.

The Office indicated that the gap between the available and the budgeted resources was impacted by the inflow of additional resources received throughout 2019.

The audit team also noted delays in project planning and the late approval of the annual work plans, resulting in the low utilization of resources. From the review of a sample of three projects with total expenditure of \$3.3 million representing 37.5 percent of project expenditure for the period under review, the following was noted:

- The signing of the 2019 annual work plans for two of the three sampled projects was late by an average of seven months.
- The 2020 annual work plans for the three sampled projects had not yet been signed at the time of the audit mission.

Weaknesses in programme planning and the use of project resources may hinder the achievement of objectives and outcomes of the Country Programme.

<b>Priority</b>	High (Critical)
<b>Recommendation 1:</b>	
The Office should strengthen the effectiveness of programme planning by:	
<ul style="list-style-type: none"> <li>(a) ensuring optimal allocation of available resources when preparing programme budgets, and adjusting budgets and delivery targets when additional resources are mobilized during the year; and</li> <li>(b) finalizing and signing annual work plans within the last quarter of the year prior to implementation, which will allow implementation of annual work plans to commence immediately.</li> </ul>	
<b>Management action plan:</b>	
The Office acknowledges the recommendation and will ensure multi-year budgets are completed for all development projects and budgets are adjusted in accordance with donor agreements when additional resources are mobilized during the year.	
With regards to project annual work planning, the Office acknowledges the recommendation and intends to complete these actions within the first quarter of 2021 and shall continue this practice during the Country Programme cycle.	
<b>Estimated completion date:</b> May 2021	

## B. Operations

### 1. Procurement – Goods and Services

#### Issue 2 Weaknesses in the monitoring and control of procurement processes

The procurement process ensures that services and products are acquired for the best value for money, with fairness, transparency, and integrity.

##### Unclear requirements for procuring individual contracts

The audit team reviewed the selection and contracting of seven individual contractors with a total contract value of \$452,800, representing 17 percent of individual contractors selected during the audit period. The following issues were noted:

- (a) In five cases with a contract value of \$278,200 (61.4 percent of selected sample), contracted individuals did not meet the minimum criteria. Specifically: (i) in two cases, candidates did not meet the minimum required qualifications; (ii) in one case, the proposal selected was from a company; and (iii) in two cases, it was unclear whether the individual contractor had the required work experience.
- (b) In two cases with a contract value of \$59,400 (13 percent of selected sample) the competitive process was waived without the Office demonstrating reasons for the waivers.
- (c) In one case valued at \$75,000, an individual contractor was selected with different terms of reference from what was advertised.



*Weaknesses in processing purchase orders*

The 'UNDP Programme and Operations Policies and Procedures' require that the procurement process be initiated through the creation and approval of a requisition and purchase order before goods and services are purchased.

In 62 procurement transactions totalling \$1.05 million (representing 25 percent of the value of purchase orders processed during the audit period) the purchase orders were processed after the receipt of goods/services and invoice from the supplier.

The issues noted were due to weaknesses in the monitoring and control over the procurement process. Weaknesses in procurement processes may result in not achieving the best value for money.

<b>Priority</b>	High (Critical)
<b>Recommendation 2:</b>	
The Office should improve the monitoring and control of procurement processes by:	
<ul style="list-style-type: none"> <li>(a) ensuring the competitive and transparent procurement of individual contractors, and only resorting to direct contracting when there is a justifiable reason and when value for money is ensured; and</li> <li>(b) developing a standard operating procedure to give staff guidance on the use of purchase orders.</li> </ul>	
<b>Management action plan:</b>	
Management took note of these recommendations and had already initiated change. Training on procurement processes was developed and organized for the Office's teams. SOPs for purchase order processing were developed and disseminated and a refresher training will be organized. New SOPs include oversight aspects.	
<b>Estimated completion date:</b> December 2020	

**2. Human Resources – Recruitment of Staff**

**Issue 3**      Weaknesses in effectiveness of recruitment processes

Effective recruitment processes ensure that the most qualified individuals are selected. The recruitment processes should also be fair and transparent. The Bureau Director is authorized to grant, under specific circumstances, a waiver for competitive recruitment in Country Offices.

The audit team reviewed 9 recruitment cases (5 recruitments for staff and 4 recruitments for service contract holders) out of total of 31 recruitments completed during the period under review. The audit team noted the following:

- In four cases staff were hired that did not meet the required qualifications.
- For two cases, the Office could not demonstrate that the recruitment process resulted in the hiring of the best-qualified individual. Specifically:
  - In one case, the work experience was based on working in two jobs simultaneously.



- In the second case, the recruitment process resulted in the hiring of a service contract holder, without a competitive recruitment process. Competition was waived without the authorization from the respective Bureau Director.

Ineffective recruitment processes may result in the most qualified candidate not being selected, which may negatively impact the quality of work carried out by the Office.

<b>Priority</b>	High (Critical)
<b>Recommendation 3:</b>	
<p>The Office should improve the effectiveness of recruitment processes for staff and service contract holders by strengthening oversight, and specifically by:</p> <ul style="list-style-type: none"> <li>(a) ensuring that shortlisted candidates have the required qualifications and relevant work experience; and</li> <li>(b) waiving competitive recruitment of service contract holders only when it is authorized by the Bureau Director.</li> </ul>	
<b>Management action plan:</b>	
<p>The Office will strengthen its recruitment processes. Given the action pertains to the disputed academic qualifications, the Office will change the determination of the education from the long listing process to the “Pre-Long listing” process within e-Recruit and that determination will be done by the Human Resources Associate.</p> <p>The Office takes note on limiting the use of direct contracting of service contract holders and will perform this within the limit authorized through the sub-delegation by the Regional Bureau Director.</p>	
<b>Estimated completion date:</b> December 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.