



AUDIT

OF

UNDP COUNTRY OFFICE

IN

TIMOR-LESTE

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Report on the Audit of UNDP Timor-Leste Executive Summary

The UNDP Office of Audit and Investigations (OAI) conducted an audit of UNDP Timor-Leste (the Office) from 13 to 30 July 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)

OAI designed six performance audit questions to guide the review of the following areas and sub-areas:

- (a) Governance
 - (i) Was the Office's organizational structure appropriately designed to carry out its mandate, including oversight of projects implemented?
- (b) Development Activities
 - (i) Was programme monitoring undertaken effectively?
- (c) Procurement
 - (i) Were procurement transactions being completed in a timely manner?
 - (ii) Was the Office adequately leveraging economies of scale in its procurement processes?
- (d) Financial Management
 - (i) Were payments to vendors processed in a timely manner?
- (e) General Administration
 - (i) Were travel services (airline tickets) being procured at economical values (in line with a Long Term Agreement signed with a travel services provider)?

The audit covered the activities of the Office from 1 January 2019 to 30 June 2020. The Office recorded programme and management expenses of approximately \$16 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*. Due to the COVID-19 pandemic affecting the Office, 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 (location, site visits, meeting with counterparts/beneficiaries) were not conducted.
- (d) A physical verification of assets was not performed, although photo images of all sampled assets were provided.
- (e) Safe contents and petty cash were not verified.

Overall audit rating

OAI assessed the Office's performance 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 inadequate Office capacity, which led to ineffective programme and project oversight, and not being able to optimally utilize all available programme resources.

Key recommendations: Total = **4**, high priority = **1**

The four recommendations aim to ensure the following:

Objectives	Recommendation No.	Priority Rating
Achievement of the organization's strategic objectives	1	High
Effectiveness and efficiency of operations	2, 3, 4	Medium

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 recommendation is presented below:

Insufficient Office capacity (Issue 1)

The Office underwent a change management process in 2017 that resulted in a transformation plan, which led to the departure of 18 staff and new positions to be filled. Seven positions, including those relating to key posts were still vacant during the fieldwork, despite repeated attempts to fill them. The transformation plan had not taken the prevailing operating context into consideration, such as limited availability of human resources with the required capacity within the Country.

Recommendation: The Office, in consultation with the Regional Bureau for Asia and the Pacific, should review the organizational structure to enable effective and systematic oversight and operational support. This review should take into consideration the operating context such as the available capacity within the local labor market.

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. Ostveiten
Director
Office of Audit and Investigations

I. About the Office

The Office, located in Dili, Timor-Leste (the Country) and its Country Programme covered the period 2015–2019, which was subsequently extended until 31 December 2020 with the following development priorities:

- a) resilience building;
- b) sustainable development; and
- c) inclusive and effective democratic governance.

During the period from January 2019 to June 2020, the Office spent \$14.3 million on development activities. The increase of 24 percent compared to the previous period was based on the project for the strengthening of National and Municipalities Responding to COVID of \$ 4.0 million which included procurement activities.

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

Title	Expenditure Jan – Dec 2019 \$million	Expenditure Jan – June 2020 \$million
Strengthened National and Municipalities Responding to COVID	-	4.0
Building shoreline resilience of Timor-Leste (CRB)	1.7	0.4
Support to Oe-Cusse SAR-ZEESM Programme	1.5	0.3
Leveraging Electoral Assistance for Regionalized Nation (LEARN)	1.1	0.2
Support Decentralization Project	0.9	0.2
Total	5.2	5.1

Source: UNDP's STREAM Analytics website

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)	28.3
Government of Timor-Leste	7.6
European Union	3.6
Total	39.5

Source: UNDP's STREAM Analytics website

Other critical information

The COVID-19 global pandemic affected the Country, resulting in a period of lockdown and restrictions on movement between March and June 2020. As a result, various government institutions and national implementing partners were unable to operate during this period. Only essential staff were permitted to work in the Office. The Office had implemented its business continuity plan during this period.

II. Audit results

Satisfactory performance was noted in the following areas:

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- (a) Operations – Finance. Adequate controls were in place to manage the processes related to financial management. No reportable audit issues were identified by the audit team.
 - (b) Operations – Procurement. A review of procurement functions, including samples of procurement transactions and management of individual contractors indicated that adequate controls were in place.
 - (c) Operations – Administrative Services. The audit disclosed that adequate controls were in place within asset management, vehicle management and travel management.
 - (d) Operations – Information and Communication Technology. The Office's business continuity and disaster recovery plan had been tested and implemented satisfactorily during the audit period. No reportable audit issues were noted.

Satisfactory performance was observed in relation to the performance audit questions indicated below:

(a) Procurement

- (i) Were procurement transactions being completed in a timely manner?
- (ii) Was the Office adequately leveraging economies of scale in its procurement process?

The audit team noted that the procurement transactions were processed in a timely manner and were completed within a comparable timeframe with two other Country Offices of similar size selected for comparison. The Office benefited from economies of scale in its procurement process by utilizing PROMPT – the corporate procurement planning tool. At the time of the audit the Office had entered into 17 local Long Term Agreements with vendors. Undertaking procurement using these Long Term Agreements enabled the Office to reduce the time to complete the procurement process.

(b) Financial Management

- (i) Were payments to vendors processed in a timely manner?

The payments to vendors were not all processed in a timely manner. The audit team completed a review to determine if payments were made in a timely manner by assessing if payments were completed within 30 days of receipt of invoices. A review of 35 samples of payments to vendors amounting to \$1.3 million revealed that in 14 cases (40 percent) amounting to \$34,000, the time taken to complete payment transactions was longer than expected, ranging from 33 to 64 days after the invoice date. The reasons for these delays in processing payments to vendors were mainly due to the extended time taken to verify and certify the receipt of services or goods by project team members or programme staff. Due to the low materiality of the delays the finding was shared with the Office, however a corresponding recommendation was not raised.

(c) General Administration

- (i) Were travel services (airline tickets) being procured at economical values (in line with a Long Term Agreement signed with a travel services provider)?

Travel services (airline tickets) were being procured at economical values. Based on a review of 10 samples, the audit team noted that the Office had procured airline tickets at economical rates during the audit period based on Long Term Agreements signed with vendors. The Office was also performing periodic price comparisons with other vendors in the market.

OAI made one recommendation ranked high (critical) and three recommendations ranked medium (important) priority.

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

High priority recommendation:

- (a) Review organizational structure (Recommendation 1).

Medium priority recommendations, arranged according to significance:

- (a) Establish a comprehensive monitoring and evaluation framework and undertake regular project site visits (Recommendation 2).
- (b) Enhance the utilization of available resources (Recommendation 3).
- (c) Completing the service contract salary survey and update the salary scale (Recommendation 4).

The detailed assessment is presented below, per audit area:

A. Governance

1. Organizational Chart & Overall Staffing

Issue 1 Insufficient Office capacity

The organizational structure is the foundation for an effective internal control system. The vision and mission of an office as well as its organizational effectiveness relies on the office's adequate organizational structure.

Based on the review of the Office's existing organizational structure, the audit team noted the following:

- (i) The Office underwent a change management process in 2017 that resulted in a transformation plan, which led to the departure of 18 staff and the creation of new positions that needed to be filled. Seven of those new positions, including those relating to key posts, were still vacant during the fieldwork, despite repeated attempts to fill them for more than a year. The transformation plan had not sufficiently taken the prevailing operating context into consideration, such as limited availability of human resources with the required capacity within the Country.
- (ii) The Office commenced two projects to support the procurement of health products and supplies with budgets of \$8 million and \$22 million. The implementation of these projects required increased capacity within the procurement and finance units to ensure their effective implementation. The Office recognized the need to strengthen its operations team to support the increased delivery, including filling the vacancies such as the head of procurement and finance. The Office had recruited an international Operations Manager in May 2020 and was in the process of hiring a Procurement Specialist.

The Office recognized that the structure should be reviewed in the context of the upcoming Country Programme Document 2021–2025.

The Office's limited capacity contributed partly to the inability to fully utilize all available programme funding resources and inadequate programme and project oversight during the audit period.

Priority	High (Critical)
Recommendation 1:	
The Office, in consultation with the Regional Bureau for Asia and the Pacific, should review the organizational structure to enable effective and systematic oversight and operational support. This review should take into consideration the operating context such as the available capacity within the local labor market.	
Management action plan:	
The Office, in consultation with Regional Bureau for Asia and the Pacific, will conduct an internal review of the current Office structure vis-à-vis the skill sets and talents required to deliver on the new Country Programme Document.	
Estimated completion date: June 2021	

B. Development Activities

1. Project Administration

Issue 2 Inadequate project monitoring

According to the 'UNDP Programme and Operations Policies and Procedures', monitoring must be well planned and performed regularly to effectively assess project progress.

Based on a review of 10 development projects, the following weaknesses were identified:

(i) Absence of a comprehensive Monitoring and Evaluation framework and process

The Office did not have a comprehensive monitoring and evaluation framework to outline the monitoring and evaluation activities required throughout the programme cycle. The audit team identified a lack of clarity in the monitoring activities, including types of monitoring tools to be used, the monitoring data required, and its collection frequency. Furthermore, responsibilities for these activities had not been assigned.

A programme board was not established for the oversight of the programme cycle. The Office confirmed that a programme board would be established during the next programme cycle 2021 – 2025.

(ii) Irregular project field visits

The back to office reports prepared by project staff did not include monitoring of projects, output quality, and utilization of resources.

For the sampled projects, there were no back-to-office reports prepared by programme staff. Furthermore, there was no consolidated monitoring plan, indicating the frequency and types of monitoring procedures or tools to be used for the project portfolio.

The Office commented that monitoring visits from the programme staff had been limited in 2020 because of travel restrictions that started in late March and ended in late June 2020. The Resident Representative and Deputy Resident Representative had made visits to various projects during this period, although the visits were not documented. In addition, the Office confirmed that it had limited programme personnel available to complete the project field visits.

The Office stated that training programmes were planned to enhance programme and project staff capacities in this area. A Monitoring and Evaluation Specialist was to be contracted to improve staff knowledge in this area.

Lack of adequate project oversight and assurance may adversely impact project results.

Priority	Medium (Important)
Recommendation 2:	
The Office should establish a comprehensive monitoring and evaluation framework and undertake regular project site visits.	
Management action plan:	
The Office will develop a monitoring and evaluation framework encompassing all the development projects and perform required quality assurance functions, including project visits and spot checks.	
Estimated completion date: June 2021	

Issue 3 Underutilization of available programme resources

The 'UNDP Programme and Operations Policies and Procedures' require that financial resources that have been made available are to be utilized within an agreed timeframe.

A review of the available programme financial resources and utilization highlighted that the Office had not been utilizing the financial resources available during the programme cycle as demonstrated in the table below:

	Available programme resources \$million	Programme expenditure \$million	Utilization of available programme resources in %
2020 (up to July)	17.7	6.2	35
2019	10.0	8.3	83
2018	12.5	8.8	70
2017	15.8	10.7	68
2016	13.6	7.8	57
2015	13.3	10.7	80

Source: Executive Snapshot

As shown in the table above, the utilization of available programme resources ranged between 57 and 83 percent resulting in an average of 71 percent in the last five years.

The budget utilization as of July 2020 was 35 percent and would have been 12 percent if the Support to COVID project, with expenditure of \$4 million, was excluded. The Office commented that the three months in a state of emergency lockdown imposed by the Government due to the COVID-19 pandemic contributed to lower programme delivery in 2020.

The reasons contributing to the low delivery relate also to, inadequate monitoring of project resources and in more recent years the lack of available staff capacity. The weaknesses in project monitoring were highlighted in issue 2, which include identifying and addressing the issues related to low delivery.

Low utilization of available programme resources may adversely impact the Office's programmatic results and compromise financial sustainability.

Priority	Medium (Important)
Recommendation 3:	
The Office should enhance the utilization of available resources, through close monitoring of multi-year budgets for programme delivery.	
Management action plan:	
The Office acknowledged the need to fully deliver on the programmes and will complete multi-year budget actions for 2021 by rephrasing available resources, some of which are intended for future years as per agreements with donors. Multi-year budgets will be approved for all new projects, based on signed donor agreements in future.	
Estimated completion date: January 2021	

C. Operations

1. Human Resources

Issue 4 Outdated service contract remuneration scale

The 'Handbook on setting remuneration scales for service contract personnel', states that at the time of data collection for the service contract remuneration survey, the periodicity of adjustments for the surveyed organizations should be ascertained. Service contract remuneration scales should generally be updated annually.

The audit noted that the Office had not updated its salary scale for service contract holders since 2013, which may also have contributed to challenges in filling vacant positions. The Office confirmed that a salary survey was in progress to update the salary scale for service contract holders.

A high number of vacancies may have a negative impact on the Office's capacity and ability to meet its business objectives.

Priority	Medium (Important)
Recommendation 4:	
The Office should complete the service contract salary survey and update the salary scale.	
Management action plan:	
The service contract salary survey is anticipated to be completed by November 2020 and implemented in quarter one, 2021.	
Estimated completion date: June 2021	

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.