



AUDIT

OF

UNDP COUNTRY OFFICE

IN

THE DEMOCRATIC REPUBLIC OF THE CONGO

Report No. 2307
Issue Date: 14 March 2022

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Report on the Audit of UNDP in the Democratic Republic of the Congo Executive Summary

The UNDP Office of Audit and Investigations (OAI) conducted an audit of UNDP in the Democratic Republic of the Congo (the Office) from 29 November to 17 December 2021. 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)

Performance auditing is an independent, objective and reliable examination of an entity or process to assess whether economy, efficiency and effectiveness in the employment of available resources is being achieved. OAI designed two performance audit questions to guide the review of the following areas:

- (a) Development activities:
 - i. Were the Country Programme results being achieved effectively and are results monitored based on pre-defined monitoring frameworks?
- (b) Procurement
 - ii. Were the procurement processes conducted ensuring best value for money?

The audit covered the activities of the Office from 1 January 2020 to 30 September 2021. The Office recorded programme and management expenses of approximately \$128 million. The last audit of the Office was conducted by OAI in 2018.

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 (location, site visits, meeting with counterparts/beneficiaries) were not conducted.
- (d) A physical verification of assets was not performed.
- (e) Safe contents and petty cash were not verified.
- (f) The ICT area was not reviewed on-site.

Overall audit rating

OAI issued an audit rating for the Office of **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 implementation of the Harmonized Approach to Cash Transfers (HACT), Office structure not aligned with programme priority areas and weaknesses in measuring programme results

Good practice

The Office took measures to ensure assets were disposed in an ecological way.

Key recommendations: Total = **8**, high priority = **3**

The eight recommendations include actions to address:

| Objectives | Recommendation No. | Priority Rating |
|--|--------------------|-----------------|
| Achievement of the organization's strategic objectives | 8, 2, 3 | Medium |
| | 1 | High |
| Reliability and integrity of financial and operational information | 4 | High |
| Effectiveness and efficiency of operations | 7 | Medium |
| Safeguarding of assets | 5 | High |
| Compliance with legislative mandates, regulations and rules, policies and procedures | 6 | 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 recommendations are presented below:

Weaknesses in the Harmonized Approach to Cash Transfers (Issue 5)

The review of the Harmonized Approach to Cash Transfers (HACT) showed late completion of HACT audits, unclear follow-up of HACT assurance activities, payments to implementing partners not being tagged within Atlas, and weaknesses in the management of advances to implementing partners for nationally implemented projects.

Recommendation: The Office should address the weaknesses in the implementation of HACT by: (a) completing all scheduled audits and spot checks as planned; (b) updating the HACT monitoring dashboard and tagging all payments in the system; and (c) providing support to the implementing partners to ensure timely liquidation of advances with adequate supporting documentation.

Office structure not aligned with programme priority areas (Issue 1)

The Country Programme Document contained three priorities (outcomes): (i) governance for sustainable development, (ii) economic transformation and sustainable management of natural resources, and (iii) support to stabilization and strengthening the resilience of the populations. The first two priorities had dedicated pillars and staff. However, the third pillar (stabilization), representing \$50 million of estimated expenditure over the programme cycle 2020–2024, was supported by only one staff member.

The stabilization priority area included seven projects representing (25 percent of development expenditure), including four projects directly implemented by the Office (9 percent of development expenses). The Office indicated that the recruitment of the team was ongoing.

Recommendation: The Office should ensure adequate staffing is in place to fulfil the implementation of the stabilization priority area.

Weaknesses in
measuring programme
results (Issue 4)

The Office's evaluation plan included four project evaluations to be finalized in 2021. As of year-end 2021, three scheduled for December 2021 had not been initiated.

The audit team reviewed a sample of four development projects with expenses plus commitments of \$37.6 million, which represents 57 percent of the total during the audit period.

- The audit team identified four outputs that were not fully achieved in 2020, however these were not reported within the Results-Oriented Annual Reporting.
- No performance indicators were measured in 2020, nor were they defined for 2021 for one of the four projects, project 87442 ("Sustainable energy for women empowerment, agriculture").

Recommendation: The Office should strengthen the measurement of programme results by: (a) finalizing the outstanding evaluations; (b) documenting how development projects contribute to the achievement of Country Programme outputs and outcomes; (c) designing and measuring project performance indicators that are aligned with Country Programme output indicators.

Implementation status of previous OAI audit recommendations: Report No. 1981, 24 August 2018

Total recommendations: 12

Implemented: 11

Withdrawn: 1

Management comments and action plan

The Resident Representative accepted all eight 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 is located in Kinshasa, Democratic Republic of the Congo (the Country). Its Country Programme covered the period 2020–2024 with the following development priorities:

- a) governance and sustainable development;
- b) economic transformation and sustainable management of natural resources; and
- c) support to stability and resilience of populations.

During the period from January 2020 to September 2021, the Office spent \$120.5 million on development activities, a decrease by 23 percent compared to the previous period.

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

| Title | Expenditure January - December 2020 \$million | Expenditure January - September 2021 \$million |
|---|---|--|
| Humanitarian Fund - January 2019 | 18.7 | 2.8 |
| FONAREDD (Reducing Emissions from Deforestation and Forest Degradation) | 10 | 9.3 |
| Humanitarian Fund - July 2019 | 14.2 | 1.4 |
| Humanitarian Fund - May 2019 | 7.6 | 0.9 |
| Fight Against Gender-Based Violence | 3.4 | 1.5 |
| Total | 53.9 | 15.9 |

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 |
|-----------------------------|--|
| Multi Partner Trust Funds | 24.7 |
| Sweden | 6.4 |
| Japan | 2.8 |
| Global Environment Facility | 2.5 |
| UN Agencies | 2 |
| Total | 38.4 |

Other critical information

The Office operated in a complex environment due to the following:

- The COVID-19 pandemic affected the Office's delivery and resource mobilization. It also prevented the completion of planned project evaluations and the implementation of the HACT assurance plan.
- The interactions with the national counterpart were limited from October 2020 to April 2021, which impacted the execution of projects.

II. Good practice

OAI identified a good practice, as follows:

Administrative services/Assets:

Replacement and disposal of assets: The Office took measures to ensure assets were disposed in an ecological way. The Office adopted green disposal practices in line with the Organizational commitment to “greening the blue” and disposed 334 kilograms of various ICT equipment using an environment-friendly recycling disposal that minimizes the carbon footprint. The Office has thus obtained an ISO ‘green recycling and disposal’ certificate for corporate social responsibility purposes.

III. Audit results

Effective controls were established and functioning in the following areas:

- (a) Operations - Human resources. Adequate controls were established and working effectively within human resources management including recruitment, separations, performance management, service contracts, mandatory trainings and leave management.
- (b) Operations - Administrative services. The internal control procedures for the management of travels, assets and vehicles were found to be adequate.
- (c) Operations - ICT. Controls and procedures were found to be adequate.

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

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

Medium priority recommendations that had been implemented as advised by the Office (and independently validated by OAI) prior to the issuance of this report are not included in this report.

High priority recommendations, arranged according to significance:

- (a) Address the weaknesses in the implementation of the HACT (Recommendation 5).
- (b) Ensure adequate staffing is in place to fulfil the implementation of the stabilization priority area (Recommendation 1).
- (c) Strengthen the measurement of programme results (Recommendation 4).

Medium priority recommendations, arranged according to significance:

- (a) Strengthen the resource mobilization process (Recommendation 3).
- (b) Strengthen the development of integrated work plan and risk management (Recommendation 2).
- (c) Strengthen procurement planning and contract management (Recommendation 7).
- (d) Improve financial sustainability through the recovery of GLOC (Recommendation 8).
- (e) Strengthen oversight of project closure (Recommendation 6).

Conclusion on the Office’s performance in the following audit areas/sub areas:

- (a) Development activities

Were the Country Programme results being achieved effectively and are results monitored based on pre-defined monitoring frameworks?

There was a lack of evidence in the sample reviewed, to conclude on whether results were being effectively achieved (Issue 4).

(b) Procurement

Were the procurement processes conducted in a timely manner, ensuring best value for money?

A review of a procurement transactions sample 39 purchase orders amounting to \$20.4 million (43 percent of the total value) and 10 individual contractors totaling \$0.92 million (26 percent of the total value of individual contracts) confirmed that procurement processes were completed on time, and a competitive process was followed.

The detailed assessment is presented below, per audit area:

A. Governance

1. Organizational Chart & Overall Staffing

Issue 1 Office structure not aligned with programme priority areas

Organizational effectiveness relies on an appropriate Office structure.

The Country Programme Document contained three priorities (outcomes): (i) governance for sustainable development, (ii) economic transformation and sustainable management of natural resources, and (iii) support to stabilization and strengthening the resilience of the populations. The first two priorities had dedicated pillars and staff. However, the third pillar (stabilization), representing \$50 million of estimated expenditure over the programmatic cycle 2020–2024, was supported by only one staff member.

The stabilization priority area included seven projects representing (25 percent of development expenditure), including four projects directly implemented by the Office (9 percent of development expenses). The Office indicated that the recruitment of the team was ongoing.

The Office commented that a global realignment exercise would be undertaken during the first quarter of 2022, with the assistance of the Regional Bureau for Africa.

Weaknesses in the Office's structure, including insufficient staffing, might prevent the achievement of planned objectives.

| | |
|---|-----------------|
| Priority | High (Critical) |
| Recommendation 1: | |
| The Office should ensure adequate staffing is in place to fulfil the implementation of the stabilization priority area. | |

Management action plan:

The Office will closely work with the Regional Bureau, to monitor and reach the objectives stated in the terms of reference established in February 2022, and especially for the work stream #1, which includes the stabilization priority.

Estimated completion date: 30 July 2022

2. Planning and Risk Management

Issue 2 Weaknesses in the development of the integrated work plan and risk management

a) Lapses in determining enabling actions in the integrated work plan:

UNDP's integrated work plan includes annual programmatic and organizational priorities, with corresponding outputs, supported by an enabling action for each priority. The UNDP 'Guidance note on the preparation of integrated work plans' requires enabling actions to be specific, measurable, attainable, relevant and time bound. The following weaknesses were identified:

- There were no organizational outputs (and no related enabling actions) identified in relation to the Office's priorities. Only development outputs were identified in the 2020 and 2021 integrated work plans.
- Out of the 16 development outputs identified in 2020 and 2021, one did not have an enabling action. Moreover, 16 enabling actions in 2020 (out of 26) and 18 in 2021 (out of 26) were not specific. For example, one of the enabling actions for output 1.3 was "support the strengthening of the rule of law in the DRC".

Integrated work plans that are not complete, specific and measurable may impact the Office's ability to monitor planned actions and its ability to take timely actions and achieve intended objectives and results.

b) Weaknesses in risk management

Risk assessment is the overall process of risk (a) identification, (b) assessment, (c) prioritization, (d) taking action, and (e) monitoring. Offices are required to update the integrated work plan risk register on a quarterly basis.

Although a risk identification process existed during the annual planning exercise (integrated work plan), the Office did not capture and manage emerging risks, as illustrated below:

- The following two risks were identified during management meetings but not reported in the risk register: (i) Office structure misalignment with the programme portfolio, and (ii) financial sustainability concerns.
- There was only one organizational risk (on asset mismanagement) included in the risk register. Other organizational risks were not reported, such as inefficiencies within the procurement function and lengthy recruitment processes. While these had been identified at the project level, there was no mechanism to escalate them.

In the event emerging risk are not addressed and managed, the Office's objectives may not be achieved.

| | |
|---|--------------------|
| Priority | Medium (Important) |
| Recommendation 2: | |
| The Office should strengthen the development of the integrated work plan and risk management by: | |
| <ul style="list-style-type: none"> (a) ensuring organizational outputs are defined in the integrated work plan and that outputs are supported by specifically formulated enabling actions; and (b) regularly identifying and reporting on emerging risks in the integrated work plan's risk register. | |
| Management action plan: | |
| The Office will: | |
| <ul style="list-style-type: none"> (a) organize training with key programme and operations staff on the development of the integrated work plan with enabling actions; and (b) dedicate training involving all relevant staff members to strengthen the culture of risk management and establish a 'Joint Risk Management' (programme and operations) committee that will meet monthly to ensure regular identification and reporting on new strategic risks. | |
| Estimated completion date: 30 June 2022 | |

B. Development Activities

1. Country Programme

Issue 3 Weaknesses in the resource mobilization process

a) Achievement of programme objectives at risk due to delays in resource mobilization:

For the 2020–2024 Country Programme Document, the Office required resources of \$447 million over five years (average \$90 million per year) to achieve its programmatic objectives. These figures excluded the Humanitarian Fund projects, which represented a large part (54 percent) of programme delivery in 2020 but were not part of the Country Programme objectives.

The Office faced challenges in achieving its resource mobilization targets, as a cumulated amount of only \$63 million was collected in 2020 and 2021, below the annual target of \$90 million. The COVID-19 pandemic and delays in completing a project evaluation, contributed to (i) the postponement of a large project ('Local Development Programme'), and (ii) significant delays in mobilizing additional resources of \$13 million for second tranches of existing projects.

In March 2022, the Office signed an agreement with the Government for the 'Local Development Programme' with a budget of \$611 million over two years (2022 and 2023). The Office was expecting the first installment in March 2022.

Lack of mobilized resources may lead to delays in the implementation of Country Programme objectives.

b) Resource mobilization action plan not implemented:

As a complement to the Partnership and Communication Action Plan, the Office prepared an operational plan for the 2020–2022 resource mobilization strategy.

The operational plan comprised 37 actions to be undertaken over the 2020–2021 period and 10 additional actions for 2022. As of year-end 2021, 22 actions were in progress. Of these, 10 actions scheduled in 2021 had not been initiated, including the actions to diversify to non-traditional and private donors. The limited progress in achieving the Partnership and Communication Action Plan targets in 2021 partially resulted from the COVID-19 pandemic and limited interaction with the Government, which prevented the Office from holding regular meetings and planned visits with the donors.

c) Inconsistencies in resource mobilization forecasting:

The ‘UNDP Programme and Operations Policies and Procedures’ recommend recording the funding pipeline maturity information.

During the audit, there were inconsistencies noted in the funding forecasts of the Office depending on the source of data consulted. The Office reported to the audit team \$93 million of high probability pipeline for the years 2021 to 2024, while Atlas (enterprise resource planning system of UNDP) indicated \$24 million. However, the audit team could only validate \$42 million based on proposed funding agreements.

These inconsistencies might affect the reliability of the Office’s funding forecast.

| Priority | Medium (Important) |
|--|--------------------|
| Recommendation 3: The Office should strengthen the resource mobilization process by: <ul style="list-style-type: none"> (a) implementing the actions included in the 2020–2022 resource mobilization action plan, including those aimed at diversifying to non-traditional and private donors; and (b) improving the accuracy of resource forecasts by eliminating inconsistencies among the different data sources. | |
| Management action plan: The Office will: <ul style="list-style-type: none"> (a) diversify the Office’s partnership profile by incorporating 2021 activities that did not materialize in the updated resource mobilization action plan, ensuring their implementation going forward and continuing dialogue already commenced with the private sector; and (b) eliminating inconsistencies among the different data sources utilized for resource mobilization forecasting. Estimated completion date: a) December 2022, b) June 2022. | |

Issue 4 Weaknesses in measuring programme results

a) Delays in project evaluations:

The 'UNDP Programme and Operations Policies and Procedures' state that decentralized evaluations should be carried out in accordance with the approved evaluation plan.

The Office's evaluation plan included four project evaluations to be finalized in 2021. As of year-end 2021, three scheduled for December 2021 had not been initiated. The Office explained that the long process of validation of the terms of reference with the Global Environment Fund and the UN Capital Development Fund, together with the length of time taken in hiring international consultants, contributed to the delays.

Not performing evaluations as planned might prevent the Office from taking prompt action to address weaknesses identified.

b) Challenges in programme and project progress measurement:

The 'UNDP Programme and Operations Policies and Procedures' stipulate that "programming activities must collect appropriate and credible data as evidence for adequate monitoring." Monitoring data includes progress data for outcome and/or output indicators as agreed in the results framework. The Results-Oriented Annual Reporting presents sections to analyse the achievement of all programme outputs and outcomes.

The audit team reviewed a sample of four development projects with expenses plus commitments of \$37.6 million, which represents 57 percent of the total during the audit period. The following weaknesses were observed:

- The audit team identified four outputs out of 12 that were not fully achieved in 2020, however these were not reported within the Results-Oriented Annual Reporting.
- No performance indicators were measured in 2020, nor were they defined for 2021 for one of the four projects, project #87442 ("Sustainable energy for women empowerment, agriculture"). These anomalies were not observed in the remaining three projects sampled.

Unclear reporting on programme achievement and failure to clearly define project indicators aligned to the Country Programme Document outputs creates challenges in measuring the achievement of results.

| | |
|---|-----------------|
| Priority | High (Critical) |
| Recommendation 4: | |
| The Office should strengthen the measurement of programme results by: | |
| (a) finalizing the outstanding evaluations; (b) documenting how development projects contribute to the achievement of Country Programme outputs and outcomes; and (c) designing and measuring project performance indicators that are aligned with Country Programme output indicators. | |
| Management action plan: | |
| The Office will: | |

- (a) finalize the project evaluations and ongoing process of programmatic alignment and coherence of the Country Office's portfolios;
- (b) adapt its project planning and reporting tools to enhance project performance indicator measurement and alignment with programme output indicators; and
- (c) plan a revision of the reporting tool for programme staff by finalizing a template to that effect.

Estimated completion date:

- (a) 30 June 2022
- (b) 30 June 2022
- (c) 31 March 2022

2. Implementation Modalities

Issue 5 Weaknesses in the Harmonized Approach to Cash Transfers (HACT)

Within the Harmonized Approach to Cash Transfers (HACT), assurance activities include planned activities used to determine whether funds transferred to implementing partners are used for their intended purpose and in accordance with the annual work plan. Assurance activities in the context of HACT include the following:

- Spot checks: These refer to periodic on-site reviews, which are performed to assess the accuracy of the financial records for cash transfers to partners and the status of programme implementation and to determine whether there have been any significant changes to internal controls.
- Scheduled audits: These refer independent examinations of data, statements, records, operations and performance of partners.

The results of partner assurance activities and summaries of significant issues and action plans should be uploaded on the HACT SharePoint site.

The review of HACT implementation disclosed the following:

a) Late completion of HACT audits

87 HACT audits were scheduled for 2020 and 2021 (50 in 2020 and 37 in 2021). Seven of the audits scheduled for the year 2020 and eight in 2021 were not completed. The Office explained that the delays were attributed to the COVID-19 pandemic.

b) Insufficient follow-up of HACT assurance activities

According to the data within the HACT dashboard:

- In 2020, 40 spot-checks were planned, of which 35 were completed.
- In 2021, 21 spot-checks were required; however, none were completed.

No programme visits were scheduled in the HACT dashboard in 2020 or 2021.

However, the detailed review of four projects sampled disclosed that 18 programme visits were completed in 2020 and 11 in 2021, and that five spot-checks were performed in 2021, which suggests the data in the HACT dashboard was incomplete.

The low level of completion of field visits and the missing spot-checks were attributed to COVID-19 pandemic and the subsequent lockdown.

Delayed or lack of implementation of the HACT assurance plan may prevent errors in the financial records and weaknesses in the internal controls of implementing partners from being detected.

c) Payments to implementing partners not tagged

According to the 'Implementing Partners and Implementing Agents Guidance', Country Offices are required to tag payments based upon the cash disbursement modalities and the project implementation modality. The audit team observed that in 2020, 197 payments amounting to \$948,148, and in 2021, 117 payments totaling \$431,611, were not tagged.

Not tagging payments creates challenges in the tracking and reporting on expenses incurred by each implementing partner.

d) Weaknesses in the management of advances to implementing partners for nationally implemented projects

According to the 'UNDP Programme and Operations Policies and Procedures', advances to implementing partners should be liquidated within three months of disbursement. If current advances are not liquidated, future advances can be delayed, which can impact programme delivery.

Advances totalling \$61.7 million were disbursed during the audit period. By the end of November 2021, unliquidated nationally implemented project advances amounted to \$6.53 million, including \$0.18 million older than six months. At year-end, the advances were reduced to \$1.2 million, with no advances overdue more than six months.

The Office explained that the implementing partners required support in the liquidation of advances. For example, in two out of five cases sampled, the supporting documentation was delayed and of poor quality.

Failure to monitor advances to implementing partners correctly and promptly can lead to financial losses and might impact programme delivery.

| | |
|---|-----------------|
| Priority | High (Critical) |
| Recommendation 5: The Office should address the weaknesses in the implementation of HACT by: <ul style="list-style-type: none"> (a) completing all scheduled audits and spot checks as planned; (b) updating the HACT monitoring dashboard and tagging all payments in the system; and (c) providing support to the implementing partners to ensure timely liquidation of advances with adequate supporting documentation. | |
| Management action plan: | |

The Office will:

- (a) timely complete the annual audits approved in the assurance plan by implementing the actions included in the action plan approved as of 11 February 2022;
- (b) timely update the follow-up of assurance activities in the HACT monitoring dashboard and tag all payments in the system by implementing the action plan approved as of 11 February 2022; and
- (c) provide training to the Office's project staff and to the implementing partner staff on the appropriate use of the FACE forms, and implement the capacity-building action plan for implementing partners and monthly report on cash advances.

Estimated completion date: 30 September 2022

3. Project Administration

Issue 6 Weaknesses in project closure

The 'UNDP Programme and Operations Policies and Procedures' require projects to be operationally closed once activities have been implemented. Projects should be financially closed within 12 months of operational closure. A project is closed when all financial transactions have been reported and certified, and project accounts are closed. Before the status of a project is changed to financially closed, the programme officer and the head of finance must complete the e-Checklist from the Atlas Project Closure Workbench and must ensure that projects funded from cost-sharing have zero balances.

The review of the project closure process at the Office disclosed the following:

- There was no evidence of a mechanism to follow up on financially closed projects that have been reopened. As of November 2021, there were 234 operationally closed projects for more than 18 months (153 were development projects amounting to \$2.1 million). This included 127 operationally closed outputs that had been financially closed and subsequently reopened to address issues such as clearing of pending vouchers, nationally implemented project advances and other adjustments. At the end of 2021, there were no operationally closed projects that exceeded 12 months.
- Out of a sample of 10 development outputs, in 8 cases, the project closure checklist was not completed.

Without adequate project closure, the Office runs the risk of unauthorized expenditures being charged against projects, and the risk of not complying with donor requirements in a timely manner.

Priority Medium (Important)

Recommendation 6:

The Office should strengthen its oversight of the project closure review by:

- (a) ensuring all projects are financially closed within 12 months of operational closure;
- (b) promptly addressing the exceptions noted in the reopened projects; and
- (c) ensuring that all checklists are completed before the closure of the projects.

Management action plan:

The Office will:

- (a) reinforce the mechanism for monitoring and reviewing outputs to be timely closed and close open projects by the end of the second quarter 2022; and
- (b) ensure that all checklists are complete before the closure of the projects.

Estimated completion date: a) 30 June 2022; b) 30 September 2022

C. Operations - Procurement - Goods and services

Issue 7 Weaknesses in procurement planning and monitoring

The audit sampled 39 purchase orders amounting to \$20.4 million or 43 percent of the total procurement value and 10 individual contractors totaling \$0.92 million or 26 percent of the total value of individual contracts. Within the sample no significant issues were identified within procurement process, except for the following:

a) Incomplete procurement plans:

The 'UNDP Programme and Operations Policies and Procedures' require the development of consolidated procurement plans on an annual basis, which should be reviewed and updated regularly. Analysis of the consolidated procurement plan provides an opportunity to identify economies of scale and improved use of resources.

For the directly implemented projects that submitted procurement plans, the procurement volume had been underestimated:

- In 2020, \$18.9 million was procured, which represented 23 percent more than the planned procurement of \$15.4 million.
- From 1 January to 30 September 2021, \$14.7 million was procured, which represented on average 8 percent more than the planned procurement of \$13.5 million. Further analysis showed larger discrepancies at the project level. For instance:
 - In 2020, for project #72471, \$0.5 million was planned against \$3.4 million procured and for project 101442, \$12.3 million were planned against \$10 million procured.
 - In 2021, for project #101442, \$2 million were planned against \$9.3 million procured while for project #72470, there were \$2.5 million planned against only \$0.26 million procured.
- Procurement plans were not prepared for 29 projects in 2020 and 16 projects in 2021, although they had a procurement volume of \$7.3 million and \$5.1 million, respectively.

The lapses in procurement planning were explained by a lack of coordination between programme operations.

b) Lack of inclusion of the required contractual clauses:

For one purchase order (\$498,900) that related to furniture and installation of hydraulic machinery, the following issues were observed:

- Performance guarantees were lowered from the required 10 percent to 5 percent without justification.
- Damages and interest information was omitted from both the Invitation to Bid and the contract. This clause permits UNDP to apply compensation should the vendor be in breach of contract.

These weaknesses were caused by the lack of an oversight mechanism over procurement processes.

Ineffective oversight over procurement processes and contracts may expose the organization to financial and reputational risks.

| | |
|--|--------------------|
| Priority | Medium (Important) |
| Recommendation 7: | |
| The Office should strengthen procurement planning and contract management by: | |
| <ul style="list-style-type: none"> (a) ensuring that all development projects are included in the procurement plan, and that they are updated as required; (b) amending the contractual documentation to incorporate the appropriate performance guarantee percentage; and (c) ensuring that the contractual documentation incorporates the standard clauses. | |
| Management action plan: | |
| The Office will: | |
| <ul style="list-style-type: none"> (a) enforce the implementation of the amended procurement standard operating procedure to ensure the effective use of procurement planning (especially regarding exhaustiveness and quarterly update). (b) reinforce quality assurance of contractual documentation. | |
| Estimated completion date: 30 September 2022 | |

D. Operations - Finance – Office budget and cost recovery

Issue 8 Weaknesses in the recovery of Government Contributions to Local Office Costs (GLOC)

Offices are required by the 'UNDP Programme and Operations Policies and Procedures' to ensure the timely collection of Government Contributions to Local Office Costs (GLOC).

No GLOC had been collected from the Government since 2018. As of 2021, GLOC arrears amounted to \$1.23 million. The amount had accumulated since 2016, although a payment of \$0.97 million was received in 2018.

While the Office made efforts to follow up on the late payments of GLOC by sending three requests between 2020 and 2022, an agreement had not been reached on the GLOC arrears.

Low recovery of government contributions might affect the financial sustainability of the Office.

| Priority | Medium (Important) |
|--|--------------------|
| Recommendation 8: The Office should improve financial sustainability by recovering GLOC arrears, such as through a formalized payment plan. | |
| Management action plan: The Office will regularly work with the Government to recover outstanding contributions via a formalized payment plan. Estimated completion date: 31 December 2022 | |

Definitions of audit terms - ratings and priorities

A. AUDIT RATINGS

| | |
|--|--|
| Fully 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. |
| 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 <u>not included in this report</u> . |