UNITED NATIONS DEVELOPMENT PROGRAMME
Office of Audit and Investigations

AUDIT

OF

UNDP COUNTRY OFFICE

IN

THE SYRIAN ARAB REPUBLIC

Report No. 2322

Issue Date: 30 April 2021

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Report on the Audit of UNDP Syria
Executive Summary

The UNDP Office of Audit and Investigations (OAI) conducted an audit of UNDP in the Syrian Arab Republic (the Office) from 8 to 23 February 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 and communication technology (ICT)

The audit covered the activities of the Office from 1 January to 31 December 2020. The Office recorded programme and management expenses of approximately $42.5 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 and petty cash contents were not verified.*
(f) *The information communication and technology area was not reviewed on-site.*

Overall audit rating

OAI assessed the Office's performance as **satisfactory/some improvement needed**, which means "the assessed governance arrangements, risk management practices and controls were generally established and functioning, but need some improvement. Issues identified by the audit do not significantly affect the achievement of the objectives of the audited entity/area." This rating was mainly due to weaknesses in asset management.

Key recommendations: Total = **5**, high priority = **1**

The five recommendations aim to ensure the following:

Objectives	Recommendation No.	Priority Rating
Reliability and integrity of financial and operational information	3	Medium
Effectiveness and efficiency of operations	2, 5	Medium
Safeguarding of assets	4	High
Compliance with legislative mandates, regulations and rules, policies and procedures	1	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:

Weaknesses in asset monitoring and oversight (Issue 4)	Review of asset management disclosed the following:

Review of asset management disclosed the following:

- The audit could not ascertain on the completeness of project assets. Only 2 out of 57 assets included in the Office asset registry and physically verified belonged to the projects.
- The 2020 asset certification exercise was not submitted to the Premises, Facilities and Assets Team, General Operations, BMS as required.
- The asset certification as of 31 October 2020 incorrectly included two and excluded three vehicles.
- The Office missed a deadline for validating the completeness of vehicles' records in Atlas as required by the Bureau for Management Services (BMS).
- The Office has not established a mechanism to systematically dispose obsolete and non-functional asset on regular basis.

Recommendation: The Office should strengthen asset oversight and recording by: a) performing inventory count of assets and equipment used and controlled by the directly implemented projects, which should be then consolidated and reflected in the asset registry as part of the Office year-end asset certification; b) correcting any discrepancy between physical count and accounting record without delay; and c) disposing assets timely and on regular basis as needed, with proceeds returned to the source projects.

Implementation status of previous OAI audit recommendations: Report No. 1918, 25 April 2018.
    Total recommendations: 8
    Implemented: 8

Management comments and action plan

The Resident Representative accepted all five 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. Osttveiten
Director
Office of Audit and Investigations

I.   About the Office

The Office, located in Damascus, Syrian Arab Republic (the Country) and its Country Programme covered the period 2016 -2017. Due to the protracted conflict and crisis, the country programme document has been extended on each year, with the last extension until June 2021.

The programme was aligned to the current Strategic Framework, and focused on Early Recovery through the following three pillars:

(a) Rehabilitation of basic infrastructure and services,
(b) Economic recovery through a livelihoods programme; and
(c) Social cohesion.

During the period from January to December 2020, the Office spent $39.8 million on development activities, a decrease by 3.75 percent compared to the previous period.

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

Title	Expenditure December 2020 $million
Rehabilitation of Social Services and Infrastructure	4.5
Active Labour Market	4.1
Private Sector Recovery and Development	3.8
Agricultural Livelihoods and Rural Development	3.7
Total	**16.1**

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
Germany	11.9
Japan	8.7
UN Agencies	8.3
Total	**28.9**

II.   Audit results

Satisfactory performance was noted in the following areas:

(a) <u>Governance</u>. Controls and procedures for governance activities including corporate planning, risk register, staff organization, Internal control Framework and delegation of authority and business continuity were found to be adequate.

(b) <u>Finance</u>. Controls over payment processing, cash management and vendor management were found to be adequate. Minor improvements to financial monitoring and reporting, as well as collection of revenue were discussed with the Office.

OAI made one recommendation ranked high (critical) and four 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)   strengthen asset oversight and recording (Recommendation 4).

Medium priority recommendations, arranged according to significance:
    (a)   strengthen oversight of implementing partners (Recommendation 1).
    (b)   strengthen procurement process (Recommendation 2).
    (c)   improve compliance with human resources corporate requirements (Recommendation 3).
    (d)   strengthen oversight mechanism over general administration (Recommendation 5).

The detailed assessment is presented below, per audit area:

A. Development Activities

1. Projects Administration

Issue 1   Weaknesses in micro assessment and assurance activities

The UNDP 'Programme and Operations Policies and Procedures' stipulate that an implementing partner who is expected to receive cash transfers of more than $300,000 in a programme cycle will require a micro assessment by a qualified third-party service provider. The micro assessment aims to identify capacity gaps or problems in the partner's financial management system and practices, and it also helps to determine the modality (direct cash transfer, direct payment, or reimbursement) that can be used to transfer funds to the partner. Thus, micro assessments should be completed prior to issuance of cash transfers to a partner.

The review of six implementing partners that received cash transfers of more than $300,000 each highlighted the following:

Lack of and inadequate Micro assessments

- One implementing partner that received cash transfers of $371,112 had not undergone a micro assessment.

- Two implementing partners, with cash transfers amounting to $379,100, each, were micro assessed a year after the start of the projects.

Lack of or inadequate micro assessment of implementing partners present a risk that weaknesses in their financial management system and internal controls may go undetected.

Assurance activities not efficiently implemented

The UNDP 'Programme and Operations Policies and Procedures' state that the purpose of project assurance is to monitor the project's progress towards intended outputs and that resources entrusted to UNDP are appropriately used. Monitoring activities, such as periodic monitoring visits, spot checks and scheduled audits should be performed.

Review of project assurance disclosed the following:

- The Office had different assurance and monitoring activities in place (i.e., spot checks, field visits, field monitors, third party monitors). However, it did not have a comprehensive project assurance plan that would aid in the organization of these assurance and monitoring activities.

- There was no evidence that spot checks and/or monitoring activities were performed on two out of the seven projects reviewed. The two projects only showed the plan and agenda for the field visits. There were no available reports of the visits.

- For three projects where spot checks and field monitoring reports were prepared, it was noted that the findings and observations were recurrent and repeated in the reports which indicated that issues and recommendations raised had not been followed up or implemented.

- The Office contracted the services of a third-party monitoring company in 2018 to provide an independent assurance on project implementation. Observations and recommendations resulting from the monitoring activities of the third-party monitoring provider were discussed by project managers with partners, however, documentation of follow up actions and updates on implementation of recommendations was not available.

By not following up and implementing recommendations arising from assurance activities, the Office may not achieve the projects results and may be exposed to financial and reputational risks.

Priority	Medium (Important)
Recommendation 1: The Office should strengthen oversight of implementing partners by: a) completing micro assessments of implementing partners prior to processing cash transfers; (b) preparing a comprehensive project assurance plan consisting of spot checks, field visits, and third-party monitoring, and implementing the assurance activities, accordingly; and (c) ensuring that recommendations following assurance and monitoring visits are implemented.	
Management action plan: The Office is planning to have the following action points to cover: 1. Define a clear Standard Operating Procedures related to the programming with implementing partners and define and implement the assurance and monitoring plans, roles and responsibilities, related to the process. 2. Define a comprehensive approach for the planning of monitoring activities, including third-party monitoring for the directly implemented projects, along with defining the follow up mechanisms.	

Estimated completion date: October 2021

B.	**Operations**

1.	**Procurement**

Issue 2   Weaknesses within the procurement process

a)   Inefficient procurement planning

The 'UNDP Programme and Operations Policies and Procedures' require Offices to develop a consolidated procurement plan and update it regularly. Furthermore, procurement plans are to be consolidated within the corporate procurement planning platform (PROMPT).

The Office had not fully utilized the corporate procurement planning tool Procurement Management Platform (PROMPT) during the audit period. Out of 63 procurement cases submitted through the ACP Online platform, 24 cases totaling to $14 million were not uploaded into PROMPT.

Inadequate procurement planning increases the likelihood of projects not meeting their delivery goals effectively.

b)   Inadequate management of lease agreements

The contract management policy requires offices to communicate in writing and document verbal communications and monitor contract to ensure compliance with contractual terms and document amendment justification including a comparative cost estimate (benchmarking) to determine if the prices are still competitive. The acquisition, renewal and termination of premises lease policy require the relevant procurement committee to review and approve the lease agreement changes before the offices sign the lease agreement amendments.

During the audit period, the office had renewed six lease agreements amounting to $2.1 million, including the common services. The following shortcomings were identified:

Late submission to the procurement review committee

■   In 2020, the Office approved the extension of three out of the six lease agreements, valued at $1.4 million, without prior submission to the relevant review committee. Two of these agreements related to common services amounting to $1.32 million.

Nonadherence to lease agreements terms

The audit team noted the following deficiencies when reviewing the lease agreement renewal processes:

■   One lease agreement amounting to $63,875 had a clause that any renewal should be under the same terms and conditions. However, the 2021 agreement renewal increased the annual cost by 14 percent from $63,875 in 2020 to $73,000 in 2021.

- One lease agreement amounting to a $0.6 million had a clause that lease agreement renewal should not exceed 5 percent. However, the Office accepted a 7 percent annual increase for the renewal for December 2020 to 30 December 2025.

- The Office did not have documentation of the negotiations that took place during the lease agreement extension. The Office stated that all negotiations that took place during the lease agreement extension were verbally done.

The Office indicated the high inflation as the reason for non-adherence to the lease agreement clauses in the lease renewal.

Inadequate lease management may result in the Office not always obtaining the best value for money.

Priority	Medium (Important)
Recommendation 2: The Office should strengthen procurement process by: a) ensuring that the procurement plans are entered into the PROMPT system and are regularly updated; b) submitting the lease agreement extension to the appropriate procurement review committee prior to signature; and c) adhering to the lease agreement terms and conditions, and fully justifying any deviation, and documenting contract negotiations.	
Management action plan: The Office is planning to have the following action points to cover: (a) Beginning in 2021, the Office will regularly review all procurement cases and check the procurement plan continually against the PROMPT. All cases should be submitted into PROMPT in order to be accepted and handled as a procurement case. Quarterly review is planned to check the procurement plan against actual. (b) The Office has already started practicing the documentation of its negotiation with the vendors which has not been the practice for long time ago. However, the management will ensure committing to the new recommended practice through emphasizing the provision of such a document within the contract documentation prior to signing/ approving phase. (c) The management will ensure adherence to the lease agreements, and to making progress on circulating a market survey that could justify any inflation impact when need be. Furthermore, the market survey will be submitted to the ASD communicating the need to increase the stated term of increase that may facilitate the renewal management. **Estimated completion date:** August 2021	

2. Human Resources

Issue 3   Inefficiencies in Human resources managements

Performance management measures a staff member's contribution towards corporate results and serves as a tool for career development. The mandatory training courses are necessary tools to ensure that staff and managers understand the various policies, regulations, principles and values, as well as the goals and objectives of the organization.

Review of human resources management disclosed the following weaknesses:

Performance Management and Development (PMD) assessments not completed

The completion of the Annual Performance Reviews, that is part of the PMD for staff members, had not been aligned with the corporate deadlines. As of February 2021, it was noted that:

- 13 out of 66 staff members or 20 percent had yet to complete the 2019 Annual Performance Review; the corporate deadline was 31 March 2020.

- The 2020 Mid-Term Review had not been completed for 18 out of 66 staff members. The mid-term performance review was advised to be conducted by September 2020.

Not completing staff performance assessments may lead to delay in addressing areas requiring improvement and establishing a career development plan.

Mandatory courses not meeting corporate requirements

- The Office had an average of 20 percent non-completion rate of the nine mandatory training courses as of 20 February 2021. ''Fraud and Corruption Awareness and Prevention'' and '' Greening the Blue'' courses had the highest non-completion rates of 37 and 45 percent, respectively.

- The 'Safe and Secure Approaches in Field Environments' (SSAFE) training, not part of the mandatory trainings but required for field mission staff in Syria, had not been completed by 75 percent of staff. This could limit the number of staff members available for projects' monitoring.

The Office explained that certain courses completion had not been adequately reported due to technical issues.

Failure to complete mandatory training courses may result in staff not being aware of the organization's values and principles, and corporate policies.

Priority	Medium (Important)
Recommendation 3:	

Recommendation 3:

The Office should improve compliance with human resources corporate requirements by:

    (a)   completing without further delays, the performance management and development assessments (mid-terms and annual reviews) for all staff members;
    (b)   completing all mandatory training courses within the established corporate deadline; and
    (c)   establishing a mechanism for monitoring compliance with mandatory and required trainings.

Management action plan:

The HR Team has been following up the completion of both Annual Performance Review and mandatory trainings with the concerned staff members and sharing the completion status with the Senior Management on a regular basis.

However, the PMD platform has been globally updated in 2021, which created some technical challenges for supervisors and supervisees.

Moreover, currently most of the online mandatory training courses are either under technical upgrade, or are not available at this time, which clearly affect the completion rate of our Office.

Estimated completion date: September 2021

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3. Administrative services

Issue 4   Weaknesses in asset monitoring and oversight

UNDP changed its asset capitalization threshold from US $1,500 to US $5,000 in February 2020 with the aim to significantly reduce the volume/quantity of assets in the asset register thereby allowing UNDP to focus attention on higher value items. The change in policy aimed a more effective verification and certification process. Furthermore, the Operational Guide of the UNDP Internal Control Framework requires project managers and approving managers to ensure accurate recognition of assets in Atlas before approving e-requisitions or purchase orders. Finally, project managers have to report at least annually on the existence of assets and other equipment purchased for their project.

After the revision of the asset capitalization threshold, the Office's 2020 year-end asset verification and certification exercise included 57 assets valued to $2,277,964. The 2019 Year-end asset certification included 280 assets valued at $2,738,639.

Review of asset management, including oversight of projects assets disclosed the following:

Absence of reporting mechanism for projects assets

- While projects were mainly directly implemented by the Office, only two out of the 57 assets included in the Office asset registry belonged to the projects. The audit could not ascertain on the completeness of projects assets since the project managers did not report on the existence of assets and other equipment and material used and controlled by their project.

- Assets under three outputs (107839, 108748 and 108839), amounting to $9,618; $305,978; and $65,737, were physically verified by the external auditors in the HACT audits as of 31 December 2019. However, there was no evidence on the existence of these same assets in 2020 since the project managers have not reported on them.

The lack of asset reporting from projects occurred because the accountability for reporting was not clearly communicated to projects.

Inaccurate asset recognition/ recording and delays in reconciliation

▪ The 2020 asset certification was not submitted to the Premises, Facilities and Assets Team, General Operations, Bureau for Management Services (BMS) by 1 December 2020 as required. The Office requested an extension on 9 December 2020 on the reason that due to the lockdown, it could not complete the physical verification.

▪ The asset certification as of 31 October 2020 incorrectly included two vehicles amounting to $267,235 as *"received and not in service"* for two months, while the vehicles had not arrived in the country.

▪ During the asset certification process, three vehicles physically verified to be in use were not included in the Office asset registry as of 31 October 2020 as they had been expensed. As of 27 January 2021, these three vehicles had yet to be added to the Office registry. Another asset amounting to $7,916 had been capitalized in error and needed to be removed from the Office registry.

▪ Based on the findings from the 2020 Property Plant and Equipment certification and the review of the expense accounts, BMS required the office to validate the completeness of vehicles' records in Atlas by 10 February 2021. Such validation (reconciliation and accounting of all vehicles registered under UNDP name) had not been completed as of 21 February 2021.

Asset's disposal not timely processed

▪ The Office has not established a mechanism to systematically dispose obsolete and non-functional assets on regular basis. No asset disposal had been processed in the past three years except for one fully depreciated vehicle in 2019.

▪ In January 2021, the Office initiated internally the sale of various office equipment. These assets were considered to have passed their useful lives with a zero net book value. The disposal list did not contain important asset information such as date of acquisition, value, project, etc. as to ascertain the completeness of the list. Further, the list without the project information would not enable returning the proceed from the sale to the appropriate project chart of account.

Inadequate controls over asset management may lead to misuses or asset not accounted for, which will negatively impact projects' implementation.

Priority	High (Critical)
Recommendation 4:	
The Office should strengthen asset oversight and recording by: a) performing inventory count of assets and equipment used and controlled by the directly implemented projects, which should be then consolidated and reflected in the asset registry as part of the Office year-end asset certification; b) correcting any discrepancy between physical count and accounting record without delay; and c) disposing assets timely and on regular basis as needed, with proceeds returned to the source projects.	

Management action plan:

The Office is deploying a new system for the management of the asset and inventory which could streamline the whole management process including the regular physical count (using QR code) and the disposing process.

The recommendation related to the assets and equipment used and controlled by the directly implemented projects, is being communicated with the GSSU Asset management specialists for further guidance and advice as it is not the practice so far.

Estimated completion date: October 2021

Issue 5   Inefficiencies in general administration

The Head of the Office is accountable to the efficient use of resources entrusted to the Office. UNDP Travel policy calls for early planning, timely processing of travel requests to avoid paying higher fares and provide an accounting of travel advances. The policy also recommends that airline tickets be purchased at least 21 days in advance when traveling in business class and 14 days in advance when traveling in economy class. Once travel has concluded, travelers are required to submit a travel claim to the authorizing unit within two weeks from completion of travel.

Review of the general administration of the Office disclosed inefficiencies in oversight mechanism:

Lapses in the management of mobile phones/ devices use

The Office paid $86,000 in 2020 for phone lines and internet subscriptions on the mobile devices assigned to staff members. The review of the use and oversight mechanism over the mobile devices disclosed the following:

The audit team noted significant variances in the amounts billed for phone calls. Out of 202 lines assigned to UNDP personnel, three lines had an average monthly consumption of $248 ($209, $232, and $303) while the monthly average for the other 199 lines was $19.20. While there could be genuine reasons for such spending, the Office has not established procedures to guide and control the use of mobile devices provided to staff members.

The lack of guidance and absence of oversight could lead to unfair allocations or unjustified overspending, which represented a missed opportunity for savings for the past years.

Ineffective oversight of travels

During the audit period, the Office processed 330 Travel Requests (TR) amounting to $249,000. The audit disclosed the following based on data extracted from the travel module on 17 February 2021:

- 48 TRs were pending approval at the time of the audit, and another 26 were pending payments of travel entitlements. The audit team randomly identified at least 11 cases where the payment process including disbursement of travel entitlements to the traveler had not been finalized prior or even after the Official mission took place.

- ▪ 77 Travel claims (F10) were pending approval and other 239 had yet to be created after the travels took place between May 2019 and January 2021. Travel entitlements are not substantiated until travel claims are submitted to liquidate the advances received by the travelers.

- ▪ In addition, travels were booked on average six days prior to the travel. The audit team also noted that in nine cases, for staff having back-to-back missions, mission travel dates overlapped by few days due to incorrect travel dates entered in the system.

The Office explained that long approval process at the Government level impacted the timely approval and booking of travels.

These issues were caused by the lack of proper planning and ineffective use of the Travel and Expenses dashboard in Atlas to monitor the bottlenecks to travel processing.

Failure to efficiently process travel requests could lead to paying higher costs for travel and travel entitlements not accounted for.

Priority	Medium (Important)
Recommendation 5: The Office should strengthen its oversight mechanism over general administration by: a) developing standard operating procedures for the use of the Office provided mobile devices, establishing allocation limits, monitoring regularly their usage and recovering any excess consumption above the assigned limits; and b) planning early for travels, monitoring the travel requests and travel claims, and timely finalizing all outstanding requests.	
Management action plan: The Office introduced the Standard Operating Procedure for mobile phone issuance and data/ voice allowances for staff on 1 March 2021. As for the Travel review and monitoring, the country office appointed a focal point to perform regular review and follow up for the travel requests and claims. **Estimated completion date:** September 2021	

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 not included in this report.