AUDIT

OF

UNDP COUNTRY OFFICE

IN

UKRAINE

Report No. 2323
Issue Date: 9 July 2021
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Report on the Audit of UNDP Ukraine
Executive Summary

The UNDP Office of Audit and Investigations (OAI) conducted an audit of UNDP Ukraine (the Office) from 12 to 28 April 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)

The audit covered the activities of the Office from 1 January 2020 to 31 January 2021. The Office recorded programme and management expenses of approximately $156 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 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 inadequate project delivery and monitoring of the ‘Ozone project’, weaknesses in procurement planning and oversight, and weaknesses in contract management.

Key recommendations: Total = 7, high priority = 4

<table>
<thead>
<tr>
<th>Objectives</th>
<th>Recommendation No.</th>
<th>Priority Rating</th>
</tr>
</thead>
<tbody>
<tr>
<td>Achievement of the organization’s strategic objectives</td>
<td>1</td>
<td>Medium</td>
</tr>
<tr>
<td></td>
<td>2</td>
<td>High</td>
</tr>
<tr>
<td>Effectiveness and efficiency of operations</td>
<td>3, 5</td>
<td>High</td>
</tr>
<tr>
<td>Safeguarding of assets</td>
<td>6</td>
<td>Medium</td>
</tr>
<tr>
<td>Compliance with legislative mandates, regulations and rules, policies and procedures</td>
<td>4</td>
<td>High</td>
</tr>
<tr>
<td></td>
<td>7</td>
<td>Medium</td>
</tr>
</tbody>
</table>
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. All high (critical) priority recommendations are presented below:

**Inadequate project delivery and monitoring of the ‘Ozone project’ (Issue 2)**

The Ozone project funded by the Global Environment Facility, was planned for three years at a cost of $3.19 million but was implemented over 8 years incurring additional salary costs of four personnel for 4.5 years. The project was operationally closed in July 2020 with a delivery of 85 percent. The project’s final evaluation indicated unsatisfactory achievement of the project objectives.

**Recommendation 2:** The Office should strengthen project monitoring and delivery by: (a) implementing the recommendations from the evaluation report, and address the weaknesses identified within project governance and monitoring; and (b) disseminating the lessons learned to prevent similar issues arising within other projects.

**Weakness in procurement planning and oversight (Issue 3)**

**Weaknesses in procurement planning and procurement strategy**

- The Office did not use the corporate procurement planning tool (PROMPT) in 2020 or develop a procurement plan consolidating inputs from the projects.
- The Office had not developed its procurement strategy to facilitate implementation of procurement activities.

**Weaknesses in oversight**

- In all 10 Contracts, Assets, and Procurement Committee (CAP) cases reviewed with a total value of $1.8 million, there was limited evidence of *ex ante* reviews by the CAP members.
- In five CAP cases, the evaluation team lacked diversity as it comprised of personnel from the same project.
- Four Regional Advisory Committee on Procurement (RACP) and four Advisory Committee on Procurement (ACP) cases totalling $71.4 million were sampled. The overall quality of the procurement was assessed by RACP/ ACP as ‘fair’ out of the four standard ratings used (Excellent, Good, Fair and Needs Improvement) due to weaknesses in value for money analysis and quality assurance.

**Weaknesses in the benchmarks for the procurement committee review**

- The Office had not established a timeframe to complete procurement committee reviews. The RACP and ACP cases took an average of 59 and 78.5 days, respectively, for the evaluation, after the bidding process.

**Standard operating procedures to be finalized and implemented**

- The Office prepared a draft standard operating procedure on 12 November 2020. The final SOP had yet to be submitted to the Regional Procurement Advisor, for final review.

**Recommendation 3:** The Office should strengthen procurement planning and strategy by: (a) developing a consolidated annual procurement plan, and
developing a procurement strategy to address weaknesses in procurement practices; and (b) finalizing the SOP on procurement and submitting it to the Regional Procurement Advisor for approval.

**Recommendation 4:** The Office should strengthen procurement oversight by: (a) establishing a benchmark for a timely and well documented review of procurement cases; and (b) complying with the recommendations from the procurement advisory committees.

### Weaknesses in contract management (Issue 4)

**Weaknesses in direct contracting justification**

Following a review of eight direct contracting cases totalling $474,000, the following observations were made:

- In four cases totalling $90,000, the use of direct contracting was justified by “the need to standardize the requirements” since the same suppliers needed to perform two interlinked activities such as data collection and database management or implementation of series of surveys. However, the UNDP policy on Procurement Oversight and Procurement Review Committees advises that a series of related contracts awarded to a vendor in a calendar year should be aggregated, therefore these activities should have been combined into a single competitive procurement. The confirmation of achievement of value for money was not sufficiently justified.

**Gaps in contract timeliness**

A review of the timeliness of contracting of 15 procurement cases totalling $16 million disclosed the following:

- It took on average 22 days to raise purchase orders in Atlas following the approval of the procurement cases by the Chief Procurement Officer, following the review by the respective procurement committees.
- In five cases totalling $1.2 million, the contract had been signed between 2 to 57 days prior to the creation of a purchase order in Atlas.
- In three cases totalling $2.3 million relating to Responsible Party Agreements, it took on average 26 days to sign the agreement following the approval by the Head of Office.

**Inadequate planning of the needs for individual contractors**

- The audit team reviewed the selection and contracting of 10 individual contractors totalling $572,000. In five of the individual contracts, the initial contract period for 1.5 months was later extended to 9 months, resulting in an increase in the contract value from $53,000 to $167,000. A new competitive process was not completed despite the increase in contract value.

**Recommendation 5:** The Office should strengthen contract management and oversight by: (a) discontinuing the use of direct contracting unless justified in line with the policy with adequate supporting documentation; (b) establishing
timelines to raise purchase orders and approve contracts; and (c) managing individual contractors in line with the policy, including recommencing a competitive process when initial contract thresholds are exceeded.

OAI is conducting a forensic review of procurement cases for the ‘Procurement Support Services to the Ministry of Health of Ukraine project’ with the objective of identifying the root causes of control lapses, and to determine whether any procurement fraud or collusion may have taken place. The forensic review was ongoing when this audit was finalized and has not been considered in this audit. The project is also undergoing a separate combined financial audit and audit of internal controls and systems covering the year 2020.

**Implementation status of previous OAI audit recommendations:** Report No. 1987, 16 August 2018.

- Total recommendations: 3
- Implemented: 2
- Withdrawn: 1

**Management comments and action plan**

The Resident Representative accepted all seven 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.

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Brett Simpson  
Officer-in-Charge  
Office of Audit and Investigations
About the Office

The Office, located in Kyiv, Ukraine (the Country) and its Country Programme covered the period 2018–2022 and was in line with the priorities of the Government’s development strategy and reform agenda with the following development priorities:

a) inclusive and effective democratic governance;
b) inclusive and gender responsive sustainable development; and
c) recovery and peacebuilding in conflict affected areas.

During the period from 1 January 2020 to 31 January 2021, the Office spent $153.7 million on development activities, a decrease of 4 percent compared to the previous period.

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

<table>
<thead>
<tr>
<th>Title</th>
<th>Expenditure Jan to Dec 2020 $million</th>
<th>Expenditure Jan 2021 $million</th>
</tr>
</thead>
<tbody>
<tr>
<td>Procurement Support Services to the Ministry of Health of Ukraine</td>
<td>89.0</td>
<td>-</td>
</tr>
<tr>
<td>Recovery and Peacebuilding Programme</td>
<td>26.6</td>
<td>0.4</td>
</tr>
<tr>
<td>Procurement Support Services to MoH, Phase 2</td>
<td>7.2</td>
<td>-</td>
</tr>
<tr>
<td>Support to SDGs localization in Ukraine</td>
<td>2.1</td>
<td>-</td>
</tr>
<tr>
<td>Parliamentary Reform Project (PRP)</td>
<td>1.7</td>
<td>-</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td><strong>126.6</strong></td>
<td><strong>0.4</strong></td>
</tr>
</tbody>
</table>

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

<table>
<thead>
<tr>
<th>Donor</th>
<th>Funding for the period $million</th>
</tr>
</thead>
<tbody>
<tr>
<td>Ukraine</td>
<td>66.3</td>
</tr>
<tr>
<td>Sweden</td>
<td>5.2</td>
</tr>
<tr>
<td>The Netherlands</td>
<td>1.3</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td><strong>72.8</strong></td>
</tr>
</tbody>
</table>

A protracted conflict was ongoing in eastern Ukraine since 2014. The conflict resulted in people being internally displaced.

Audit results

Satisfactory performance was noted in the following areas:

(a) **Governance**, Controls and procedures for governance activities including risk register, staff organization, Internal Control Framework and Delegation of Authority were found to be adequate. Gender equality was built into all four outcomes of the Country Programme Document (CPD) and in the project results and resources framework. Annual work plans indicated targets for gender balance for applicable indicators and achievement of this was tracked in Atlas (enterprise resource planning system of UNDP).

(b) **Human resources**, Controls over recruitment of staff and service contractors and completion of the Performance Management and Development documents were found to be adequate. The need for staff and service contractors to complete mandatory trainings was discussed with the Office.
(c) **General administration and information.** Controls over travel management and common services were found to be adequate. Minor improvements in fixed asset reporting and fleet management were discussed with the Office.

(d) **Communication Technology (ICT).** Controls over ICT processes were found to be adequate. The need for a minor update of the Business Continuity Plan was discussed with the Office.

OAI made four recommendations 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 recommendations,** arranged according to significance:

(a) Strengthen procurement planning and strategy (Recommendation 3).
(b) Strengthen contract management and oversight (Recommendation 5).
(c) Strengthen procurement oversight (Recommendation 4).
(d) Address weaknesses in project delivery and monitoring (Recommendation 2).

**Medium priority recommendations,** arranged according to significance:

(e) Develop a resource mobilization strategy (Recommendation 1).
(f) Improve cost recovery measures (Recommendation 6).
(g) Strengthen the recording of payments and receipt of goods (Recommendation 7).

The detailed assessment is presented below, per audit area:

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### A. Development Activities

#### 1. Country Programme

**Issue 1**  
Inadequate resources mobilized for certain CPD outcome areas

The ‘UNDP Programme and Operations Policies and Procedures’ require offices to ensure that adequate resources are available to implement the CPD.

As of April 2021, the Office had mobilized $472 million out of a budget of $239 million (CPD 2018–2022). The majority of the resources, $327 million, related to one project, ‘Procurement Support Services to the Ministry of Health of Ukraine’ included under outcome 3.\(^1\)

There were two outcomes for which insufficient resources had been mobilized. Refer to the table below:

<table>
<thead>
<tr>
<th>CPD outcome</th>
<th>CPD programming requirements</th>
<th>Resources mobilized</th>
<th>Funding shortfall</th>
</tr>
</thead>
</table>

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\(^1\) OAI is conducting a separate forensic review of procurement cases for the ‘Procurement Support Services to the Ministry of Health of Ukraine project’ with the objective of identifying the root causes of control lapses, and to determine whether any procurement fraud or collusion may have taken place. The forensic review was ongoing when this audit was finalized and has not been considered in this audit. The project is also undergoing a separate combined financial audit and an audit of internal controls and systems covering the year 2020.
The funding shortfall was due to the COVID-19 crisis, changes in donor funding policies for the Country, and lack of follow-up to ensure adequate funds were being mobilized for each outcome area. While the Office was able to expand its donor base and develop a hard pipeline of $15.3 million by 2022, certain funding gaps remained.

In the event adequate resources are not mobilized for each outcome area, programme objectives may not be achieved.

<table>
<thead>
<tr>
<th>Priority</th>
<th>Medium (Important)</th>
</tr>
</thead>
</table>

**Recommendation 1:**

The Office should develop and implement a resource mobilization strategy to ensure there is adequate funding for each of the outcomes within the Country Programme Document.

**Management action plan:**

- a) Strengthening and expanding partnerships with International Financial Institutions.
- b) Strengthening and expanding partnerships with the private sector.
- c) Exploring opportunities for partnerships with philanthropic organizations, emerging donors.
- d) Exploring opportunities for mobilizing government cost-sharing at the regional and local level.

**Estimated completion date:** December 2021

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### 2. Project Administration

**Issue 2**  Inadequate project delivery and monitoring of the ‘Ozone project’

The ‘UNDP Programme and Operations Policies and Procedures’ require adequate governance through regular project board meetings and monitoring at the Country Office and project levels.

Project No. 66300/Output No. 82497: ‘Initial Implementation of Accelerated HCFC (hydro-chlorofluorocarbons or a group of ozone-depleting chemicals) Phase Out in the CEIT Region’ (the Ozone project), funded by the Global Environment Facility, was planned for three years at a cost of $3.19 million but was implemented over 8 years incurring additional salary costs of four personnel for 4.5 years. The project was operationally closed in July 2020 with a delivery of 85 percent. The project’s final evaluation indicated unsatisfactory achievement of the project objectives.
The project delays and lack of achievement of objectives was partly due to weaknesses in project governance (lack of board meetings during 2019 and 2020), and monitoring at the Country Office and project levels.

<table>
<thead>
<tr>
<th>Priority</th>
<th>High (Critical)</th>
</tr>
</thead>
</table>

**Recommendation 2:**

The Office should strengthen project monitoring and delivery by:

(a) implementing the recommendations from the evaluation report, and address the weaknesses identified within project governance and monitoring; and

(b) disseminating the lessons learned to prevent similar issues arising within other projects.

**Management action plan:**

(a) Application of the integrated project monitoring and reporting tool (IMRP) by all three portfolios, including the Energy and Environment (EE) Portfolio, to closely monitor the progress of project implementation, and the timely achievement of results. The IMRP tool enables the tracking of indicators of success. Enhancing the performance monitoring of all projects through scheduling project board meetings and conducting them on a regular basis.

(b) Strengthening and enhancing the strategic and open communication between the EE portfolio and project managers and teams.

(c) Ensuring that all technical specifications and terms of reference are reviewed/cleared by the government counterparts to avoid potential risks.

(d) Ensuring that the unified Act of Transfer of the goods/services to the end-beneficiary is countersigned by the sides and is a part of the receipt package prior to proceeding with the payment to supplier.

(e) Post-project monitoring visits will be conducted as a mandatory requirement. Technical works completed will be validated by technical experts from the portfolio, with the support from the Office Strategic Planning, Partnerships and Resources and Budget Mobilization Unit.

**Estimated completion date:** August 2021

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**B. Operations - Procurement**

**1. Goods & Services**

**Issue 3** Weaknesses in procurement planning and oversight

According to the ‘UNDP Programme and Operations Policies and Procedures’, offices should develop an annual consolidated procurement plan using the corporate planning tool (PROMPT). A procurement strategy should be developed to support the achievement of the procurement objectives. The strategy can be further supported through the development of standard operating procedures (SOPs), and by establishing key performance indicators.

Procurement review committees should determine whether a procurement process was conducted in accordance with the UNDP rules, policies, procedures and principles, and to submit written
recommendations to the heads of business units. Evidence of review by the committees through questions and satisfactory responses should be documented.

During the audit period, the Office processed 1,847 purchases orders valued at $126.6 million. The review disclosed the following weaknesses:

**Weaknesses in procurement planning and procurement strategy**

- The Office did not use the corporate procurement planning tool (PROMPT) in 2020 or develop a procurement plan consolidating inputs from the projects. The Office stated that the procurement planning was processed on an internally developed SharePoint site. However, the site was not updated or used as a planning tool.

- The Office had not developed its procurement strategy to facilitate implementation of procurement activities. The strategy can assist the Office in addressing the weaknesses in procurement contract management highlighted in issue 4.

**Weaknesses in oversight**

The audit team reviewed 18 procurement cases valued at $73.2 million endorsed by the Contracts, Assets, and Procurement Committee (CAP), Regional Advisory Committee on Procurement (RACP) and Advisory Committee on Procurement (ACP) and noted the following:

- In all 10 CAP cases reviewed with a total value of $1.8 million, there was limited evidence of ex ante reviews by the CAP members. The Office explained that technical discussions took place during the CAP meetings but were not documented in the ACP online tool.

- In five CAP cases, the evaluation team lacked diversity as it comprised of personnel from the same project. Following OAI recommendations in March 2020, the Office instituted a requirement for the evaluation team's composition to be reviewed and cleared by the Deputy Resident Representative.

- Four RACP and four ACP cases totalling $71.4 million were sampled. In four instances, RACP/ACP assessed the overall quality of the procurement as 'fair' out of the four standard ratings used (Excellent, Good, Fair and Needs Improvement) due to weaknesses in value for money analysis and quality assurance.

**Weaknesses in the benchmarks for the procurement committee review**

- The Office had not established a timeframe to complete procurement committee reviews. The RACP and ACP cases took an average of 59 and 78.5 days, respectively, for the evaluation, after the bidding process.

**Weaknesses in the follow-up on issues identified by the RACP**

- In one case, the RACP identified the potential risk of collusion between two bidders. However, there was lack of written evidence or follow-up by the Office. One of the bidders was awarded the contract.

**Standard operating procedures to be finalized and implemented**

The Office prepared a draft standard operating procedure (SOP) on 12 November 2020. The final SOP had yet to be submitted to the Regional Procurement Advisor, for final review.

Ineffective oversight over procurement practices may lead to unfair procurement practices and may not provide best value for money for the organization.
### Priority
High (Critical)

### Recommendation 3:

The Office should strengthen procurement planning and strategy by:

(a) developing a consolidated annual procurement plan, and developing a procurement strategy to address weaknesses in procurement practices; and  
(b) finalizing the SOP on procurement and submitting it to the Regional Procurement Advisor for approval.

### Management action plan:

The Office takes note of the observation and will take the following actions:

(a) Programme portfolio procurement plans will be collected by the Office's Procurement Unit and the consolidated plan will be entered in the corporate system. PROMPT will serve as the planning and monitoring tool for the procurement actions and strategy. The implementation will be carried out through the following stages:

- Consolidating project entries in PROMPT 2.0, updating current status of cases.
- Developing procurement risk assessment for major value components, including risk mitigation activities.
- Defining procurement strategy by portfolios.
- Introducing regular monthly update and revision procedure.

(b) The SOP on procurement will be finalized and submitted to the Regional Procurement Advisor for clearance.

**Estimated completion date:** July 2021

### Priority
High (Critical)

### Recommendation 4:

The Office should strengthen procurement oversight by:

(a) establishing a benchmark for a timely and well documented review of procurement cases; and  
(b) complying with the recommendations from the procurement advisory committees.

### Management action plan:

(a) An inter-office memo on recommended deadlines of procurement process stages in accordance with the approved SOP will be shared with all staff involved; bottlenecks will be defined by the Office's Procurement Unit. A minimum of one training will be provided to the Office personnel on compliance processes and deadlines.

(b) Within the procurement SOP, the Office will introduce and circulate compliance control, including documentation and archiving of results.

**Estimated completion date:** September 2021
Issue 4  Weaknesses in contract management

Contract management, as the effective and efficient monitoring of contract activities, ensures that goods, services and/or works contracted by UNDP are procured in a timely manner, at the agreed cost and to the specified requirements. Where the cost of undertaking a competitive procurement process outweighs the benefits, there is scope for applying non-competitive methods (direct contracting), provided certain conditions are met. Under direct contracting, a contract must still be awarded to a vendor whose offer substantially conforms to the requirements at an acceptable price, obtained either through informal solicitation or negotiations. This decision for direct contracting must be in line with the policy, and the reasons documented and adequately supported, confirming value for money.

The review of contract management disclosed the following:

Weaknesses in direct contracting justification

A total of 83 cases of direct contracting totalling $33.9 million were processed by the Office and its projects during the audit period. Another 230 individual consultants totalling $1.7 million were engaged through direct contracting.

Following a review of eight direct contracting cases totalling $474,000, the following observations were made:

- In four cases totalling $90,000, the use of direct contracting was justified by “the need to standardize the requirements” since the same suppliers needed to perform two interlinked activities such as data collection and database management or implementation of series of surveys. However, the UNDP policy on Procurement Oversight and Procurement Review Committees advises that a series of related contracts awarded to a vendor in a calendar year should be aggregated, therefore these activities should have been combined into a single competitive procurement. The confirmation of achievement of value for money was not sufficiently justified.
- In one case amounting to $13,000, the reason for direct contracting was justified by lack of a marketplace for the requirements, without providing evidence of market research and analysis.

Gaps in contract timeliness

A review of the timeliness of contracting of 15 procurement cases totalling $16 million disclosed the following:

- It took on average 22 days to raise purchase orders in Atlas following the approval of the procurement cases by the Chief Procurement Officer, following the review by the respective procurement committees. The delays were caused by the time taken to approve new vendors within Atlas.
- In five cases totalling $1.2 million, the contract had been signed between 2 to 57 days prior to the creation of a purchase order in Atlas.
- In three cases totalling $2.3 million relating to Responsible Party Agreements, it took on average 26 days to sign the agreement following the approval by the Head of Office.

Inadequate planning of the needs for individual contractors

The policy on individual contractors requires that, for any substantial revision to the terms of reference and/or deliverables, a new competitive process take place.

- The audit team reviewed the selection and contracting of 10 individual contractors totalling $572,000. In five of the individual contracts, the initial contract period for 1.5 months was later extended to 9 months, resulting in an increase in the contract value from $53,000 to $167,000. A new competitive process was not completed despite the increase in contract value.
There were 37 cases out of 418, or 9 percent, of individual contract engagements totalling $353,000, where the contract value was just below the threshold of $10,000 required for a competitive process, such as $9,996, $9,972 or $9,960.

Without adequate justification of direct contracting, with delays within procurement processes, and with inadequate management of individual consultants, there is an increased risk of value for money not being achieved and delays in the implementation of project activities.

**Priority** High (Critical)

**Recommendation 5:**

The Office should strengthen contract management and oversight by:

(a) discontinuing the use of direct contracting unless justified in line with the policy with adequate supporting documentation;
(b) establishing timelines to raise purchase orders and approve contracts; and
(c) managing individual contractors in line with the policy, including recommencement of a competitive process when initial contract thresholds are exceeded.

**Management action plan:**

The Office noted the OAI recommendations and will implement the following action plan:

(a) The Office will analyse the direct contract cases of the past six months, in terms of amounts and reasonings, following extensions of the contracts and their justification. Direct contract requests and justifications will be reviewed and approved by the Office’s management with the aim to increase the competitive process before the contract awarding.
(b) The Office’s Procurement Unit, in close cooperation with the programme portfolio procurement personnel, will establish timelines of contracting processes, in accordance with the unit’s procurement plans. Furthermore, the Office will analyse pre-contractual processes upon committee approval and introduce reasonable deadlines for each stage.
(c) The Office will define the justifiable value threshold, considering the cost of the competitive procurement process, and establish limitations on further cost-extensions of the contracts concluded based on direct contracting as per OAI’s recommendation.

**Estimated completion date:** October 2021

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**C. Operations – Finance**

1. **Office Budget & Cost Recovery**

**Issue 5** Ineffective cost recovery measures

**Outstanding collection of Government Contributions towards Local Office Costs (GLOC)**

In accordance with the provisions of the standard basic assistance agreements, the host country is expected to contribute towards the cost of Country Offices.
The outstanding GLOC from 2008 to 2020 was $0.86 million. The Office was regularly following up with the Government, but at the time of the audit, no agreement had been reached on the recovery of the balance.

**Long outstanding value added tax (VAT) claims and VAT charged as project expense**

The ‘UNDP Programme and Operations Policies and Procedures’ state that Country Offices are required to seek reimbursement for VAT payments.

- There was a long outstanding VAT reimbursement from the Government of $637,441, covering the period from February 2015 to December 2020. The Office, through the UN Operations Management Team was in discussions with the Government regarding VAT recovery.
- In addition, a $164,386 VAT balance that was not accepted by the Government was charged to two donors’ accounts as project expenses. The Office had contacted the donors in August 2018 to approve the VAT charges as project costs but received no response. Furthermore, the office of Financial Resources Management had not been consulted regarding the appropriateness of expensing the VAT balance. The projects were financially closed in January 2021.

**Inadequate direct cost recovery process**

The ‘UNDP Programme and Operations Policies and Procedures’ state that direct project costs are levied for costs incurred in the implementation of a development activity or service. A workload survey should be used to provide a reasonable estimate of the time spent by UNDP personnel when providing direct support to projects, to determine the level of cost recovery. The workload analysis should be updated to reflect changes in the programme portfolio.

The following issues were identified:

- The Office had not updated the workload analysis since 2018.
- The Office recovered $1.7 million of direct project costs in 2020 but one project with a combined budget of $1.6 million had not been charged direct project costs. The Office explained that the direct project costs were not included in the project budget because the donor had rejected these costs during project design.

Ineffective cost recovery of GLOC, VAT and direct project costs will affect the Office’s sustainability and may have an impact on the achievement of programme results.

<table>
<thead>
<tr>
<th>Priority</th>
<th>Medium (Important)</th>
</tr>
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**Recommendation 6:**

The Office should improve cost recovery by:

(a) collecting GLOC arrears;
(b) engaging with the Government to refund VAT and to only charge VAT as a project costs, once acceptance is received from the donor; and
(c) updating the workload survey to determine the allocation direct project costs and recovering project costs in accordance with the policy.
Management action plan:

(a) The Office has already informed the relevant government ministry about GLOC arrears for years 2019–2020 and the expected GLOC target for 2021. Additional communication on outstanding GLOC amounts as well as 2021 GLOC target changes will be communicated to the Government during the third quarter of 2021.
(b) The Office will extend (where possible) the use of zero VAT contracts with suppliers and service providers based on project registration cards and donor VAT exemption status, granted by the Government. The Office will also coordinate and discuss the issue during the UN Operations Management Team meetings.
(c) The Office will recover direct project cost due from all eligible and agreed with donors projects until the year-end or their official expiry date whichever is earlier.

Estimated completion date: December 2021

2. Payments

Issue 6 Ineffective monitoring procedures for services and goods paid by the Office

The ‘Operational Guide to the Internal Control Framework’ for UNDP requires that before creating a payment voucher, the office must ensure that evidence of goods/services received is attached. The ‘UNDP Programme and Operation Policies and Procedures’ require that prepayments be recorded in the asset account 16065 (Prepaid Voucher Modality).

The audit team sampled 32 payment vouchers with a value of $30.8 million, representing 20 percent of the total amount of vouchers processed during the audit period. The following exceptions were identified for three of the vouchers reviewed:

- The signed transfer form supporting the payment of boilers amounting to $124,051 and paid in January 2020 incorrectly stated that the boilers were installed.
- Payment to a chemical engineering service company amounting to $147,840 was made prior to ensuring confirmation of receipt.
- A $113,172 prepayment for the purchase of three mobile centres (truck-based) was expensed directly instead of being recorded under prepayment (account 16065).

The above deficiencies occurred due to ineffective monitoring procedures, which creates reputational risks and increases the risk of financial loss.

<table>
<thead>
<tr>
<th>Priority</th>
<th>Medium (Important)</th>
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<td>Recommendation 7:</td>
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</table>

The Office should strengthen the recording of payments and receipt of goods by ensuring:

(a) payment vouchers have adequate supporting documents including evidence of receipt; and
(b) prepayments are properly recorded as per policy.
Management action plan:

(a) At the end of 2020 with the support of OAI staff on detailed assignment, the Office extended a list of required supporting documents for payments, to ensure full compliance with ‘UNDP Programme and Operation Policies and Procedures’ and ‘Operational Guide to the Internal Control Framework’ for UNDP. Links to additional documents to increase level of assurance and quality controls before payment processing to vendors was circulated on 2 November 2020 to the Office and project staff. The list has been shared with all personnel again in June.

(b) With the recent finance clustering, effective 17 May 2021, the Office follows the GSSU SOPs and the extended list of the Mandatory Supporting Documents required for payment.

(c) The Office will conduct additional training for project and procurement staff to avoid incorrect use of expense towards the prepayment accounts as well as to ensure timely delivery, receipting and transferring (where applicable) of goods and services received from suppliers.

Estimated completion date: July 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**.