AUDIT

OF

UNDP PROJECT MANAGEMENT OFFICE

IN

CYPRUS

Report No. 2326
Issue Date: 29 September 2021
# Table of Contents

**Executive Summary**  
i

I. About the Office  
1

II. Audit results  
1

A. Development Activities  
3

1. Country Programme  
3

2. Project Administration  
4

Definitions of audit terms - ratings and priorities  
6
The UNDP Office of Audit and Investigations (OAI) conducted an audit of the UNDP Project Management Office in Cyprus1 (the Office) from 27 July to 11 August 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)

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

(a) Development Activities
   i. Was the Office generating sufficient income to ensure financial sustainability?
   ii. Was the Office on track in achieving its planned outputs?
   iii. Did the Office set up a suitable mechanism to ensure the effective transition to a Country Office structure?

The audit covered the activities of the Office from 1 January 2020 to 31 May 2021. The Office recorded programme and management expenses of approximately $16.2 million. The last audit of the Office was conducted by OAI in 2017.

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) Safe contents and petty cash were not verified.
(e) 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.”

Key recommendations: Total = 2 high priority = 0

The audit did not result in any high (critical) priority recommendations. There are two medium (important) priority recommendations, which means “Action is required to ensure that UNDP is not exposed to risks. Failure to take action could result in negative consequences for UNDP.” These recommendations include...
actions to address lack of a resource mobilization strategy and reliance on one donor and low project implementation and delivery.

The two recommendations aim to ensure the following: (a) effectiveness and efficiency of operations (Recommendations 1 and 2).

**Implementation status of previous OAI audit recommendations:** Report No. 1879, 28 September 2017.
- Total recommendations: 3
- Implemented: 3

**Management comments and action plan**

The Head of Office accepted the two 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 Osttveiten  
2021.09.29  
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Helge S. Osttveiten  
Director  
Office of Audit and Investigations
I. About the Office

The Office, located in Nicosia, Cyprus (the Country). The Country is divided by a zone under the control of the United Nations Peacekeeping Force (UNFICYP), separating the Turkish Cypriot community in the north, from the Greek Cypriot community in the south. UNDP Cyprus (the Office) works under the overall umbrella of the UN operations and is organized as a Project Management Office. The Office implements projects to support the reconciliation process and is mainly funded by the European Union. The Office focuses on confidence building measures, dialogue and cooperation, and development of environmental, economic, and social infrastructure of the island.

During the period from 1 January 2020 to 31 May 2021, the Project Management Office spent $15.9 million on development activities an increase by 47 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-Dec. 2020 $million</th>
<th>Expenditure Jan-May. 2021 $million</th>
</tr>
</thead>
<tbody>
<tr>
<td>LIF (Local Infrastructure Facility)</td>
<td>5.0</td>
<td>0.5</td>
</tr>
<tr>
<td>CMP 11 (Committee on Missing persons)</td>
<td>2.3</td>
<td>0.1</td>
</tr>
<tr>
<td>CH 6</td>
<td>1.5</td>
<td>0.1</td>
</tr>
<tr>
<td>CH7</td>
<td>1.1</td>
<td>1.2</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td><strong>9.9</strong></td>
<td><strong>1.9</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>European Union</td>
<td>18.9</td>
</tr>
<tr>
<td>Government of Cyprus</td>
<td>1.0</td>
</tr>
<tr>
<td>Church of Cyprus</td>
<td>0.7</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td><strong>20.6</strong></td>
</tr>
</tbody>
</table>

Other critical information

Following the outbreak of COVID-19 on the island in March 2020, the crossing points between the north and the south were closed for 15 months from March 2020 to June 2021. The closure of crossing points prevented access to one of the Office’s premises as well as to project sites.

II. Audit results

Satisfactory performance was noted in the following areas:

(a) Governance: Controls and procedures for governance activities including corporate planning, risk registers, staff organization, Internal Control Framework and delegation of authority and business continuity were found to be adequate.

(b) Operations/Procurement: Internal control procedures were found to be adequate within the procurement of goods and services.
(c) **Operations/Human resources**: A review of the human resources functions including recruitment, terminations, mandatory trainings, performance appraisals and performance trainings indicated that adequate controls were in place.

(d) **Operations/Information and communications technology (ICT)**: ICT systems managed by the Office were found to be operating effectively.

(e) **Operations/General administration**: Controls over asset management, travel and cost recovery were functioning adequately.

The assessment of performance audit questions were as follows:

Development Activities:

i. Was the Office generating sufficient income to ensure financial sustainability?

   The Office faced financial sustainability risks by being dependent on one donor, and not meeting its resource mobilization targets and delivery targets during the audit period (Refer to issue 1 and 2).

ii. Was the Office on track in achieving the planned outputs?

   The Office did not achieve one of the three planned outputs due to the low delivery of the largest project within this output. The delivery rate was 38 percent when comparing project expenditure since inception against the expected delivery for the period (refer to issue 2).

iii. Did the Office set up a suitable mechanism to ensure the effective transition to a Country Office structure?

   In October 2020, the Regional Bureau for Europe and the Commonwealth of Independent States issued a management review report with nine recommendations, including a need for a comprehensive programme document (the Country Programme Document equivalent) to facilitate the transition of the Office to a Country Office structure. As of August 2021, the Office had completed 20 of the 32 tasks outlined in the response action plan, and the remaining actions, including the preparation of the programme document, were in progress, to be completed as planned (refer to issue 1).

OAI made two 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**, arranged according to significance:

(a) Strengthen resource mobilization (Recommendation 1).
(b) Improve project implementation and delivery (Recommendation 2).

The detailed assessment is presented below, per audit area:
A. Development Activities

1. Country Programme

Issue 1  Weaknesses in resource mobilization and reliance on one donor

The 'UNDP Programme and Operations Policy Procedures’ require Country Offices to establish partnership and resource mobilization actions plans, incorporating the resourcing requirements and an analysis of existing and potential donors. Offices should develop programme documents consistent with the Strategic Plan and articulate its contribution to the Sustainable Development Goals.

a) A comprehensive programme document not finalized

The Regional Bureau for Europe and the Commonwealth of Independent States carried out the management review of the Office in October 2020 and recommended the transition to a Country Office structure to ensure improved accountability and oversight. To facilitate the transition, the bureau issued nine recommendations that resulted in a 32-action response plan, of which 20 actions were completed and 12 were in progress as at the time of audit. The actions included the preparation of a programme document, which had not been finalized. Since the implementation of the action plan including preparation of the programme document was on track, a corresponding recommendation has not been made.

b) Resource mobilization and partnership strategy not developed

The Office had not developed a resource mobilization and partnership strategy. Management explained that the Office was in the process of hiring a consultant to support the preparation of the required document.

The lack of a resource mobilization strategy could impact the Office's ability to mobilize resources. The Office did not achieve its annual resource targets in 2019 (51 percent) and 2020 (36 percent).

c) High dependency on one donor

The Office was dependent on one donor. For example, of the 12 ongoing projects, 70 percent ($33 million of $47 million) were funded by the European Commission. In addition, $12 million out of the $13.5 million of the Office's funding pipeline was from the European Commission. The Office's pipeline focused mainly on the funding of existing projects.

A lack of a resource mobilization strategy and dependency on one donor puts the Office's financial sustainability at risk.

<table>
<thead>
<tr>
<th>Priority</th>
<th>Medium (Important)</th>
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<tbody>
<tr>
<td>Recommendation 1:</td>
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<tr>
<td>The Office should strengthen resource mobilization by:</td>
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<tr>
<td>(a) developing and operationalizing its resource mobilization and partnership strategy and taking action to reduce the resource mobilization gaps; and</td>
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<tr>
<td>(b) Exploring new opportunities to diversify resources and enhance the project pipeline.</td>
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</tbody>
</table>
Management action plan:

(a) The resource mobilization and partnership strategy development is planned to be completed by March of 2022 and will be put in operations immediately.

(b) This action is linked to the above resource mobilization and partnership strategy to be developed, which will contain diversification of resources as well. Furthermore, the Office’s management will be meeting with potential partners in the Country presenting UNDP’s portfolio aiming at diversification of the donor base as well as new programme areas. New financial contributions and technical advisory offerings of donors will be sought to strengthen the programme.

Estimated completion date: March 2022

2. Project Administration

Issue 2      Low project implementation and delivery

As per the ‘UNDP Programme and Operations Policies and Procedures’, Country Offices are expected to deliver planned results and monitor project implementation. A development project is a time-bound instrument that delivers outputs that contribute to outcome-level development change, along with the results delivered by other projects.

a) Low project delivery

Seven projects were sampled with expenditures totalling $11 million (70 percent of total delivery during the audit period). The projects experienced low delivery ranging from 17 percent to 66 percent when comparing expenditure since inception against expected delivery for the period.

The factors contributing to the low delivery were as follows:

- 15 months of closure of crossing points between the north and south of the island due to the COVID-19 pandemic.
- Political environment challenges resulted in protracted decision-making for projects.
- Ambitious project planning and weaknesses in project design.

The Office had not achieved its General Management Support income targets due to low delivery. The funding shortfall was 52 percent ($0.4 million) in 2019, 27 percent ($0.3 million) in 2020, and 86 percent ($1.1 million) as of July 2021.

In addition, the Office did not achieve one of the three planned outputs (1.3, environmental, social and economic infrastructure improved in the Turkish Cypriot community) due to the low delivery rate of the largest project within this output. The delivery rate was 38 percent when comparing project expenditure since inception against the expected delivery for the period.
b) Outstanding contractor claims

Contractors’ claims totalling $0.7 million with two projects remained unresolved.

The claims were as follows:

- $0.3 million (September 2018) arising from disagreed items. The UNDP Office of Legal Services supported the view of the Office that the claim was not substantiated. The Office was in discussions with the contractor to relinquish the claim.
- $0.4 million (March 2020) arising due to a combination of force majeure (from the pandemic) and contract site inaccessibility due to military exercises. These factors contributed to the contract cancellation. The Office was in negotiations with the contractor to agree to a settlement.

The outstanding claims delayed the implementation of project activities.

<table>
<thead>
<tr>
<th>Priority</th>
<th>Medium (Important)</th>
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**Recommendation 2:**

The Office should improve project implementation and delivery by:

(a) developing an action plan for implementation challenges, including ambitious project planning and weaknesses within project design; and

(b) continuing monitoring the outstanding contractor claims in consultation with the Office of Legal Services and the Procurement Office to resolve the claims.

**Management action plan:**

(a) A project monitoring mechanism will be prepared, and a response plan will be developed for implementation challenges by 31 December 2021. The project monitoring tool will ensure close tracking of projects. Annual work plans will be reviewed to prevent ambitious project planning and include measures to overcome project design shortcomings as well as alternative delivery scenario planning.

(b) This mechanism for resolution of claims will be further improved by establishing a claims/disputes committee/team with a protocol to ensure continuation of close monitoring and timely resolution of outstanding disputes/claims.

**Estimated completion date:** December 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.