



**AUDIT**

**OF**

**UNDP COUNTRY OFFICE**

**IN**

**INDONESIA**

**Report No. 2442**  
**Issue Date: 11 April 2022**



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## Report on the Audit of UNDP Indonesia Executive Summary

The UNDP Office of Audit and Investigations (OAI) conducted an audit of UNDP Indonesia (the Office) from 7 to 25 February 2022. 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)

In addition, OAI assessed the performance of the Office in the following areas: procurement, finance and administrative services

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 three performance audit questions to guide the review of the following areas:

- (a) Procurement
  - Is the Office effective in meeting the quality requirements for the procurement case submissions defined by the Regional Bureau?
- (b) Finance
  - Were payments to vendors processed in a timely fashion?
- (c) Administrative Services
  - Were airline tickets economical and in line with the long-term agreement signed with the travel services provider?

The audit covered the activities of the Office from 1 January to 31 December 2021. The Office recorded programme and management expenses of approximately \$41 million. OAI conducted the last audit of the Office 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 **satisfactory/some improvement needed**, which means “the assessed governance arrangements, risk management practices, and controls were generally established and functioning but needed 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 weaknesses in overall staffing, and project administration.

No reportable issues were noted within the performance areas reviewed.

**Key recommendations:** Total = **3**, high priority = **0**

The audit did not result in any high (critical) priority recommendations. There are three 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 the following: the Office’s staffing not being in line with programme portfolio growth; inadequate oversight by programme units over projects; and inadequate project risk management.

The three recommendations aim to ensure the following:

Objectives	Recommendation No.	Priority Rating
Achievement of the organization’s strategic objectives	1, 3	Medium
Compliance with legislative mandates, regulations and rules, policies and procedures	2	Medium

#### Management comments and action plan

The Resident Representative accepted all three 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 is located in Jakarta, Indonesia (the Country). The Country Programme covered the period from 2021 to 2025, with the following development priorities:

- a) inclusive human development;
- b) economic transformation;
- c) resilience to climate change and disasters; and
- d) innovations for accelerating the achievement of Sustainable Development Goals.

From January to December 2021, the Office spent \$38.1 million on development activities, an increase of 1 percent compared to the previous period.

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

Title	Expenditure Jan to Dec 2021 \$million
Programme for Earthquake and Tsunami Infrastructure Reconstruction Assistance (PETRA)	11.1
Response Toward COVID-19 Resilience (RESTORE)	3.7
Health Governance Initiative (HEART)	2.5
Bio Diversity Conservation – SUMATRA (TIGER)	1.8
Forest Area Planning and Management – Kalimantan (KALFOR)	1.8
<b>Total</b>	<b>20.9</b>

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
Green Climate Fund	103
Republic of Korea	13.4
Global Environment Facility	12.2
Japan	3.7
Multi Partner Trust Funds	1.6
<b>Total</b>	<b>133.9</b>

## II. Audit results

Effective controls were established and functioning in the following areas:

- (a) Operations – Finance. A review of receivables and payments, including samples of payment vouchers, indicated that adequate controls were in place.
- (b) Operations – Human Resources. A review of recruitments and separations of personnel showed that adequate controls were established and working effectively.

- (c) Operations – Administrative Services. A review of administrative services, including asset management and travel management, disclosed that adequate controls were in place. No reportable audit issues were observed.
- (d) Operations – Information and Communication Technology. The Office’s business continuity and disaster recovery plan had been tested and implemented satisfactorily during the audit period. No reportable audit issues were noted.

OAI made 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.

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

- (a) Ensure that programme units strengthen oversight of projects (Recommendation 2).
- (b) Assess the adequacy of the Office’s structure (Recommendation 1).
- (c) Strengthen project risk management (Recommendation 3).

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

- (a) Procurement

Is the Office effective in meeting the quality requirements for the procurement case submissions defined by the Regional Bureau?

The audit team assessed whether procurement cases that were submitted to the Advisory Committee on Procurement (ACP) and Regional Advisory Committee on Procurement (RACP) met the Regional Bureau for Asia and the Pacific’s quality standard of “good”.

Out of 24 procurement cases submitted to the ACP or RACP for review during the audit period, 16 cases were rated as “Good”, 7 cases rated as “Fair” and 1 case did not have any rating as it was cancelled, no “Excellent” or “Needs improvements” ratings were noted.

70 percent of the procurement cases received an overall rating of ‘good’. The audit noted that the Office met the quality requirements for the procurement case submissions to ACP or RACP which resulted in the Regional Bureau ranking the Office 9<sup>th</sup> out of the 19 Country Offices in the region on procurement performance. Further review of procurement samples during fieldwork revealed no reportable issues.

- (b) Finance

Were payments to vendors processed in a timely fashion?

The audit team assessed whether payments were completed and whether vouchers were approved within 30 days of the invoice receipt date. There were 6,092 payment vouchers issued during the audit period with a value of \$29.5 million. There were 308 instances, or 5 percent of the total vouchers, amounting to \$307,313, or 1 percent of the total payments, where payments were made between 31 to 370 days after the invoice date. The Office attributed the delays to the disruption in the supply chain due to the COVID-19 pandemic.

On account of the low materiality of the delayed cases, one percent of the total payments, and the exceptional circumstances experienced due to COVID-19 pandemic, the audit team concluded that payments were processed in a timely fashion.

(c) Administrative Services

Were airline tickets economical and in line with the long-term agreement signed with the travel services provider?

There were 85 trips made during the audit period totalling \$336,830. The bookings were made, on average, six days prior to the travel date (due to late travel requests from the government counterpart), which were received, on average, seven to eight days before travel. The audit team sampled 11 trips; these were authorized in line with the appropriate ticket class for air travel, and the trip itinerary was the most direct and economical route available.

The audit concludes that the ticket prices were purchased at an economical rate using a long-term agreement signed with travel service providers.

The detailed assessment is presented below, per audit area:

#### A. Governance / Organizational Chart & Overall Staffing

##### **Issue 1**      Office staffing not in line with growth of programme portfolio

The Office's staffing structure should be in line with the programme delivery growth which would be able to provide the desired internal control effectiveness.

In 2018 the Office's programme delivery was \$28.4 million; this increased from \$30.2 million in 2019 and \$38.1 million in 2021. The programme budget was \$60 million in 2022. This significant increase in programme delivery was partly due to the \$103 million contribution agreement signed with Green Climate Fund in 2020.

The audit team noted that the number of fixed-term staff in 2018 was 40 and declined slightly in 2021 to 38. The Office addressed the growth in programme delivery by hiring additional service contract holders, personnel with (National) Personnel Service Agreements, and UN Volunteers. These personnel contracts went up from 171 in 2018 to 266 in 2021.

The Office has taken actions to align the staffing structure to support increasing programme delivery, but without considering the need to adjust the fixed-term staffing. Some of these actions included the creation of an Operations Manager function and an Economist position in 2020, as well as staffing for the Resilience and Reconstruction Unit and Innovative Financing Labs. The Office, however, did not perform a detailed assessment of the fixed-term staffing requirements to ensure an adequate system of internal control was in place to support the growth in delivery.

The Office faces the risk of not being able to operate effectively if its staffing capacity is not aligned with the increase in the programme portfolio.

<b>Priority</b>	Medium (Important)
<b>Recommendation 1:</b>	
The Office should assess the adequacy of the Office’s structure and staffing by:	
<ul style="list-style-type: none"> <li>(a) performing a detailed assessment on the roles and responsibilities of personnel, including a workload assessment, and compare them against the required capacity to fulfill the Office’s programmatic and operational needs; and</li> <li>(b) requesting guidance from the Regional Bureau for Asia and the Pacific in determining the appropriate staffing capacity, taking into consideration the financial requirements.</li> </ul>	
<b>Management action plan:</b>	
The Office will consult with the Regional Bureau for Asia and the Pacific to review and calibrate its structure.	
<b>Estimated completion date:</b> October 2022	

## B. Development Activities / Project Administration

### Issue 2 Inadequate oversight by programme units over projects

According to the ‘UNDP Programme and Operations Policies and Procedures,’ monitoring is a continuous function, and regular monitoring must be planned to effectively assess project progress. Project Managers should maintain up-to-date records of systematic monitoring of projects.

Based on a review of 12 development projects managed by the Office, the audit team noted the following:

#### (i) Inadequate project monitoring by programme staff

The Back-to-Office reports (BTOR) prepared by project staff reflected project activities carried out in the projects, such as conducting a training programme or workshop. However, for all projects sampled, there was inadequate reporting of project monitoring visits by programme staff.

The COVID-19 Pandemic led to travel restrictions that impacted on local monitoring activities. In response, the Office conducted alternative methods of monitoring, such as holding Zoom meetings with project personnel and reviewing project assurance reports. However, the audit team observed that these Zoom meetings were largely coordination meetings and did not extend to the monitoring of project progress against defined outputs or provide assurance that outputs have been achieved.

#### (ii) Inadequate project monitoring plans

The ‘UNDP Programme and Operations Policies and Procedures’ state that monitoring improves development effectiveness and efficiency by reviewing performance and using evidence to adjust programming for optimal results. Monitoring starts during the planning phase with the identification of the programme or projects’ expected achievements.

Based on the review of 12 sampled projects, the audit team observed that the project monitoring plans uploaded in the Atlas (enterprise resource planning system of UNDP) project management module were



incomplete. Only one project – HEART (Health Governance Initiative – Project No. 106768) had a comprehensive project monitoring and evaluation plan. However, for this project, the Office was unable to provide support to confirm the actions documented in the Monitoring and Evaluation Plan had been implemented.

The project monitoring plans for the sampled projects excluded the following information:

- the procedures relating to conducting monitoring activities and the appropriate tools to be used for this purpose,
- the data to be collected, by whom and its frequency, and
- how the data would be used to assess the achievement project indicator targets.

The Office faces the risk of not achieving project results if it fails to undertake adequate project oversight and monitoring.

<b>Priority</b>	Medium (Important)
<b>Recommendation 2:</b>	
The Office should ensure programme units strengthen their oversight over projects by:	
(a) strengthening remote monitoring activities, by adhering to the monitoring and evaluation framework and project monitoring plans; and	
(b) establishing a comprehensive project monitoring plan to guide project monitoring activities.	
<b>Management action plan:</b>	
The Office is finalizing project monitoring plans for all ongoing development projects, and assurance activities will be conducted in line with UNDP policies.	
<b>Estimated completion date:</b> May 2022	

**Issue 3**      Inadequate project risk management

The ‘UNDP Programme and Operations Policies and Procedures’ state that the purpose of risk management is to support risk-informed decision-making across the organization, thereby maximizing gains while avoiding unnecessary losses. This involves risk identification, assessment, and evaluation while outlining appropriate mitigating actions.

The audit team noted that all 12 sampled projects had established a risk log in Atlas. However, the risk logs were not regularly updated, and risks recorded in the registers were poorly articulated. The risk registers reviewed did not capture key risks faced by projects or include the appropriate mitigating actions to manage them.

For example, the PETRA project, which experienced delays in the completion of construction-related activities due to concerns regarding the financial viability of the contractor (refer to issue 2), did not include these risks within the project document or incorporate them within the project risk register with mitigating actions. The PETRA project’s third quarter 2021 progress report outlined the delay of project activities but did not articulate any proposed actions.



The weakness in identifying and articulating risks and mitigating actions were mainly due to the lack of knowledge of risk management practices.

Project results may not be achieved if risks are not documented and managed.

<b>Priority</b>	Medium (Important)
<b>Recommendation 3:</b>	
The Office should strengthen project risk management by:	
<ul style="list-style-type: none"> <li>(a) enhancing staff knowledge in risk management practices, which would enable them to refine and update risk logs in the Atlas project management module; and</li> <li>(b) escalating significant risks in a timely manner to relevant authorities within the organization for guidance.</li> </ul>	
<b>Management action plan:</b>	
The Office will refine and update the risk logs in Atlas and develop the risk management plan for the Office.	
<b>Estimated completion date:</b> July 2022	

### C. Operations / Procurement / Goods and Services

#### Issue 4 Inadequate contract management

The 'UNDP Programme and Operations Policies and Procedures states that contract management is the effective and efficient monitoring of contract activities to ensure that goods, services and/or works contracted by UNDP are delivered in a timely manner, at the agreed cost and to the specified requirements.

There was inadequate contract management in a project (Project No. 116311) with a budget of \$5.4 million. The activities included the construction of health and school facilities in Central Sulawesi.

The construction contract was signed on 3 March 2021 with a completion date of 17 December 2021, and the vendor was given a 20 percent advance of the contract value amounting to \$1 million. Subsequently, a first progress payment amounting to \$0.4 million was paid in December 2021. The vendor had repeatedly missed project activity milestones and, in December 2021, had only completed 18 percent of contracted construction activities. The Office had issued three warning letters to the vendor without effect as the vendor continued to deploy less personnel than was stipulated within the contract. In October 2021, it was reported in the media that the vendor, together with several other state-owned enterprises, could be liquidated, given their ongoing concern for financial viability. Subsequently in December 2021, the Office extended the contract to 30 June 2022, with the expectation that remaining activities would be completed by then.

The audit team noted that the Office had not escalated this matter to the Regional Bureau or to the Office of Legal Services for guidance when various milestones were not achieved in a timely manner. Despite these concerns, the Office rated the vendor's performance as satisfactory in December 2021. In February



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2022, the Office contacted the Regional Procurement Advisor for advice. Following this consultation with the Regional Bureau, the Office agreed with the vendor to terminate the contract on 18 March 2022.

Inadequate contract management may result in the risk that the Office will not be able to achieve project objectives.

**Comment**

As the Office has already taken action to terminate the contract with the vendor, OAI is not making a recommendation.

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## 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.