



AUDIT

OF

UNDP COUNTRY OFFICE

IN

LIBYA

Report No. 2453
Issue Date: 21 March 2023

Table of Contents

Executive Summary	i
I. About the Office	1
II. Audit results	2
A. Development Activities	3
1. Country Programme	3
2. Project Administration	5
B. Operations	7
1. Procurement/Goods & Services	7
2. Finance/Payments	14
Definitions of audit terms - ratings and priorities	17

Report on the Audit of UNDP Libya Executive Summary

The UNDP Office of Audit and Investigations (OAI) conducted an audit of UNDP Libya (the Office) from 1 to 16 November 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 and sub areas: development activities and procurement. 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.

- (a) Development activities:

Were the project results accomplished within the approved timeline and budget?

- (b) Procurement:

Were the procurement processes effectively and efficiently managed to support programme objectives?

- (i) Were effective strategies developed to ensure procurement efficiencies?
- (ii) Was the procurement process from solicitation to contract award conducted effectively and efficiently?
- (iii) Did the contract management process ensure effective and efficient delivery of goods/services/works?

The audit covered the activities of the Office from 1 January 2021 to 31 July 2022. The Office recorded programme and management expenses of approximately \$63.2 million. The last audit of the Office was conducted by OAI in September 2019.

The audit was conducted in conformance with the *International Standards for the Professional Practice of Internal Auditing* of The Institute of Internal Auditors (The IIA).

Overall audit rating

OAI issued an audit rating for the Office of **partially satisfactory/major improvement needed**, which means, “The assessed governance arrangements, risk management practices and controls were established and functioning, but need major improvement. Issues identified by the audit could significantly affect the achievement of the objectives of the audited entity/area.” This rating was mainly due to: (i) inadequate processes for evaluation of selected offers and pre-award negotiations; and (ii) inadequate contract administration and management processes.

Conclusions on the performance audit areas reviewed:

- (i) The audit disclosed that planned project results were not achieved, and projects were not implemented within the approved timelines and budget.

- (ii) Procurement processes were not effectively and efficiently managed to support programme objectives as: (a) strategies were not adequately developed to ensure procurement efficiencies; (b) procurement processes from solicitation to contract award were not adequately conducted; and (c) contract management processes did not adequately ensure effective and efficient delivery of goods/services/works. These findings have been incorporated in the overall auditing rating.

Key recommendations Total = 7, high priority = 2

Objectives	Recommendation No.	Priority Rating
Achievement of the organization's strategic objectives	1, 2	Medium
Effectiveness and efficiency of operations	5	High
	3, 6, 7	Medium
Compliance with legislative mandates, regulations and rules, policies and procedures	4	High

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 processes for evaluation of selected offers and pre-award negotiations (Issue 4)

Due diligence checks conducted by the Office were inadequate. Independent verifications of legal mandates and reference checks were not adequately conducted. Further, the Office signed, on 1 March 2022, an all-inclusive 7-year lease for the UN Common Compound (UNCC) that included office space and accommodations, for \$68 million. The Office was sub-leasing the premises from a vendor who entered into a lease contract with a joint-stock company that did not have a clear delegation of authority from the owner (government entity) of the premises.

Recommendations 4: The Office should (a) strengthen compliance with corporate guidelines on due diligence and reference checks for all qualified vendors, including independent verification of the selected company's legal mandate and the financial strength when required; (b) request the owner's delegation of authority to the joint stock company for leasing the property and further sub-leasing it; and (c) request the UNCC lessor to make the adjustments to the bills and reimburse the payments made in excess for the undelivered amenities that were part of the square footage costing in the original contract and adjust subsequent bills to only pay for delivered amenities.

Inadequate contract administration and management processes (Issue 5)

The Office piggybacked on an agency Long Term Agreement for the provision of security guards and noted that contract monitoring was inadequate. The Office also requested an agency to procure goods on its behalf for \$1.28 million in October 2021. However, this transaction exceeded the procurement authority delegated to the Office.

Recommendation 5: The Office should improve the contract administration and management processes through: (a) timely monitoring and ensuring appropriate contract award and follow-up on post-award actions and requirements; and (b) using the appropriate template for security services and following up on implementation of the contractual terms per UNDP policy.

Implementation status of previous OAI audit recommendations: Report No. 2060, 29 November 2019.

Total recommendations: 7

Implemented: 7

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.

A handwritten signature in black ink, reading 'Moncef Ghrib', is centered within a rectangular box.

Moncef Ghrib
Officer-in-Charge
Office of Audit and Investigations

I. About the Office

The Office, located in Tripoli, Libya (the Country) and its Country Programme covered an initial period of two years (2019–2020), and was extended twice up to 2022, to align it with the United Nations Sustainable Development Cooperation Framework period. The Country Programme had the following development priorities:

- a) effective, inclusive and accountable governance institutions; and
- b) inclusive access to public services and economic opportunities

Due to security concerns, the Office had been operating in Tunisia with a limited presence in Tripoli during most of the audit period. However, once the United Nations Common Compound (UNCC), located in Tripoli, began operations in June 2022, the international staff, including programme staff, moved back to the Country.

From 28 June to 31 August 2021, a mission from the Regional Bureau for Arab States temporarily took over the management of the Office due to the absence of a senior management team. The current Resident Representative and Deputy Resident Representative - Programme were appointed effective September 2021.

During the period from January 2021 to July 2022, the Office spent \$59.3 million on development activities, a decrease of 7.6 percent compared to the previous period.

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

Title	Expenditure Jan – Dec 2021 \$million	Expenditure Jan – Jul 2022 \$million
Promoting Election for the People of Libya	8.0	1.6
Resilience and Recovery	8.0	1.8
Immediate Stabilization Facility for Libya	7.9	1.7
Stability, Unity, Social Cohesion Project	3.3	0.5
Support to SDGs Implementation in Libya	2.1	0.2
Total	29.3	5.8

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
European Union	30.2
Germany	6.3
Japan	4.7
Italy	2.3
Multi-Partner Trust Funds	1.3
Total	44.8

II. Audit results

The audit team reviewed the Office's organizational structure and staffing, implementation of the Global Staff Survey action plan, financial sustainability, delegation of authority requirements and business continuity plan and noted that there were no reportable audit observations in these sub-areas. The audit disclosed that project results were not achieved, and projects were not implemented within the approved timelines and budget. Three of the five reviewed projects with total expenditure of \$16.1 million (45 percent of \$35.5 million, the total expenditure of the five sampled projects) had the following deficiencies: inadequate project design and monitoring, underachievement of agreed outputs, and low programme delivery, which resulted in project timeline extensions (refer to Issue 2).

The Office did not develop adequate procurement strategies. The following issues were noted:

- The Office had not established an adequate mechanism to implement and monitor the procurement plans and could thus not efficiently provide the goods and services needed for timely project implementation. In 2022, 36 percent of the planned procurements totalling \$7.7 million were undertaken during the last two months of the year. This boosted the reported project delivery; however, it caused delays in project implementation and didn't translate into actual realization of the related project activity targets for the reporting period. Appropriate strategies were not developed to enhance synergies across projects and consolidate requirements for efficiency and improved competition.
- The pressure to identify suitable office and accommodation/premises resulted in the Office not obtaining a detailed breakdown of cost elements when negotiating the lease agreement. The all-inclusive 7-year lease amounting to \$68 million did not provide a breakdown of individual facility and maintenance costs and instead lumped all costs into cost per square meter for the accommodation and offices totalling \$800,687 per month. By November 2022, nine months after the start of the contract, the vendor had not handed over all facilities as agreed in the contract; monthly payments included recreational and commercial facilities that had not been handed over (refer to Issue 3).

Contracts were not adequately managed. The audit disclosed the following:

- Contract delivery was delayed by up to 11 months from the required date due to inadequate follow-up on deliveries and customs clearance. This impacted project delivery and closure.
- Independent verification of legal mandates and reference checks of vendors were not adequately conducted.

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

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

High priority recommendations, arranged according to significance:

- (a) Strengthen compliance with corporate guidelines on due diligence, request the owner's delegation of authority for leasing property, and request UNCC lessor to make adjustments to bills (Recommendation 4).
- (b) Improve contract administration and management processes (Recommendation 5).

Medium priority recommendations, arranged according to significance:

- (a) Strengthen project administration (Recommendation 2).
- (b) Improve procurement processes (Recommendation 3).
- (c) Improve revenue collection (Recommendation 6).
- (d) Improve the timeliness of payment processing (Recommendation 7).
- (e) Strengthen programme and evaluation monitoring (Recommendation 1).

The detailed assessment is presented below, per audit area:

A. Development Activities

1. Country Programme

Issue 1 Inadequate country programming and absence of independent programme evaluation

The 2019–2022 Country Programme Document (CPD) and evaluation plan had monitoring gaps, as detailed below.

(a) Programming shortcomings

The Country Programme is required to have clear and specific, measurable, achievable, relevant, and time-bound (SMART) outcome indicators with baselines, targets and sources of information, so as to allow for measuring progress and achievements towards programme objectives. The results and resources framework defines the key results, indicators and targets that UNDP will be accountable for over the period of the programme cycle. Relevant programme outcome indicators are adopted from the United Nations Sustainable Development Cooperation Framework, henceforth referred to as the Cooperation Framework.

The UNDP Programme and Operations Policies and Procedures state that UNDP programming encompasses the planning, implementation, reporting, and evaluation of development outcomes achieved.

A review of the Office's Country Programme revealed the following shortcomings:

- In 2018, the CPD covering a two-year period (2019–2020) was approved. However, its results and resources framework had no information on outcome indicators, baselines, and targets as they were being developed in the Cooperation Framework when the CPD was approved. Although the Cooperation Framework was finalized in 2019, the outcome indicators were not set in the results and resources framework, and therefore, it was unclear which outcome indicators were contributing to the Cooperation Framework.
- The CPD was extended twice up to 2022, to align it to the Cooperation Framework period. However, the Office did not revise the CPD results and resources framework with the new targets of expected results. As a result, the targets for 2021 and 2022 were arbitrarily set in the reporting system. The Office explained that the results and resources framework could not be revised due to: (a) the volatile security situation in the Country that caused the Office to operate from Tunis until late 2021; (b) the absence of a national development plan and fragmented executive authority in the Country; and (c) a lack of data to report at the outcome level.
- Lastly, 3 of the 22 CPD output indicators were reported as not applicable in the Results Oriented Annual Report because no data was collected. The Office explained that it was operating in an

uncertain political and security situation with a focus on a limited number of areas, which had to be continuously adapted and revised to respond to the emerging situation.

The audit team acknowledged the Office's explanations, such as the reason for not revising the CPD, but also noted that the changes, rationale, and revisions were not properly and formally documented and evidenced.

The Office had taken corrective actions in the new CPD for 2023–2025, which was approved in September 2022. The 2023–2025 CPD included a robust results and resources framework that was fully aligned with the Cooperation Framework for 2023–2025. The Office updated the results and resources framework, including outcome and output indicators, baselines, and milestones in Quantum+ (the new UNDP enterprise resource planning system, which replaced Atlas in January 2023).

The audit team concluded that the 2023–2025 CPD addressed the shortfall in the results and resources framework of the previous programme cycle, but the effectiveness of the Office in timely revising and documenting substantive changes to the programme would only be assessed during its implementation.

(b) No mid-term or final programme evaluation

UNDP evaluation guidelines state that the Independent Evaluation Office (IEO) undertakes Independent Country Programme Evaluations (ICPEs) to inform the decision-making process with credible recommendations, support learning, and ensure accountability across the organization. The guidelines also state that Decentralized Country Programme Evaluations (D-CPEs), undertaken by external evaluation consultants, assess UNDP's attainment of intended results and contributions to development results at the country level.

The Office did not conduct a midterm or final ICPE of its 2019–2022 CPD. The Independent Evaluation Office cancelled the Office's 2020 evaluation, along with other countries, due to the impact of the COVID-19 pandemic. However, in December 2020, the Independent Evaluation Office offered all Country Offices whose ICPEs were cancelled the opportunity to conduct a D-CPE with technical and financial support from them. The Office decided not to conduct the D-CPE.

The Office explained that the Resident Coordinator and the Office's management at that time, in consultation with the Regional Bureau for Arab States, decided to postpone the CPD evaluation due to (a) the presidential elections planned for December 2022, where the Office had a key role; and (b) the abrupt departure of the Office's management team in 2021, which led to a leadership vacuum for most of the year. In consultation with the Regional Bureau, the Office commissioned seven project evaluations to provide the evidence base and lessons for the new Country Programme and projects. In addition, the Office conducted an internal Country Programme summary and a sensemaking exercise. The evaluations informed the new 2023–2025 CPD. The audit team acknowledged the Office's comments but noted that it did not use the opportunity to conduct D-CPE, as mentioned in the previous paragraph.

Following the audit mission, the Office has arranged with the IEO for an ICPE to be undertaken in 2024. It had also updated the programme tree.

Inadequate programme design and lack of programme evaluation and monitoring occurred due to major monitoring oversights and a prolonged security crisis in the Country, which caused the Office to temporarily put on hold the CPD and evaluation plan to respond to a crisis and provide rapid early recovery support to the Country.

Without adequate programme design and evaluation, the Office couldn't effectively demonstrate if UNDP achieved the desired results in the last four years.

Priority	Medium (Important)
Recommendation 1: The Office should strengthen its programming and evaluation monitoring by: <ul style="list-style-type: none"> (a) ensuring that monitoring, which includes collecting appropriate and credible data and reporting on performance to support accountability, is completed as planned and any future changes are reflected in the Quantum+ Programme Tree; and (b) ensuring the ICPE is included in the Office Evaluation Plan and is implemented as planned. 	
Management action plan: All possible corrective actions and measures were taken by the Office before the end of the audit. <ul style="list-style-type: none"> (a) The Office will link all the ongoing and new projects to CPD 2023–2025 in the Quantum Project and Portfolio Management. (b) The new CPD covers the period 2023–2025 and the evaluation is expected to take place in late 2024. The Office will agree on the schedule/timelines of the CPD evaluation with the Independent Evaluation Office and the Regional Bureau. 	
Estimated completion date: June 2023	

2. Project Administration

Issue 2 Ineffective project administration

The UNDP Programme and Operations Policies and Procedures stipulate that baselines, indicators, targets, and the measurement of results must be clearly defined and regularly monitored. In addition, programme and project management quality assurance measures include, at the minimum, the following: tracking of performance through the collection of appropriate and credible data and other evidence; and analysing evidence to inform management.

The Office had 15 ongoing development projects with total expenditure of \$63.6 million during the period covered by the audit. A review of five sample projects with total expenditure of \$35.5 million or 56 percent of total delivery disclosed that three of the five reviewed projects with total expenditure of \$16.1 million (45 percent of total expenditure of sampled projects) had the following deficiencies:

- In three projects, the project results framework was incomplete as it was missing one or more of the following: indicators, baselines, goals, monitoring and evaluation plans, or information on the length of the project. For example, the results framework in one of the project documents did not establish targets for outputs. They indicated “to be determined” at a later stage.
- The project final report revealed that output indicators were only partially achieved in three projects. For example, one project final report revealed that three of the seven output indicators were only

partially achieved (output 1.1 achieved 66 percent, output 1.2 achieved 50 percent, and output 2.1 achieved 64 percent of its expected results).

- In another project, 57 percent (four of the seven total outputs) of the planned output indicators were not fully met but the Atlas workbench closure report revealed that the Office spent \$7 million, or 84 percent, out of the \$8.4 million total budget, indicating ineffective resource utilization.
- Two projects had low project delivery of 38 percent and 12 percent of project life span budget. This was caused by delays in recruiting key personnel who only began working for the project seven months after the planned project start.

The Office explained that the above issues were due to the following: (a) changes in the Office's management leading to delays in the resolution of issues; (b) insufficient capacity for staff to conduct a quality assurance assessment on project design; (c) frequent changes in government counterparts that led to various project revisions; and (d) a prolonged security crisis that meant staff had been based outside the Country until late 2022, with limited opportunities to discuss implementation challenges with government counterparts and conduct field visits to monitor project implementation due to access restrictions. The audit team noted that delays in implementation were also due to protracted procurement processes (see Issue 3 below).

The Office reported that they had engaged a third-party monitoring firm in December 2022 to enhance project monitoring.

Ineffective project administration may impede the Office's ability to achieve its intended results and demonstrate accountability for resources spent. Project delays that result in extensions may render the project ineffective due to unbudgeted additional costs.

Priority	Medium (Important)
Recommendation 2:	
The Office should strengthen project administration by:	
<ul style="list-style-type: none"> (a) ensuring that project documents contain proper and complete results frameworks with SMART indicators and monitoring plans, conducting effective quality assurance reviews of the project design, and organizing an in-country training for project staff; and (b) closely monitoring project implementation with the support of a third-party monitoring firm, and using monitoring data effectively to detect and address implementation challenges to ensure projects meet their planned objectives, and ensuring that project delivery is completed within donor agreed-upon timelines to avoid inefficiencies. 	
Management action plan:	
<ul style="list-style-type: none"> (a) The Office will issue revised SOPs for quality assurance of project documents and proposals. (b) The Office has contracted a third-party monitoring firm in December 2022 and will issue task orders for project monitoring to be carried out during 2023. 	
Estimated completion date: October 2023	

B. Operations

1. Procurement/Goods & Services

Issue 3 Inadequate procurement processes

The UNDP Financial Regulations and Rules require procurements to ensure (a) best value for money; (b) fairness, integrity and transparency; (c) effective international competition; and (d) the best interest of UNDP.

The review of a sample of 20 purchase orders totalling \$9.3 million and overall procurement processes for purchases totalling \$35.5 million disclosed the following areas for improvement:

(a) Inadequate implementation and monitoring of procurement plans

The UNDP Financial Regulations and Rules require that offices ensure adequate planning for developing an overall procurement strategy and procurement methodologies. OAI issued an advisory note to the Regional Bureau for Arab States in October 2021 on regional challenges noted in procurement planning, including the use of the corporate tool, the Procurement Management Platform (PROMPT), to adequately forecast and monitor plans. This audit therefore focused on planning improvements during 2022.

The Office had developed an SOP to guide the procurement planning, which was reflected in the 2022 PROMPT plan, totalling \$21.1 million. However, the implementation status was not monitored in PROMPT as required and actual requests for procurement totalling \$17.6 million were tracked in an Excel sheet, which had the following limitations:

- Timelines set in PROMPT to initiate the procurement of items were not followed. As a result, 31 purchases totalling \$7.7 million (or 36 percent of the total procurement value in 2022) were undertaken during the last two months of the year, creating undue pressure for the procurement, evaluation and review teams/committees during financial year-end closure. Procurement delays were thus unavoidable, impacting project delivery.
- Recurring requirements during the same month/period had not been consolidated for efficiency and improved competition. For instance, eight procurements were undertaken for solar power installations, five purchases for sanitation and construction vehicles, and 16 purchases for civil works rehabilitation.
- The Office's SOP on the procurement cycle expected the procurement process to take between 47 and 87 days, but from the review of the sampled processes, only in one requisition, the requesting unit had planned for a procurement cycle lead-time of 43 days. In 14 other requisitions, the requesting units required the procurements to be completed within 0 to 9 days, without taking into consideration the established procurement cycle timeline.
- Frequent amendments were made to extend the contracts of outsourced personnel, indicating inadequate identification of staffing needs during the planning stage. For instance, two individuals initially hired for 15 and 58 working days were extended to one year. The Office indicated it intended to improve this through its human resources requirements reviews.

Without an adequate mechanism to implement and monitor its procurement plans, the Office could not efficiently identify its requirements and develop appropriate strategies that enhance synergies across projects and consolidate requirements for improved competition.

(b) Long procurement and delivery timelines impacting project delivery

The UNDP Programme and Operations Policies and Procedures provide that the procurement process encompasses planning, requisitions, sourcing of suppliers, solicitation and evaluation of offers, contract review, contract award, and the management of contracts and assets. One of four considerations that guide UNDP's interests is economy and efficiency. The Office's SOP on the procurement cycle set benchmarks to complete the procurement process within 47 to 87 days, from the date of submission of requests to the procurement unit, to the contract award.

From the sample reviewed, in eight processes conducted in 2020 and 2021, it took between 126 and 551 days to finalize them, and in another eight cases conducted in 2022, it took between 90 and 123 days. Delays were noted during the solicitation and evaluation process, and in contract delivery by up to 11 months. Delays were mainly due to the following:

- Late submission of requisitions by the requesting units as well as inadequate technical specifications and requirements in complex procurements, such as civil works, that delayed the finalization of solicitation documents and posting of advertisements. The Office had not engaged experts to assist in the elaboration of technical specifications. The Office indicated that it provided trainings and planned to implement prequalification of vendors for complex/ high-value contracts.
- Re-prioritization of procurement activities due to the security situation in the Country, and insufficient consideration of the impact of COVID-19 on the availability of goods and logistics during the procurement planning. The Office indicated that it recruited two additional procurement staff to address the capacity gaps.
- A three-month senior management vacuum in 2021 that impacted the submission of cases to procurement review committees.
- Extensive review of six procurement cases that took between one to two months to be cleared by the procurement review committees, and further delays in approving purchase orders due to the absence of procurement staff and Office interruptions because of the relocation to Tripoli.

The audit team also noted delays in the delivery of goods and equipment to projects, evidencing inadequate logistics and follow-up. Equipment under five purchase orders could not be delivered as the beneficiary facility was not prepared, necessitating identification of a different location. Two shipments relating to election materials were pending customs clearance from October 2021 to the time of the audit in November 2022, and six vehicles (buses) were cleared after being at customs for five months. Though the cost of demurrage was passed on to the clearing contractor, the delay impacted project activities. The Office explained that despite efforts to minimize delays, some issues persisted due to fragmented national decision-making processes, which required extensive and onerous follow ups with end users for delivery.

Delays in the procurement process impacted project implementation and the confidence of national partners. For example, a process that took 213 days was cancelled at the request of the national partner. Three project activities impacted by the lengthy procurement process were also affected by delays in the delivery of goods. Project 4616 (Stabilization Facility) that ended in August 2022 had outstanding delivery items from three procurement processes. Project 104158 (Resilience) had six ongoing bid offer evaluations that surpassed the process benchmarks, and Project 104158 (Building Peace) had five items to be delivered from two procurement processes due in August 2022.

The above occurred due to the inadequate application of measures to facilitate and expand the competitive vendor pool, thereby not ensuring effective international competition.

Priority	Medium (Important)
Recommendation 3: The Office should improve procurement processes by: <ul style="list-style-type: none"> (a) providing sufficient guidance and expertise for the timely preparation and submission of technical requirements and solicitation documents to the procurement unit, which should include clear delivery timelines that takes into consideration the logistic durations, sufficient information for case submissions to procurement review committees, and the timely approval of purchase orders. (b) appropriately defining the procurement requirements and expected dates in the corporate planning tool, monitoring, analysing and updating the plans to consolidate requirements for added value, and distributing the workload during the year for timely procurement. 	
Management action plan: <ul style="list-style-type: none"> (a) The Office will issue updated SOPs for procurement actions, provide training for programme and project staff on procurement methods and timelines, and track procurement timelines using corporate dashboards on a monthly basis. (b) The Office will finalize project procurement plans and establish a forum to review the implementation of procurement plans on a monthly basis, including the management of the procurement team and relevant programme and project focal points. 	
Estimated completion date: June 2023	

Issue 4 Inadequate processes for evaluation of selected offers and pre-award negotiations

(a) Insufficient due diligence checks

The UNDP Programme and Operations Policies and Procedures require physical validation or verification of the evaluated information/documents. In all cases, the Office shall verify the selected company's legal mandate and financial strength. In contracts of \$200,000 or more, at least three references for past contracts must be obtained and checked. For contracts of \$1 million or more, it is mandatory to obtain third-party reference checks from credit rating and reporting agencies (i.e., Dunn and Bradstreet, Moody's Investor Services) for reports on the company's production facilities, financial and management status.

The due diligence checks conducted by the Office mainly included visiting vendor locations to verify original documents provided in the bid, equipment and management structure. Independent verifications of legal mandates and reference checks were not adequately conducted.

- For one procurement case requiring bidders to have prior experience as primary contractors, the reference checks were directed to a Gmail account instead of the official domain of the company listed on its website. This did not ensure the authenticity of the verification.
- The Office, on behalf of the UNCT, negotiated an all-inclusive 7-year lease contract for the UNCC, including office space and accommodation for the amount of \$68 million. However, the due diligence checks were not sufficient, as follows:

- (i) The Office leased the UNCC premises as the fourth party as follows: The first party, the owner of the premises, was a government entity that was authorized by decree to establish a joint-stock company. The second party, the joint-stock company, entered into a lease contract with a third party (the vendor) for 21.5 years (from October 2021 to April 2043). And the vendor in turn sub-leased the premises to UNDP, the fourth party, based on a permit from the joint-stock company. However, neither the decree nor the commercial registration of the joint-stock company gave it the mandate to manage properties or enter into contracts on behalf of the owner, the government entity. There was, thus, no clear authorization from the owner to the joint-stock company to lease the premises on its behalf.

The Office commented that due to security concerns, the leased premises was the option recommended and approved by the Security Management Team and the Designated Official. The Office added that it carried out due diligence on the vendor within the documentation constraints and post-conflict context of the Country. Furthermore, the required UNDP approvals were obtained before the contract award including endorsements by the Advisory Committee on Procurement (ACP), the UNCT, the UN Department of Safety and Security, and the UNDP Bureau for Management Services' Office of Legal Services, and General Operations.

- (ii) The Office awarded the lease contract for a property that required significant renovations at an unknown cost, without conducting adequate due diligence of the vendor's capability to undertake the work. The Office relied on the UNCC vendor's bank statement indicating the availability of funds of approximately \$150,000, the vendor's confirmation of having cash on hand (without disclosing the amount), and the vendor's ownership of a construction company as evidence of capability to undertake the work. The audit team noted that the bank statement supporting the vendor's capability did not show the name of the bank to enable verification, and the cash at hand was not verified. Lease payments to the vendor were, however, to a verified bank outside the Country. The consequences of the unverified capability included the following:
- Per bid documents, the vendor did not complete the renovation works for 84 accommodation villas, and 182 offices and other recreational and commercial facilities within 45 days to 6 months from the contract signature date of 1 March 2022. By November 2022, the renovation works of 22 out of the 84 villas, 110 out of 182 offices and all recreational and commercial facilities had not been completed and these renovation works were expected to continue in 2023. The Office advised that it was paying for the exact square footage used, and phased delivery helped the Office manage the cost and space allocation in a systematic manner based on gradual occupancy by UNCT agencies and eventually other potential tenants.
 - The UNCC vendor had been registered as a tourism investment and hotel service provider for four years but did not provide any evidence of relevant experience on complex property management. The vendor's experience was in construction, thus the capability to effectively manage the UNCC premises upon completion of renovation works was not verified by the Office.
 - The Office indicated that it used available tools to verify the vendor status, eligibility and capacities, in a transparent and consultative manner with the Security Management Team, UNCT, Regional Bureau, ACP and the Bureau for Management Services' Office of Legal Services, and General Operations, including agreement on the risks and mitigation measures related to vendor capacity.
- (iii) The Office did not request an independent third-party reference check, as required by policy, on the vendor's facilities, and financial and management status. A local law firm was commissioned to advise on the legality of documents furnished by the vendor.

The Office explained that this was due to the special context of the Country and the law firm was commissioned following the initial review by the UN Support Mission in Libya, noting that a reference check from external agencies specified in the UNDP policy would be a hypothetical exercise, as official state registrars in the Country were either non-functional or functioning at an extremely low capacity.

The above-mentioned incomplete reviews occurred due to inadequate mechanisms for the conduct of due diligence checks and the pressure to find suitable accommodation for the UNCT. This may expose the Office and the UNCT to contractual and reputation risks.

(b) Poorly defined contract price for the UN Common Compound (UNCC) lease

The UNDP Programme and Operations Policies and Procedures require that when the procurement method is direct contracting, whereby UNDP is evaluating only one offer, the price can and should be negotiated whenever necessary to establish value for money. If the negotiation is required because the prices quoted by the recommended bidder are deemed higher than market rates, the Office may request the financial or administrative basis for pricing, which may include a detailed breakdown of all costs.

The all-inclusive 7-year lease for the UNCC signed on March 2022 included office space and accommodation for \$68 million. The Office conducted negotiations that safeguarded UNDP against risks of advance payments/securities and significant price increases. In addition, value for money analysis went through various UNDP clearance processes including the Bureau for Management Services/General Operations, ACP and the Regional Bureau. However, the contract pricing was not clear:

- The premises leased included 84 accommodation villas, 182 Offices, a reception, conference rooms, parking for 60 vehicles, fuel and wash stations, commercial shops and restaurant, and recreational facilities /areas. However, the contract price did not break down the cost for each facility, or the maintenance and utility costs, and instead lumped all these into cost per square meter totalling \$800,687 per month. This did not facilitate the accurate billing and negotiation of the prices as follows:
 - By November 2022, the vendor had handed over 62 villas and 72 offices and payment was made for these facilities. However, the recreational and commercial facilities had not been handed over but were paid for, as their costing was lumped into the pricing for the villas and offices.
 - The Office advised that the security imperatives and lack of alternative options as mandated by the Designated Official and the Security Management Team, were the most important contracting considerations.
- The all-inclusive contract indicated that the vendor would provide, at no additional cost, adequate heat and air conditioning 24/7, and light and electricity. However, the UNCT incurred the generator running cost of \$39,945 annually as this was not billed to the vendor.

In February 2023, following the audit mission, the Office invited the vendor to find an arrangement to compensate it for the costs being paid by UNDP for facilities which had still not been rendered.

The above occurred due to the pressure and urgency to find suitable accommodation for the UNCT, which resulted in the Office not properly negotiating and not having a clear breakdown of costs.

Priority	High (Critical)
-----------------	-----------------

Recommendation 4:

The Office should:

- (a) strengthen compliance with corporate guidelines on due diligence and reference checks for all qualified vendors, including independent verification of the selected company's legal mandate and the financial strength when required;
- (b) request the owner's delegation of authority to the joint stock company for leasing the property and further sub-leasing it; and
- (c) request the UNCC lessor to make the adjustments to the bills and reimburse the payments made in excess for the undelivered amenities that were part of the square footage costing in the original contract and adjust subsequent bills to only pay for delivered amenities.

Management action plan:

The Office will:

- (a) Issue guidelines for procurement staff to ensure adequate due diligence and reference checks (including independent verification when required) for all qualified vendors, in accordance with UNDP corporate policy.
- (b) Request the UNCC lessor to seek confirmation from the Social Security Fund, who owns the property, that its joint stock company entrusted with managing its properties and investments, is allowed to lease on behalf of its owner, the Social Security Fund.
- (c) Continue to hold meetings with the UNCC lessor. As per usual practice, the Office has formally raised the issue of delayed delivery of amenities and has sought to adjust the lease payment. This is standard procedure for delayed civil works.

Estimated completion date: June 2023

Issue 5 Inadequate contract administration and management processes

Inadequate monitoring of the utilization of other Agency's Long-Term Agreements and specialized procurement services

The UNDP Programme and Operations Policies and Procedures encourage piggybacking on other UN agency procurement processes under 'Delivering as One'. When UNDP recognizes particular expertise of another United Nations entity in the procurement of specific goods, works or services, the designated procurement authority may authorize outsourcing for the specific goods, works or services and designate the UN entity as the procurement agent for UNDP.

The Office piggybacked on an agency Long Term Agreement for the provision of security guards. The following issues were noted:

- The vendor's financial proposals for the original contract and all five amendments included the vendor's general terms and conditions, which stated that "the vendor shall abide by the law in France; penalty interest rate shall be charged for payment delays exceeding 30 days from receipt of invoice per the national commercial code, together with a collection fee; any unresolved disputes shall be submitted to the jurisdiction of the Tribunal of Commerce of Paris, France." These

conditions contradicted UNDP general terms and conditions for contracting, as the vendor was requiring the Office to abide by the law in France.

- The Regional Advisory Committee on Procurement noted a similar occurrence in the procurement of a portable sewage plant with a different vendor in October 2021. The Office explained to the Committee and to the audit team that the UNDP contract referenced the general terms and conditions for contracting, which are accepted by the vendors. However, the Office's inclusion of the vendor's terms in the contractual documents indicated UNDP's acceptance and could create disputes.
- UNDP signed a separate contract with the vendor as required by policy. However, the template used was not the UNDP corporate contract for security services and did not specify requirements for guard training and licencing, UNDP verification of all guards, or the provision of fidelity bonds. These requirements had thus not been undertaken or monitored. UNDP had a list of the names of guards and but had not undertaken the required independent verification prior to their engagement.

The Office requested another UN agency to procure goods on its behalf for \$1.28 million in October 2021. However, this transaction exceeded the procurement authority delegated to the Office. The authorization of the designated procurement authority to outsource was not obtained as required by policy. The Office understood there was no need for further approval under the 'Delivering as One' cooperation, which accepts and relies on other agency agreements.

Without an adequate mechanism to monitor and align the utilization of other UN agency Long Term Agreements and procurement services to UNDP policies, the Office may be exposed to reputational risks.

Without an adequate contract administration and management mechanism, the Office was not able to timely follow up on contractual safeguards, exposing UNDP to financial and reputational risks.

Priority	High (Critical)
Recommendation 5:	
The Office should improve contract administration and management processes through:	
<ul style="list-style-type: none"> (a) timely monitoring and ensuring appropriate contract award and follow-up on post-award actions and requirements, including approvals to outsource procurements that exceed the Office's delegated authority, adopting UNDP policy when using other UN agency Long Term Agreements, and following-up on contractual terms; and (b) using the appropriate template for security services and following up on implementation of the contractual terms per UNDP policy including, independent verification of guards, their licensing and training, fidelity bonds, and employment of female guards. 	
Management action plan:	
<ul style="list-style-type: none"> (a) The Office will issue SOPs for the use of Long-Term Agreements and strengthen the role of designated contract managers in the monitoring of contractual commitments. (b) The Office will ensure that the correct template is issued for the contract extension for security guards. 	
Estimated completion date: June 2023	

2. Finance/Payments

Issue 6 Inadequate follow-up and assessment of revenue collection

The UNDP Programme and Operations Policies and Procedures provide that the cost recovery framework ensures that organizational costs are aligned to appropriate results frameworks and funding streams and that UNDP can more sustainably finance the requisite organizational structures and capacities to successfully deliver on programme results.

- The Office had cost-sharing agreement receivables of \$9 million, of which \$6.2 million was due by December 2022 from four projects, including \$455,960 for two projects ending in September and December 2022. The collection of the outstanding \$6.2 million was delayed as project implementation had not reached the required 70 percent delivery of the prior tranche before the release of additional funds. The audit team noted the following:
 - One of the projects with a receivable of \$390,960 was extended from September 2022 to October 2023; and
 - The collection of \$5.8 million relating to three outputs with due dates in 2022 was deferred to 2023 as the required 70 percent delivery could not be achieved as expected in 2022.
- The Office funded 14 posts in 2021 and 28 posts in 2022 from direct project costs assessed at a rate of 11 percent. However, a workload survey had not been conducted to enable accurate determination. The UNDP Programme and Operations Policies and Procedures require offices to conduct a workload survey annually for at least 10 working days to align personnel functions with their position funding sources.

Following the audit mission, the Office commenced work on undertaking a workload study to reflect the new organisational structure effective 2023. It had also instituted a system for monitoring donor contracts and reporting. OAI will issue a recommendation on donor contract management and reporting to measure the effectiveness of the system introduced by the Office as part of OAI's follow-up of audit recommendations.

Without adequate monitoring, computation and follow-up on revenue with the Government, projects and donors, the collection may be inaccurate or delayed, impacting the financial sustainability of the Office.

Priority	Medium (Important)
Recommendation 6:	
The Office should improve revenue collection by:	
(a) timely monitoring and following up on cost-sharing collection and reporting with the projects and the donors; and (b) undertaking an annual workload survey to enable an accurate determination of the direct project costs.	
Management action plan:	
(a) The Office will develop a donor contract management dashboard including milestones and payments. The dashboard will be updated and issued on a fortnightly basis and upcoming milestones and payments will be reviewed in the weekly programme coordination meetings.	

(b) A workload survey will be carried out based on the new organizational structure, and the findings will be reflected in the direct project cost structure and project annual work plans.

Estimated completion date: March 2023

Issue 7 Long payment processing duration

The UNDP Financial Regulations and Rules and the UNDP Programme and Operations Policies and Procedures require that payments be processed within 30 days and be supported by documents to ensure that the receipt of goods or services are in accordance with the terms of the contract and the related commitment.

297 vouchers paid to 104 vendors and totalling \$10.7 million were processed up to 697 days after receipt of the vendor invoice, including 87 vouchers for \$1 million relating to the provision of human resources through a third-party contractor. An overview of the number of vouchers and days of delay is provided in the following table:

Days	Number of Vouchers	\$ Value
>30 - 179	266	\$10,059,258
>180 - 365	18	\$616,746
400 – 697	11	\$95,202
1,149 – 1,453	2	\$9,581

The audit team sampled 45 of the vouchers and noted that 42 payments to 32 vendors totalling \$3.3 million were certified with delays. The Office indicated that the delayed payments for other vouchers related to withholding 10 percent of amounts for civil works defect liability periods of up to 12 months.

There were 29 vouchers that were processed between 6 months and 2.5 years, and 2 vouchers that were processed up to four years later for \$9,580 relating to the provision of human resources through a third-party contractor. Invoices for the latter two payments were submitted by the vendor in November 2021 and March 2022 for services provided and invoiced in 2017, 2018 and 2019. Delays relating to this vendor included the return of invoices for the correction of erroneous billing, which for 23 sampled timesheets did not reflect the contractual terms on payable days. This would, for instance, amount to an unsupported variance of \$11,730 for the contract duration for one contractor. The Office's management met with the vendor in November and December 2022 and was closely following up to reduce such issues.

- 41 purchase orders totalling \$1.6 million had recorded receipts in Atlas but were submitted for payment up to 90 days later. 25 of these totalling \$358,212 were pending submission for payment processing, including 21 for the provision of human resources through a third-party contractor.
- 71 payments totalling \$1.5 million were cancelled and reissued. The review of 17 out of 31 payments cancelled in 2022 noted that this was due to the use of the wrong UNDP bank account to process six payments totalling \$155,273. For the other payments, it was generally due to incomplete banking information from vendors or bank-related issues.

The above delays occurred due to lack of monitoring of the receipt and processing of invoices submitted by vendors directly to receiving units/project teams, including inadequate follow-up with vendors on

inaccurate invoices, and acceptance of earlier dated invoices for late vendor submissions. There was also insufficient finance staffing capability to adequately support the tracking of invoices. This impacted the accuracy of financial reporting and breached or gave the impression of breached contractual agreements on payment duration. It also increases the risk of financial misconduct.

Priority	Medium (Important)
Recommendation 7: The Office should improve the timeliness of payment processing by: <ul style="list-style-type: none"> (a) establishing a mechanism for monitoring the receipt, processing and tracking of invoices, and providing guidance to receiving units on requirements and benchmarks for payment processing; (b) requiring vendors, in the contract document, to verify their banking information in Quantum during the submission of 'current' invoices; and (c) establishing a mechanism for monitoring long outstanding commitments and following up with vendors. 	
Management action plan: The Office will: <ul style="list-style-type: none"> (a) Issue guidelines for receipt, processing and payment of invoices and carry out training sessions for programme, project and operations staff. (b) Introduce a checklist and additional guidance for all contract amendments and extensions. (c) Designate a procurement focal point for issuing fortnightly alerts to all project managers and programme unit for follow-up on all open and expired but unliquidated commitments. Estimated completion date: December 2023	

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.