



AUDIT

OF

UNDP COUNTRY OFFICE

IN

UKRAINE

Report No. 2323
Issue Date: 9 July 2021

Report on the Audit of UNDP Ukraine Executive Summary

The UNDP Office of Audit and Investigations (OAI) conducted an audit of UNDP Ukraine (the Office) from 12 to 28 April 2021. The audit aimed to assess the adequacy and effectiveness of the governance, risk management and control processes relating to the following areas and sub-areas:

- (a) Governance
- (b) Development activities
- (c) Operations – procurement, finance, human resources, administrative services, information communication and technology (ICT)

The audit covered the activities of the Office from 1 January 2020 to 31 January 2021. The Office recorded programme and management expenses of approximately \$156 million. The last audit of the Office was conducted by OAI in 2018.

The audit was conducted in conformance with the *International Standards for the Professional Practice of Internal Auditing*. Due to the COVID-19 pandemic, the audit was conducted remotely. Scope limitations due to the nature of the remote audit related to the following activities:

- (a) A review of original supporting documentation could not be carried out, and therefore the audit team relied on scanned copies of documents provided by the Office for all audit areas reviewed.
- (b) Meetings with Office staff and personnel were carried out virtually, which limited the audit team's understanding of the Office's working environment.
- (c) Project visits (location, site visits, meeting with counterparts/ beneficiaries) were not conducted.
- (d) A physical verification of assets was not performed.
- (e) Safe and petty cash contents were not verified.
- (f) The information communication and technology area was not reviewed on-site.

Overall audit rating

OAI assessed the Office's performance as **partially satisfactory/major improvement needed**, which means "The assessed governance arrangements, risk management practices and controls were established and functioning, but need major improvement. Issues identified by the audit could significantly affect the achievement of the objectives of the audited entity/area." This rating was mainly due to inadequate project delivery and monitoring of the 'Ozone project', weaknesses in procurement planning and oversight, and weaknesses in contract management.

Key recommendations: Total = 7, high priority = 4

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

For high (critical) priority recommendations, prompt action is required to ensure that UNDP is not exposed to high risks. Failure to take action could result in major negative consequences for UNDP. All high (critical) priority recommendations are presented below:

Inadequate project delivery and monitoring of the 'Ozone project' (Issue 2)

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

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

Weakness in procurement planning and oversight (Issue 3)

Weaknesses in procurement planning and procurement strategy

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

Weaknesses in oversight

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

Weaknesses in the benchmarks for the procurement committee review

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

Standard operating procedures to be finalized and implemented

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

Recommendation 3: The Office should strengthen procurement planning and strategy by: (a) developing a consolidated annual procurement plan, and

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

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

Weaknesses in
contract management
(Issue 4)

Weaknesses in direct contracting justification

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

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

Gaps in contract timeliness

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

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

Inadequate planning of the needs for individual contractors

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

Recommendation 5: The Office should strengthen contract management and oversight by: (a) discontinuing the use of direct contracting unless justified in line with the policy with adequate supporting documentation; (b) establishing

timelines to raise purchase orders and approve contracts; and (c) managing individual contractors in line with the policy, including recommending a competitive process when initial contract thresholds are exceeded.

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

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

Total recommendations: 3
Implemented: 2
Withdrawn: 1

Management comments and action plan

The Resident Representative accepted all seven recommendations and is in the process of implementing them. Comments and/or additional information provided have been incorporated in the report, where appropriate.

Low risk issues (not included in this report) have been discussed directly with management and actions have been initiated to address them.



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