UNITED NATIONS DEVELOPMENT PROGRAMME
Office of Audit and Investigations

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AUDIT

OF

UNDP COUNTRY OFFICE

IN

ISLAMIC REPUBLIC OF IRAN

Report No. 1538

Issue Date: 24 November 2015

(REDACTED)

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Report on the Audit of UNDP Country Office in Islamic Republic of Iran
Executive Summary

The UNDP Office of Audit and Investigations (OAI) conducted an audit of UNDP Country Office in Islamic Republic of Iran (the Office) from 6 to 17 September 2015. 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 and strategic management (organizational structure and delegations of authority, leadership/ethics and values, risk management, planning, monitoring and reporting, financial sustainability);

(b) United Nations system coordination (Resident Coordinator Office, Harmonized Approach to Cash Transfers);

(c) programme activities (programme management, partnerships and resource mobilization, project management); and

(d) operations (human resources, finance, procurement, information and communication technology, general administration, safety and security).

The audit covered the activities of the Office from 1 January 2014 to 30 June 2015. The Office recorded programme and management expenditures of approximately $13 million (excluding Global Fund for AIDS, Tuberculosis and Malaria expenditures of $17 million covered under a separate audit for the same period). The last audit of the Office was conducted by OAI in 2010.

The audit was conducted in conformance with the *International Standards for the Professional Practice of Internal Auditing*.

Overall audit rating

OAI assessed the Office as **partially satisfactory**, which means, "Internal controls, governance and risk management processes were generally established and functioning, but needed improvement. One or several issues were identified that may negatively affect the achievement of the objectives of the audited entity." This rating was mainly due to concerns related to financial sustainability, the outstanding contributions towards the Government Contributions to Local Office Costs (GLOC), and inadequate actions to address the Global Staff Survey results.

Key recommendations: Total = **12**, high priority = **3**

The 12 recommendations aim to ensure the following

Objectives	Recommendation No.	Priority Rating
Achievement of the organization's strategic objectives	1, 2, 3	High
Reliability and integrity of financial and operational information	8, 9, 10	Medium
Effectiveness and efficiency of operations	11, 12	Medium
Compliance with legislative mandates, regulations and rules, policies and procedures	4, 5, 6, 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:

Office's financial sustainability at risk (Issue 1)	The Office's extrabudgetary reserves had declined from 30 months at the end of 2013, to 8 months as of the date of audit, and were projected to be less than 2 months by the end of 2016. Financial sustainability was impacted due to a reduction in core resources, increased extrabudgetary costs, the inability to mobilize non-core resources due to the Country's context, and a reduction in the Global Fund portfolio. The Office was liaising with the Regional Bureau for Asia and the Pacific (RBAP) to address the financial sustainability concerns, but concrete actions had yet to be finalised. Recommendation: The Office, in consultation with RBAP, should continue to explore alternative ways of getting additional funding and establish cost-saving measures to ensure that the reserves are maintained at the required 12 month minimum level, per the 'UNDP Programme and Operations Policies and Procedures'. This should include expediting the cost recovery of service charges from other UN agencies.
Long outstanding Government Contributions to Local Office Costs (Issue 2)	The GLOC amounting to $6.5 million had been outstanding since 2003. The Office indicated that the Government had agreed to pay contributions from 2012 onwards and that RBAP had been informed that all contributions due prior to 2012 would have to be written off. There was no evidence that RBAP had agreed to write off the contribution arrears prior to 2012. For the last year, the Office was also negotiating to offset the arrears through the use of rent subsidized premises provided by the Government. Recommendation: The Office should undertake actions to collect the GLOC by: (a) confirming the total amount of contributions outstanding from the Government; (b) enhancing efforts to secure a firm written agreement as well as recovering the outstanding contributions with assistance from RBAP in these efforts; and (d) documenting all meetings and communication with government counterparts for GLOC follow-up.
Inadequate action to address Global Staff Survey results (Issue 3)	The Office consistently recorded lower scores in Global Staff Survey results than the global median scores in recent years. For 2013, all dimensions were below the 50th percentile, the least favorable being professional growth and development, and work-life balance. In 2014, the ratings declined further, with all dimensions except one (top management) being well below the 50th percentile. Though the Office had initiated general actions to address concerns, issue-specific actions had not been undertaken, and implementation progress was not tracked regularly. In mid-August 2015, 10 working groups were established in consultation with the Staff Association to address areas where the scores were significantly low. Recommendation: The Office, in cooperation with the Staff Association, should address the Global Staff Survey results by: (a) developing a detailed, time-bound and regularly monitored action plan to address the specific low scores; and (b) implementing the recommendations of the final report of the joint mission

undertaken by the Office of Human Resources/RBAP in August 2015.

Management comments and action plan

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

Issues with less significance (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, located in Tehran, the Islamic Republic of Iran (the Country) comprised 43 personnel at the time of audit. The current Country Programme cycle covers the period of 2012-2016. The United Nations imposed sanctions on the Country through Security Council resolution 1747 dated 24 March 2007. However, continuation of humanitarian and development assistance in the Country was authorized. In 2012, the United States and the European Union imposed additional sanctions that impacted the Office's ability to mobilize resources to adequately support the Country's Programme. The new nuclear deal agreed upon on 14 July 2015 established a step-by-step sequence of activities for the Country to receive relief from imposed sanctions.

II. Audit results

Satisfactory performance was noted in the following areas:

(a) Resident Coordinator Office. Key controls were in place and adequate. The United Nations Country Team shared the common goal of improving coordination within the United Nations system in the Country.

(b) Procurement. Procurement controls were functioning adequately and no reportable issues were noted.

(c) General administration. Records and controls were adequate for asset management. The Office was well administered.

(d) Safety and security. OAI reviewed the security plan, security risk assessment, and the updated United Nations staff list and no reportable issues were identified.

(e) Information and communication technology. The systems managed by the Office, including hardware, software and systems security were operating adequately.

OAI made 3 recommendations ranked high (critical) and 9 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) Continue to explore alternative ways of getting additional funding and establish cost-saving measures (Recommendation 1).
(b) Address the Global Staff Survey results in cooperation with the Staff Association (Recommendation 3).
(c) Undertake actions to collect the GLOC (Recommendation 2).

Medium priority recommendations, arranged according to significance:

(a) Ensure compliance with 'UNDP Programme and Operations Policies and Procedures' relating to staff performance and mandatory trainings (Recommendation 11).
(b) Ensure compliance with the 'UNDP Programme and Operations Policies and Procedures' on the closure of projects (Recommendation 6).
(c) Ensure that project management is in accordance with the 'UNDP Programme and Operations Policies and Procedures' (Recommendation 5).
(d) Improve the cash management process (Recommendation 8).

[redacted]

(f) Enhance the programme/project delivery by ensuring the activities to be implemented are spread out evenly throughout the year (Recommendation 7).
(g) Enhance controls over the audit of nationally implemented projects (Recommendation 10).
(h) Enhance controls over the management of overtime (Recommendation 12).
(i) Pursue the implementation of the HACT modality in coordination with RBAP (Recommendation 4).

The detailed assessment is presented below, per audit area:

A. Governance and Strategic Management

1. Financial Sustainability

Issue 1 Office's financial sustainability at risk

The 'UNDP Programme and Operations Policies and Procedures' require all offices to maintain a minimum of 12 months of extrabudgetary reserves and to ensure financial sustainability by securing stable and sufficient long-term financial resources to ensure that resources are managed effectively and efficiently.

The Office's extrabudgetary reserves had declined from 30 months in 2013 to 25 months in 2014 and further to 8 months as of September 2015. Given the current trend, the projected reserve at the end of 2015 would be 7 months, and less than 2 months at the end of 2016. The decline in extrabudgetary reserves was due to the following:

- Reduction in core resources by $0.55 million in 2015 and $0.17 million in 2014.
- Reduced options to mobilize resources from non-core sources due to the current geopolitical environment and the ongoing sanctions as well as the Country's 'Middle-Income' status. The first new bilateral grant ($1 million) was mobilized in 2014 from the Government of Japan.
- Completion of the Tuberculosis Global Fund Grant Phase II and the Malaria Global Fund Grant Phase I in 2014. In addition, there were no new Global Environmental Facility grants approved since 2012. This resulted in a decrease in income.
- An increase in extrabudgetary expenditures previously charged to the core budget, such as staff costs and rent, were now charged to the extrabudgetary funds.

Despite the declining resources, the Office did not undertake a workload analysis to assess the staff resources required.

Office management stated that the provision of subsidized premises by the Government had been under negotiation since November 2012. However, this had not worked out due to the decline in global oil prices resulting in delays in the approval by the Government. According to management, the subsidy would have resulted in significant annual savings (refer to Issue 2).

Management had prepared a financial sustainability plan in 2014; however, a long-term strategy could not be developed up to this point given the uncertainties surrounding the recent nuclear deal as well as the transition from the current to the new Country Programme Document. Discussions with RBAP on alternative options of optimizing the Office's functions were ongoing at the time of audit.

During 2014, the Office recovered approximately $0.17 million from other UN agencies for the services provided to them. The recovery of respective amounts corresponding to the first half of 2015 ($82,000) had yet to be completed by September 2015. Opportunities for further enhancing cost recovery by the Office are discussed under Issue 9.

The lack of financial resources may impact the achievement of the overall UNDP objectives of the Office.

Priority	High (Critical)
Recommendation 1: The Office, in consultation with RBAP, should continue to explore alternative ways of getting additional funding and establish cost-saving measures to ensure that the reserves are maintained at the required 12 month minimum level, per the 'UNDP Programme and Operations Policies and Procedures'. This should include expediting the cost recovery of service charges from other UN agencies.	
Management action plan: The Office is actively exploring options to mobilize additional funding and is in consultation with RBAP for cost-saving measures. **Estimated completion date:** June 2016	

[**NOTE**: Part of this section has been redacted as it is deemed to contain sensitive information.]

Issue 2 Long-outstanding Government Contributions to Local Office Costs

The Legal Annex that governs UNDP's operations in the Country provides that the Government is expected to contribute towards the local cost of Country Offices.

During the 2010 audit, OAI noted that GLOC amounting to $5.6 million had been outstanding since 1997. OAI recommended (OAI Report No. 722, 5 October 2010) that the Office liaise with the Government to recover the outstanding amount. As the recommendation had been outstanding for more than 36 months, in accordance with its policy, OAI stopped following up on the implementation of the recommendation as of January 2014.

At the time of the audit, $6.5 million in GLOC was still outstanding since 2003. The Office indicated that the Government had agreed to pay GLOC from 2012 onwards and that RBAP had been informed that GLOC dues prior to 2012 would have to be written off. There was no documented evidence that RBAP had agreed to write off the GLOC arrears prior to 2012. As for arrears related to 2012 onwards, the Office stated that the overall GLOC settlement for this period was linked to the provision of rent-subsidized premises by the Government, which was delayed due to the sudden fall in global oil prices in 2014 (refer to Issue 1).

The Office provided no documented communication with the Government confirming the action to be taken to settle the GLOC issue. The responsible government ministry had, however, acknowledged in a letter the Office's request for subsidized premises, with the Government offsetting part of the costs through a deposit arrangement that was expected to result in savings for the Office.

Except for the above letter, there was no other documented evidence of correspondence between the Office and the Government on GLOC issues. [redacted]

[redacted]

Failure to collect contributions from the Government may adversely impact the financial resources available to support local office costs.

Priority	High (Critical)
Recommendation 2: The Office should undertake actions to collect the GLOC by: (a) confirming the total amount of GLOC outstanding from the Government; (b) enhancing efforts to secure a written agreement as well as recover the outstanding GLOC and seek assistance from RBAP in these efforts; and (c) documenting all meetings and communication with government counterparts for GLOC follow-up.	
Management action plan: The Office accepted the above recommendation and will take relevant action. **Estimated completion date:** September 2016	

2. Leadership/Ethics and Values

Issue 3 Inadequate action to address Global Staff Survey results

UNDP conducts annual Global Staff Surveys that consist of questions for all UNDP staff on a wide range of topics. Feedback is collected from staff and questions are raised on what could be done to improve the work environment. Country Offices and other units are expected to review the survey results together with their staff, identify priorities for improvement, develop action plans and targets, and implement them.

The Office consistently recorded lower scores than the global median scores in recent years. For 2013, all the dimensions were below the 50th percentile, the least favorable being professional growth and development, and work-life balance. In 2014, the ratings further declined, with all dimensions except one (top management) being well below the 50th percentile. The most significant declines were in areas such as openness, fairness and respect; professional growth and development; and office management team. Most of the staff that the audit team met with consistently referred to perceptions of limited transparency in decisions, limited communication on planning and strategic direction, issues on work-life balance and senior management interaction with the staff.

[1] Due to financial sanctions, the Government pays its dues to other UN agencies in the local currency through the UNDP Office, which in turn arranges for the payments in US dollars to the respective agencies through their headquarters offices in New York.

The audit disclosed that limited action was taken in 2014 to address the issues raised in the 2013 Global Staff Survey results. On the 2014 Global Staff Survey results, the Office held a retreat with all staff in April 2015. A number of action points were identified, such as more frequent meetings between staff and management, cluster meetings and flexible working hours. Management also stated that the uncertainties around the financial sustainability of the Office and potential implications for staff may have further influenced the opinions expressed by staff.

A review of the implementation status of the action plan indicated that some activities were ongoing, such as more frequent meetings, while others such as brown bag lunches were still a work in progress. The action plan itself was not comprehensive in that it did not link the specific actions to key areas of concern in the Global Staff Survey results, and the actions identified were general in nature with no specific timelines for which actions would be completed.

In mid-August 2015, a task team comprising staff members was established and 10 working groups were created to address areas where the scores were significantly low. As at mid-September 2015, the Office's management had yet to meet with the working groups to review progress. Management stated that the Staff Association had indicated that they would take the lead, but had not yet come up with a timeline. Further, the terms of reference for the task team had not been developed.

Inadequate action to resolve concerns as reflected in the Global Staff Survey results mentioned above also led to the following:

- An Ombudsman mission to the Office from 28 February to 6 March 2015, which conducted individual staff meetings.

- A joint mission from the Office of Human Resources/RBAP in August 2015 that produced a draft report with recommendations to address the ongoing staff concerns and strengthen the human resources business processes in the Office. Management indicated that the draft report was being finalized by RBAP, after which it would be shared with the Office.

Delays in addressing the results of Global Staff Survey could further demotivate staff and may negatively affect the overall work environment and performance of the Office.

Priority	High (Critical)

Recommendation 3:

The Office, in cooperation with the Staff Association, should address the Global Staff Survey results by:

(a) developing a detailed, time-bound and regularly monitored action plan to address the specific dimensions of low scores; and
(b) implementing the recommendations of the final report of the joint mission undertaken by the Office of Human Resources/RBAP in August 2015.

Management action plan:

The Office's management has initiated several steps to address the concerns and is keen to continue to address this in collaboration with staff. The Office will ensure that the action plan is time bound and that implementation is monitored.

Estimated completion date: December 2015

B. United Nations System Coordination

1. Harmonized Approach to Cash Transfers

Issue 4 Harmonized Approach to Cash Transfers not implemented

The Harmonized Approach to Cash Transfer (HACT) Framework aims to standardize the way the UN agencies work with implementing partners to reduce transaction costs while ensuring joint operationalization with respect to country macro-assessments as well as assessments and audits of shared partners. HACT consists of four processes: (a) macro-assessments; (b) micro-assessments; (c) cash transfers and disbursements; and (d) assurance activities that include planning, periodic on-site reviews (spot checks), programmatic monitoring, scheduled audits and special audits.

The review of the Office's HACT compliance status indicated that HACT had not been implemented.

The Office's management stated that they had extensive discussions during the formulation of the current 'United Nations Development Assistance Framework' and that the Country was never HACT compliant. All internal processes and documents with regard to implementation by the Government could only be subject to audit by the Country's Supreme Audit Institution. This practice was based on the prevailing national law/policy, that external audit firms including international auditors cannot undertake such audits.

Management also stated that in view of the above, the implementation of macro/micro-assessments would have proved counter-productive. Thus, the UN Country Team approached the Regional Development Team in 2010/2011 seeking a waiver. Even though the Office stated that this waiver had been granted, there was no supporting documentation provided with regard to this arrangement, and efforts to obtain such documentation from RBAP had also proved unsuccessful.

The objectives of harmonizing practices among the UN agencies, including lessening the burden of using multiple procedures, will not be achieved unless HACT requirements are implemented.

Priority	Medium (Important)
Recommendation 4: In coordination with RBAP, the Office should pursue the implementation of the HACT modality and ensure that its related requirements are duly adhered to.	
Management action plan: In the recent past, the Government has indicated a preliminary willingness to discuss HACT and the Office will pursue this.	

Estimated completion date: September 2016

C. Programme Activities

The current Country Programme Document for 2012-2016 outlines a programme budget of $81.4 million, against which the Office expended $47 million (or 58 percent) as of September 2015, with a balance of $34.4 million to be expended by 2016. The Office faced challenges in mobilizing resources as a result of the prevailing geopolitical situation.

1. Project Management

Issue 5 Weak project management

The 'UNDP Programme and Operations Policies and Procedures' stipulate that Offices should ensure that resources entrusted to UNDP are utilized appropriately; that projects are making progress towards intended outputs; that projects promote national ownership, ongoing stakeholder engagement and sustainability; that project outputs contribute to intended Country Programme outcomes; and that key results and issues pertaining to project performance are fed into the outcomes and programme level monitoring. In addition to this, a detailed programme level monitoring and evaluation plan should be elaborated upon at the initiation stage for each UNDP Country Programme.

The total Office delivery during the audit period was $13.8 million (excluding the Global Fund project). OAI selected four projects for detailed review, with combined expenditures of $4 million. The following weaknesses were noted in project assurance activities:

- An overall Office monitoring and evaluation strategy was not developed in order to provide real time data for assessing the results of its development interventions, accountability levels for monitoring, data management, analysis and reporting. The Office indicated that the elements of an overall monitoring strategy were already incorporated in the individual projects whose management responsibilities had been clearly assigned to programme officers. However, there was no consolidated monitoring framework developed for the Country Programme.

- In two cases, field visits were undertaken; however, these were ad hoc, and not part of an overall monitoring plan.

- Field visit reports in the four projects were activity-oriented and narrative rather than results-oriented. There were no operational or programmatic spot checks conducted for all projects reviewed. The Office stated that programmatic and operational spot checks were conducted by both programme officers and assistants during monitoring visits, however, these field visits cannot be considered as spot checks.

- The results and resources frameworks in the four project documents were incomplete. Baselines were not identified in two cases, baselines and indicators were completely absent or weak in one case, and targets were identified as indicators in another case.

- In the four projects reviewed indicators were not specific, measurable, attainable, relevant and time-bound (SMART), and projects were not using the indicators to measure the progress towards the agreed targets.
- Risk assessments and logs were not updated in the four projects reviewed as required by the 'UNDP Programme and Operations Policies and Procedures' even though some projects had identified risks in their annual reporting. Risk logs were last updated in September 2014. The Office stated that risk logs were updated when changes in the risk status had occurred, including when new risks were identified. In addition to this, the Office had been using the risk assessment tool in the Integrated Work Plan. However, updates to the risk log should be undertaken on a quarterly basis, even if risks have not changed.
- Project Board meetings were not held quarterly as stipulated in the project documents. In two projects, the Project Boards had one meeting each for 2014 and 2015. In another case, the Board had one meeting in 2015, while in another case the Board did not meet in 2014 and 2015. The Office stated that the frequency of the Project Board meetings was determined by the Boards themselves, and quarterly meetings were not practical, and that they were not held regularly for some projects due to scheduling difficulties.

The lack of effective monitoring could prevent the Office from determining whether intended results are being achieved, and whether corrective actions are necessary to ensure the delivery of intended results.

Priority	Medium (Important)
Recommendation 5: The Office should ensure that project management is in accordance with the 'UNDP Programme and Operations Policies and Procedures' by: (a) developing an overall Office monitoring strategy that links project level interventions to the outcome level results, including clear allocation of responsibilities and accountabilities for monitoring; (b) formulating SMART indicators, baselines and targets in the results and resources frameworks and annual work plans; (c) adopting a results-oriented approach when documenting the field visit and project progress reporting, including programmatic and operational spot checks; and (d) holding regular Project Board meetings and updating risk logs at least on a quarterly basis.	
Management action plan: The Office acknowledges the observation on SMART indicators and baselines, and a new annual reporting template is being developed for the 2015 reporting process. In addition, capacity-building support in the form of training is being planned for the implementing partners' staff. The Office will take steps to ensure Project Board meetings are held regularly. **Estimated completion date:** June 2016 for ongoing projects	

Issue 6 Projects not closed in a timely manner

The 'UNDP Programme and Operations Policies and Procedures' stipulate that projects should be operationally closed once activities have been implemented and no new activities are planned. These operationally closed projects should then be financially closed no more than one year after their operational closure.

The audit disclosed that 24 projects that ended between 2006 and 2013 had not been operationally closed, and were reflected as 'ongoing' in Atlas (enterprise resource planning system of UNDP). Further, three projects that were operationally closed between 2011 and June 2014 had not been financially closed until the date of audit.

The Office stated that this was a work in progress, and that some of the projects had pending balances that needed to be cleared, while the end-dates of nine projects had been extended further. However, no action was undertaken in Atlas to extend these projects.

Delays in projects closure may expose the Office to unauthorized expenditures charged to these projects.

Priority	Medium (Important)
Recommendation 6: The Office should ensure compliance with the 'UNDP Programme and Operations Policies and Procedures' on the closure of projects by: (a) operationally closing projects that have ended; and (b) financially closing all operationally closed projects within 12 months.	
Management action plan: A clean-up process has already started since August 2015 and the projects which require action on operational and financial closure have been identified. **Estimated completion date:** March 2016	

Issue 7 Low programme delivery rate

The 'UNDP Programme and Operations Policies and Procedures' stipulate that annual work plans should articulate activities to be implemented in a given year, with these activities evenly spread out across each quarter to ensure reasonable and sustained progress towards project results.

As at 2 November 2015, the Office had expended $2.6 million against a programme budget of $6.6 million for 2015 (excluding Global Fund project expenditure). This represented a delivery of 39 percent, making it unlikely that the Office would meet its delivery target of $6.6 million in the remaining two months. The Office stated that the delivery rate would pick up in the last quarter of 2015, as was the case in previous years. One of the project challenges indicated in the Country Programme Action Plan annual review for 2014 was the uneven distribution of project activities and delivery throughout the year. Overall expenditure (including the Global Fund project) for 2015 stood at $9.6 million against a budget of $15.6 million (61 percent).

The Office acknowledged the observation, and explained that activities in the work plans were planned for the entire year as per the needs of the project. However, the programme/project delivery was mostly towards the end of the calendar year, because the Government fiscal year is different from UNDP's. The first quarter of UNDP's fiscal year coincides with the last quarter of the Government's fiscal year, thus the implementation of activities by the Office effectively takes place only in the third and fourth quarters of the UNDP fiscal year.

If annual work plan activities are not completed, there is a risk that the Office may not achieve targets and outcomes.

Priority	Medium (Important)
Recommendation 7: The Office should enhance the programme/project delivery by ensuring the activities to be implemented are spread evenly throughout the year to ensure expenditure is also spread out evenly.	
Management action plan: Efforts will be made to continue to improve and maintain a more balanced delivery across the year. **Estimated completion date:** December 2016	

D. Operations

1. Financial Management

Issue 8 Justification for holding high cash balances not regularly reviewed

The 'UNDP Programme and Operations Policies and Procedures' require that Country Offices operate under realistic cash flow forecasts, and that idle cash maintained at the Office be kept at a minimum.

The Office maintained a high cash balance of $8 million in the local bank account during the audit period. Monthly expenditure was approximately $2 million. The average bank balances for the period from December 2014 to August 2015, as determined by average month-end balances of the three bank accounts maintained by the Office, were as follows:

Table 1: Average month end balances from December 2014 to August 2015

Item	$ million
Average monthly cash balance in bank	8.2
Average monthly expenditures (Office plus payments made on behalf of other UN agencies)	2.0
Remaining balance	6.2

The remaining balance was held in non-income earning bank accounts, and therefore did not earn any interest. In a situation where financial sustainability was a concern (refer to Issue 1), the Office did not consider short-term investment options such as fixed deposits that would have generated additional income through interest earned.

The Office made payments totalling $4.7 million on behalf of other UN agencies from January to September 2015 (refer to Issue 1). However, the Office had not assessed the cost of maintaining these high balances in order to service the UN agencies requests. There was no assessment of a potential financial impact due to foreign exchange fluctuations between the time payments were made to the agencies, and the time cost-recovery charges were recovered. The cost of maintaining high balances had not been factored in the cost of recovery from the UN agencies.

The Office's management explained that the higher balances were necessary due to uncertainties encountered in receiving funds, as the Country had no access to international banking. Management also indicated that reducing the bank balances would involve uncertainties around the transfer of funds, and that in 2013, UNDP Treasury was not in favor of short-term investments, given that the local banks had not been subject to an internationally accepted due diligence check.

Keeping high bank balances increases the risk of loss of income through exchange rate fluctuations and idle fund maintenance costs.

Priority	Medium (Important)
Recommendation 8: The Office should improve the cash management process by: (a) continuously reviewing the necessity of holding high amounts in light of the economic landscape; (b) consulting with UNDP Treasury to explore options to make short-term investments for the surplus funds; and (c) undertaking an analysis of the full cost of rendering cash transfer/payment services on behalf of other UN agencies, as well as adjusting cost-recovery procedures accordingly.	
Management action plan: The Office agreed to consult UNDP Treasury for short-term investments and to review cost-recovery procedures. **Estimated completion date:** June 2016	

[**NOTE**: This section has been redacted as it is deemed to contain sensitive information.]

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Issue 10 Capacity assessment of Supreme Audit Institution not undertaken

Paragraphs 49-52 of the "Non-Government Organization/Nationally Implemented projects Audit Exercise for fiscal year 2014 Expenses" call letter issued on 5 November 2014 state "Country Offices which opt to have Supreme Audit Institutions conduct the audits in full or in part, are required to document that a capacity assessment of this institution has been undertaken and its outcome was satisfactory." This requirement is also consistent with the UNDP HACT Framework when determining the audit entity that will undertake the audit of government partners as part of macro-assessment. Further, standard cost sharing agreements signed by the Government provide that the Government Cost Sharing funds are subject to the audit procedures of UNDP.

According to the Office's Resource Mobilization Plan, the Government Cost Sharing contribution was estimated at $6 million, out of which $1.7 million was budgeted for 2015. The 2014 national implementation modality audit exercise did not include the funds obtained through the Government Cost Sharing for one project. The Government had indicated to the Office that the audit would be conducted by the Supreme Audit Institution of the Country. However, there was no confirmation that this audit was eventually conducted. Further, a capacity assessment of the Supreme Audit Institution had not been completed and shared with OAI for review prior to undertaking the audit, as required.

The Office indicated OAI that discussions with the relevant government departments had commenced to either allow the audit to be conducted by a private firm, or a capacity assessment of the Supreme Audit Institution be conducted. The Office also acknowledged the importance of a quick resolution of the issue, as this would allow for growth of the Government Cost Sharing revenues.

Given the volume of funds under the audit regime of the Supreme Audit Institution, and for which audit reports may not be available, OAI may not receive the level of assurance required to ensure funds are used appropriately.

Priority	Medium (Important)

Recommendation 10:

The Office should enhance controls on the audit of nationally implemented projects by:

(a) engaging the Government to have the audit clause of Government Cost Sharing agreements complied with; and
(b) if the matter is not resolved, liaising with the Office for Financial Resources Management and RBAP to resolve the issue.

Management action plan:

The Office will continue its attempt to engage with the Government to understand their concerns in the capacity assessment being conducted by UNDP. This issue was also raised with the Office of Financial Resources Management and RBAP during the Regional Management Meeting in Kuala Lumpur, held in October 2015.

Estimated completion date: June 2016

2. Human Resources

Issue 11 Inadequate staff management

(a) Performance assessments not completed on time

The 'Programme and Operations Policies and Procedures' require staff members to complete, within a certain time frame, annual Performance Management Development assessments and establish individual learning plans to address training and development needs.

As at 30 June 2015, only 7 out of 25 (28 percent) staff in the Office had completed their 2014 performance assessments, even though the assessments should have been completed by 31 March 2015. Of significance is that the performance assessments for 12 (9 of which were at Talent Management Review Group (TMRG) stage) staff had also not been completed for 2013.

Eight of these performance management and development assessments related to one supervisor, and four to another supervisor.

It was also noted that supervisors separating from the Office were cleared without completing assessments of their staff. For example, the Assistant Resident Representative-Operations was cleared and separated from the organization in July 2015, yet two of the assessments related to staff he was supervising had not been completed. This matter was also not indicated in his separation clearance form.

(b) Training plan was not comprehensive

OAI also reviewed the training plan prepared during the year, and noted that the plan only included mandatory courses. There was no evidence of an attempt to match individual performance-related training needs of staff to the training plan of the Office. Effective training programmes require that they be based on a comprehensive needs assessment. The fact that only 28 percent of staff completed Performance Management and Development assessments would not have made it possible to collate the training needs of all staff.

As the performance assessment process had not been completed within the required timeframe, the Office's learning plan did not incorporate the learning requirements from the performance assessment process.

(c) Mandatory training not completed

All UNDP personnel are required to complete a series of mandatory training programmes in the Learning Management System. These courses include two security courses, a UNDP Legal Framework course, as well as Ethics Training, Gender Journey, and Workplace Harassment courses. As of August 2015, the completion rates ranged from 32 to 78 percent. In this regard, only 12 staff (32 percent) had completed the Legal Framework course. In addition, 11 of the staff members possessed at least one expired certificate of the two mandatory safety and security courses.

Failure to complete these mandatory trainings may negatively impact staff knowledge and capacity to deal with issues and situations within the Office.

Priority	Medium (Important)

Recommendation 11:

The Office should ensure compliance with the 'UNDP Programme and Operations Policies and Procedures' relating to staff performance and mandatory trainings. This should include:

(a) ensuring that staff and their respective supervisors finalize the performance assessments within the deadlines stipulated, and developing related training plans; and
(b) planning for the completion of mandatory courses in a timely manner.

Management action plan:

The Office has already initiated actions to ensure completion of Performance Management Development assessments and mandatory trainings by all staff.

Estimated completion date: December 2015

Issue 12 Overtime hours beyond authorized thresholds

The 'UNDP Programme and Operations Policies and Procedures' provide that in the interests of health, safety and efficiency of staff, overtime for all staff should normally be limited to 40 hours per month, unless there are very exceptional circumstances.

During the period under review, it was noted that the three drivers of the Office routinely worked overtime. For example, the three drivers earned overtime for 11 out of the 16 months during the period from January 2014 to April 2015, which amounted to $27,000. Further, the working hours exceeded the 40-hour weekly limit. For a sample of months reviewed (January 2014, and January, February, June 2015), one driver had recorded overtime of 69.5, 62, 65 and 65 hours respectively. Another driver had recorded 40, 43.5 and 63 hours for the months of February 2014, November 2014 and May 2015, respectively.

Inadequate management of overtime could lead to increased costs and have an impact on staff performance and health.

Priority	Medium (Important)

Recommendation 12:

The Office should enhance controls over the management of overtime by reducing excess use of overtime through alternative work arrangements, including use of flex hours.

Management action plan:

The Office indicated that they have been trying to address this in many different ways. Further, they will continue to address this without having to compromise Office exigencies and efficiencies.

Estimated completion date: June 2016

Definitions of audit terms - ratings and priorities

A. AUDIT RATINGS

- **Satisfactory** — Internal controls, governance and risk management processes were adequately established and functioning well. No issues were identified that would significantly affect the achievement of the objectives of the audited entity.

- **Partially Satisfactory** — Internal controls, governance and risk management processes were generally established and functioning, but needed improvement. One or several issues were identified that may negatively affect the achievement of the objectives of the audited entity.

- **Unsatisfactory** — Internal controls, governance and risk management processes were either not established or not functioning well. The issues were such that the achievement of the overall objectives of the audited entity could be seriously compromised.

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 that are considered moderate. Failure to take action could contribute to 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.