UNITED NATIONS DEVELOPMENT PROGRAMME
Office of Audit and Investigations

AUDIT

OF

UNDP COUNTRY OFFICE

IN

THAILAND

Report No. 1842

Issue Date: 15 June 2017

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Report on the Audit of UNDP Thailand
Executive Summary

The UNDP Office of Audit and Investigations (OAI) conducted an audit of UNDP Thailand (the Office) from 11 to 17 May 2017. 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 (leadership, corporate direction, corporate oversight and assurance, corporate external relations and partnership);

(b) programme (quality assurance process, programme/project design and implementation, knowledge management);

(c) United Nations leadership and coordination.

The audit covered the activities of the Office from 1 January 2016 to 30 April 2017. The audit did not cover the operations-related areas of finance, procurement, human resources, general administration, ICT and safety and security, as these services are provided to the Office by the Bangkok Regional Hub (BRH) of the Regional Bureau for Asia and the Pacific. The Office recorded programme and management expenditures of approximately $9.5 million.[1] The last audit of the Office was conducted by OAI in 2008.

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/some improvement needed**, which means, "The assessed governance arrangements, risk management practices and controls were generally established and functioning, but need some improvement. Issues identified by the audit do not significantly affect the achievement of the objectives of the audited entity/area." This rating was mainly due to project management weaknesses.

Key recommendations: Total = **6**, high priority = **2**

The six recommendations aim to ensure the following:

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

[1] The programme and management expenditures exclude commitments.

Project management weaknesses (Issue 5)	There were weaknesses in the management of projects, as follows: baselines, indicators and targets were not properly articulated for the project results and resources frameworks; the annual work plans and reports were not in the prescribed UNDP format; inadequate monitoring was noted; and there were delays in project implementation and weak reporting of results achieved.
	Recommendation 4: The Office should strengthen its project management practices by: (a) ensuring annual work plans reflect appropriate indicators, baselines and annual targets – the plans should be in the approved template and signed by both the parties; and (b) having realistic project end dates and building requisite implementing partner capacities to ensure the timely implementation of projects.
	Recommendation 5: The Office should ensure compliance with the 'UNDP Programme and Operations Policies and Procedures' on project monitoring and assurance by: (a) establishing an overall monitoring framework to identify monitoring and assurance activities, determining when they will be undertaken, and determining which staff will conduct them; and (b) having an annual reporting process that adheres to UNDP reporting requirements.

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 have 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 Bangkok, Thailand (the Country), had 10 staff members and 16 service contract holders supporting the project portfolio. The Office initiated the implementation of a new Country Programme Document from 2017 to 2021, focusing on two key areas: promoting anti-corruption, inclusive engagement and social cohesion; and promoting green and inclusive growth. The green and inclusive growth portfolio accounted for 80 percent of the Office's programme budget. The resources available for promoting anti-corruption, inclusive engagement and social cohesion decreased over the years, from $1.3 million in 2014 to $0.44 million in 2017. In view of the changing development landscape and decreasing donor resources, the Office had undertaken structural reviews, with an additional one planned in mid-2017 to ensure relevancy and the ability to respond to changing development priorities.

II. Audit results

Satisfactory performance was noted in the following area:

(a) United Nations leadership and coordination. The Office met the planning, reporting and coordination requirements and adequately recorded expenditures in Atlas (enterprise resource planning system of UNDP).

OAI made two recommendations ranked high (critical) and four 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 project management practices (Recommendation 4).
(b) Ensure compliance with the 'UNDP Programme and Operations Policies and Procedures' on project monitoring and assurance (Recommendation 5).

Medium priority recommendations, arranged according to significance:

(a) Review the Office's sustainability within the context of the changing operating environment, and in line with the proposed redesigning of the Office (Recommendation 3).
(b) Establish specific scope and timeliness parameters for services provided by the Bangkok Regional Hub (Recommendation 1).
(c) Review the support provided to nationally implemented projects (Recommendation 2).
(d) Streamline the programme portfolio to ensure an effective and efficient programme approach and to reduce administrative costs (Recommendation 6).

The detailed assessment is presented below, per audit area.

A. Governance

1. Corporate direction

Issue 1 Specific parameters for service delivery not established

Since 2005, the Bangkok Regional Hub (BRH) had been providing operational support services to the Office. As of November 2016, the financial support services were transferred from the BRH to the Global Shared Services Centre. The Office paid $137,000 and $183,000 to the BRH for support services provided in 2015 and 2016, respectively.

The audit noted that the Office had experienced challenges/delays related to services received for recruitment and procurement. For example, in the case of one project, a procurement process was submitted in October 2016 for the installation of renewable energy systems, the organization of a workshop, and the provision of technical advice to the Project Management Unit. This request had still not been concluded at the time this report was being drafted. Similarly, the Office had also requested for support to establish the registration of the UNDP Payment Gateway in August 2016, which was only concluded in March 2017.

One main reason for these delays was that the Office and the BRH had neither agreed nor signed a Service Level Agreement to specify the timeframe for service delivery. Despite several discussions between the Office and the BRH on the timeliness of services provided by the BRH, the delays continued. BRH management agreed that there had been delays in the services provided; however, they explained that the delay in procurement was mainly due to insufficient staff resources/capacities. The Office was funding a procurement support position in the BRH since February 2017 to facilitate the timely completion of the Office's procurement requests, but without any cost-recovery arrangements, which could have resulted in overpayments. Subsequent to the audit, the Office's management informed the audit team that cost-recovery arrangements had been agreed upon with the BRH.

These delays hindered programme delivery. In the absence of Service Level Agreement provisions outlining the timeliness and quality of services provided, the Office may face ongoing delays in procurement and recruitment.

Priority	Medium (Important)
Recommendation 1: In collaboration with the Bangkok Regional Hub, the Office should establish specific guidelines and parameters to clarify the scope of work and timelines for the completion of services provided by the Bangkok Regional Hub.	
Management action plan: The Office will work with the Bangkok Regional Hub to establish Service Level Agreements for all services provided to the Office, with clear guidelines and parameters to clarify the scope of work and timelines for these services. **Estimated completion date:** December 2017	

Issue 2 Significant Office support to nationally implemented projects

The UNDP policy on nationally implemented (NIM) projects requires that these projects be managed and implemented by national entities to develop their capacities. UNDP Country Offices may provide support services to national implementing partners at the request of the Government. Where such services are provided, UNDP rules and regulations should be followed, including establishing an exit strategy in the most efficient and effective way.

The audit team noted that the Office provided substantial operations support to various NIM projects. The review of NIM projects implemented by the Office identified the following:

- Out of the 13 NIM projects in 2017, the Office provided operational support (full and partial) to 9 projects, representing 69 percent of the NIM portfolio, similar to the support rate for 2016.
- The Office had been providing full operational support to eight NIM projects since 2015.
- Support services had increased from $1.9 million in 2015 to $3.9 million in 2016.

The Office's management explained that the Government requested the support services for the following reasons:

- staff shortages within the government ministries;
- limited government staff capacity;
- the Government's perception of UNDP as a donor rather than a partner, therefore UNDP was expected to fully fund the staffing requirements of the project, including the programme staff time related costs; and
- difference in priorities, whereby UNDP's projects were considered lower priority as compared to those implemented by the Government.

The audit team noted, however, that the capacity assessments of implementing partners did not identify major concerns. The risk ratings of these partners ranged between low and medium. In addition, the project documents reviewed did not articulate exit strategies, as required, when Offices provide significant support to national implementation. Further, the proforma cost for national staff in the Country was one of the highest in the region, which may lead to high operational costs, and may result in a model that is not financially viable.

The Office acknowledged that the current level of support being provided was posing a burden on them, and that it would explore ways to address this, including the use of project staff to undertake the support functions. This would enable programme staff to focus on the assurance functions of monitoring and oversight.

The Office may risk not focusing on its core objectives related to supporting a middle-income country.

Priority	Medium (Important)

Recommendation 2:

The Office should review the support provided to nationally implemented projects by:

(a) identifying areas of priority that fit within the framework of the current Country Programme Document to encourage the use of government staff to support the projects; and
(b) ensuring the budget in the project document reflects the true costs of implementing the project, including programme staff time costs.

Management action plan:

The Office will review all project documents, budgets and work plans and propose relevant changes to the project staffing structures and budgets to ensure sufficient in-project capacity for implementation, as well as sufficient funding for additional direct project support by the Office.

The Office will also develop targeted capacity-building for government staff to facilitate their increased implementation responsibilities.

Estimated completion date: December 2017

Issue 3 Office sustainability challenges

The UNDP partnership guidelines require offices to mobilize additional resources for the effective implementation of programme objectives. Further, the financial sustainability of UNDP Country Offices depends on this ability to mobilize resources and establish effective partnerships. In the context of the universal changing development landscape in the world, and as the Country was moving into the upper middle-income category, options for official development assistance from the traditional donor governments were decreasing. As a result, the Office had been facing challenges in resource allocations and mobilization, as follows:

- Reduced institutional budget allocation: The institutional budget for the Office had been decreasing, it was reduced from $1.35 million in 2015 to $1.2 million in 2016, and to $0.98 million in 2017. With this decrease in the institutional budget in 2017, staff costs normally covered by this budget would be charged against the extrabudgetary resources. As a result, in 2017, the Office faced a deficit of $200,000 in its General Operating Expenses budget.
- Reduced Government Contributions towards Local Office Costs (GLOC) target: The GLOC target for 2017 had been reduced from $450,000 to $140,000, representing an additional challenge for the Office. The Office renegotiated the GLOC allocation for 2017 with the Government, which agreed to contribute at the previous rate of $450,000. However, this was a temporary measure and the Office would face the same challenges in 2018 and beyond.
- Unrealistic Direct Project Cost (DPC) targets: The Office could not recover DPC from Global Environment Facility (GEF)-funded projects beyond what had been agreed upon in the project document to support the programme staff costs. Though the Office was able to meet the DPC target of $100,000 for 2016, it indicated that it would likely not meet the DPC target of $200,000 for 2017, which may have impact on the sustainability of the staffing structure. The GEF portfolio had grown significantly in the previous three years, and currently accounted for 80 percent of the Office's delivery. The Office highlighted the risks related to the staffing structure in both the 2016 and 2017 Integrated Work Plans. Staff capacities, especially those related to the inclusive Green Growth and Sustainable Development Unit, were stretched. The Office's management also stated that the Deputy Resident Representative post may not be sustainable, and would be reviewed at the end of 2017.
- Reduced third-party cost sharing: The Office also faced challenges mobilizing resources for its Democratic Governance and Social Advocacy (DGSA)-related projects. According to information in Atlas, resources available for DGSA in 2017 totalled $0.23 million, while the resources for the environment-related projects funded by GEF totalled over $7 million. The 2017 programme pipeline in Atlas included only $0.4 million in commitments, and $1.1 million in soft pipelines.

- The Country's proforma cost for national staff was one of the highest in the region. Therefore, the existing Office model was not financially viable (refer to issue 2).

The Office and the Regional Bureau for Asia and the Pacific were aware of the sustainability issue and had initiated several initiatives such as private contributions, an innovation fund, and exploring options to reduce costs. The Office also developed a proposal for redesigning the Office to align it with the new UN Partnership Framework 2017-2021, involving a range of stakeholders to maintain relevance.

Should the current trend of declining resources continue, the Office may not be able to sustain its operations.

Priority	Medium (Important)
Recommendation 3: The Office, in consultation with the Regional Bureau for Asia and the Pacific and other stakeholders, should review the Office's sustainability within the context of the changing operating environment, and in line with the proposed redesigning of the Office.	
Management action plan: A strategic review of the Office's presence and structure in the Country is scheduled to commence in August 2017. **Estimated completion date:** December 2017	

Issue 4 Overstatement of the Office's 2016 programme delivery

According to the 'UNDP Programme and Operations Policies and Procedures', the overall annual office delivery is based on the programme and operational expenditures of the office for that year.

In 2016, the Office recorded overall expenditures of $9.2 million, comprising programme expenditures of $7.1 million, management expenditures of $1 million and UN Coordination/Development Effectiveness and Special Purpose expenditures of $1 million. However, the actual Office programme delivery was only $6.3 million, as the expenditures of $0.8 million ($7.1 million minus $6.3 million) aimed to accommodate a Regional Bureau for Asia and the Pacific transaction but was recorded against Office expenditures. The Office's management informed the audit team that the funds of $0.8 million were TRAC funds that could not be recorded under the Regional Bureau as funding for regional programming.

The project reverted to the Regional Bureau for Asia and the Pacific in 2017; however, the overall impact was the inflation of the Office's programme delivery.

Comment
The OAI Headquarters Audit Section also conducted an audit of the Regional Bureau for Asia and the Pacific in May 2017. As the transfer was initiated by the Regional Bureau for Asia and the Pacific, the relevant information has been passed on to the Headquarters Audit Section for their follow-up and reporting as appropriate.

B. Programme

1. Quality assurance process

Issue 5 Project management weaknesses

The audit selected nine projects for detailed review (projects 48912, 61756, 61807, 62068, 66019, 81732, 81751, 83158 and 88557), with total expenditures of $3.3 million, representing 47 percent of the total programme expenditures for 2016. The audit noted the following weaknesses in project management:

(a) Weak Results and Resources Frameworks

The 'UNDP Programme and Operations Policies and Procedures' require projects to develop a comprehensive Results and Resources Framework, identify the outputs, indicators, baselines, indicative activities and a budget for each of the activities being implemented. The Results and Resources Framework helps define project results to support the planning, management and monitoring of development activities. Therefore, outcomes, outputs and activities must be specific, measurable, achievable, relevant, and time-bound (SMART). The project design must include annualized output targets.

The audit noted that the 2016 and 2017 annual work plans for five projects were not in the UNDP format, did not have a budget related to the activities outlined, and were not signed by the Office or by the implementing partner. The 2016 annual work plan for one project was not provided, while the 2017 annual work plan was drafted in the local language and therefore it was not possible to determine what was planned.

Further, there were weaknesses in indicators, baselines and targets for some projects. For instance, some projects did not specify any measurable results against which the indicators would be measured. Similarly, annual targets for the same project were not indicated in a number of cases. Some project indicators were phrased as targets, for instance, indicator 1.1 stated "guidelines for applying economic mechanisms for conservation are formulated in related policies, plans for forest and watershed." Projects had too many indicators. In most projects, there were no annual targets specified, and therefore it was not possible to determine whether the output targets for specific years had been achieved.

As a result, the actual results and progress achieved were difficult to assess. Additionally, the project progress reports focused more on activity-level achievements. For example, a project stated equipment was installed, without specifying whether these were being satisfactorily utilized.

(b) Inadequate programme and project oversight

The 'UNDP Programme and Operations Policies and Procedures' state that offices must ensure adequate monitoring by preparing annual project reports, and maintaining issue, monitoring and risk logs.

The Office had not developed a comprehensive monitoring and evaluation framework. According to the 2016 Results Oriented Annual Report, $50,000 had been spent on monitoring and evaluation activities; however, the project assurance monitoring by the Office was not evident. While project back-to-office reports and field visit reports were provided for the projects and reviewed in detail, these were not necessarily linked to any of the progress indicators to be measured. These visits were to attend specific activities and were not necessarily monitoring missions. None of the field visit reports reviewed identified what monitoring activities were to be undertaken or what indicators were to be assessed. In addition, emerging risks and challenges were not consistently documented.

Some projects had identified critical risks affecting these (inability to obtain land-use permits, and changes in government policies on solar farm and rooftops), however there were no management responses to mitigate the risks. Further, two projects had also identified risks of project implementation delays as critical risks; however, no corresponding management responses were documented. There were no project risks noted for three projects. Failure to adequately plan for anticipated risks and emerging issues may impact the Office's ability to implement project activities.

(c) Delays in project implementation

Projects are formulated to be completed within a specified timeframe, resources and expected results. On an exceptional basis, projects are extended beyond their end dates to ensure activities are completed and outputs are realized. The audit noted that four projects had been extended beyond their end dates as a result of delayed implementation, where significant funds had not been expended as yet. For example, one project was extended by one year to December 2017, while two other projects were both extended by 16 months and one project was extended by 17 months. Exit strategies were not incorporated into any of the projects reviewed. The Office stated various reasons for these delays, including implementing partner capacities, government bureaucracies, political environment, and delays in operational support provided by the BRH.

(d) Inadequate reporting and results achievement

The 'UNDP Programme and Operations Policies and Procedures' stipulate that project progress reports should provide analysis of project performance. The reports should also include financial information on planned budgets and expenditures.

Given that annual targets were not identified for most of the projects reviewed, it was difficult to determine whether they had achieved the planned results. A review of the Results Oriented Annual Report for 2016 also highlighted weaknesses in results reporting, and the linkages to the evidence required. Some evidence-related documentation was not available online.

The Office's management acknowledged the weaknesses and stated that projects would be reviewed to ensure requirements were adhered to. Further, the Office would organize additional Results Based Management training for programme and project staff, and partners to ensure SMART baselines, indicators and targets are identified, and that the reporting process is improved.

The Office risks not meeting its developmental objectives should project management weaknesses continue.

Priority	High (Critical)
Recommendation 4:	

The Office should strengthen its project management practices by:

(a) ensuring annual work plans reflect appropriate indicators, baselines and annual targets, with a resourced monitoring plan developed to monitor programme results – the plans should be in the approved template and signed both by the Office and the implementing partner; and
(b) having realistic project end dates and building requisite implementing partner capacities to ensure the timely implementation of projects.

Management action plan:

The Office will do the following:

- Results-based management and report writing training will be provided for both programme and project staff as well as implementing partners/responsible parties.
- All project work plans will be reviewed with partners to ensure compliance with the corporate template as well as appropriate indicators, baselines and to ensure that targets are included.
- Consultations will be conducted with partners for all projects to ensure that project end dates are realistic and based on partners' capacity.

Estimated completion date: December 2017

Priority High (Critical)

Recommendation 5:

The Office should ensure compliance with the 'UNDP Programme and Operations Policies and Procedures' on project monitoring and assurance by:

(a) establishing an overall monitoring framework to identify monitoring and assurance activities, determining when they will be undertaken, and determining which staff will conduct them; and
(b) having an annual reporting process that adheres to UNDP reporting requirements.

Management action plan:

The Office will, in consultation with government partners, develop a comprehensive monitoring framework for all projects and for the overall Country Programme, including identifying monitoring and assurance activities, determining when they will be undertaken, and determining which staff will conduct them. Annual reporting will conform to corporate requirements

Estimated completion date: December 2017

Issue 6 Disproportionately large number of small projects in Office portfolio

According to the 'UNDP Programme and Operations Policies and Procedures', Country Offices are accountable for contributing to developmental results in the most relevant, efficient and effective way. Hence, Country Offices are required to review and streamline their programme portfolios to enhance productivity, reduce transaction costs, and increase efficiency and effectiveness.

The Office's programme portfolio included several small-value projects, which could lead to relatively high transaction costs. An analysis of the programme delivery for 2015 and 2016 revealed that the financial delivery of the five largest projects ranged between 60-65 percent of total delivery, indicating a concentration of delivery in very few projects. Furthermore, the total delivery of 22 projects represented only 39 percent of the total financial delivery of $1.9 million in 2016. Given the 2017 budgets of the five largest projects, the same delivery trend was expected to continue in 2017.

The Office stated that this situation was due to the project portfolio including five GEF Project Preparation Grants in 2016. GEF requires the set-up of a separate project for the preparation of each awarded grant.

Operating a large number of projects with low budgets increases the risks of high operating costs, fragmented approaches to development, and inefficient utilization of resources.

Priority	Medium (Important)
Recommendation 6: The Office should streamline its programme portfolio to ensure an effective and efficient programme approach to reduce administrative costs and enhance efficiency gains.	
Management action plan: Given the large number of GEF funded projects, it is not possible to reduce the number of projects substantially, but efforts are being made to merge other core and non-core projects to reduce the total number of projects. **Estimated completion date:** Ongoing	

Definitions of audit terms - ratings and priorities

A. AUDIT RATINGS

- **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.

- **Partially 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 <u>not included in this report</u>.