

UNITED NATIONS DEVELOPMENT PROGRAMME
Office of Audit and Investigations



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AUDIT

OF

UNDP COUNTRY OFFICE

IN

INDIA

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Report on the Audit of UNDP India Executive Summary

The UNDP Office of Audit and Investigations (OAI) conducted an audit of UNDP India (the Office) from 4 to 15 February 2019. 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) operations (financial resources management, ICT and general administrative management, procurement, human resources management, and staff and premises security); and
- (d) United Nations leadership and coordination.

The audit covered the activities of the Office from 1 January to 31 December 2018. The Office recorded programme and management expenses of approximately \$45.5 million. The last audit of the Office was conducted by OAI in 2015.

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 the Office not meeting its programme delivery targets.

Key recommendations: Total = 3, high priority = 1

The three recommendations aim to ensure the following:

Objectives	Recommendation No.	Priority Rating
Achievement of the organization's strategic objectives	1	High
Effectiveness and efficiency of operations	3	Medium
Compliance with legislative mandates, regulations and rules, policies and procedures	2	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. The high (critical) priority recommendation is presented below:

Programme delivery
targets not met (Issue 1)

In 2018, the Office's delivery was only \$39.9 million against the target of \$51.5 million (76 percent) of the Regional Bureau for Asia and the Pacific and against \$52.3 million (77 percent) of the Office's programme budget. The Office had not achieved its delivery targets from 2016 to 2018. While programme resources were available, factors such as delays in government co-financing in 2016, and the subsequent restructuring of the Office in 2017 contributed in part to the under-delivery according to management.

Recommendation: The Office should enhance programme delivery by ensuring: (a) close cooperation between operations and programme units is established for the efficient implementation of procurement and recruitment activities; (b) annual work plans are realistic and adjusted as appropriate to any emerging risks identified during the mid-year review that may impact the implementation of activities; and (c) close monitoring by senior management of the output targets and a prompt response to implementation challenges.

Management comments and action plan

The Resident Representative accepted all 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.

One issue, relating to safeguarding of assets that were under the purview of UNDP as set forth in an inter-agency agreement, was separately referred to the relevant UN agency.



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I. About the Office

The Office, located in New Delhi, India (the Country) comprised of 34 staff and 260 service contract holders at the time of the audit. The existing Country Programme Document 2018-2022 focused on three outcome areas: (a) institutional and systems strengthening for service delivery; (b) inclusive growth; and (c) energy, environment and resilience. The Office had recently undergone a restructuring process to align with the new government co-financing model instituted in 2017. The new model focused on consultancy and advisory support services to the Government in place of project implementation under the previous model of Development Support Services.

II. Audit results

Satisfactory performance was noted in the following areas:

- (a) Governance. Management structures, roles and responsibilities, and delegations of authority were established and operating effectively. No reportable audit issues were noted.
- (b) Operations/finance. The review of financial transactions and control measures put in place did not identify any reportable issues.
- (c) Operations/ICT and general administrative management. A review of software and hardware management as well as the Office's Disaster Recovery Plan indicated that adequate controls had been established. The review of asset management did not identify any reportable control issues.
- (d) Operations/human resources management. The review of human resources management did not identify any reportable control issues.
- (e) Operations/staff security and premises. The review of the Office's security plan, security risk assessment, warden system and security training plan did not identify any reportable issues.
- (f) United Nations coordination and leadership. A review of the activities undertaken by the Resident Coordinator's Office indicated that adequate controls had been established to manage and lead the United Nations Coordination work in the Country.

OAI made one recommendation ranked high (critical) and two 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 recommendation:

- (a) Improve programme delivery (Recommendation 1).

Medium priority recommendations:

- (a) Enhance programme management (Recommendation 2).
- (b) Enhance procurement planning (Recommendation 3).

The detailed assessment is presented below, per audit area:

A. Programme

1. Programme/project design and implementation

Issue 1 Programme delivery targets not met

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. The budget should be realistic and adjusted accordingly during the course of the year.

The audit team reviewed the Office's overall programme resources, delivery and budgets set in Atlas (enterprise resource planning system of UNDP), as outlined in the table below:

Table 1: Office programme budget, available resources, target, and expenses (2016-2018)

	2016 \$ millions	2017 \$ millions	2018 \$ millions
Programme available resources	70.0	58.6	57.6
Programme budget	52.6	50.3	52.3
Programme target	56.9	50.6	51.5
Programme delivery	41.6	39.2	39.9
Programme delivery rate against budget	79%	77.8%	76%
Programme delivery rate against available programme resources	59.4%	66.9%	69.3%

Source: Executive Snapshot

In 2018, the Office recorded a programme delivery of \$39.9 million or 77 percent of the Regional Bureau for Asia and the Pacific target of \$51.5 million and 76 percent of the Office's budget of \$52.3 million. Out of the overall programme and management delivery of \$45.5 million, \$8.3 million (18 percent) was recorded as commitments and had yet to be expended at the time of the audit. Concerns over programme management weaknesses were noted (see Issue 2), including the lack of a project procurement plan. The Office had been unable to attain the programme delivery targets for the prior three years.

Management stated that there were various factors contributing to the low programme delivery rates. In 2015, government cost sharing increased significantly, and the Office underwent a restructuring process thereafter in anticipation of the increased Government Cost Sharing (GCS) portfolio. In mid-2016, the GCS was delayed for about nine months as challenges related to its audit were being addressed. This resulted in a new GCS model that was much smaller and focused on the provision of consultancies and advisory services. A second office restructuring process was initiated in June 2017 and was completed in the first quarter of 2018, which had a disruptive effect on the Office's operations. Given the Office was working on the basis of multi-year work plans in 2018, opportunities for both programme and operations staff to discuss project-related recruitment and procurement activities were limited.

The Office had only budgeted for \$28 million at the time of the audit fieldwork because the 2019 annual work plans had not yet been finalized. The programme delivery target for 2019 was \$51.6 million.

By not meeting its programme delivery targets, the Office may not be able to achieve its development objectives.

Priority	High (Critical)
Recommendation 1: The Office should improve programme delivery by ensuring that: <ul style="list-style-type: none"> (a) close cooperation between operations and programme units is established for the efficient implementation of procurement and recruitment activities; (b) annual work plans are realistic and adjusted as appropriate to any emerging risks identified during the mid-year review that may impact the implementation of activities; and (c) close monitoring by senior management of the output targets and a prompt response to implementation challenges. 	
Management action plan The Office accepts the recommendation and shall implement the following management action plan: <ul style="list-style-type: none"> (a) The Office will organize a training for operations and programme staff on the recent changes to the Programme and Project Management (PPM) policies and procedures in quarter 2/2019 with support from the Regional Bureau for Asia and the Pacific and will review any emerging issues that inhibit efficient implementation of procurement or recruitment activities in fortnightly management team meetings. (b) The Office will hold regular review meetings to monitor implementation of annual work plans and adjust targets, where needed. (c) Same as (a) and (b) above. 	
Estimated completion date: August 2019	

Issue 2 Weaknesses in programme management

The 'UNDP Programme and Operations Policies and Procedures' require offices to adhere to project management procedures for the proper implementation and management of programmes and projects in order to achieve organizational objectives.

The Office had 32 ongoing projects. Of those projects, 23 were directly implemented projects and the remaining 9 were nationally implemented. Six projects were reviewed (Project Nos. 80436, 85889, 101020, 107172, 85200 and 98752) with total incurred expenditures of \$22 million (55 percent) out of \$39.9 million total programme expenditures during the audit period.

The following weaknesses were noted:

- a) Annual work plans not reviewed

The 'UNDP Programme and Operations Policies and Procedures' require that annual work plans identify specific annual targets and be endorsed by the implementing partner in the last quarter of the preceding year. The

annual work plans specify the activities to be delivered along with the resources allocated for the activities and the respective timelines for implementation.

The Office had instituted multi-year work planning as articulated in the project documents. Except for one project, the multi-year work plans were not reviewed jointly with the project boards at least once a year to ensure these work plans remained valid for delivering project outputs in the most efficient and effective way possible.

This lack of review resulted in budget discrepancies, as figures entered in Atlas did not tally with the multi-year work plans in the project documents.

b) Weaknesses in project monitoring

Monitoring is a continuous management function that provides decision makers with regular feedback on the consistencies or discrepancies between planned and actual results. All UNDP programming activities are required to adhere to monitoring standards. At the project level, the 'UNDP Programme and Operations Policies and Procedures' provide guidance on monitoring activities to undertake during the project implementation stage.

Based on the review of the project monitoring reports, the audit team noted the following:

- Except for Project No. 80436, none of the other projects reviewed had a monitoring plan, and monitoring activities had been conducted without following any structured and integrated approach, resulting in the weakening of the programmatic monitoring and supervision of the projects.
- Assurance monitoring by programme staff was limited, and did not outline what was to be monitored, including documenting challenges and identifying mitigating actions. While the Office had developed a standard back-to-office report template, information provided mainly related to attending some workshops or activities without indicating the objective of the monitoring exercise, what was to be monitored, and the resultant findings, including follow-up actions as necessary.

c) Project board meetings not held

The project document for Project No. 85200 indicated that project board meetings would be held on a quarterly basis. However, no project board meeting minutes for 2018 were provided by the Office. Similarly, the Office did not provide project board meeting minutes for Project No. 101020. In the absence of project board meetings, key issues and risks affecting the project may not be addressed in a timely manner.

d) Absence of Letter of Agreement for third party payments

The 'UNDP Programme and Operations Policies and Procedures' state that UNDP may identify a responsible party to carry out activities within a directly implemented project. All responsible parties are directly accountable to UNDP in accordance with the terms of their agreement or contract with UNDP.

Based on an agreement entered into between the Multilateral Fund and the Government, UNDP was identified as the lead agency to directly implement Project No. 85200 (total budget of \$41.3 million over six years). The audit team noted that the Office had made payments to third parties in the absence of a contractual agreement. In a sample of 30 payment vouchers reviewed, there were 6 instances (totalling \$1.64 million) where direct payments were made to third parties under this project at the request of a government ministry. The payments

were processed by the Office based on a Memorandum of Agreement entered into between the government ministry and the third parties.

The Office stated that the payments were made on the basis of an implementation management plan annexed to the approved Local Project Appraisal Committee minutes, which outlined the administrative structure and roles and responsibilities for the practical implementation of the project. The Office added it that had made attempts to have a Letter of Agreement signed with the with the government counterpart to no avail. According to the audit team, this implementation management plan, which was not reviewed by the Legal Office, would not be a substitute for a Letter of Agreement since it did not contain the various legal provisions and safeguards for UNDP potential liabilities.

Not having signed Letters of Agreement may expose the Office to disagreements and financial liabilities.

Priority	Medium (Important)
Recommendation 2:	
<p>The Office should enhance programme management by ensuring that:</p> <ul style="list-style-type: none"> (a) annual work plans are endorsed at the beginning of the year and project board meetings are held, including reviewing multi-year work plans as required in the project documents; (b) programme field monitoring activities and assurance monitoring are well planned and undertaken, with monitoring reports articulating monitoring activities undertaken along with follow-up actions; and (c) Letters of Agreements are signed with responsible parties or advice is sought from the Legal Office on the use of the implementation plan as a substitute. 	
Management action plan:	
<p>The Office accepts the recommendation and shall implement the following management action plan:</p> <ul style="list-style-type: none"> (a) Annual work plans for 2019 were finalized in the first quarter of 2019. Project board meetings will be held annually, as per the revised UNDP policies on project management. (b) To be implemented, as recommended. (c) The Office shall establish a standard operating procedure wherein all agreements are cleared by the Operations Manager or Deputy Resident Representative, prior to signature by the Resident Representative or designate. 	
Estimated completion date: June 2019	

B. Operations

1. Procurement

Issue 3 Inadequate procurement planning

The 'UNDP Programme and Operations Policies and Procedures' state that supply chain management risk analysis, and procurement strategy development and planning are essential tools to ensuring that procurement activities support project outcomes, and that they are conducted in a timely manner and at a reasonable cost. Offices are required to develop a consolidated procurement plan on an annual basis, including conducting an analysis of this plan as well as reviewing and updating it regularly.

While the Office's programme delivery for 2018 was \$39 million, about \$8 million (21 percent) were commitments to procure goods and services and were yet to be translated into actual project expenditures by year-end. In December 2018 the Office had issued purchase orders amounting to \$6.7 million for all development projects although goods and services amounting to \$4.6 million had not been received as at 31 December 2018. As at 14 February 2019, goods and services amounting to \$4 million out of the \$6.7 million had not been received or rendered.

The Office explained that during the audit period, project procurement requests were generally received late. There was neither a comprehensive consolidated procurement plan developed for the Office at the beginning of the year nor a proper process of developing a procurement strategy and conducting a supply chain management risk analysis, mainly due to in part to the restructuring exercise conducted in early 2018. The Office had not used the procurement planning tool (PROMPT) for preparing the consolidated procurement plan for the year. Instead, PROMPT was being updated whenever a procurement request was received from the project management units, hence reducing PROMPT to a repository tool instead of using it for procurement planning purposes. For 2019, annual work plans for development projects, including procurement plans, had not yet been finalized.

Inadequate procurement planning may result in the Office having to rush the procurement of goods and services, which may result in failing to obtain best value for money in respect of procurements undertaken and possibly compromising the quality of the programme results produced.

Priority	Medium (Important)
Recommendation 3:	
The Office should enhance procurement planning by:	
<ul style="list-style-type: none"> (a) establishing procedures to complete procurement plans as part of annual work plans of projects and consolidate all procurement plans in a timely manner; and (b) undertaking procurement planning early and effectively using the PROMPT system by entering request data in a timely manner. 	
Management action plan:	
The Office accepts the recommendation and shall implement the following management action plan:	

- (a) 2019 procurement plans have been developed in tandem with project annual work plans. However, procurement actions related to Country Office support to nationally implemented projects are based on *ad hoc* requests by national partners, as needed, and therefore advance planning is not feasible in such situations.
- (b) The Office will ensure that procurement plans are updated in PROMPT within a month of annual work plan approval.

Estimated completion date: June 2019

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 not included in this report.