UNITED NATIONS DEVELOPMENT PROGRAMME
Office of Audit and Investigations

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AUDIT

OF

UNDP COUNTRY OFFICE

IN

MONGOLIA

Report No. 2085

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Report on the Audit of UNDP Mongolia
Executive Summary

The UNDP Office of Audit and Investigations (OAI) conducted an audit of UNDP Mongolia (the Office) from 3 to 14 June 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 2018 to 31 May 2019. The Office recorded programme and management expenses of approximately $8.9 million. The last audit of the Office was conducted by OAI in 2014.

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 **satisfactory**, which means "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."

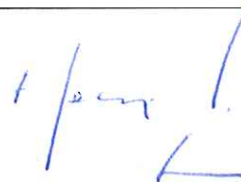**Key recommendation:** Total = **1**, high priority = **0**

The audit did not result in any high (critical) priority recommendations. There is one medium (important) priority recommendations, which means "Action is required to ensure that UNDP is not exposed to risks. Failure to take action could result in negative consequences for UNDP." This recommendation includes actions to address inadequate controls over the management of direct project costs.

The recommendation aims to ensure compliance with legislative mandates, regulations and rules, policies and procedures (Recommendation 1).

Management comments and action plan

The Resident Representative accepted the recommendation and is in the process of implementing it. 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.

Helge S. Osttveiten
Director
Office of Audit and Investigations

I.   About the Office

The Office, located in Ulaanbaatar, Mongolia (the Country) had a total of 15 personnel at the time of the audit. The Office initiated its new Country Programme in 2017. The 2017-2021 Country Programme Document focused on the following: (a) mainstreaming the 2030 Agenda in Mongolia; (b) ecosystem services to support livelihoods of vulnerable groups; (c) resilience of rural and urban poor to shocks; (d) equitable, sustainable and low carbon urban development; (e) strengthened governance for increased voice and accountability; and (f) effective civil service.

II.   Audit results

Satisfactory performance was noted in the following areas:

(a)   Governance. The Office exercised proper oversight and appropriate risk management to achieve its intended objectives. The audit noted adequate controls were in place for managing the Office.

(b)   Programme and project management. The audit team reviewed the Office's project management processes and activities such as project oversight, planning and budgeting as well as monitoring. No reportable issues noted.

(c)   Operations/Procurement. The audit team reviewed samples of procurement transactions including assessing controls established in procurement processes. No reportable audit issues noted.

(d)   Operations/Human resources. The audit team reviewed processes related to recruitment, separation, leave management, and training and found that controls were adequate and working effectively.

(e)   Operations/General administration. The audit disclosed that adequate controls were put in place.

(f)   Operations/Information and communication technology. The audit team reviewed the Office's business continuity and disaster recovery plan, which had been tested satisfactorily during the audit period. No reportable audit issues noted.

(g)   Operations/Safety and security. The audit assessed the Office's security plan, security risk assessment, security management team meeting minutes and no reportable issues were found.

(h)   UN coordination and leadership. The audit indicated that adequate and effective controls were established.

OAI made one recommendation ranked medium (important) priority.

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

Medium priority recommendation:
(a)   Improve controls over management of direct project costs (Recommendation 1).

The detailed assessment is presented below, per audit area:

A. Operations

1. Financial Resources Management

Issue 1   Inadequate control over management of direct project costs

Direct project costs are organizational costs incurred in the implementation of a development activity or service provided by UNDP Country Offices and Headquarters units that can be directly traced and attributed to that development activity (projects and programmes) or service. Regardless of the methodology used in the implementation of direct project costs, the underlying principle is that the apportionment should be transparent and consistent for costing purposes. The Regional Bureau for Asia and the Pacific's direct project costing guideline states that direct project cost expenses should be charged to development projects at the end of each month or mandatorily every quarter.

Prior to start of the year, the Office undertook a workload study (for a total of 10 working days) to determine the amount of support that staff in both programme and operations units were providing to development projects managed by the Office. The results of the workload study indicated the portion of time spent on direct support provided to development projects for staff within the different categories. This information was available at the aggregated level, by programme units for programme staff and totals for other staff. This did not drill down to the support services being provided at the project level.

For programme unit staff, the Office explained that the direct project cost recovery at the project level was based on the budget of each programme relative to the overall budgets of projects. This approach did not account for the level of actual support rendered to each project by programme staff or the actual delivery of the project. Furthermore, the initial measurement of the apportionment of programme staff time cost between direct support to projects and other time was not reconfirmed during the year to ensure that the initial measurement remained valid through the year.

The audit also noted that the Office had not been undertaking billing and recovery of costs of services provided to development projects on a timely basis. During the audit period the Office billed projects for services rendered for quarterly periods although these quarterly billings were delayed, ranging from one to four months (for example direct project costs for October to December 2018 were recovered in April 2019).

Inadequate controls may lead to the late recovery of direct project costs and may lead to the under or overcharging to projects.

Priority	Medium (Important)
Recommendation 1:	
To improve controls over the management of direct project costs, the Office should: (a) periodically reassess whether the results of the workload study remain valid through the period for which direct project costs are recovered from projects to ensure that any changes in the level of direct project support are appropriately reflected in direct project cost recovery; and (b) recover direct project costs from projects on a timely basis either monthly or quarterly.	

Management response:

The Office agrees with the recommendation and plans to undertake a set of key measures to facilitate the establishment of a further refined direct project cost collection system, which would allow for the continuous generation of updated data to inform timely and precise billing of staff time spent on direct project implementation. These key measures include putting in place standard operating procedures for all parties involved in direct project cost collection, conducting a workload analysis, and regular quarterly verification and billing.

Estimated completion date: June 2020

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>.