

**UNITED NATIONS DEVELOPMENT PROGRAMME**  
**Office of Audit and Investigations**



*Empowered lives.  
Resilient nations.*

**AUDIT**

**OF**

**UNDP COUNTRY OFFICE**

**IN**

**INDONESIA**

**Report No. 1332**

**Issue Date: 10 October 2014**

## Report on the audit of UNDP Indonesia Executive Summary

The UNDP Office of Audit and Investigations (OAI) conducted an audit of UNDP Indonesia (the Office) from 9 to 27 June 2014. 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);
- (d) operations (human resources, finance, procurement, information and communication technology, general administration, safety and security, asset management, leave management); and

The audit covered the activities of the Office from 1 January 2013 to 31 May 2014. The Office recorded programme and management expenditures totalling \$53 million during the audit period. The last audit of the Office was conducted by OAI in 2009.

OAI also included a performance audit segment focused on the review of the Office's practices for monitoring development projects with the purpose to address the question: Is the Office effectively monitoring its performance, and is it successful in integrating performance results in decision-making? The audit work focused on whether the Office: (a) established results-based planning; (b) carried out results-based monitoring; and (c) properly reported on results and took action to improve performance. OAI's work was limited to the effectiveness of the monitoring and did not include an assessment of efficiency aspects or visiting project sites. Overall, OAI concluded that the Office had effective monitoring practices. The detailed results of this audit work are presented as a separate section at the end of the report.

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 the various issues noted in programme and operations activities of the Office.

### Good practices

#### Programme activities

- (a) The Office developed internal project appraisal guidelines to provide additional guidance on key issues, such as gender mainstreaming, exit and sustainability, and quality of results framework. The guidelines

assist programme units with developing new proposals and ensuring that programme activities lead to high quality results.

- (b) The Office created templates for Quarterly Monitoring Reports and Donor Reports. The templates helped standardize monitoring processes, and increase the knowledge of the programme and project staff with respect to project and programme monitoring.

**Key recommendations** Total = 12, high priority = 2

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:

Direct project cost recovery not in line with corporate guidelines (Issue 1)      The Office did not adhere to the policy regarding the recovery of direct support services, which calls for recovery on the basis of actual costs or Universal Price List rates. Instead, the Office recovered costs at a flat rate of 5 percent of disbursements. In addition, the cost recovery of support services provided by the Office was not conditioned by a duly signed agreement with the Government.

Recommendation: Be able to readily demonstrate that the recovery of direct support services is based on actual direct costs incurred and after an agreement to this effect has been signed with the Government.


Weaknesses in management of project cash advances (Issue 5)      Controls over project cash advances of \$1.5 million paid during the audit period to facilitate the implementation of workshops in remote locations needed to be enhanced. The amount advanced was often in excess of the amount actually utilized and previous cash advances were not cleared within seven days.

Recommendation: Comply with the 'Programme and Operations Policies and Procedures' on project cash advances and enhance controls over project cash payments.

**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.



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