UNITED NATIONS DEVELOPMENT PROGRAMME
Office of Audit and Investigations

Empowered lives.
Resilient nations.

AUDIT

OF

UNDP COUNTRY OFFICE

IN

NEPAL

Report No. 1328

Issue Date: 11 July 2014

[REDACTED]

Table of Contents

Report on the audit of UNDP Nepal
Executive Summary

The UNDP Office of Audit and Investigations (OAI) conducted an audit of UNDP Nepal (the Office) from 15 to 29 April 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 (development activities, 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, asset management and leave management).

The audit covered the activities of the Office from 1 January to 31 December 2013. The Office recorded programme and management expenditures totalling $37 million. The last audit of the Office was conducted by OAI in 2009.

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 weaknesses in project monitoring, inadequate management of common services, a number of vehicles in excess of Office requirements, and inefficiencies in the Resident Coordinator Office structure.

Good Practice

The Office had initiated a monthly management meeting that reviewed all activities by each of the Office's units, and identified bottlenecks and actions to be undertaken. These were then reported on during the subsequent meeting. Additionally, detailed minutes of the meetings were maintained, and periodically reviewed by management.

Key recommendation: Total = **13**, high priority = **4**

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:

Inadequate coordination for project monitoring (Issue 1)	The programme monitoring function was undertaken at three different levels: project, programme and field office. Monitoring undertaken by the field office staff was not well coordinated with the programme units; the style and presentation of the monitoring reports was inconsistent, and the tracking and follow-up of field visit recommendations was inadequate. The terms of reference of the staff involved in monitoring were not clear, and monitoring tools such as risk and issue logs were not updated. In addition, spot checks were not undertaken or documented, with poor results in reporting that did not link to the results chain. Recommendation: Effectively monitor projects by coordinating among programme units, field offices, and projects.
Resident Coordinator Office function not fully implemented (Issue 2)	The Resident Coordinator Office function was not clearly reflected in staff terms of reference, with also overlaps in responsibilities between posts. Even though the three field offices had coordination functions, these were not clearly delineated in their terms of reference. Recommendation: Implement the Resident Coordinator Office's '2014-2015 Strategic Framework' by: (a) streamlining the Resident Coordinator Office structure with the work plan and justifying the role of the field offices; (b) updating staff terms of reference to clarify roles and responsibilities; and (c) developing annual work plans for existing field offices.
Inadequate management of common premises (Issue 12)	There was a lack of clear and documented United Nations House management rules, resulting in misunderstandings between UNICEF and UNDP in regard to retrofitting expenses incurred for the building. Even though a Memorandum of Understanding signed in July 1998 stated the obligation of the agencies to pay rent based on space occupied, it did not stipulate the duration for which the rent would be payable or address the question of ownership of the United Nations House. Recommendation: Clarify responsibilities with regard to rent and maintenance costs of the United Nations House by: (a) following up with UNDP Headquarters to resolve the retrofitting expenses with UNICEF Headquarters in a timely manner; and (b) formalizing the rent and maintenance arrangements through a signed memorandum between UNDP and the agencies located at the United Nations House.
Number of vehicles in excess of requirements (Issue 14)	There were 115 vehicles registered under the Office. Twenty four vehicles were located in Kathmandu, where distances to be covered were relatively minimal. Each project had its own fleet of vehicles, both at Kathmandu and in remote field offices without adequate consideration of pooling for more efficiency. The vehicles were also not fully utilized. Recommendation: Improve the management of vehicles by: (a) establishing procedures that promote the prudent use of Office resources, such as pooling of vehicles to ensure efficiency and economies of scale. This should include an independent review of the vehicles required for the Office and the projects and the surplus vehicles should be transferred or disposed of in accordance with

asset disposal policies and procedures; (b) establishing procedures that require approval of senior management for purchases of any future vehicles both for the Office and projects; and (c) ensuring that assets that are no longer useful are disposed of in a timely manner.

Management comments and action plan

The Resident Representative accepted all 13 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 Kathmandu, Nepal (the Country) has four field offices that primarily undertake project and programme monitoring. The Country ranks fourth among the 16 countries listed globally as being at extreme risk for climate change over the next 30 years. The impact of climate change will mostly affect 74 percent of the total labour force that is engaged in agriculture. The Country ranks as the 11th most at-risk country to experiencing earthquakes, and the frequency and intensity of major natural hazards such as droughts, floods, and landslides is increasing.

To support the Country through its transition process, a Resident Coordinator Office with an expanded humanitarian scope was established in August 2010. The Resident Coordinator Office was guided by a 'Transition Support Strategy' to provide integrated support on a range of peacebuilding, humanitarian and development issues through its office in Kathmandu and three field offices in Biratnagar, Dadeldhura and Nepalgunj. A new 'Strategic Framework' for the period of 2014-15 was being developed as the next phase of transition support following the previous 'Transition Support Strategy'.

A new 'Country Programme' was initiated in January 2013 covering the period up to 2017. The total budget for implementing the programme up to 2017 was estimated at $159 million.

The Office had 137 staff (28 international and 109 national staff). In addition, the Office had 142 service contract holders (18 located in the three field offices). The Office implemented a portfolio of 20 projects (9 directly implemented and 11 nationally implemented) in the thematic areas of Environment, Peacebuilding, Governance, and Poverty Reduction. Thematic areas were managed by four programme units.

II. Audit results

Satisfactory performance was noted in the following areas:

(a) Governance and strategic management. OAI reviewed four sub-areas: organizational structure and delegation of authority; leadership/ethics and values; risk management, planning and monitoring; and financial sustainability of the Office. The Office had established satisfactory controls in the area of delegation of authority. The Office had a healthy extrabudgetary reserve of 30 months as at December 2013. The 2014 forecast anticipated a reserve of 16 months, due to Office refurbishment planned for the year. Hence, the Office's financial sustainability was satisfactory.

(b) Information and communication technology. Adequate controls were in place and were functioning effectively.

(c) Human resources. Adequate controls were in place and were functioning effectively.

(d) Partnerships and resource mobilization. While OAI noted that there were delays in the achievement of programme results, the Office was aware of this and was taking appropriate action.

OAI made 13 recommendations ranked high (critical) and 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) Clarify responsibilities with regard to rent and maintenance costs of the United Nations House (Recommendation 11).
(b) Effectively monitor projects by coordinating among programme units, field offices, and projects. (Recommendation 1).
(c) Implement the Resident Coordinator Office's '2014-2015 Strategic Framework' (Recommendation 2).
(d) Improve the management of vehicles (Recommendation 13).

Medium priority recommendations, arranged according to significance:

(a) Improve the oversight and monitoring of project cash advances (Recommendation 6).
(b) Enhance controls over the receipt of bids submitted manually and through email (Recommendation 8).
(c) Continue to follow up with government entities to obtain legal documents confirming ownership of the land. (Recommendation 10).
(d) Include in the 'Country Programme Action Plan' annual review an assessment against annual targets (Recommendation 4).
(e) Improve the selection and approval process of micro-grant recipients (Recommendation 5).
(f) Reassess the Atlas human resources profiles and ensure adequate controls are in place (Recommendation 7).
(g) Pursue the full implementation of Harmonized Approach to Cash Transfers (Recommendation 3).
(h) [redacted]
(i) Comply with the 'Programme and Operations Policies and Procedures' on vendor management (Recommendation 9).

The detailed assessment is presented below, per audit area:

A. Governance and strategic management

1. Organizational structure and delegations of authority

Issue 1 Inadequate coordination for project monitoring

The 'UNDP Financial Regulations and Rules' provide that offices must ensure the efficient and cost-effective use of all resources. Further, the 'Programme and Operations Policies and Procedures' stipulate that monitoring is one of the most important functions to track progress and facilitate decision-making. Generally, monitoring is undertaken at both the programme and at the project levels.

The Office was undertaking monitoring at three levels as follows:

Field office level (assurance monitoring): The Office established four field offices to monitor 10 projects as the projects were geographically spread out at the district and community levels, and included micro-enterprise type interventions. At the time of audit, there were 16 staff, with 2 posts vacant. The four field offices reported to the Strategic Planning and Development Effectiveness Unit, with 5 staff.

Project level (implementation monitoring): At the project level, monitoring was undertaken by project staff for following up on day-to-day project activities.

Programme level monitoring (assurance monitoring): Each of the four programme units had 20 dedicated staff that spent between 50 and 80 percent of their time providing project support and assurance. Tasks included providing specific project-related technical inputs, ensuring project board meetings took place, developing annual work plans, drafting progress reports and monitoring of assigned projects, including field visits.

OAI noted that the monitoring undertaken at the three different levels was not efficient or effective in view of the following:

(a) The Office had not developed a programmatic level monitoring plan that covered all aspects of monitoring for the existing programme cycle. As a result, roles and responsibilities in regard to monitoring of project activities were unclear.

(b) Since field offices were undertaking project monitoring to assist the programme units, there should have been close coordination between the units to share the objectives, the reporting format and timelines. However, there was limited coordination between the field office staff and the programme units. The programme staff indicated that monitoring undertaken by the field office staff did not add much value to their programme, as these were undertaken independently and without input from the programme staff overseeing the projects. Similarly, staff of the Strategic Planning and Development Effectiveness Unit stated that greater systematization and clarity on the Unit's roles was required in supporting the programme objectives.

(c) The style and presentation of the monitoring reports submitted by the field offices was not consistent.

(d) There were limited arrangements for tracking and following up on field visit recommendations. There was no assurance the projects followed up on the recommendations.

(e) Projects (61320, 60493, 49636, 57322 and 49635) had fully resourced project structures, including monitoring and evaluation staff, as well as Reporting Officers in some instances. The coordination of these functions with both the programme units and Strategic Planning and Development Effectiveness Unit was not apparent.

This lack of efficiency and effectiveness was due to the fact that there was no formal system of coordination for the monitoring function undertaken at the different levels.

The Office indicated that the issues highlighted by the field office reports were shared with the projects and programme units, and discussed at the project board meetings since mid-2013. They also agreed that closer coordination between the various monitoring functions was required to enhance effectiveness and efficiency.

Unclear roles and responsibilities may result in unnecessary additional layers of reporting and inefficient use of scarce resources.

Priority	High (Critical)
Recommendation 1: Effectively monitor projects by coordinating among programme units, field offices, and projects.	

Management action plan:

(a) Guidelines on monitoring and evaluation outlining the existing monitoring and evaluation system and defining the specific roles and responsibilities of the programme units, projects, and field offices, were being developed.
(b) Field offices will coordinate with the relevant staff in the programme units before going on monitoring visits so that programme staff can provide guidance and input to the monitoring process to better carry out assurance roles.

Estimated completion date:

(a) The first draft will be ready by mid-July 2014 and will be finalized by August 2014.
(b) The arrangements have already been implemented since 9 June 2014.

OAI Response:

OAI acknowledges the action taken by management with regard to recommendation (b); this will be reviewed at a later stage as part of the standard desk follow-up process of OAI.

B. United Nations system coordination

1. Resident Coordinator Office

Issue 2 Resident Coordinator Office function not fully implemented

According to the United Nations Development Group guidelines, the Resident Coordinator Office seeks to better coordinate the different activities of the United Nations agencies to improve their efficiency and effectiveness at the country level. The Resident Coordinator function was being carried out through a structure consisting of 43 posts, of which 18 were located in the three field offices. Each field office was headed by a Field Coordinator who supervised a Development Coordination Analyst and a Humanitarian Coordination Analyst in addition to other support staff.

A review of the Resident Coordinator Office identified the following weaknesses:

(a) Lack of annual work plans – The office in Kathmandu and three field offices are entrusted with coordination functions. None of the three field offices had developed an annual work plan for 2013 and 2014. Further, there were no documented terms of reference that specified the functions of the three field offices.

(b) Outdated job descriptions – The job descriptions of eight field staff had not been updated since 2009. As a result, their terms of reference included support to the Humanitarian Coordinator, even though the existing Resident Coordinator did not hold the designation of Humanitarian Coordinator. Similarly, functions included support to the Office for the Coordination of Humanitarian Affairs, which no longer had any presence in the Country, except for one post in Kathmandu. OAI was unable to determine the value the field offices added to the Resident Coordinator Office.

(c) Lack of clarity in the roles and responsibilities – Terms of reference for the Humanitarian Coordination Analysts and the Development Coordination Analyst were almost identical. The terms of reference for the Field Coordinators in two field offices were identical to those of the Development Coordination Analyst. The Humanitarian Coordinator function was redundant as it no longer resided within the Resident Coordinator Office; however, terms of reference still existed.

(d) Inefficient use of resources – The Resident Coordinator Office had three staff entrusted with routine financial, administrative and logistics related tasks, such as procurement, vehicle maintenance, inventory records, travel, space management, and compliance with safety and security requirements. These tasks constituted core UNDP and UNDSS functions that provided support services to the Resident Coordinator Office and should have been managed by them.

(e) Number of vehicles in excess of requirements – Eight vehicles used by the Resident Coordinator Office appeared to be excessive in number, as one vehicle only covered 3,900 kilometers during 2013, while four other vehicles recorded mileage below 15,000 kilometers (refer to Issue No. 14).

A comprehensive review of the Resident Coordinator Office structure had not been undertaken since the end of the peacekeeping mission in 2011.

The Resident Coordinator Office explained that they had already initiated a review in December 2013 and a strategic concept note on the scope, relevance and functions of the Resident Coordinator Office was in place. The Office further mentioned that there was a shared understanding with development partners that maintaining a field presence remained critical, however, needs would be reviewed in 2015.

The existing structure of the Resident Coordinator Office may lead to the inefficient use of resources. Additionally, the value added by the field offices is not apparent.

Priority	High (Critical)
Recommendation 2: Implement the Resident Coordinator Office's '2014-2015 Strategic Framework' by: (a) streamlining the Resident Coordinator Office structure with the work plan and justifying the role of the field offices; (b) updating staff terms of reference to clarify roles and responsibilities; and (c) developing annual work plans for existing field offices.	
Management action plan: As part of the new '2014-2015Strategic Framework', a review will be undertaken, to streamline the structure both at the field level and Kathmandu. The review will also be taking into consideration the move towards a Delivering as One office. An exit strategy for the phasing out of the humanitarian coordinator facility or capacity is being developed. The contractual modalities of existing staff will also be reviewed, including the structure of the field offices for optimal efficiency. Where possible, every effort will be made with the Office's Operations Unit to identify areas where operational support is mutually agreed upon.	

The proposed review will also include determining the various roles and responsibilities both at the Resident Coordinator Office and the field offices, including aligning these with appropriate annual work plans. **Estimated completion date:** To be completed in stages latest by January 2015.

Issue 3 Harmonized Approach to Cash Transfers not fully implemented

The Harmonized Approach to Cash Transfers is an integral part of the common country programming process. Its implementation involves a series of steps, taken with partners, to assess financial management risks, identify capacity development needs, and build assurance mechanisms into the design of the country programme at the planning stage. Compliance is achieved when the following four steps have been completed: (a) macro-assessment of the public financial system; (b) micro-assessments of implementing partners; (c) agreement with the Government on Harmonized Approach to Cash Transfers implementation; and (d) development and implementation of an assurance and audit plan for implementing partners.

The macro-assessment was endorsed by the Government in July 2013. At the time of the audit, the Office had completed 13 out of 15 micro-assessments, while UNICEF had completed 37 out of 39 micro-assessments. The Office had concluded that the results did not show any significant risks, and therefore, it would go ahead with the direct cash transfer modality to these partners. Micro-assessments for four implementing partners, two of which worked directly with UNDP, had not been undertaken. A joint assurance plan was also not in place at the time of audit, more than a year after the new 'Country Programme'.

In its meeting of February 2014, the Harmonized Approach to Cash Transfers Task Force decided to continue to work on developing their 2014 Annual Work Plan, which would include a joint capacity development and assurance plan.

The objectives of harmonizing practices among United Nations agencies and ensuring reduction in transaction costs will not be achieved unless the Harmonized Approach to Cash Transfers requirements are fully implemented.

Priority	Medium (Important)
Recommendation 3: Pursue the full implementation of Harmonized Approach to Cash Transfers by completing the micro-assessments of implementing partners and coordinating with the other agencies to develop a joint capacity development and assurance plan.	
Management action plan: (a) The Country Director will discuss the issue with concerned partners to conduct the assessment. (b) The Resident Coordinator Office is coordinating to develop a joint capacity development and assurance plan. **Estimated completion date:** July 2015	

C. Programme activities

1. Programme management

Issue 4 Weaknesses in 'Country Programme Action Plan' implementation

The 'Country Programme Action Plan' constitutes the formal implementation agreement between UNDP and the Government that guides the development and delivery of projects on an annual basis. The 'Country Programme Action Plan' annual review is required to assess if the planned targets are achieved. Further, a programmatic level monitoring and evaluation framework is required to provide a continuous assessment on the progress towards achieving these targets. The monitoring and evaluation plan should be prepared at the end of the planning stage of the 'Country Programme Action Plan' indicating the responsibilities, timing and methodology for monitoring.

The following weaknesses were identified within the 2013-2017 'Country Programme Action Plan':

- The 'Country Programme Action Plan' annual review completed in February 2014 did not include an assessment of the actual progress against the planned targets. It also did not highlight operational challenges encountered during the year.
- The Office had not developed a monitoring and evaluation plan for the existing programme at the time of audit.

The Office explained that they planned to link certain projects to the outcomes identified, and where this was not possible, the 'Country Programme Action Plan' would be revised. They also stated that the monitoring and evaluation plan to be developed in 2013 was delayed due to competing demands associated with the first year of the new programme cycle.

'Country Programme' outcomes may not be achieved if appropriate projects are not aligned with them. In the absence of a programmatic level monitoring plan and review of progress against annual targets, implementation issues may not be identified and remedied in a timely manner.

Priority	Medium (Important)
Recommendation 4: Include in the 'Country Programme Action Plan' annual review an assessment against annual targets as well as an assessment of operational issues encountered within the year, and finalize and implement the monitoring and evaluation plan at the country level.	
Management action plan: (a) The 'Country Programme Action Plan' will be reviewed in March 2015. (b) A monitoring and evaluation plan at the country level will be developed. **Estimated completion date:** March 2015	

2. Project management

As of February 2014, the Office had 20 projects, of which nine were directly implemented and 11 were nationally implemented. OAI sampled six projects for detailed review, with a cumulative expenditure of $16 million out of a combined office delivery of $33 million in 2013.

Issue 5 Inadequate controls over selection of micro-capital grant recipients

The 'Programme and Operations Policies and Procedures' require that micro-capital grant recipients should be selected by the project boards or identified during the development of the programme document. If non-governmental organizations are to be used as providers for professional services, they shall be selected on the basis of an open selection procedure. The project document should provide for an independent mechanism that will review and endorse the selection of recipient institutions, and assess the performance of these institutions in managing the grants.

The three micro-capital grant recipients sampled (with a total grant value of $271,000 or 44 percent of total grant value) were neither reviewed by the project board nor identified in the project document. Instead, the selection committee comprised of UNDP staff and the selection did not consider other potential recipients or establish criteria against which they were to be assessed.

The Office was not aware of the requirements for open selection procedures for micro-capital grant recipients.

Without an open selection process, the most qualified organization may not be selected.

Priority	Medium (Important)

Recommendation 5:

Improve the selection and approval process of micro-grant recipients by:

(a) complying with the 'Programme and Operations Policies and Procedures' on the selection of micro-capital grant recipients; and
(b) documenting the final approval of micro-capital grant recipients within the project document or receive approval from the project board.

Management action plan:

The project board will form an independent committee to review the selection process of recipient institutions, and assess the performance of these institutions in managing the grants. The committee will ensure that the recipient institutions are selected on the basis of an open selection procedure.

Estimated completion date: August 2014

3. Resource mobilization

Issue 6 Delays in achievement of planned results

According to the 'Programme and Operations Policies and Procedures', projects should be adequately funded to ensure that planned activities can be implemented.

OAI reviewed donor agreements, resource mobilization targets for the new programme cycle, and met with donors supporting the Office's projects. As of April 2013, the Office had committed and non-committed funding of $107 million against a target of $159 million for the 'Country Programme' 2013-2017. The Office's management indicated that the funding environment within the Country had changed, as it had moved out of a post-conflict phase to a longer term development phase. Discussions with donors indicated that there was a greater need to demonstrate value for money as well as achievement of results. Two projects (86687 and 85404) had a shortfall in the budgeting requirements specified in the project document.

The Office indicated that the reduction in donor funding globally also had a negative impact on the ability of the Office to ensure that projects were fully funded.

Comment:

The Office was aware of these issues and was in the process of taking appropriate actions, therefore no recommendation was made.

D. Operations

1. Financial management

Issue 7 Inconsistencies in management of payments

The 'Internal Control Framework' requires the disbursing officer to release payments through electronic funds transfer. It also requires UNDP offices to ensure that the chequewriter software is used to generate cheques. The 'Programme and Operations Policies and Procedures' require written delegation of authority be provided to those who approve payments in Atlas and control the outstanding advance balances in order to monitor the management of the funds.

OAI reviewed 94 accounts payable vouchers amounting to $7.4 million or 23 percent of all vouchers paid during the audit period. OAI also reviewed the disbursements, bank reconciliation and filing system of finance documents.

OAI noted the following issues:

(a) Electronic fund transfer payments from the US dollar account were not reviewed by the disbursing officer prior to releasing the payments as stipulated in the 'Internal Control Framework.'
(b) The Office prepared cheques manually instead of using the Atlas chequewriter software. Total payments issued through cheques during the audit period represented 10 percent of the overall payments.

(c) OAI identified personnel who approved payment vouchers and purchase orders in Atlas during the audit period, even though they did not have written delegation of authority to do so.
(d) As of 31 March 2014, there were advances of $42,000 made to implementing partners that were outstanding for more than six months.

The Office stated that they did not consider a review by the disbursing officer prior to releasing payments through electronic funds transfer as being necessary. The Office had previously attempted to install the chequewriter software without success. The Office also stated that personnel approving vouchers and purchase orders had been omitted from the overall written delegation of authority.

Comment:

As the Office agreed to take immediate actions to correct these weaknesses, OAI did not make any further recommendation in this regard.

Issue 8 Inadequate management of project cash advances

The 'Programme and Operations Policies and Procedures' provide that the project cash advances must be closed and fully accounted for within seven days following the conclusion of the project activity. It also requires the Deputy Resident Representative or another senior manager to approve the advance. The guidelines also require the Country Offices to appoint project cash advance custodian staff who should sign the corresponding appointment of duty form. At the Office level, the Finance Unit is responsible for ensuring proper management of project cash advances.

The sample review included project cash advances and advances made to implementing partners under the national implementation modality. During the audit period, the Office made project cash advances totalling $221,000 to 41 individuals. OAI noted the following control weaknesses in the management of project cash advances:

- There was no assurance that the Finance Unit reviewed the liquidated advances by projects. The Office indicated that the liquidation of advances was undertaken by projects through Accounts Payable Journal Vouchers as the project maintained the supporting documents.
- Though the Office paid advances to 41 staff during the audit period, none of these staff were officially appointed as project cash advance custodians.
- In 2 out of the 10 samples reviewed, previous cash advances amounting to $2,600 were not cleared prior to paying new advances.
- In a sample of 30 project cash advances specifically reviewed for the purposes of determining the timeliness of funds liquidation, there were significant delays in liquidating 9 of them, which had a total value of $36,900

The above control weaknesses occurred mainly as a result of inadequate oversight and monitoring by the Finance Unit. Further, Office management did not establish controls to ensure prompt recovery of outstanding advances, such as deducting them from the staff salaries or entitlements and not issuing new advances until previous advances were cleared.

Inadequate controls in managing the project cash advances may result in financial losses for UNDP.

Priority	Medium (Important)

Recommendation 6:

Improve the oversight and monitoring of project cash advances by ensuring that all advances are reviewed and cleared by the Finance Unit and that stricter controls are established for their timely liquidation.

Management action plan:

A memo was issued on 23 May 2014 to all Office personnel to address this recommendation. The limit of $1,000 per staff and a maximum of five advances per project at any given point in time has been established. The Deputy Country Director (Operations) will approve the advance and the Finance Unit will review and maintain the supporting documents.

Estimated completion date: Already implemented

OAI Response:

OAI acknowledges the action taken by management; this will be reviewed at a later stage as part of the standard desk follow-up process of OAI.

Issue 9 Lack of segregation of duties

According to the UNDP 'Internal Control Framework,' there must be a segregation of incompatible roles and duties. Further, the Position Administrator profile in Atlas should be held by a senior staff member within the Human Resources Unit and the role of the Human Resources Administrator/Human Resources Associate is to record entitlements and benefits in Atlas.

The Office delegated the Position Administrator profile to five personnel, including three General Service staff. This role should have been delegated only to the head of the Human Resources Unit or another senior manager.

Additionally, two staff members had been delegated with profiles of both Position Administrator (to create a position in Atlas) and Human Resource Administrator (to grant entitlements and benefits in Atlas). As there is a risk of errors and/or irregularities occurring with one staff member creating a post and granting entitlements to personnel, the profiles of Position Administrator and Human Resource Administrator should not be entrusted to the same staff member.

Inadequate segregation of duties increases the risk that unauthorized changes to Atlas records may occur and remain undetected.

Priority	Medium (Important)

Recommendation 7:

Reassess the Atlas human resources profiles and ensure adequate controls are in place by:

(a) delegating the Position Administrator profile in Atlas to senior staff only; and

(b) ensuring that the Position Administrator and Human Resource Administrator profiles in Atlas are not entrusted to the same staff member.
Management action plan: (a) The Position Administrator access had been delegated to the three most senior staff of the Human Resources Unit. (b) The Human Resource Administrator profile had been limited to two human resource colleagues who do not have the Position Administrator profile. **Estimated completion date:** June 2014
OAI Response: OAI acknowledges the action taken by management; this will be reviewed at a later stage as part of the standard desk follow-up process of OAI.

2. Procurement

During the period reviewed, the Office issued 3,700 purchase orders totalling $15 million. OAI reviewed 55 purchase orders with a value of $3 million (20 percent of the total purchase orders). Additionally, 3 out of the 10 cases submitted to the Advisory Committee on Procurement totalling $1.4 million were also reviewed (60 percent of the overall cases), along with the procurement plan for the year 2013, as well as vendor management.

Issue 10 Inadequate controls over receipt of procurement offers

The 'Programme and Operations Policies and Procedures' require procurement to be conducted in a manner that is fair and competitive to obtain best value for money. Therefore, the offers submitted by vendors should be kept secure until all offers are simultaneously opened at a designated time and place. However, OAI noted that controls over the receipt of offers were inadequate for both manual and electronic submissions.

(a) Manual submissions

Vendors delivered the hard copy offers to the Office's reception area. The offers were kept in the reception area until the date of bid opening. However, the offers were not secured. Though the vendors were required to sign the Bid Submission Record when delivering the proposals, there was no assurance that all vendors were informed of this requirement to sign the Bid Submission Record, as bids were not received in a secured box and offerors did not sign the Bid Submission Record. This increased the risk of offers not being included, or offers being tampered with.

(b) Electronic submissions

The Office had established a generic procurement email address to receive offers such as proposals, quotations, and bids. As two staff members had access to this email without the use of a password, there was a risk of uncontrolled access to the bids, which could have compromised the integrity of the procurement process.

The Office stated that the relevant staff managing the procurement email address were not aware of the procurement requirements related to receipt of offers. The Office agreed with the risks and assured to enhance controls.

If offers are not properly maintained in a safe and secured place, there is the risk of misplacement, loss, or manipulation of bids.

Priority	Medium (Important)
Recommendation 8: Enhance controls over the receipt of bids submitted manually and through email by: (a) ensuring bids are received in a secured box and offerors sign the bid submission register; and (b) coordinate with the Office of Information Systems and Technology on options to prevent inappropriate access to procurement email addresses used for receiving offers.	
Management action plan: (a) A mechanism had been put in place so that the persons submitting bids receive a paper receipt and drop the envelopes on a secure/locked bid box with the bidding process reference number. (b) Controls had been enhanced to limit access to electronic bids. **Estimated completion date:** June 2014	
OAI Response: OAI acknowledges the action taken by management; this will be reviewed at a later stage as part of the standard desk follow-up process of OAI.	

Issue 11 <u>Duplicate vendor records</u>

The 'Programme and Operations Policies and Procedures' require effective and efficient vendor management to avoid duplicate or ineligible payments. The vendor records in Atlas should be reviewed prior to creating a new vendor profile to ensure that no duplicate records exist. The 'Internal Control Framework' restricts vendor approval to only the head of Finance and the Operations Manager

OAI noted the following weaknesses:

(a) The Office had 156 active duplicate vendor names and 143 vendors with duplicate bank account details in Atlas.
(b) The responsibility for approving vendors in Atlas was assigned to the Information Technology Associate.

Duplicate vendors in Atlas pose the risk of duplicate or ineligible payments to the same vendors. In addition, having unauthorized staff approve vendors in Atlas increases the risk of fraud.

Priority	Medium (Important)

Recommendation 9:

Comply with the 'Programme and Operations Policies and Procedures' on vendor management by:

(a) establishing vendor verification procedures prior to approving new vendor profiles in Atlas;
(b) conducting regular reviews of existing vendors and deactivating all vendors with duplicate profiles and/or bank account details; and
(c) authorizing only the head of Finance or the Operations Manager to approve vendors.

Management action plan:

(a) Each vendor creator will be trained for this verification process.
(b) The Office will regularly review vendor records to remove any duplicate record.
(c) Approval authority has been limited to the Assistant Country Director (Operations).

Estimated completion date:

(a) Implemented June 2014
(b) Ongoing, every quarter
(c) Implemented June 2014

OAI Response:

OAI acknowledges the action taken by management; this will be reviewed at a later stage as part of the standard desk follow-up process of OAI.

3. General administration

Issue 12 Inadequate management of common premises

The UNDP 'Internal Control Framework' requires controls to be established to safeguard assets from unauthorized use or loss.

(a) Legal ownership title document of United Nations land not available

The Office informed OAI that the land on which the United Nations House was built was donated by the Government for the benefit of all United Nations agencies. Although the Office had constructed the United Nations House and was responsible for managing the premises, it did not have the legal title documents to support the ownership of the land.

At the time of the audit, the Office was working with the Government to obtain the legal ownership documents. There was no indication as to when this process might be completed.

Lack of property ownership documents could lead to disputes with third parties on ownership claims. The Office informed OAI that a third party had indeed raised a verbal claim on some part of the land.

(b) Weaknesses in the management of the United Nations House

The Office incurred the initial cost of construction for the United Nations House in 1985. In 1995, the Office informed the other UN agencies that the proportionate rent charged to the agencies was a means to recoup construction costs over a 15 year period at 5 percent interest. A Memorandum of Understanding signed in July 1998 stipulated the obligation of the UN agencies to pay rent based on space occupied; however, it did not stipulate the duration for which the rent would be payable or address the question of ownership of the United Nations House.

In 2013, the Office requested United Nations agencies to contribute to costs of retrofitting the premises amounting to $1.2 million. The Office was of the opinion that given the investments made in the construction of the building, ownership remained with UNDP, and that the United Nations agencies should pay increased rent as tenants. UNICEF contested a proposed rent increase as it considered the Office to have recouped the 'capital' costs during the 15 year period that ended in 2000. The matter was escalated to the respective New York Headquarters of both agencies, and as of the date of the audit, no resolution had been reached.

The main reason for this disagreement was the fact that the Memorandum of Understanding between the UNDP and the UN agencies did not provide details on ownership, rental and maintenance payments.

Unclear arrangements in regard to maintenance and rent could result in the inefficient management of the United Nations House.

Priority	Medium (Important)
Recommendation 10: Continue to follow up with government entities to obtain legal documents confirming ownership of the land.	
Management action plan: The Office has been continuously following up with concerned government bodies since 2011. **Estimated completion date:** July 2015	

Priority	High (Critical)
Recommendation 11: Clarify responsibilities with regard to rent and maintenance costs of the United Nations House by: (a) following up with UNDP Headquarters to resolve the retrofitting expenses with UNICEF Headquarters in a timely manner; and (b) formalizing the rent and maintenance arrangements through a signed memorandum between UNDP and the agencies located at the United Nations House.	

Management action plan:

(a) As the ownership of building lies with UNDP, no other agencies will contribute to retrofitting expenses. Instead, they will continue paying rent. As per the advice of UNDP Headquarters, the rent increase has been put on hold for this year 2014.
(b) A draft memorandum of understanding has been shared with the agencies and UNDP Headquarters for their feedback and clearance.

Estimated completion date: July 2015

4. Safety and security

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

[redacted]

[redacted]

[redacted]

[redacted]

[redacted]

[redacted]

[redacted]

[redacted]

[redacted]

[redacted]

[redacted]

5. Asset management

The Office reported 672 assets amounting to $3.6 million as at 31 December 2013 in its year-end certification to the Administrative Services Division of Office of Financial Resources Management. These included all management and development project assets. A review of this area included physical verification of 14 assets valued at $366,000, assessing the controls established in management and safeguarding of assets, examining the process of asset disposal and ascertaining whether the Office maintained a complete record of assets register. OAI noted significant control deficiencies as discussed below.

Issue 14 Number of vehicles in excess of requirements

The 'UNDP Financial Regulations and Rules' provide that offices must ensure efficient and cost-effective use of all resources.

(a) Vehicle usage:

At the time of the audit, the Office owned a total of 115 vehicles, valued at $1.2 million. OAI noted that 57 of the 115 vehicles were designated for projects, even though 24 of them were physically located at the Office's premises in Kathmandu. In addition, the number of total vehicles exceeded the requirements, and not all vehicles were fully used. There seemed to be no consideration given to the pooling of vehicles. For example, Project No. 61320 had six vehicles but only three drivers. Two of the vehicles were not used at all in 2013, while another vehicle was only driven for only 1,200 kilometers during the year. Similar observations were made in two other projects as well as in the Office.

OAI noted that despite the limited use of existing vehicles, the Office purchased six new vehicles in November 2013. The Office indicated that the purchasing of new vehicles at the end of the year was likely the result of attempting to push project delivery, and not based on assessed needs. In addition, at the time of the audit, the Office was processing the purchase of 15 new vehicles for Project No. 75193.

(b) Disposal of vehicles:

The Office had 48 motorcycles and 22 of them were parked at the United Nations House premises, waiting to be disposed of between 2011 and 2013. The Office indicated that registration certificates were missing for two motorcycles, while bids were not received for some of the motorcycles in the auction. OAI noted the bids were only received in April 2014, even though some motorcycles had been available for disposal since 2011.

The Office agreed on the need to streamline the management of vehicles.

Failure to ensure prudent use of vehicles may result in waste of organizational resources. Also, delays in disposing of motorcycles may result loss through theft or decline in value.

Priority	High (Critical)

Recommendation 13:

Improve the management of vehicles by:

(a) establishing procedures that promote the prudent use of Office resources, such as pooling of vehicles to ensure efficiency and economies of scale. This should include an independent review of the vehicles required for the Office and the projects and the surplus vehicles should be transferred or disposed of in accordance with asset disposal policies and procedures;
(b) establishing procedures that require approval of senior management for purchases of any future vehicles both for the Office and projects; and
(c) ensuring that assets that are no longer useful are disposed of in a timely manner.

Management action plan:

(a) The Office was conducting a comprehensive review to enhance controls over use of all vehicles. This will include the use of technology to improve efficiency of fleet management.
(b) An interoffice memorandum covering the vehicle purchase policy of the Office will be issued.
(c) The status of assets disposal will be reviewed on a quarterly basis.

Estimated completion date: December 2014

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 <u>not included in this report</u>.