UNITED NATIONS DEVELOPMENT PROGRAMME
Office of Audit and Investigations

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AUDIT

OF

UNDP COUNTRY OFFICE

IN

MYANMAR

Report No. 1059

Issue Date: 20 December 2012

LIST OF ACRONYMS

CDRT	Community Development in Remote Townships
CPD	Country Programme Document
DHSHD	Department of Human Settlement and Housing Development
FACE	Funding Authorizations and Certificates of Expenditures
FTA	Fixed Term Appointment
HACT	Harmonized Approach to Cash Transfers
HDI	Human Development Initiative
ICDP	Integrated Community Development Project
ICT	The Information and Communication Technology
IP	Implementing Partners
M&E	Monitoring and Evaluation
NGO	Non-Governmental Organization
NIM	National Implementation Modality
Pact	Pact Myanmar
PO	Purchase Order
POPP	Programme and Operations Policies and Procedures
RCA	Results and Competency Assessment
SC	Service Contract
UNCT	United Nations Country Team

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Report on the audit of UNDP Myanmar
Executive Summary

From 1 to 14 August 2012, the Office of Audit and Investigations (OAI) of the United Nations Development Programme (UNDP) conducted an audit of UNDP Country Office in Myanmar (the Office). The audit covered the activities of the Office during the period from 1 January 2011 to 30 June 2012. During the period reviewed, the Office recorded programme and management expenditures totalling $37 million. The last audit of the Office was conducted by United Nations Board of Auditors in 2011.

The audit was conducted in conformance with the *International Standards for the Professional Practice of Internal Auditing*. These Standards require that OAI plans and performs the audit to obtain reasonable assurance on the adequacy and effectiveness of the governance, risk management, and control processes. The audit includes reviewing and analysing, on a test basis, information that provides the basis for our conclusions.

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." Ratings per audit area and sub-areas are summarized below.

Audit Areas	Not Assessed/ Not Applicable	Unsatisfactory	Partially Satisfactory	Satisfactory
1. Governance and strategic management				
2. United Nations system coordination				
2.1 Development activities	Satisfactory			
2.2 Resident Coordinator Office	Satisfactory			
2.3 Role of UNDP – "One UN"	Not Applicable			
2.4 Harmonized Approach to Cash Transfers	Satisfactory			
3. Programme activities				
3.1 Programme management	Satisfactory			
3.2 Partnerships and resource mobilization	Satisfactory			
3.3 Project management	Partially Satisfactory			
4. Operations				
4.1 Human resources	Partially Satisfactory			
4.2 Finance	Partially Satisfactory			
4.3 Procurement	Satisfactory			
4.4 Information and communication technology	Satisfactory			
4.5 Asset management & general administration	Satisfactory			
4.6 Safety and Security	Satisfactory			

Key issues and recommendations

Among the six issues, one was noted to be caused by factors beyond the control of UNDP (Issue 1). There were six recommendations, of which five (83 percent) were ranked high (critical) priority, meaning "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 and may affect the organization at the global level."

Project Management (Issue 3)	Weaknesses in results-based management. The Office had not updated the results and resources frameworks for some projects since 2002, and output and outcome indicators for some projects were not measurable, and lacked baseline information. The monitoring and evaluation (M&E) mechanism at the programme level was weak. OAI recommends that the Office establish a robust M&E system as part of the new country programme. Furthermore, the Office should ensure that projects include detailed results and resources frameworks, with relevant indicators and baselines to allow adequate monitoring of progress at the project and outcome level.
Human Resources (Issue 4)	Weaknesses in human resources management. There were discrepancies between the Office organogram and the Atlas staffing table regarding the number of staff vacancies; certain staff had not completed mandatory training, and some Results and Competency Assessments (RCAs) were not completed on time. OAI recommends that the staffing table be promptly updated, and controls be implemented to ensure mandatory training and timely completion of RCAs.
Finance (Issue 6)	Inadequate scrutiny of advances. The Office did not exercise adequate scrutiny over the liquidation of advances made by the microfinance project implemented by a non-governmental organization (NGO). While the Office's annual disbursements to the NGO were audited, the Office did not exercise adequate oversight over the project's revolving fund assets valued at $67 million entrusted to the NGO. OAI recommends that the Office in consultation with the Office of Financial Resources Management enhance oversight of the microfinance project.

Management's comments

The Resident Representative accepted the six recommendations and is in the process of implementing them.

Egbert C. Kaltenbach
Director
Office of Audit and Investigations

I. Introduction

From 1 to 12 August 2012, OAI conducted an audit of UNDP Myanmar. The audit was conducted in conformance with the *International Standards for the Professional Practice of Internal Auditing*. These Standards require that OAI plans and performs the audit to obtain reasonable assurance on the adequacy and effectiveness of the governance, risk management, and control processes. The audit includes reviewing and analysing, on a test basis, information that provides the basis for our conclusions.

Audit scope and objectives

OAI's audits assess the adequacy and effectiveness of the governance, risk management, and control processes in order to provide reasonable assurance to the Administrator regarding the reliability and integrity of financial and operational information, effectiveness and efficiency of operations, safeguarding of assets, and compliance with legislative mandates, regulations and rules, policies and procedures. They also aim to assist the management of the Office and other relevant business units in continuously improving governance, risk management, and control processes.

Specifically, this audit reviewed the following areas of the Office -- governance and strategic management, United Nations system coordination, programme activities, and operations. The audit covered relevant activities during the period from 1 January 2011 to 30 June 2012. During the period reviewed, the Office recorded programme and management expenditures totalling $37 million. The last audit was conducted by the United Nations Board of Auditors in 2011.

II. About the Office

The Office, located in Yangon, Myanmar (the Country), is headed by the Resident Representative, who is supported by a Senior Deputy Resident Representative and a Deputy Resident Representative (Operations).

The Office operated under a special mandate approved by the UNDP Executive Board through its consecutive decisions since decision Governing Council/Executive Board 93/21, which is known as the Human Development Initiative (HDI) and targeted toward programmes having sustainable grassroots impacts. The HDI's fourth phase will end in December 2012. The Office implemented projects at the grassroots level in primary health care, environment, HIV/AIDS, training and education, and food security through four programmes. Two of the programmes were implemented through a network of 51 township offices. Four of the projects under the HDI were directly implemented (DIM) by UNDP, while a microfinance project was implemented by an NGO.

The Office had established a separate operations centre (DEX Centre) to provide implementation support services to projects, such as procurement and recruitment functions for over 800 service contract (SC) holders. The DEX Centre also managed the internet and email services for township offices.

A new government was inaugurated on 30 March 2011, ending 22 years of military rule. The Government has embarked on a series of ambitious political, economic, and social reforms.

III. Detailed assessment

1. Governance and strategic management — Satisfactory

OAI reviewed the existing governance structure, the Office's management strategy, the delegation of authority, integrated work plan, internal reporting lines, and the 2010 Global Staff Survey results. The Independent Assessment Mission (IAM) has examined annually the Office's adherence to the restricted mandate articulated in the various decisions of the UNDP Executive Board. These decisions also called upon the Administrator to report annually to the Executive Board on the extent to which UNDP activities meet the provisions of the relevant Executive Board decisions and the progress and challenges encountered. OAI reviewed three such reports: 2010, 2011 and 2012. The latest IAM report 2012 stated that it "regards the HDI programme as being in full compliance with the Governing Council/Executive Board directives."

The 2010 Global Staff Survey results reflected a significant drop from the 2009 ratings, as 15 out of the 16 dimensions were below the 50th percentile of all country office scores. These included professional development (38 percent), top management (39 percent), empowerment (41percent), and client service and work-life balance (43 percent). The Office has initiated measures to address these issues, which include allocating resources for training, recruiting additional staff, and revising the internal control framework. Given that measures have already been initiated, no issue is being raised.

Issue 1 Absence of valid building lease

The building that houses the Office and other agencies is owned by the Government's Department of Human Settlement and Housing Development (DHSHD). The Office building lease expired in 2007, and has not been renewed due to a difference of opinion between DHSHD and UNDP on the settlement of a disputes clause in the UNDP lease agreement. While DHSHD requires the dispute settlement mechanism be subject to local laws within the Union of Myanmar, UNDP cannot deviate from the current clause indicating the United Nations Commission on International Trade Law as the dispute settlement mechanism. This has created an impasse, resulting in non-renewal of the building lease. The Deputy Resident Representative (Operations) met with the Director of Housing Department, Ministry of Construction in August 2012. They agreed that that the impasse should be escalated to the Regional Bureau for further discussions with the Permanent Mission of Myanmar to the United Nations. As action has already been agreed, no further recommendation is being made.

2. United Nations system coordination — Satisfactory

The United Nations Country Team (UNCT) is chaired by the Resident Coordinator, and includes 15 agencies/entities: FAO, ILO, IOM, UNAIDS, UNDP, UNESCO, UNFPA, UNHABITAT, UNHCR, UNICEF, UNOCHA, UNODC, UNOPS, WFP, and WHO. UNDP and UNICEF jointly supported the Household Living Conditions Assessment Survey and Multi-Indicator Cluster Survey, both of which were launched and widely disseminated in all states and regions in 2011.

2.1 Development activities — Satisfactory

The United Nations subscribes to the United Nations Strategic Framework (2012-2015), which focuses on four priority areas: (a) encourage inclusive growth, including agricultural development and enhancement of employment; (b) increase equitable access to quality social services; (c) reduce vulnerability to natural disasters and climate change; and (d) promote good governance and strengthen democratic institutions and human rights.

OAI reviewed the UNCT minutes for 2011 and the Independent Assessment Mission Reports for 2011 and 2012, and interviewed the staff in the Resident Coordinator Office.

No reportable issues were identified.

2.2 Resident Coordinator Office — Satisfactory

The UNCT met regularly in 2011. While meetings were also held in 2012, the minutes were not provided to OAI, because they had not been finalized at the time of the audit, in August 2012. Major delays in finalizing the minutes minimize their value. The Resident Coordinator attributed the delays to staff shortage in the Resident Coordinator Office. OAI noted that, at the time of the audit, three staff members had been provided to the Resident Coordinator Office by donors, thereby addressing the issue of staff shortages. As the minutes were in the process of being endorsed, no issue is being raised.

2.3 Role of UNDP - "One UN" — Not Applicable

The Office was not a One UN pilot country and was operating under a restricted mandate. Therefore, this area was not applicable.

2.4 Harmonized Approach to Cash Transfers — Satisfactory

Some agencies (UNFPA and UNICEF) have been using Harmonized Approach to Cash Transfers (HACT) features, such as Funding Authorization and Certificate of Expenditures (FACE) and micro-assessments (NGOs only). But full implementation of HACT in the Country has not been feasible because of constraints, such as differing mandatory restrictions imposed by donors on the United Nations System in the Country, which prevent Executive Committee agencies from employing such harmonized approach in transferring cash to implementing partners (IPs). Recognizing these constraints, the Regional Directors' Team approved the deferral of HACT implementation until the roll-out of the new country programme 2013-2015.

No reportable issues were identified.

3. Programme activities — Satisfactory

3.1 Programme management — Satisfactory

The Office's annual biennial support budget for 2011 was $1million and the programme budget was $29 million. In accordance with its special mandate, the Office implemented projects in primary health care, environment, HIV/AIDS, training and education, and food security, without using resources in a way that benefitted the Government. To achieve these objectives, the Office implemented its projects directly under three programmes: Integrated Community Development Project (ICDP); Community Development in Remote Townships (CDRT); and Integrated Household Living Conditions Assessment (IHLCA). In addition, a microfinance project aimed at improving the livelihoods of poor people was providing loans (a revolving fund project).

No reportable issues were identified.

3.2 Partnerships and resource mobilization — Satisfactory

In accordance with the Executive Board decisions, the Office has been implementing a portfolio of assistance projects since 1994, through the HDI. The programmes under the current HDI will end by December 2012. The Office drafted a new Country Programme Document (CPD) for the 2013-2015 programming cycle that is awaiting Executive Board approval. The draft CPD proposes to mobilize $100 million from non-core resources.

During the audit period the Office signed 16 contribution agreements with bilateral donors amounting to $36 million. The Office informed OAI that it was waiting for the CPD to be approved before it finalized a resource mobilization strategy and plan. OAI met with two key donors and determined that the Office had good working relationships with them. However, OAI noted cases where the Office did not seek clearance from the Bureau of External Relations and Advocacy for entering into non-standard contribution agreements. Subsequent to the audit mission, the Office informed OAI that it had contacted one donor to amend the agreement to conform to the standard agreement template. The agreement with another donor has been amended and cleared by the Bureau for External Relations and Advocacy. No issue is being raised, because the Office has already taken action to address the risks noted.

Issue 2 Donor reporting needs to be streamlined

Donors supporting the HDI in 2012 included Denmark, , the European Commission, the Livelihoods and Food Security Trust Fund, Norway, the Peace Building Fund, Sweden (SIDA), Switzerland, United Kingdom (Department for International Development), USA (USAID) , and the Global Fund to Fight Aids, Tuberculosis and Malaria.

A large number of reports had to be produced for projects such as the ICDP and CDRT. For example, these two projects alone produced a total of 31 reports in 2011:

- Nine internal reports (quarterly and annual)
- Twenty-two external reports (donors).

As many as 26 reports had been generated between January and August 2012.

Preparing these reports placed a significant burden on the already stretched programme staff. Furthermore, as a result of using various formats to cater to requests by donors, the Office has not been able to use donor reports generated from Atlas. The Office stated that some donors required reports in a prescribed format, making it difficult to use a standard format. In OAI's view, the process needs to be streamlined by, for example, developing a standard report format acceptable to most, if not all donors.

Priority	High (Critical)
Recommendation 1: The Office should seek to address its reporting burden by: (a) meeting with donors to agree on a standard report format, including a uniform annual reporting format that will meet the needs of most if not all donors; and (b) using the Atlas system to generate quarterly reports instead of developing these outside the system.	
Management Comments and Action Plan: __**X**__ Agreed _____Disagreed The Office stated that they would address this issue while formulating the new programme by having one project document each for pillars 1 and 3. This would enable assigning specific components/outputs in the new programme to specific Atlas awards, making it easier to generate quarterly reports through Atlas.	

3.3 Project management — Partially Satisfactory

Pursuant to the Executive Board decisions, the Office has been implementing projects at the grassroots level, focusing on poverty reduction and crisis prevention and recovery. Table 1 provides the expenditures of the Office, by thematic area, for 2010 and 2011:

Table 1:2010 and 2011 expenditures by thematic area

Thematic Area	Expenditures (in $000)			
	2010		2011	
Poverty Reduction and Sustainable Development	13,281	66%	23,976	91%
Crisis Prevention and Recovery	6,369	32%	2,086	8%
Others (including emergency coordination costs)	500	2%	3,283	1%

Source: Executive Snapshot, October 2012

Issue 3 Weaknesses in results-based management

According to the Programme and Operations Policies and Procedures (POPP), effective monitoring requires the project team to establish appropriate indicators and baselines and ensure that the project is making progress towards intended outputs.

The Office has made some progress in streamlining projects to ensure they are results focused by developing the joint results framework (log frame) for the IDP and CDRT. However, weaknesses still exist:

- Indicators or baselines were not established for the IHLCA and HIV/Aids projects. All of the project documents were developed in 2002 (and thus difficult to revise given the restrictions emanating from the Executive Board mandate). The Office would have benefitted from developing updated results and resources frameworks, with the relevant baselines and indicators to facilitate accurate monitoring of results.
- The Inle Lake Conservation and rehabilitation project, developed in 2011, did not follow the UNDP project document format, and was still unsigned at the time of the audit. The project document did not contain the results and resources framework, although outcomes and outputs had been identified, without indicators and baselines. A separate draft monitoring plan had been developed containing indicators and data sources, but the plan did not include any baselines.
- Too many output and outcome indicators had been developed for projects such as the ICDP and CDRT. For example, outcome one had seven outcome indicators, while one output had seven indicators. Baseline information was missing for some outcomes.
- The quality of the indicators also needed improvement. Indicators should be specific, measurable, attainable, relevant and time-bound with a balance between quantitative and qualitative indicators as specified in the UNDP's Handbook on Monitoring and Evaluation. However, almost all indicators identified were quantitative, e.g., the ICDP and CDRT log frame, but the output indicators were all qualitative in nature.
- The recommendations based on the review mission of the M&E Unit were not fully implemented. The M&E Unit was created as a result of a 2010 review of the Office programme required by the Executive Board, which made several recommendations to strengthen this function and to recruit staff. An M&E Analyst was recruited, but left the Office in February 2012 and the position had not been filled at the time of the audit. The Head of M&E and the M&E Specialist positions were not filled, because qualified candidates were not available. As a result, the Office's M&E framework for the 2012 programme was not developed and this hampered effective monitoring at the programme/outcome level. Reporting at multiple levels focused on tracking activities and outputs, producing numerous reports (see issue 2),

updating issue and risk logs on a quarterly basis, and establishing project boards except in the case of a sub-project under the ICDP project.

Priority	High (Critical)
Recommendation 2: The Office should strengthen the focus on programme results by: (a) ensuring that the new country programme require projects to include detailed results and resources frameworks, with relevant indicators and baselines for adequate monitoring of progress at the project and outcome level; and (b) developing a comprehensive monitoring and evaluation framework that includes adequate resources to conduct monitoring and evaluation functions.	
Management Comments and Action Plan: _X_ Agreed ____Disagreed The Office commented that the new country programme had been designed with relevant indicators and baselines for monitoring and evaluation. Furthermore, a dedicated unit would be set up to ensure a robust monitoring and evaluation.	

4. Operations — Partially Satisfactory

4.1 Human resources — Partially Satisfactory

The Office had 63 staff under Fixed Term Appointments (FTA) comprising 9 international staff, 16 national officers, and 38 general service staff. In addition, the Office had 867 SC holders. OAI reviewed 7 recruitments under FTA and 10 under SC, 3 FTA promotions and 4 separations, and 10 SC separations. OAI also reviewed leave balances, results and competency assessments, the learning plan, and the completion rate of mandatory training.

Issue 4 Weaknesses in managing human resources

The UNDP Strategic Plan requires human resources to be aligned with the needs of the organization to enhance delivery and effectiveness. It also calls for strengthened strategic human resource management so that the skills mix and staff capacity mirror corporate requirements. OAI noted the following weaknesses in human resources management:

Discrepancy between organogram and staffing table

There was a discrepancy between the vacant positions shown in the Office organogram and in the Atlas staffing table. While the staffing table showed 33 vacant positions, the organogram indicated only six vacancies. The Office explained that the discrepancy was caused by some positions that were no longer required or that had been abolished, or that recruitment to these posts has been put on hold.

A further analysis of the vacant positions shown in the staffing table noted that at least four posts had been abolished, because the Office could not attract suitable candidates due to the limited capacity available in the Country. In addition, three positions had been put on hold pending the Office's re-alignment in preparation for the 2013 programme. The remaining vacancies included posts which were no longer used, including those relating to the Myanmar Information Management Unit and other United Nations programmes. However, the staffing table had not been updated to reflect these changes.

Mandatory training not completed

Some staff members had not completed the mandatory training courses. The completion rate of mandatory courses by staff members and SC holders based at the Yangon Office ranged from 14 to 39 percent.

In 2011, the Office established a Learning Advisory Committee with a budget of $100,000 to facilitate learning and training. Only 30 percent of the budget was utilized in 2011. The committee explained that this low rate of spending occurred, because the budget was not approved until late 2011.

RCA not completed

POPP requires that staff complete their RCAs for the preceding year by 30 April. By August 2012, 15 out of 63 staff members had not completed their RCAs for 2011. The incomplete RCAs were at various stages. Delay in completing RCAs may affect the identification of subsequent results and areas requiring improvement.

Non-compliance with sick leave policy

A staff member used a total of 360 sick leave days from March 2011 to June 2012, which exceeded the maximum of 195 days allowed during a four-year period. In February 2012, the Office recommended to its Sick Leave Team that a "combination of sick leave on half pay with annual leave" be used by the staff member. However, there was no response on file indicating whether this arrangement had been approved. The staff member continued to receive full pay.

Staff did not utilize annual leave entitlement

Twenty-four staff members forfeited 380 leave days as of 31 March 2012, because their leave balances exceeded 60 days. Some staff said they opted not to take their leave, because they prioritized work and others did not offer reasons for not taking their leave.

Priority	High (Critical)
Recommendation 3: The Office should ensure compliance with human resources policies and procedures by: (a) promptly updating the staffing table when decisions are taken to abolish posts and making the necessary corrections to the organogram to ensure consistency in all records; (b) establishing controls to ensure that all staff complete mandatory training to enhance staff capacity; (c) completing the 2011 Results and Competency Assessment exercise as soon as possible; (d) following-up with the Sick Leave Team and/or Office of Human Resources to resolve the situation where a staff member was allowed to take 360 sick leave days within approximately 15 months; and (e) preparing leave plans early in the year in consultation with staff members to ensure the Office operates efficiently and staff members utilize their leave.	
Management Comments and Action Plan: __**X**__ Agreed ____Disagreed	

4.2 Finance — Partially Satisfactory

During the audit period, the Office processed 35,138 vouchers amounting to $46 million. OAI selected 85 vouchers totaling $5.5 million for detailed review. OAI examined the cost recovery process, bank reconciliations, and cash management.

The Office used the services of currency traders to convert US dollars to Kyats (the local currency) needed to pay the salaries to SC holders who did not have bank accounts. On average, $250,000 was converted monthly for salary payments. With the opening of banking facilities in the Country, private banks had been offering currency exchange services. The Office was monitoring the capacity of these banks and plans to switch to private banks when appropriate.

The Office paid vendors by issuing checks in the name of individuals instead of the vendors (firms). The Office informed OAI that these individuals were the owners of the firms. The Office clarified that these cheques were made out to these individuals, because the firms did not have bank accounts. Since this issue had already been raised by the Board of Auditors in their management letter of June 2012, no further recommendation was made.

OAI noted the following issues:

Issue 5 Incorrect accounting for project petty cash funds

POPP requires offices to record funds withdrawn from the bank for use as petty cash in account code 11015 – cash at bank. Until June 2012, the Office disbursed advances to UNDP project township offices for operational expenditures. The operational advances were transferred to the township bank accounts operated by those SC holders who withdrew the funds and kept them in the township office safe. An accounts payable voucher was raised to record the funds withdrawn from the township bank as expenditures, although the funds were spent much later when expenditures were incurred for operational purposes. Therefore, the funds withdrawn from the bank and kept at the township offices should have been recorded as petty cash using account code 11015 rather than as prepaid project expenses, which resulted in overstating project expenditures. This was due to the Office staff being unaware of the proper accounting treatment. This procedure was also not in compliance with International Public Sector Accounting Standards.

From July 2012, cheques were issued by the Office in Yangon instead of township offices and accounts payable vouchers were raised to record these funds. However, these funds were still being recorded using the incorrect account code. As each of the approximately 50 township offices withdrew an average of $1,000 monthly for operational advances, such withdrawals totalled about $50,000. As a result, the Office tended to overstate project expenditures by not using the correct account code.

Priority	Medium (Important)
Recommendation 4: The Office should ensure proper accounting treatment of funds disbursed to township offices for project petty cash purposes, which should be recorded as cash at bank (account code 11015).	
Management Comments and Action Plan: __**X**__ Agreed _____Disagreed The Office informed that account code 74605 had been used as previously advised by UNDP Headquarters. However, as a new policy will come into effect in January 2013, which will be in line with the above OAI recommendation, the Office will in the future record project petty cash funds in account 16106.	

Issue 6 Inadequate financial scrutiny of microfinance project

The Microfinance project (award ID: 00051355) started in 1997 and was implemented through UNOPS until 2008. Since 2009, Pact Myanmar (Pact) has been implementing the project. Pact was founded in 1971 as a membership organization of United States private and voluntary organizations to facilitate the distribution of small USAID relief and development assistance grants. In 1992, Pact dissolved its membership structure, revised its by-laws, and established itself as a non-profit corporation registered in the District of Columbia, USA. It currently has offices in Asia, Europe, and Africa.
OAI noted the following issues with respect to financial scrutiny of this project:

(a) POPP requires that Office staff check the request for advances against the project budget balance, commitment control, and project proposal budget to determine if funds are available for disbursement. Given the frequent budget revisions and the timing of financial reports from Pact, which did not always precede the advance request letter, reviewing and ascertaining that disbursed funds have been utilized had been a challenge. Moreover, the financial reports and statements provided by Pact tended to be brief and aggregated, which did not allow validation of individual cost line items shown in the submitted budget versus actual expenditures. As such, the Office was not able to adequately verify project expenditures before a new advance was disbursed to Pact.

(b) The Office did not use the FACE form to track, disburse and liquidate the advances made to IPs. Instead it maintained Excel spreadsheets to track the funds disbursed to these IPs, making the tracking process more cumbersome. POPP also states that when using FACE forms, offices are required to review bank statements and bank reconciliation reports submitted by IPs. However, the Office had neither received nor checked project bank accounts statements or reconciliation reports from Pact. The Office opined that Pact had co-mingled funds received from various sources in its bank accounts. However, Pact confirmed to OAI that it had maintained a separate bank account for the project's revolving fund, although the Office had not asked Pact for any bank account statements or reconciliation reports.

(c) Since 2011, the Office has been tracking an ageing analysis of advances to Pact. By August 2012, outstanding advances of $1.3 million to Pact were yet to be liquidated. Of this amount, $0.8 million had been outstanding since December 2011. The Office informed OAI that it was awaiting final financial reports before it can liquidate the outstanding advances. According to UNDP's guidelines on management of NIM/NGO advances, offices should provide subsequent advances to IPs only upon liquidation of 80 percent of previous advances and 100 percent of all earlier advances.

(d) The report of the United Nations Board of Auditors on the audited financial statements of UNDP for the biennium ended 31 December 2011 noted that UNDP needed to review and assess its micro-lending activities as a whole to ensure that it applies consistent standards and policies to these transactions. In the case of the microfinance project (ID 513556), the original project document signed between UNDP and Pact in March 2009 stated under the special conditions that all assets and liabilities provided to Pact as of January 2009, loan funds and the retained earnings accrued thereon for the operations of this revolving fund shall remain the property of UNDP. In the latest (7^{th}) amendment to this agreement, effective May 2012, UNDP confirmed that project assets are to be held in trust by Pact and upon completion or termination of the contract be handed over to a follow-up UNDP project.

(e) As of 31 December 2011, the asset value of the project's revolving fund totalling $67 million was held in trust and managed by Pact. However, the Office had not established an oversight mechanism to review how Pact managed these assets. While the Office did arrange audits of the annual disbursements made to Pact through the National Implementation/NGO (NIM) audit regime, such audits focused on the annual disbursements (amounting to $4 million in 2011) rather than the revolving fund of $67 million.

Priority	High (Critical)
Recommendation 5: The Office should ensure compliance with the provisions of Programme and Operations Policies and Procedures on financial **r**esources by : (a) Using Funding Authorization and Certificates of Expenditures forms when disbursing funds to implementing partners and when liquidating advances; (b) Verifying expenditures reported by the implementing partners against financial reports submitted before a subsequent advance is authorized; and (c) Closely monitoring the ageing of outstanding advances and disburse new advances to implementing partners only upon liquidation of 80 percent of the last advance and 100 percent of all earlier advances.	
Management Comments and Action Plan: __**X**__ Agreed _____Disagreed	

Priority	High (Critical)
Recommendation 6: The Office should develop, in consultation with the Office of Financial Resources Management, an appropriate oversight mechanism for UNDP assets valued at some $67 million entrusted to the non-governmental organization implementing the microfinance project.	
Management Comments and Action Plan: __**X**__ Agreed _____Disagreed	

4.3 Procurement — Satisfactory

The Office recorded 1,530 purchase orders (POs) with a value of $7 million during the audit period. OAI reviewed the procurement process by interviewing Office staff and testing a sample of 30 POs valued at $2.8 million and 15 individual contracts valued at $0.4 million, or approximately 40 percent of the value of all POs. In addition, OAI reviewed five cases of individual contracts where waiver of competitive process was applied, and found that two of these did not meet the 'genuine exigency' requirement. Since the issue of direct contracting had already been raised by the Board of Auditors in their management letter of June 2012, no further recommendation is being made.

No other reportable issues were identified.

4.4 Information and communication technology — Satisfactory

The Information and Communication Technology (ICT) Unit consisted of four staff members who reported to the Administration/ICT Analyst. OAI reviewed the disaster recovery (business continuity) plan, data back-up procedures, use of licensed software, and procedures protecting ICT systems. OAI also followed up on action taken to address recommendations in the 2011 Office of Information Systems and Technology report on ICT support to country offices. One recommendation had been implemented, while two others were still in progress.

OAI noted that the Office had acquired a single license for software, which had been installed on 17 computers. The Office has since uninstalled the software, and acknowledged the stringent requirement for multiple-use licenses. Therefore no further recommendation is made.

No reportable issues were identified.

4.5 Asset management and general administration — Satisfactory

OAI reviewed asset management which included asset disposals, recording of assets in Atlas, and physical verification of assets. As of 30 June 2012, the Office had 237 capital assets valued at $0.8 million. POPP states that assets purchased through funding code 68100 are assets of the United Nations Department of Safety and Security (UNDSS), but are managed by UNDP (Article 3.4 under the Memorandum of Understanding between UNDP and UNDSS). OAI noted that the asset module only included Office assets and not UNDSS property. The Office confirmed that it would fully record all UNDSS assets in Atlas as soon as possible.

OAI reviewed travel management, including 20 out of 109 international trips undertaken by the Office staff. The Office does not use travel authorization forms, but considers the PO as a travel authorization, although in some instances the POs were not approved by the traveller's supervisor. The Office advised that it will implement proper travel authorization procedures, which include approval by the traveller's supervisor.

No other reportable issues were identified.

4.6 Safety and Security — Satisfactory

The last Security Risk Assessment performed by UNDSS in August 2011 considered the Country to be low risk.

The Compliance Evaluation and Monitoring Unit carried out an evaluation of the security management system in May 2010. The system was found to be in line with findings in country-specific Minimum Operating Security Standards (85 percent). OAI reviewed the implementation action plan and noted that procurement was in progress for trauma kits and mobile phones needed for the implementation of outstanding recommendations contained in the security evaluation.

OAI's review showed that the Security Management Team meeting minutes had not been signed. The Resident Representative agreed to sign the minutes.

No reportable issues were identified.

ANNEX I. Definitions of audit terms - Ratings and Priorities

A. AUDIT RATINGS

In providing the auditors' assessment, the Internal Audit Services of UNDP, UNFPA, UNICEF, and WFP use the following harmonized audit rating definitions. UNDP/OAI assesses the country office or audited HQ unit as a whole as well as the specific audit areas within the country office/HQ unit.

- **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. *(While all UNDP offices strive at continuously enhancing their controls, governance and risk management, it is expected that this top rating will only be achieved by a limited number of business units.)*

- **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. *(A partially satisfactory rating describes an overall acceptable situation with a need for improvement in specific areas. It is expected that the majority of business units will fall into this rating category.)*

- **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. *(Given the environment UNDP operates in, it is unavoidable that a small number of business units with serious challenges will fall into this category.)*

B. PRIORITIES OF AUDIT RECOMMENDATIONS

The audit recommendations are categorized according to priority, as a further guide to UNDP management in addressing the issues. The following categories are used:

- **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 and may affect the organization at the global level.

- **Medium (Important)** — Action is required to ensure that UNDP is not exposed to significant 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>.