UNITED NATIONS DEVELOPMENT PROGRAMME
Office of Audit and Investigations

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AUDIT

OF

UNDP COUNTRY OFFICE

IN

VIET NAM

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Report on the audit of UNDP Viet Nam
Executive Summary

From 1 to 12 April 2013, the Office of Audit and Investigations (OAI) of the United Nations Development Programme (UNDP) conducted an audit of the UNDP Country Office in Viet Nam (the Office). The audit covered the activities of the Office during the period from 1 January 2012 to 31 March 2013. During the period reviewed, the Office recorded programme and management expenditures totalling $25.7 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*. These Standards require that OAI plan and perform 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 the conclusions and audit results.

Audit rating

OAI assessed the Office as **satisfactory**, which means "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." 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				
1.1 Organizational structure and delegations of authority	Satisfactory			
1.2 Leadership, ethics and values	Satisfactory			
1.3 Risk management, planning, monitoring and reporting	Partially Satisfactory			
1.4 Financial sustainability	Partially Satisfactory			
2. United Nations system coordination				
2.1 Development activities	Satisfactory			
2.2 Resident Coordinator Office	Satisfactory			
2.3 Role of UNDP – "One UN"	Not Assessed			
2.4 Harmonized Approach to Cash Transfers	Partially 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	Satisfactory
4.2	Finance	Satisfactory
4.3	Procurement	Satisfactory
4.4	Information and communication technology	Satisfactory
4.5	General administration	Satisfactory
4.6	Safety and security	Satisfactory
4.7	Asset management*	Satisfactory
4.8	Leave management*	Satisfactory
4.9	Global Environment Facility*	

* Cross-cutting themes

Key issues and recommendations

The audit raised eight issues and resulted in eight recommendations, of which one (13 percent) was 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." These recommendations include actions to address concerns regarding the Office's financial sustainability.

Financial sustainability (Issue 2)	<u>Concerns regarding the Office's financial sustainability</u>. UNDP Country Offices are required to maintain extrabudgetary reserves of at least 12 months to facilitate operations. However, the Office projected that extrabudgetary reserves would decline significantly during the next few years, reaching a low of two months in 2015. This was mainly due to increases in staff salaries and a greater need to rely on extrabudgetary resources as a result of a decrease in core funds received from Headquarters. The Office projected that 90 percent of its extrabudgetary resources would be allocated to staff-related costs. Further, the Office had been charging a flat rate of 3 percent for services provided to projects rather than the required actual costs or transaction fees. OAI recommends that the Office: (a) undertake a workload assessment and functional review to establish the most cost efficient staffing structure; and (b) when applicable, recover costs for the provision of support services on the basis of actual costs or fees in accordance with UNDP policies and procedures.

Cross-cutting themes

As part of the 2013 OAI Annual Work Plan, all Country Office audits will include specific areas to be reviewed in more depth. Results from all audits will be compiled and analysed at corporate level, and thereafter, a consolidated report will be issued separately. For this particular audit, the following were noted:

- **Asset management**. <u>Satisfactory</u>. No reportable issues noted.
- **Leave management**. <u>Satisfactory</u>. The OAI review of leave management indicated that the Office is using the electronic leave management system in Atlas. Apart from the issue on staff having to forfeit their annual leave as reported under the human resources section, there were no other issues.
- **Global Environment Facility.** No reportable issues noted.

Management comments and action plan

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

Helge S. Osttveiten
Director
Office of Audit and Investigations

I. Introduction

From 1 to 12 April 2013, OAI conducted an audit of UNDP Viet Nam. The audit was conducted in conformance with the *International Standards for the Professional Practice of Internal Auditing*. These Standards require that OAI plan and perform 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 the conclusions and audit results.

Audit scope and objectives

OAI 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 2012 to 31 March 2013. During the period reviewed, the Office recorded programme and management expenditures totalling $25.7 million. The last audit of the Office was conducted by OAI in 2009.

II. About the Office

The Office, located in Hanoi, Viet Nam (the Country), is one of eight pilot offices to have undertaken 'Delivering as One' initiatives since February 2006. This initiative brings together the expertise, experience and capacities of United Nations agencies to provide more coordinated and effective assistance. The Office continues to work on the six pillars of reform: One Plan, One Budget, One Leader, One Set of Management Practices, One Voice and the Green One UN House.

In 2010, the Country attained lower middle-income country status and over the last two decades, it has achieved rapid economic growth. This has significantly reduced overall poverty rates, from 58.1 percent in 1993 to 14.5 percent in 2008, and has raised the living standards of the entire population. The Country is on track to meet, or has met, most Millennium Development Goals at the national level.[1]

[1] Source: One Plan, 2012-2016

III. Detailed assessment

1. Governance and strategic management — Satisfactory

The Office's management structure consists of the Resident Representative (who is also the United Nations Resident Coordinator), the Country Director and one Deputy Country Director. The day-to-day management of the Office was delegated to the Country Director. The Office abolished a second Deputy Country Director (Operations) position in August 2012, and several key positions in the Operations section were vacant. These included the Head of Budget and Finance (vacant since June 2012), the Head of Human Resources and the Operations Manager (since March 2013). However, the Office had recruited a national Operations Manager in July 2012 to oversee and closely monitor the performance of the operations units.

One reportable issue, relating to the Office's financial sustainability, is discussed in section 1.4.

The Office had started a green campaign to promote green behaviour. This included developing a green plan for the Office and establishing targets and actions in five focus areas: energy efficiency, material consumption, transport, management and partnerships with other stakeholders.

1.1 Organizational structure and delegations of authority — Satisfactory

OAI assessed the accuracy of organization charts, reporting lines and delegations of authority to determine if the resources in the Office's integrated work plan were aligned with its organizational structure. Generally, no reportable issues were noted. However, the Office's organizational structure will need to be reviewed in line with reduced availability of non-core financial resources (discussed in section 1.4, Issue 1).

1.2 Leadership, ethics and values — Satisfactory

OAI reviewed the Global Staff Survey results, management's strategy for creating a harmonious working environment and compliance with the requirement for ethics training. According to the the 2012 Global Staff Survey, the Office was within or above the 50th percentile of all Country Office scores in all indicators, except 'top management', 'business process efficiency', 'client service' and 'development impact'. The Office scored very high in the 'green UNDP' indicator. OAI interviewed several Office staff, representatives of the staff association and the Office's senior management. The Office informed OAI that four general staff meetings and 14 senior staff group meetings had been held in 2012. The Office further stated that the senior staff group meetings were attended by unit heads and senior management. Both senior management and staff generally felt that inadequate management interaction in the form of general staff meetings may have led to the lower scores for some of the survey indicators mentioned above, as staff may not have been able to understand the Office's overall strategic direction and vision. As a result, the Office had planned more general staff meetings in 2013 to enable senior management to communicate the Office's direction and goals more effectively. The Office had also tasked the staff council, which represents the staff association, to take the lead in further consultations with groups of staff to better identify the underlying issues and appropriate follow-up actions. Senior management also hoped to roll out a detailed plan at the staff retreat to be held in late May 2013 to address all issues identified in the 2012 Global Staff Survey.

OAI noted that 6 percent of the staff (5 out of 79) had yet to complete the mandatory ethics training in the learning management system. The issue concerning the staff's failure to complete all mandatory training is discussed in section 4.1 (human resources management).

1.3 Risk management, planning, monitoring and reporting — Partially Satisfactory

The OAI review of this sub-area included an examination of the Office's overall management of risks impacting the UNDP objectives and mandate in the Country. OAI also assessed the Office's planning, monitoring and reporting functions, such as the Results Orientated Annual Report. Delayed implementation of the Harmonized Approach to Cash Transfers (HACT) exposed the Office to an elevated risk level, given that most projects were nationally implemented (section 2.4). The Office did not regularly update risks and issues affecting project implementation (refer to Issue 4). In January 2013, a consultant working in a nationally implemented project reported that there were irregularities pertaining to payments made to consultants. The matter was referred to the OAI Investigations Section for follow-up, and as a result of the additional work, the case was closed.

The following issue was identified in this sub-area:

Issue 1 Conflicting assurance requirements between the HACT Framework and Harmonized Programme and Project Management Guide

In 2010, the Office, UNICEF and UNFPA, in collaboration with the Government, developed the Harmonized Programme and Project Management Guide, which is a manual that provides guidance to national implementing partners on project implementation. The Harmonized Programme and Project Management Guide states that microassessments must be completed for all implementing partners receiving more than $500,000 from United Nations agencies per annum. However, this amount conflicts with the established policy, the Harmonized Approach to Cash Transfer (HACT) Framework, which sets a lower threshold of $100,000 to trigger a microassessment.

The Office stated that it would initiate a process to review the Harmonized Programme and Project Management Guide in coordination with the Government in the near future. In March 2013, the Office wrote to the Ministry of Finance stating that all implementing partners receiving more than $100,000 would be microassessed for the 2012-2016 programme cycle. But given the inconsistency between the HACT Framework and the Harmonized Programme and Project Management Guide, there is a risk that implementing partners who receive funding of less than $500,000 per annum may resist the Office's attempt to conduct microassessments during the programme cycle.

Priority	Medium (Importantl)
Recommendation 1: The Office should harmonize the financial threshold amount for triggering microassessments of implementing partners stated in the Harmonized Programme and Project Management Guide and the Harmonized Approach to Cash Transfers Framework.	

Management comments and action plan: __√__ Agreed ____ Disagreed

The Office commented that it had revised the financial threshold for microassessment of implementing partners in line with HACT Framework and initiated the 2013 microassessment exercise accordingly. The Office also initiated a revision of the Harmonized Programme and Project Management Guide which it expects to conclude by mid-2014.

1.4 Financial sustainability — Partially Satisfactory

OAI reviewed the Office's management of non-core financial resources, such as extrabudgetary resources and its recovery of Government Contributions to Local Office Costs (GLOC). The following issues were noted.

Issue 2 Concerns regarding the Office's financial sustainability

The UNDP Programme and Operations Policies and Procedures state that each unit is responsible for ensuring sustainable utilization, particularly in cases where extrabudgetary income is earned up front for a multi-year period. The Programme and Operations Policies and Procedures also require Country Offices to maintain an extrabudgetary reserve of 12 months to facilitate operations. Based on its March 2013 extrabudgetary projections, there was concern about the Office's long-term financial sustainability. Its extrabudgetary reserves, which were 17 months at the end of 2012, were projected to fall to eight months by the end of 2013, to six months by the end of 2014 and to two months by 2015. This was attributed to staff salary increases as a result of the 2012 salary survey, and the corporate requirement that core funding to all offices be reduced by 4.5 percent in 2013 and by 12 percent during 2014 and 2015. Thus, the Office has had to charge some operating expenses to extrabudgetary resources to cover the gap created by the core funding cuts.

The Office's programme delivery expenses were projected to increase to $29 million in 2013 and to $35 million in 2014, compared to $18.3 million in 2012. These significant increases may require more staff to be funded by non-core resources, to support the Office's delivery structure.

Based on its projections, the Office allocated 90 percent of its extrabudgetary resources to staff costs, explaining that it needed to review the present staffing structure to optimally support its programme delivery without straining its extrabudgetary resources. The Office also identified reduced extrabudgetary resources as a key risk in its integrated 2013 work plan, and was closely monitoring extrabudgetary reserves.

The Office has been charging a flat rate of 3 percent of project expenses for direct support services provided to three directly implemented projects. It had recovered $81,000 using this approach during the audit period. However, using a flat rate did not comply with the Programme and Operations Policies and Procedures, which state that costs relating to all implementation support services should be recovered on the basis of actual costs or transaction fees.

Inadequate extrabudgetary resources may prevent the Office from meeting its financial obligations, such as payment of staff salaries. Furthermore, charging a flat 3 percent rate for recovering implementation support service costs does not comply with the UNDP cost recovery policy.

Priority	High (Critical)
Recommendation 2: The Office should closely monitor extrabudgetary resources to ensure its financial sustainability by: (a) undertaking a workload assessment and functional review to establish the most cost efficient staffing structure; and (b) when applicable, recovering costs for the provision of support services on the basis of actual costs or fees in accordance with UNDP policies and procedures.	
Management comments and action plan: __√__ Agreed ____ Disagreed The Office is in the process of elaborating its financial sustainability strategy for the 2014 -2015 biennium with the aim of shifting the burden of staff costs from extrabudgetary resources to other funding sources, optimize the staffing structure, and enhance resource mobilization and cost recovery for services rendered. The Office also planned to undertake a functional review and workload analysis beginning in August 2013. The Office commented that it will apply the Local Price List modality as the basis for recovering costs for support services provided to directly implemented projects, effective immediately. The Office plans to implement this recommendation by December 2014.	

Issue 3 <u>Government Contributions to Local Office Costs not fully recovered</u>

The host government is required to contribute towards the costs of Country Offices through Government Contributions to Local Office Costs. The UNDP Executive Board "encouraged all host country governments to meet their obligations towards local office costs."

At the time of the audit, $0.8 million in Government Contributions to Local Office Costs had been due from the Government since 2008. Although the Office had followed up with the Government through letters and meetings, the amount due had not yet been collected. Failure to fully collect these contributions from the host government may adversely impact the financial resources available to support local office costs.

Priority	Medium (Important)
Recommendation 3: The Office should intensify its efforts to collect the outstanding Government contribution of $0.8 million towards local office costs and seek assistance from the Regional Bureau for Asia and the Pacific in these efforts.	
Management comments and action plan: __√__ Agreed ____ Disagreed The Office stated that subsequent to the audit fieldwork, it already received $319,000 in contributions from the Government and is now actively following up on the balance, which is expected to be disbursed in the first half of 2014. The Office plans to implement this recommendation by 30 June 2014.	

2. United Nations system coordination — Satisfactory

2.1 Development activities — Satisfactory

A joint country analysis of interventions under the new programme cycle (2012-2016) was finalized in July 2010. UNDP, UNICEF and UNFPA worked together to develop a common Country Programme Document, within the context of the United Nations 'Delivering as One' initiative. This initiative was intended to ensure greater programme efficiency by improving harmonization and by simplifying United Nations procedures. No reportable issues were identified.

2.2 Resident Coordinator Office — Satisfactory

OAI reviewed coordination functions carried out by the Resident Coordinator Office including management of joint programmes. The audit team reviewed the Resident Coordinator Office's annual work plan, the United Nations Country Team meeting minutes, the Resident Coordinator's annual reports and solicited feedback from two United Nations agency heads regarding the Resident Coordinator Office's performance. OAI's overall assessment was that the Resident Coordinator Office had been providing effective support to the Resident Coordinator and the United Nations Country Team, and that it had played a key role in coordinating Delivering as One initiatives, and in developing and finalizing the One Plan. No reportable issues were noted.

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

Together with other United Nations agencies in the Country, the Office has been working collaboratively to undertake initiatives within the spirit of Delivering as One and working toward the six pillars: One Plan, One Budget, One Leader, One Set of Management Practices, One Voice and the Green One UN House. This area was not reviewed.

2.4 Harmonized Approach to Cash Transfers — Partially Satisfactory

OAI reviewed the Office's role in implementing HACT and its compliance with the Framework for Cash Transfers to Implementing Partners. Implementation was led by an inter-agency HACT Group composed of UNICEF, UNFPA and UNDP. Although the Office has made progress in implementing HACT, it was not yet fully compliant because of delays in implementing some requirements.

Issue 4 Weaknesses in HACT implementation

(a) Microassessments not undertaken

The September 2005 HACT Framework states that microassessments should be undertaken during every programme cycle, or when a significant change in the implementing partner's organizational management is noticed. However, the Office had not undertaken microassessments of 18 implementing partners for the programme cycle 2012-2016. The Office informed OAI that the process of procuring the services of a firm to perform these microassessments was underway. The Office further commented that the delay in initiating microassessments occurred because the selection of implementing partners was only finalized in July 2012, and therefore the assurance plan had not been finalized until August 2012.

(b) Inadequate follow-up on concerns noted during spot checks

The HACT Framework requires that Office staff undertake spot checks of implementing partner's financial records as part of the assurance activities.

The Office undertook nine spot checks of implementing partners between July and November 2012. The spot checks identified a number of significant control weaknesses, particularly in the areas of procurement (Project Nos. 57333, 59640 and 49247) and finance (Project Nos. 59640, 57953, 49247 and 59714). However, the Office did not have adequate mechanisms in place to follow-up on these results to determine if the identified weaknesses had been addressed. Furthermore, the Office noted that it may not have the adequate knowledge and technical capacity to undertake spot checks and to adequately follow-up on their results. Review of the spot check reports did not provide sufficient information for OAI to assess the adequacy of staff capacity to perform this function.

The spot check report concerning the Macroeconomic Project (Project No. 59714) identified issues that project management disagreed with, and the report had consequently not been finalized until November 2012.

(c) Objectives of macro and microassessments not fully met

Macro and microassessments have two main objectives. The first is the development objective, which involves identifying strengths and weaknesses in the public financial management system, the financial management practices of individual implementing partners and areas that call for capacity development efforts. The second is the financial management objective, which involves identifying a suitable resource transfer modality and procedures, and the scale of assurance activities to be used with each implementing partner.

There was limited evidence to indicate that the Office had fully met the objective of enhancing capacity development in the public financial management system or among implementing partners in a formal and planned manner. The Office commented that it had held some ad hoc training and workshops to provide guidance to implementing partners on completing financial authorizations and certifications of expenditure forms, which are used for reporting expenses, and undertaking operational project implementation activities.

The Office conducted a macroassessment of the public financial management system in 2011 in preparation for the 2012-2016 programme cycle. This macroassessment highlighted several weaknesses, such as the need to improve documentation of budgets and management of the budget process, and strengthen adherence to internal controls and financial procedures. However, the Office and the other participating United Nations agencies had not undertaken any specific capacity building activities to address these issues. The Office indicated a need for greater staff stability and retention by implementing partners in order to ensure that training provides a sustainable impact. As such, the Office had not fully met the development objective stated in the HACT Framework.

Priority	Medium (Important)

Recommendation 4:

The Office should fully implement the Harmonized Approach to Cash Transfers modality. This should include:

(a) ensuring that microassessments of implementing partners are undertaken as soon as possible. In the interim, the Office should treat these implementing partners as high risk under the Harmonized Approach to Cash Transfers Framework, and undertake regular spot checks and follow up to ensure that the concerns raised in spot check reports are addressed; and

(b) enhancing capacities where weaknesses were noted in the macro and microassessments of public financial management systems and financial management practices of implementing partners.

Management comments and action plan: __√__ Agreed ____ Disagreed

The Office commented that the 2013 microassessment exercise is currently underway and will be completed by 31 August 2013. The Office will review the microassessment findings to develop appropriate capacity development modules and training for implementing partners.

The Office plans to implement this recommendation by 31 December 2013.

3. Programme activities — Partially Satisfactory

3.1 Programme management — Satisfactory

The Common Country Programme Document for 2012-2016 is a collaborative effort carried out by UNDP, UNFPA and UNICEF. It was fully aligned with the One Plan 2012-2016 covering three focus areas: inclusive, equitable and sustainable growth; access to quality essential services and social protection; and governance and participation. As the One Plan outlined the details of programme interventions and programme management of the three agencies, a Country Programme Action Plan was not prepared.

An independent evaluation of Delivering as One was undertaken in 2011, which recommended improvement in the reporting of development results in the next programme cycle. In response, the United Nations Country Team developed a results-based management strategy in 2012. In addition, a consultant was hired to support the cross-agency joint programme groups to strengthen their capacity in recording and reporting results, starting with the 2012 One UN annual report. Furthermore, a web-based platform has been developed to facilitate monitoring of indicators established within the current One Plan. The Office had initiated the above referenced actions in an effort to strengthen its results-based management process. No reportable issues were identified.

3.2 Partnerships and resource mobilization — Satisfactory

According to the 2012-2016 One Plan, the Resident Coordinator was primarily responsible for resource mobilization, in collaboration with participating United Nations agencies to raise funds from donors. In addition, participating United Nations agencies were encouraged to approach donors that were not funding the One Plan. A United Nations Resource Mobilization Working Group was established and recently completed a resource mapping exercise to identify opportunities for new development partnerships. It was also in the process of finalizing a joint resource mobilization strategy.

The Office maintained a resource tracking table to monitor existing as well as future funding opportunities. The resource target for the current programme cycle is $140 million ($44 million from regular resources and $96 million from other resources). At the time of audit fieldwork, the Office had mobilized other resources amounting to $45.3 million, representing 47 percent of its other resources target.

There were no reportable issues identified.

3.3 Project management — Partially Satisfactory

The Office had 43 projects in its portfolio (40 were nationally implemented and three were directly implemented), with total programme expenditures of $17.5 million during the audit period. The project portfolio covered thematic areas, such as governance and participation, sustainable development, and inclusive and equitable growth. OAI met with the auditors conducting audits of nationally implemented projects, who confirmed that no major weaknesses had been identified. OAI reviewed a sample of six projects (with expenses amounting to $5.6 million, or 32 percent of total programme expenditures) to assess the Office's project oversight and management. Of the six projects, two are funded by the Global Environment Facility (see section 4.9 below).

Table 1: 2011 and 2012 Programme expenditures by activity type

	2012		2011	
Thematic area	**$'000s**	**Percent of total expenditures**	**$'000s**	**Percent of total expenditures**
Poverty Reduction and Millenium Development Goal Achievement	1,259	7	4,447	22
Democratic Governance	9,573	52	7,636	38
Crisis Prevention and Recovery	681	4	2,595	13
Environment and Sustainable Development	3,635	20	5,358	26
Others	3,109	17	244	1
Total	**18,257**	**100**	**20,280**	**100**

Source: Executive Snapshot

The decrease in programme delivery in 2012 was mainly due to 2012 being the first year of the 2012-2016 programme cycle. The Office projected delivery to increase to $29 million in 2013, although as of 31 March 2013, spending totalled $2 million.

The Office had not undertaken Local Project Appraisal Committee reviews, which are prescribed by the Programme and Operations Policies and Procedures, before and into mid-2012 for Project Nos. 48414, 56485 and 51162. However, based on the OAI review, it was noted that in mid-2012, the Office had developed and implemented comprehensive guidelines for the Local Project Appraisal Committee review process, which were then followed for all new projects. Therefore, no audit recommendation has been made.

Issue 5 Implementing partner capacity assessments not completed

The Programme and Operations Policies and Procedures require that potential implementing partners must be assessed for their project management capacity as well as their financial and administrative capacities to implement projects and manage project funds. Further, capacity assessments enable identification of areas that the implementing partner needs to strengthen. Where deficiencies are noted, the assessment should include recommendations to address them. These implementing partner capacity assessments differ from the HACT microassessment (dicussed in Issue 3), as implementing partner capacity assessments focus more broadly on assessing an implementing partner's project management capacity, while microassessments mainly assess an implementing partner's financial management system.

Prior to 2012, the Office did not consistently undertake capacity assessments of implementing partners to determine whether they had the capacity to successfully implement and manage projects, or if they had the necessary financial reporting and management systems in place to manage funds entrusted to them.

Further, capacity assessments were not undertaken for three of the six partners implementing the projects reviewed by OAI (Project Nos. 48414, 59640 and 59714). The Office stated that the capacity assessments were not completed due to an inadvertent oversight on its part. From mid-2012, capacity assessments for new implementing partners were conducted as self-evaluations, which were then reviewed by an Office team. However, there was no documentation showing the extent to which the information provided by the implementing partners had been verified by interviews or by reviewing supporting documents.

Without undertaking capacity assessments, the Office cannot determine whether implementing partners have adequate technical, financial and administrative capacity to carry out projects. As such, the Office would not be able to determine the level of risk mitigation and assurance measures required.

Priority	Medium (Important)
Recommendation 5: The Office should: (a) ensure that capacity assessments of all implementing partners are undertaken; and (b) verify the information provided by implementing partners in their self-evaluations.	
Management comments and action plan: __√__ Agreed ____ Disagreed The Office commented that it will carry out capacity assessments regarding new projects and will take steps to strengthen the verification of data provided by implementing partners. The Office plans to implement this recommendation by 31 December 2013.	

Issue 6 Project assurance weaknesses

(a) According to the Programme and Operations Policies and Procedures, Programme Officers are responsible for providing project monitoring and assurance. Specific responsibilities include conducting verification visits to projects at least once a year and documenting those visits within seven days of returning to the

Office, as well as ensuring that the Atlas system is used for project reporting, risk management and quality management.

However, Programme Officers had not documented programme monitoring and assurance visits for three of six projects reviewed by OAI (Project Nos. 59714, 51162, and 56616). The Office explained that many visits were made, but not consistently recorded using a 'Back to Office' report. The Office had also not used the Atlas project management module to document issues and risks observed for the projects (56485 and 51162). In addition, the spot checks completed in 2012 identified a number of control weaknesses and associated risk areas relating to financial management and procurement, which were not reflected in the Atlas project management module (Project Nos. 57333, 59640 and 49247).

(b) The Programme and Operations Policies and Procedures stipulate that "planning for monitoring and evaluation must start at the time of programme or project design, and they must be planned together." OAI noted that detailed monitoring plans had not been prepared for three of the six sampled projects (Nos. 59714, 51162 and 56485), although monitoring activities had been undertaken. Monitoring plans are crucial in tracking progress, and in ensuring timely identification and remediation of implementation obstacles.

The exceptions identified above were due to the lack of adequate oversight by Programme Officers.

Without adequate monitoring and documentation of project issues and risk information, the Office is exposed to the risk that issues may not be detected and remedied in a timely manner.

Priority	Medium (Important)
Recommendation 6: The Office should strengthen its project assurance and monitoring and ensure that: (a) monitoring plans are developed for all ongoing and future projects; (b) field verification visits are undertaken regularly and the findings are documented within seven days of returning to the Office; and (c) Atlas is regularly updated with project reporting, risk management and quality management data.	
Management comments and action plan: __√__ Agreed ____ Disagreed The Office is in the process of implementing the recommendation consistently for all projects. The actions to be taken will also be covered in the upcoming training workshop for programme and project staff on Results-Based Project Planning, Monitoring, Evaluation and Reporting in September 2013. The Office plans to implement this recommendation by 31 December 2013.	

4. Operations — Satisfactory

4.1 Human resources — Satisfactory

As of March 2013, the Office had 79 staff (19 international and 60 national), holding either permanent or fixed-term appointments, and two service contract holders. In 2012, the Office recruited one service contractor, four international and five national staff. OAI reviewed the recruitment of one service contractor and three staff with fixed-term appointments. OAI also reviewed leave management, the completion of mandatory training by staff and the status of the Results and Competency Assessment. At the time of audit fieldwork, seven international and six national positions were vacant.

The following weaknesses were noted:

Issue 7 Inadequacies in human resource management

(a) Mandatory training not fully completed

The Programme and Operations Policies and Procedures require all staff to complete mandatory courses in the Learning Management System. However, some staff had not completed all of the mandatory courses.

Table 2: Number of staff who had not completed mandatory training courses as of 31 March 2013

Name of mandatory training courses	Number of staff who had not completed the mandatory training
Basic Security in the Field	17
United Nations Prevention of Harassment	8
Gender Journey	5
Ethics Training	5
Legal Framework	12

Source : UNDP Learning Management System

In total, 22 percent of the staff (17 out of 79) had not yet completed all mandatory training.

(b) e-Performance assessments not completed in a timely manner

The Programme and Operations Policies and Procedures require staff members to complete the Results and Competency Assessment and to establish individual learning plans and training needs. Four staff members had not completed their 2011 Results and Competency Assessments by 31 March 2012 deadline. During the 2012 cycle, 47 percent of staff members (37 out of 79) did not complete their Results and Competency Assessment by the 31 March 2013 due date. Further, 6.5 percent of Results and Competency Assessments were still in the Results Planning stage.

The delay in completing the mandatory training increases the risk that staff members may not be able to perform their duties in accordance with UNDP policies and procedures. Furthermore, failure to complete the Results and Competency Assessments in a timely manner precludes staff from receiving important feedback about their performance.

Priority	Medium (Important)
Recommendation 7: The Office should ensure that: (a) all staff members complete all mandatory training within a specified time frame; and (b) Results and Competency Assessments are completed by the established deadline.	
Management comments and action plan: __√__ Agreed ____ Disagreed The Office commented that it will step up its efforts to fully comply with mandatory training and Results and Competency Assessment requirements. The Office plans to implement this recommendation by 30 June 2014.	

4.2 Finance — Satisfactory

During the audit period, the Office processed 4,593 vouchers totalling $23.7 million. OAI reviewed 53 payment vouchers totalling $4.8 million, or 20 percent of all vouchers paid. The review also covered bank account reconciliations, national execution advances, manual payments made by the Office, the cost sharing deficit report as at December 2012, and a sample of 20 direct payments by the Office where purchase orders were not used.

In one instance, the Office made six payments to a vendor amounting to $431,000 based on copies of requests for payment, although no original invoices or requests were received from the vendor. Subsequent to the audit fieldwork, the Office had taken action to ensure that the remaining payments were based on the original vendor invoices. As such, no recommendation has been made. No other reportable issues were identified.

4.3 Procurement — Satisfactory

During the period under review, the Office processed 763 purchase orders amounting to $10.7 million. OAI reviewed a sample of 43 purchase orders valued at $2.6 million (or 24 percent of the total). OAI also reviewed two procurement cases submitted to the Advisory Committee on Procurement and the completion of procurement certification training for staff with buyer profiles in Atlas. Three staff members with the buyer profile had yet to complete UNDP Procurement Certification at the time of completion of the audit fieldwork.

Subsequent to the audit fieldwork, OAI validated that the Office had taken corrective action; hence no recommendation has been made.

No other reportable issues were identified.

4.4 Information and communication technology — Satisfactory

OAI reviewed the Office's Business Continuity Plan and data back-up procedures, as well as the procedures for protecting information technology systems from viruses, the availability of primary and secondary internet and server room cooling.

No reportable issues were identified.

4.5 General administration — Satisfactory

OAI reviewed the management of the memoranda of understanding with United Nations agencies concerning common services provided the long-term agreement with the travel agent, and travel records of 12 out of 65 international trips taken during the audit period. No reportable issues were noted in the management of memoranda of understanding or in the processing of international travel. However, OAI noted weaknesses in the procurement of airline tickets.

Issue 8 Airline ticket prices quoted by the travel agent not compared with other providers

The Office had a long-term agreement with a travel agent to supply airline tickets. The Office procured tickets valued at $0.6 million from the travel agent during the audit period. The Programme and Operations Policies and Procedures require oversight of the cost of services and goods provided by suppliers to ensure best value for money. Under the existing practice, the travel agent forwarded two airline ticket options from which the Office could choose. However, the Office did not compare these airline ticket costs with other service providers on a random basis to determine if the travel agent had been providing the most economical prices. The Office noted that the Travel Assistant occasionally compared ticket rates quoted by the travel agent with rates in the Expedia website. However, the Office did not provide documentation of the comparisons to show the frequency or the results of these price comparisons.

The long-term agreement signed with the travel agent generally helped to improve efficiency in purchasing airline tickets. However, because the Office did not conduct random price comparisons with other service providers, there is a risk that the travel agent may not be providing the best price.

Priority	Medium (Important)
Recommendation 8: The Office should strengthen oversight of airline ticket purchases by conducting ad hoc price comparisons with similar types of tickets offered by other providers and maintain documentation of the comparisons performed.	
Management comments and action plan: __√__ Agreed ____ Disagreed The Office commented that it will conduct ad-hoc price comparisons on a spot-check basis with immediate effect and record such comparisons.	

4.6 Safety and security — Satisfactory

The Office provided OAI with a number of security documents, including the Security Risk Assessment and Security Plan. Based on its desk review, OAI identified no significant security risks and no further fieldwork was performed.

4.7 Asset management — Satisfactory

At the end of 2012, the Office had 141 assets valued at $0.4 million. The Office conducted a physical verification of assets at that time and reported no exceptions. One staff member who conducted the physical verification was also designated as the Asset Focal Point, which was a conflict of interest according to the Programme and Operations Policies and Procedures. Additionally, inadequacies were noted in the physical verification report, such as an absence of clear explanations of the status of some assets. OAI confirmed that subsequent to the audit fieldwork the Office had taken action to ensure that the Asset Focal Point was no longer participating in asset verification exercises. Therefore, OAI has not made a recommendation.

4.8 Leave management — Satisfactory

OAI found that the Office was using the Atlas electronic leave management system. However, a few staff members forfeited their annual leave, as they had not used it. The Office indicated that it was aware of the situation and that it had occurred because staff members were taking on additional work load due to existing vacancies, the departure of several key staff members and the move to the Green One UN. No other reportable issues were identified.

4.9 Global Environment Facility

Out of a portfolio of 43 projects, nine were funded by the Global Environment Facility. The total budget for these projects was $20.6 million and 2012 expenses totalled $3.5 million, which represented 20 percent of the Office's programme expenses. Two Global Environment Facility-funded projects were sampled for detailed testing: the Demonstrating and Promoting Best Techniques and Practices for Reducing Healthcare Waste to Avoid Environmental Releases of Dioxins and Mercury Project (48414), and the Protected Area Management Effectiveness Project (59640). As relevant reportable findings have already been discussed in the project management section (see section 3.3. of this report), OAI has not raised any separate issues or made any further recommendations concerning these two projects.

No other reportable issues were identified.

ANNEX 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.)*

- **PartiallySatisfactory** 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>.