UNITED NATIONS DEVELOPMENT PROGRAMME
Office of Audit and Investigations

AUDIT

OF

UNDP COUNTRY OFFICE

IN

LAO PEOPLE'S DEMOCRATIC REPUBLIC

Report No. 1168

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Report on the audit of UNDP Lao People's Democratic Republic
Executive Summary

From 1 to 11 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 Lao People's Democratic Republic (the Office). The audit covered the activities of the Office during the period from 1 January to 31 December 2012. During the period reviewed, the Office recorded programme and management expenditures totalling $18 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			(yellow)	
1.1 Organizational structure and delegations of authority	Satisfactory			
1.2 Leadership, ethics and values	Satisfactory			
1.3 Risk management, planning, monitoring and reporting	Satisfactory			
1.4 Financial sustainability	Partially Satisfactory			
2. United Nations system coordination				(green)
2.1 Development activities	Satisfactory			
2.2 Resident Coordinator Office	Satisfactory			
2.3 Role of UNDP – "One UN"	Satisfactory			
2.4 Harmonized Approach to Cash Transfers	Partially Satisfactory			
3. Programme activities			(yellow)	
3.1 Programme management	Satisfactory			
3.2 Partnerships and resource mobilization	Satisfactory			
3.3 Project management	Partially Satisfactory			
4. Operations				(green)
4.1 Human resources	Satisfactory			
4.2 Finance	Partially 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*	Not Applicable			

* Cross-cutting themes

Key issues and recommendations

The audit raised 8 issues and resulted in 7 recommendations, of which 2 (29 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."

The high priority recommendations are as follows:

Financial sustainability (Issue 1)	Incorrect application of Implementation Support Services cost recovery policy. The Office did not adhere to the cost recovery policy for the Implementation Support Services (ISS), which calls for recovery on the basis of actual costs or transaction fees. Instead, the Office recovered ISS as a flat rate based on the extrabudgetary resources it required during the year as stipulated in an agreement with the Government. OAI recommends that the Office propose revising the Letter of Agreement with the Government for Country Office support services and ensure that costs are recovered in compliance with existing policy.
Finance (Issue 5)	Lack of proper verification of project expenditures. The Office procedures require that requests for quarterly advances to Implementing Partners are accompanied by documentation, such as a completed Funding Authorization and Certification of Expenditure form, as well as documentation of the reconciliation of the prior advance, and cash on hand and a budget analysis. The Office approved new advances to Implementing Partners on the basis of the available funds, even though the required supporting documents had not been received. OAI recommends that project advances are processed and disbursed after receipt and verification of all the required quarterly reporting documents.

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 was noted:

- **Asset management:** Satisfactory. At the close of 2012, the Office had 113 assets, all classified as tangible and valued at $363,000. The audit reviewed the procedures in place for acquisition, accounting for capital assets, management and custody, utilization and disposal of assets. A sample of 10 assets with a value of $114,000 (31 percent of the total value) was physically verified and found to be properly tagged. The disposals made during the year, through auctioning to staff members and write-off of a lost laptop computer, were approved as required. No reportable issues were noted.

- **Leave management:** Satisfactory. OAI reviewed the procedures in place for managing the absence of staff members and monitoring leave balances. Staff members used e-service in leave applications, while manual attendance leave records were maintained by the leave monitor. These systems were reconciled with the Atlas records on a monthly basis and any necessary adjustments were made promptly. OAI also reviewed the certified annual leave records and found them to be reconciled to the manual records. The year-end employee benefits certification was completed and leave balances noted as "without error." No reportable issues were noted.

- **Global Environment Facility:** The Environment portfolio of the Office comprised of 12 projects, 7 of which received funding from the Global Environment Facility, totalling $2.6 million. OAI reviewed one

Global Environment Facility-funded project: Improvement in the Resilience of the Agriculture Sector in the Lao People's Democratic Republic to Climate Change Impact. The project has a budget of $9 million, with $4 million funded by the Global Environment Facility. OAI reviewed project oversight, financial management, resource mobilization and knowledge management. No reportable issues were noted.

Management comments and action plan

The Resident Representative accepted all 7 recommendations and is in the process of implementing them.

Antoine Khoury
Officer-in-Charge
Office of Audit and Investigations

I.   Introduction

From 1 to 11 April 2013, OAI conducted an audit of UNDP Lao People's Democratic Republic. 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 to 31 December 2012. During the period reviewed, the Office recorded programme and management expenditures totalling $18 million. The last audit of the Office was conducted by OAI in 2009.

II.   About the Office

The Office is located in Vientiane, Lao People's Democratic Republic (the Country) and has 73 staff members and other personnel. The following four programme priorities derive from the United Nations Development Assistance Framework Action Plan 2012-2015, which is fully aligned with the Seventh National Socio-Economic Development Plan: (a) achieving inclusive and sustainable growth and the Millennium Development Goals, particularly through the Round Table Process; (b) effective governance; (c) ensuring sustainable natural resource and environmental management and adaptation to climate change; and (d) reducing unexploded ordnance (UXO) impact. Capacity development, aid effectiveness, managing for development results and accountability are cross-cutting objectives. Gender equality serves as a driver of progress across all Millennium Development Goals. The Country hopes to graduate from Least Developed Country status by 2020.

The Office has a role in the Round Table Process for the Seventh National Socio-Economic Development Plan. The Round Table Process consists of a high-level Round Table Meeting every three years for policy dialogue on the Government's priorities, such as the five-year national development plan and resource requirements. In addition to the Round Table Meeting, a Round Table Implementation Meeting is held on an annual basis to take stock of progress and lessons learned in the implementation of the National Socio-Economic Development Plan (2011-2015) and to discuss critical development issues that will inform the main Round Table Meeting.

III.   Detailed assessment

| 1.   Governance and strategic management | Partially Satisfactory |

The Office's management structure consists of the Resident Representative, who is also the United Nations Resident Coordinator, and two Deputy Resident Representatives (one for Programme and one for Operations). OAI reviewed the Office structure, the Internal Control Framework, delegations of authority for all staff members, the Standard Basic Assistance Agreement and the remittance of Government Contribution to Local Costs. A signed Standard Basic Assistance Agreement exists and the Government Contribution to Local Costs remittances was up to date.

No reportable issues were identified.

| 1.1   Organizational structure and delegations of authority | Satisfactory |

The Office completed the organizational restructuring that included a gradual reduction of international staff from 42 in 2009, when the last OAI audit was conducted, to 26 as of April 2013, with 15 international staff occupying Country Office posts and 11 working as Technical Advisors supporting the four programme portfolios.

The Office has continuously faced challenges related to staff capacity and to retention of qualified national staff. This challenge is compounded by a competitive labor market in which other development organizations and the private sector could, at times, offer more competitive remuneration packages.

The challenge relating to staff capacity was also identified in the 2009 OAI audit. The Office indicated that while staff capacity and retention continue to be a challenge, the existing staffing structure adequately supports the Country Programme.

All staff members had completed UNDP mandatory courses at the time of audit.

No reportable issues were identified.

| 1.2   Leadership, ethics and values | Satisfactory |

OAI reviewed compliance with the financial disclosure policy, completion of mandatory ethics training and the policy on reporting of outside activities. In addition, OAI met with senior management and the Chair and members of the Staff Association. The 2012 Global Staff Survey results indicated that dimensions relating to communication and staff motivation had declined slightly from 2011. The survey results were discussed at the staff retreat in February 2013. The Staff Association was tasked with finalizing an agreed upon action plan.

No reportable issues were identified.

| 1.3   Risk management, planning, monitoring and reporting | Satisfactory |

OAI reviewed information in the corporate tools, including risk management, planning, monitoring and reporting processes. Information entered into the Balanced Score Card relating to these processes was also reviewed and deemed to be adequate. However, some weaknesses in results reporting were identified (refer to Issue 3).

No other reportable issues were identified.

1.4 Financial sustainability	Partially Satisfactory

OAI reviewed the Office's compliance with the cost recovery policy, which states, "Income-generating units directly manage their extrabudgetary income. It is the responsibility of each unit to ensure sustainable utilization, particularly in cases where extrabudgetary income is earned upfront for a multi-year period."

At the time of audit, the extrabudgetary reserve stood at 11 months and the Office projected that it would maintain this level for 2013 and 2014. The 11 month reserve level represents an increase from a low of 3 months in mid-2012. However, OAI noted that the net international staff costs charged to extrabudgetary resources had increased because the Office began directly funding two posts which had previously been funded by other sources.

Amounts earned from ISS provided by the Office had increased by 64 percent over 2011. Extrabudgetary revenue projections for 2013 and 2014 were $0.89 million and $0.96 million, respectively. In calculating these estimates, the Office considered the inflation index and the global reduction in UNDP core resources.

The Office reduced General Operating Expenses against extrabudgetary resources from $107,000 in 2011 to $37,000 in 2012. Management indicated that they were closely monitoring the extrabudgetary reserve status in conjunction with the Regional Bureau for Asia and the Pacific.

Issue 1   Incorrect application of Implementation Support Services (ISS) cost recovery policy

The UNDP cost recovery policy states that units are required to recover the cost for providing ISS to projects and other United Nations agencies on the basis of the actual costs or transaction fees. Actual costs are to be used for clearly identifiable transactions, and when this is not possible, Country Offices are encouraged to use the transaction fees included in the UNDP Universal Price List for services.

However, the Office recovered ISS as a flat rate for the support it provided to nationally implemented projects. This recovery was based on a Letter of Agreement signed with the government coordinating body in November 2007. In this agreement, the formula for ISS recovery was not based on actual costs but primarily driven by the estimated extrabudgetary resources that the Office estimates it will need for a given year.
The signed Letter of Agreement also stated that "UNDP commits itself to further reducing the cost of international staff funded from extrabudgetary sources." However, as shown below, international staff member costs charged to extrabudgetary resources had increased significantly over the previous three years.

Table 1: Implementation Support Services recovered and international staff costs for 2010-2012

Year	Implementation Support Services recovered	International staff costs charged to extrabudgetary
2010	$257,000	$131,000
2011	$310,000	$445,000
2012	$517,000	$503,000

Source: Executive Snapshot May 2013

The Office stated that a substantial volume of services were delivered to nationally implemented projects due to low capacity for some Implementing Partners. Hence, Office staff members were involved in supporting a full range of activities, including monitoring, preparation of documents, human resources, procurement, budgeting, finance, and reporting and visa issuance, among others. The Office explained that the Universal Price List is not a

fair representation of all efforts, costs and time invested by the Office in its support to national implementation modality projects. OAI maintained that the Office needed to recover the costs for providing direct support services to nationally implemented projects on the basis of the actual costs, as provided in the cost recovery policy which include the possibility of revising the rates in the Universal Price List if duly justified.

The ISS cost recovery methodology employed by the Office is therefore not fully aligned with UNDP policy on cost recovery, and may not promote efficiency in the provision of services. The Office has not undertaken the necessary analysis to realistically determine its operating costs based on the services provided and, therefore, may be charging a higher or lower rate than appropriate, which has the potential to negatively impact the Office's efficiency, sustainability and the relationship between the Government and UNDP. If necessary, the Office could seek guidance from the Office of Financial Resources Management about this matter.

Priority	High (Critical)
Recommendation 1: The Office should revise the Letter of Agreement with the Government for Country Office support services and ensure that its direct support costs to projects are recovered in line with existing UNDP cost recovery policy.	
Management comments and action plan: __√__ Agreed ____ Disagreed Following the expected roll-out of the new Policy on Enhanced and Transparent Project Budgeting and Costing, the Office will review its human resource structure, including the number and types of posts to ensure it is linked to the needs of the Office programme and available budget. This review exercise will be done with the direct assistance of and/or facilitation from relevant units with UNDP Headquarters. The Office will review the support services provided, and negotiate revisions to the Letter of Agreement with the Government relating to the Office's support to national implementation in line with existing policy.	

2. United Nations system coordination	Satisfactory

The United Nations Country Team is comprised of FAO, IFAD, ILO, IOM, ITC, OCHA, OHCHR, UN Women, UNAIDS, UNCDF, UNCTAD, UNDP, UNDSS, UNEP, UNESCO, UNFPA, UN-HABITAT, UNHCR, UNIAP, UNICEF, UNICR, UNIDO, UNODC, UNV, WFP and WHO. The ADB and the World Bank also participate in meetings.

OAI reviewed annual reports submitted to the United Nations Development Operations Coordination Office, minutes of the United Nations Country Team meetings, the Resident Coordinator Office Work Plan and joint programmes. There were three joint programmes under the United Nations Development Assistance Framework 2012-2015. Additional joint programmes were in the proposal stage at the time of audit. OAI also met with representatives of two United Nations agencies, both of whom stated that they were satisfied with the coordination function provided by the Resident Coordinator's Office.

No reportable issues were identified.

2.1 Development activities	Satisfactory

The United Nations Development Assistance Framework Action Plan 2012-2015, which was signed in 2012, outlines a clear road map for United Nations support to the Country, and acts as an engine to enhance United Nations coordination and joint programming. The plan includes support for 10 separate outcomes aligned with the Government's Seventh National Socio-Economic Development Plan 2011-2015. Further, the United Nations Development Assistance Framework outcomes directly contribute to achieving the nine Millennium Development Goals for the Country by 2015.

With UNDP support, the Government was engaged in a mid-term review of its development plan, which was set to be finalized by April 2013. The results of this mid-term review, as well as the new Millennium Development Goals Progress Report (to be finalized by summer 2013), will feed into discussions at the high level Round Table Meeting (Section ll of the Introduction).

No reportable issued were identified.

2.2 Resident Coordinator Office	Satisfactory

The Resident Coordinator's Office consisted of an Executive Associate, an international Head of Office at the P4 level (to be replaced by a United Nations Volunteer) and a national officer. Interagency contributions based on a specific cost-sharing formula and Support to the Resident Coordinator funding from the United Nations Development Operations Coordination Office are the main resources sustaining the Resident Coordinator Office.

No reportable issues were identified.

2.3 Role of UNDP - "One UN"	Satisfactory

The Country was not part of the pilot countries implementing One UN or Delivering as One. However, the minutes of the United Nations Country Team meetings indicated that there was agreement on moving forward with Delivering as One implementation pending the recommendations of the Quadrennial Comprehensive Policy Review[1] report on cost sharing.

The Country is prone to a number of natural hazards that leave significant social and economic impacts in their wake. In light of climate change considerations and the need to reduce vulnerability, the United Nations Country Team coordinated the development of the first Inter Agency Contingency Plan for Lao in 2012. The plan was developed through broad-based consultations.

No reportable issues were identified.

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[1] The Quadrennial Comprehensive Policy Review is the mechanism through which the General Assembly assesses the effectiveness, efficiency, coherence and impact of United Nations operational activities for development and establishes system-wide policy orientations for development cooperation and country-level modalities of the United Nations system in response to the evolving international development cooperation environment.

2.4 Harmonized Approach to Cash Transfers	Partially Satisfactory

OAI met with representatives of two other United Nations agencies (UNFPA and UNICEF) and reviewed the available documentation regarding compliance with HACT.

Issue 2 <u>Compliance with the Harmonized Approach to Cash Transfers not fully achieved</u>

According to the United Nations Development Group and the Programme and Operations Policies and Procedures, implementing HACT involves four key elements in which offices need to be compliant. These are: (a) a macro-assessment of the financial management practices of the public financial system, (b) a micro-assessment of Implementing Partner financial systems and control frameworks; (c) assurance activities that include spot checks; and (d) the Government's agreement with HACT implementation. Based on the result of the micro-assessment, a capacity development strategy is created.

At the time of audit, HACT was not fully implemented. Although the macro-assessment had been completed in June 2012 and the Government had endorsed HACT implementation, other requirements such as the micro-assessments of Implementing Partners had not been undertaken. The Office indicated this was due to other competing tasks of the three United Nations agencies.

In addition, the 2013 United Nations Country Team work plan included plans for HACT assurance and micro-assessments, but a specific timeline had not been set. The Office explained that this also was mainly due to the competing priorities of the three United Nations agencies. The objective of lessening the burden of multiplicity of United Nations procedures will not be achieved unless HACT requirements are met and are fully implemented.

Priority	Medium (Important)
Recommendation 2: The Office should coordinate with other United Nations agencies to fully implement the HACT modality by: (a) establishing and adhering to a specific timeframe for finalizing micro-assessments of Implementing Partners; (b) establishing assurance and joint audit plans and conducting assurance activities, including conducting spot checks; and (c) developing a capacity development strategy based on the findings of the micro-assessments.	
Management comments and action plan: __√__ Agreed ____ Disagreed The Office will: (a) share the recommendations with UNICEF and UNFPA and discuss ways to address the recommendations and further to agree on a timeframe for conducting new micro-assessments; (b) perform the micro-assessments, analyse the results and agree with UNICEF and UNFPA on how to link these results to practical tools and approaches, and develop a capacity development strategy linked to the result-analysis; and (c) agree on, and draft realistic joint project-assurance approaches and plans.	

3. Programme activities   Partially Satisfactory

3.1 Programme management   Satisfactory

OAI reviewed the Country Programme Document 2012-2015, which was developed in close consultation with the Government and all development partners in parallel with the finalization of the United Nations Development Assistance Framework Action Plan for 2012-2015. OAI reviewed specifically the Country Programme Document outputs and linkages to existing projects. The Country Programme Document focuses on strategic Millennium Development Goal initiatives and upstream policy advisory services to the Government.

The Country Programme Document outputs and outcomes are fully aligned to the United Nations Development Assistance Framework. The following four programme priorities derive from the United Nations Development Assistance Framework Action Plan 2012-2015: (a) achieving inclusive and sustainable growth and the Millennium Development Goals, particularly through the Round Table Process; (b) ensuring effective governance; (c) ensuring sustainable natural resource and environmental management and adaptation to climate change; and (d) reducing the impact of unexploded devices through clearing of contaminated land.

No reportable issues were identified.

3.2 Partnerships and resource mobilization   Satisfactory

OAI met with the government coordinating body, donors and other United Nations agencies, which provided positive feedback on their relationship with the Office.

OAI reviewed the Office's signed donor agreements and the status of donor contributions. At the time of audit, non-core contributions amounting to $0.45 million appeared in Atlas as outstanding for more than 90 days. The Office explained that the dates were incorrect and that the donor contributions were only outstanding for 30 days as of 1 April 2013. The Office had already informed the UNDP Global Shared Service Centre of the incorrect dates and indicated that the Office had implemented a procedure for proper monitoring of donor contributions. Accordingly, OAI has not raised an issue.

Additionally, OAI reviewed the Office's resource mobilization strategy. The new UNDP Country Programme 2012-2015 included a budget of $70 million, of which $12 million was to be financed by UNDP core resources. The Office must therefore mobilize the remaining $58 million during the programming cycle, an average of $15 million each year. The Office had mobilized $14.6 million during 2012 and $11.1 million for 2013 at the time of audit.

The Office had not updated the status of the resource mobilization strategy on a quarterly basis as planned. Additionally, the resource mobilization strategy did not incorporate mobilization of non-core resources for the Poverty Unit's project portfolio which was highly dependent on UNDP core funding at the time. The Deputy Resident Representative (Programme) indicated that the Office had identified three outputs for resource mobilization activities, produced a promotional brochure in 2012 on the Round Table Process[2], and that additional efforts will be taken beginning in 2013.

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[2] A discussion among the government, United Nations agencies and donors to identify key development focus areas and direct necessary resources to meet those needs.

| 3.3 Project management | Partially Satisfactory |

At the time of audit, the Office was implementing a portfolio of 38 development projects in a number of thematic areas as shown in Table 2 below.

Table 2: UNDP Lao programme expenditure by thematic area (2010 to 2012)

Thematic area	Programme expenditure ($ millions)		
	2010	2011	2012
Governance	4.8	3.4	3.7
Poverty reduction and Millennium Development Goals	2.4	1.6	2.8
Environment and sustainable development	1	1.6	1.8
Crisis prevention and recovery	6.3	5.4	6.7
TOTAL	**14.5**	**12**	**15**

Source: Executive snapshot May 2013

All projects were nationally implemented. OAI reviewed a sample of seven projects, including one joint programme, with combined total expenditures of $6 million. The sample included one project funded by the Global Environmental Facility (see section 4.9). These projects represented 40 percent of the total programme expenditure of $15 million during 2012. OAI reviewed the project documents structure, appraisal/approval and implementation processes, monitoring and evaluation, annual and donor reporting and lessons learned, in addition to meeting with the government coordinating body, donors and United Nations agencies.

Management agreed to address two non-reportable issues related to the extension of a project document that had already expired and a delay in submission of the quarterly progress reports by Implementing Partners. Based on management's agreed upon action, OAI has not made a recommendation relating to these issues.

Two issues, one medium and one high priority, were also identified and, therefore, this area was rated as "partially satisfactory."

| **Issue 3** | Inadequate annual reporting |

According to the Programme and Operations Policies and Procedures, the annual project report includes a summary of results achieved against pre-defined annual targets and baselines at the output level, measured against a set of quantitative and qualitative indicators, disaggregated by gender. The annual report also includes revalidation of the logic of project and programme results and discerns which issues have emerged during implementation and confirms that the delivery of outputs will lead to the desired outcomes.

A review of annual reports for the projects reviewed in detail highlighted the following:

(a) Reporting weaknesses

Reporting for some projects was confined to the activity level without linkage to the desired outcomes and outputs (Project IDs 80607, 80296 and 62427). For example, the Annual Report for Project 80607 states that "From January to December 2012 the project released 3,199 hectares of land through area clearance and technical survey activities reaching 516,410 beneficiaries. Besides areas cleared for agricultural land, the project provides an enabling environment for infrastructure development, including the establishment of irrigation systems, school construction, hospitals, health centres, clean water projects, roads and other

development activities." The report however, does not state whether the cleared land was actually used for these purposes.

Two projects (80607 and 80296) were included in a review undertaken by the Bureau for Crisis Prevention and Recovery in January 2012. The review highlighted the fact that annual results were communicated in purely quantitative terms, without a clear demonstration of how they contributed to improving the lives and livelihoods of people living in affected areas. This is particularly significant for Project 80607 because it is one of the largest projects in terms of funding and has been operational since 1996 (Project 80607 addresses clearance of UXO). Further, for Project 62427, which has been operational since 2009, while the linkages to the intended impact of the interventions (training) had been noted, measurement of the actual impact (outcomes) directly linked to the activities and outputs (training provided to government entities) was lacking.

The Office explained that regarding project 80607, there are global challenges in measuring the impact of mine clearance on development in general, and the Office is exploring initiatives that assess UXO post-clearance efforts on development through the engagement of specialized institutions. For the Country, this is further compounded by the fact that there are no baselines established for the level of UXO contamination, and the Office has been advocating for the advancement of a survey to identify UXO contamination baselines at the national level.

(b) Weak indicators

For all seven projects reviewed, the indicators were almost exclusively quantitative and did not gauge the qualitative aspects of the interventions, such as the perceptions of beneficiaries regarding the benefits derived from the project interventions. Further, the 2012 Annual Work Plans for Projects 80607 and 80296 did not identify baselines. Management indicated that no baselines existed for UXO contamination in the Country, which made it difficult to set targets for Project 80607, which in turn impacted on the ability of the Office to link UXO clearance efforts to developmental change. The Office further indicated that this challenge is being addressed in part through the new support programme for the National Regulatory Authority and UXO clearance 2013-2015.

None of the projects reviewed had gender-disaggregated output and outcome indicators and such data was not included in the reporting process.

The Office risks not being able to accurately measure progress toward results, including the impact on more disadvantaged groups of beneficiaries, such as women and girls.

Priority	Medium (Important)
Recommendation 3: The Office should strengthen its results based reporting by: (a) clearly stating the link between the delivery of a given output and the desired outcome; (b) establishing a balance between gender-disaggregated qualitative and quantitative indicators; and (c) identifying baselines where available, and instituting measures to gather baseline data where this is not available at the national level.	

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

Additional information provided by management has been incorporated in audit observation above.

Issue 4   Unauthorized use of vehicles by project staff members

According to the Programme and Operations Policies and Procedures, project vehicles are to be used for carrying out the essential purposes for which they were procured. Any deviation from this standard needs to be expressly authorized by the UNDP Resident Representative, Headquarters or the Regional Office.

Two vehicles assigned to Projects 80607 and 80296 were being used by project staff for both official and personal use on an ongoing basis. Project staff indicated that use of these vehicles was governed by Standard Operating Procedures provided by the Implementing Partner as part of its operating guidelines. However, these Standard Operating Procedures had not been approved by the Office and did not replace the existing policy on project vehicle usage referred to above. Office management confirmed that they had not authorized the project staff to use project vehicles for personal use. At the time of audit, one vehicle was in the process of being transferred to the Implementing Partner.

As the security level in the Country is at zero, and security threats that would warrant use of project vehicles for personal use do not exist, the use of these vehicles for personal use poses a reputational risk and a misuse of project assets.

Priority	Medium (Important)
Recommendation 4:	
The Office should ensure that project vehicles are used for official business only and that any deviation from this requirement is authorized by the relevant UNDP authority.	
Management comments and action plan: __√__ Agreed ____ Disagreed	
The Office indicated that relevant text has been included in the new National Implementation Standard Operating Procedures for Lao PDR and will continue to update these as necessary. Emphasis will be placed on this requirement during relevant project staff training, and further, adherence will be reviewed during National Implementation spot-checks and audits.	

4. Operations	**Satisfactory**

4.1 Human resources	**Satisfactory**

As of 28 February 2013, the Office had 73 personnel (18 International staff members, 21 national officers, 24 General Service staff members, 5 service contract holders and 5 United Nations Volunteers). The audit reviewed recruitment procedures based on a sample of 6 out of 16 recruitment actions, as well as staff member development, separations and benefits administration. The composition and functioning of the Compliance Review Panel was also reviewed.

The Office experienced a high turnover rate in 2012, with 16 staff separating and 16 new staff being recruited. The relatively high turnover rate was discussed with management and OAI suggested that the Office institute exit interviews with separating staff to more accurately determine the reasons for separation.

No reportable issues were identified.

4.2 Finance	Partially Satisfactory

During the audit period, the Office processed 5,135 payment vouchers valued at $18.3 million. OAI reviewed 50 payment vouchers, valued at $8 million and representing 44 percent of all payment vouchers processed, as well as petty cash and safe operations, cash and banking, outstanding advances to nationally implemented projects, staff advances, revenue and expense management.

The Office maintained a large number of unused cheques (946 pages of cheques) of a Bank of America account. Given that the Office utilizes electronic fund transfer for payments, OAI advised management to maintain about 50 cheques and either return the unused cheques to the bank or destroy them to minimize the risk of loss. OAI noted one instance in which changes to the authorized bank signatories had not been effected in a timely manner; in this instance, the bank was not notified until two months after the staff member had separated from UNDP. As the Office agreed to closely monitor bank signatory changes and to address the cheques issue, no issue has been raised.

One high and one medium priority issue were identified; therefore this section was rated as "partially satisfactory."

> **Issue 5**   Lack of proper verification of project expenditures

According to the Programme and Operations Policies and Procedures, the role of UNDP is to monitor and ensure that resources entrusted to UNDP are utilized appropriately, including funds advanced to Implementing Partners. Quarterly reports are one of the main tools used for this purpose. These reports are required to contain certain information, including quarterly work plans, actual performance data and explanations of any variances. The Office's standard operating procedures and the national implementation modality guidelines require that the quarterly Funding Authorization and Certification of Expenditure forms be accompanied by reconciliation of the advance received and of the cash balance on hand as well as a budget utilization analysis. The reviewed Funding Authorization and Certification of Expenditure forms provide the basis for approving quarterly advances to Implementing Partners.

OAI noted that these records were not always provided by the projects with the quarterly submissions and advance approvals were made solely on the basis of fund availability. Although projects have a wide national coverage, and preparing these reports promptly can be a challenge, they are vital in the verification process, essential for adequate oversight and control and must be submitted. For example, the following quarterly advances relating to Project 80607 (clearance of UXO) were made without the receipt and review of the required documents:

- Q1 payment voucher 44530 advance amount $822,501
- Q2 payment voucher 45738 advance amount $132,120
- Q3 payment voucher 47052 advance amount $399,292

This practice exposed the Office to the risk of financing non-existent or unapproved activities.

Priority	High (Critical)
Recommendation 5: The Office should ensure that advances to projects are only processed in compliance with the national implementation guidelines, which should include ensuring that advances are disbursed only after the receipt and satisfactory verification of all the required quarterly reporting documents.	
Management comments and action plan: __√__ Agreed ____ Disagreed The Office will: (a) work with the government counterparts to improve the data collection and reporting process; and (b) reiterate with the programme units the importance of the requirement. The Office has already centralized the approval of all advances in Atlas to the two Deputy Resident Representatives for Programme and Operations to ensure adherence to this requirement.	

Issue 6   Weaknesses in accounting for advances

The Programme and Operations Policies and Procedures state that funds disbursed as advances are to be recorded as such until the funds have actually been utilized, at which time they should be liquidated and recorded as expenditures.

OAI noted cases where travel advances were recorded as expenses before the related activities were actually undertaken, instead of being booked as advances in order to allow them to be tracked and ensure they are subsequently properly accounted for. For example, a $6,000 advance to a staff member for miscellaneous travel and unforeseen costs was erroneously recorded as an expense (payment voucher 45494) in March 2012 under account 71615 - Daily Subsistence Allowance. Similarly, a $50,000 project advance (payment voucher 47888) was expensed under account code 75709 - Learning. This practice is contrary to the Programme and Operations Policies and Procedures and International Public Sector Accounting Standards requirements. In addition, these costs were related to activities that had not actually occurred which resulted in an overstatement of financial expenditures.

Failure to properly record advances could lead to poor control over expenditures, increasing the risk that advances may not be fully followed-up and accounted for, or result in delays in recovery of unused advances.

Priority	Medium (Important)
Recommendation 6: The Office should ensure that advances are recorded as advances in Atlas and only expensed to the appropriate accounts upon liquidation, and that processes exist to closely monitor and track them.	
Management comments and action plan: __√__ Agreed ____ Disagreed 	

4.3 Procurement	**Satisfactory**

During the audit period, the Office processed 937 purchase orders amounting to $3.7 million, of which 455 related to travel (i.e., Daily Subsistence Allowances and air tickets). OAI reviewed the Procurement Dashboard (a corporate monitoring tool), Atlas reports on Office procurement, as well as a sample of 35 purchase orders amounting to $1.1 million and noted control weaknesses in procurement management as described below.

OAI also reviewed 16 of 78 individual contracts issued in 2012 and only noted exceptions which were not considered material and were discussed with management who agreed to rectify them.

The Office maintained a system for tracking the progress of its procurements. The Procurement Specialist stated that the requesting units had access to the system to check status. OAI found that the Procurement and Logistics Unit records were well organized.

Issue 7   Weaknesses in procurement management

According to the Programme and Operations Policies and Procedures, all procurement activities should be subjected to a budget check to ensure the availability of funds. Also, non-restrictive descriptions of goods are to be used to promote open competition. Procurement panel members, who are non-UNDP staff need to sign a Declaration of Impartiality to ensure that no conflict of interest exists and e-requisitions should be created in Atlas and must include a description of the goods and/or services required.

OAI noted the following weaknesses:

- *Inadequate controls in the procurement process* - A review of 35 purchase orders found that 13 were cancelled due to duplication or budget error, 9 contained restrictive descriptions of goods (e.g. brands of vehicle tires, computers, and printers were specified in the Requests for Quotation) required, and 11 lacked the Declaration of Impartiality required to be signed by the evaluation panel members who were non-UNDP staff.

    Additionally, the Procurement Dashboard disclosed that the Office processed 92 purchase orders without having created e-requisitions in Atlas during 2012.

- *Inadequate controls in vendor creation* - At the time of audit, the Office had 80 duplicate vendors. This was due to a lack of controls and coordination among staff members with buyer profiles, to ensure that the vendor did not already exist in Atlas prior to creating a new vendor profile and inadequate review by the approving staff member prior to approving the vendor in Atlas.

Inadequate controls relating to the procurement process and the vendor creation and approval processes could result in financial losses due to duplicate payments.

Priority	Medium (Important)
Recommendation 7:	
The Office should ensure compliance with procurement procedures stipulated in the Programme and Operations Policies and Procedures, including:	
(a) ensuring duplicate purchase orders are not raised and ensuring that funds are available prior to issuing a	

new purchase order;
(b) ensuring procurement evaluation panel members who are not UNDP staff sign the Declaration of Impartiality;
(c) ensuring e-requisitions are raised in Atlas for all procurement activities ; and
(d) ensuring that the vendor does not already exist prior to creating or approving new vendor profiles in Atlas.

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

4.4 Information and communication technology	Satisfactory

The Office's Information and Communication Technology (ICT) Unit was headed by an ICT Specialist (international United Nations Volunteer) and supported by an ICT Associate (national officer). The Office was also in the process of hiring an ICT Assistant (national staff).

OAI reviewed the Office's Disaster Recovery Plan and conducted a physical inspection of its server room. The Office had submitted the Disaster Recovery Plan to the UNDP Office of Information Systems and Technology and it had also tested the Plan in 2012. During its observations of the server room, OAI noted control weaknesses such as the failure to maintain a logbook of persons entering the server room and not adequately protecting against heat and unauthorized access. Subsequent to the audit field work the Office provided evidence that the control weaknesses had been addressed. No other issues were noted.

4.5 General administration	Satisfactory

During the audit period, the Office processed 515 international travel-related activities. OAI selected a sample of 40 instances of international travel and reviewed the supporting documents, such as completed travel authorization forms, related purchase orders and quotes from the travel agencies. In 2011, the Office signed a Long Term Agreement with two travel agencies, with a duration of two years.

Issue 8   Inadequate management of travel-related allowances

The Programme and Operations Policies and Procedures require a reduction in Daily Subsistence Allowance rates when travellers are provided free accommodations and/or meals by governments and related institutions. Furthermore, the travel authorization must contain, among other things, a personal itinerary (if any), ticket costs and a travel advance. OAI reviewed the supporting documents, such as completed travel authorization requests, purchase orders and quotes from the travel agencies and noted the following:

- There was no evidence to confirm that the Office, when processing full Daily Subsistence Allowance, sought confirmation on whether the traveller would be receiving or was expected to receive travel allowances from the government or other sources (17 cases). The Office explained that it relied on the project managers to ensure compliance with the Programme and Operations Policies and Procedures requirements prior to approving travel authorizations.

- The travel authorization form used by the Office did not include fields to record whether personal travel was to be combined with official travel, the approved amount of Daily Subsistence Allowance and other incidental allowances, or the air ticket costs. Accordingly, this information was not consistently reflected in

the completed travel authorization forms reviewed (26 cases). The Office indicated that this was an oversight.

Subsequent to the audit field work the Office provided OAI with a copy of its revised travel authorization form addressing the above weaknesses and hence no further recommendation is being made.

4.6 Safety and security	Satisfactory

The Resident Representative is also the United Nations Designated Official for Security in the Country. The Office's approved security plan was based on a valid security risk assessment. The security plan was updated regularly, at least once per year, with the last update occurring in November 2012. During the period under review, the Security Management Team met five times to deliberate on changes in the security situation. OAI reviewed the security plan and the security risk assessment documents as well as the Security Management Team's meeting minutes prepared during the year.

It can be noted that Vientiane, the capital of the Country, where all personnel are located, is not in an elevated security phase. The security incidents reported were mainly petty crimes, such as house break-ins and handbag thefts. The Country has an established security standard, the Minimum Operating Residential Security Standards, which was approved in June 2012.

No reportable issues were noted.

4.7 Asset management	Satisfactory

As of 31 December 2012, the Office had 113 assets valued at $363,000. The audit reviewed the procedures in place for the acquisition, accounting for, management, custody, utilization and disposal of assets. A sample of 10 assets with a value of $114,000 (31 percent of total assets) was physically verified and noted to be properly tagged. The disposals made during the year, through auctioning to staff members and the write-off of a lost laptop computer, were approved as required.

No reportable issues were identified.

4.8 Leave management	Satisfactory

OAI reviewed the procedures in place for absence management and leave balance monitoring. Staff members used e-service for leave applications and manual attendance and leave records were maintained by the leave monitor. These systems were reconciled with the Atlas leave records on a monthly basis and any necessary adjustments were made promptly. Both the annual leave records and the year-end employee benefits were certified "without error" by the Office.

OAI noted that as of December 2012, a total of 30 staff members had annual leave balances ranging from 60 to 82 days. As of March 2013, the majority of the staff had reduced the accrued leave days and only seven staff members had leave exceeding 60 days. OAI discussed this with management, who stated that a formal annual leave plan would be developed to ensure minimal disruption of office operations and to avoid accumulation of leave days that may result in the loss of earned leave for staff members.

As management agreed to address this matter, OAI has not raised an issue.

4.9 Global Environment Facility	Not Applicable

The Environment and Sustainable Development portfolio of the Office comprised of 12 projects, 7 of which received funding from the Global Environment Facility, totalling $2.6 million during 2012. OAI reviewed one Global Environment Facility-funded project: Improvement of the Resilience of the Agriculture Sector in the Lao People's Democratic Republic to Climate Change Impact. The project had a budget of $9 million, with $4 million funded by the Global Environment Facility. OAI reviewed project oversight (see section 3.3), financial management, resource mobilization and knowledge management.

No 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.)*

- **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>.